

START FUND LOCALISATION PILOT. External evaluation. Summary Nov. 2022

The Localisation Pilot in the narrow sense started in early 2020 and concludes with this evaluation in November 2022. It must be understood in the broader context of Start's deliberate advancement towards a locally led humanitarian system. It was preceded by the development of a new due diligence assessment (DDA) approach. The Start Network is evolving to more locally led humanitarian system. The cornerstone of this will be country- or regional level 'Hubs' of agencies conducting humanitarian actions, many and perhaps most of which over time will be national/local ones. The Hubs will have a high degree of autonomy and Start itself will become more of a service provider and the connecting node as the 'network of networks'. By 2018, Start recognised that its due diligence or compliance requirements were an obstacle to having more national/local members who could access various Start financing options also directly. From late 2018 onwards the Start Network and the Grant Custodian (Save the Children UK acts as first receiver and grant custodian for some, mostly the larger, Start financing modalities) developed a due diligence approach that would put the assessed organisation in one of three possible Tiers:

- Tier 1: Organisations that meet minimum compliance requirements for membership into Start Network but will not have access to larger funding (Start Fund, Start Ready). Tier 1 members still enjoy all other membership privileges (e.g., participation in events; voting rights) and can access more modest financing sources such as learning or organisational strengthening grants.
- Tier 2: Organisations that are attentive to various issues but do not all the formal policies and internal processes and procedures to manage them. In practice, attention areas here related to anti-money laundering policies; additional risk management policies, data security; more explicit vetting criteria of 'downstream' partners and closer monitoring of the flow and use of funds to them and to the intended beneficiaries.
- Tier 3: Organisations that meet prevailing (policy-heavy) international compliance requirements. They have full access to all Start financing modalities, with a higher grant ceiling of £300,000 for Start Fund's rapid crisis response.

The subsequent 'Localisation Pilot' offered direct funding from the Start Fund for a very rapid crisis response, to ten Tier 2 agencies. Three of these are from Pakistan, 4 from the DRC, 2 from India and one from Guatemala (joined only in mid-2021). For these pilot agencies, the ceiling for direct funding was initially set at £ 30,000, then raised to £ 60,000. They can access larger grants, but only as subgrantee from a fully compliant 'Tier 3' Start member. There are significant differences between the ten pilot agencies: Most operate only at subnational level. Their annual turnover, at the time of joining the Start Network via the pilot, varied from US\$ 100,000 to US\$ 16 million, with four of the ten pilot agencies having an annual turnover of more than US\$ 1 million. Five of the ten had previously received and managed grants of over US\$ 1 million. Their longer-term staff numbers also vary widely: for three of the pilot agencies, between 18, 200, and 600 staff. Not all of them therefore should be considered 'small' agencies. At least one is a co-lead of thematic cluster at subnational level, another one provides the coordinator of a national humanitarian CSO network.

During Phase 1 (April-September 2020) all could directly access up to £ 30,000 for a rapid COVID response without having to go through a competitive process. During Phase 2 (October 2020-September 2022), they had to go through the normal Start Fund process, where different proposals for a response to a given crisis are evaluated, also competitively.

Over the course of the 30-month pilot, 4 pilot agencies only used the COVID-19 grant with a £30,000 ceiling; 2 pilot agencies only took direct grants in Phase 2; 2 only took indirect grants in Phase 2 and 2 pilot agencies took both direct and indirect grants in Phase 2. All grants, directly or indirectly, were for rapid responses to different types of crises, none for anticipatory action: COVID (8), conflict & civil unrest (2), flooding (3), storm (2), volcanic eruption (1). Over the period, a total of 16 grants went directly to the pilot agencies: 8 for COVID (non-competitive) for a total around £240,000 and 8 in the second (competitive) phase for a total around £510,000. Over the period the pilot agencies collectively also accessed indirectly a total around £ 337,235. More funds therefore were accessed directly than indirectly, also when the pilot agencies had to compete through their project proposals.

In addition, the pilot agencies also accessed and used various smaller Start grants, for post-response learning, for Sharing Knowledge and Ideas under Local Leaders (SKILL); for advancing community-led approaches to monitoring, evaluation, accountability, and learning; for organisational development (often used to address the recommendations from their original due diligence assessment, with the

aspiration to become a Tier 3 agency). These grants typically were in the order of a few thousand Sterling, to £ 10,000 or £ 15,000 maximum. A few also obtained Start funding for community led innovation initiatives or for disaster risk financing.

Appropriately, the Start teams managing the pilot monitored it closely and made adaptations when called for. For example, the Start Fund process was explained more effectively, also in French and Spanish, when it became clear that notably the pilot agencies in Pakistan and India did not understand its normal way of working (Phase 2). The grant ceiling was raised to £ 60,000 when it became clear that £ 30,000 was not worth the application effort and too little for even a modest response. The possibility to complete the response in 60 rather than the normal 45 days was also introduced, as national/local agencies often do not have the money to prefinance while waiting until the Start funding enters their account. Several projects of the pilot agencies also underwent Start Fund's normal 'project assessment' (remotely), which looks at project and financial management, logistics, accountability to affected people etc. Start also hired independent monitors to communicate directly with recipients of several of the pilot agency's responses and get their perspectives on the experience. A small contingency fund was created by Start when it was realised that some pilot agencies might not be able to reimburse 'disallowed' expenditures as they have hardly any reserves and flexible funding. And a rule was introduced that a pilot agency could hold only one operational grant at the time, until its reporting was satisfactorily concluded, when one started accessing more such grants simultaneously. On its side, Start realised it needed more fluent French and Spanish speakers, which it now has through recent recruitments.

KEY FINDINGS

Finding 1: Overall a positive experience. Overall, Start, Save the Children UK as custodian of several of Start's grant schemes, and the pilot agencies themselves, are positive about the due diligence experience and the localisation pilot. Important benefits for many of the pilot agencies are a new ability to respond that their development programme budgets did not provide, increased visibility and enhanced status in their operating environment, new connections to INGOs and donors, new influencing of local authorities (on preparedness for rapid crisis response) etc., and for some welcome Internal Cost Recovery flexible money.

Finding 2: The Tiered assessment and the financing pilot were highly relevant for the direction the Start Network is going in. They opened membership in the Start Network, which goes together with the development of Hubs and Start's transformation into a locally driven network of networks. The pilot has not been a giant leap forward but is yet another step in the right direction.

Finding 3: Start's use of a very comprehensive due diligence assessment process does not (yet) reduce the direct and indirect cost of repeat assessments. Not even other Start members, Tier 3 agencies subcontracting to or responding in a consortium set-up with Tier 2 agencies, were found unable or unwilling to rely on Start's assessment, even though it was very comprehensive, thoroughly conducted by an independent 3rd party and crosschecked by Start staff. Instead, the Tier 2 agencies can be subjected to yet another due diligence assessment.

Finding 4: There is not always precision in what the localisation pilot tested and what it did not test. To be precise: The pilot has tried to *test whether a modest amount of direct financing to local and national CSOs that meet Tier 2 but not Tier 3 Start Network compliance requirements, through a one-off grant for a very fast but also short-term response to a relatively modest acute crisis, constitutes a financial risk, and/or a risk of less relevant response for the affected people, possibly with poor agency staff behaviours.*

The pilot only tested one-off grants for a very fast and short-term emergency response. It did not test grants with a crisis response with longer time horizon and for other, often more complex, actions (e.g., modest housing repairs; perinatal care to longer-term forcibly displaced people; chronic and acute malnutrition responses etc.). No conclusions therefore can be drawn about possible risks related to Tier 2 or national/local CSOs's for humanitarian action more generally.

The fact is the pilot was not designed nor monitored for comparative purposes. This would have required an explicit control group. The pilot therefore did not test whether

- There is a meaningful difference between Tier 2 national/local CSOs and Tier 2 INGOs

- There is meaningful difference in risk and in certain aspects of performance, between Tier 2 agencies and Tier 3 agencies. There is only one quantified comparison from the project assessments and two qualitative ones: that, based on the independent monitoring, the quality of the goods and services provided to the affected people and of the behaviour of the pilot agency's staff does not seem to differ in any significant way from that of Tier 3 agencies and that INGO or Tier 3 agencies' narrative reporting tends to be richer and more detailed in content (informal observation from Start Fund staff). That is not enough to draw conclusions comparing Tier 2 and Tier 3 agencies.
- Tier 2 national/local agencies constitute a significantly higher risk than Tier 3 national/local agencies.
- Local/national CSOs generically respond faster and more in line with community preferences than INGOs, because of their stronger proximity to and connections with communities, as is sometimes claimed or assumed.
- Whether there is a meaningful difference in quality and integrity of Tier 2 agency responses to 'natural' disasters and to conflict-related crises. The monitoring was not designed to probe for possible differences here, and in any case the sample of responses and the limited number of contexts would have been too small to draw broader conclusions.

Finding 5: There is a live question whether there is enough evidence to draw conclusions about risks related to Tier 2 agencies. The pilot has a too small set of experience to draw globally applicable conclusions from. Nevertheless, if the localisation pilot is not '*conclusive*' it at least does '*not disprove*' the starting hypothesis that Tier 2 agencies do not present a qualitatively 'higher risk' (implicitly 'than Tier 3 agencies').

Finding 6: The pilot did not test how funding can be made accessible for local actors who have been most deprived of it. In the design of the Tier framework, Start consciously did not want to give decisive importance to the track record of an agency, in terms of past international funding and large grant management. The concern was this would privilege the already well established and probably larger national/local agencies. Understandable as this is, the pilot was also not designed to help local actors who have hardly been able to access some international finance in the past, get a first experience. In practice this would probably have been Tier 1 agencies. Many community-based organisations may fall in that category, possibly also several Women-Led or Women's Rights Organisations, or Youth Associations. If the longer-term intent is for a locally led humanitarian system to be also more people-centered and less donor- and intermediary-centered, then this may be the next learning-by-doing field. At least some of the pilot agencies were already well connected internationally, can easily access significant amounts of funding and do not need really need access to new sources.

Finding 7: The pilot nor the evaluation found evidence that Tier 2 agencies would constitute a higher risk category than Tier 3 agencies, for the types of risk actively monitored. The due diligence exercise inquired into how the organisation being assessed manages a broader set of risks, particularly through internal policies and procedures. The subsequent financing part of the pilot actively monitored primarily two risks: the fiduciary one (notably fraud, corruption and diversion or other misuse of funds) and that of assistance provided being of insufficient relevance or quality and/or with poor behaviours by project staff towards the affected people. Even if there are some concerns over the financial reporting of one pilot agency, this is not unique to Tier 2 or to 'national/local organisations'. Issues have also arisen in the past with Tier 3 and/or INGO Start members. No generalised conclusions about Tier 2 or national/local agencies should be drawn from it.

Finding 8: A compliance profile is not a risk profile is a central message coming out of this pilot, that has sector-wide relevance. This was the premise of the tiered framework and has been validated by the Localisation Pilot. Due diligence assessment provides information about the degree to which an organisation meets expectations or requirements and can therefore be considered a '*compliance profile*'. It says little to nothing about programmatic and contextual risks and is therefore inevitably incomplete. It cannot cover, for example, the sometimes-vital organisational capability to navigate a landscape full of political sensitivities. Where funding is considered for a particular action in a given context, a broader risk (and benefits) assessment will be required. The implication is that the compliance profile should not be the only consideration in the decision to provide funding to that organisation.

Finding 9: While appropriate and recognisable as general practice in the relief sector, this understanding of risks and risk management in the Localisation Pilot reflects the past more than the desired future. Recent work, not available when the pilot was designed, is now recommending that, first a broader set of risks be recognised, but also from the perspectives of the potential grantee and of the affected population, and secondly that the prevailing practice of risk transfer needs to be reduced in favour of more effective risk sharing. Different risks may have different priorities for different agencies in the collaboration chain. Fiduciary, legal, and reputational risks are indeed the key concerns of donors. Agencies operating in or near the crisis may have other priority concerns, such as safety and security, timeliness, enabling operating conditions etc. Intermediary agencies often must handle both the priority risks of back-donors and of the actual responders. Secondly, given that the achievement of desired humanitarian action or response objectives can depend on the collaboration between different agencies, the prevailing agency-centric risk management is inadequate. Such '*ego-thinking*' rather than '*collective action thinking*' is a significant enabler for the practices of '*risk transfer*', including to those who are less well-resourced and less well prepared to manage it. Agency-centric risk management can also lead to a situation where the risk reduction measures of one may increase the risks for another in the collaboration chain. Finally, we cannot only look at risk: ultimately, this creates an atmosphere of fear and distrust that feeds a reflex of risk avoidance. That is not appropriate for the current, increasingly volatile, and unpredictable world and even less so for agencies whose mandate or mission is to engage with and in crisis situations. Risk assessments therefore need to be balanced against potential benefits assessments – where we dare to take a calculated risk. The term for this is '*risk reward*'.

Finding 10: The grant ceiling is also a disincentive to go for direct funding: The initial amount of £ 30,000 was not worth the effort and, even with the ceiling doubled, the pilot agencies could still access higher amounts without having themselves to go through the Start Fund process. On the other hand, the pilot agencies made active use of smaller amounts of funding that were accessible to them on a non-competitive basis (COVID-19 response grant) and particularly for competencies development and knowledge and learning. All pilot agencies (like Tier 3 or international agencies) also weigh the shorter- and medium-term opportunity costs. For some, direct funding has advantages: It goes faster than when a subgrant must be negotiated and contracted with an intermediary; it offers them a (larger) Internal Cost Recovery (ICR) which they may not get from an intermediary; and they can themselves design the response in close interaction with affected populations, without a potentially more powerful intermediary also getting involved. There are also disadvantages and risks: Entering in direct '*competition*' – which is how it is seen and expressed – with notably INGOs, even if the latter are also members of Start, is seen as potentially risky: It may upset and break longer-standing partnerships that have provided them with access to larger funding over a longer period of time. The amount accessible in direct funding is obviously also less than what they can access via a Tier 3 intermediary. Remaining a subgrantee to a Tier 3 member is even more economically advantageous than joining them in a consortium: In a consortium, the ceiling applied, even if they would assume the lead role for the consortium while as a subgrantee they are not limited to £60,000. The set-up therefore also has clear disincentives against seeking direct funding.

Finding 11: Whereas membership of Start opened new collaborative and funding opportunities, including with other Start members, there is no guarantee this will be as an equitable partnership. Some other Start members during the pilot have been unwilling or unable to rely on Start's comprehensive DDA and made the Tier 2 agency undergo yet another one. There is no guarantee they will share the ICR and/or treat them as equitable partners. Start seeks to pioneer and demonstrate a different future, but old habits are hard to undo.

Finding 12: Direct funding per se does not make a difference on organisational strengths. It may mean little more than that the grantee has learned yet another donor's procedures and formats – which is not the most essential organisational competency. The impact on the organisation's strength will be even more limited if the direct funding is capped to a relatively small amount. The only aspect that may make a modest difference is whether the agency gets ICR or not (modest because the maximum 10% of £60,000 is £6,000 which may be quite significant for a smaller organisation but less so for larger ones). The organisational support offered by Start staff and/or via dedicated grants is highly

appreciated. Some of its focus has primarily been to help the agency master the Start Fund procedures or address international compliance issues without which it cannot access larger Start grants and qualify better for other donors. That again is relevant, but somewhat skewed to international expectations and requirements, and by itself again not enough to make a robust organisation.

Finding 13: Different key stakeholders are ready to go in the same direction but will go at different speed: Key stakeholders for the Hub development in the current 5 and 6 projected countries/regions are the Start Platform, SCUK as grant custodian, the agencies in the different countries, and the donors to Start. While all may agree on the direction of travel, different appetites for the speed of travel are to be expected.

KEY RECOMMENDATIONS TO START

Recommendation 1: *Look at possibilities to shorten the due diligence assessment process:* In this initial testing, all agencies had to go through the whole questionnaire (and provide supporting documents), then wait to be assessed by an international assessor, to then hear what Tier they were being placed in and why. This is time consuming and costly for the agency, and for Start who pays for the 3rd party assessment service. If it is now clearer which key factors are thresholds for Tier 2 and for Tier 3, a quicker and cheaper approach seems possible. There can be a preliminary rapid assessment to establish where an agency stands on these threshold criteria. On that basis it then can decide to apply for a particular Tier and address in detail the fuller questions related to that Tier. It does not have to answer questions related to Tier 3 if it already knows it does not meet certain threshold criteria for Tier 3. It still gets all the questions related to a higher Tier, so it knows what it may want to aspire to.

Recommendation 2: *Maintain a 3rd party assessment where most critical:* If an operational agency is assessed by another one that can work operationally, there is a potential conflict of interest. The assessor may deliberately under-appreciate the assessed one, to justify its role of close oversight and controlling and therefore keeping the full ICR. Even if there is a cost to it, an independent assessor who is not a potential competitor reduces the risk of bias. At the same time, pilot agencies questioned the need for a costly 3rd party assessment of the basic requirements of Tier 1; Start should be able to do this itself.

Recommendation 3: *Make the acceptance of the Start-supported due diligence/compliance assessment the default position for all Start members.* Repeat assessments by other Start members, within its 3-year period of validity, should not be tolerated unless strong justification is offered. That may require some proactive clarification about ‘risk sharing’ where a Start member would object that it cannot take responsibility for a subgrant if it cannot itself conduct a due diligence assessment of the prospective grantee.

Recommendation 4: *Resolve the internal contradiction between the message that a compliance profile is not a -full- risk profile, and a grant ceiling for Tier 2 agencies.* The evaluation, and Start’s own internal reflections, show there can be no convincing justification for a ceiling based purely on Start’s due diligence or compliance profile assessment. Several of the pilot agencies had accessed larger grants (sometimes also directly) and are able to do so now for the first time or again. That indicates others have a different assessment of the risk the Tier 2 agencies present. Acting as a subgrantee to a Tier 3 member of Start they can also access more than £60,000 from the Start Fund, signaling again that the Tier 3 agency has a different assessment of the risk the Tier 2 agency presents, or of its ability to manage that risk. A convincing argument can only be made on the grounds that the Start Fund has few other practical options to manage risks associated with this particular type of grant. Indeed, this Start Fund grant is given fast, as a one-off disbursement, and spent fast, and the Start Fund is remote from where the action takes place. If the Start Fund had staff in greater proximity to the grantee, the context and the responses, and a longer-term collaboration with the grantees, it might assess the risks differently. Therefore, a ceiling reflects more the limited monitoring and oversight capabilities of the Start Fund or Start Platform at large, than a full appreciation of risk (and opportunity) that a compliance profile cannot provide. More coherent policy options for the future are: gradually linking grant amounts to performance, i.e. increasing the ceiling following good performances and improved knowledge about the agency, and decreasing it following a poor or problematic performance,

and/or linking the grant ceiling to stronger Start monitoring and oversight capabilities of such short and fast crisis-responses.

Recommendation 5: Start experimenting with richer, contextualised, risk and benefits analyses across the collaboration chain. This will be possible through the Hubs and be highly relevant for them.

Recommendation 6: Start experimenting with financing, directly and indirectly, of Tier 1 agencies, particularly those that so far have had very little access to international funding, to learn where the issues there lie and how to reduce or overcome them. This too may be possible through and turn out highly relevant for the Hubs.

Recommendation 7: Decide on the ICR question: All organisations need some flexible and core funding to be able to survive and develop. When accessing a direct grant from the Start Fund, the pilot agencies could determine a certain ICR up to the maximum of 10% of the project grant awarded. When accessing the Start Fund indirectly, via a Tier 3 member, whether they received some or more ICR depended on the intermediary. If the Network's intention is to strengthen locally led humanitarian action, with national/local actors playing a significant role, then Start has to address the ICR question more decisively. This will pose some challenges: GMT's wider work has indicated that several INGOs have internal policies that exclude any sharing of ICR with subgrantees. Some of these might be members of Start. The same can also hold for sub-granting arrangements between national/local organisations. If Start makes it mandatory to share ICR, at least proportionately to who implements what part of a budget, this may become an incentive for more direct implementation. This will have to be monitored closely. Alternatively, Start – with agreement from its donors- could raise the overall ceiling for ICR, e.g. from the current 10% to 14%, enabling a sharing of 7% each between an intermediary and one or more subgrantees. In the medium-term that may not be sustainable, as donors may object to the higher overall 'overhead' cost. A complementary approach may be much more intensive lobby for multi-year core funding for at least several national/local organisations and strong support to all of them for a diversification of income sources, also beyond international aid.

Recommendation 8: Maintain the combination of providing access also to direct funding for organisational strengthening support, but with a richer in-house view on what makes for healthy and contextually relevant organisations. First, to be viable and achieve its full potential, an organisation needs to have some stable financing. Second, organisational strength derives not just from income, policies, and procedures but from its people, the source of their motivation, their spirit, vitality, and creativity. Third, organisational strength derives from its positioning and dynamic repositioning with its operating context, its ability to effectively manage relationships with different stakeholders, often with different interests, and to navigate complex socio-political and security environments. Last but not least: the strength of a locally led humanitarian system will depend on the collective capabilities of national and local actors (and the international ones also present) – which in turn relies on the willingness and ability to really collaborate for collective impact. Start globally does not need to be able to provide support on all of this – it can better rely on different third-party resources- but this should be the shared perspective for 'realising the full capabilities potential'.

Recommendation 9: Monitor more systematically the quality of collaborative relationships between members: Mutually respectful collaborations are as important a step towards a locally led humanitarian system as equal access to quality finance. Start needs to keep an active eye, not only on the members' relationship with itself but also on the quality of the collaborative relationship between Start members. That includes relationships between INGOs and between national/local agencies. A feedback and complaints mechanism regarding real or perceived abuses of power in a collaborative relationship, certainly between Start members, must be considered. If not yet available, the Start Network can usefully develop principles of partnership (the 2007 ones developed by a number of international agencies need deep review) and guidance on the boundaries between responsible use of authority and power and abuse of power. These need to be reflected in sub-granting contracts.

Recommendation 10: Beware of staff overload: The pilot shows that building up the relationship with new members and supporting them with becoming familiar with Start, its different components and procedures and practices, and where needed providing tailored advice and support, is time

consuming. There will be a limit to how many members the Start service teams can adequately relate to at a time, particularly new members that will require more intensive communications. That may influence the rate of expansion. SCUK support services, for example those who handle grant disbursements of the Start Fund, can also become overloaded if the volume of grantees increases. Overload can also apply to external service providers, such as a 3rd party due diligence assessment service provider.

Recommendation 11: Go now beyond the comfort zone that the Localisation Pilot largely stayed in: Start is not the first to use a Tiered system linked with different grant ceilings for direct funding, nor to reserve a certain envelope of funding for national/local agencies only, including for agencies that do not meet the highest bar of international compliance requirements. Nor is it the first to make a modest amount of funding available to national/local agencies for an immediate crisis-response. However well intentioned, the view underpinning the pilot also remains donor-centered; the incentives remain for national/local agencies to develop to meet international requirements. It was not designed with features to make the international system more align with and support national/local strengths and practices. Nor does it actively consider other, real, risks for national/local agencies and for affected people. This localisation pilot did not decolonise. The next step needs to be grounded in new perspectives on risk and benefit/opportunity, and more risk sharing in actions where achievement of the intended objectives depends on the collaboration between different actors, including several who will not meet an expanding set of compliance requirements, or not in intensely documented (written) form.