BUILDING RESILIENCE TO CLIMATE EXTREMES & DISASTERS

Rapid Appraisal of the Management Options

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EVIDENCE ON DEMAND
CLIMATE & ENVIRONMENT
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Report Summary

Evidence on Demand carried out a rapid appraisal of the Management Options for DFID's proposed programme Building Resilience and Adaptation to Climate Extremes and Disasters (BRACED) as an input to the Business Case. The report analysed the management functions to be performed and assessed five possible management models – use of an NGO consortium, an external funding agency, an international agency, DFID's in-house managers, and a hybrid including several of these, to inform DFID's thinking. A set of Desired Outcomes of the project were described and the management options rated and scored against each. Costs of each option were estimated, and a final recommendation was made to use the hybrid model, following the "Rating and Weighting" approach and matrix specified by DFID.

SECTION 1

Rapid Appraisal

Introduction

Evidence on Demand carried out a rapid appraisal of the Management Options for DFID's proposed programme Building Resilience and Adaptation to Climate Extremes and Disasters (BRACED) as an input to the Business Case. The report analysed the management functions to be performed and assessed five possible management models – use of an NGO consortium, an external funding agency, an international agency, DFID's in-house managers, and a hybrid including several of these. A set of Desired Outcomes of the project were described and the management options rated and scored against each. Costs of each option were estimated, and a final recommendation was made to use the hybrid model, following the "Rating and Weighting" approach and matrix specified by DFID.

This Note has the following sections:

1. What management functions are required?
2. Implications of the prior choice of Delivery Option
3. Criteria for rating Management Options
4. Delivery Options
5. Shortlist and preliminary assessment of Management Options
6. Assessment of costs of the various Management Options
7. Overall rating of Management Options using the above criteria
8. Conclusions drawn from a comparison of the costs and benefits of the Management Options.

What management functions are required?

The following specific features of BRACED will influence the choice of management option:

- Focus on support to local communities
- Decision to use NGOs as the main delivery option
- Use of a Call For Proposals procedure
- Building evidence at an early stage
- Emphasis on scaling up proven approaches
- Great variety of potential interventions
- Engagement with various institutional forms and at different levels will be needed
- 5 of target countries in Sahel, where DFID has no country presence, recognised by the split between Components A and B
- Part of budget earmarked for building capacity and capability.
- A relatively large fund, by recent standards
- Urgency of action to set up and start disbursement from BRACED, given the delays in its progress so far

The above mentioned features affect the range of functions to be performed by BRACED's management structure, which will include the following functions:

Management functions	Options
Policy oversight & accountability; liaison with key partners at senior level;	DFID HQ
Strategic decisions, high-level operational issues	DFID HQ; Independent Advisory Panel
Tender/bidding process: Issue of Call for Proposals for grants under Components A and B (n.b. these are likely to be issued separately);	DFID HQ
Assessment and adjudication of bids received	DFID Advisers; External Agency
Award of grants; communications with grant recipients; results-based monitoring of implementation & disbursement; contracts management; financial oversight	DFID; External Agency
Liaison with host governments & other key national stakeholders	DFID Country Offices (for Component B); donor consortia or other national fora (for Component A)
Programme Evaluation & Due Diligence	External Agency(ies)
Dissemination of results, building evidence, testing approaches under Component C	External Agency; DFID Advisers

Taking all the above factors into account, a plausible management solution for BRACED might comprise the elements depicted in Annex 3. This option will be rated in the final section, against the other four models.

Orientation and Approach

The choice of Management Option depends on the prior choice of Delivery Option, and both depend on the content of the whole project – both its aims and the type of activity it hopes to support. The latter is difficult to predict, since BRACED is an evolving art and innovation – a key intention of the project – cannot by definition be pre-determined. As the (draft) Business Case states, “the BRACED programme proposes to support a range of projects in multiple contexts, many of which have not yet been designed and the actual costs and benefits [of which] are uncertain”.

The following points are harvested from a brief review of the literature on resilience and adaptation to climate change (reproduced in Annex 2):

- Adaptation is inevitably local – within countries and regions there is a diversity of climatic impact between districts and localities, and amongst social groups within those localities.
- Apart from geographical factors, resilience and vulnerability depend on institutional links, material endowments, occupational patterns, asset portfolios and social networks.
- Adaptation is complex and multi-faceted, covering the whole of society and including a wide range of behavioural, technological and structural adjustments. Classifying adaptation interventions and projects calls for a number of overlapping typologies, applied to a variety of sectors.
- In the development of adaptive capacity the choice of intermediary should be preceded by an analysis of institutional linkages and access to them by different social groups.
- “documenting, understanding and learning from past institutional experiences and crafting interventions that strengthen historically proven collective efforts and institutions is a crucial first step”.

- Local institutions relevant to adaption include market-based and private, public and government, and civic/community. Partnerships between these various institutional forms are likely to be required.

Criteria for choice of Management Option

This section proposes a set of Desired Outcomes relevant to the choice of Management Options for BRACED. It takes into account the five criteria proposed in the latest draft of "Appraisal of Delivery Options", as well as those contained in the relevant section ("Management Options") in the earlier draft business case. These Desired Outcomes equate with the "benefits" set out in the "Ratings and Weightings" paper.[1]

Desired outcome	Conditions for achievement of outcome:
1.Successful management of a programme (BRACED) of this scale & complexity	Technical competencies of staff: understanding the nature and challenges of adaptation projects and building resilience to climate change. Robust management systems "fit for purpose" for evaluating grant bids, monitoring project execution providing speedy and efficient disbursement. Track record of delivery of programmes of similar scale and complexity
2.Evidence of learning & dissemination of results of BRACED	Ability to assemble, absorb, analyse and pass on to all relevant stakeholders the results and lessons from pilot and on-going projects
3.Effective coordination with key stakeholders	Quality of relationships with DFID, host governments, international agencies, academic and research bodies, private sector and civil society entities whose cooperation is essential for the project. Ability to broker effective partnerships
4.Accountability for the use of funds	Ability to provide accountability for the use of all funds to HMG, general public, host organisations, etc. Performance of all necessary due diligence, auditing and evaluation
5.Risks adequately managed	Monitoring of performance of grantees; early-warning systems for spotting potential problems; contingency plans for dealing with problematic projects; back-up in cases of failure
6.Speedy and efficient disbursement of funds	Existence of robust and tried administrative and financial systems; adequate assessment of capacity of bidders; adequate and efficient appraisal of bids; good systems for approving and transmitting funds to recipients

Delivery Options

The [draft] Business Case appraises three options for providing public goods for BRACED at community level:

i) Funding multilateral organisations having Disaster Risk Reduction and climate change adaptation as core activities (e.g. World Food Programme (WFP), United Nations office for Disaster Risk Reduction (UNISDR), Global Facility for Disaster Reduction and Recovery (GFDRR));

ii) Direct provision to vulnerable communities by DFID country offices in those countries (not in Sahel) where DFID does have such offices;

[1] *Assessing VFM in governance- the "Ratings and Weightings" approach.* Paper from DFID Governance Results & VFM Hub, April 2012

iii) Direct support to civil society organisations to enable them to scale up their existing activities.

The business case rejects two other options, namely, DFID budget support for national or local governments in priority countries, and delivery through a multilateral climate investment fund (e.g. the Pilot Programme for Disaster Resilience (PPCR) or the Adaptation Fund). It is understood that the final business case will advocate option (iii) above, namely direct funding of civil society organisations with an existing interest and expertise in this area. In this report, it is assumed that this will be administered through a Call for Proposals.

Shortlist and preliminary assessment of Management Options

The provisional shortlist in the draft Business Case contains four options:

i) **NGOs.** "Invite bids from NGO consortia to implement components A and B, with a separate competition for M&E and lesson learning open to both the private sector and NGOs". (n.b. component A is "scaling up of DRR and adaptation of five countries in the Sahel", while component B is "scaling up DRR and adaptation actions in DFID focal countries where populations are at high risk of climate extreme events" – stipulating 8 non-Sahelian countries).

Assessment. It is unlikely to be feasible for DFID to use an NGO consortium or consortia as the main management option for a programme of this scale.

Evidence on VFM. There are no recent examples of this in comparable domains.

ii) **Third party management agent.** Chosen following competitive bids to manage the Fund. This may include management of the evidence building component, or this may be subject to a separate competition. The chosen management agent may be drawn either from the not-for-profit or fully commercial companies or consultancy groups. The South Asia Climate Resilience Alliance (SACRA) is an example of management by a third party management agent from the not-for-profit sector (IIED).

Example of third party management agent: the South Asia Climate Resilience Alliance (SACRA)
SACRA is a 7-year project with a total cost of £37.7 mn. in the form of core support to the International Institute for Environment and Development targeting the 5 countries of South Asia. It aims to leverage £300 million of additional finance. It operates through a hierarchy of institutions, in which a Regional Alliance and five National Forums are key. SACRA's keynotes are scaling up promising projects, developing multi-stakeholder processes, and generating evidence on what works.

The Global Poverty Action Fund (GPAF) management solution, discussed here under option (v) below, is another example of using an External Manager.

Assessment: Amongst on-going cases, using external agencies in SACRA and GPAF are proving to be effective solutions to the management of large-scale and complex development funds, offering VFM. A range of different external agencies are available from both not-for-profit and commercially driven companies, consultancies and quasi-academic bodies, offering various shades of commercial, financial, research and developmental expertise.

Evidence on VFM: The initial Business Case for GPAF estimated that , for the option of using an External Fund Manager over the 7 year life of the programme, costs of DFID staff, fund management, M&E and due diligence would amount to c. 6% of the total funds expected to be disbursed, excluding matching funding. The external fund management fees were estimated to amount to c. 2.5% of funds to be disbursed. In this context, the conclusions of a recent evaluation of DFID's use of Intermediary Management Agents for disbursing funds to Civil Society Organisations were: "On large funds dealing with established UK CSOs, commercial intermediary agents can provide the services described as Core Functions, administration, commissioning and basic performance management for as little as 2% of the total fund."[2]. The estimated cost of the GPAF solution is very close to this.

iii) **International agency.** "invite international agency or facility (e.g. GFDRR or UNISDR) to manage grants to NGOs and partners. " The most likely choice under this option would be the GFDRR, hosted by the World Bank. Any DFID contribution to this would probably take the form of a Trust Fund.

The use of an international agency as vehicle for BRACED is exemplified by the Adaptation for Smallholder Agriculture Programme (ASAP), managed by IFAD:

Example of an international agency as management option: the Adaptation for Smallholder Agriculture Programme (ASAP)
DFID is providing up to £150 mn for this programme from 2012 to 2015 to benefit around 6 million smallholder farmers in the most vulnerable countries to be channelled through the International Fund for Agricultural Development for its ASAP. ASAP's keynote features are safeguarding agriculture and food systems on which poor smallholders depend, scaling up practices and technologies to build farmers' resilience, and producing evidence to help shape future international efforts in this area. ASAP aims to involve private actors in funding and implementing its programmes.

Also, in a number of countries, part of DFID's humanitarian relief spending has been channelled through UN country pooled funds administered by the UN Office for the Coordination of Humanitarian Affairs (OCHA). In Somalia the Common Humanitarian Fund and in Kenya the Central Emergency Response Fund, both managed by OCHA, have received substantial DFID funding.

Assessment: Using well-established international agencies offers the opportunity of disbursement through existing proven channels, avoiding start-up costs and delays from starting from scratch. Where these agencies are in the UN family they may also be more acceptable funding sources for some country recipients than bilateral sources – though funds based in the World Bank (such as GFDRR) may not have this perceived advantage. From other points of view, the GFDRR may be a more feasible choice than UNISDR and other UN-based agencies about which the 2010 Multilateral Aid Review (MAR) was somewhat critical.

Of GFDRR, the MAR reported "satisfactory" for its contribution to UK development objectives, ""satisfactory" for its organisational strengths, and "likely" for its likelihood of positive change. For IFAD the MAR's ratings were, respectively, "strong", "satisfactory" and "uncertain". As a generalisation, international agencies tend to be costly solutions (see below), and cumbersome.

2 Morton, 2010, p. 25

Humanitarian aid programmes offer relevant insights into the pros and cons of using UN intermediaries for disbursing into local communities in fragile and difficult environments, such as those typical of the Sahelian states. UN agencies may enjoy greater access to "difficult" regions than bilateral agencies carrying "political" connotations, and can offer "clout" and economies of scale. On the other hand, their mark-ups can be large, and they may be cumbersome. Where DFID's negotiating power is strong, these margins may be reduced (see ASAP, below).

Evidence on VFM: In Somalia the total handling and service charges paid by a bilateral donor to UN agencies for disbursements through the Central Humanitarian Fund typically amounted to 11-13% of the funds involved. These comprised a United Nations Development Programme (UNDP) banking fee of 1%, a UNDP administrative or managing agency fee of 7%, and an OCHA management fee of 3-5%. Where OCHA disbursed to NGOs, the latter's administrative overhead was also added, making a total mark-up of 16-18% in this case.[3]

For the ASAP programme, DFID negotiated a mark-up of 7.5% with the IFAD. This was assuming a projected spend of $100 mn per year, with 10 projects per year. The fee breaks down as 3.5% for direct project management, 2% for M&E, and 2% for knowledge management. Arguably, the two latter categories are programme costs, in which case the management fee could be regarded as 3.5%.

iv) **Direct management by DFID.** "Direct management of all components by a DFID project management unit, with some staff on the programme". Due mainly to manpower ("headcount") constraints, DFID has been reducing its direct management activities in recent years and we are advised that it would require very strong evidence in order to adopt this approach for BRACED. However, it is noteworthy that, until very recently DFID's support for humanitarian NGOs was managed by headquarters staff, supplemented by Humanitarian Advisers outposted to its country offices.

Assessment. DFID's humanitarian aid programme has been responsible for delivering large volumes of humanitarian funding (£528 mn in 2009/10) to a variety of international humanitarian agencies and NGOs in a number of countries. As the HERR (Ashdown Review) states, "DFID has long been seen as a fast and flexible humanitarian donor". [4] This has, however, been achieved in a fairly labour-intensive fashion, involving a large number of personnel in HQ and country offices. It also imposed substantial "transactions costs" on its partners.[5]

Evidence of VFM. The Ashdown Commission lent urgency to DFID's promotion of a VFM mentality on its funding partners, previously lacking. VFM guidelines were produced for use by DFID Advisers and NGOs in Kenya and Somalia.[6]

As noted above, the good reputation of DFID's humanitarian funding came at the cost of a substantial staffing budget, which can be illustrated in rough terms. The DFID Conflict, Humanitarian and Security Department (CHASE) organogram for July 2011 shows 2 A1s, 4 A2s, 4 B1s, 2B2s and 1 C1 grade staff in the Humanitarian and

3 From Table 3.1 on p. 17 of *Value For Money in humanitarian aid for Kenya and Somalia.* A Report for DFID's Nairobi Office by Coffey International, April 2011.
4 *Humanitarian Emergency Response Review.* Final Report, 28 March 2011, p. 44
5 Epitomised in the 38-page glossy manual *Humanitarian funding guidelines for NGOs*, October 2007 version. The latest (2013) version is smaller (28 pages) and simplified..
6 Cf. Coffey International (2011) *op. cit.*

Disaster Risk Policy Group at HQ, and a further 10[7] A2s based overseas in country offices.

v) **Hybrid management options**. The four broad options presented above are not necessarily exclusive solutions: elements from one or more can be combined to achieve the specific purposes of each fund. A case in point is the management structure adopted for the GPAF, which combines strong DFID oversight, the voice of an independent Advisory Panel, day-to-day management by an External Agent, and specific functions (Monitoring & Evaluation (M&E) and Due Diligence) delegated to two further External Agents.

Two types of M&E and due diligence have to be performed under BRACED, relating to both the main contracting agency and the bodies ultimately in receipt of the funding. M&E is necessary of both the performance of the contracting agent, and of that of agencies such as civil society bodies receiving grants under the programme. M&E of the contracting agent is best done by a body independent of the main contracting agency, to avoid any conflict of interest. M&E of the grant recipients can be split into two types. The first, to be done by the contracting agency, is of the performance of the grant recipients according to the agreements they have undertaken as a condition of the grant. The second, best done by an independent body with academic or research credentials, is a more rigorous and wide ranging evaluation of the outcomes and impacts of the programmes on the ultimate beneficiaries.

Likewise for due diligence, which is commonly understood as an investigation or audit of a potential investment serving to confirm all material facts in regards to a transaction with another party. Due diligence for the main contracting party needs to be done by an independent entity. Due Diligence for the larger grant recipients (especially where they are sizeable and established NGOs) could also be referred to the same independent entity. It would, however, be more feasible for the due diligence of smaller potential grantees to be done by the main contracting partner as an integral part of their contract bidding and awarding procedure.

Component C of BRACED (Building evidence and testing approaches on adaptation and DRR) would be covered partly through the contract of the External Agent (assembling, analysing and reporting on the results fo the programme) and partly by DFID's own Advisers and mangers disseminating relevant messages for policymakers and practitioners.

These considerations are reflected in the structure and costings of the Hybrid model assessed below.

[7] Consultants' estimate, unverified.

Assessment of costs of Management Options

The assumption in this section is that BRACED would disburse £46.6 mn annually for 3 years or £140 mn in total (followed by a possible £200-300 mn over the remaining 4 years, depending on the results of the first phase. . This section is based on costs of only the first 3 years of BRACED. This would make it somewhat larger, but still of the same magnitude , as the GPAF.

Option 1. NGO Consortium
There is no evidence of the cost of this option. A recent review of DFID's experience with intermediaries for managing funds for Civil Society bodies found a wide range of mark-ups. In principle, it could be expected that not-for-profit NGOS with the requisite capacity and experience would be somewhat cheaper than commercial intermediaries. To reflect this, the Fund Management element in the cost of Option 2 is reduced by 10%, producing an estimated cost of the NGO option of £8.12 **mn.**

Option 2. Third Party Management Agent
The basis of this estimation is the administrative cost ratios used in the GPAF Business Case Option 1 "External fund management" (p. 27):

The total of DFID staff costs, fees of the External Fund Manager, M&E and due diligence for this option represented 6% of the disbursed amounts. Applying the same ratio to the expected Phase I disbursements of BRACED would amount to **£8.4 mn**.

Option 3. International Agency
If DFID could agree with, say, GFDRR a similar fee rate for management through a Trust Fund as that obtained with IFAD under the ASAP programme, this would cost 7.5% of £140 mn, namely **£10.5 mn**

Example of Hybrid option – the Global Poverty Action Fund (GPAF)
A four-year project offering £40 mn. per year. A demand-led challenge fund open to NGOs, targeting DFID's 28 focus countries or the bottom 50 countries on the UN's Human Development Index. Consists of an Innovation Window offering grants of up to £250,000, and an Impact Grant window for "tried and tested" methods for grants of £250,000 to £4 mn. Requires 25% matched funding from recipient NGOs.
GPAF is managed through the following structure:

- DFID's Civil Society Department – overall management:
- External Fund Manager – Triple Line Consulting, with support of Crown Agents.- day to day management, including initial assessment of all concept notes and appraisals, fund disbursement and oversight of grants;
- Evaluation Manager (Coffey International);
- Due Diligence Manager (KPMG)

Advisory Board (now Panel) – external professionals helping in design and aspects of implementation

Option 4, DFID Internal Management
The basis of this costing is the estimation of in-house management of the GPAF (Option 2, p. 28 of the Business Case). This option actually includes some External Fund Management to keep the flow of allocations up from the earlier phase. For the purpose of the current exercise, this is omitted – with the proviso that a greater onus would fall on internal DFID staff, which may need to be boosted. Hence this estimate could be on the low side. The

ratio of DFID staff costs plus external M&E and due diligence, to total disbursements is 5.8%. Applying the same ratio to BRACED disbursements would produce costs of **£8.12 mn.**

Option 5. "Hybrid"
The basis for this estimate is Option 2, enhanced by the addition of somewhat greater DFID involvement, due to the demands of this new and innovative programme, and the need to bolster Component C on building evidence and disseminating results, plus an allowance for the cost of the Independent Advisory Panel which would have a very important role. These aspects of "value-added" come at an extra cost, though the nature of BRACED is likely to justify this. For the purpose of this exercise, the costs of Option 2 are increased by 10%, to make **£8.12 mn**.

Scoring of management options

The results of scoring of the 5 Management Options are contained in Annex 1. The justification for these scores is summarised below.

The ***weighting*** of the Outcomes was decided as follows. The successful management of the BRACED programme, with its novelty, scale and complexity, was judged to be the most important outcome, and therefore criterion for choice of management agency, deserving a **0.3 weight.** Given the emphasis on learning and dissemination of results, epitomised in Component C, this is given a weight of **0.2.** The agent's ability to relate effectively with a number of key stakeholders – DFID itself, other bilateral donors, international agencies, civil society bodies including the private sector, academic and the research community etc. – will be crucial to the programme's success, so this is awarded a **0.2 weight.** The other three outcomes (accountability, risk management, efficient disbursement) each receive a weight of **0.1.**

Option 1: NGO consortium
Scoring reflects the view that an NGO consortia would have good to reasonable experience in delivering financial accountability and risk management, and would have good "reach" from the point of view of dissemination of results at grassroots levels. Main concern would be lack of management capability and track record of an organisation essentially convened for the purpose and accessibility/acceptability in strategic level policy fora.

Option 2: Third Party Management Agency
Scoring reflects good track record of agencies and their dedicated expertise and experience in fund management. Main concerns would be the ability of these agencies to provide effective coordination at more strategic levels and limitations on their "reach" into strategic level fora in relation to dissemination of lessons learned.

Option 3: International Agency
Lower scores reflect prevailing experience that international agencies have more cumbersome and less flexible procedures and are more remote from the field - which offsets their comparative advantage of dissemination of lessons among international agencies and donors when it comes to scale-up of localised projects and dissemination in the field of lessons learned.

Option 4: Direct Management by DFID
Scores here reflect the view of the difficulty of constructing a management operation to deliver a complex programme from first principles, and doubts about inflexibility of necessity to adhere to bureaucratic processes (e.g. in disbursement of funds). DFID, however, has an important contribution to make at strategic level where it has an existing country presence.

Option 5: Hybrid Option

Scores here reflect the view that an external management agency is likely to be the most effective management model, if supplemented by DFID strategic oversight and specific external expertise, both of which should compensate for any weaknesses in the external agency model with respect to dissemination of results and lessons learned.

Conclusions

The conclusion to be drawn from the scoring exercise in Annex 1 is that Option 5 is the preferred solution.

Annex 1 Matrix of cost-benefit data for Management Options

Desired Outcomes		Option 1: NGO Consortium		Option 2: Third Party Management Agency		Option 3: International Agency		Option 4: Direct Management by DFID		Option 5: Hybrid Management Option	
Costs £m		8.12		8.4		10.5		8.12		9.24	
Cost score											
Benefits Scores	**Outcome weight**	**Score (1-5)**	**Weighted score**	**Score (1-5)**	**Weighted score**	**Score (1-5)**	**Weighted score**	**Score (1-5)**	**Weighted score**	**Score (1-5)**	**Weighted score**
1. Successful management of a programme (BRACED) of this scale and complexity	0.3	1	0.3	4	1.2	3	0.9	3	0.9	4	1.2
2. Learning and dissemination of results of BRACED	0.2	4	0.8	3	0.6	3	0.6	4	0.8	5	1.0
3. Effective coordination with key stakeholders	0.2	3	0.6	3	0.6	3	0.6	4	0.8	5	1.0
4. Accountability for the use of funds	0.1	4	0.4	4	0.4	2	0.2	5	0.5	4	0.4
5. Risks adequately managed	0.1	3	0.3	4	0.4	2	0.2	3	0.3	4	0.4
6. Speedy and efficient disbursement of funds	0.1	4	0.4	4	0.4	1	0.1	2	0.2	4	0.4
Total benefit score	1.0	19	2.8	20	3.6	14	2.6	21	3.5	22	4.4
BCR			0.34		0.42		0.24		0.43		0.47

Annex 2 Selective bibliography (cited or used in this report)

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Annex 3 A "Hybrid" management structure for BRACED