U4 ANTI-CORRUPTION RESOURCE CENTRE

U4 Practitioner Experience Note 2021:1

The Somalia Humanitarian Fund Accountability Framework: Lessons for risk management in humanitarian aid

By Vera Devine

CMI CHR. MICHELSEN INSTITUTE

Partner agencies
German Corporation for International Cooperation – GIZ
German Federal Ministry for Economic Cooperation and Development – BMZ
Global Affairs Canada
Ministry for Foreign Affairs of Finland
Ministry of Foreign Affairs of Denmark / Danish International Development Assistance – Danida
Swedish International Development Cooperation Agency – Sida
Swiss Agency for Development and Cooperation – SDC
The Norwegian Agency for Development Cooperation – Norad
UK Aid – Foreign, Commonwealth & Development Office

About U4
U4 is a team of anti-corruption advisers working to share research and evidence to help international development actors get sustainable results. The work involves dialogue, publications, online training, workshops, helpdesk, and innovation. U4 is a permanent centre at the Chr. Michelsen Institute (CMI) in Norway. CMI is a non-profit, multi-disciplinary research institute with social scientists specialising in development studies.
www.U4.no
U4@cmi.no

Cover photo
UNICEF Ethiopia (CC by-nc-nd) https://www.flickr.com/photos/unicefethiopia/50897458241

Keywords
aid - accountability - corruption risk management - multi-partner funds - humanitarian assistance - Somalia - Eastern Africa

Publication type
U4 Practitioner Experience Note

The Somalia Humanitarian Fund, a UN-managed multi-donor fund, faced a crisis in 2012 when cases of aid diversion were revealed. Donors' confidence was shaken, and many withdrew from the Fund. Since then, implementation of an Accountability Framework with strict assessment, monitoring, reporting, and audit requirements has restored stakeholders' trust and allowed the Fund to rebound. The Somalia experience holds lessons for other humanitarian funds operating in challenging environments.

Main points

- Formed in 2010, the Somalia Humanitarian Fund faced a crisis in 2012–13, when cases of fraud and corruption shook stakeholder confidence and led to declining donor commitments.
- Since then, the Fund has adopted a risk management-based approach, aimed at mitigating and managing the risks of operating in a challenging setting while acknowledging that a complete elimination of these risks is not possible.
- The SHF Accountability Framework, implemented in 2013, includes due diligence checks, capacity assessment of partners, application of different operational modalities, monitoring of projects, quality review of reporting, financial spot checks, audits, and a performance management index.
- By 2019, stakeholders' trust in the SHF had increased, and donor contributions had rebounded. Moreover, the proportion of funding allocated to national NGOs had increased in line with a strategic shift in the operations of the Fund.
- The SHF is engaging its donors in an open dialogue around corruption risks, cases of irregularities, and the Fund's management of these issues, further increasing stakeholders' confidence.

Table of contents

About the author

Vera Devine
Senior Adviser and Online Course Coordinator

Abbreviations

CBPF Country-Based Pooled Fund

INGO international NGO

IP implementing partner

NGO non-governmental organisation

NNGO national NGO

OCHA United Nations Office for the Coordination of Humanitarian Affairs

PEN Practitioner Experience Note

SHF Somalia Humanitarian Fund

UN United Nations

Country-Based Pooled Funds (CBPF) are multi-donor assistance funds managed by the United Nations Office for the Coordination of Humanitarian Affairs (OCHA). They have become an increasingly popular way to ensure swift, coordinated, and effective assistance in humanitarian crises. CBPFs enhance efficiency and, ideally, ensure stronger local ownership of the humanitarian response. But like most financing tools in challenging settings, they are also susceptible to the risks of embezzlement and other forms of corruption.

In 2010, the Somalia Common Humanitarian Fund was established as a CBPF 'to allocate funding for the most urgent life-saving interventions in Somalia'.[1] By 2012, the Fund faced a crisis of confidence as a number of aid diversion cases attracted the attention of stakeholders and the public. This situation was not unique to the Fund but affected multiple aid agencies operating in Somalia, a poverty-stricken country with ongoing conflict and insecurity. Still, there was a notable fall-off in donor commitments to the Fund. This was accompanied by rising dissatisfaction with the United Nations' (UN) perceived lack of openness and transparency in handling the cases, as well as doubts about its ability to ensure the accountable use of donor funds.

By June 2019, however, the renamed Somalia Humanitarian Fund (SHF) had rebounded, with renewed commitments by donors. This was largely due to the implementation, over several years, of the SHF Accountability Framework, which has since been applied, tested, and further developed in other CBPFs globally. This framework provides a structure for preventing, managing, and responding to corruption and embezzlement in the Somalia operational context – to the extent possible.

This Practitioner Experience Note (PEN) explores key parameters of the SHF Accountability Framework. It is based on a combination of SHF-related documentation, including external evaluation reports, and in-depth qualitative interviews with individuals who have been involved in the introduction and management of the Accountability Framework and in the implementation of SHF funds. The data collection was completed in June 2019.

Formation of the Somalia Humanitarian Fund

The Somalia Humanitarian Fund, in operation since 2010, is one of 17 multi-donor CBPFs. The SHF supports high-priority projects closely aligned with the Humanitarian

---

1. See OCHA, About the Somalia HF.

Response Plan, the strategic planning document for coordinated humanitarian action in Somalia. In 2019, the SHF was funded by 10 donors; the largest annual contributor was Germany, followed by the Netherlands, Sweden, Australia, the United Kingdom, Ireland, Norway, Denmark, Canada, and Switzerland. Funding is allocated through multiple rounds, following strategic prioritisation within the inter-cluster coordination system and subsequent calls for proposals. The SHF also has a reserve facility of around 10%–20% of its overall annual financial envelope, which allows it to respond to emergencies as they arise.

Funding allocations can be made to UN agencies and to non-governmental organisations (NGOs), including both international and national/local NGOs. The latter are often smaller and highly localised organisations. Working through local partners has two main advantages. First, it allows access to areas that may not be reachable for international NGOs or UN agencies. Second, national stakeholders are actively integrated into humanitarian decision-making, thus strengthening the response at country level. In this sense, the SHF is adhering to the Grand Bargain commitments agreed by humanitarian stakeholders at the 2016 World Humanitarian Summit.

The Somalia crisis

In 2012, fraud and corruption was detected among multiple implementing partners, both national and international, of the Somalia Humanitarian Fund. This resulted in a loss of money and shook donors' confidence, leading some to withdraw from the Fund. The Fund's financial envelope shrank significantly between 2012 and 2016, as shown in Table 1. This can be attributed in large part to the discovery of corruption, although it also reflected a decrease in humanitarian needs in Somalia during those years.

Table 1. Somalia Humanitarian Fund at a glance, 2011–2018

SHF	2011	2012	2013	2014	2015	2016	2017	2018
Total annual contribution (US$ millions)	84.8	89.4	32	30	36.1	26.1	56.9	54.3
Number of donors	13	10	10	9	8	8	14	12
Number of projects	228	175	84	75	78	107	163	119
Number of implementing partners	96	85	54	34	34	38	68	58

Sources: OCHA Evaluation of Country-Based Pooled Funds: Somalia Country Report, 2015, and OCHA Evaluation of Country-Based Pooled Funds: Somalia Country Report, June 2019 draft (the final version was published in November 2019, after the close of our research period).

The 2012–2013 situation became known to SHF stakeholders as the 'Somalia crisis', and they reported, in interviews for this PEN, that it served as a wake-up call. Donors were not only troubled by the loss of funds; they were also concerned about the way in which OCHA handled the situation, particularly with regard to what was perceived to be a lack of proactive communication and information sharing. It became clear that OCHA had to substantially change its risk management tools to regain donors' trust if it hoped to continue to provide humanitarian aid at scale in Somalia as well as in other humanitarian crises. Minimising corruption risks and preventing corruption was a key motivation for revamping and strengthening the risk management system. But OCHA also felt that donors should be made aware of, and should help shoulder, some of the risks typical for contexts like Somalia, where the procurement and distribution of goods and services is affected by insecurity, collapsed or undeveloped market structures, and weakened national institutions.

Since the discovery and elevation of the 2012 Somalia fraud cases, the SHF, like CBPFs globally, has undergone considerable changes and has adopted a risk management–based approach to its operations. This means that the Fund's management identifies, assesses, and understands the risks to which implementing partners and projects are exposed. Measures are then undertaken to mitigate these risks.

Risk management versus risk elimination

Most CBPFs face similar corruption-related challenges, and the dilemmas are often fraught. As highlighted above, CBPFs operate in crisis contexts. They face an inherent tension in trying to provide prompt crisis response – getting aid delivered to the most vulnerable people as quickly as possible – while at the same time ensuring that there is effective control over the allocation and use of funds. Control measures inevitably slow the response. Access to vulnerable populations is another common challenge due to safety and security concerns, which is also one of the reasons why humanitarian aid delivery has become increasingly localised.

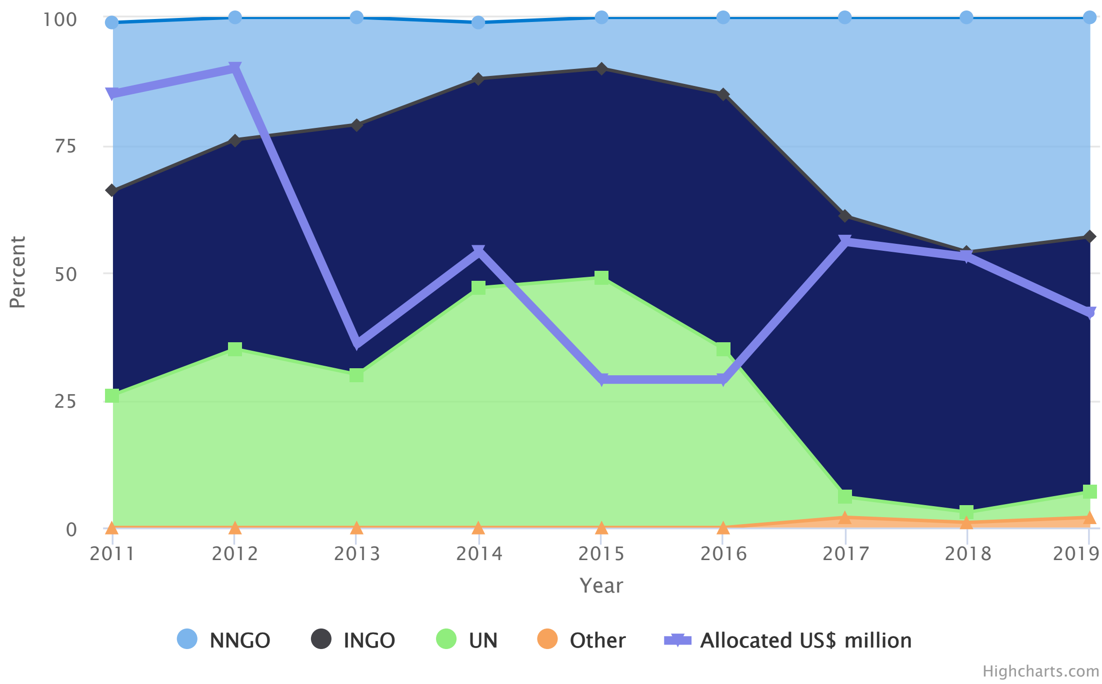
In these contexts, risks of corruption and fraud can be managed or transferred, but not completely eliminated. This is an uncomfortable truth for many donors, who often have an official zero-tolerance policy on corruption. Stakeholders interviewed for this PEN report that in many CBPFs, OCHA has moved to working predominantly with well-known international NGOs with a track record of implementation of humanitarian aid, or through UN agencies, in an effort to avoid risks that might arise from working through local NGOs. This, however, limits the geographic reach of the aid effort and increases its costs, since international NGOs often merely turn around and subcontract with local NGOs to deliver aid on the ground.

A specific challenge for those CBPFs that were established before the introduction of globally applicable risk management standards is that a culture of implementation had taken root that was hard to eliminate. Prior to the 2012 crisis, local NGOs, in particular, had been awarded contracts and grants with minimal controls and oversight. Changing this culture has not been easy.

Impact of the SHF Accountability Framework

In 2013, an eight-pillar Accountability Framework for the Somalia Humanitarian Fund was put in place. An audit by the UN's Office of Internal Oversight Services in 2014, when the framework was in very early stages of rollout and implementation, provided a first assessment of its effectiveness. While progress had been made, the audit highlighted ongoing concerns, including the capacity to monitor the progress of interventions as well as the accuracy of partner reporting. The audit noted that, between 2011 and 2014, there was an increase in the proportion of projects implemented through international NGOs and UN agencies, despite the Fund's intention to work as much as possible through Somalian organisations (see Figure 1).

Figure 1. SHF funds allocated, by type of partner and year



Source: Chart provided by UN OCHA Somalia in June 2019.

Note: IP = implementing partner; NNGO = national NGOs; INGO = international NGOs; UN = United Nations.

In 2015, further steps were taken globally towards the standardisation of CBPFs through a Policy Instruction and a global Operational Handbook, which served as a guidance for country-specific CBPF manuals. The SHF Operational Manual was adopted in 2017 and has been updated annually since then.

An evaluation commissioned by OCHA and completed in summer 2019, covering the period from 2015 to 2018, found an increase in the number of national NGOs that received funding through the SHF. The proportion of funding allocated to national NGOs increased significantly through the evaluated period, while funding from the SHF to UN agencies decreased. This pointed to a notable strategic shift in the operations of the SHF. In 2015, of the 78 projects implemented, 22 were implemented by UN agencies, 42 by international NGOs, and only 14 by national NGOs. By 2018 this picture had changed dramatically: of the 119 projects implemented through the SHF, 63 were implemented by national NGOs and 52 by international NGOs, while only one intervention was implemented by a UN agency.

Overall, the evaluation found that stakeholders’ trust in the SHF had increased and there had been a boost in donor contributions (Figure 1). The evaluation also found that the

SHF had introduced robust management systems and had strengthened leadership and coordination. Among good practices, the evaluation highlighted that the SHF was using a diverse menu of monitoring tools; that it was proactive, vis-à-vis its donors, in its approach to assessment, monitoring, and communication on issues related to non-compliance, fraud, and other types of mismanagement; and that the funding allocation process was able to exceed targets due to the Fund's close interaction and coordination with stakeholders.

Implementation of the SHF Accountability Framework

The SHF Accountability Framework consists of eight pillars, explained in more detail below:

- Due diligence checks
- Capacity assessment of implementing partners
- Application of different operational modalities in accordance with the partners' risk and performance ratings, grant sizes and duration, and earlier compliance track record
- Monitoring of projects through multiple available tools
- Quality review of reporting
- Financial spot checks
- Audits
- Maintenance of a performance management index

Due diligence checks

Due diligence checks are conducted by SHF management in the pre-selection stage (that is, before organisations become eligible to be SHF implementing partners), as well as annually and prior to the award of new grants. A menu of verification methods is available, including contacts with Somali banks, through which managers can double-check information provided by aspiring partners. These checks relate to the veracity of some of the compulsory information required, such as information on a potential partner's governance structures and banking details. SHF stakeholders report that they are able to detect some irregularities at this early stage. Experience has shown that where problems with potential partners are detected through due diligence, concerns also arise in subsequent stages of the Accountability Framework.

Capacity assessment

With the introduction of the Accountability Framework, a compulsory, rigorous capacity assessment of implementing partners was established. This assessment is a multi-step process and is partially implemented by a third-party contractor with access to all locations in Somalia. It evaluates a potential partner's ability to manage, implement, and report on funds, as well as its technical skills to carry out specific types of projects. NGOs are only eligible to receive SHF grants if they have successfully undergone the capacity assessment. Given that the assessment is a thorough and costly process, only a limited number of organisations can be assessed each year. The SHF first conducts a pre-assessment, which requires a potential partner to supply self-assessment information; if this information is not submitted, the organisation will not proceed to the full capacity assessment. In 2017, the SHF pre-assessed 66 organisations, only 33 of which then proceeded. The SHF was in contact with the unsuccessful organisations to explain why they had not moved forward in the process. There is, in such cases, a possibility for potential partners to be reconsidered for assessment. The prioritisation of partners for assessments is done within the humanitarian inter-cluster system.

Operational modalities

A weak rating in the capacity assessment does not prevent an organisation from becoming an implementing partner if the minimum threshold has been met. Rather, it helps determine the operational modalities by which funding will be implemented. A partner that has been ranked 'low risk' can receive larger amounts of funding, in fewer tranches. By contrast, for organisations ranked 'medium' or 'high risk', financial envelopes will be smaller, with smaller and more frequent funding tranches. There will also be a higher frequency and more intense scrutiny of reporting.

Monitoring

During implementation, various types of monitoring take place. While some on-site monitoring visits are conducted by a contractor, SHF management has stepped up their own monitoring activities. All staff are required to engage in monitoring, and often this combines programme and financial monitoring (since separating these aspects can cause important red flags to be missed). Here again, the frequency of monitoring visits relates to the risk rating that an implementing partner has received in the assessment. In addition to on-site monitoring, remote monitoring through calling is also used.

Narrative and financial reporting

Rigorous scrutiny of implementing partners' narrative and financial reporting is another pillar of the framework. The frequency of reporting, too, is determined by a partner's risk rating. Where monitoring has raised red flags, this will be followed up through closer examination of the reports. Likewise, where examination of the reports has revealed suspected irregularities or questions, the monitoring visits will further investigate those aspects.

Financial spot checks

Financial spot checks constitute a central accountability and financial control tool. These checks take place during project implementation and include a verification of the accuracy of the financial records and project documentation. They also serve as an assurance that project implementation is on track.

Audits

Audits are conducted for all SHF-funded projects by an external auditing company two months after a project's financial closure. In cases where red flags have been raised through the SHF internal accountability measures during implementation, a forensic audit can be triggered. The Fund's ability to conduct thorough forensic local audits is, however, limited by the market, as there are only a few contractors able to perform this service in the challenging Somalia setting.

SHF performance management index

All of the above parameters are analysed and consolidated in the SHF performance management index. This means that an implementing partner can move from an initial high-risk status to become a medium-risk or low-risk partner. Conversely, concerns raised during any of the above steps can move a low-risk partner into the medium-risk or high-risk category.

Standardised procedures are considered a step towards greater accountability of the SHF to its implementing partners. There are now, through the SHF Operational Manual introduced in 2017, clear guidelines for partners on expected standards of budget preparation, financial reporting, and capacity assessments. There are also templates for lodging reports of fraud, and SHF senior management encourages whistle-blowing on corruption through the provision of an email address to which suspicions of corruption can be reported. The SHF management also provides training that strongly encourages implementing partners' staff to report any irregularities immediately as they arise.

As part of the Fund's pledge of inclusiveness, implementing partners participate in strategy development, as well as in the process of determining which organisations are selected for funding and why. Through a Grant Management System, the SHF records, in real time, the funded partners and their projects, locations, and financial envelopes. Some of this information is made available publicly through an online OCHA data portal (called the CBPF Business Intelligence Portal at the time of our research, and since then renamed as the Pooled Funds Data Hub). The SHF is also active on social media. Moreover, in a clear shift from the 2012 crisis, the SHF is engaging with its donors in an open dialogue around corruption risks. Donors are updated regularly on the implementation of the SHF. They are also updated twice a year, in writing, on escalated SHF accountability issues, with statistics on irregularities detected and an explanation of how the SHF is managing these issues. Stakeholders report that this has increased donors' understanding of the difficulties inherent in the operating environment and their appreciation of the effectiveness of the Accountability Framework.

Investigations and sanctions

As outlined above, irregularities and suspicions of corruption can be detected during the regular monitoring process, financial spot checks, and/or post-completion audits. The SHF Operational Manual contains a list of sanctions for non-compliance. Where there is an 'indication/confirmation of fraud, corruption or misuse of funds', implementers will be referred to the UN Office of Internal Oversight Services. Up to now, a specific challenge has been that the UN system's oversight and investigations capacity is overstretched. In practice, this means that investigations can take up to 12 months or more to get started. Moreover, in the case of CBPFs like the SHF, these investigations rely to a great extent on the available internal documentation from previously conducted accountability and oversight activities. Stakeholders acknowledge that the ability to more deeply investigate irregularities and cases of alleged corruption is also hampered by a lack of coordination between investigation services of the different UN agencies. While there have been instances of successful cooperation in the recent past, the UN risk management system remains fragmented, and joint oversight and compliance follow-up needs to be more systematic. At present, non-compliance in the implementation of funds managed by one UN agency does not automatically preclude an organisation from receiving funds from another UN agency.

Other challenges relate to retrieving lost funds and holding organisations involved in corruption and fraud legally accountable in cases where an amicable solution has not been achieved. The SHF has, on occasion, referred cases to the national authorities of the countries where NGOs are registered, although with little success to date. No referrals have yet been made to the Somalia authorities, in part because of human rights concerns about the country's justice sector.

Concluding reflections

Implementation of the SHF Accountability Framework has led to more irregularities and red flags being picked up earlier than was previously the case. This does not mean that corruption has increased in the SHF or in Somalia; rather, it means that the accountability system works and is successfully detecting issues during implementation. By contrast, stakeholders at OCHA headquarters reported that they are concerned about the number of CBPFs elsewhere which do not report any cases of irregularities and corruption at all. They acknowledged that it is unlikely that no corruption occurs in these settings, and suggested that the accountability systems in place to manage risks are insufficient.

The establishment of the Accountability Framework has faced some push-back from implementing partners, as well as within OCHA. On both sides, stakeholders were initially resistant to what amounted to a considerable change in the implementing and management culture. A consistent dialogue with implementers and donors on the new framework was critical to its development, as was a change in the management of the SHF. Implementation has improved over time through standardised procedures and better communication with partners. Passing the Fund's capacity assessment is particularly important for national NGOs: it means access to additional funding streams, since it is recognised by other donors as a form of pre-vetting.

Although stakeholders and the SHF believe that the Accountability Framework helps deter corrupt practices, everyone clearly understands that no system can eliminate all risks. In Somalia, the pervasive insecurity and the limited local market for supplies and services, including for audits and monitoring, pose particular challenges. This is an additional argument for the need for a robust internal UN risk management and compliance/oversight system that is well resourced and can achieve coordination among multiple agencies and stakeholders.