

June 2023

DERF Guiding Note on Piloting flexible funds and 5% local administration

The DERF has the ambition to support localised responses and strengthen local leadership, which we already promote as described in the current DERF funding guidelines.

To take the localisation agenda one step further, the DERF is piloting two new initiatives:

- a) the introduction of flexible funds for locally prioritised activities supported by the DERF, and
- b) the introduction of a 5% lumpsum for local administration, similar to the one for administration in Denmark.

1. Flexible Funds for Activities

The purpose of the flexible funds is to enhance the possibility for increased levels of local leadership through community involvement and participation of the target group in decision-making about the use of the granted funds.

To achieve this flexibility, DERF-grants under this pilot may (optional) plan with funds not from the beginning allocated to a specific activity. During implementation, you can **only** use the Flexible Funds for ***managing a process of community involvement in prioritisation and decision-making concerning the use of these funds***, and for ***implementing activities as per the decision taken by the community***.

When applying:

- When applying, you must describe the process of involving the community in decision-making in section 1.2 (describe the intervention) and 3.2 (describe strategies for involving local actors) of the DERF application format.
- In the budget format, add a budget line for Flexible Funds under the “1. Local Partner Activities.” You cannot add Flexible Funds to other budget lines.

1. Local Partner Activities	
1.1	
1.2	
1.3	
etc.	
1. Subtotal	-

- The amount allocated for flexible funds may not exceed 10% of the Total Cost (budget line 13).

13. Total Costs	-
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- Utilization of the Flexible funds have to be on lifesaving humanitarian activities that support the achievement of approved intervention objectives / outcomes. It may include new activities, if these contribute to the achievement of one or more of the objectives or outcomes of the intervention.
- The pilot has no implication on the existing assessment criteria of the application.

- Besides the direct costs of activities, you may also use the Flexible Funds to cover expenses of organising a participatory decision-making process about the use of these funds.

When implementing:

- It is the communities involved in the project (target group and local actors) who are to decide on the use of the Flexible Funds. This also means, that the DERF does not need to give further approval to it.
- It is the grantees' responsibility to ensure that spending of the flexible funds is on ***lifesaving*** activities and ***within the objectives / outcomes*** of the intervention. The DERF cannot give exception this particular use of the Flexible Fund.
- The implementing partner organisation will have to play a key role in facilitating this process of community involvement in the prioritisation and decision-making.

When reporting:

- You must describe and reflect upon the use of flexible funds in your final narrative report to the DERF. That includes descriptions on how the Flexible Funds have contributed to:
 - the achievement of the intervention objectives / outcomes (section 1.3 in the reporting format), and
 - strengthening local leadership by including allowing local structures, such as the targeted communities, in key decision-making processes (section 4.1 in the reporting format).
- In the financial report, i.e., the audited accounts, you must describe the costs of the utilization of the flexible funds by adding an extra line under budget line "1. Local Partner Activities" and a description in the management review.

The DERF will assess the impact of the flexible funds on localisation through the final reports of the grantees and through a questionnaire for grantees towards the end of the pilot. The findings and learning from these will feed into the decision of continuation of the Flexible Funds.

2. Lumpsum of 5% on local administration

The purpose of introducing a 5% lumpsum for local administration instead of budgeting and accounting for specific expenditures is to increase the support to local leadership of implementing organisations. With a lumpsum for local administration, the implementing organisation(s) may decide without interference by the DERF on how the grantees spend the funds in the crisis area/by the local partner(s).

When applying:

- In the budget format, use the budget line "4. Local Partner Administration" to enter the amount needed for administering this intervention locally by the implementing partners.

4. Local Partner Administration		
4.1.	Local partner administration - excl. local audit (maximum 5% of #13 - see maximum amount below)	
Max.	0 kr.	
4.2	Local Audit	
4. Subtotal		-

- The amount of the local administration lumpsum can be up to max. 5% of budget line “13. Total cost.” Please note that the cost of the local audit, where applicable, may be budgeted in addition to this 5% limit.

13. Total Costs	-
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- During the pilot, you cannot budget with particular costs instead of the lumpsum. You may not exceed the 5% for local administration. If you need less, you may however budget with less.
- If your intervention has several implementing partners, you must divide the amount between them, as you cannot exceed the 5% of the total cost.
- Note that the lumpsum should not include expenses for local staff and volunteers, including salaries, as these are part of the budget line 3.

3. Local Partner Staff and Volunteers	
3.1	
3.2.	
3.3.	
etc.	
3. Subtotal	-

- All aspects of local administration as defined in the [DERF Budget Guidelines](#) must be included in the 5%, hereunder also the possible fair share of administrative costs as well as local audits according to the DERF guidelines.

When implementing:

- The 5% must be used on local administration as defined in the [DERF Budget Guidelines](#).
- The DERF cannot approve budget changes to increase the local administration lumpsum beyond the 5% of total.
- Be aware that when the total cost changes, the amount for local administration changes accordingly. For instance, if you do not utilize the entire amount budgeted for the intervention, the 5% administration will decrease proportionally.

When reporting:

- When elaborating the audited accounts to the DERF, you do not need to document the expenditures for local administration with receipts. Instead, the expenses of the lumpsum must be in the bookkeeping and thus the audited accounts for the intervention. It is however necessary to include the specific costs in the audit to assess the accounted 5% of the actual total costs, and the proportionality of the fair share of the project versus the organisational turnover during the project period. Last, but not least, the administrative costs and thus coverage by the DERF funding must be an integral part of the organisational annually audited accounts.
- Specifically, the procedures follow the same regulations as for administration in Denmark, described in the [DERF Grant Management Guide](#) chapter 5.4.

The DERF will assess the impact of the changes in budgeting and accounting for local administration at the end of the pilot by analysing grantees’ narrative reports, financial reports, and their final audited accounts.