Pre-Financing Anticipatory Action:

A Practical Guide for National Societies

June 2024

This guide outlines key considerations and steps for developing a pre-financing strategy, ensuring National Societies can act swiftly and reduce reliance on delayed donor funding.

American Red Cross

PURPOSE

Anticipatory action is a set of actions taken to prevent or mitigate potential disaster impacts before a shock or before acute impacts are felt. It is increasingly seen as crucial in addressing climate change and extreme weather. National Societies pre-define these actions in formal plans, such as an Early Action Protocol or a Simplified Early Action Protocol. The window for anticipatory action is the critical period when humanitarian organizations can act to reduce the impact of an impending disaster. To ensure timely action, funding is typically needed early in this window. However, due to financial transfer timelines, approval processes, and the structure of funding mechanisms, securing funds in time is often a challenge. Without immediate access to financial resources, delays can undermine the entire anticipatory process. Pre-financing is key, allowing National Societies to quickly mobilize resources and deliver aid when it's most needed.

AUDIENCE

This guide is intended for National Societies designing anticipatory programs. Different sections may be more relevant to specific staff members, such as program managers, finance officers, and logistics teams, depending on their role in the process.

Contents

List of Abbreviations

AA	Anticipatory Action
FSP	Financial Service Provider
LOC	Line of Credit
NFI	Non-Food Item
NS	National Society
PNS	Partner National Society

I. Introduction

Developing an anticipatory action pre-financing strategy is an essential action that supports National Societies to successfully implement and scale anticipatory action programming. The impact of anticipatory action hinges on the timely delivery of support, however, donor pipelines through default or design often are not able to make funds instantly available to National Societies. While this makes acting in the Anticipatory Action window of opportunity challenging if not impossible, National Societies have the power to solve this critical issue themselves. By pre-financing planned early actions through their own means while waiting for donor funds to arrive to their account, National Societies can solve one of the key challenges to the successful implementation and scaling of timely anticipatory action programming.

This guide will explain why a pre-financing strategy is valuable and the key factors that need to be considered when developing the strategy. Each pre-financing option is explained in detail to support effective decision-making. Lastly, the guide will walk National Societies through the different steps required in developing the strategy.

II. What is Pre-Financing?

The impact of anticipatory action hinges on timely early action, however, donor pipelines through default or design often are not able to make funds instantly available to National Societies supporting them to act in time. When National Societies arrange their own temporary, immediate funding that supports them to act before donor funds arrive in their account, this is called pre-financing. There are a variety of ways National Societies can pre-finance funding for early action and response operations. Some of these approaches are unilateral (e.g. the National Society creates a reserve fund), whereas others can be negotiated and established with partners, donors, or banking institutions. For a full list of options, see Figure 1. Depending on the scale of anticipatory action programs, a National Society may need to have a variety of options in place to meet their needs.

OPTION	SOLUTION TYPE	DESCRIPTION
TEMPORARY BUDGET REALLOCATION	National Society Solution	The National Society reallocates funds from existing programs or budget lines to cover anticipatory action needs, with the understanding that these funds will be reimbursed later by donors or other sources.
EMERGENCY RESPONSE FUND (ERF)	National Society Solution	An internal fund set aside by the National Society to respond to emergencies, which can be accessed for anticipatory actions when needed.
BILATERAL GRANT	Donor Solution	A donor directly provides funding to the National Society to finance anticipatory actions without requiring repayment.
BILATERAL LOAN	Donor Solution	A donor provides a loan to the National Society to cover the costs of anticipatory actions, with the loan being repaid once other funding is secured.
DONOR- FUNDED FINANCIAL SERVICE PROVIDER (FSP)	Donor Solution	The donor directly funds a financial service provider (FSP) to distribute cash grants for anticipatory action on behalf of the National Society.
DONOR -FUNDED GOODS PROVIDER	Donor Solution	The donor pays for goods needed for anticipatory action directly to the provider, expediting the procurement process.
BANK LOAN	Bank Solutions	The National Society secures a loan from a traditional bank to cover anticipatory action costs, repaid once other funds become available.
BANK LINE OF CREDIT (LOC)	Bank Solutions	A pre-arranged line of credit with a bank that allows the National Society to draw funds as needed, with interest charged only on the amount used.
FINANCIAL SERVICE PROVIDER (FSP) LINE OF CREDIT (LOC)	Service Provider Solutions	The National Society and FSP agree to delay payment for cash distribution until after early actions have taken place, allowing funds to be used in advance.
FSP DELAYED TERMS OF PAYMENT	Service Provider Solutions	The FSP provides cash to the beneficiaries and agrees to be paid later.
GOODS PROVIDER LINE OF CREDIT (LOC)	Service Provider Solutions	The National Society arranges a line of credit with a goods provider, allowing it to receive goods in advance and pay for them at a later date.
GOODS PROVIDER DELAYED TERMS OF PAYMENT	Service Provider Solutions	The supplier provides goods to the beneficiaries and agrees to be paid later.

Figure 1: NS pre-financing instruments


Coastal DRR Project
BDRCS

III. Importance of Pre-Financing Strategy

As RCRC National Societies (NSs) and Partner National Societies (PNS) roll out Anticipatory Action programming, a reoccurring issue has been highlighted – funds for Anticipatory Actions are often not available between when a trigger is reached and the onset of the hazard event, delaying the initiation of early action activities. Findings from evaluations commissioned by the IFRC have underscored that National Societies frequently lack immediate funding to carry out planned actions, with a lack of liquidity at the branch level further hindering program timeliness and quality.

Developing a robust pre-financing strategy for Anticipatory Action is vital to overcoming these barriers and for ensuring the swift implementation of early action programming. A pre-financing strategy is beneficial for several key reasons:

MITIGATING FUNDING DELAYS IN DONOR PIPELINES

Research has consistently shown that donor pipelines, either through default processes or by design, necessitate that implementing agencies pre-finance the early actions of their Anticipatory Action plans while awaiting the release of donor funds. These funds, often referred to as “fuel” funding, typically arrive after the critical window for anticipatory action has already begun, or in some cases, has closed. The lack of timely financial resources compromises the ability to implement interventions when they are most effective. Pre-financing is thus essential to ensure that National Societies can act swiftly when triggers are activated, without waiting for delayed donor disbursements.

DELIVERING DURING CRITICAL RESPONSE WINDOWS

Timeliness is crucial in anticipatory action. Delayed early actions can result in the loss of lives and livelihoods, particularly in disaster-prone regions. A well-structured pre-financing strategy enables National Societies to avoid delays and implement actions within the required response window. This timeliness ensures that anticipatory actions achieve their full potential, protecting vulnerable communities by reducing the impacts of crises before they occur. Without pre-financing, critical early actions may be delayed, diminishing the effectiveness of anticipatory measures.

SUPPORTING CASH-BASED EARLY ACTION ACTIVITIES

Pre-financing is especially critical for cash-based early action activities, where immediate liquidity is necessary to distribute cash or vouchers to affected populations. Cash-based interventions are time-sensitive and require rapid disbursement to be effective. As the scale of anticipatory action programs grows, reliable access to pre-financing becomes increasingly essential, particularly for National Societies transitioning from pilot projects to full-scale anticipatory action with multiple hazards and donors. The simultaneous activation of multiple protocols can strain available funds, making preparedness and pre-financing capacity critical for success.

SCALING ANTICIPATORY ACTION

As National Societies move from piloting anticipatory action to scaling interventions across multiple hazards and geographical areas, existing pre-financing solutions may no longer meet their needs. This scaling increases the likelihood that more than one protocol will be triggered at the same time, requiring greater access to pre-financing. National Societies must be prepared with a comprehensive strategy that layers multiple financing options, ensuring they are able to mobilize sufficient resources to cover overlapping or consecutive anticipatory actions.

MEETING DONOR EXPECTATIONS AND ENHANCING PARTNERSHIP OPPORTUNITIES

Donors that support anticipatory action, including the UN World Food Programme (WFP) and the IFRC's Early Action Protocol approval process, often require National Societies to have secured pre-financing mechanisms. Having a robust pre-financing strategy in place is often a prerequisite for receiving donor funding, as it demonstrates that National Societies can implement early actions even if donor disbursements are delayed. By maintaining a clear and reliable pre-financing capacity, National Societies enhance their credibility as implementing partners of choice. This readiness strengthens their partnerships with donors and expands their ability to scale anticipatory action programming, making them more attractive and reliable partners for future initiatives.

IV. Pre-Financing Considerations

TYPES OF PRE-FINANCING SOLUTIONS

Pre-financing solutions generally fall into four categories based on who controls the decision-making:

- National Society Solutions
- Donor Solutions
- Bank Solutions
- Service Provider Solutions

For service provider solutions, these are most relevant when goods or services are required for early action plans. As an example, the payment for in-kind items can be integrated into supplier terms, such as negotiating a delayed or tranche payment plan for shelter kits. Financial service providers may offer financing for multi-purpose cash assistance, though this is less common. National Societies should assess all available solutions and determine what is appropriate based on their operational context.

SCALE

Different pre-financing options provide varying levels of funding. Multiple solutions may be necessary to fully meet the National Society's pre-financing requirements. Understanding the minimum and maximum funding available for each solution helps ensure that National Societies can layer different options to meet their full needs.

TIMELINESS OF FUNDS

Pre-financing options vary in how quickly funds can be made available. The same solution might have different timelines depending on the provider. Even after funds are secured, transferring them down the pipeline (e.g., from HQ to branches or to a financial service provider) can introduce delays. Careful planning is required to ensure funds are available within the anticipatory action window.

COST CONSIDERATIONS

Costs associated with pre-financing solutions are an important factor. It is essential to fully understand any fees or terms linked to each option, as these costs may not be reimbursed by donors when they eventually disburse funds. The National Society should be aware that while they will be reimbursed for the pre-financing amount when the donor funds for anticipatory action hit their accounts, the fees related to the pre-financing solution will not be reimbursed by the donor. The National Society will need to plan to cover the fees related to the pre-financing solution from their own funding.

LIQUIDITY

The liquidity of a pre-financing solution is crucial. If the solution does not provide funds at the scale needed in a timely manner, it will not be an optimal choice. National Societies should evaluate how readily the funds can be accessed and whether they can be deployed at the branch level when necessary. Often the early actions are taken at the branch level, therefore moving funds to the branch level is a key step in the process. Some pre-financing solutions can be made available directly to the branch level cutting out an extra step of moving money from HQ to the branch.

This ensures that funds are available where and when they are needed to support early action.

RISK & DUE DILIGENCE

Selecting pre-financing solutions requires a thorough understanding of the associated risks and completing due diligence to ensure service providers meet National Society standards. Both considerations play into decision-making:

- **Risk Assessment**: Different pre-financing options come with varying levels of risk, such as liquidity issues or the possibility of delays. To make informed decisions, National Societies should engage multiple stakeholders—such as finance, procurement, management, and program teams—to evaluate the risks holistically. This ensures that the chosen solution aligns with organizational capacity and risk tolerance.
- **Due Diligence:** For Bank and Service Provider solutions, it's important to conduct due diligence on potential partners to verify that they meet National Society standards and requirements. This process will help identify reliable partners and mitigate potential legal, financial, or operational risks.

SEQUENCING & LAYERING OF PRE-FINANCING SOLUTIONS

When designing a pre-financing strategy, National Societies must consider how to sequence and layer different solutions to meet their needs across various scenarios.

- **Sequencing:** Sequencing refers to the order in which pre-financing solutions are activated. National Societies should plan for worst-case scenarios where multiple protocols might be triggered simultaneously. In such cases, prioritizing the activation of certain pre-financing solutions based on factors like cost, accessibility, and scale is essential to ensure the timely release of funds.
- **Layering:** Layering involves combining multiple pre-financing solutions to cover different periods and levels of funding needed. Pre-financing requirements may fluctuate depending on seasonal hazards, and layering solutions ensures that there is enough financial support to meet varying needs. National Societies should strategically align these solutions to cover both short-term and longer-term financial demands.

By carefully planning the sequencing and layering of pre-financing mechanisms, National Societies can create a more flexible and responsive financial strategy that ensures adequate funding at all stages of anticipatory action.

V. Pre-Financing Options

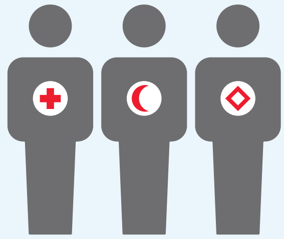
This section summarizes the advantages, disadvantages, and unique considerations for the 12 pre-financing solutions described. The solutions are summarized in the table below, and then organized by solution type (e.g. National Society Solutions, Donor Solutions, Bank Solutions, or Service Provider Solutions).

Option	Solution Type	Description	Considerations
TEMPORARY BUDGET REALLOCATION	National Society Solution	The National Society reallocates funds from existing programs or budget lines to cover anticipatory action needs, with the understanding that these funds will be reimbursed later by donors or other sources.	• **Pros**: Relatively widespread practice, offering immediate liquidity to support early action. • **Cons**: Potential disruption to planned programs and the need to reimburse funds later. Requires careful alignment with donor agreements and monitoring of fund reallocation.
EMERGENCY RESPONSE FUND (ERF) See ERF detailed process guide here.	National Society Solution	An internal fund set aside by the National Society to respond to emergencies, which can be accessed for anticipatory actions when needed.	• **Pros**: Provides readily available funding under the National Society's control. • **Cons**: Requires time to establish and maintain. There's a risk of misuse or depletion if accessed for other urgent needs, especially at branch levels.
BILATERAL GRANT	Donor Solution	A donor directly provides funding to the National Society to finance anticipatory actions without requiring repayment.	• **Pros**: Fast access to funds with no repayment needed. No disruption to ongoing programs. • **Cons**: May require pre-agreements or negotiation with donors to ensure funds are available in time. The amount might be limited.
BILATERAL LOAN See Bilateral Loan detailed process guide here.	Donor Solution	A donor provides a loan to the National Society to cover the costs of anticipatory actions, with the loan being repaid once other funding is secured.	• **Pros**: Provides immediate access to funds without disrupting other programs. • **Cons**: Requires repayment, which may create financial pressure. Negotiating terms can take time.
DONOR FUNDED FINANCIAL SERVICE PROVIDER See FSP detailed process guide here.	Donor Solution	The donor directly funds a financial service provider (FSP) to distribute cash grants for anticipatory action on behalf of the National Society.	• **Pros**: Quicker disbursement of cash-based support, reduces the administrative burden on the National Society. • **Cons**: Reduces the National Society's control over the contract, and is only suitable for cash-based early actions.

Option	Solution Type	Description	Considerations
Donor -FUNDED GOODS PROVIDER	Donor Solution	The donor pays for goods needed for anticipatory action directly to the provider, expediting the procurement process.	• **Pros**: Speeds up procurement of necessary goods without waiting for internal funds. • **Cons**: Limits the National Society's control over the contract and decision-making, suitable primarily for large-scale goods procurement.
BANK LOAN See Bank Loan detailed process guide here.	Bank Solutions	The National Society secures a loan from a traditional bank to cover anticipatory action costs, repaid once other funds become available.	• **Pros**: Provides quick access to large sums of money. • **Cons**: Expensive due to interest rates and fees. May require collateral, and nonprofit organizations may face difficulty securing a loan due to perceived risk
BANK LINE OF CREDIT (LOC) See Bank LOC detailed process guide here.	Bank Solutions	A pre-arranged LOC with a bank that allows the National Society to draw funds as needed, with interest charged only on the amount used.	• **Pros**: Offers flexibility in accessing funds on demand, and interest is only charged on what is used. • **Cons**: Includes setup fees, collateral requirements, and other charges, which may not be reimbursed by donors.
FINANCIAL SERVICE PROVIDER LINE OF CREDIT	Service Provider Solutions	Allows the National Society to pay beneficiary households based on a pre-agreed LOC. The National Society would then pay off the amount financed by the LOC when the anticipatory action funding reached their bank account.	• **Pros**: Provides rapid access to funding for cash-based interventions. • **Cons**: Rarely used in humanitarian contexts, and setup or management fees may not be covered by donors.
FINANCIAL SERVICE PROVIDER DELAYED TERMS OF PAYMENT	Service Provider Solutions	Allows a National Society to disburse cash grants to beneficiaries before receiving funding from donors. The National Society repays the FSP once anticipatory action funding is received.	• **Pros**: Speeds up cash distribution, particularly if early actions include cash programming. Provides considerable pre-financing. • **Cons**: Rare in the humanitarian sector; requires strong, long-term relationships with the FSP.
GOODS PROVIDER LINE OF CREDIT	Service Provider Solutions	The National Society arranges a line of credit with a goods provider, allowing it to receive goods in advance and pay for them at a later date.	• **Pros**: Facilitates the rapid procurement of goods for anticipatory action. • **Cons**: Subject to fees, and delays in payment can affect future procurement relationships.
GOODS PROVIDER DELAYED TERMS OF PAYMENT	Service Pro-vider Solu-tions	The supplier provides goods to the beneficiaries and agrees to be paid later.	• **Pros**: Familiar to logistics teams and useful for early actions involving goods, removing financial delays in the supply chain. • **Cons**: Fees may not be reimbursed, and it must be pre-negotiated in contracts, making later inclusion difficult.

National Society Solution

A. National Society Temporary Budget Reallocation



DESCRIPTION

SCALE
SMALL – MEDIUM

To meet anticipatory action pre-financing costs, a National Society may request a temporary budget reallocation. Funds are temporarily diverted from other planned programming to meet the immediate anticipatory action pre-financing needs and then replaced when the anticipatory action funds are received from the donor. While this can be a quick source of liquidity, there are many factors to consider including scale, back donor requirements, and impact on planned programming and priorities. The National Society should follow necessary budget management, reporting, and control mechanisms to properly account for the reallocation and reimbursement.

ADVANTAGES	DISADVANTAGES
• Funds are readily available. • Decision making is under National Society control. • Funds can be layered with other solutions.	• Donor requirements may not allow for temporary reallocation. • Funds may not be large amounts. • Any delays in reimbursement may negatively impact planned programming.

SPECIAL CONSIDERATIONS

Follow necessary budget management, reporting, and control mechanisms to properly account for the reallocation and reimbursement.

Consider donor requirements if funds are reallocated from donor-funded projects.

Consider National Society financial management policies and who has the authority to reallocate funds.

National Society Solution

B. National Society Emergency Response Fund (ERF)

Access detailed ERF process guidance here.

DESCRIPTION

SCALE

SMALL – MEDIUM

Anticipatory Action can be funded via a National Society's reserve or contingency funds, often called an "emergency response fund". These are funds held in a ring-fenced budget and are traditionally set up to allow for rapid response to a disaster or crisis. The main difference between contingent and reserve funds is whether the funds are returned at the end of the fiscal year if not used (contingency funds) or accumulated over time (reserves). The policies and procedures of the contingent and reserve funds may need to be adjusted to allow for Anticipatory Action pre-financing. The funds can cover the pre-financing needs and the pre-financed amount can be reimbursed. These funds have an internal governance structure that is fully under the NS's control.

ADVANTAGES	DISADVANTAGES
• Access to funding in the country; money is in the NS bank account and local currency. • NS can create ERF funds in its' branches; or pre-position ERF money at the branch level. • Continuous improvement and Lessons learned documentation of the ERF allow NS to learn from its usage of the fund and what will be needed in future crises.	• ERF can take time and effort to set up and maintain. It may take several years for the fund to be large enough to use consistently. • NS sets the rules and regulations for the ERF. These rules can change and the funds be used for other pressing operational needs rather than the originally specified purpose. • ERF monies at branch levels create the risk that funds will be misused; branch-level fiscal controls may not be robust.

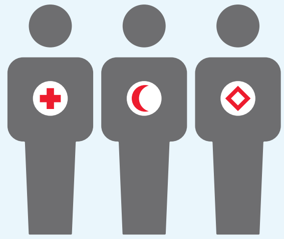
SPECIAL CONSIDERATIONS

The ERF may be centralized at the HQ level or decentralized at the branch level.

Additionally, the ERF may have an internal governance system or the governance system may include key donors.

National Society Solution

C. Bilateral Grant



DESCRIPTION

SCALE
SMALL – MEDIUM

Many donors have funds available for small-scale or "under the radar" disasters or crises that the National Society can access for their anticipatory action programs. These funds are usually held at the national level by the PNS or other donors and are designed for mild-severity, high-frequency events that often go unfunded. By prior agreement with the donor, these funds may also be used for pre-financing of anticipatory action. These funds are not returned to the donor after the National Society receives anticipatory action funds into their bank account.

ADVANTAGES	DISADVANTAGES
• These funds are often held at the country level by the donor so the transfer to the National Society can happen quickly. • These funds are often at a smaller scale (i.e., 50 – 100K) so designed to be flexible as well as quickly disbursed. • The National Society is often familiar with these funds and understands well the requirements of the funds. • Funds can often go directly to the branch level.	• The amount of funds available can be lower than what is needed. • The fact that the funds are not returned after the National Society receives the anticipatory action funds can cause confusion.

SPECIAL CONSIDERATIONS

It is necessary to discuss and agree with the donor that these funds can be used for anticipatory action pre-financing before the need arises.

The donor would need to fully understand that the funds are for pre-financing to kick start anticipatory action while waiting for anticipatory action funds to arrive.

Donor Solution

D. Bilateral Loan

Access detailed Bilateral Loan process guidance here.

SCALE

SMALL – MEDIUM

DESCRIPTION

It is possible for PNS or other donors to loan, rather than grant, their in-country funds to a National Society to cover the pre-financing needs of the National Society. Funds are returned to the donor after the National Society receives the anticipatory action funding in its bank account.

ADVANTAGES	DISADVANTAGES
• This solution may potentially be of interest to donors as their money is returned to them to be used again thereby increasing its impact. • This solution is meant for donors that have funds in-country so the movement of money is relatively quick. • This type of loan is potentially easier to access, will have lower/no fees, and will require less/no collateral compared to a traditional bank loan. • This solution could potentially be used at the branch level cutting out the step of transferring from the National Society's HQ to the branch.	• It is likely that a loan from a donor will be smaller in nature and will only cover a portion of the pre-financing need. • This is not a common approach in the Red Cross Red Crescent Movement so may take some time to get buy-in.

SPECIAL CONSIDERATIONS

As this is a newer approach, it may take some time for PNS or other donors to develop and agree to the terms of a loan so the National Society should leave enough time before the hazard season to accommodate this.

Donor Solution

E. Donor-Funded Financial Service Provider (FSP)

Access detailed Donor-Funded FSP process guidance here.

DESCRIPTION

SCALE
SMALL – MEDIUM

The Bilateral (Partner) Direct-Funded FSP solution entails the National Society holding the contract with the FSP but a bi-lateral partner is paying the cash grant funds and service fees directly to the FSP on behalf of the National Society. This would cut out the step of the partner transferring the funds to the National Society which then pays the FSP and would speed the process considerably. However, this may undermine the National Society's control of the contract. This option must be appropriate to the local context and the arrangements made before the transaction.

ADVANTAGES	DISADVANTAGES
• The donor paying an FSP directly rather than providing funds to the National Society who in turn pays the FSP will cut out steps and speed up the process. • If the early actions include cash programming (e.g. MPCA, etc.), this solution can be very relevant.	• This solution could potentially undermine the National Society's management of the contract with the FSP. • If the early actions do not include cash programming (e.g., MPCA, etc.), this solution would not add value to the prefinancing strategy.

SPECIAL CONSIDERATIONS

Discuss with the FSP if there are any requirements to consider ensuring this option is finalized and ready to go before the hazard season (e.g. Know Your Business/KYB, etc.).

Consider any negative consequences the National Society may experience with the FSP on other programming where they pay the FSP directly.

Donor Solution

F. Donor-Funded Goods Provider

DESCRIPTION

SCALE
LARGE

The Donor-Funded Good Provider solution entails the National Society holding the contract with the Goods Provider but the partner paying the Goods Provider directly on behalf of the National Society. This would cut out the step of the partner transferring the funds to the National Society who in turn pays the Goods Provider and would speed the process considerably. However, this may undermine the National Society's control of the contract. This option would have to be appropriate to the local context and the arrangements made before the transaction.

ADVANTAGE	DISADVANTAGES
• The donor paying a Goods Provider directly rather than providing funds to the National Society who in turn pays the Goods Provider will cut out steps and speed up the process. • If the early actions include a large component of goods (e.g. hygiene kits, etc.), this solution can be very relevant. • Production and movement of goods can take time so solutions that remove funding delays for goods can be very useful.	• This solution could potentially undermine the National Society's management of the contract with the Goods Provider. • If the early actions do not include goods (e.g., shelter repair kits), this solution would not add value to the prefinancing strategy.

SPECIAL CONSIDERATIONS

Often goods can be purchased and prepositioned during the preparedness phase if the anticipatory action donor is the IFRC making this solution less relevant. However, if the National Society is working with anticipatory action donors outside of the IFRC this solution may be useful.

Bank Solution

G. Bank Loan

Access detailed Bank Loan process guidance here.

DESCRIPTION

A commonly used loan product is a bridge loan. Bridge loans are typically interim financing products from a bank or financial institution that provides money to the borrower for a short period of time – less than 12 months. Bridge loans are generally paid off once the borrower receives or secures funding. These types of loans typically have a higher interest rate and/or fees and often require a form of collateral to secure the loan.

SCALE
SMALL – MEDIUM

ADVANTAGES	DISADVANTAGES
• Bank loans are familiar and tend to have an easy and fast application process. • The National Society's finance team is likely very familiar with bank loans and can provide advice on the process. • As the funding is already in-country this can be a relatively quick option to access once approved	• This can be an expensive option with the origination fee for the bridge loan between 0.5% and 1% of the principal amount. • As the term is less than 12 months, this results in higher interest rates; usually 1-2 percentage points more than a traditional loan percentage. • Often a secured loan requires collateral – typically real estate or assets. Some lenders may waive this and allow a bridge loan to be unsecured, depending on the organization.

SPECIAL CONSIDERATIONS

Nonprofit organizations like National Societies are generally considered high-risk borrowers to many lending institutions, particularly traditional bank institutions. However, there are many alternatives to a traditional banking institution, like credit unions or local banks, that may be more willing to provide a bridge loan to the National Society.

Bank Solution

H. Bank Line of Credit (LOC)

Access detailed Bank LOC process guidance here.

DESCRIPTION

SCALE
MEDIUM – LARGE

A Line of Credit (LoC) is a pre-approved fixed amount of money that a nonprofit organization can have access to at any time and for any reason. It is usually provided by a bank or financial institution. The organization can withdraw any amount of money in single or multiple transactions if it does not go over a fixed amount. The organization can repay the amount almost immediately or over a period of time. The credit line often stays in place for 12 months and is renewed yearly. Nonprofits are only charged once they use the credit line; however, some financing institutions will charge a setup and maintenance fee.

ADVANTAGES	DISADVANTAGES
• This solution provides access to quick funding and the National Society can withdraw only the amount needed. • Interest is only charged on the amount withdrawn, not on the total amount of the LoC. • There are usually options for secured or non-secured LoCs. However, to access the best rates, it is necessary to provide collateral. • The National Society's finance team is likely very familiar with Bank Line of Credit and can provide advice on the process.	• Lines of credit can carry several fees including a transaction fee for drawdowns, annual maintenance fees, and/or monthly fees when the LoC is active. • This is a relatively expensive option with variable rates of interest making it harder to predict overall costs. • It is often harder to qualify for a LoC than a loan.

SPECIAL CONSIDERATIONS

Some LoC services include an overdraft service. The organization has a checking account in the bank. When the amount of the checking account is overdrawn, the LoC is activated and covers the amount that is overdrawn. This can be done until the LoC limit is reached. Organizations may use this to access additional funds for the project or expenses.

Service Provider Solution

I. Financial Service Provider (FSP) Line of Credit (LOC)

DESCRIPTION

SCALE
MEDIUM – LARGE

Supply chain financing mechanisms like an FSP Line of Credit (LOC) are not well known or used in the humanitarian world. An FSP Line of Credit allows the National Society to pay beneficiary households based on a pre-agreed line of credit. The National Society would then pay off the amount financed by the line of credit when the anticipatory action funding reached their bank account.

ADVANTAGES	DISADVANTAGES
• If cash programming is part of the planned early actions, this can be one of the best ways to speed the process as the solution is directly with the FSP. • The amount of pre-financing this solution provides would be considerable.	• There are not many examples of this solution being used in the humanitarian world. • The examples that do exist are based on long-term, good relationships between the FSP and the National Society where medium – large scale cash programming was conducted regularly. Without this existing relationship, this solution may be hard to negotiate with an FSP. • The fees related to the FSP Line of Credit will likely not be reimbursed by the anticipatory action funding and will need to be covered by the National Society. • If the early actions do not include cash programming (e.g., MPCA), this solution would not add value to the prefinancing strategy.

SPECIAL CONSIDERATIONS

Consider which FSPs the National Society has a good working relationship with and that may consider this solution.

Consider what kinds of "proof" of reimbursement could be provided to the FSP (e.g., evidence that trigger was met, copy of wire transfer from anticipatory action donor, etc.).

It is important to understand any fees associated with the solution to accurately judge its appropriateness. It is possible to include this solution in tendering documents but not recommended to make it a requirement as that may adversely affect which FSPs apply to the tender.

Service Provider Solution

J. Financial Service Provider (FSP) Delayed Terms of Payment

DESCRIPTION

SCALE
MEDIUM – LARGE

Supply chain financing mechanisms like the FSP Delayed Terms of Payment are not common in the humanitarian world. An FSP Delayed Terms of Payment involves an FSP allowing the National Society to pay cash grants to beneficiary households before transferring funding to the FSP. The National Society would pay the FSP when the anticipatory action funding reached the National Society's bank account.

ADVANTAGES	DISADVANTAGES
• If cash programming is part of the planned early actions, this can be one of the best ways to speed the process as the solution is directly with the FSP. • The amount of pre-financing this solution provides would be considerable.	• There are not many examples of this solution being used in the humanitarian world. The examples that do exist are based on long-term, good relationships between the FSP and the National Society where medium – large scale cash programming was conducted regularly. Without this existing relationship, this solution may be hard to negotiate with an FSP. • The fees related to the Delayed Terms of Payment will likely not be reimbursed by the anticipatory action funding and will need to be covered by the National Society. • If the early actions do not include cash programming (e.g., MPCA), this solution would not add value to the prefinancing strategy.

SPECIAL CONSIDERATIONS

Consider which FSPs the National Society has a good working relationship with and that may consider this solution.

Consider what kinds of "proof" of reimbursement could be provided to the FSP (e.g., evidence that trigger was met, copy of wire transfer from anticipatory action donor, etc.).

It is important to understand any fees associated with the solution to accurately judge its appropriateness. It is possible to include this solution in tendering documents but not recommended to make it a requirement as that may adversely affect which FSPs apply to the tender.

Service Provider Solution

K. Goods Provider Line of Credit (LOC)

DESCRIPTION

SCALE

MEDIUM – LARGE

Supply chain financing mechanisms like the Goods Provider Line of Credit (LOC) are common in the business world but less well known in the humanitarian world. A Goods Provider Line of Credit involves a supplier of goods allowing the National Society to purchase goods based on a pre-agreed line of credit. The National Society would then pay off the amount financed by the line of credit when the anticipatory action funding reached their bank account.

ADVANTAGES	DISADVANTAGES
• If the early actions include a large component of goods (e.g. hygiene kits, etc.), this solution can be very relevant. • Production and movement of goods can take time so solutions that remove funding delays for goods can be very useful.	• The fees related to a line of credit can be costly. • The fees related to the line of credit will likely not be reimbursed by the anticipatory action funding and will need to be covered by the National Society. • If the early actions do not include goods (e.g., shelter repair kits), this solution would not add value to the prefinancing strategy.

SPECIAL CONSIDERATIONS

Often goods can be purchased and pre-positioned during the preparedness phase if the anticipatory action donor is the IFRC making this solution less relevant. However, if the National Society is working with anticipatory action donors outside of the IFRC this solution may be useful.

Consider including a line of credit option in the tendering and contracting process.

Service Provider Solution

L. Goods Provider Delayed Terms of Payment

SCALE
MEDIUM – LARGE

DESCRIPTION

Supply chain financing mechanisms like the Goods Provider Delayed Terms of Payment are frequently used in the humanitarian world. A Goods Provider Delayed Terms of Payment involves a supplier of goods allowing the National Society to receive goods before payment. The National Society would then pay the service provider when the anticipatory action funding reached their bank account.

ADVANTAGES	DISADVANTAGES
• This is a common supply chain/procure-ment tool so should be familiar to the National Society's logistics team. • If the early actions include a large compo-nent of goods (e.g. hygiene kits, etc.), this solution can be very relevant. • Production and movement of goods can take time so solutions that remove funding delays for goods can be very useful.	• The fees related to the Delayed Terms of Payment will likely not be reimbursed by the anticipatory action funding and will need to be covered by the National Society. • If the early actions do not include goods (e.g., shelter repair kits), this solution would not add value to the prefinancing strategy. • This type of solution needs to be included in the original contract and can be challenging to negotiate later.

SPECIAL CONSIDERATIONS

Often goods can be purchased and prepositioned during the preparedness phase if the anticipatory action donor is the IFRC making this solution less relevant. However, if the National Society is working with anticipatory action donors outside of the IFRC this solution may be useful.

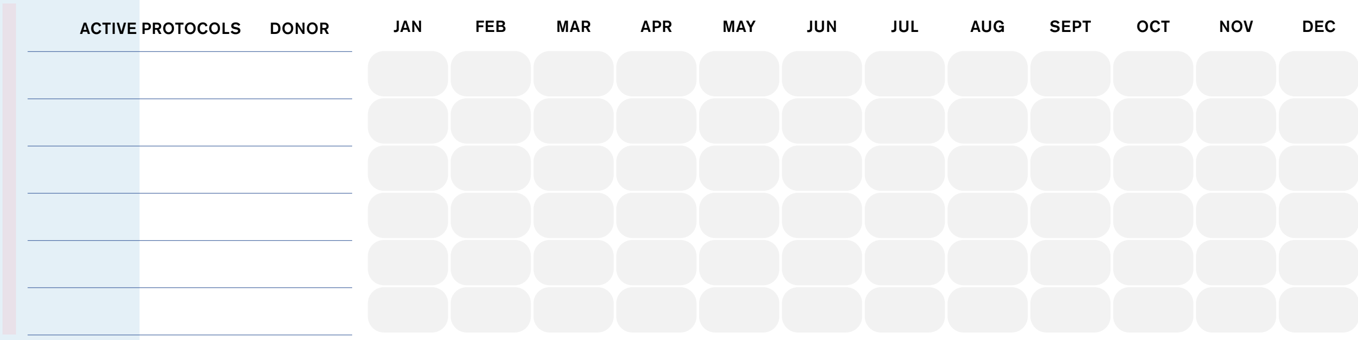
Consider including delayed terms of payment option in the tendering and contracting process.

VI. Designing a Pre-Financing Strategy

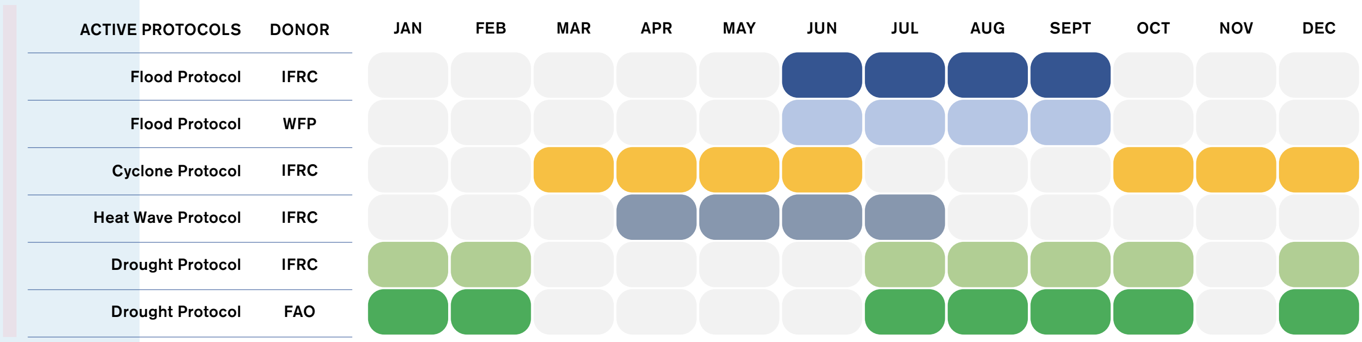
Step One: Understand Pre-Financing Needs

To understand the amount of pre-financing required, it is useful to create a visual of all active protocols. The visual should clearly show which protocols are active for each month and the amount of funds required for each protocol if the trigger was met. It is essential to understand the total amount of funds that may be required each month if more than one protocol is triggered at the same time. That is the amount that the National Society should have pre-financing ready to go.

a. Create an Anticipatory Action timeline.



b. Include all active protocols, the donor for each protocol, and the months the protocol is active.



c. For each protocol, add the amount of early action funding that may be needed each month the protocol is active.

The amount will likely only be triggered once, but it should be recorded in each month as the trigger could happen at any point the protocol is active).

ACTIVE PROTOCOLS	DONOR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Flood Protocol	IFRC						100K	100K	100K	100K			
Flood Protocol	WFP						150K	150K	150K	150K			
Cyclone Protocol	IFRC			75K	75K	75K	75K				75K	75K	75K
Heat Wave Protocol	IFRC				50K	50K	50K	50K					
Drought Protocol	IFRC	100K	100K					100K	100K	100K	100K		100K
Drought Protocol	FAO	150K	150K					150K	150K	150K	150K		150K

d. For each month, calculate the total amount of funding that may be needed across the different protocols.

This is the amount of pre-financing that must be available to the National Society. Notice that it will likely fluctuate over the calendar year depending on which hazards overlap and the related protocols triggered at the same time.

ACTIVE PROTOCOLS	DONOR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Flood Protocol	IFRC						100K	100K	100K	100K			
Flood Protocol	WFP						150K	150K	150K	150K			
Cyclone Protocol	IFRC			75K	75K	75K	75K				75K	75K	75K
Heat Wave Protocol	IFRC				50K	50K	50K	50K					
Drought Protocol	IFRC	100K	100K					100K	100K	100K	100K		100K
Drought Protocol	FAO	150K	150K					150K	150K	150K	150K		150K
MONTHLY AMOUNT REQUIRED		250K	250K	75K	125K	125K	375K	550K	500K	500K	325K	75K	325K

Step Two: Review Pre-Financing Options

Now that it is clear how much pre-financing may be required each month, it is possible to look at the different pre-financing options and consider which option or combination of options would meet the pre-financing needs.

	No	Option	Description	Y/N	Notes
No Solutions	1	NS Temporary Budgetary Reallocation	Temporarily divert spending from other programming areas, reallocating for pre-financing needs, and then reimbursing.		
	2	NS Emergency Fund	Reserve fund that the NS keeps for pre-financing, small scale AA and small to medium size response. This fund is controlled by the NS.		
Bi-Lateral (Partner) Solutions	3	Bi-Lateral (Partner) Grant	Donors provide a grant to the NS to cover their pre-financing needs. It is not reimbursed when DREF AA funds arrive to NS bank account.		
	4	Bi-Lateral (Partner) Loan	Donors loan their in-country funds to an NS to cover the pre-financing needs of the NS which the NS pays back when the DREF AA funds arrive to NS bank account.		
	5	Bi-Lateral (Partner) Direct-Funded FSP	The donor provides cash grant funds directly to the FSP (rather than to NS who then provides to FSP).		
	6	Bi-Lateral (Partner) Direct-Funded Goods Provider	The donor pays company for goods directly rather than to NS who then pay company for goods.		
Bank Solutions	7	Bank Loan	A loan is a short-term loan used until a person or company secures permanent financing or pays an existing obligation.		
	8	Bank Line of Credit (LOC)	A line of credit (LOC) is a preset borrowing limit offered by banks and financial institutions to their personal and business customers.		
Service Provider Solutions	9	FSP Line of Credit (LOC)	The FSP provides cash to the beneficiaries on credit and the LOC is reimbursed by the RC later.		
	10	FSP Delayed Terms of Payment	The FSP provides cash to the beneficiaries and agrees to be paid by the RC later.		
	11	Goods Provider Line of Credit (LOC)	The supplier provides goods to the RC on credit and the LOC is reimbursed by the RC later.		
	12	Goods Provider Delayed Terms of Payment	The supplier provides goods to the RC and agrees to be paid by the RC later.		

a. Create a small working group that includes management, finance, logistics, and program team members.

b. Discuss pre-financing with the group and select to 4 - 6 options to investigate further.

Review each option with the group considering the pros, cons, risks, and the other factors described in pages 6 – 17 of this document.

c. Research selected options.

Assign an appropriate team member to investigate each of the selected options. Gain a good understanding of the appropriateness, effectiveness, cost, and feasibility.

d. Make a final selection of options to include in the pre-financing strategy.

Reconvene the group and review the research. Make a final selection of pre-financing options making sure there is access to enough funds to fully cover the pre-financing needs.

Step Three: Sequence and Layer Pre-Financing Selections

Now that the pre-financing solutions have been selected, it is necessary to sequence and layer them into your plan. This involves deciding which solution to activate in which order as well as understanding how many solutions are needed each month to meet the need. Lastly, it is necessary to identify and fill any gaps.

a. List out your pre-financing solutions and the amount that each one provides.

Put options in order of what option would be used first. This is called sequencing the solutions. The sequence may be related to the cost, scale, accessibility, or other factors that are important to the National Society.

ACTIVE PROTOCOLS	DONOR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Flood Protocol	IFRC						100K	100K	100K	100K			
Flood Protocol	WFP						150K	150K	150K	150K			
Cyclone Protocol	IFRC			75K	75K	75K	75K				75K	75K	75K
Heat Wave Protocol	IFRC				50K	50K	50K	50K					
Drought Protocol	IFRC	100K	100K					100K	100K	100K	100K		100K
Drought Protocol	FAO	150K	150K					150K	150K	150K	150K		150K
MONTHLY AMOUNT REQUIRED		250K	250K	75K	125K	125K	375K	550K	500K	500K	325K	75K	325K
PRE-FINANCING SOLUTION	AMOUNT												
Temporary Budget Reallocation	75K												
Emergency Fund	175K												
Bank Line of Credit	250K												

b. Add in which months the solution would need to be activated and available.

Only activate enough solutions to cover the monthly amount required. This is called layering the solutions.

ACTIVE PROTOCOLS	DONOR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Flood Protocol	IFRC						100K	100K	100K	100K			
Flood Protocol	WFP						150K	150K	150K	150K			
Cyclone Protocol	IFRC			75K	75K	75K	75K				75K	75K	75K
Heat Wave Protocol	IFRC				50K	50K	50K	50K					
Drought Protocol	IFRC	100K	100K					100K	100K	100K	100K		100K
Drought Protocol	FAO	150K	150K					150K	150K	150K	150K		150K
MONTHLY AMOUNT REQUIRED		250K	250K	75K	125K	125K	375K	550K	500K	500K	325K	75K	325K
PRE-FINANCING SOLUTION	AMOUNT												
Temporary Budget Reallocation	75K												
Emergency Fund	175K												
Bank Line of Credit	250K												

c. Calculate the amount needed and the amount activated to see if there are any gaps.

ACTIVE PROTOCOLS	DONOR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Flood Protocol	IFRC						100K	100K	100K	100K			
Flood Protocol	WFP						150K	150K	150K	150K			
Cyclone Protocol	IFRC			75K	75K	75K	75K				75K	75K	75K
Heat Wave Protocol	IFRC				50K	50K	50K	50K					
Drought Protocol	IFRC	100K	100K					100K	100K	100K	100K		100K
Drought Protocol	FAO	150K	150K					150K	150K	150K	150K		150K
MONTHLY AMOUNT REQUIRED		250K	250K	75K	125K	125K	375K	550K	500K	500K	325K	75K	325K
PRE-FINANCING SOLUTION	**AMOUNT**												
Temporary Budget Reallocation	75K												
Emergency Fund	175K												
Bank Line of Credit	250K												
MONTHLY AMOUNT REQUIRED		250,000	250,000	75,000	125,000	125,000	375,000	550,000	500,000	500,000	325,000	75,000	325,000
PRE-FINANCING ACTIVATED		250,000	250,000	75,000	250,000	250,000	500,000	500,000	500,000	500,000	500,000	75,000	500,000
GAP					(125,000)	(125,000)	(125,000)	50,000			(175,000)		(175,000)

d. If gaps are identified, add another solution to your strategy.

It may also be possible to increase the ceiling on one of the existing solutions. Adjust until each month is appropriately covered by pre-financing solutions.

ACTIVE PROTOCOLS	DONOR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Flood Protocol	IFRC						100K	100K	100K	100K			
Flood Protocol	WFP						150K	150K	150K	150K			
Cyclone Protocol	IFRC			75K	75K	75K	75K				75K	75K	75K
Heat Wave Protocol	IFRC				50K	50K	50K	50K					
Drought Protocol	IFRC	100K	100K					100K	100K	100K	100K		100K
Drought Protocol	FAO	150K	150K					150K	150K	150K	150K		150K
MONTHLY AMOUNT REQUIRED		250K	250K	75K	125K	125K	375K	550K	500K	500K	325K	75K	325K
PRE-FINANCING SOLUTION	**AMOUNT**												
Temporary Budget Reallocation	75K	75K	75K	75K	75K	75K	75K	75K	75K	75K	75K	75K	75K
Emergency Fund	175K												
Bank Line of Credit	250K												
Bi-Lateral (Partner) Grant	50K							50K					
Bi-Lateral (Partner) Loan (Contingency Only)	100K												
MONTHLY AMOUNT REQUIRED		250,000	250,000	75,000	125,000	125,000	375,000	550,000	500,000	500,000	325,000	75,000	325,000
PRE-FINANCING ACTIVATED		250,000	250,000	75,000	250,000	250,000	500,000	550,000	500,000	500,000	500,000	75,000	500,000
GAP					(125,000)	(125,000)	(125,000)				(175,000)		(175,000)

Step Four: Prepare for Contingencies

Considering a variety of scenarios is a time-tested way to test the pre-financing strategy and see if any contingency solutions should be added to the strategy. Being prepared for existing solutions failing, increased scale, or new opportunities, will allow the National Society to proactively prepare for complex and changing situations.

a. Discuss a variety of situations that could happen.

Situations should explore if one of the selected solutions failed, if new protocols were added or existing protocols increased in scale, or if there was an opportunity with a new donor that required additional pre-financing. Consider if the existing solutions could be scaled up or if new solutions would need to be added.

b. Decide on contingency options and plans.

Discuss how much of a contingency option would be appropriate given the National Society's context and anticipatory action plans. Agree on the amount and decide if an existing solution will be scaled up or an additional solution will be added to the strategy.

c. Adjust the plan accordingly, adding new information.

The contingency solution is activated only in the case of one of the scenarios discussed happens.

ACTIVE PROTOCOLS	DONOR	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Flood Protocol	IFRC						100K	100K	100K	100K			
Flood Protocol	WFP						150K	150K	150K	150K			
Cyclone Protocol	IFRC			75K	75K	75K	75K				75K	75K	75K
Heat Wave Protocol	IFRC				50K	50K	50K	50K					
Drought Protocol	IFRC	100K	100K					100K	100K	100K	100K		100K
Drought Protocol	FAO	150K	150K					150K	150K	150K	150K		150K
MONTHLY AMOUNT REQUIRED		250K	250K	75K	125K	125K	375K	550K	500K	500K	325K	75K	325K
PRE-FINANCING SOLUTION	**AMOUNT**												
Temporary Budget Reallocation	75K	75K	75K	75K	75K	75K	75K	75K	75K	75K	75K	75K	75K
Emergency Fund	175K	175K	175K		175K	175K	175K	175K	175K	175K	175K		175K
Bank Line of Credit	250K						250K	250K	250K	250K	250K		250K
Bi-Lateral (Partner) Grant	50K							50K					
Bi-Lateral (Partner) Loan (Contingency Only)	100K												
MONTHLY AMOUNT REQUIRED		250,000	250,000	75,000	125,000	125,000	375,000	550,000	500,000	500,000	325,000	75,000	325,000
PRE-FINANCING ACTIVATED		250,000	250,000	75,000	250,000	250,000	500,000	550,000	500,000	500,000	500,000	75,000	500,000
GAP					(125,000)	(125,000)	(125,000)				(175,000)		(175,000)

Step Five: Gain Approval of Pre-Financing Strategy

Once the pre-financing strategy has been developed and reviewed by the key stakeholders, it is important to finalize and formalize the process by gaining approval from senior leadership. While the anticipatory action timeline is a useful diagram to quickly visualize the plan, it is also useful to have a narrative report that captures the key information as well as a presentation for senior leadership to provide sign-off.

a. Draft a short narrative to describe the anticipatory action timeline.

The narrative should describe the research done, the selected solutions, the sequencing and layering, and the contingency option.

b. Present recommendations to leadership receive final approval and go ahead to put solutions in place.

Step Six: Operationalize Pre-Financing Strategy

After gaining approval from senior leadership, it is essential to operationalize the plan before the hazard season. This involves creating and managing the action plan and creating standard operating procedures. As the pre-financing landscape as well as the National Society's needs are evolving, it is useful to review the strategy annually to make sure it continues to meet the National Society's needs.

a. Create an action plan.

In the action plan assign the appropriate team members to complete negotiations and finalize pre-financing solutions. Include the name of the person responsible and the due date.

b. Put pre-financing solutions in place.

Meet regularly to review the action plan and address challenges until all the actions are complete.

c. Create standard operating procedures.

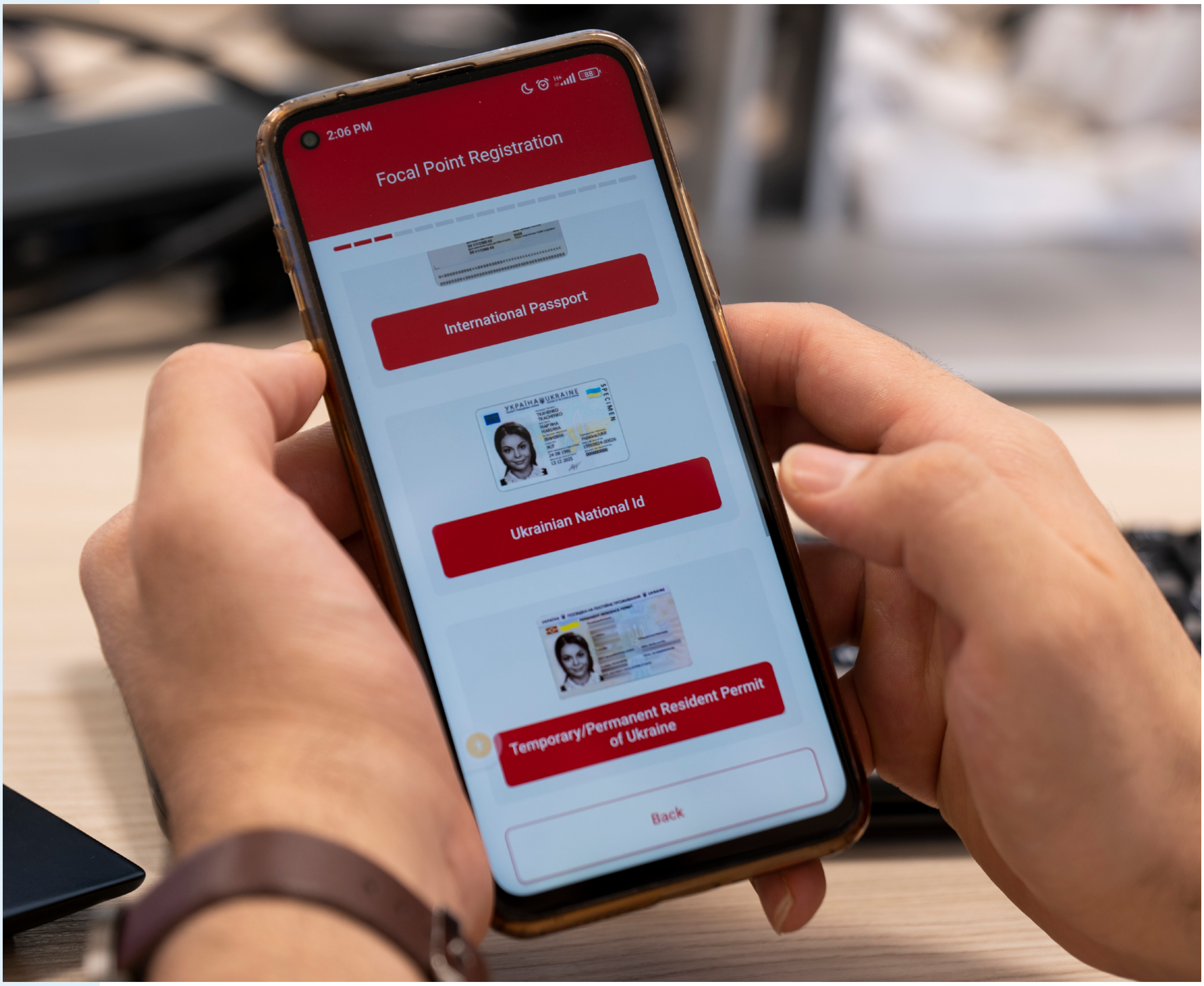
It is useful to create simple standard operating procedures that outline clearly how each solution is activated when the trigger is met, by whom, and what is involved. These can be stand-alone or incorporated into existing anticipatory action standard operating procedures.

d. Review strategy annually.

It is important to review the strategy annually to understand if the selected options are functioning as promised and meeting the needs. It is also useful to review the National Society's anticipatory action programming and upcoming opportunities to make sure the National Society has access to enough pre-financing to meet their needs as well as to reconfirm any commitments that donors made (e.g., donor grants, donor loans, etc.). Lastly, it is necessary to consider new options that may be available to the National Society that may provide more effective or efficient services.

VII. Conclusion

Anticipatory action is expanding and being mainstreamed across the Red Cross Red Crescent Movement. As National Societies add more protocols and grow their anticipatory action programming to scale, the issue of pre-financing will become increasingly more important. When National Societies arrange their own temporary, immediate funding that supports them to act before donor funds arrive in their account, this is called pre-financing. Developing an anticipatory action pre-financing strategy is an essential action that supports National Societies to successfully implement and scale anticipatory action programming. Anticipatory action reaches its true impact when actions are successfully executed during the anticipatory action window of opportunity. When donor funds for these early actions by default or design do not arrive at National Society bank accounts in time for the early actions to be taken, the impact of anticipatory action is put at risk. National Societies have the power to solve this critical issue themselves. There are a variety of pre-financing options available to National Societies that can be sequenced and layered to meet their needs. By pre-financing planned early actions through their means while waiting for donor funds to arrive in their account, National Societies can solve one of the key challenges to the successful implementation and scaling of timely anticipatory action programming.



VIII. Appendices

Appendix 1: National Society Emergency Fund Detailed Guide

Appendix 2: Bilateral Loan Detailed Guide

Appendix 3: Donor-Funded FSP Detailed Guide

Appendix 4: Bank Loan Detailed Guide

Appendix 5: Bank Line of Credit (LOC) Detailed Guide

Appendix 6: Anticipatory Action Timeline Template

ANNEX I.

Emergency Response Fund (ERF)

Detailed Guide

National Society Solution

What is Pre-Financing?

The impact of anticipatory action hinges on timely early action, however, donor pipelines through default or design often are not able to make funds instantly available to National Societies supporting them to act in time. When National Societies arrange their own temporary, immediate funding that supports them to act before donor funds arrive in their account, this is called pre-financing. There are a variety of pre-financing instruments available to National Societies including National Society Emergency Response Funds. **This detailed guide focused on developing an Emergency Response Fund (ERF).**

OPTION	SOLUTION TYPE	DESCRIPTION
EMERGENCY RESPONSE FUND (ERF)	National Society Solution	An internal fund set aside by the National Society to respond to emergencies, which can be accessed for anticipatory actions when needed.
BILATERAL LOAN	Donor Solution	A donor provides a loan to the National Society to cover the costs of anticipatory actions, with the loan being repaid once other funding is secured.
DONOR- FUNDED FINANCIAL SERVICE PROVIDER (FSP)	Donor Solution	The donor directly funds a financial service provider (FSP) to distribute cash grants for anticipatory action on behalf of the National Society.
BANK LOAN	Bank Solutions	The National Society secures a loan from a traditional bank to cover anticipatory action costs, repaid once other funds become available.
BANK LINE OF CREDIT (LOC)	Bank Solutions	A pre-arranged line of credit with a bank that allows the National Society to draw funds as needed, with interest charged only on the amount used.

EMERGENCY RESPONSE FUND

Nonprofit organizations are often encouraged to set aside funds for a time when there are unexpected expenses, or there is a loss of a significant portion of their income. These funds are referred to as “reserves”. There are many terms to describe reserves such as “Operating reserves”, “Capital reserves”, “Emergency funds”, “restricted funds”, “unrestricted funds”, “safety net”, and many more. Often these terms are used interchangeably and cause confusion. The graphic below shows how reserve funds can be layered, and how the different terms might fit together within an organization.

Reserve funds are created to help an organization maintain financial stability over the long term. This means the funds are customized to an organization’s needs. Some organizations may choose to have multiple reserve funds available at all levels. Regardless of how the reserve funds are structured, the important thing is that the organization has the funding readily available to achieve its mission. The following pages describe how a Red Cross Red Crescent National Society might set up and use a reserve fund specifically to pay for anticipatory actions and emergency response operations costs. This fund is often called an Emergency Response Fund or similar designation. The Emergency Response Fund has a red outline in the graphic.

Reserve Funds are critical for National Societies that have crisis or emergency response as part of their core mission. These National Societies regularly experience the need for funds within hours to carry out anticipatory actions before a disaster, or to pay for emergency relief expenses immediately following a disaster. National Societies can establish an ERF as part of its financial structure at the national headquarters level. An ERF can be set up in many ways. It can be an externally restricted or internally restricted fund. An externally restricted fund is governed by donors or individuals contributing money to the fund. They may impose rules,

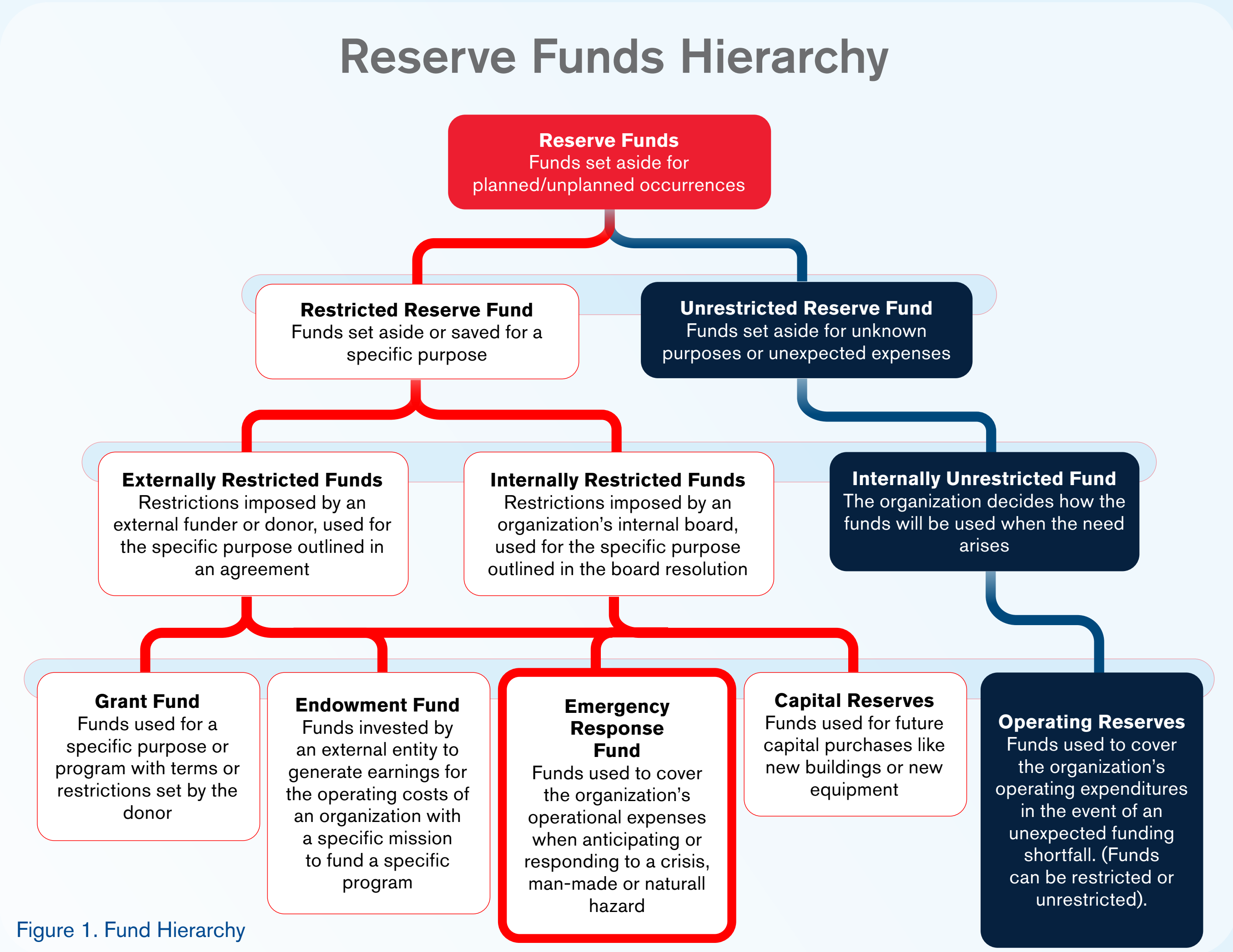


Figure 1. Fund Hierarchy

regulations, and reporting requirements the National Society must follow to use the money in the fund. A donor committee or board may be in place to assist in the ERF management, becoming a co-signatory on the ERF bank account with the National Society signatories. This provides the ERF with additional oversight from external bodies yet can slow down the ability of the National Society to access the funds in times of anticipatory action or emergency response. In contrast, an internally restricted ERF is governed by the National Society board of directors or a sub-committee. The rules and regulations are set up by the National Society board of directors, with other stakeholders invited to provide input into the process. The ERF is accessed by signatories from within the National Society organizational structure. This allows a National Society to access the money more quickly when urgent needs arise.

The National Society may have a variety of ways to raise money for the ERF. Typically, the ERF begins by receiving public or private donations or accepting government or endowment funding. Some donations may be provided as permanently restricted funds that require money to be held in perpetuity as principal, on which interest can be earned, with only the interest allowed to be spent. While these donations can be useful at the beginning of an ERF, the money may have strict or detailed restrictions, stipulations, and legally binding agreements the National Society finds difficult to follow. The National Society may also gain money for the ERF by receiving reimbursements from donors or governments for funds they have already spent for a specific AA or emergency response effort. Finally, National Societies maintain and grow their fund by holding regular fundraising events including donation drives, annual giving, or pledges from businesses.

National Societies that experience multiple disasters and crises may choose to "decentralize" the ERF money. In other words, the National Society takes some funds from the headquarters ERF to create a smaller ERF at the regional or branch levels. The model can differ depending on the needs of the NS and their internal structure. A local ERF at the branch level allows the branch staff and volunteers to access money immediately when a crisis threatens their community. They can shorten their emergency response time by hours or days because they are not waiting for money to come from the headquarters location. The structure of the ERF at the branch level is often patterned after the headquarters ERF. Much of the same rules apply, though some changes are made depending on the context of the branch office. In both the branch and the headquarters offices, the ERF is a key funding tool, allowing the local Red Cross and Red Crescent to carry out its mission quickly during times of crisis.

MECHANICS OF AN EMERGENCY RESPONSE FUND

The National Society ERF is governed by the policy, rules, and regulations established by the board of directors when the internally restricted reserve fund, the ERF, was created. These rules are not the same for each NS that has an ERF. The graphic found in *Figure 2: Emergency Response Fund Transfer Steps* shows how a National Society might theoretically use an ERF after a forecast trigger activation. The blue boxes indicate a process the NS might use to move its funds from the ERF to the branch, vendors, or personnel implementing the AA or response operation. The National Society department handling the AA or emergency response may use a payment request form or similar process, to alert National Society Finance of the amount needed, the location for the money to be sent, and to whom the payment is for. A National Society may have a separate ERF bank account to ensure clarity in transactions and maintain transparency of the fund. The ERF should be accessed similarly to other National Society funds, requiring certain approvals, authorizations, and protocols that are used to mitigate fraud or misuse.

The National Society process may differ slightly in cases where the ERF is decentralized. The National Society may pre-position ERF funds at a branch that is predicted or "forecast" to have a higher than normal number or intensity of disasters in the coming season or 6-month period. The National Society branch may have an ERF only during the season of the sudden onset hazard. The ERF may be pre-positioned for a certain type of hazard and not all crises. Some NSs have created a permanent ERF in the branch that can be used for local and community crises or emergencies that meet certain criteria. Whether the ERF is centralized at the NS Headquarters, or decentralized at the branch level, the ERF generally follows the same steps as those found in the graphic.

Emergency Response Fund Transfer Steps for AA

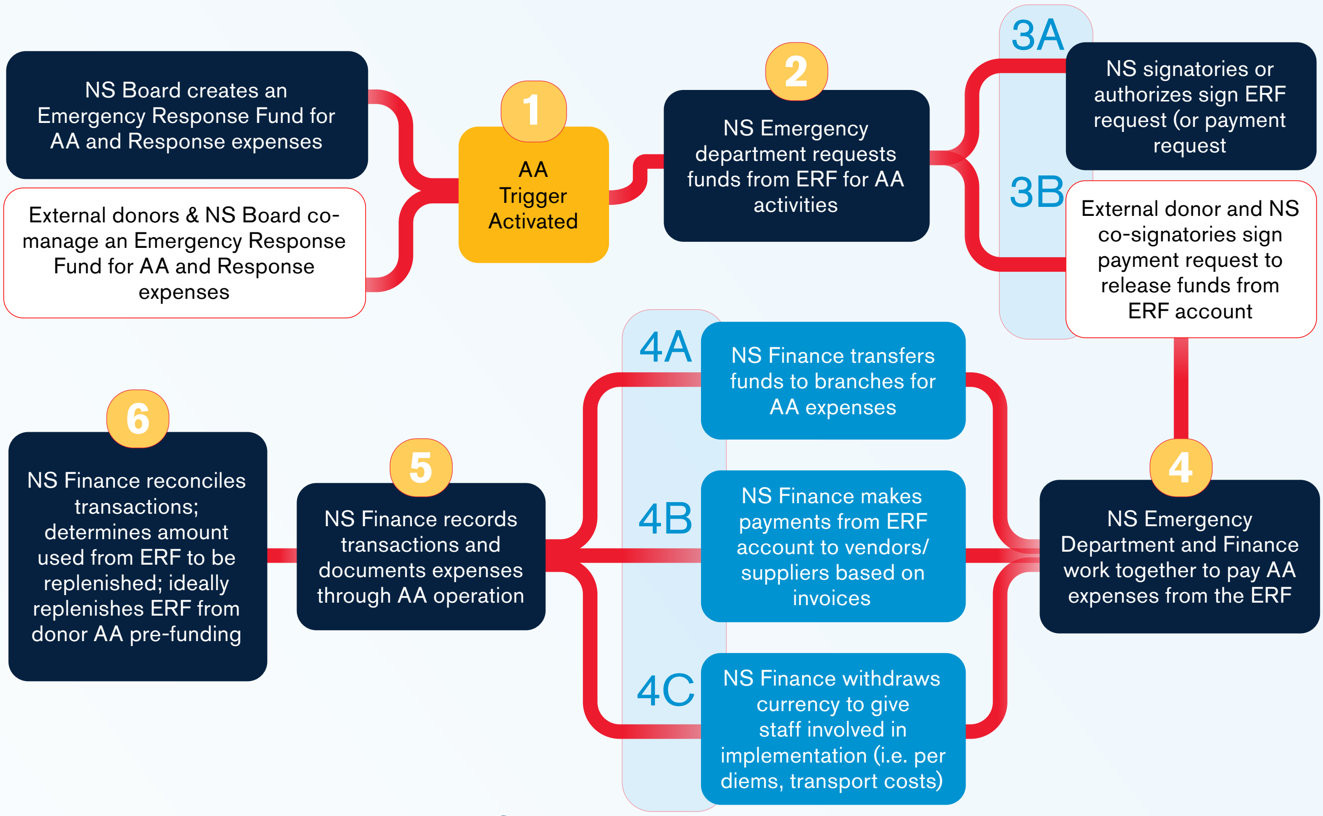


Figure 2. Emergency Response Fund Transfer Steps

PROCESS MAP KEY

- **Blue boxes demonstrate how an ERF might be used for AA expenses**
- **Externally Funded ERF FundsTransfer Process Map**
  White boxes map payment request & ERF funds transfer process for a co managed ERF
- **Internally Managed ERF Funds Transfer Process Map**
  Navy boxes map payment request & ERF funds transfer process for an NS's internally restricted ERF

CONTEXT FOR AN EMERGENCY RESPONSE FUND

An ERF is a long-term, pre-financing solution offering a National Society financial stability to respond to imminent disasters through anticipatory actions or provide immediate relief following a crisis. In most National Society models, the ERF is not limited to a specific timeframe, rather it is set up to operate continually. Many National Societies placed the ERF money into investment funds to allow for continual growth on the principal amount deposited. The National Society determines to use only the interest generated on the principal of the ERF, allowing the principal to grow over time. This method requires several years to create a self-sustaining fund that generates enough money to support the NS's AA and response needs. The commitment, discipline, and management of an ERF can be a significant undertaking for a National Society. Therefore, National Societies with clearly defined management structures typically manage an ERF better. A healthy environment for the ERF to grow includes a stable economic and political environment, and well-regulated investment firms and financial institutions.

Certain contexts make the success of an ERF higher than others. A key factor in ERF's success is consistent, frequent donor support. An excellent way to identify and organize donor support is through a resource mobilization plan specifically for an ERF. National Societies with a strength in resource mobilization are often more successful in maintaining the fund over time. For example, a National Society can use its influence with private donors, businesses, or philanthropic organizations to raise money for the ERF. These donations are often higher during or following a disaster event. National Societies can also share their stories and talk about their work to the public, raising awareness and funding for the ERF and future emergencies. A resource mobilization plan assists in audience identification, pinpointing key donors, and discovering untapped resources. Though this can be a significant amount of work, a resource mobilization plan is often the key to the success of a new ERF.

National Societies that respond to emergencies and crises peak donor interest. Many governments are committed to funding emergency responses in countries with frequent disasters. These funds often come with requirements and obligations, yet can be a source of seed money to start an ERF. Several National Societies have started their ERFs following large or significant emergencies because donors wanted to contribute funding to support or mitigate future events. A National Society that wants to set up an ERF should look for opportunities with donors following a disaster or crisis. In addition to government interest, Red Cross Red Crescent partners can advocate and support a new ERF. Partner Red Cross organizations can provide technical guidance, experience, and monitoring for a new ERF.

In summary, a National Society must demonstrate they have 1) strong internal controls for the ERF, 2) a commitment to regular monitoring and reporting on the ERF through audits and annual reports, and 3) a financial system that can track transactions and provide financial reporting. These elements raise the visibility and credibility of a new National Society-managed ERF within the Red Cross Red Crescent network.

STEPS TO SET UP AN EMERGENCY RESPONSE FUND

1. NS board of directors weighs its needs and potential solutions and resolves to create an Emergency Response Fund.

> For more information: Refer to the NS Pre-financing Strategy Guide for steps on determining needs and deciding on solutions.

2. **The NS board of directors may appoint a sub-committee of stakeholders to research, create guidelines, and propose an ERF structure to the board.** A committee of stakeholders may include key leadership staff of the NS along with representatives from IFRC, ICRC, and/or Red Cross Red Crescent partners in the country. They may suggest an internally restricted fund or an externally restricted fund.
3. **The ERF Committee produces a draft ERF guidance document for review and adoption by the NS leadership and Board of Directors.** ERF guidance is specific to the NS and the country context. However, the guidance should address many of the following points:

<table>
<tr><th colspan="2">ERF POLICY, STANDARD OPERATING PROCEDURES, PROCESSES</th></tr>
<tr><td>ERF Purpose</td><td rowspan="4">• Is the ERF structured as a restricted reserve fund?
• How will the ERF be governed? Will it be internally restricted under the NS's care and supervision, or externally restricted with oversight from donors or an external committee?
• Where will the ERF be kept—within a financial institution (e.g., bank) or an investment firm?
• How will the investment portfolio be managed, and what level of diversification or risk (e.g., high, medium, low) is appropriate?
• What should be the target balance for the ERF, and what data supports this decision? How much will come from the principal, and how much from interest? Should the interest be reinvested to grow the principal, or used for the fund while the principal remains intact?
• Should the ERF always maintain a minimum balance, and does this refer to the principal or the interest generated?
• What is the maximum amount that can be withdrawn from the ERF per transaction, and under what conditions?</td></tr>
<tr><td>ERF Objectives</td></tr>
<tr><td>ERF Guidelines (duration of the ERF, timeline for revisions)</td></tr>
<tr><td>ERF Structure</td></tr>
</table>

ERF POLICY, STANDARD OPERATING PROCEDURES, PROCESSES	
ERF Trigger & Decision-Making	• What criteria define an emergency response (e.g., number of people affected, location, infrastructure damage, livelihoods impacted, etc.)? • What criteria should trigger the use of the ERF for anticipatory action (e.g., hours/days before an event, number of people affected)? • What types of expenses can the ERF cover (e.g., transport, per diems for staff/volunteers, supplies/equipment, food distributions, cash transfers, capital expenditures, etc.)? • What expenses are explicitly disallowed (e.g., operating costs outside of emergency response, vehicle/building purchases, non-emergency salaries/benefits)? • Are there specific groups or populations the ERF must assist, or any that cannot be assisted (e.g., priority for pregnant women, children, elderly, low-income individualsv)?
National Society Roles & Responsibilities	• Which NS staff are authorized to access or approve withdrawals from the ERF (e.g., Secretary General, Board Chairperson, Director of Emergency Management, etc.)? • If the fund is externally restricted, who approves ERF funding requests? • What processes govern the depositing and withdrawal of ERF funds? Which staff are responsible for these tasks? • Who are the decision-makers within the NS for ERF usage (e.g., Director of Finance)? • If the ERF is externally restricted, what role do donors or stakeholders play in decision-making?
Mainstreaming the ERF into Existing Policy & Programs	• How does the ERF integrate with existing NS policies for banking and investments? • How is the ERF incorporated into the NS's resource mobilization plan? • Who ensures that the ERF is referenced in relevant strategies, plans, policies, and procedures? • How is the ERF aligned with the NS's long-term emergency management strategies?
RESOURCE MOBILIZATION PLAN FOR ERF	
Income Sources	• What are the primary income sources for the ERF (e.g., investment funds, donations, government aid, RCRC entities)? • How will disaster events be leveraged to raise funds (e.g., public awareness campaigns, post-disaster fundraising)? • Will there be annual events or campaigns to support the ERF (e.g., charity galas, pledge drives)?
QUALITY ASSURANCE & MONITORING	
Risk Assessment & Mitigation	• What fiscal controls are in place to safeguard the ERF (e.g., segregation of duties, dual signatories for withdrawals)? • What contingency plans are in place for times of political unrest, unstable investments, or economic downturns (e.g., withdrawal from high-risk investments)? • How do donors or stakeholder representatives contribute to risk assessment and mitigation, especially for externally restricted funds?

QUALITY ASSURANCE & MONITORING	
Enhancing Stakeholder Confidence	• What communications will be sent to donors, and will they vary based on donor type or contribution size? • What reporting will be done for different donors (e.g., more detailed reports for government donors)? • How will the ERF's usage and spending be reported to donors? • What types of audits will be conducted (e.g., internal, external), and how will audit reports be shared with donors? • What additional reports or updates will be provided regarding the ERF's activities? • How do donors or stakeholders assist in reporting for externally restricted funds?
Continuous Learning	• What standards will be used to evaluate the ERF (e.g., funding efficiency, approval speed, growth over time)? • How often will the ERF be evaluated (e.g., annually, every 2 or 5 years)? • How will ERF data be shared with internal and external audiences (e.g., number of people served, activities funded)?
Safeguarding	• What type of insurance protects the ERF if held in a bank or investment firm? • What legal agreements protect the NS in cases of theft, fraud, or misuse? Will donors require reimbursement in such cases? • What disclaimers or expectations should be communicated to donors about how their contributions will be used?

4. **The Secretary General and Board of Directors review the proposed ERF guidance, make edits or changes, and put it out to the NS leadership to comment. NSs have an established process for reviewing, revising, and putting resolutions in place. The NS should follow its process for the ERF.**

5. **NS Leadership submits comments and changes to the proposed ERF guidance as per the NS process.**

6. **The Secretary General and Board of Directors ratify the ERF guidance and it becomes NS policy.**

7. **The Secretary General appoints or assigns personnel to set up and manage the ERF.** This might include a mix of Emergency Management program personnel and Finance department personnel.

8. **ERF is established according to the agreed-on ERF guidance document, with the appropriate documentation.** Set up will be determined by the ERF guidelines; and would likely include setting up bank accounts for the ERF.

FISCAL CONTROLS

Every pre-financing solution carries a certain level of risk. An ERF may be considered a higher-risk solution because it is a long-term solution that requires significant commitment and management by the National Society. It is the National Society's responsibility to create safeguards for the ERF. This may include how the ERF will be used, access, auditing, reporting, and management. The financial institution hosting the ERF account will have security for the money while it is under their jurisdiction. Yet, the organization must have strong internal controls to manage who has access to the financial instruments (i.e. checks, cards, etc.) linked to the ERF account. Many National Societies already have financial management policies, procedures, and practices in place that can apply to the ERF. For example, a common practice requires two different leadership personnel to sign a payment authorization request. The withdrawal amount may be limited and a third signatory is required if the amount requested is higher than the limit. This segregation of duties allows for at least two different personnel to review the payment request and associated documentation justifying the payment. For larger transaction amounts, a third signatory may be required to create another layer of review to mitigate the risk of collusion between two signatories. In larger National Societies, the Treasury Department may handle the investment of the funds and manage the investment portfolio while the accounting office handles the daily transactions of the ERF. This provides a division of labor allowing perspective and expertise for the ERF. It also provides a mitigation measure with two different Finance department reporting lines, managing separate aspects of the ERF. These are a few of the controls that could be considered and implemented when creating and operating an ERF.

QUALITY ASSURANCE AND MONITORING

An ERF pre-financing solution would likely have similar monitoring as other bank accounts and their associated financial instruments. However, additional monitoring may be needed for the amount of funds withdrawn, the ongoing interest rates, and the investment portfolio. The ERF needs regular monitoring on the investment side of the ERF, as well as the day-to-day transactions. One National Society has an established account for the principal amount that is invested. Donors and other contributors to the ERF make their payments to this account. The National Society has set up a second account that holds the interest generated from the principal. This bank account handles the day-to-day transactions of the ERF. The signatories and authorizers for these two bank accounts are different. This provides a level of assurance and monitoring across the two accounts.

It is generally good practice to audit the principal investment account, and the interest account if the fund is set up this way. The audits can be either internally or externally conducted. The frequency of the audit is up to a National Society to decide. The National Society may conduct internal audits every year, with an external audit every other year. In addition to audit reports, contributors to the ERF like to see regular reports that demonstrate how the fund was used, its growth over time, and the current status of the ERF. This type of financial reporting often requires the National Society to have an electronic, integrated finance system between its headquarters and branches.

National Societies with a financial management system show commitment to transparency. The finance platform can track how branches use the ERF money sent to them from National Society headquarters. Additionally, a finance system integrating the National Society headquarters and branch finances increases the visibility of transactions between the two levels. This makes reporting quicker and easier at both levels for AA and emergency responses. Finance reports can be produced in more detail for donors who may require it as part of their commitment to contributing to the ERF. Overall, these finance systems encourage better quality and monitoring throughout the organization.

Some National Societies may also incorporate evaluations of the ERF in addition to an audit. An ERF evaluation focuses not only on the efficiencies of the ERF, often measured by financial data, but also on the programmatic impact of the ERF over time. The evaluation may focus on whether the ERF remains relevant, doing what it was created to accomplish. The evaluation may measure the effectiveness of the ERF over time. This can be compared to other pre-financing solutions the NS may be using. The evaluation can reveal the effectiveness of the ERF in achieving its stated objectives. It may provide insight into whether the costs, time, and investment in the ERF are providing the benefits expected from the fund and whether these can be sustainable over the long term. The evaluation gives an additional viewpoint beyond an audit, that donors of all levels are interested to know. The evaluation also provides the NS with an opportunity to make changes to the ERF, creating an opportunity for improvements.

OTHER CONSIDERATIONS

An ERF may not be the appropriate solution for the National Society. Outlined below are several advantages and disadvantages are identified and should be considered carefully when a National Society reviews its pre-financing solutions.

ADVANTAGES	DISADVANTAGES
ERF provides stability for the Red Cross mission of crisis anticipatory action and response.	ERF can take time and effort to set up and maintain. It may take several years for the fund to be large enough to use consistently
Access to funding in the country; money is in the NS bank account and local currency	Funds may be located in an investment account in a different currency; may take time to convert ERF to liquid asset/currency.
NS internally restricted fund – rules and regulations governing the funds are set by the NS board of directors	NS sets the rules and regulations for the ERF. These rules can change and the funds be used for other pressing operational needs rather than the originally specified purpose.
NS can create ERF funds in its' branches; or pre-position ERF money at the branch level	ERF monies at branch levels create the risk that funds will be misused; branch-level fiscal controls may not be robust
Enhanced stakeholder confidence in NS anticipatory action and emergency response capabilities	In some cases, a donor may not provide funding to an NS experiencing a day-to-day operational funding shortage, because there is an ERF fund in place; expecting the NS to use these reserve funds to cover its operational shortfall.
NS establishes approval and signatory authorities within its management structure; no outside approval is required, reducing time when rapid response is needed.	NS signatories and authorities may not necessarily be available when needed to provide the necessary authorization to use the ERF.
Ability to respond to crises/events that are not allowable, or funded by other donors	NS spends the ERF on crises that are not covered by other funding sources, depleting the ERF without replenishment
Continuous improvement and Lessons learned documentation of the ERF allow NS to learn from its usage of the fund and what will be needed in future crises.	ERF requires significant management by NS Finance staff including auditing, documenting, and investment monitoring.

CONCLUSION

Anticipatory actions for sudden onset hazards require funding to be quickly available and accessible. A National Society with an established, well-managed, and functioning Emergency Response Fund can meet this need. The ERF can be an externally or internally restricted fund so long as the funds can be accessed when needed. If a decentralized ERF model is used, the National Society branches can begin their activities more quickly. However, setting up and maintaining an ERF is a long-term pre-financing solution. It requires a significant amount of discipline and commitment from the National Society to ensure the funding remains available for AA and emergency response. The costs, time, and management initially required to set up the ERF may be overwhelming to an National Society. It may seem a cost-prohibitive pre-financing solution in the first few years when the ERF principal is built. National Society with an ERF report have underscored it is an invaluable tool that provides them financial security and stability. These National Societies recommend setting up an ERF, even if it is for a small amount, to grant the National Society flexibility and stability to cover short-term gaps in funding for AA and Emergency Response. The ERF allows the National Society to provide critical, life-saving services as part of its core mission. Further, the result has demonstrated a high-level impact on the communities where the Red Cross serves.

Case Study

Myanmar Red Cross Society Emergency Management

The Myanmar Red Cross Society (MRCS), the largest humanitarian organization in Myanmar, has a nationwide presence and supports communities affected by emergencies through anticipatory action, evacuation, and emergency relief. MRCS responds to emergencies of all sizes. Following Cyclone Nargis in 2008, MRCS launched a large-scale response and recovery effort, using lessons learned to improve its disaster management approach. This led to the creation of the Emergency Management Fund (EMF) to independently finance disaster preparedness and response. MRCS now uses its own resources, public donations, and Red Cross network funds to provide cash transfers and pre-position emergency relief items.

Established in 2011 with an initial investment of CHF 16,000, the EMF's principal capital grew to CHF 200,000 by 2018, with CHF 80,000 in accrued interest. The EMF is designed to use only the interest for anticipatory action and emergency response. Donations received are added to the principal, with a goal of reaching CHF 1,000,000 to cover annual response costs. Interest earned also covers the fund's overhead and management expenses.

The central EMF is managed at MRCS headquarters, but similar EMF structures have been created at the state and regional levels to improve the efficiency and speed of emergency responses. The State Supervisory Committee oversees the local EMFs, ensuring accountability and effective management. Each year, CHF 850 is sent to each state or region, totaling about CHF 13,000 across Myanmar's 12 states and regions. Local committees are responsible for fundraising and managing the EMF according to established guidelines. Local branches can request funds in emergencies, and the committee submits quarterly reports to headquarters. If a state or regional EMF drops below CHF 400 (or USD 450), headquarters replenishes the account based on a formal request, including reports and receipts.

For over 15 years, MRCS has successfully managed the EMF despite economic instability, currency fluctuations, and political challenges. The fund continues to support communities before, during, and after disasters.

ANNEX II.

Bilateral (Partner) Loan

Detailed Guide

National Society Solution

What is Pre-Financing?

The impact of anticipatory action hinges on timely early action. However, donor pipelines through default or design often are not able to make funds instantly available to National Societies supporting them to act in time. When National Societies arrange their own temporary, immediate funding that supports them to act before donor funds arrive in their account, this is called pre-financing. There are a variety of pre-financing instruments available to National Societies including solutions offered by partners like **Bilateral (Partner) Loans**.

OPTION	SOLUTION TYPE	DESCRIPTION
EMERGENCY RESPONSE FUND (ERF)	National Society Solution	An internal fund set aside by the National Society to respond to emergencies, which can be accessed for anticipatory actions when needed.
BILATERAL LOAN	Donor Solution	A donor provides a loan to the National Society to cover the costs of anticipatory actions, with the loan being repaid once other funding is secured.
DONOR- FUNDED FINANCIAL SERVICE PROVIDER (FSP)	Donor Solution	The donor directly funds a financial service provider (FSP) to distribute cash grants for anticipatory action on behalf of the National Society.
BANK LOAN	Bank Solutions	The National Society secures a loan from a traditional bank to cover anticipatory action costs, repaid once other funds become available.
BANK LINE OF CREDIT (LOC)	Bank Solutions	A pre-arranged line of credit with a bank that allows the National Society to draw funds as needed, with interest charged only on the amount used.

BILATERAL (PARTNER) LOAN

The Red Cross Red Crescent NSs rely heavily on each other to provide technical and financial support during times of crisis. The partnerships within the Red Cross network allow an NS to request a temporary loan from another national society. The partner NS may have discretionary funds within its country office accounts that can be loaned to the requesting NS. It may also have access to funds from its headquarters or home office. In both instances, the requesting NS is often required to provide a short proposal, Letter of Understanding, or official memo outlining the activities to be implemented, the amount required, the reporting expected, the implementation timeframe, and the date for loan repayment.

The proposed actions and funding request are approved by the partner NS representative in the country unless the requested amount is higher than the financial authority of the partner NS representative. Then the request may go to the partner NS headquarters, adding time to the approval process, creating an international fund transfer, and incurring additional costs. While this may provide the requesting NS access to higher amounts of money, it takes longer for the NS to receive the funds when time is critical. Typically, a bilateral partner loan is a short-term solution with a project implementation and repayment timeline of less than 6 months. The repayment is usually made once the NS receives funds from the IFRC as part of an Early Action Protocol (EAP) pre-funding agreement or the NS is reimbursed from a different donor source.

Typically, bilateral loans between NSs are easier and faster transactions compared to other pre-financing solutions. This is especially true when comparing this pre-financing solution to a commercial bank or financial institution's bridge loans or lines of credit. The commitment to the humanitarian mission and the relationship between the NS sister organizations allow for a deeper trust than found between a commercial bank and an NS. Yet, this is balanced with the long-standing history between the NSs which may not result in an objective decision-making process. Loans between NSs have little or no interest, service fees, or late payment penalties, but they do not come without costs. The borrowing NS may have significant reporting requirements as well as monitoring and oversight from partner NS staff within the country. The borrowing NS may also be required to absorb foreign exchange gains/losses and pay transaction fees and other service fees required by an international banking transfer. Further advantages and disadvantages are summarized below.

ADVANTAGES	DISADVANTAGES
Easier and faster than many other pre-financing methods; there is no formal application process, qualification or eligibility requirements other than the requesting NS is a Red Cross Red Crescent organization	Relationships between the NSs may influence whether the host NS receives the loan; not an objective process based on financial records or documentation
Short-term loan for 1-6 months; usually with little or no interest charged	A bilateral loan is taken from a partner NS reserve fund, reducing its ability to fund other needs until repayment
Offers access to funds already in the country; quicker to receive funding	Partner NS representative may not be able to approve the full amount requested; may be sent to an NS HQ for approval adding time/cost to the process
Few or no repayment penalties	The partner NS may not be able to provide the full amount requested; funds in-country are smaller amounts (10K-50K)
The loan is from a partner NS, often with staff in the same country to facilitate the agreement and transactions	Partner NS may have rigorous monitoring and reporting requirements for a relatively small amount of funds being loaned

MECHANICS OF A BILATERAL LOAN

A bilateral loan agreement is unique to that partnership. While there are models that can be followed, each agreement is different as the loan agreement is customized to the country, the context, the relationship, and the activities for which the loan is given. The figure below shows how a loan between two NSs might be set up and used for an AA activation.

CONTEXT FOR A BILATERAL LOAN

Nonprofit organizations are generally considered high-risk borrowers to many lending institutions, particularly traditional banks. This can make seeking a loan or line of credit from a commercial banking institution difficult for an NS. A detailed application and eligibility review may be required, and the bank may require the loan to be secured with collateral. In contrast, a bilateral loan does not require these elements. The partner is already familiar with the requesting NS and has an existing relationship. The bilateral loan pre-financing solution is most often an agreement between NSs. However, in some cases, a non-Red Cross donor will offer this solution to the requesting NS. In either case, a bilateral loan is rarely set up between two parties that do not know each other or do not have a shared history.

A bilateral loan is unique to the parties involved, allowing it to be set up in the way that best meets the needs of the organizations within the agreement. This flexibility creates opportunities for an NS that other pre-financing solutions may not allow. For example, a partner may allow the NS to pre-position the loan funds in a bank account for an established time period or season. The NS cannot access these funds without the partner's approval. Once an AA forecast trigger is reached, the NS requests these funds from the partner. The partner provides approval, and the NS uses the pre-positioned money. A partner may also allow the money to be directly transferred and/or pre-positioned at the branch level, allowing quicker access to the funds at the implementation site.

Finally, while the foundation of the bilateral loan is a pre-existing relationship, the NS should not assume the agreement and funds can be received within a few hours. Like most pre-financing solutions, the NS and the partner should discuss and agree on the loan terms and conditions before a forecast activation trigger is reached. In contexts where the AA is for sudden-onset hazards, this pre-agreement is critical. While a bilateral loan may be possible in some contexts in a matter of hours, this is not a recommended best practice.

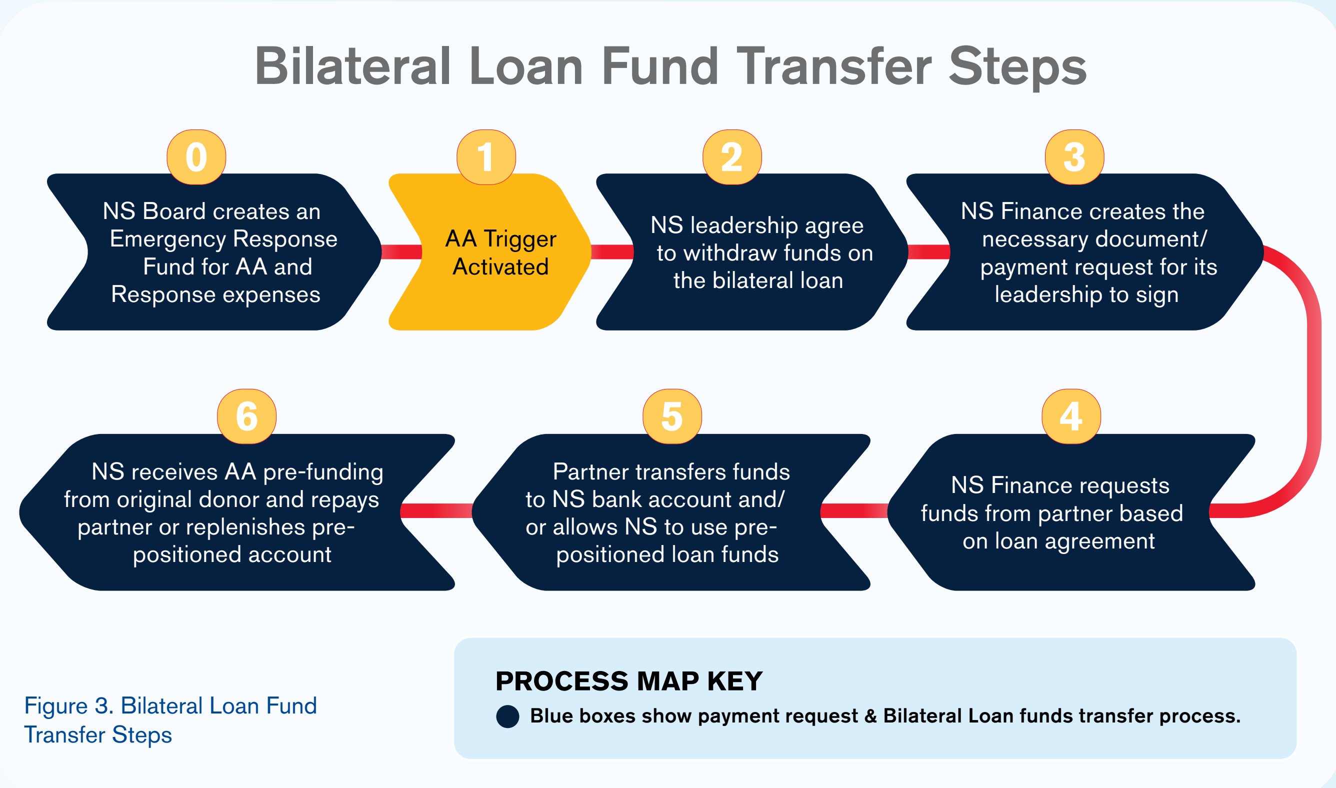


Figure 3. Bilateral Loan Fund Transfer Steps

STEPS TO SET UP A BILATERAL LOAN

1. The NS weighs its needs and potential solutions (see Anticipatory Action Pre-Financing Practical Guide for National Societies) and determines that a bilateral loan is necessary.
2. The Secretary-General, or their designee, begins discussions with existing partner NSs that fund projects or are located within the country.
3. NS Leadership and the partner representative reach an agreement on the amount, terms, and conditions for a loan. The agreement outlines how the loan funding will be accessed at the time of an AA trigger activation.
4. The NS program and Finance staff prepare the necessary documents to access the loan as per the agreement. These documents are pre-positioned for approval following the agreed-upon process.Documentation Required for a Bilateral Loan

Unlike commercial bank bridge loans, a bilateral loan does not necessarily require the NS to produce financial documents or prove a history of repaying loans within the loan period. Instead, bilateral loans are based on goodwill, trust, and a positive relationship between the partners. The partner may request to see the Anticipatory Action plan or EAP to verify the NS has a plan for anticipatory actions. The partner may also request to see a Project Funding Agreement with a donor to determine the amount of funds the NS will receive following a forecast trigger activation. These documents give the partner an understanding of the activities that will be done, and the range of funding that may be needed to cover the gap.

PARTNER SELECTION AND AGREEMENTS

The NS may or may not have a choice of partners to approach for a loan. The NS may only have one funder or partner in the country. Many partners are not willing to enter this type of agreement with an NS. A bilateral loan is not a common pre-financing solution for Anticipatory Action, though it may be used more widely for other programs. When an NS can choose a partner, some of the following considerations factor into the decision:

- The partner and NS have a working relationship and history that is generally positive
- The bilateral loan is provided and accessible within hours of the activation trigger; the partner has the liquidity to fund the loan
- The partner's reporting requirements are appropriate for the type of loan, the time period, and the amount requested
- The NS and the partner can both benefit from the loan agreement

The NS should understand the partner's requirements, terms, and conditions before entering into the agreement. The terms of the loan should be clearly stated for the NS. Some terms to review and become familiar with in the agreement might include:

- Loan repayment terms – a short-term loan may have very few repayment terms
- Penalties or fees if the loan is not repaid within the agreed-upon timeframe
- Reporting requirements for the partner – narrative and financial
- Monitoring requirements for the loan term

The expectations should be stated during the negotiations allowing both partners to make informed decisions.

FISCAL CONTROLS

Every pre-financing solution carries a certain level of risk. From an NS perspective, a bilateral loan is relatively low risk in terms of management. Yet, there may be high reputational risk with a partner if the loan agreement is not followed. When the bilateral loan is approved and received, the partner moves the funds to the NS bank account. The NS can apply its usual internal controls to ensure the funding is used appropriately, authorized by the correct personnel, and monitored similarly as other funding. A bilateral loan does not necessarily introduce additional risks outside of the normal NS procedures. If the loan is given to the NS headquarters bank account, and accessed as per the NS' financial procedures, there are likely no added risks involved. However, if the bilateral loan agreement introduces a new risk, then NS Finance may need to implement new procedures. For example, if the partner allows the money to be sent to the NS branch-level office, this may introduce a different set of risks than what the NS has prepared for. Additional fiscal controls would need to be introduced to mitigate these risks.

QUALITY ASSURANCE AND MONITORING

The NS should carefully plan for the amount needed and request a bilateral loan for the necessary amount. While there may be a low or no interest rate applied to the loan, the loan ties up funds the partner may need elsewhere. Additionally, bilateral loans are a short-term, temporary solution. They should be paid back in full as quickly as possible to avoid unnecessary risks and tension between the agreement partners. NSs may want to have a clearly defined repayment plan in place to ensure the loan is repaid promptly. Finally, the NS should carefully consider and weigh all their pre-financing options to determine the best solution for the amount they are trying to cover during the gap period. A well-thought-out pre-financing plan will allow the NS to avoid using an inefficient tool and paying unnecessary costs.

CONCLUSION

Traditional banking institutions have been hesitant to provide a non-profit organization with loans in the past. Some Red Cross partners have stepped up and provided a way for the NSs to meet their funding needs through the use of a bilateral loan. While this is not a common solution for AA, it has been used in other types of programming. The bilateral loan is more frequent between Red Cross Red Crescent NSs, yet non-Red Cross donors may offer this pre-financing solution to an NS if there is a well-established relationship in place. Regardless of who provides the bilateral loan, the NS should carefully weigh the advantages and disadvantages of a bilateral loan before entering into the agreement. While the interest rates, fees, and other costs may seem low, the reputational risks and the cost of reporting and monitoring the loan may be high. Overall, the bilateral loan may be the pre-financing solution that best fits NS needs, and may offer a viable, desirable, and feasible solution for short-term AA pre-financing needs.

ANNEX III.

Donor-Funded Financial Service Provider (FSP)

Detailed Guide

What is Pre-Financing?

The impact of anticipatory action hinges on timely early action. Yet, donor pipelines, through default or design, often cannot make funds immediately available to National Societies in time for early actions to take place. When National Societies arrange temporary, in-country, immediate funding that allows them to act before donor funds arrive in the NS account, this is called pre-financing. Various pre-financing instruments are available to National Societies including solutions offered by partners like **Bilateral (Partner) Direct Funded Financial Service Provider (FSP)**.

OPTION	SOLUTION TYPE	DESCRIPTION
EMERGENCY RESPONSE FUND (ERF)	National Society Solution	An internal fund set aside by the National Society to respond to emergencies, which can be accessed for anticipatory actions when needed.
BILATERAL LOAN	Donor Solution	A donor provides a loan to the National Society to cover the costs of anticipatory actions, with the loan being repaid once other funding is secured.
DONOR- FUNDED FINANCIAL SERVICE PROVIDER (FSP)	Donor Solution	The donor directly funds a financial service provider (FSP) to distribute cash grants for anticipatory action on behalf of the National Society.
BANK LOAN	Bank Solutions	The National Society secures a loan from a traditional bank to cover anticipatory action costs, repaid once other funds become available.
BANK LINE OF CREDIT (LOC)	Bank Solutions	A pre-arranged line of credit with a bank that allows the National Society to draw funds as needed, with interest charged only on the amount used.

BILATERAL (PARTNER) DIRECT FUNDED FINANCIAL SERVICE PROVIDER (FSP)

The partnerships within the Red Cross Red Crescent Movement (RCRC) allow National Societies to work creatively to find solutions to humanitarian issues. Red Cross partners are working together to ensure the smooth implementation of Anticipatory Action, which is a newer area of humanitarian intervention. An NS's Early Action Protocol (EAP) outlines and identifies the roles and responsibilities of each partner. Each partner must sign the Project Funding Agreement and commit to the actions in the EAP. The EAPs and Project Funding Agreements are created in a way that best supports the NS. The partnerships are flexible, and there are many ways that partners can work together in these agreements. The three most common models are:

- **Two-party agreement (IFRC Funding only)** – In EAPs and Project Funding Agreements where it is just the NS and the IFRC, the NS receives the IFRC funding for the EAP. The NS conducts all the readiness activities, procurement of items/stock, warehousing, and AA implementation itself. In cases where the EAP calls for cash to be distributed to beneficiaries, the NS must have a complete CVA system in place (funding on hand, FSP contract in place, etc.). Additionally, the NS must request the IFRC to send the money for the cash transfer at the time of the trigger request. If these funds are outside of the country, this can take a minimum of 3-5 days to arrive at the NS bank account. Additional days are needed to transfer funds from the NS to the FSP bank account for distribution to beneficiaries.

- **Two-party agreement (IFRC as an implementing partner)** – In these Project Funding Agreements, the IFRC country office may provide technical guidance, and procure items/stock on behalf of the NS. The IFRC country office will receive part of the funding from the EAP budget to do these tasks and cover the costs. As of June 2024, no IFRC country office holds funds as part of the EAP Project Funding Agreement for cash transfers or sends funding to the FSP for Anticipatory Action.

- **Three-party agreement** – EAPs and Project Funding Agreements may have three partners-the NS, the IFRC, and a partner national society. The IFRC provides funding for the EAP activities, the partner national society may give technical guidance during the readiness actions, and/or conduct the procurement process and purchase of items or stock on behalf of the NS. The IFRC transfers funds to the PNS to cover the purchase of the items/stock and the costs involved in storing the items until they are needed. Currently, there are no examples of a partner national society holding funds for cash transfers at the country level or sending funds to the FSP for Anticipatory Action.

The three types of agreements listed above are common throughout the Red Cross network and the procurement, storage, and distribution of items/stock is clearly outlined in the agreements. However, in cases where the NS EAP includes cash transfers to beneficiaries as part of the early actions, only the first option is currently available to NSs. The bilateral direct-funded FSP solution opens the door for the NS to receive support from its partners (i.e. IFRC and/or partner national society) in providing the upfront, in-country cash needed for the transfers and providing that money to the FSP for distribution. The figure below shows how an agreement could be made between the NS, the IFRC, and a PNS.

There are several readiness steps that would need to be undertaken by the NS and the partner. For example, the FSP will likely require a due diligence or "know your business" (KYB) evaluation of the partner because it will be depositing large amounts of money into the FSP funding account. Once the partner is cleared, they can be a "known contributor" to the account. The IFRC AA guidance states that cash transfers are part of the activation funds sent to the NS after a trigger is activated. Once this happens, the partner can submit a payment request to the IFRC DREF AA project manager or delegation office that manages the EAP for the cash transfer money. In a sudden-onset hazard, the partner will most likely not receive the funds from the IFRC in time to send them to the FSP for distribution. The bilateral direct-funded FSP solution eliminates this delay in funding to the FSP. The NS and partner can set up the funding account with the FSP in a few different ways. The partner could use its money to "pre-fund" the FSP funding account. This could be pre-positioned based on a seasonal forecast trigger or a pre-activation trigger. The FSP would not access the funding until approval is received from the partner and NS account signatories. Another option is for the partner to keep

EAP Tripartite Agreement

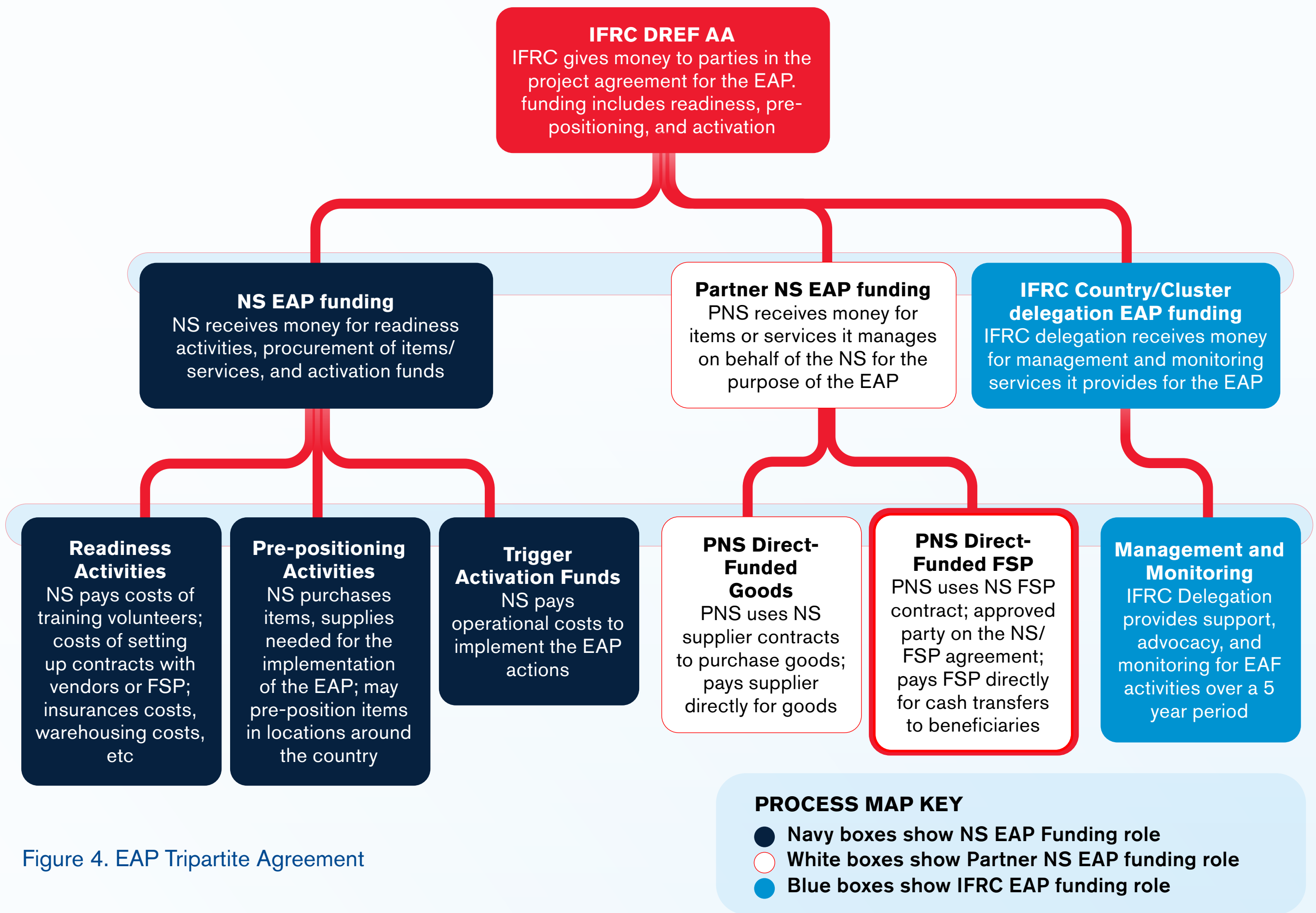


Figure 4. EAP Tripartite Agreement

the amount required for the cash transfers and associated fees in its bank account within the country, making it available for transfer to the FSP funding account once the pre-activation or activation triggers are reached. How the funding account is set up and managed should be part of the EAP and the tripartite Project Funding Agreement.

The FSP can make the cash transfers to the beneficiaries once it has received money from the partner and the NS has submitted the beneficiary "know your customer" required data points. The FSP gives the NS a payout report in regular intervals (e.g. daily, weekly, monthly, etc.) to allow the NS to reconcile the payout report with the beneficiary list. Problems are likely to happen during the process, includingpayments not going through to the beneficiary account, payments made to the wrong beneficiary, or a beneficiary receiving payment twice. These problems are often resolved between the NS and the FSP throughout the implementation of the cash transfers. In the end, the NS and FSP reach a final reconciliation report. This is submitted along with the service fees to the partner for the final payment. Like many pre-financing solutions, there are advantages and disadvantages to using the bilateral direct-funded FSP solution. The table below summarizes a few of these issues that may help the NS decide if this is an appropriate solution.

MECHANICS OF A BILATERAL DIRECT-FUNDED FSP

The bilateral direct-funded FSP solution is an untested solution within the Red Cross Red Crescent network for Anticipatory Action. The idea is drawn from a few examples of the IFRC and NS using the bilateral direct funding of the FSP during emergency relief operations. For example, the Philippines Red Cross had contracts with two FSPs during Typhoon Haiyan. The IFRC directly funded the FSP accounts for cash transfers sent to beneficiaries. In the Ukraine operation, the IFRC and Ukraine Red Cross Society negotiated a contract with an FSP, and the IFRC regularly funds the FSP funding account. However, no examples exist for this solution in AA. Furthermore, only the IFRC has used bilateral direct funding of the FSP with an NS. There is no evidence that the bilateral direct funding to FSP solution has been used between two national societies, or the IFRC and two national societies. Because it is a new idea for Anticipatory Action, the solution must be customized to the country, the context, the relationship, and the cash transfer activities. The solution should be designed specifically for the partnership between the NSs. Figure 5 shows how this solution might work between two partners following a forecast trigger activation.

The FSP contract must be in place before an AA trigger is reached. Once the AA trigger is reached, the NS will notify the FSP of the activation, allowing the FSP to begin its internal processes. At the same time, the NS is identifying and verifying the beneficiaries for the cash transfers. The NS confirms the list of beneficiaries and sends one copy to the FSP. The other copy is attached to a payment request for the partner. The payment request notifies the partner regarding the amount of money that should be transferred to the FSP or released to the FSP from the funding account. The partner receives the payment request and moves the required amount for the cash transfers to the FSP funding account within hours of the trigger activation. If the NS uses a pre-activation trigger, the partner can transfer money to the FSP ahead of the formal forecast trigger.

The FSP receives or withdraws the money from the funding account to send to the beneficiaries. The beneficiaries receive cash transfers in their mobile wallet, online account, or a code to cash out at the FSP kiosk, post office, or other method. The NS Finance and Emergency Department staff work together to monitor the payments as they happen, solving problems as they arise during the payment period. The FSP completes all the transfers to the beneficiaries. Often transfers fail to go through, go to the wrong person or account, or beneficiaries do not have the account set up in time to receive the transfer. The FSP reports these problems to the NS. The NS Finance staff, the NS CVA focal point, and the FSP representative work together to identify discrepancies between the original beneficiary list and the FSP payout report. Once these problems have been fixed, the NS and FSP finalize the reconciliation and agree on a final invoice. Occasionally the reconciliation results in the NS having a remaining balance. In this case, the FSP may deduct its service fees from the remaining balance in the funding account before returning the remainder to the Partner who contributed the money. However, if the funding account does not have enough money to pay the service fees, the FSP will invoice the NS for the outstanding cash transfer amounts or the service fees. The NS will likely send this final FSP invoice to the Partner with a payment request. The partner Finance staff may review or spot-check the reconciliation report with

ADVANTAGES	DISADVANTAGES
The early actions include cash transfers to affected populations, making it a relevant solution	If the early actions do not include cash transfers to beneficiaries, this solution would not add value to the prefinancing strategy
The partner ensures money is available to immediately transfer to the FSP at the time of a pre-activation or forecast trigger. The NS does not need to be responsible for this large amount of funding	This solution could potentially undermine the National Society's management of the contract with the FSP
The partner may be in a better position to accept the risks of prepositioning money with an FSP	The partner may not be willing to accept the risk of providing funds to an FSP for a specified time period
The partner may have access to pre-financing solutions, which the NS does not have	The partner may rely on its back donors or headquarters for pre-financing which may increase reporting requirements
The NS has a contract with the FSP in place during the readiness phase that can be used for the EAP	The NS FSP contract must be reviewed and verified by the IFRC Regional Supply Chain Unit before IFRC funds can be used; this review can take several months

the invoice to ensure the proper costs and fees are calculated correctly. The partner Finance will then pay the FSP according to the final invoice.

CONTEXT FOR PARTNER DIRECT-FUNDED FSP SOLUTIONS

There have been examples of the IFRC acting as the "partner" to the NS particularly in emergency relief operations when the NS was new to using cash transfers. The bilateral direct-funded FSP solution has been used when the following factors were evident:

- The NS is new to providing cash transfers to beneficiaries. The IFRC supports the NS throughout the process including managing the payments and reconciling the transfers.
- The FSP contract is in place, but the NS does not have the money upfront to fund the cash transfers. The IFRC can provide the money to fund the cash transfers until other funding from the Red Cross network arrives.
- The NS does not have an FSP contract and uses the IFRC's FSP contract to provide the cash transfers. In this case, the IFRC may provide additional support, particularly in Finance duties, to protect its contract and avoid penalties.

The bilateral direct-funded FSP solution differs slightly from the above examples because it happens during the AA window of opportunity before a hazard occurs, and it is a pre-agreed solution with a partner Red Cross entity.

Other pre-financing solutions, such as bank bridge loans, are more broadly available and can be used in more contexts. The bilateral direct-funded FSP solution is context specific. For example, the NS must have partners in the country willing to engage with the NS in this way. The partner must have registration with the appropriate ministry to act or hold a bank account within the country. The partner agrees to be responsible for the payments to the FSP as part of their role in the EAP. The partner may incur costs to support this commitment. It may need to train its staff to manage the FSP payment, conduct monitoring of

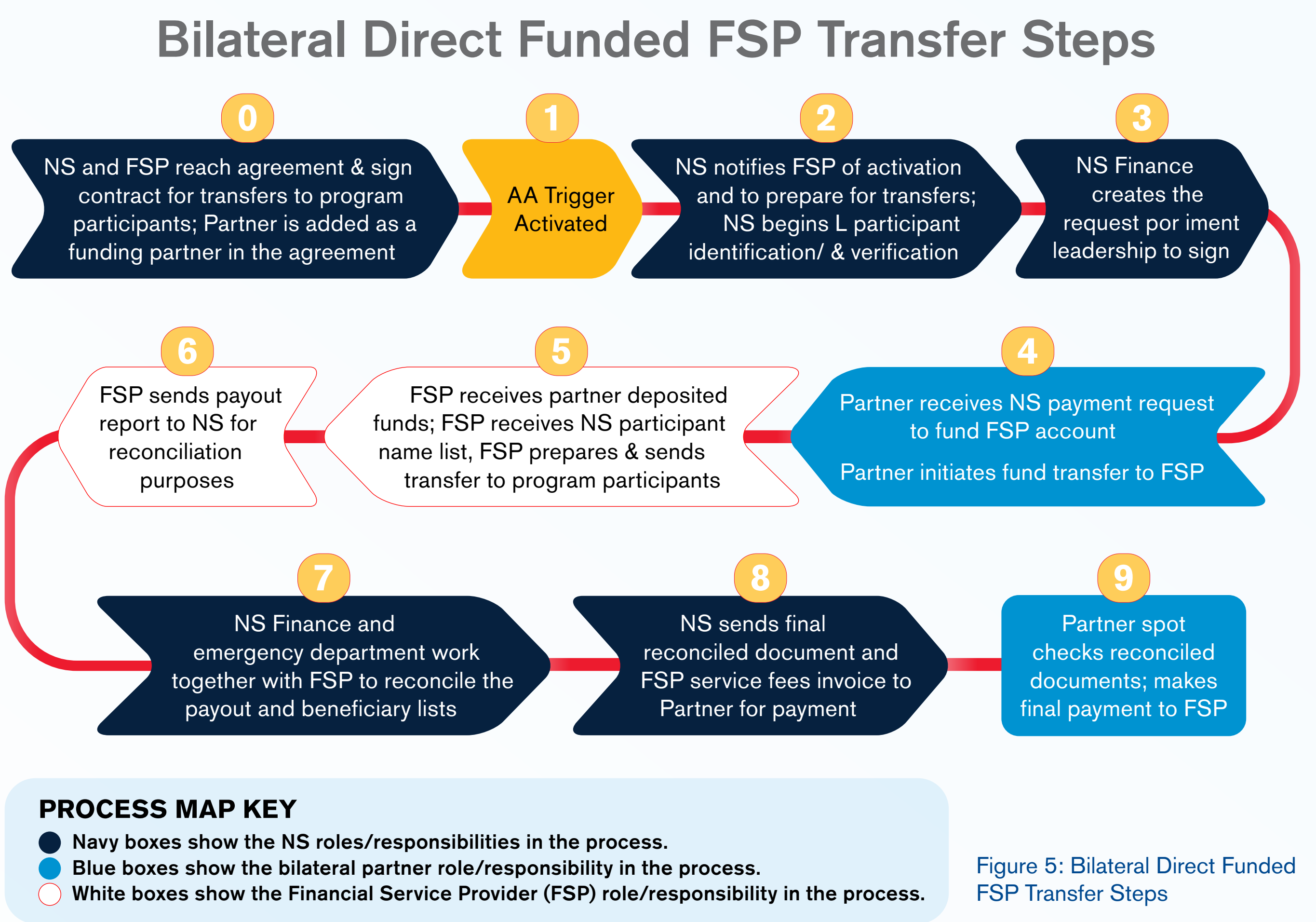


Figure 5: Bilateral Direct Funded FSP Transfer Steps

the cash transfers, and reconcile payments with FSP bank statements or payout reports. Additionally, the partner will be required to have a certain amount of financial liquidity in the country to cover the amount they commit to funding. It is possible the money can be available on a seasonal basis, yet the partner must be able to step in with the money as soon as the forecast trigger is reached. This may increase the risk within the partner's country office. The partner should consider these aspects when they discuss their role in the EAP and taking on the responsibility to pay the FSP.

The NS should also have knowledge, skills, abilities, and experience using CVA in its programs. Anticipatory actions may be implemented over weeks or months in a slow-onset hazard, yet the lead time in sudden-onset hazards can be hours or a few days. The NS needs sufficient CVA readiness to conduct AA in both slow and sudden-onset hazards. It is critical the NS has an FSP contract in place and verified by the IFRC Regional Supply Chain Unit before the AA trigger is reached. If the NS does not have this FSP contract in place before the EAP, it can use the readiness funding and time to put the contract in place. However, these contracts can take several months to finish, which should be considered in the timeline. The NSs with experience in CVA have learned their capacity to provide cash transfers, the number of staff needed, the number of FSP sites required, the time to deliver the cash transfers, and other factors. This data figures into the EAP, allowing the NS to decide if cash transfers are a feasible option for the type of hazard. Some NSs have decided CVA is appropriate for one hazard, but not for another. National societies that have little or no experience in CVA are not able to provide this level of detailed planning, which is critically important to the successful use of cash transfers in anticipatory actions.

The country should have a relatively stable economic and financial environment. The currency should be generally stable, without large fluctuations happening daily, allowing for the cash transfers to be effective. The country should also have the infrastructure to support cash transfers to beneficiaries. This includes internet connectivity, banking networks, FSP coverage, or cash-out sites that allow beneficiaries to access the cash transfers. Cash transfers for anticipatory actions are more successful when people receive payments or remittances regularly through mobile companies, remittance agencies, bank accounts, or other financial service providers. The NS and partner should carefully consider the delivery mechanism commonly used throughout the country to provide cash transfers to the beneficiaries.

STEPS TO SET UP A PARTNER DIRECT-FUNDED FSP SOLUTION

1. NS weighs its needs and potential solutions (see Anticipatory Action Pre-Financing Practical Guide for National Societies) and determines that working with a Red Cross partner to directly fund the FSP is the best solution.
2. The Secretary-General, or their designee, begins discussions with the Red Cross partners located in the country to discover if any are willing to take on this role and responsibility for the EAP.
3. NS Leadership and the Red Cross partner representative negotiate an agreement on the amount required, the set-up of the funding account with the FSP, and other terms. This is outlined in the EAP, and likely in the Project Funding Agreement.
4. The NS requests the FSP to add the partner as a contributor to the FSP funding account.
5. The FSP conducts the required due diligence checks on the partner providing the funding.
6. The Partner follows through with either pre-positioning funds in the FSP funding account, and/or establishing the necessary in-country bank account that allows money to move quickly to the FSP funding account. The partner ensures it has money available when required.

DOCUMENTATION REQUIRED FOR A PARTNER DIRECT-FUNDED FSP SOLUTION

The bilateral direct-funded FSP solution does not necessarily require the NS to produce financial documents to establish the agreement with the partner. This is an agreement made between two Red Cross Red Crescent organizations and is built on the goodwill, trust, and positive relationship between the two partners. The partner is part of the NS Anticipatory Action Plan or EAP and is therefore included in the discussions around those plans and protocols. The tripartite Project Funding Agreement with the IFRC, NS, and partner will outline how the funds are disbursed between the parties. It also identifies how the partner will use the funds for the benefit of the NS during the EAP activation.

The FSP will likely require the partner NS to provide documents as part of the FSP KYB due diligence process and requirements. In most countries, the FSP is required to:

- Verify the organization's identity and registration to work within the country,
- Identify and verify the organization's Ultimate Beneficial Owner(s),
- Understand the nature and purpose of the organization's relationships with the customer/beneficiary and develop a beneficiary risk profile, and
- Ensure the organization has legitimate bank accounts and funds that are not laundering money or funding terrorism.

To verify these points, the FSP will ask to see the partner's registration as a nonprofit organization in the country, checking various documents that show how the organization is structured and operating in the country, and possibly the structure of the organization in its home country. It will also request financial documents such as current banking statements to verify the organization is compliant with international and national anti-terrorism/anti-money laundering laws. This KYB process is similar to what the partner would go through when opening a bank account in the country.

PARTNER SELECTION AND AGREEMENTS

The NS may or may not have a choice on which partners to approach as part of the bilateral direct-funded FSP solution. The NS may only have one option in the country. Many partners are not willing to enter this type of agreement with an NS. When an NS can choose a partner, some of the following considerations factor into the decision:

- The partner and NS have a working relationship and history that is generally positive.
- The partner can provide funds to the FSP at the time of the activation trigger; the partner has the liquidity in the country to meet the required amount.
- The partner reporting requirements are appropriate for the solution and amount that is being used.
- The partner has the staff to manage the FSP payments, monitoring of the cash transfers (if required), and reconciliation of documents (if required)

The NS begins discussions with the partner in the readiness phase of the EAP. The NSs should understand and agree on the solution before entering into a formal agreement together with the FSP. The expectations should be stated during the negotiations allowing both the partner and the NS to make informed decisions.

FISCAL CONTROLS

Every pre-financing solution carries a certain level of risk. From an NS perspective, the bilateral direct-funded FSP solution is relatively low risk in terms of management. The NS has transferred the responsibility of funding the FSP account to the partner. However, there remains some reputational risk for the NS if the partner is unable to fund the cash transfers or the transfers are significantly delayed in reaching beneficiaries. The NS continues to manage the FSP contract and the relationship with the FSP. The NS also manages the relationship with the partner. Some of the NS fiscal controls may continue to exist within these relationships. For example, the NS must create a payment request and attach the beneficiary list for the cash transfers to the payment request. Most NSs require these documents to be signed by at least two different leadership staff before the documents are sent to the FSP for the cash transfers, and the funds are deposited into the FSP funding account. These types of controls remain in the bilateral direct funding of the FSP solution as well.

QUALITY ASSURANCE AND MONITORING

The NS manages the FSP contract and relationship as well as the relationship with the communities they serve.

The NS is actively involved in monitoring the cash transfer payments. This includes reviewing the FSP payment report. The report can be customized to the NS monitoring needs to some extent. The types of data collected on the transfers can also be specific to that FSP. A typical FSP report may show the following types of data:

- transfers have been completed successfully

- transfers that have been interrupted or did not go through to the number given (e.g. bank account number, mobile phone number, email address, etc.)
- transfers that may have incorrect amounts
- transfers that have been sent to the same beneficiary more than once (e.g. it may be the beneficiary's name was duplicated, or it may be two beneficiaries with the same name)

The NS establishes a monitoring system that compares the payment report with the beneficiary list and identifies discrepancies between the lists. The payment report can also indicate unusual payment amounts or other anomalies in the transfers that help the NS monitor for incorrect payments, fraud, or misuse. The NS is responsible for troubleshooting and mitigating these types of problems in the cash transfers. This monitoring can be labor-intensive and time-consuming, depending on the FSP reporting systems and the ability of the NS to regularly monitor the payments. With some beneficiary database platforms, the monitoring is easier as the database can be programmed to look for certain types of mistakes or problems.

The partner may choose to conduct monitoring during the program. However, given the time and effort required, it is more likely the partner will wait until the NS and FSP have completed their monitoring and reconciliation. The partner may choose to review a sampling of the payments to verify the NS monitoring is being done correctly. Finally, the partner may review other reporting and financial statements from the EAP activation to verify the money in the FSP funding account has been correctly used.

CONCLUSION

The bilateral direct funding of an FSP is a solution that is used for specific contexts and EAPs. It is not a solution that can be applied broadly across the globe, with any NS. The NS must have an EAP that includes cash transfers as part of the early actions. The NS must have partners who are registered entities within the country and able to have functioning bank accounts. They must be partners who are willing to support the NS in this type of partnership. Additionally, the NS must have an FSP contract that it uses regularly to conduct cash transfers in other programs. The partner must be able to pass the FSP due diligence and KYB process to set up or become a contributor to the FSP funding account. These requirements make the bilateral direct funding of an FSP a specific solution to be considered carefully between National Societies and the IFRC.

References

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ANNEX IV.

Bank Bridge Loans

Detailed Guide

National Society Solution

What is Pre-Financing?

The impact of anticipatory action hinges on timely early action, however, donor pipelines through default or design often are not able to make funds instantly available to National Societies supporting them to act in time. When National Societies arrange their own temporary, immediate funding that supports them to act before donor funds arrive in their account, this is called pre-financing. There are a variety of pre-financing instruments available to National Societies including National Society Emergency Response Funds. **This detailed guide focused on developing an Emergency Response Fund (ERF).**

OPTION	SOLUTION TYPE	DESCRIPTION
EMERGENCY RESPONSE FUND (ERF)	National Society Solution	An internal fund set aside by the National Society to respond to emergencies, which can be accessed for anticipatory actions when needed.
BILATERAL LOAN	Donor Solution	A donor provides a loan to the National Society to cover the costs of anticipatory actions, with the loan being repaid once other funding is secured.
DONOR- FUNDED FINANCIAL SERVICE PROVIDER (FSP)	Donor Solution	The donor directly funds a financial service provider (FSP) to distribute cash grants for anticipatory action on behalf of the National Society.
BANK LOAN	Bank Solutions	The National Society secures a loan from a traditional bank to cover anticipatory action costs, repaid once other funds become available.
BANK LINE OF CREDIT (LOC)	Bank Solutions	A pre-arranged line of credit with a bank that allows the National Society to draw funds as needed, with interest charged only on the amount used.

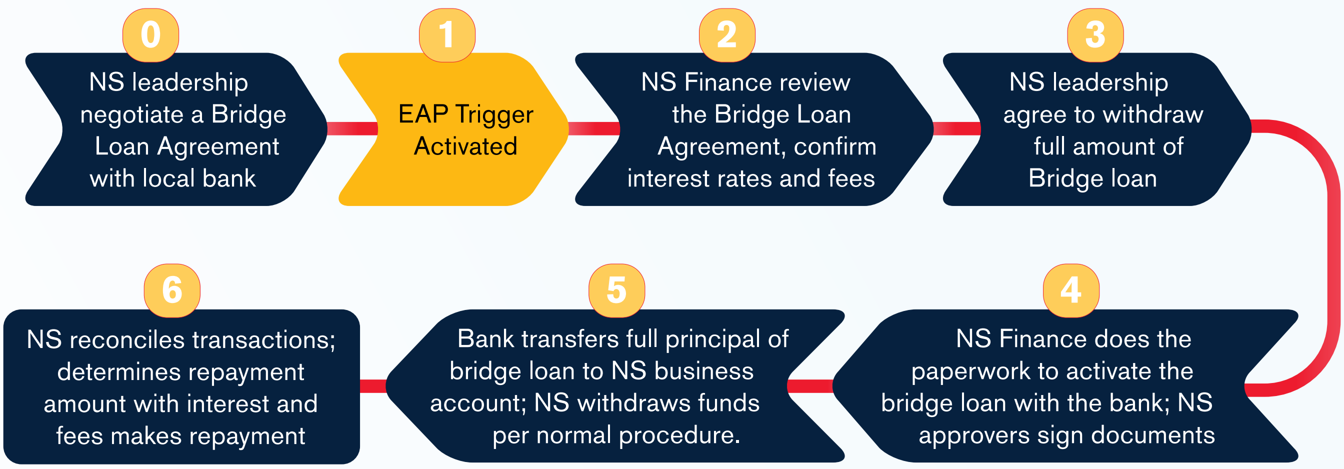
BRIDGE LOANS

Banks and other financial institutions provide hundreds of different loan products and services to individuals and businesses each year. Many banks will customize a loan for a specific individual or business's needs. A commonly used loan product is a **bridge loan**. Bridge loans are typically interim financing products from a bank or financial institution that provides money to the borrower for a period of time less than 12 months. Bridge loans are generally paid off once the borrower receives or secures funding. These types of loans typically have a higher interest rate and/or fees and often require a form of collateral to secure the loan. As with all loans, the full borrowed amount (principal) is provided to the individual or business on approval of the application. The interest begins to accumulate based on the principal regardless of whether the individual or business uses the full amount of the funds. Bridge loans are created for higher-risk borrowers, making them a good match for nonprofit organizations needing an injection of funding for a short period of time.

Nonprofit organizations typically have a more difficult time applying for and receiving a loan than for-profit businesses or even individuals. Lenders providing loans to a small business will generally evaluate the business on a few key areas such as the length of time the business has been operating, the owner's personal credit history, the business's credit score, the business's revenue, and its growth projections. Lenders ultimately want to see if the borrower can repay the loan. However, nonprofit organizations are inherently different than small businesses. Nonprofits do not show or earn revenue to be "profitable". These funds are cycled back into the programs and operating expenses of the nonprofit. Nonprofits depend on donations, grants, or fundraising events to generate income. These are irregular and unpredictable sources of income. This unpredictability can make lenders hesitant to fund a nonprofit as they are uncertain if the organization will be able to repay the loan. Lenders consider nonprofits a higher risk than other businesses with defined plans for earning profit. Some banks or financial institutions have corporate rules that exclude nonprofits from eligibility requirements. All these factors make it difficult for a nonprofit organization to receive a traditional loan from a bank or financial institution. Another barrier to a nonprofit organization receiving a traditional loan is the length of time required to repay the loan. Typical loans are between 2-5+ years, and this longevity allows the interest rates and other fees to be lower than short-term loans. However, organizations often need funds for only a short period of time and do not have the collateral to secure a longer-term loan. This makes the bridge loan a more attractive option for nonprofit organizations.

ADVANTAGES	DISADVANTAGES
Easier and faster application process	The origination fee for the bridge loan is between 0.5% and 1% of the principal amount. The fee is compensation for executing the loan.
Short-term loan for less than 12 months, offering quick access to funds	The term is less than 12 months resulting in higher interest rates; usually 1-2 percentage points more than a traditional loan percentage
Often available to nonprofit organizations which may struggle to get other types of traditional loan products	Often a secured loan requires collateral, typically real estate or assets. Some lenders may waive this and allow a bridge loan to be unsecured.
No repayment penalties for short-term bridge loans	A bridge loan may be offered for a smaller principal amount than required by the organization to cover its operating costs
Full amount of the bridge loan is available when the application process is completed and approved	Interest is charged on the full amount of the principal regardless of whether the full amount is used
A fixed period loan may have more monitoring which can reduce the opportunity for misuse	

Bridge Loan Fund Transfer Steps



PROCESS MAP KEY

● **Navy boxes show payment request & Bridge Loan funds transfer process.**

Figure 6: Bridge Loan Fund Transfer Steps

Bridge loans typically can be easier and faster to receive. However, this convenience is balanced by the higher interest rates, application or origination fees, and the short-term nature of the loan. An organization may be willing to pay these costs in return for fast, convenient access to funds. The costs may be seen as minimal since the bridge loan is expected to be paid off quickly. Additionally, bridge loans don't have repayment penalties as the term is shorter than 12 months.

MECHANICS OF A BRIDGE LOAN

The organization can access its bridge loan according to the services outlined in the service agreement. The graphic below shows how an NS might theoretically use a bridge loan after a forecast trigger activation. The blue boxes indicate a possible NS payment request to access the bridge loan, the NS receiving the loan funds, and the reconciliation and repayment steps that may be required. Context for a Bridge Loan

Nonprofit organizations are generally considered high-risk borrowers to many lending institutions, particularly traditional bank institutions. However, there are many alternatives to a traditional banking institution that may be more willing to provide a bridge loan to an NS. Local banks or credit unions are often more likely to provide a bridge loan to a well-established nonprofit like the Red Cross. The reputation and relationship between the local Red Cross and the community may influence how likely the NS is to receive a bridge loan or other pre-financing product from a financial institution.

Secondly, an organization with consistent positive cash flow will also likely be considered for a bridge loan. This means the NS generally can pay its bills and other expenses regularly. Fundraising and donations, along with contracts and grants, are regularly part of NS financing, and this can be verified through income statements and other financial records. Project Funding Agreements with donors like the IFRC or a partner National Society also help to show the NS can pay back a short-term bridge loan. NSs with complete and thorough financial records are more likely to negotiate better rates and terms with a banking institution.

Finally, bridge loans in the nonprofit context are appropriate for short-term prefinancing for immediate funding needs. They are not recommended for asset purchase or replacement, or long-term solutions to cash flow problems. Bridge loans, with their higher interest rates, fees, and short repayment timelines, can quickly accumulate costs. They should be considered only as a contingency or emergency funding source. The NS should have a clear plan for the repayment of the bridge loan that will not leave them with unexpected costs or expenses.

STEPS TO SET UP A BRIDGE LOAN

1. The NS Board of Directors weighs its needs and potential solutions (see NS guide to Pre-financing Strategy & Planning) and determines whether a bridge loan is necessary.
2. The Secretary-General directs the Finance Department to research banks and institutions that can provide a bridge loan to the NS.
3. The Finance Department conducts necessary research to identify banks or financial institutions that best fit the NS needs.
4. The Secretary-General and Board of Directors decide on the financial institution most favorable to the NS (this may be done through a procurement process).
5. NS Leadership submits an application for a bridge loan at the chosen financial institution.
6. The financial institution/bank evaluates the NS based on financial history and submitted records.
7. NS Leadership and bank/financial institution negotiate an agreement for the terms of the bridge loan.
8. The bank/financial institution sets up the bridge loan account
9. NS receives bridge loan funds in their identified account.
10. NS Finance and Leadership create any required policies and SOPs to manage and use the bridge loan.

DOCUMENTATION REQUIRED FOR A BANK LOAN

When an organization applies for a bridge loan, the bank or financial institution will evaluate the organization in key areas which include collateral, credit history, revenue generation, and debt-to-income ratio. Bridge loans may require collateral for a secured loan, which is generally larger than an unsecured loan. If collateral is required, the bank will review the assets the nonprofit owns or an asset that a donor pledges. Collateral is one of the key stumbling blocks that have stopped nonprofits from getting a traditional bank loan, since many non-profits may not have significant assets or properties to use as collateral. The NS seeking a bridge loan has to show it has a good credit history – paying regular expenses like rent, utilities, insurance, and suppliers on time and in the amount required. Banks and financial institutions will also look at the NS's revenue generation. This is how regularly and how much revenue the NS receives through its activities such as fundraising, donations, contracts, and grant agreements. The bank will assess whether there is a history of continual revenue indicating the NS will have the ability to repay the bridge loan. Finally, the bank may look at the organization's debt-to-income ratio. If the NS is continually operating at a loss for months or years, the bank will likely hesitate or reject its application for a bridge loan. To verify each of these areas, the bank or financial institution will require the organization's financial bank statements, income statements, balance sheets, tax filings, audit reports, and other financial documents. If the organization and the banking institution have a long-standing, generally positive relationship, the bank will likely look for ways to assist the organization in finding a solution. For example, the bank may adjust its criteria if an organization's bank balances and transactions show stability over a longer period of time, especially if the organization has been able to repay previous debts or loans.

FINANCIAL INSTITUTION SELECTION AND AGREEMENTS

Traditional banking institutions often decline non-profit organizations for several reasons, including the different set of laws and regulations governing them compared to for-profit businesses. However, non-traditional financial institutions have expanded their products, allowing organizations to choose them for their financing needs. Financial institutions providing bridge loans to organizations are likely using private funds, freeing them from some government laws and regulations. While this allows broader choices for lenders, it increases the potential for illegal or disreputable financial institutions providing services. Regardless of whether the lender is a traditional bank or a non-traditional financial institution, an organization will need to spend significant time researching the lender. It is best to engage the Finance department and staff when conducting this due diligence. The table below provides some of the criteria that an organization should consider when researching a lending institution.

Once the organization is satisfied it has found the best bank or financial institution to provide the

FINANCIAL INSTITUTION DUE DILIGENCE	
Institutional	• Governance: Clear Management structure; Strong Internal Controls and Standard Operating Procedures • Legal registration status**:** Appropriate registration in a country where the rule of law is effective • Legal compliance: The company abides by anti-money laundering and anti-terrorist legislation • Support Services: Strong Administrative and Human Resources capacity
Operational	• Capacity to scale-up or provide additional financial products for larger amounts • Flexibility: Adaptability to dynamic needs of the organization
Financial	• Audit Compliant: Good financial standing • Financial Statements: Adequate levels of cash flows • Tax filing of the company: Review for financial risk associated with institution • Reputation: Financial institution has a solid reputation in the country • Reliability: Financial institution has a proven track record of providing money when requested/required (Positive Customer reviews)
Security/Risk	• Insurance: Accountability for any cash loss • Conflict of Interest: Review for the Financial institution or its employees having a conflict of interest doing business with organization
Customer Service	• Troubleshooting: Willingness to address issues professionally and promptly
Service Fees & Interest Rates	• Service Fees: Origination fees are reasonable compared to other institutions • Interest Rates: Usually fixed, are reasonable and comparable to other institutions providing bridge loan products • Monthly/annual maintenance fees: Reasonable and competitive

bridge loan, it can apply for the loan. The bank will also reach its assessment conclusions and approve a loan application. The negotiations on the details are worked out between the two entities until an agreement is reached. For most local Red Cross Red Crescent partners, this negotiation is led by the Finance Department or staff. If a procurement office or personnel are available, they may also be included depending on the organization's processes.

FISCAL CONTROLS

Every pre-financing solution carries a certain level of risk. From an NS perspective, using funds from a bridge loan provides a solution that is relatively low risk in terms of management. When the bridge loan is approved and received, the NS moves the funds to its own bank account. There is no difference in how or where the bridge loan funds are kept. The NS can apply its usual internal controls to ensure the funding is used appropriately, authorized by the correct personnel, and monitored similarly to other funding. Bridge loan funding does not introduce additional risks outside of the normal NS procedures. As with any financial instrument with monetary value, an organization must have its internal controls in place to manage who has access to the funds and who has authority to approve the use of those funds.

QUALITY ASSURANCE AND MONITORING

The NS may want to introduce additional monitoring practices on a bridge loan because it is a significant amount of money, is of short duration, and accumulates higher interest rates. The NS should carefully plan for the amount they need and only apply for a bridge loan to cover the amount required. Otherwise, a high interest rate will be paid on funds that remain unused. Secondly, bridge loans are a short-term, temporary solution. They should be paid back in full as quickly as possible to avoid unnecessary costs. NSs may want to have a clearly defined repayment plan in place to ensure the bridge loan is repaid promptly. Finally, the NS should carefully consider and weigh all its pre-financing options, including a bridge loan, to determine the best solution for the amount they are trying to cover during the gap period. A well-thought-out pre-financing plan will allow NS to avoid using an inefficient tool and paying unnecessary costs.

CONCLUSION

While traditional banking institutions have been hesitant in the past to provide non-profit organizations with loans , non-traditional financial institutions are answering the market demand. More financial services are available to nonprofit organizations now than in previous years. Nonprofit organizations are also becoming adept at using financial services and products previously reserved for businesses. As this trend continues, more opportunities for pre-financing solutions will become available. A bridge loan should be carefully weighed by an organization. Nevertheless, a bridge loan has proven to be an effective solution for many non-profits in need of a quick injection of cash or operating funds to get through an emergency or to simply bridge a short-term gap in funding. A bridge loan seems a viable, desirable, and feasible solution for an organization to meet its short-term Anticipatory Action pre-financing needs.

Case Study

Lesotho Red Cross – Using Bank Solutions to Pre-finance Anticipatory Action

The Lesotho Red Cross Society (LRCS) began working on Anticipatory Action (AA) for droughts in 2019. Since then, they have achieved the validation of an Early Action Protocol (EAP) for droughts, and an EAP for Cold waves/Snowfall that is in the process of validation. In April 2024, the drought EAP was activated along with the IFRC pre-funding mechanism. As droughts are slow onset hazards, having up to a 3-month lead time, International Federation of Red Cross Red Crescent (IFRC) funds generally arrive in time to fund the early actions outlined in the EAP. However, the LRCS' experience with IFRC Disaster Relief Emergency Fund funding in previous sudden-onset hazards is that the money arrives more than 10 days after the event. In these DREF operations, the LRCS used its funds or a pre-financing solution, to begin the response activities. The LRCS expects it will need to use a pre-financing solution for the cold wave/snowfall EAP since it has a lead time of 7 days or less.

The LRCS does not host an IFRC delegation office or partner NS offices in its small country. Therefore, pre-financing solutions dependent on in-country Red Cross partners are not options for the LRCS. Instead, it has chosen to capitalize on its positive, long-standing relationship with its bank to create a pre-financing solution. "We opted as a National Society to visit one of our banks, the Standard Lesotho Bank, where we have the Red Cross accounts hosted. We negotiated with them for a good interest rate." (S. Hlubi, personal communication, May 27, 2024). The bank has worked with LRCS for many years and is familiar with the types of international transfers that LRCS receives from the IFRC offices in Africa and Europe. When LRCS approached the bank about pre-financing solutions, the bank did not have difficulty approving a solution that LRCS has used in the past. The bank requested documents from LRCS such as the NS annual financial report and audit reports for 2023, along with the signed IFRC/LRCS Project Funding Agreement for the EAP that shows the details of the amount and timing of the payment from the IFRC to the NS.

The LRCS holds its general funding account in the Standard Bank Lesotho. When the forecast AA trigger is reached, the LRCS can withdraw the funds they need from their account. If they withdraw more than the available balance in the account, or "overdraw" the account, the bank extends the LRCS a loan for the overdrawn amount. The LRCS is not charged a penalty or fees for overdrawing the account. Instead, the bank records the overdrawn amount as a loan given to the LRCS. The bank charges interest on the amount that is overdrawn until it is repaid to the account. When the IFRC DREF AA activation funds arrive in the bank account, Standard Bank Lesotho withdraws the amount of the interest they are owed from the amount. The negotiated pre-financing solution is documented by a signed Memorandum of Understanding (MoU) between the Standard Bank of Lesotho and the LRCS Secretary General. This pre-financing solution includes aspects of a line of credit and a loan. It has been customized to best meet the LRCS needs. It is a proven method of pre-financing that is now common practice for the LRCS to use for projects that are short-term and have to be activated quickly. The LRCS has found and negotiated a pre-financing solution outside of the Red Cross network that has worked well for them in the past and is now part of their future as well.

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ANNEX V.

Bank Line of Credit (LOC)

Detailed Guide

National Society Solution

What is Pre-Financing?

The impact of anticipatory action hinges on timely early action, however, donor pipelines through default or design often are not able to make funds instantly available to National Societies supporting them to act in time. When National Societies arrange their own temporary, immediate funding that supports them to act before donor funds arrive in their account, this is called pre-financing. There are a variety of pre-financing instruments available to National Societies including National Society Emergency Response Funds. **This detailed guide focused on developing an Emergency Response Fund (ERF).**

OPTION	SOLUTION TYPE	DESCRIPTION
EMERGENCY RESPONSE FUND (ERF)	National Society Solution	An internal fund set aside by the National Society to respond to emergencies, which can be accessed for anticipatory actions when needed.
BILATERAL LOAN	Donor Solution	A donor provides a loan to the National Society to cover the costs of anticipatory actions, with the loan being repaid once other funding is secured.
DONOR- FUNDED FINANCIAL SERVICE PROVIDER (FSP)	Donor Solution	The donor directly funds a financial service provider (FSP) to distribute cash grants for anticipatory action on behalf of the National Society.
BANK LOAN	Bank Solutions	The National Society secures a loan from a traditional bank to cover anticipatory action costs, repaid once other funds become available.
BANK LINE OF CREDIT (LOC)	Bank Solutions	A pre-arranged line of credit with a bank that allows the National Society to draw funds as needed, with interest charged only on the amount used.

LINE OF CREDIT (LOC)

A Line of Credit (LOC) is a pre-financing product from a banking institution, financial service provider, or community development financial institution. It is a pre-approved fixed amount of money that a National Society (NS) can have access to at any time and for any reason. Any amount of money can be withdrawn in a single transaction or in multiple transactions, if it does not go over a fixed amount. The money can be repaid immediately or over a period of time. The LOC often stays in place for 12 months and is renewed yearly. The NS is only charged once they use the credit line; however, some financing institutions will charge a setup and maintenance fee. Interest begins to accumulate once money is withdrawn from the line of credit. Unlike a loan, the interest accumulates only on the amount that is withdrawn and not on the full amount approved for the line of credit. This interest rate is generally variable and can change as the broader interest rates change. This can make it difficult to plan for the costs of the line of credit. The final amount the NS will need to pay back may change over time. The money becomes available to be withdrawn again once the NS pays back a portion or all the money it withdrew. No further fees or interest accumulate once the amount is paid off.

The NS must be approved by the bank for an LOC. An LOC can be either secured or unsecured. A secured LOC requires an asset that can be used as collateral. This may lower the rate of the fees or interest, yet the lender can potentially take the asset in the case of a default on the line of credit. An unsecured LOC is more common and does not require collateral. In these cases, the LOC fees may be higher, and the fixed funding amount is likely lower. The NS's funding stability and history, its relationship with the bank, the financial statements and audits, assets, and/or personal signatories inform the bank's decision on whether to offer the NS an LOC and the fixed amount to offer.

ADVANTAGES	DISADVANTAGES
Access to instant, ongoing funds	Often harder to qualify for than loans
Potentially a way to finance projects that have unclear costs	Variable rates of interest make it harder to predict overall costs
Similar flexibility in drawing money, but with lower interest rates than credit cards or loans	Lines of credit can carry many fees including transaction fees for drawdowns, annual maintenance fees, and/or monthly fees when the LoC is active
Can be secured or unsecured LoC	Collateral may be required for more competitive rates
Interest is only charged on the amount withdrawn, not on the total amount of the LoC	LoC may be renegotiated frequently by the bank, changing the interest rates and service fees

MECHANICS OF A LINE OF CREDIT

The NS can access its LOC money according to the services agreed upon during the negotiation period and outlined in the service agreement. A few of the most common services are as follows:

ACCESSING FUNDS FROM A LINE OF CREDIT	
Cash draw	The bank may allow a cash draw from the LOC account depending on the agreement. The appropriate signatories from the NS are required to conduct the cash draw.
Bank Account Transfer	The LOC account transfers funds to an identified NS's account; payments to suppliers can also be made directly from the LOC account. Fund transfers require approval from the signatories on the LOC.
Check Books	Some LOC services include the ability to write a check on the LOC account number. The check requires the signatories on the LOC to sign the checks.
Debit Card	Some LOC services include the ability to have a debit card for the organization associated with the LOC account. The debit card is issued to the signatories on the LOC.
SWIFT Code	The LOC may provide a SWIFT code for the account if there is anticipated sending/receiving of international funds directly to the account.
Overdraft Service	LOC services can include an overdraft service. The NS has a checking account with the bank. The LOC is activated when the checking account is overdrawn and covers the amount, which can be done until the LOC limit is reached. NSs may use this to access additional funds for projects or expenses.

The graphic below shows how an NS might use an LOC after a forecast trigger activation. The blue boxes indicate a possible NS payment request for the LOC funds, while the boxes in other colors represent the various ways the funds might be transferred from the bank to the NS.

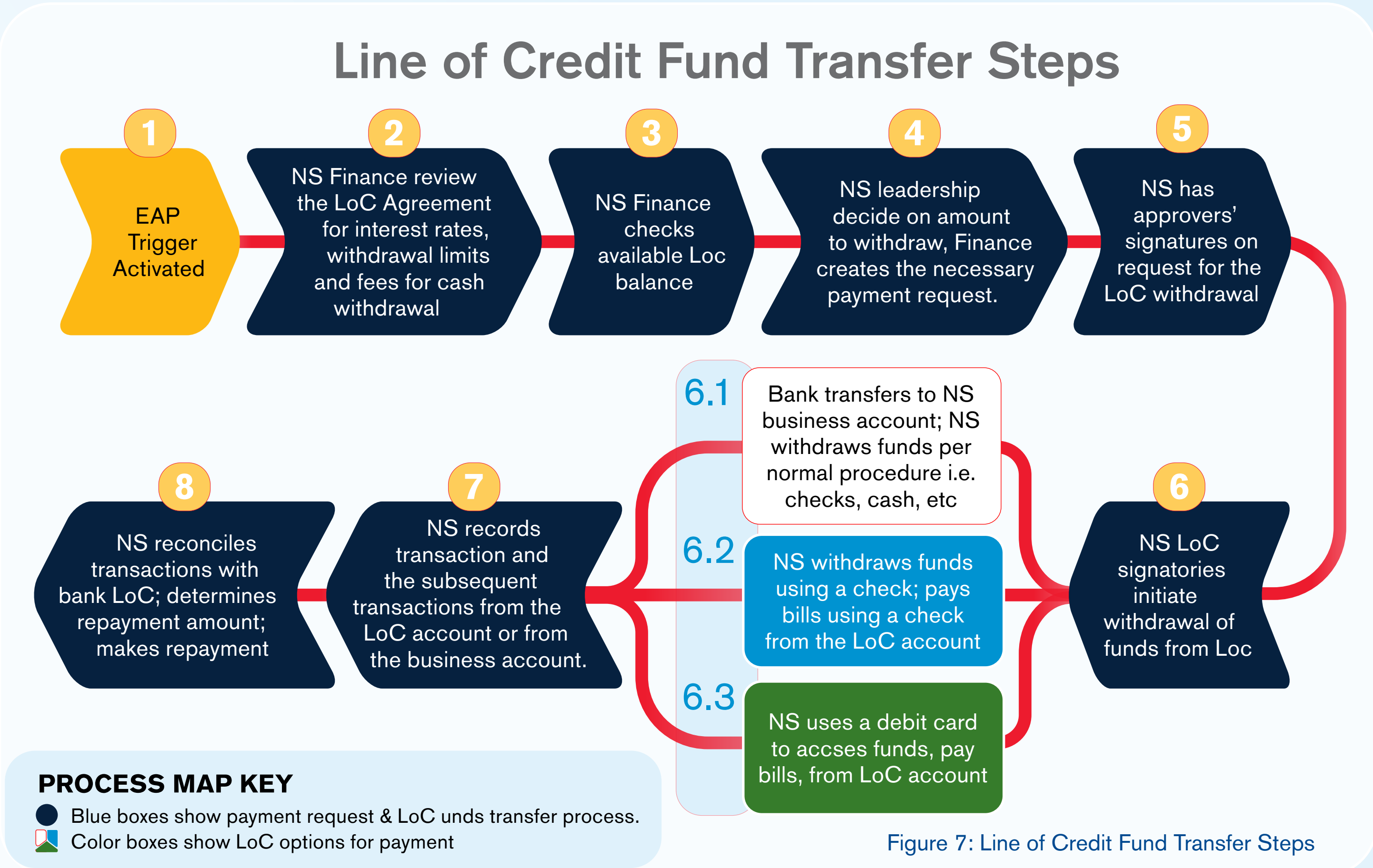

Figure 7: Line of Credit Fund Transfer Steps

CONTEXTS FOR LOC IN ANTICIPATORY ACTION

Line of Credit solutions are generally best for short-term funding coverage. While the LOC may be approved for 12 months, the funding source is usually used for costs and expenses that can be repaid more quickly. The LOC offers a solution to a temporary cash-flow problem where certain bills or expenses must be paid quickly. It is also a common solution for organizations with inconsistent revenue streams, where funding comes from end-of-the-year donations or government appropriations. A Line of Credit is not used to purchase a high-value asset like a vehicle or building. While an LOC may help with the purchase of an unusual item that cannot be covered by a loan, it is not usually used for this purpose. Rather, it is used for operational expenses like staff salaries, temporary warehouse rental costs, transportation fees, training events, and other smaller costs.

Though traditional banks may hesitate to provide an LOC to a nonprofit organization, the Red Cross Red Crescent NS is often a well-known and respected nonprofit organization in the country. If the economic situation and legal structure in the country are relatively stable, banks and financial institutions are likely to provide an LOC to an NS. Further, if the NS has well-organized financial management policies with regular reporting requirements, financial institutions are more likely to approve an LOC.

Anticipatory action funds are required for immediate readiness activities and early actions. These usually occur within a timeframe of a few hours to 90 days. In cases where the NS holds an approved or validated Early Action Protocol (EAP) or Anticipatory Action Plan (AAP), pre-funding can be received by the NS within a month of the event occurring. If the NS is using an LOC, the draw down of funds from the bank or financial institution can happen within a few hours of a forecast trigger being reached. The funds can be paid back as soon as the pre-funding from the IFRC or another donor reaches the NS. This could be as soon as 10-14 days after withdrawing the funds from the LOC. The likelihood and risk of high costs associated with high interest rates or fees is reduced because the funding timeline is short. An LoC can also be withdrawn in the amount needed. If some funds are available from other sources like local fundraising or donor funding availability, the full amount does not need to be withdrawn. It can act as a supplementary funding source. This makes the LOC a valuable solution for an NS to have in place.

STEPS TO SET UP A LINE OF CREDIT

1. NS Board of Directors weighs its needs and potential solutions (see Anticipatory Action Pre-Financing Practical Guide for National Societies) and determines whether a Line of Credit is necessary.
2. The Secretary-General directs the Finance Department to research banks and institutions that can provide an LOC to the NS.
3. The Finance Department conducts necessary research to identify banks or financial institutions that best fit the NS needs.
4. The Secretary-General and Board of Directors decide on the financial institution most favorable to the NS. This may be done through a procurement process.
5. NS Leadership submits an application for a Line of Credit at the chosen financial institution.
6. The financial institution evaluates the NS based on financial history and submitted records.
7. NS Leadership and financial institution negotiate an agreement for the terms of the LOC.
8. LOC is set up according to the agreed-on requirements, generating an LOC account.
9. NS receives financial instruments (I.e. cards, checks, etc.) associated with the LOC account.
10. NS Finance and Leadership create any required policies and SOPs to manage and use the LOC.

DOCUMENTATION REQUIRED FOR A LINE OF CREDIT

When an NS applies for an LOC, the bank or financial institution will evaluate it in four key areas: collateral, personal guarantees, credit scores, and financials. Banks will often require a review of collateral for a secured LOC. Collateral can be an asset the NS owns or an asset that a donor pledges. Collateral is one of the stumbling blocks that have stopped organizations from getting a traditional bank line of credit, since many non-profits may not have significant assets or properties to use as collateral. The second area is that of a personal guarantee. Most banks will require the signatory to have established credibility or a personal credit score. The signer for the LOC often becomes personally responsible for paying the LOC back if the NS fails its obligation. Both these requirements may be waived if the NS has been a customer of the bank or financial institution for a significant amount of time. However, the bank or financial institution will rarely waive the required due diligence that it conducts on the NS applying for an LOC. The bank will often require the NS's financial bank statements, income statements, balance sheets, tax filings, audit reports, and other financial documents. If the NS and the banking institution have a long-standing, generally positive relationship, the bank will likely look for ways to assist the NS in finding a solution that works best for the situation. The bank may adjust its criteria if an NS's bank balances and transactions show stability over a longer period, especially if the NS has been able to repay previous debts or loans.

FINANCIAL INSTITUTION SELECTION AND AGREEMENTS

Traditional banking institutions often decline non-profit organizations for a Line of Credit. Banks follow national laws and regulations along with rules within their corporation. Many banks may use a mix of government and private funds to provide financial products to their customers. These standards may be difficult for non-traditional borrowers, like a NS, to achieve or prove. For example, banks prefer a secured LOC that requires assets for collateral, which smaller National Societies do not have. Additionally, a bank institution may require the organization's senior leadership to apply for a personal LOC, requiring the employee to pay it back if the NS cannot. Finally, banking institutions may adjust interest rates based on the economic environment in a country's town, region, or province. In recent years, more financial institutions have expanded their prod-

FINANCIAL INSTITUTION DUE DILIGENCE	
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Service Fees & Interest Rates	• Service Fees: Origination fees are reasonable compared to other institutions • Interest Rates: Usually fixed, are reasonable and comparable to other institutions providing bridge loan products • Monthly/annual maintenance fees: Reasonable and competitive

ucts, allowing organizations to choose non-traditional financial institutions for their financing needs. Financial institutions providing an LOC to nonprofit organizations are likely using private funds, freeing them from some government laws and regulations. While this allows for broader choices in lenders, it increases the potential for illegal or disreputable financial institutions to provide services. Regardless of whether the lender is a traditional bank or a non-traditional financial institution, an NS will need to spend significant time researching the lender. It is best to engage the Finance department and staff when conducting due diligence on finance institutions.

The NS can apply for an LOC once it is satisfied that it has found the best bank or financial institution for its situation. The bank will also reach its assessment conclusions and provide an offer letter to the NS. The negotiations on the details are worked out between the two entities until an agreement is reached. For most NSs, this negotiation is led by the Finance Department or staff. If a procurement office or personnel are available, they may also be included depending on the NS's processes and procedures.

FISCAL CONTROLS

Every pre-financing solution carries a certain level of risk. An LOC presents a low risk from the perspective that it is a common service offered by banks and financial institutions. The funds are secured by the bank or financial institution's own policies, procedures, and insurance. Additionally, traditional banks may have a layer of added protection from a national government insurance program for accounts up to a certain amount of money. Banks also have significant internal controls and monitoring that ensure money kept in the account remains secure from external tampering or theft. Banks and financial institutions may offer further protections to identify fraudulent purchases or payments or offer a stop-payment service.

However, bank and financial institution protections do not take the place of an NS's responsibility. The NS must have strong internal controls to manage who has access to the financial instruments (i.e. checks, cards, etc.) linked to the LOC account. Since an LOC is a bank service, the NS will likely use the same internal controls that apply to other financial instruments. An LOC does not have built-in deterrents against fraud, waste, abuse, or theft. The only deterrent is the limit on the amount of funds that can be withdrawn. Once funds are removed from the bank or financial institution safeguards, it is up to the NS to secure the funds or the financial instruments to access the LOC.

Some controls that may be in place for an LOC are a required minimum balance and a maximum withdrawal amount. One of the risks associated with an LOC is the desire to withdraw a larger amount than needed because it is readily available. To keep this desire in check, the NS may decide to keep a minimum amount of funds in the LOC at all times. This is money that is not withdrawn or used, allowing the LOC to be available for future emergencies. This minimum balance may be based on a monetary sum or a percentage of the total LOC amount. This is within the discretion of the NS's leadership. Leadership may also choose to put a limit on the amount of funds that can be withdrawn at a time. While the bank or financial institution will allow the full LOC amount to be withdrawn in one transaction, the NS may put an internal control which limits the amount of funds per transactionor limit the number of transactions that can be made in a certain period.

QUALITY ASSURANCE AND MONITORING

An LOC pre-financing solution would likely have similar monitoring to other bank accounts and associated financial instruments. However, additional monitoring may be needed in terms of the amount of funds withdrawn, the ongoing interest rate, and the service fees associated with the LOC. Unlike other pre-financing solutions, an LOC only accumulates interest once it is withdrawn. The interest is not paid on the full amount of the LOC, only on the amount that is used. However, the interest rate is likely variable for an LOC. This can be different than a bank loan with a fixed interest rate, a predictable percentage that is added each month to the principal of the loan. An LOC may have a changing interest rate which means there is a level of unpredictability in the associated cost. This will require NS Finance personnel to monitor the bank notices of changing interest rates. The LOC may become a costly pre-financing solution due to this variable interest rate.

An LOC is only useful when there are funds immediately available to be used for an urgent need. If the funds in the LOC have been withdrawn to the maximum limit, they will not be available for emergencies until the LOC is repaid to a certain level. Finance staff should regularly monitor the LOC account fund balance to ensure there is a balance for future emergency needs. Linked to the fund balance is the repayment plan. The NS should have a clearly defined payment plan to replenish its LOC. Finance staff may need to ensure the payment plan is in place and being followed on time. A monthly or quarterly report of the LOC may be required by senior leadership or an NS's board. This report generally shows the total LOC amount, the amount withdrawn, the amount that has been repaid, the associated interest and fees to date, and any delinquent payments according to the payment plan established by the organization.

CONCLUSION

While traditional banking institutions have been hesitant in the past to provide non-profit organizations with a Line of Credit, non-traditional financial institutions are answering the market demand. More financial services are available to non-profit organizations now than in previous years. Non-profit organizations are also becoming adept at using financial services and products previously reserved for businesses. As this trend continues, more opportunities for pre-financing solutions will become available to NSs. A Line of Credit should be carefully weighed by an NS. However, an LOC has proven an effective solution for many non-profits in need of a quick injection of cash or operating funds to get through an emergency or to simply bridge a short-term gap in funding. Because of the nature of the LoC, it seems a viable, desirable, and feasible solution an NS can use to meet its short-term Anticipatory Action pre-financing needs.

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