THE FUTURE OF CRISIS FINANCING: A CALL TO ACTION

Authors: Lydia Poole, Daniel Clarke, and Sophia Swithern
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**About the Centre for Disaster Protection**

The Centre for Disaster Protection works to find better ways to stop disasters devastating lives, by supporting countries and the international system to better manage risks. The Centre is funded with UK aid through the UK government.

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A CALL TO ACTION

The Centre for Disaster Protection (the Centre) is calling on decision makers, influencers, and technical experts in the development, humanitarian, and financial sectors to build on the growing appetite for better financing to target prevention, preparedness, and response to crises.

This report sets out a new vision for crisis financing, based on planned approaches and appropriate financing instruments. We invite you, and any organisation you work for, to adopt this vision and join us in building a better crisis finance system.

During the course of 2020, the Centre commits to:

- **convening a ‘coalition of the willing’** to initiate a dialogue and agree an agenda for crisis financing reform;
- **developing a quality assurance service and methodology** that can be used by all actors—including donors, multilateral organisations, industry, non-governmental organisations (NGOs), and national governments—when they need impartial, high quality advice on risk financing;
- **further developing ideas for the activities and outputs of a global surveillance body or partnership for crisis risk**, identifying suitable actors and conveners;
- **offering free and impartial support** to any at-risk or crisis-affected low or middle-income country towards following the Centre’s guidance on country-level changes, including quality assuring specific crisis financing instruments, and helping to build greater financial literacy in countries and at the international system level; and
- **investing in the global evidence** base on how the international crisis financing system can incentivise better crisis financing decisions, and how to ensure every dollar spent has the largest possible impact on saving lives, alleviating suffering, and maintaining human dignity.
TOWARDS NEW DEFINITIONS

The Centre proposes new definitions to bring coherence to the discourse and to help describe a new vision for crisis financing and the crisis financing system. Key terms used in this report include the following.

**Crisis**
A situation creating severe and widespread needs that exceed the existing local and national capacities to prevent, mitigate, or respond. This includes crises arising from a range and combination of hazards including conflict, weather and climate-related events and stresses, and disease.

*This report focuses on risks and crises that cause significant suffering and loss of life for the world’s poorest in low and middle-income countries.*

**Crisis financing**
Funding and financing that promotes and specifically targets prevention, preparedness, and response to crises. It could take the form of: (i) cash flow to recipients (e.g. grants) that could be arranged in advance or agreed in real time; (ii) cash flow to and from recipients via a financial intermediary (e.g. loan or insurance).

**International crisis financing system**
The network of entities that provide or receive international aid (official development assistance (ODA)) in order to enhance, support or substitute for state provision to address the risks or impacts of crisis. *This definition is closely based on ALNAP’s description of the humanitarian system in The State of the Humanitarian System 2018. The current report acknowledges that there is no single cohesive ‘system’ in terms of governance, coordination, or operation, so uses this term advisedly as a short-hand to refer to the group of institutions and operational organisations involved in both the current international aid effort and the proposed future effort.*

**Crisis risk**
The potential suffering and loss of life that could occur in a specific time period due to a crisis, determined probabilistically as a function of hazard, exposure, vulnerability, and capacity.

**Crisis risk financing**
Funding and financing that promotes and specifically targets a specific crisis risk, arranged before a potential shock. This can include paying to prevent and reduce the risk, as well as paying to prepare for and respond to a shock.
EXECUTIVE SUMMARY

This report is concerned with how the international community deals with meeting the financial costs of crises in support of both nationally and internationally-led actions. Financing alone cannot offer solutions to current crises or reduce future risks. But financing is a crucial part of the solution and has a unique potential to help reshape the way the world prepares for and responds to crises. The international crisis financing system could potentially achieve more with the resources already at its disposal, including driving fundamental improvements in the efficiency and effectiveness of how the world prepares for and responds to crises. However, there are a number of fundamental challenges to overcome.

The way that the international system currently responds to crises is discretionary and highly unpredictable. There are structural disincentives for governments and international actors to prioritise prevention and preparedness—and funding and financing provide little incentive to understand risks and act before a crisis happens.

The international crisis financing system is complicated and fragmented, and tools and instruments are not applied to their best effect. This ad hoc legacy system is not configured to meet either current or future crisis financing demand, and there is no system to evaluate or assess the adequacy of financing capabilities in meeting current or future demand. Moreover, there is a risk that continuing on a path of fragmented reforms and instrument-led innovations could lead to more complicated and more costly crisis financing—and that fundamental systemic weaknesses and gaps will be overlooked.

Finally, the way in which the international crisis financing system learns and adapts is problematic. This is rooted in a fundamental accountability deficit in the system. The international crisis response system lacks the stimulus of scrutiny, either by its primary clients—people or governments affected by or at risk of crisis—or by an entity with system-wide oversight. Consequently, change is often incomplete and short-lived.

These challenges are wide-ranging and difficult to influence. However, there is currently considerable momentum, investment, and commitment to improving the international crisis financing system, and many new and promising tools, instruments, and approaches are emerging. This is a period of opportunity therefore to rebalance and reshape the system.

This report proposes building on the current momentum to shift the system. In order to bring coherence to the discourse, it proposes a new concept and definition of crisis financing, and a vision and logic for a more effective international crisis financing system. The report also proposes steps towards implementing this vision at a country level, plus a set of actions to build system-level financial preparedness against future risk.
1 Agree a new vision for crisis financing

A working definition of crisis financing, and a vision and logic for an effective crisis financing system, are proposed here for review and debate. In its simplest form, crisis financing means the funding and financing used to prevent, prepare for, and respond to crises. At the level of principle, crisis financing should function in the interest of people affected by or at risk of crisis, and it should strive to provide funding and finance on a reliable basis so that people, communities, and countries can plan. Wherever possible it should require, support, inform, or enable conditions for appropriate investments in prevention and preparedness, including structuring in incentives for people, communities, countries, and the international system to prevent and prepare for crises.

In its simplest form, the international crisis financing system is the network of entities that provide or receive international aid (official development assistance (ODA)) in order to enhance, support or substitute for state provision to address the risks or impacts of crises.

An effective crisis financing system should be equipped to ensure that people worst hit by crisis receive the support they need, at the right time, to prevent extreme suffering and save lives. Such a system would function as a global safety net in times of crisis, and support and enable prevention and preparedness against future risk. Under this definition, and in line with existing global commitments, roles, and responsibilities:

- governments have the primary responsibility to assist and protect citizens from risk and crises;
- international actors (notably non-affected governments and multilateral institutions) support and assist affected governments to meet their responsibilities per commitments made through, for example, the Sustainable Development Goals (SDGs) and Sendai Framework for Disaster Risk Reduction; and
- as a last resort, where governments do not prioritise interests of their populations, and where the capacity of governments has been exceeded by unforeseen shocks, both development and humanitarian financing have a role to play in providing a global safety net for vulnerable people.

An effective crisis financing system would function according to the logic set out in Figure 1.

2 Build coherent crisis financing packages at country level

In order to move beyond ad hoc approaches at country level, a realistic assessment of risks and the impacts of crises should be matched with a financing strategy, and package of financing commitments and instruments, to address crisis prevention, preparedness, and response requirements. Strategies for meeting crisis financing needs should be incorporated into existing country-level planning processes to ensure coherence.

Crisis financing packages should be tailored to particular types or segments of risk—including predictable risk, needs arising from modellable risk, and needs arising from unknown risk—to introduce greater predictability, and incentivise risk management and preparedness.

Accountability measures and incentives to invest in prevention and preparedness should be consciously designed into country-level crisis financing packages and instruments. This includes committing to the consultation and participation of crisis-affected people in the design, targeting, and implementation of crisis financing instruments and response mechanisms.
Crisis financing should be underpinned by risk-conscious development investments and approaches. This includes investments in prevention and delivery systems as well as the enabling conditions for pro-active management of crisis risk, such as risk monitoring and analysis, and response planning.

Discretionary ex-post funding—including humanitarian funding—should be treated as the option of last resort, where all other options have been exhausted.

Where a base level of future need can be predicted and budgeted for, medium-term funding and financing deals or packages should be negotiated to provide greater predictability, and to support development and vulnerability reduction.

Pre-agreed financing for modellable risk can deliver earlier, more cost-efficient and streamlined responses. It also helps to manage incentives to respond late and, in time, could remove this segment of global risk from humanitarian funding caseloads.

System-level surveillance and financial preparedness for crisis financing

The international crisis financing system should prepare for large-scale and systemic risks and crises that require a coordinated system-level response, functioning as a global safety net against future risks. This includes providing system-level surveillance of risks and ensuring adequate financial preparedness against anticipated crisis financing needs.

Crisis financing should be underpinned by risk-conscious development investments and approaches. This includes investments in prevention and delivery systems as well as the enabling conditions for pro-active management of crisis risk, such as risk monitoring and analysis, and response planning.
3 Build system-level surveillance and crisis financing capabilities

Building fitness against future crises requires system-level surveillance of risks, the continual stress-testing of capacities, and the identification of gaps and weaknesses in financial preparedness.

A global surveillance body or partnership capable of assessing the capacity of delivery systems and testing plans, instruments, and institutions against potential crisis scenarios would provide critical feedback for actors at country level. At a regional and international level, where risks are transnational, it would provide guidance on gaps and blind spots in preparedness. Such a body or partnership would identify gaps in the repertoire and supply of instruments and financing, identify where new instruments and institutions might be needed to build adequate global financial preparedness against future crises, and assess the costs of maintaining the standing responsive capacity of the international crisis response system.

The international crisis financing system could also learn more, and faster, through regular scrutiny and commitment to learning, accountability, and transparency in each new crisis financing instrument. Investing in scrutiny and willingness to share lessons should provide practical evidence to inform scale-up and system-wide shifts, accelerating the pace of change, and focusing investment where it is demonstrated to have impact.

A call to action

Driving intentional change across a ‘system’ that comprises a diverse collection of autonomous actors, each with their own interests and incentives, and with no central point of command, is challenging. There are opportunities to influence the pace and scale of change, notably, investing in a sustained period of experimentation and learning, and through convening and supporting accelerators and anchor points in the system with high levels of influence. In addition to suggesting a vision and agenda therefore, a process to deliver change is needed.

Alongside this report, the Centre for Disaster Protection (the Centre) is putting forward a call to action. It calls on committed decision makers, influencers, and technical experts in the development, humanitarian, and financial sectors to build on the growing appetite for better financing to target prevention, preparedness, and response to crises, by coming together to agree a way forward for crisis financing reform. The call to action also includes the actions the Centre will take to support this process. During the course of 2020, it commits to:

- convening a ‘coalition of the willing’ to initiate a dialogue and agree an agenda for crisis financing reform;
- developing a quality assurance service and methodology that can be used by all actors—including donors, multilateral organisations, industry, NGOs, and national governments—when they need impartial, high quality advice on risk financing;
- further developing ideas for the activities and outputs of a global surveillance body or partnership for crisis risk, and identifying suitable actors and conveners;
- offering free and impartial support to any at-risk or crisis-affected low or middle-income country towards following the Centre’s guidance on country-level changes, including quality assuring specific crisis financing instruments, and helping to build greater financial literacy in countries and at the international system level; and
- investing in the global evidence base on how the international crisis financing system can incentivise better crisis financing decisions, and how to ensure every dollar spent has the largest possible impact on saving lives, alleviating suffering, and maintaining human dignity.
Collapsed buildings in earthquake-hit Chautara, Nepal. Image: Jessica Lea/Department for International Development
INTRODUCTION

The human impact and cost of crises are on an upward trajectory, and the number of people in need of international assistance has more than doubled in the last decade (see Box 1). Present trajectories suggest that the number of people at risk of and affected by crises will rise to new levels as the global population grows, and as risks and threats increase. The nature and complexity of crises and crisis risks are also changing, challenging existing models, predictions, and preparedness. New approaches and forms of cooperation may be required that take into account the linked nature of risks. While today’s crises demand urgent attention therefore, the world must be prepared for the potential of a very different future.

Addressing the risks and impacts of crises is a shared responsibility and is critical to sustainable development. Crises undermine development gains and heighten vulnerability to the next shock. Single crisis events may make short work of pushing people into poverty—and even living with the potential of crises, such as the risk of civil war or drought, is damaging. Why invest in a factory that could be destroyed in a possible civil war, or in higher yielding seeds that would not survive a drought?

Financing alone cannot end current crises or stop future crises from occurring—this demands concerted practical and political action, and new ways of anticipating, preparing for, and responding to crises. But financing can change the way the international community talks and thinks about crises. It can enable planned approaches to dealing with existing or future crises. And it can drive other fundamental improvements in the efficiency and effectiveness of how the world prepares for and responds to crises.

Crisis financing has seen high-level reform agendas and a range of innovation over the last five years. A new cast of international financial instruments, private sector organisations, and development institutions are experimenting with new and improved models. Despite this gathering momentum and appetite for change, the international crisis financing system is not yet fit to meet either current needs or future risk. This report is concerned with how the international community deals with meeting the costs of crises in support of both nationally and internationally-led actions. Private financing and remittances often play a critical role and represent substantial volumes of crisis financing.

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2 Vivekandanda (in Organisation for Economic Co-operation and Development (OECD), 2018) observes that: ‘Strategies that do not take into account the systemic and linked nature of these climate-fragility risks will fail, and may exacerbate the risks they set out to address. Linked risks need a linked response’.

3 The Global Assessment Report (GAR) on Disaster Risk Reduction notes: ‘The sheer number of people on Earth, a changing climate and the dynamic connectedness of biological and physical worlds [requires] us to revisit assumptions about the relationship between past and future risk’ (United Nations Office for Disaster Risk Reduction (UNDRR), 2019).

4 Poverty and crisis go hand-in-hand. Countries that are repeatedly affected by crises have an extreme poverty rate that is six times higher than the developing country average, and the number of people in poverty increases as crises continue—on average by one-tenth after three years of crisis (Development Initiatives, 2019).

5 For example, over a third of people affected by the 2010 floods in Pakistan were plunged under the poverty line as a result (UNDRR, 2019).

6 For farmers in Ghana, Mali, and Ethiopia, this risk-induced underinvestment in agricultural inputs is estimated to reduce income growth by between 1% and 9% a year—enough to move many of these farmers out of poverty, and to offset the losses associated with one-in-five-year events (Hill, 2019).
Definitions

The Centre proposes new definitions to bring coherence to the discourse, and to help describe a new vision for crisis financing and the crisis financing system. Key terms used in this report include the following.

Crisis
A situation creating severe and widespread needs that exceed the existing local and national capacities to prevent, mitigate, or respond. This includes crises arising from a range and combination of hazards including conflict, weather and climate-related events and stresses, and disease. This report focuses on risks and crises that cause significant suffering and loss of life for the world’s poorest in low and middle-income countries.

Crisis financing
Funding and financing that promotes and specifically targets prevention, preparedness, and response to crises. It could take the form of: (i) cash flow to recipients (e.g. grants) that could be arranged in advance or agreed in real time; (ii) cash flow to and from recipients via a financial intermediary (e.g. loan or insurance).

Crisis risk
The potential suffering and loss of life that could occur in a specific time period due to a crisis, determined probabilistically as a function of hazard, exposure, vulnerability, and capacity.

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International crisis financing system
The network of entities that provide or receive international aid (ODA) in order to enhance, support or substitute for state provision to address the risks or impacts of crisis. This definition is closely based on ALNAP’s description of the humanitarian system in The State of the Humanitarian System 2018. This report acknowledges that there is no single cohesive ‘system’ in terms of governance, coordination, or operation, so uses this term advisedly as a short-hand to refer to the group of institutions and operational organisations involved in both the current international aid effort and the proposed future effort.

However, as international actors have limited influence over these flows, the report focuses primarily on approaches that include international public funds in the form of ODA. This report reflects on the current challenges across the crisis financing landscape and proposes a wide-ranging agenda for change and a set of concrete next steps. The report refers to crisis financing and the crisis financing system, though these concepts and a functioning system do not in fact yet exist. This is a statement of aspiration. The report proposes brokering a new concept and definition of crisis financing, and intentionally shaping reform from the system-level all the way down to the instrument level to create an effective crisis financing system. The report is addressed to those who must play a role in designing and delivering this new approach—decision makers, influencers and technical experts across donor and crisis-affected or at-risk governments, multilateral institutions, civil society groups, and the private sector. The purpose is to stimulate dialogue and ultimately a new ‘coalition of the willing’ that will lead and accelerate a crisis financing change agenda.

7 ODA is defined by the OECD Development Assistance Committee (DAC) as government aid that promotes and specifically targets the economic development and welfare of developing countries (OECD, 2019).
Box 1: Indications of major future crisis risks

The number of people affected by crises and in need of assistance is on an upward trajectory. In 2018, the United Nations (UN) estimated that 1 in every 70 people in the world was living in a crisis situation (UN Office for the Coordination of Humanitarian Affairs (UN OCHA), 2018). Key indicators of crises are rising. The caseload of crisis-affected people falling within the remit of UN-coordinated response plans and appeals has more than doubled in the last decade (see Figure 2).8 ‘The number of displaced people has doubled over the last 20 years (UNHCR, 2019), and the number of undernourished people has increased in recent years, following a decade of steady decline (Food and Agriculture Organization (FAO) et al., 2019) (see Figures 3 and 4).

Figure 2: Number of crisis-affected people targeted and funding needs in UN-coordinated response plans and appeals, 2009–2018

8 In this report, the term ‘UN-coordinated response plans and appeals’ is used to describe UN OCHA-coordinated humanitarian response plans (HRPs) and flash appeals, as well as refugee response plans (RRPs) coordinated by the United Nations High Commissioner for Refugees (UNHCR). The number of people targeted in each of these is set out in the annual global humanitarian overviews and mid-year updates. The rise in the number of people targeted is understood to be an imperfect estimate as methodologies for calculating it have changed over the period and vary between countries and aid agencies. There is also ongoing debate between donors and implementing agencies about the extent to which this is an over- or underestimate of priority needs (see Swithern, 2018). The estimates only include people targeted by agencies participating in UN-coordinated processes—notably this might not always include those targeted by the International Red Cross and Red Crescent Movement, Nonetheless it remains the best available comprehensive expression of the size and cost of what is considered to be the humanitarian caseload,
Figure 3: Displaced and stateless people of concern to UNHCR, 2009–2018

Note: The total population of concern to UNHCR includes refugees, asylum-seekers, internally displaced persons (IDPs), returnees (refugees and IDPs), stateless persons, ‘others of concern to UNHCR’, and Venezuelans displaced abroad. Source: UNHCR (2019).

Figure 4: Number of poor and undernourished people in the world, 2009–2018*

Note: *Values for 2018 are projections. Undernourishment means that a person is not able to acquire enough food to meet the daily minimum dietary energy requirements over a period of one year. Living in extreme poverty means living on less than US$1.90 per day. Source: FAO, World Bank.
The distribution of vulnerable people is shifting. The world’s population is set to grow from the present 7.7 billion to an estimated 8.5 billion by 2030, and to 9.7 billion by 2050 (United Nations Department of Economic and Social Affairs (UNDESA), 2019). This growth will be spread unevenly: the population of Europe and North America is projected to grow by just 2% by 2050, while the population in sub-Saharan Africa is set to double. The net effect is a rise and concentration of people living in fragile settings: over a third of the world’s population will be living in contexts that are currently fragile.9 Poverty is falling more rapidly in stable settings and, as a result, more people living in extreme poverty will live in fragile states rather than non-fragile states (Kharas and Rogerson, 2017).10

Conflict has played a major role in driving recent crises and deepening vulnerability. The majority of countries in need of humanitarian aid are conflict-affected (Development Initiatives, 2019).11 An estimated 13.6 million people became newly displaced during 2018 alone due to wars or persecution (UNHCR, 2019). Moreover, violence and conflict dramatically increase vulnerability, weakening surveillance and response systems, undermining public trust in institutions and international actors, isolating people from services, and increasing the cost and challenges of response.

The convergence of poverty, fragility, and population growth will bring increased risk of violent conflict, food insecurity, and disease.12

Climate change is deepening and driving new and unexpected risks. Climate change has been described as the ultimate threat multiplier (Ruttinger et al., 2015; OECD, 2018)—accelerating risks of poverty, food insecurity, disease, conflict, migration and forced displacement, often hitting the poorest hardest (Hallegatte et al., 2017).

The Paris Agreement set a target to remain within two degrees of global warming above pre-industrial temperatures—a target the world looks set to exceed based on the current trajectory (Climate Action Tracker, 2019).13 The effects of these temperature rises are already being felt in terms of increased incidence, intensity, and duration of extreme weather events and rising disaster-related displacement (Internal Displacement Monitoring Centre (IDMC), 2018).14

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9 Compared to a quarter of the current global population.

10 This does not include the missing millions in many crisis-affected contexts where limited access and weak statistical systems mean that the data on populations and poverty are missing; nor does it attempt to model the new or worsening fragility that might arise from the complex interplay of global trends in political, environmental, and economic instability.

11 In 2018, 24 of the 40 countries with the largest populations in humanitarian need were experiencing large-scale conflict; nine of the ten countries with the largest populations in humanitarian need were experiencing a combination of large-scale conflict and forced displacement (Development Initiatives, 2019).

12 Fragile settings are notably susceptible to violence, displacement, the breakdown of institutions, humanitarian crises, and other emergencies (OECD, 2016, p. 22).

13 Even a two-degree rise will have significant impacts for many, including those living in island nations susceptible to rises in sea levels. The 2018 Intergovernmental Panel on Climate Change (IPCC) report shows how each incremental rise in warming presents significantly increased risks related to health, livelihoods, food security, water supply, human security, and economic growth (IPCC, 2018).

14 IFRC estimates that under a pessimistic scenario, where no action is taken, the number of people in need of humanitarian assistance due to climate-related disasters (flood, drought, and storms) alone could almost double by 2050 to 200 million people a year—but with concerted action, it could decrease by 90% to 10 million (IFRC, 2019).
It is difficult to predict the impact of climate change on crisis risk. However, risks are increasing, and anticipated impact scenarios include: people becoming trapped in increasingly uninhabitable places (Government Office for Science, 2011); increases in climate-related displacement or migration (see, *inter alia*, Rigaud et al., 2018); increased prevalence of vector-borne diseases such as malaria (World Health Organization (WHO), 2018); and overall, a significant increase in the humanitarian caseload (International Federation of Red Cross and Red Crescent Societies (IFRC), 2019).

**Risks are increasingly complex, linked, and difficult to anticipate.** Crises are increasingly understood to be multidimensional (often multiple, sometimes overlapping crises exist within a single country), trans-boundary and multiyear (recurrent, and/or protracted). They are also however increasingly complex, linked and difficult to predict.

The need to understand and prepare for systemic risk is only beginning to find acknowledgement in international policy for crises.

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**What is systemic risk?**

The concept of systemic risk has its origins in economics, where shocks in one part of a system trigger ‘cascading events’ in another. These cascading events may lead to major disturbance or even complete failure of the whole system. The key distinguishing factor is the interdependence of systems through which risk may be transmitted. Increased reliance on interdependent systems increases exposure to systemic risk.

Systemic risk is beginning to gain recognition as an unexpected effect of a globalised economic system. The 2019 edition of the Global Assessment Report (GAR) for example—the flagship report of the UN on worldwide efforts to reduce disaster risk—provides significant attention to systemic risk.

Korowicz and Calantzopoulos (2018) describe the following illustrative example: ‘... current social and political tensions in Europe were influenced by the refugee crisis whose impact was amplified by the fallout from the 2008 financial crisis that had undermined trust within and between polities across the European Union (EU). The refugee crisis itself was in part driven by changing local conditions (e.g. war in Syria, influenced by increased demographic and water stress, declining domestic oil production, droughts) and international conditions, such as high and volatile food prices (influenced by drought in Russia, side effects of US quantitative easing, high international oil prices, biofuel production).’

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15 According to WHO, global temperature increases of between two and three degrees Celsius would increase the number of people at risk of malaria by around 3–5%, i.e. by several hundred million people. The seasonal duration of malaria would also increase in many currently endemic areas.

16 The complexity of the feedback loops, the extent of the accelerations and reverberations of climate change, and the interplay with instability make it hard to predict crisis impact. The GAR notes that there are challenges to presenting the probability of non-probabilistic hazards, and in characterising people’s vulnerability to them (UNDRR, 2019, p. 165).
In Beira, Mozambique, Cyclone Idai caused extensive damage to the city’s infrastructure, including roads.
Image: Sarah Farhat/ World Bank
THE FUTURE OF CRISIS FINANCING: A CALL TO ACTION
WHAT IS WRONG WITH HOW THE WORLD PAYS FOR CRISES?

The overall trend in ODA since 1945 has been upwards but has plateaued over the last few years—and aid budgets are under pressure. In 2018, ODA remained flat, and the share received by the poorest countries fell—counter to commitments to increase spending in the least developed countries in order to achieve the SDGs (OECD, 2019a; Marcus et al., 2019). As a finite public resource, a challenge for the international community is how to achieve more with the money at its disposal.

There is a growing appetite and momentum for change in the way that crisis financing works. However, there are a number of fundamental challenges to overcome. Firstly, the way that the international system currently responds to crises is discretionary and highly unpredictable. There are structural disincentives for governments and international actors to prioritise prevention and preparedness—and funding and financing provide little incentive to understand risks and act before a crisis happens. Alongside this, the current suite of financing tools would need to adapt to meet future risk and needs as well as current demand. Finally, as part of this change, there are opportunities to radically rethink the way in which the system learns, adapts, and scales funding and financing.

2.1 Delays caused by structural incentives to ‘wait and see’

Among humanitarian financing actors, there are principled reasons and incentives to respond to late indicators of need. Reliance on humanitarian funding to respond to crisis needs therefore increases the likelihood of a later response. Fundraising cycles, a lack of accountability for late response, and the need to respect government crisis declarations and permission to operate, all contribute to slow response.

**Humanitarian assistance is fundamentally needs-based, not forward-looking or risk-informed**

Core humanitarian principles direct it to respond to manifest humanitarian needs, and the most urgent of these first. There is some scope within principled commitments to include prevention and preparedness. But in practice, as the requirements for humanitarian response increase, available funding stagnates, and shortfalls worsen, and donors and implementing agencies are under pressure to triage the most severe needs. This causes a ‘tragedy of choice’ (Isiah Berlin, cited in Binder et al., 2013)—identifying whose needs should be deemed less urgent. There are genuine trade-offs to be made between responding to one crisis over another, let alone between today’s and tomorrow’s needs. Although the UN-coordinated response plans and appeals increasingly feature elements of prevention and resilience-building, and seek to complement national development plans, there is also a countervailing pressure to reduce their scope to prioritise severe immediate needs in the face of persistent funding shortfalls (Switherne, 2018).

**Donors have underlying political and behavioural disincentives that bias them towards visible need rather than highly probable risk**

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17 The set of principles and good practice of humanitarian donorship, adopted in 2003 and now signed up to by 42 donors, is clear on needs-based impartiality but defines the objectives of humanitarian action as being ‘to save lives, alleviate sufferings and maintain human dignity during and in the aftermath of man-made crises and natural disasters, as well as to prevent and strengthen preparedness for such situations’ [emphasis added] (Good Humanitarian Donorship (GHD), 2003). This is mirrored in DAC donor reporting of their ODA. In the OECD reporting system, ‘disaster prevention and preparedness’ falls under the ‘humanitarian’ ODA category.

18 According to recent figures from Development Initiatives, global humanitarian assistance only grew by 1% from 2017 to 2018, compared to much larger rises in previous years. Funding from the major humanitarian donors fell (Development Initiatives, 2019).
These 'misaligned incentives' (Hillier, 2017) include accountability disincentives, where donors are not held accountable for preventing the escalation of crises but are scrutinised for directing funds to crises that do not materialise. There are also decision-making biases, including a strong 'regret aversion' linked to a 'status quo' bias that militates against changing an existing course of action or inaction (see Mowjee et al., 2018, p. 57, based on Hillier, 2017). The political relationship between donor and affected state can also influence timeliness and willingness to assist early, influenced by trust, existing agreements, and sovereignty.

**Structurally and politically, the international system is geared to slow response even when needs are clearly imminent or manifest**

UN-coordinated response plans and appeals are the framework for the coordination of humanitarian funding. These set the process and timetable for the humanitarian system's articulation of need and mobilisation of response—but rely on discretionary funding after the event, and are presented as funding target for the year ahead.

International presence is dependent on national invitation and consent. Previous examples of drought in the Horn of Africa (see Bailey, 2012) show how political reluctance to declare a national emergency in the crisis-affected state can slow international action. The World Bank’s Crisis Response Window (CRW)—the system’s largest source of funding for government-led response to crises—also relies on government requests for funding, which has contributed to slow commitment and disbursement rates (Spearing, 2019). Like donors, few parts of the international system are held to account for preventing the escalation of crises—but are scrutinised for directing funds to crises that do not materialise.

### 2.2 Discretionary funding decisions

Lack of clarity around ownership of risk and crisis response means that the default is for funding decisions to be made on a discretionary basis. Identifying who will take responsibility for which parts of crisis risk is extremely challenging and politically contentious (Clarke and Dercon, 2016). International obligations to pay for crises beyond their national borders are particularly unclear. There are few formal acknowledgements of specific responsibilities to assist people in need beyond the borders of one’s own state. There are however notable international commitments that provide indications of international intentions. In the language of public finance, the international community holds very few explicit contingent liabilities (see definition below) for the cost of ensuring that nationals elsewhere are protected from crisis risk. However, the cost of responding to crises is very clearly an implicit contingent liability of the international community (see Definitions)—there is a moral obligation, and a customary or popular expectation, that the international community will respond when a crisis occurs. But international responsibilities and financial commitments to prevent, prepare for and respond to crises remain almost entirely voluntary for individual states. This gives rise to a number of practical challenges.

### Definitions

**Contingent liabilities**: Obligations to pay costs associated with a possible, but uncertain, future event. Because there is no obligation to pay unless the event occurs, contingent liabilities might not be formally listed as a liability on an organisation’s balance sheet. Contingent liabilities might be explicit or implicit:

- **explicit contingent liabilities** are contractual commitments to make certain payments if a particular event occurs—the basis of these commitments can be contracts, laws, or clear policy statements; and
- **implicit contingent liabilities** are political or moral obligations of the government to make payments, for example in the event of a crisis or a disaster—governments do not recognise these liabilities until a particular event occurs; implicit contingent liabilities are difficult to assess, let alone manage in a consistent manner, precisely because of their implicit nature.

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19 Spearing (2019) estimates the average historical time from crisis to CRW commitment is 216 days, comprising over half of the cost of delay. The time from crisis to first disbursement of CRW is 398 days.

20 For example, the Charter of the United Nations states that one of the purposes of the UN is to “achieve international co-operation in solving international problems of an economic, social, cultural, or humanitarian character” (United Nations UN, 1945). The 1951 Refugee Convention, and 1967 Protocol relating to the Status of Refugees, identify a clear set of responsibilities for host states to protect and provide certain rights and entitlements to refugees (UNHCR, 2011). The Sendai Framework for Disaster Risk Reduction (2015–2030) sets out targets and priorities for action towards the substantial reduction of disaster risk and losses. It recognises that the state has the primary role to reduce disaster risk but that responsibility should be shared with other stakeholders—and that ‘international, regional, sub-regional and transboundary cooperation remains pivotal’, with essential roles for bilateral and multilateral technical cooperation and financial support (UN, 2015a, p. 10). At the 2009 Copenhagen Climate Change Conference, developed countries committed to a goal of jointly providing US$100 billion annually by 2020 for mitigation and adaption in the developing countries that bear the brunt of climate change impacts. This was reiterated in the subsequent 2015 Paris Agreement, which noted the principles of equity, and common but differentiated responsibilities, and committed that ‘developed countries shall provide financial resources to assist developing country Parties with respect to both mitigation and adaptation’ (UN, 2015b).

21 Notable exceptions include the International Monetary Fund (IMF), which functions to maintain stability and prevent crises in the international monetary system, and international community-backed disaster insurance initiatives like African Risk Capacity (ARC), which take on explicit contingent liabilities from countries. There are other financial commitments, institutions, and funds that contribute to crisis prevention, preparedness and response, but these typically do not take on explicit contingent liabilities.
A discretionary funding response is unpredictable

The collective funding response to a crisis is a patchwork of scores of individual decisions by crisis-affected countries and international actors. Each decision is subject to multiple calculations in addition to assessments of evidence (see inter alia Drummond et al., 2017; de Geoffroy, et al., 2015; Darcy et al., 2013). These include donor priorities and interests (Dalrymple and Smith, 2015), relationships with crisis-affected governments (Bailey, 2012), budget cycles and the availability of funds, and a range of demand-side constraints including capacity, risk exposure, and access and mandate constraints among potential responding partners.26

The net result is that international crisis response funding is ad hoc with decisions made in real time.23 With high levels of demand, a relatively inelastic supply of funding, and discretionary decisions on where to spend it, it is always unclear what at-risk communities can expect. The costs of uncertainty are high. Late, inadequate, and stop-start response causes avoidable suffering and losses, and risks pushing people further into poverty and vulnerability. It is often far more costly (Hill et al., 2019). And uncertainty can profoundly influence the calculations people, businesses, and governments make around investing in a resilient, productive future (Karlan et al., 2014; del Valle et al., forthcoming).

Discretionary funding responses are poorly matched to funding and financing needs

The international crisis financing system responds to many different types of crisis on a regular basis (see Figure 5). The funding and financing needs of these crises are qualitatively different—and yet, crisis response funding is overwhelmingly provided in the form of discretionary post-crisis grants, often from limited humanitarian budgets that weigh competing demands.

Chronic caseloads that regularly fall within the scope of UN-coordinated humanitarian response plans and appeals conform to three major types: refugees; people trapped in internal conflict for protracted periods; and vulnerable ‘people on the edge’, frequently tipped into crisis. Each of these categories may exist within a single context.24 The majority of current crises that require an international financing response are protracted and therefore require sustained and predictable funding with the ability to adapt to unforeseen shocks and escalations in needs.25 Humanitarian funding however is volatile and prone to funding flight towards more acute need elsewhere (CAPOD et al., 2015). Humanitarian programming meanwhile is not equipped to build systems or materially improve people’s long-term socioeconomic conditions.

Figure 5: Crisis funding and financing typology

22 Konyndyk (2018) describes a strong ‘revealed preference’ among humanitarian donors for funding certain partners, notably UN agencies.

23 The OECD (2017) notes that humanitarian financing is ‘generally unpredictable or can be insufficient to meet relief, recovery and reconstruction needs, as the financial gap in the global humanitarian response demonstrates.’

24 Cameroon has multiple active crisis scenarios: active and deteriorating internal conflict, where a principled humanitarian grant-funded response is underway and most development financing has been suspended; a long-standing caseload of refugees from Central African Republic (CAR), for whom longer-term integration options are being explored through a financing deal between the World Bank and the Government of Cameroon through the World Bank’s Refugee Sub-Window; and a mixed crisis in the north and far north, including refugee hosting, internal displacement, chronic and worsening climatic drying and long-standing political and economic marginalisation, where there is the potential to negotiate a more predictable response that addresses a range of prevention, preparedness, and response financing (Poole, 2019a).

25 UN OCHA’s Global Humanitarian Overview 2018 notes, for example, that ‘Conflict—in particular protracted crises—will continue to be the main driver of need in 2018. All but two of the 2018 humanitarian response plans are for situations that have a major element of conflict’ (UN OCHA, 2017). Analysis of the UN-coordinated response plans and appeals shows that the vast majority are for countries that have had consecutive appeals for at least five years since 2000 (Development Initiatives, 2019).
Planned financing approaches, packages, and instruments are underutilised

As a matter of principle, humanitarian funding is focused on today, not tomorrow. Combined with its unpredictability, it is poorly suited to responses where a planned approach would be better. Meanwhile, development financing actors do not currently have a clear responsibility or commitment to take on a greater share of the financing burden and programming responses for crisis-affected caseloads. There are however instructive examples of planned financing approaches, packages, and instruments that help to clarify commitments and provide greater predictability.

Responsibilities for supporting refugees are established to an extent in the Refugee Convention, in national laws, and recently, through ‘compacts’ between host country governments and international actors in the form of Comprehensive Refugee Response Frameworks (CRRFs). Compact-based approaches treat the cost of hosting refugees as a fairly known quantity, and then use a planned approach, backed by predictable future funding and financing, to support more efficient solutions than long-term humanitarian response. Imperfect though these arrangements are, they provide some acknowledgement of an implicit medium-term liability around which planned approaches can be structured, backed by financing packages (see Box 2). Similar planned approaches for budgetable needs has been taken in other contexts. For example, Ethiopia’s Productive Safety Net Programme, launched in 2004, was a planned approach for willing donors and the Government of Ethiopia to partner in response to chronic poverty in parts of the country as an alternative to recurrent humanitarian response (Devereux, 2006).

Box 2: A tailored model of cooperation for refugee response

Refugees—people displaced across international borders by conflict or persecution—are a large and growing part of the humanitarian caseload. Refugees are somewhat distinct in that they do not benefit from the same state-citizen protections as others they are de facto treated as an international responsibility under international refugee law. The host country has responsibilities and when it is unable to meet these, UNHCR has a mandate to provide international protection and humanitarian assistance, and to seek permanent solutions for refugees and stateless persons. So unlike other crisis-affected people, there is a basis—albeit often contested—for international responsibility-sharing in the form of an implicit contingent liability.

Refugees are also qualitatively distinct in that once they arrive and settle in host countries, their needs relatively quickly become predictable and protracted. Estimates suggest that refugees remain displaced on average for a decade, and for those displaced for five years or more, the average rises to 21 years (Devictor and Quy-Toan, 2016).

The Syria regional refugee crisis—which required large-scale and long-term financing for middle-income refugee hosting countries in the region—tested current funding models and catalysed a shift in global commitments and efforts to share financial responsibility. The Global Compact on Refugees, affirmed by the UN General Assembly in December 2018, confirmed a move towards multilateral compacts. The rationale for a compact is to move from fragmented and discretionary support, to unified and rules-based cooperation for the benefit of both the refugees and the states and communities that host them.

Bringing national and international stakeholders together under the leadership of host countries, compacts set out clear roles and responsibilities to collectively deliver a measurable and negotiated set of policy, programme and resourcing commitments (Center for Global Development (CGD) and International Rescue Committee (IRC), 2017). They incentivise state ownership and international development support where historically, international support had been predominantly been state-avoiding and humanitarian in nature. There are currently 10 comprehensive refugee frameworks, including a regional framework for Central America and Mexico, which covers six countries.27

This approach has not solved all the problems of insufficient funding volumes or the barriers of political will that thwart long-term approaches—but it does demonstrate the potential for crisis financing to be part of a collective and pre-agreed approach.

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26 These are enshrined in global and institutional commitments, from UN General Assembly Resolution 46/182, to the Code of Conduct for the International Red Cross and Red Crescent Movement and Non-Governmental Organisations (NGOs) in Disaster Relief, the Humanitarian Charter (Sphere), and donor policies. The principle of ‘impartiality’ is clear on this needs-based mission, summarised as ‘humanitarian action must be carried out on the basis of need alone, giving priority to the most urgent cases of distress’ (UN OCHA, 2012).

27 The Central America and Mexico Comprehensive Regional Protection and Solutions Framework includes Belize, Costa Rica, Guatemala, Honduras, Mexico, and Panama. The other countries/refugee situations applying the comprehensive refugee response framework model are: Afghanistan, Chad, Djibouti, Ethiopia, Kenya, Rwanda, the Somali situation, Uganda, and Zambia.
A growing number of examples demonstrate that, even in the most challenging settings, it is possible to shift the default towards pro-active preparation for, and response to, crisis risk (see Box 3). Risk financing and early action mechanisms could help to provide greater clarity around what financing response could be expected, and from whom, in situations of risk. For example, anticipatory or forecast-based financing (FbF) instruments have recently been developed and piloted by humanitarian actors and funded through donor humanitarian funding envelopes (see Box 4). Scaling up anticipatory financing could provide opportunities to engage national and international financing actors to commit to a more predictable financing response for particular risks that can be anticipated.

Box 3: Prediction and preventive response in Yemen

Yemen experienced a cholera outbreak starting in October 2016, which is considered to be the worst in human history. Active conflict, destruction of water and sanitation (WASH) facilities, and a compromised health and health surveillance systems made Yemen an extremely challenging context in which to mount an effective response. Gaps in epidemiological data led responding organisations, researchers, and donors to investigate alternative approaches to monitoring the outbreak to inform response planning.

Based on an observed relationship between periods of above average temperatures, followed by above average rainfall, damaged WASH infrastructure and an increased likelihood of cholera outbreak, a predictive model was developed using precipitation, temperature, and population data cross-referenced against information on WASH facilities on the ground. Data to build the model was sourced from a range of institutions. Current and historic rainfall data was sourced from the National Aeronautics and Space Administration (NASA), the Tropical Rainfall Measuring Mission (TRMM) and the Global Precipitation Mission (GPM); population data was sourced from LandScan; and WASH data from the UK Department for International Development (DFID) and the United Nations Children’s Fund (UNICEF).

The model showed a 92% relationship between identified high-risk areas and where cholera attack rates subsequently increased. Forecasting based on conditions in which the cholera vibrios are likely to grow, rather than epidemiological data, enabled responders to anticipate where increases in cholera cases were likely to occur, and to implement preparedness activities ahead of the likely epidemiological curve. A set of preparedness actions had already been defined in UNICEF’s standard operating procedures, and funding was already secured. UNICEF and partners were able to mobilise preventive actions rather than simply trying to control transmission and treat active cases.

DFID and a range of partners are now exploring the potential for such predictive models to be applied to other diseases, and embedded in financing instruments (including the UN-administered Central Emergency Response Fund (CERF)), to link pre-agreed financing packages (with defined triggers) to country-level preparedness actions led by WHO and UNICEF.

Source: Based on research interviews, unpublished internal DFID documents, and Camacho et al. (2018).

Box 4: Anticipatory crisis financing

Responding to early indicators of an anticipated hazard can help to reduce or avoid human suffering and losses, to improve the efficiency of crisis response, and create incentives to invest in risk analysis and preparedness.

During the last ten years, a number of humanitarian organisations have piloted anticipatory response and financing mechanisms that trigger funding and early action based on early warning systems (EWS), to reduce or mitigate the impact of disasters before they happen. These are variously referred to as FbF, forecast-based action (FbA), and early warning early action (EWEA).

Key elements of anticipatory action include: pre-agreed forecasts, triggers, and decision-making protocols; timed and planned early actions; financing mechanisms; and delivery channels.

Anticipatory action is useful for risks where pre-hazard actions are valuable, and forecasts are sufficiently reliable. It requires investment in impact-forecasting and pre-crisis preparedness actions and capacities in order to stand ready to respond when triggers are breached.

Source: Based on Weingärtner & Wilkinson (2019).
2.3 Disincentives to prevent and prepare for crises

At the global policy level, addressing crises and crisis risk is recognised as central to achieving sustainable development. There is growing demand among some partner countries to invest in financial preparedness against crisis risk, and a growing range of innovative financing tools and instruments, ranging from development insurance to FbF and contingent loans. However, governments in countries at risk of crises, and their development partners, still face compelling political and practical reasons not to prioritise investments in prevention and preparedness.

Governments face substantial disincentives and barriers to prioritising prevention and preparedness

In resource-constrained settings, governments may have limited access to risk analysis and may therefore simply fail to recognise the significance of the risk. They may also lack the practical capabilities—including governance arrangements, financial mechanisms, technical capacity, and physical infrastructure—to execute risk management approaches well enough for the benefits to outweigh the costs (Peters, 2017; Peters, Mayhew, et al., 2019), and to distinguish among the menu of prevention and preparedness options offered by domestic and international actors. However, there are also powerful political, economic, institutional, and behavioural influences that may present barriers to prioritising prevention and preparedness.

There are few political incentives for governments to prioritise prevention and preparedness (Healy and Malhotra, 2009; Clarke and Dercon, 2016; e-Pact, 2017; Kaplan, in OECD, 2018a). Governments in the poorest countries are often also severely resource constrained, with less than US$100 of public funding per citizen per year to allocate across all sectors (Kharas in The Dag Hammarskjöld Foundation and UN Multi-Partner Trust Fund Office, 2019).28

Governments prone to economic and political shocks and natural hazards are often compelled to focus on immediate financing needs, including those that could pose an existential threat to the continued functioning of government, and to peace and stability.29 In such cases, planning ahead and investing for the longer term may not be rational or feasible (Long and Welham, 2016). For example, the Government of Chad acknowledges the costs of crises to their development aspirations and, with international technical support, has put in place many laws, frameworks, plans, committees, and a national contingency fund (Peters, Dewulf, et al., 2019). The hard reality of severe budgetary constraints, and immediate pressures to pay civil servant and military salaries however, means that much of the country’s disaster management and preparedness measures remain unfunded (Culbert and Poole, 2019; Peters, Dewulf, et al., 2019).30

International crisis financing may in fact generate disincentives for governments to prioritise making provision against risk and meeting the needs of crisis-affected people. In some cases donors consistently cover a large proportion of post-crisis financing needs. In South Sudan for example, donors reportedly fund 80% of health financing needs, with the government contributing just 1.1% (OECD, 2018a). The expectation that donors will pick up the tab may discourage governments from taking responsibility for their own financing and management of risk.

Demand for crisis financing is often limited where governments lack sufficient fiscal space to take on loans and insurance products, even if they are offered on concessional terms. Despite a growing array of contingent loans and market-based risk transfer mechanisms therefore, affordability and execution capacity are major constraints for some governments and uptake of financing products may be limited. So far, only one country, Kenya, has taken out a World Bank Catastrophe Deferred Drawdown Option (Cat DDO)—a policy-based loan instrument (World Bank, 2018a). Demand for insurance through the ARC risk pool dropped off after the first two years of operation, despite continued food insecurity and drought, due to a range of concerns including affordability and difficulty justifying payments against immediate

28 An estimated 46 countries—mostly low-income, mostly in sub-Saharan Africa, and mostly fragile—would not be able to afford the investments needed to end extreme poverty even if they increased their tax revenues and allocated half of their revenues towards ending poverty (Marcus et al., 2019).

29 For example, in 2017 the Government of Iraq, experiencing significantly reduced oil revenues due to depressed oil prices and capture of major oil producing regions by ISIS and the Kurdish Regional Government, faced major expenditure in the military campaign against ISIS. In order to balance the books, it dramatically cut back provision of social services and civil servant salaries, stopped paying suppliers, and halted investment projects (Poole, 2019b).

30 Chad’s National Development Plan (2017-2021) notes that crises resulting from conflict and disasters have hindered development diverted budgetary resources from development towards security and humanitarian response (Peters, Dewulf, et al., 2019). In the context of falling oil prices in 2014, escalating loan repayments and rising domestic and regional insecurity, the Government of Chad dramatically cut back spending on social services and development (Culbert and Poole, 2019).
financing needs (Martinez-Diaz et al., 2019). Some of the countries most at risk of climate hazards lack the technical capacity to navigate and access the many bilateral and multilateral climate funds, even when financing is concessional or free (Peters, Mayhew, et al., 2019).

Meanwhile, national actors often also have serious capacity gaps, which means that even with access to funding, they cannot mount an effective response. Sustained investments in response systems—including public health and social protection, risk monitoring, preparedness, and coordination—are required, along with stress-testing, to build effective delivery systems for financing instruments to channel resources into. Notably however, social protection, which has great potential to lift the poorest out of extreme poverty, and to provide protection against shocks, is the most underfunded social sector by both governments and donors (Marcus et al., 2019).

The international system is incoherent and fragmented in its approaches to crisis risk

Crises are complex and interconnected—but responses to it are siloed and fragmented. While all of the major post-2015 agreements—the 2030 Agenda, the Paris Agreement, the New Urban Agenda (NUA), the Addis Ababa Action Agenda (AAAA) and the Agenda for Humanity—which include elements of disaster risk reduction (DRR) and resilience (UNDRR, 2019), in practice none individually or collectively provides coherent guidance on how the international system should address crisis prevention, preparedness, and response. The recent policy agenda on the humanitarian-development-peacebuilding ‘nexus’ acknowledges the need for coherent and collaborative approaches to address risk and vulnerability. But calls to work collaboratively do not yet address fundamental questions around leadership, responsibilities, and the division of labour among international actors at country level (Poole, 2019).

Box 5: The humanitarian-development-peace nexus policy agenda

The nexus policy agenda’s origins may be traced to the UN Secretary General’s 2015 report for the World Humanitarian Summit, which made the case for humanitarian, development, peace, security, and other actors to find new ways of working to overcome long-standing systemic fragmentation and inefficiency. The report established a new set of commitments to reduce humanitarian need, risk, and vulnerability, and envisaged moving beyond project-based ODA to deliver transformative outcomes at scale (UN, 2015c).

Under the new policy agenda, formalised in the Agenda for Humanity and the Commitment to Action, humanitarian and development actors are expected to mobilise behind a shared analysis, problem statement, and set of ‘strategic, clear, quantifiable, and measurable’ collective outcomes (UN, 2015c).

The potential for financing to support nexus approaches has, however, only recently been considered (Poole, 2019). Notably, in February 2019, the OECD DAC issued a Recommendation on the Humanitarian-Development-Peace Nexus (OECD, 2019b). This represents the first high-level policy initiative to consider the role and potential of financing to enable collective approaches across constituency groups working in crisis-affected settings.

There are powerful tendencies to maintain siloed approaches—during negotiations for these major settlements for example, member states argued strongly for the separation of conflict and disaster risk. The international institutions that support the delivery of these frameworks are territorial, sectorally confined, and often in competition for resources. Consequently, responsibilities for identifying and developing strategies and practical responses to managing risk and preparing for crises are isolated in the technical fields of DRR, climate adaptation

31 Other factors contributing to limited uptake of ARC products listed in a 2017 formative evaluation include: a low level of understanding of insurance; a mismatch between the short-term incentives of political decision makers and the longer-term value proposition of insurance; and concerns over basis risk and errors in the model. The evaluation area of ‘getting insurance contracts and contingency plans in place’ received an overall rating of amber/red (e-Pact, 2017).

32 Notably, during negotiations, member states repeatedly argued for the separation of conflict from disasters in the SDGs, Paris Agreement, World Humanitarian Summit commitments, and Sendai Framework (Peters, 2017). The United Nations International Strategy for Disaster Reduction (UNISDR) subsequently qualified its definition of a hazard in 2017 to specify: ‘This term does not include the occurrence or risk of armed conflicts and other situations of social instability or tension which are subject to international humanitarian law and national legislation’ (UNISDR in Peters, 2017).

33 Fragmentation across the UN system is acknowledged as problematic in both the 2018 UN Peacebuilding Review and the UN’s Quadrennial Comprehensive Policy Review (QPR), which draws attention to incoherence and competition on policy, competition for funding, and proliferation and territorial behaviour at the country level (UN Economic and Social Council, 2017).
and mitigation, conflict prevention and peacebuilding, and post-facto crisis response of humanitarian actors. As funding flows to these disconnected fields, it reinforces fragmentation and incoherence.

Fragmented and incoherent approaches to risk across international actors at policy and institutional levels are replicated at country-level, where coherent approaches to understanding, preparing for, and responding to risks are rare. There are typically multiple, overlapping, internationally supported planning and prioritisation frameworks in place in a single country, each of which suffers risk blind spots, and which collectively neither add up to a coherent assessment of risks, nor provide clear prioritisation and costing of prevention and preparedness needs.

Development actors face particular challenges in prioritising prevention and preparedness

Development actors increasingly recognise that in order to achieve the SDGs they must work in some of the most risk-prone and crisis-affected settings, where those most left behind are to be found. This means working not only in risky places. Tools and approaches are increasingly being adapted and devised to actively work on the drivers of risk and vulnerability (see Box 6). However, this pivot towards those left furthest behind is incomplete. Many aspects of policy, capacity, experience, incentives, and tools have yet to adapt to provide effective support to partner countries to prevent and prepare for crises.

Box 6: The development pivot towards fragile and crisis-affected settings

In response to high-level policy and institutional commitments to increase investments in fragile and conflict-affected settings, development financing actors are scaling up their investments, tools, and instruments targeting crisis-affected settings—including directly addressing crisis risks and impacts. ODA flows to fragile states have grown across the past decade, from US$52 billion in 2007 to US$68 billion in 2016. Moreover, ODA growth has been concentrated in 58 fragile contexts, far outstripping growth to 67 non-fragile contexts (OECD, 2018a).

A range of bilateral and multilateral development financing actors have created tools that are more tolerant of operational risks and corporate level authorisation to take greater operational risks (OECD, 2018c). Notably the World Bank significantly scaled up its engagement in fragile contexts, doubling its resources for fragile states under IDA18. It increased its funding to prepare for and respond to crises through the CRW, created a new policy tool for International Development Association (IDA) countries, and a new sub-window for refugee-hosting financing needs (World Bank, 2017). Recently, the IMF has also announced its intention to scale up operations in fragile contexts.

Development financing actors and their partners have pioneered new approaches to partnership, which is enabling them to programme funds in environments with low capacity and high operational risks. EU statebuilding contracts, and large-scale development programmes such as the DFID Girls Education South Sudan programme, enable development partners to channel funds in support of county-level government systems, even in high-risk and low-capacity settings (OECD, 2018c). Development financing actors who have traditionally worked only with states are also broadening their range of partners to include multilateral organisations and NGOs.

34 Environmental and climate risks are not flagged as priority issues in fragility assessments and Peace and Statebuilding Goals of the G7+ countries (OECD, 2018c). Climate vulnerability assessments rarely address drivers of fragility and transboundary risks (Rüttinger et al., 2015). And national government and UN development planning and prioritisation frameworks regularly under-analyse and prioritise risk (Poole, 2019b). Joint government, EU, UN, World Bank post-disaster and recovery and peacebuilding assessments may provide a more comprehensive analysis of risk, including a broad range of stakeholders, but they have a mixed record in terms of their uptake and influence. They are also limited in their application, and take place only at the government’s invitation, often in the aftermath of a crisis,

35 Peters, Mayhew, et al., (2019) also note the tendency for DRR to be blind to politics: ‘In policy spaces, disaster risk management is often portrayed as an apolitical endeavour, while a discourse around disasters that normalises the factors that produce vulnerabilities effectively removes from consideration and action the political factors driving disaster risk’.

36 The IDA18 replenishment round was finalised in December 2016 and finances projects over the three-year period between 1 July 2017 and 30 June 2020.

37 The World Bank’s Turn-around Regime and Risk Mitigation Regime allow the rapid scale-up of funding in ‘improving’ environments, and where governments demonstrate a commitment to management of risk and building resilience. For example, the World Bank approved a US$250 million package of assistance over three years to CAR following democratic elections in March 2016, which marked the end of transitional political arrangements (Poole, 2019b).


39 The World Bank for example has recently programmed funds through the UN and International Committee of the Red Cross (ICRC). The French government, which traditionally works principally with government partners, has started to partner with NGOs to deliver resilience programming through its Minka Peace and Resilience Fund (Poole, 2019b).
Firstly, the role of development in preventing and preparing for crises is ambiguous at the policy level. As noted above, the role and responsibility of development in financing preparedness, and in meeting the costs of supporting chronic needs, is unclear. The role of development in creating and exacerbating risk—for example, contributing to inequality and discrimination against vulnerable groups, or environmental destruction—is also frequently underemphasised in planning, prioritisation, and investment decisions (Poole, 2019).

Secondly, working in partnership with governments is necessary in order to deliver sustainable development—but it is also potentially extremely difficult in fragile settings, including where: governments are party to an active conflict; in areas controlled by non-government actors; where governments do not prioritise the protection, welfare or development needs of their citizens; and where government resources and capacity are severely constrained. Development partners continue to adapt their programming and financial tools to work in these difficult political and programming environments (see Box 6), but many challenges remain, particularly where models and approaches are dependent on a conventional partnership with government institutions. Notably, the technical field of DRR has historically avoided situations of conflict and, despite growing recognition of the connection between conflict and disaster risk (UNDRR, 2019; Peters, 2019), there is scant experience of how to do DRR well in situations of conflict and fragility (Peters, 2019).

Finally, despite policy-level commitments to scale up development investments in fragile and crisis-affected settings, there are powerful incentives for donors to do so in conservative ways that do not provide the most effective support to prevention and preparedness. Governments may be high-risk partners, limiting the volumes of funds development partners are willing and able to commit. In working with governments there are significant risks that development partners may inadvertently ‘do harm’, notably increasing conflict and environmental risks. And there may be considerable risks to donor capital if it is channelled through weak institutions prone to corruption. Risks of aid corruption are a pressing concern for development institutions and donor governments. Donors meanwhile often have a strong preference for programming that can reliably deliver attributable results (OECD, 2016). Prevention, preparedness, and investing in enabling environments and public goods that do not readily demonstrate results are often a hard sell internally. Investing in prevention and preparedness in low-capacity and/or fragile settings may be even more unappealing as an investment for donors given the increased likelihood of setbacks and reversals of progress (Peters, 2017).

40 Opitz-Stapleton et al. (2019) argue that the SDGs alone ‘do not sufficiently support risk-informed, resilient development and their achievement has the potential to be undermined by multiple threats’.

41 The OECD (2018a) notes that ‘serious new risks manifest when impressive economic growth and its attendant expectations fail to bring commensurate progress on income distribution, job creation, and increased voice and accountability’. The harmful impact of large-scale development infrastructure projects has been well documented, including in studies by the IDMC on the displacement impact of dam construction on local communities (IDMC, 2017).

42 Note that conflict and fragility are not synonymous: 19 of the 27 countries that have consistently featured in the OECD’s classifications of fragile states since 2008 have not experienced serious conflict in the last decade (OECD, 2018a).
2.4 Immature financing tools and approaches

The current crisis financing architecture and suite of financing tools are not the result of conscious design. They are the product of responses to scores of policy agendas, commitments and experience, scattered across a multitude of bilateral, multilateral, international, regional, and national organisations. This ad hoc legacy system is not configured to meet either current or future crisis financing demand. However, there is currently considerable momentum, investment, and commitment to improve the system and many new and promising tools, instruments, and approaches are emerging. This is a period of opportunity therefore to rebalance and reshape the international crisis financing system.

Crisis financing does not effectively counter disincentives to prevent and prepare for crises, or counter incentives to respond to late indicators of need

There is a dearth of funding for prevention and preparedness, and the majority of crisis response funding is provided on a discretionary grant-funded basis that has few conditions attached.43 Funding and financing could be designed and applied to counter some of the disincentives to prevent and prepare for crises, and could help to navigate structural incentives to respond to late indicators of need. However, among the current suite of tools, there is limited use of pre-agreed financing for risks where prevention and preparedness actions could be taken. There are ongoing initiatives to fill these gaps in the system, which require further experimentation, learning, and efforts to scale. Notably, anticipatory financing instruments developed by humanitarian actors remain at pilot stage, and it is unclear how these would be funded at scale. There is also limited use of insurance against known unknowns. The newly established Global Risk Financing Facility (GRiF) acknowledges these gaps in the system, and has been designed and funded to support the establishment or scale-up of pre-arranged risk financing instruments, which have incentives to prevent and prepare for disasters as core features of their design.44

The system is complicated and fragmented, and tools and instruments are not applied to their best effect

Crisis financing is currently directed via many disconnected channels, with very little understanding or oversight of what is available, or the sum of all the parts. International financing and funding flows from multilateral and government donors that are often not internally coherent, or collectively aware (Scott, 2015; Swithern, 2018). Individual providers of crisis finance instruments typically have an incentive to promote their own products. And finance is channelled, often via complicated transaction chains, to multiple discrete implementing agencies—multilateral agencies, international NGOs, state authorities, and local organisations.

Competition for funds combines with siloed monopolies by sector-specific agencies—and an over-focus on operational rather than strategic checks and balances—to entrench fragmentation in crisis financing (Konyndyk, 2018). New tools are often deployed in a scatter-gun rather than system-conscious and strategic way, which drives further complexity. There is also a gap in basic financial literacy for planners and decision makers that limits their capacity to critically evaluate the comparative advantages of possible financing options. Typically, operational risks (which are partly borne by multilaterals) are better understood and more proactively managed than the investment risk arising from crisis, or crisis escalation.

The result is that in any given at-risk or crisis-affected country, it is extremely difficult to know what funding and financing is available and how to access it. From the perspective of donors, it is extremely hard to know where to best deploy which tools to best effect. The 2014–16 West Africa Ebola outbreak was a stark example of what is persistently the case elsewhere: once the emergency was declared, financing was directed or re-directed through a disconnected array of channels—including health-specific development funds, agency-specific humanitarian financial and in-kind contributions, and direct support—so that the government and international authorities coordinating the response were unable to understand what resources were available and what gaps remained (see inter alia Dubois et al, 2015; International Development Committee, 2016).

43 Humanitarian funding is primarily grant-based, Clarke and Dercon (2019) note that: ‘IDA’s [World Bank] crisis response window and other crisis budget reallocation instruments are designed as last-resort protection for unknown unknowns. They currently do not give countries any direct economic incentive to pursue prevention or preparedness, nor is it easy to see how they could do so without being fundamentally changed’.

There is currently no way of knowing if national and system-level financial preparedness can adequately meet future needs.

While reports and conferences on climate change and humanitarian crises indicate the scale of future challenges, there has been little reflection on the fitness of the international crisis financing system as a whole to meet the full set of crisis funding and financing needs. There is no system, nor has there been any attempt, to evaluate or assess the adequacy of current financing capabilities in meeting current or future demand. The ways in which funding levels are determined for the international system’s major contingency funds illustrate this ad hoc approach to system-level preparedness. In 2015, the UN declared its intention to double the size of the CERF—the UN system’s crisis contingency fund—to US$1 billion. This fundraising target however is not based on an objective assessment of future need. Similarly, the funding levels for the World Bank’s CRW—a key source of financing at scale for government-led crisis response—do not appear to be based on an objective assessment of need (Spearing, 2019).

While many initiatives and tools provide monitoring and surveillance of crisis risks (see Box 7), no actor at system level is responsible for collating this information, analysing and preparing for future risk, or for linking this analysis to financial preparedness. Whereas the IMF undertakes routine surveillance and stress testing of financial and economic systems, and has a range of financing instruments to respond to balance of payments difficulties and international financial crises, no equivalent exists for other types of crisis risk.

**Box 7: Risk surveillance at the system level**

**Monitoring emerging risks**

Humanitarian and development organisations have a set of tools and systems for routinely monitoring indicators for crisis and crisis risk. For example:

- the Famine Early Warning Systems Network (FEWS Net) analyses data for 28 countries to develop an overview of current and near-term food insecurity;
- the World Bank routinely monitors food prices against crisis thresholds and is starting to implement a Global Crisis Risk Platform (GCRP) that includes multidimensional crisis risk assessment and monitoring (World Bank, 2018);
- the Inter-Agency Standing Committee (IASC) has a working group on risk early warning and preparedness, which produces a biannual overview of anticipated escalations in risk and need to inform decision-making as to where additional inter-agency preparedness might be required (IASC, 2018); and
- the Index for Risk Management (INFORM) tool provides ratings of current crisis needs and future risks, based on analysis of a composite of indicators of different types of risks, vulnerabilities, and coping capacities.

**Predicting future risks**

Predictive analytics uses statistical modelling to attempt to forecast the probability, severity, magnitude, or duration of future shocks, or the trajectory of current crises. Predictive analytics is a growing area—availability of relevant data is evolving, as are the tools and techniques to analyse it, and several agencies are experimenting with applications. For example:

- UNHCR’s Project Jetson in Somalia identified proxy as well as causal indicators in its attempt to predict population movement into Ethiopia;
- the Disasters Emergency Committee (DEC) is working with the World Bank’s Fragility, Conflict and Violence unit to develop a quantitative predictive model to identify countries at risk of conflict and violence; and
- in 2019, UN OCHA’s Centre for Humanitarian Data integrated predictive analytics into its core area of work, convening experts and practitioners to share learning and begin a process of ongoing collaboration. At the same time as building new predictive models to inform UN humanitarian processes, it is also focusing on developing a sector-standard quality assurance model for predictive tools, cognisant of the significant technical and ethical risks associated with potentially flawed models and misuse of algorithms (Centre for Humanitarian Data, 2019).
2.5 Limited stimulus to learn and adapt

The way in which the international crisis financing system learns and adapts is problematic. This is rooted in a fundamental accountability deficit in the system, and makes it far harder to influence the status quo. There are, however, opportunities to influence system change through greater participation and accountability towards people affected by or at risk of crisis, and by identifying and supporting influencers and accelerators of change in the system.

A lack of accountability to people affected by or at risk of crisis limits stimulus to change and improve

The international crisis response system fundamentally lacks the stimulus of scrutiny, either by its primary clients—people or governments affected by or at risk of crisis—or by an entity with system-wide oversight (Obrecht and Warner, 2016; Konyndyk, 2018). There are no consequences for international actors if funding and assistance arrive late, or fail to meet needs. The losers are people affected by or at risk of crisis, who have no formal rights with respect to international aid providers, and few opportunities to challenge or hold the system to account. Responsibilities are generally only ever implicit, and are scattered across a fragmented set of institutions and instruments, so change is voluntary and discretionary, with no accountability or consequence for failure to deliver or to improve (Knox-Clarke, 2017).

Change has historically been stimulated not by intentional change programmes alone—but by combinations of happenstance and design, including major shocks or failures, changing demand and external environments, shifts in risk considerations, shifts in domestic politics, intentional reform, evidence, and emerging good practice (Knox-Clarke, 2017; OECD, 2018c). Change is often incomplete and short-lived

Where change does happen, there is often no sustained follow-up, so lessons are often only learned partially, or quickly forgotten. Reforms stimulated by high-profile failure to respond to and avert the 2010/11 famine in the Horn of Africa illustrates the structural problem of the accountability and scrutiny gap and consequent incomplete iteration in financing reform (see Box 8).

The net effect is a patchwork of incremental adjustments that are incoherent overall, and risk missing critical issues altogether.

50 Obrecht and Warner (2016) note the humanitarian system for example: ‘is a supply-driven industry in which those who are meant to benefit from its products and services are not the same actors who decide what is delivered or how’.

51 For example, despite long-standing recognition of the need to adapt development financing for fragile and crisis-affected settings, recent formal reform processes, including the New Deal for engagement in fragile states, led at best to incremental change. In the last few years however, the pace of change in crisis financing has accelerated in response to a combination of stimuli including: shifting global policy norms in the various post-2015 policy frameworks; scheduled institutional reviews and learning exercises; exogenous pressures and shocks—notably the regional refugee crisis in the Middle East, and the Ebola virus outbreak in West Africa in 2015/16; and domestic political influences, including changing administrations in bilateral donor countries and shifting domestic economic and political concerns (OECD, 2018c).

52 Humanitarian reform has been heavily driven by corrections forced by large-scale and public response failings. The 2005 IASC humanitarian reforms, for example, were stimulated by reflections on failings of the international response to the Indian Ocean earthquake and tsunami in 2004, and the 2011 Transformative Agenda followed in the wake of the 2010 Haiti earthquake and Pakistan floods. See: https://interagencystandingcommittee.org/iasc-transformative-agenda
Crisis-financing responses are often issue and instrument-led, addressing a particular segment of response financing needs, and there is little critical assessment and scrutiny of experimentation. Financing reforms in the wake of the 2015 Ebola outbreak in West Africa were incomplete and highlighted a limited attention span among international actors to address the more challenging and longer-term financing challenges of prevention, preparedness, and recovery from disease outbreaks and pandemics (see Box 9).

Box 8: Incomplete financing reform: when ‘never again’ happens again in Somalia

The international community failed to respond to the early signs of drought in the Horn of Africa in 2010. By 2011, the situation had escalated into a famine that killed over 260,000 people in Somalia, and had devastating impacts in Ethiopia and Kenya.

Recognition of this fatal ‘system-wide failure’ (Darcy, 2012) prompted many initiatives and commitments (see *inter alia* Hillier and Dempsey, 2012; Independent Commission for Aid Impact (ICAI), 2012). In Somalia, new mechanisms and funds were dedicated to improving early warning and resilience, and in Kenya and Ethiopia, safety nets and risk financing measures were bolstered. At the regional level, the African Union (AU), the Intergovernmental Authority on Development (IGAD) and the African Development Bank launched new drought initiatives.

In 2017, when the early signs of drought were detected, the international community reacted more swiftly and decisively. However, in 2019, when the early warnings of drought were sounded once again, there was not a comparable mobilisation, even though the enabling factors—evidence, access, capacity, and political space to act—had improved.

The US$1.1 billion 2019 HRP for Somalia—which includes a US$710 million drought response plan—was only 22% funded by the middle of the year, prompting the CERF to step in with one of its largest ever allocations. Although early action was estimated to have protected one million people from acute hunger (UN OCHA, 2019), the plan was still only 50% funded by September 2019. But this continued dependence on appeal-based funding is the very problem—a symptom of the partial learning from 2011. Although it was a well-identified lesson (see Seal and Bailey, 2013), systematic evidence-led mechanisms for early warning have not been matched with systematic evidence-led mechanisms for early no-regrets action, backed by prearranged finance.

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53 With clear evidence of the worsening food security situation, the Humanitarian Coordinator in Somalia doubled the size of the humanitarian appeal to US$1.5 billion, and donors—led by the EU, the United States and the United Kingdom—responded rapidly with new and increased allocations. The African Development Bank boosted its support to long-term infrastructure programmes to increase resilience.

54 In June 2019, the CERF announced it would release US$45 million to address the drought in the Somalia, Ethiopia, and Kenya, with two-thirds directed to Somalia.

55 Knox-Clarke (2017) notes the risks associated with a focus on change in the form of new products, which can divert attention and enable avoidance of more fundamental change.
One line of criticism is that the insurance window only triggers for pandemics, not epidemics (Summers cited in Igoe, 2019). Although the DRC crisis received a swift US$20 million grant from the cash window in 2019, the insurance payout is not triggered until at least two countries reach a severity threshold. Others have cited concerns about risks of diverting donor money from prevention and of overcharging donors for risk coverage (Stein and Sridar, 2017).

The UN official tracking the funding, Dr Paul Farmer, noted: ‘The shortfall reflects a perpetual problem after humanitarian crises: people move on, and development funding to help prevent the next catastrophe is slow to come. […] We have an attention deficit disorder approach to disaster and mayhem’ (Farmer cited in Mackay, 2018).

**Box 9: Instrument-led not problem-led—learning the wrong lessons from Ebola**

During 2014 and 2015, Ebola infected over 28,700 people, and killed 11,300 people in Sierra Leone, Liberia, and Guinea. It presented the world with a major transnational crisis that did not fit with existing models of prevention and response, and shone a spotlight on endemic political, institutional, and financial weaknesses. Three lessons for crisis financing emerged, which have not yet resulted in systemic change.

- **Long-term investment in preparedness and prevention.** Many post-Ebola crisis reviews concur that long-term financing to strengthen countries’ health systems is critical to epidemic prevention and response (Gates, 2015; Independent Panel, 2015; WHO, 2015). Under global agreements, all countries should have national plans for pandemics and epidemics. For poorer countries, this requires sustained donor funding—but there are currently no obligations nor comprehensive financing plan to provide this (Independent Panel, 2015; WHO, 2015; Commission on a Global Health Risk Framework for the Future (GHRF), 2016; Glassman et al., 2018).

- **Rapid pre-arranged funding in the early stages of the outbreak.** The call for new financing mechanisms for faster global responses to health emergencies was better heeded, but the results were partial and fragmented, and have not demonstrated their effectiveness. Most notable was the creation of the Pandemic Emergency Financing Facility, which compromises a cash and an insurance window that attracted considerable criticism from outside the World Bank, and which has yet to have an independent evaluation published publicly. Its failure to respond to the Ebola outbreak in Democratic Republic of Congo (DRC) highlighted concerns over whether its design was overly influenced by the previous pandemic rather than the subsequent one, has incentivised investments in prevention and preparedness, and provides the right protection against the right risks at the right price.56

- **Sustained support for recovery and resilience.** Sierra Leone, Liberia, and Guinea also faced a major blow to their economies and poverty increased (World Bank, 2016). However, international support to address these impacts, and build resilience to future crises, was unclear and unpredictable. In April 2015, the affected countries called for an ambitious plan for international support to include US$8 billion of financing as well as debt relief, which was half-met with estimated US$4.5 billion of pledged financing. Yet by June 2019, less than a third of the total pledged had been disbursed. This reflects common appeals issues of tracking and absorption capacity, but also challenges in mobilising and programming post-crisis development investments.57

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Mohamed Tarawally and his [Ebola] decontamination team arrive at Makamie in Port Loko District, Sierra Leone. Image: Corporal Paul Shaw/UK Ministry of Defence
Financing has unique potential to help reshape the ways in which national and international actors prevent, prepare for, and respond to crises, and momentum for change is already building. Rather than waiting for new politics or panaceas, there are steps that can be taken now to set the international crisis financing system on a path toward addressing some of its most pressing challenges.

There are key touchpoints and accelerators of change in the international crisis financing system that could be used to catalyse change. Experimentation with new instruments and approaches is underway and has started to shift policy discourse on what might be possible. Humanitarian actors for example have quietly piloted and tested anticipatory financing, and have played a critical role in building evidence and confidence in these new tools and approaches. With a sustained programme of deliberate experimentation and open learning, it is possible to find out and learn much more quickly about what works and what could be made to work better.

In this section we set out:

- a new concept and definition of crisis financing, to bring coherence to the discourse—and a vision and logic for a more effective international crisis financing system;
- steps towards implementing the vision at a country level; and
- a set of actions to build system-level financial preparedness against future risk.

3.1 Agree a new vision for crisis financing

While this report talks fluently about ‘crisis financing’, the concept is not yet part of the lexicon, and there is no formally recognised international crisis financing system. Agreement on the fundamentals of crisis financing, and what an effective crisis financing system should look like, is key. A working definition of crisis financing, and a vision and logic for an effective crisis financing system, are proposed here for review and debate.

In its simplest form, crisis financing means the funding and financing used to prevent, prepare for, and respond to crises. At the level of principle, crisis financing should function in the interest of people affected by or at risk of crisis, and it should strive to provide funding and finance on a reliable basis so that people, communities, and countries can plan. Wherever possible it should require, support, inform, or enable conditions for appropriate investments in prevention and preparedness, including structuring in incentives for people, communities, countries, and the international system to prevent and prepare for crises.

In practical terms, crisis financing is funding and financing that promotes and specifically targets prevention, preparedness, and response to crises. It could take the form of: (i) cash flow to recipients (e.g. grants) that could be arranged in advance or agreed in real time; (ii) cash flow to and from recipient via a financial intermediary (e.g. loan or insurance).

In its simplest form, the international crisis financing system is the network of entities that provide or receive international aid (ODA) in order to enhance, support or substitute for state provision to address the risks or impacts of crises. Currently there is no single cohesive ‘system’ in terms of governance, coordination, or operation.

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58 Knox-Clarke (2017) explains for example: ‘Because change relies, ultimately, on people’s behaviour, it is important that people understand the reasons for change, the benefits it will bring, and the scope and nature of the change process’.
An effective international crisis financing system should be equipped to ensure that people worst hit by crisis receive the support they need, at the right time, to prevent extreme suffering and save lives. Such a system would function as a global safety net in times of crisis, and support and enable prevention and preparedness against future risk. Under this definition, and in line with existing global commitments, roles, and responsibilities:

- governments have the primary responsibility to assist and protect citizens from risk and crises;
- international actors (notably non-affected governments and multilateral institutions) support and assist affected governments to meet their responsibilities per commitments made through, for example, the SDGs and Sendai Framework for Disaster Risk Reduction; and
- as a last resort, where governments do not prioritise interests of their populations, and where the capacity of governments has been exceeded by unforeseen shocks, both development and humanitarian financing have a role to play in providing a global safety net for vulnerable people.

The system would function according to the logic set out in Figure 6.

Figure 6: A logic for a new crisis financing system

System-level surveillance and financial preparedness for crisis financing

The international crisis financing system should prepare for large-scale and systemic risks and crises that require a coordinated system-level response, functioning as a global safety net against future risks. This includes providing system-level surveillance of risks and ensuring adequate financial preparedness against anticipated crisis financing needs.

- Predictable needs
- Modellable risk
- Unknown risk
- Discretionary ex-post funding

Where a base level of future need can be predicted and budgeted for, medium-term funding and financing deals or packages should be negotiated to provide greater predictability, and to support development and vulnerability reduction.

Pre-agreed financing deals/packages

Pre-agreed financing for modellable risk can deliver earlier, more cost-efficient and streamlined responses. It also helps to manage incentives to respond late and, in time, could remove this segment of global risk from humanitarian funding caseloads.

Discretionary ex-post funding

Discretionary ex-post funding—including humanitarian funding—should be treated as the option of last resort, where all other options have been exhausted.

Risk-conscious development

Crisis financing should be underpinned by risk-conscious development investments and approaches. This includes investments in prevention and delivery systems, as well as the enabling conditions for pro-active management of crisis risk, such as risk monitoring and analysis, and response planning.

59 The notion of an international system is based on ALNAP’s description of the humanitarian system (ALNAP, 2018).
Box 10: Key elements of effective crisis financing instruments

Like their commercial counterparts, crisis financing instruments allow people, organisations, and governments to pay money in, and receive disbursements out, with volumes and timing often dependent on severity, determined by pre-agreed triggers or thresholds.

<table>
<thead>
<tr>
<th>Type of instrument</th>
<th>How money is disbursed</th>
<th>How the finance is paid for</th>
</tr>
</thead>
<tbody>
<tr>
<td>A loan</td>
<td>An amount called the loan principal is disbursed at the start of the loan.</td>
<td>A series of future repayments.</td>
</tr>
<tr>
<td>An insurance product</td>
<td>A claim payment is only disbursed after an insured event occurs.</td>
<td>A premium payment paid up front.</td>
</tr>
<tr>
<td>A contingent loan</td>
<td>An amount called the loan principal is disbursed after an eligible event.</td>
<td>An arrangement fee plus a series of future repayments made after the loan disburses.</td>
</tr>
<tr>
<td>An insurance product financed by a loan</td>
<td>A claim payment is disbursed only after an insured event occurs.</td>
<td>A series of future repayments.</td>
</tr>
</tbody>
</table>

At a minimum, crisis financing instruments should include the core elements of a crisis objective, an agreed disbursement and payment plan, and a basic level of accountability. However, crisis financing could achieve much more with careful design and management that could increase their contribution to effective and accountable crisis prevention, mitigation, preparedness, and response. Key components of a 'gold standard' crisis financing instrument include:

- A clear crisis objective that focuses on reaching the most vulnerable;
- Disbursement and payment plans that demonstrate value for money;
- A design process that involves vulnerable communities to ensure the instrument is fit for the context and understood by end users;
- A monitoring and evaluation process that provides scrutiny and accountability over whether the instrument delivers on the objective; and
- A strategic fit with other instruments and approaches to form a broader strategy for addressing and reducing key risks.
### 3.2 Build coherent crisis financing packages at country level

In order to move beyond *ad hoc* approaches to crisis financing at country level, responses need to be built around a realistic assessment of risks and impacts of crises. They need to be matched with a financing strategy and package of financing commitments and instruments to address crisis prevention, preparedness, and response requirements. Accountability measures and incentives to invest in prevention and preparedness should be consciously designed into country-level crisis financing packages and instruments, and actively managed.

#### Tailor country-level crisis financing packages to an assessment of risks and funding and financing needs

An objective, shared analysis of crisis needs and risks should be the foundation of a coherent crisis financing approach at country level. Financing packages may be tailored to particular types or segments of risk to introduce greater predictability, incentivise risk management and preparedness, and provide a clearer division of labour among international financing actors and instruments. Major segments of needs and risk from a crisis financing perspective include the following (see Figure 6).

- **Predictable needs** – needs that are likely to occur in the future with a high degree of certainty, and can therefore be reliably worked out and budgeted for in advance, e.g. using a multiyear budget line or loan. Medium-term funding and financing deals or packages can be negotiated to provide greater predictability and support development and vulnerability reduction.
- **Needs arising from uncertain events for which it is possible to model risk** – some needs can be quantified, and finance can be reasonably planned in advance. Because the events are uncertain, it is unlikely to be cost-effective or politically feasible to ring-fence budgets. Such needs are likely to require a pooling of risks regionally, globally, or with the private sector, for example through insurance (World Bank, 2014).
- **Needs arising from unknown risks and humanitarian situations** – such needs are not possible to plan for in advance and therefore require some form of discretionary ex-post funding, for example from coordinated appeals and response plans, or from specific crisis response funds like the World Bank’s CRW or the UN-administered CERF.

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**Figure 7: Standard, crisis, and gold standard crisis financing instruments**

<table>
<thead>
<tr>
<th>STANDARD FINANCING INSTRUMENT</th>
<th>CRISIS FINANCING INSTRUMENT</th>
<th>A GOLD STANDARD CRISIS FINANCING INSTRUMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Disbursement plan</td>
<td>• Crisis objective</td>
<td>• Crisis objective</td>
</tr>
<tr>
<td>• Payment plan</td>
<td>• Disbursement plan</td>
<td>- clear and focused on the most vulnerable</td>
</tr>
<tr>
<td></td>
<td>• Payment plan</td>
<td>• Disbursement plan</td>
</tr>
<tr>
<td></td>
<td>• Accountability</td>
<td>• high impact</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Payment plan</td>
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<tr>
<td></td>
<td></td>
<td>• cost-effective</td>
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<tr>
<td></td>
<td></td>
<td>• Accountability</td>
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<tr>
<td></td>
<td></td>
<td>- to affected populations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Engagement with vulnerable groups</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Strategic approach to reduce risks</td>
</tr>
</tbody>
</table>
Strategies for meeting crisis financing needs should be incorporated into existing country-level planning processes to ensure coherence. Country-level financing strategies that support the delivery of development plans are commonly accepted good practice to ensure that funding and financing are effectively targeted and calibrated to deliver results.60 Such strategies are being adapted and tested in low-income, fragile settings with significant crisis risk and chronic crisis-affected caseloads, by the OECD and in recent World Bank-EU-UN recovery and peacebuilding assessments (RPBAs).61 These may include an explicit focus on identifying and addressing the root causes of risk and vulnerability, and can serve as a useful convening tool to bring together actors across disciplines.60, 62 As these tools become more widely applied and adapted, there are opportunities to integrate crisis financing strategies into existing country-level planning and financing frameworks and processes.

Integrate incentives to take responsibility for prevention and preparedness in financing packages

Crisis financing has to break the entrenched patterns of underinvestment in prevention and preparedness. It needs to counter the many disincentives with clear requirements and incentives to take responsibility for prevention and preparedness. This needs to be intentionally built into funding and financing instruments and packages, as it is by no means automatic.64 There are a number of ways to do this.

- **By including conditions.** Clear requirements to invest in prevention and/or preparedness plans can be built into the terms and conditions of instruments. For example, ARC requires peer-reviewed contingency plans that specify how any payout will be spent as a prerequisite to purchasing an insurance policy. Similar preparedness conditions are required by some anticipatory humanitarian action initiatives.
  
- **By calibrating payment terms to promote prevention and preparedness.** Similarly, when an agreement is made to make contingent payouts linked to the losses associated with an event, the funder is incentivised to take action to reduce the potential losses, since this reduces the expected cost of the contingent payouts. Whilst there are few examples in crisis settings, there is a rich experience from insurance instruments. Having sold a life or health insurance policy, an insurance company has an interest in keeping policyholders alive.
  
- **By building in early action.** Payments can also be calibrated to the early signs of escalating crisis risk to include funding for just-in-time preparedness, as is the case with anticipatory and forecast-based models. For example, in November 2019, ARC made two payments for early action based on early indicators of drought in Senegal—one of US$12 million to the government, and another of US$10 million to the Start Network of NGOs (Start Network, 2019).

- **By combining contingent financing for response with complementary prevention and preparedness measures.** For example, at a micro-level, the World Food Programme (WFP)/Oxfam R4 Rural Resilience Initiative combines risk management strategies that integrate: improved resource management (risk reduction); insurance (risk transfer); livelihoods investments (prudent risk taking); and savings (risk reserves) (WFP/Oxfam, 2019).

Ensure meaningful participation and accountability

Consultation and participation in the heat of a crisis is difficult to achieve and development and humanitarian

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60 Integrated national financing frameworks are called for under the 2015 AAAA, and are being supported through development finance assessments by UNDP in a number of countries. These incorporate the following building blocks: a costed, prioritised national development strategy; integrated planning and budgeting processes; a resource mobilisation strategy; financial management systems that harmonise international and domestic public finance; institutional arrangements for coherence and coordination; and an enabling environment for multi-stakeholder debate on effectiveness, supporting transparency and accountability (UNDP/Asia Pacific Development Effectiveness Facility (APDEF), n.d.).

61 The OECD for example has jointly led the development of financing strategies in Sudan and CAR. See: [https://www.oecd.org/dac/conflict-fragility-resilience/](https://www.oecd.org/dac/conflict-fragility-resilience/)

62 Revised guidance for RPBAs identifies that, in addition to core thematic policy, security, and economic analysis, other potential areas could include: violent extremism; illicit financial flows; and, the linkages between conflict and environmental/natural resources-related stressors. Cross-cutting issues that warrant attention are gender, youth, human rights, the environment, and addressing the underlying causes of humanitarian needs (EU World Bank, and UN, 2017). OECD guidance for financing strategies for stability includes: recommendations to undertake mapping and analysis of the impact of risk; identification of sources of contingent or crisis response financing; identification of relevant mitigating actions; and development of options to increase the provision of contingent financing (Poole and Scott, 2018).

63 There are many gaps in the current tools, capacities and agreed ways of working at country-level, which limits the feasibility of achieving collectively agreed crisis financing packages, as recent efforts to agree collective outcomes have illustrated (Poole, 2019). However, there are also considerable opportunities under the ongoing reform processes—including the nexus policy agenda, and the UN Secretary General’s reforms of the UN Development System—to address some of these operational challenges and disincentives.

64 Taking the example of insurance-based instruments, where payouts are triggered by a hazard such as extremely low or high rainfall, there is little incentive to prevent or prepare—the payout will happen anyway, and paying for the insurance may both create a false sense of security and divert funds from preventing and preparing from crises (Hillier, 2018).
actors routinely fail to live up to their commitments to meaningful participation and feedback from their primary clients. Building crisis financing and response systems in advance of a crisis, and negotiating longer-term approaches to achieve more reliable financing responses, provide the perfect opportunity to build in engagement through design, targeting, and implementation phases. This engagement should be at all levels of society, from national government (where a functioning government is in place) through to vulnerable communities.

The participation of crisis-affected people in the scoping and design of instruments has very practical benefits. Consulting the primary client group is fundamental to ensuring that the right problems and the right people are targeted, and that instrument design is not driven by novelty or other provider priorities. Participation also improves design in very practical ways. It can help to increase the targeting accuracy of crisis finance triggers by bringing in local knowledge and unforeseen variables. Regular communication with crisis-affected people can also help to create mutual understanding and realistic expectations. Participation in the design of financing and response mechanisms can also help to clarify roles and responsibilities, and build understanding of risk and awareness of prevention and preparedness options. Instead of waiting until a crisis hits, and trying to negotiate with others over who will pay for the crisis and how, greater clarity over what crisis finance will cover makes it easier for vulnerable households to understand what prevention and preparedness measures they need to undertake. Regular feedback from crisis-affected people during and after responses can also provide valuable information on the usefulness and effectiveness of response actions, allowing response actors to recalibrate their assumptions and actions, and adapt to changing situations and feedback.

Underpin crisis financing packages with risk-conscious development investments

As a minimum, development investments should ensure that they do not result in serious harm—including major environmental degradation and exacerbating drivers of conflict such as inequality, marginalisation, and discriminatory public policy. Risk-conscious development, however, involves both avoiding increasing risk, and wherever possible, actively working to reduce or manage risk. This is consistent with aspirations to achieve sustainable development.65

Developing country-level crisis financing packages could help with the identification of key investment and technical gaps that would flow from an analysis of risks, needs, and capacities. Development financing actors can then mobilise behind these identified gaps, and calibrate their investments to stabilise and support national commitments to better prevent and prepare for crises. These investments could strengthen preparedness, bring down costs, and build a more reliable and effective future response.

In practice, much more needs to be done by development financing actors to mobilise larger volumes of funding to support chronic needs in crisis-affected settings. In some cases however, dedicated financing instruments and windows have mobilised meaningful volumes of medium-term funding. In the context of an agreed strategy, such as a refugee compact that identifies programming and policy priorities, such investments could lead to transformative change (Post et al., 2019). In the case of the World Bank Regional Sub-Window for Refugees and Host Communities, committing significant sums of money has led to improved programming—and also substantially improved the protection and socioeconomic policy environment for refugees (see Box 11).

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65 Sustainable development is defined as ‘development that meets the needs of the present without compromising the ability of future generations to meet their own needs’ (UN, 1987, p. 43). Resilient development enables people, socioeconomic, and environmental systems to ‘cope with a hazardous event or trend or disturbance, responding or reorganizing in ways that maintain their essential function, identity, and structure, while also maintaining the capacity for adaptation, learning, and transformation’ (IPCC, 2014, in Opitz-Stapleton et al., 2019). Opitz-Stapleton et al. (2019) argue that development cannot be sustainable if it is not resilient.
preparedness at the global level, and start to conceive system move towards building adequate financial preparedness against future risk. Only then can the identification of gaps and weaknesses in financial financing capabilities

3.3 Build system-level surveillance and crisis financing capabilities

Building fitness against future risk—including systemic risk—would require system-level surveillance of risks, the continual stress-testing of capacities, and the identification of gaps and weaknesses in financial preparedness against future risk. Only then can the system move towards building adequate financial preparedness at the global level, and start to conceive of the right global institutions and instruments to meet potential financing needs.

Build system-level surveillance and stress-testing capabilities

The fact that most crisis risk is only an implicit, rather than an explicit, contingent liability of the international community only increases the need for analysis as there is an increased risk of gaps, incoherence, and poor value for money. Experiences from other implicit contingent liabilities around the world, such as potential bailouts from national governments to their domestic banking sector, strongly reinforce the importance of surveillance and preparedness for implicit contingent liabilities at the national level, and the same holds true at the international level.

Having a shared understanding of global risks requires improved and shared monitoring, modelling, scenario-building, and stress-testing capabilities. Surveillance of crisis risk is scattered across governments, international institutions (for example, WHO for epidemic and pandemic risk, and IMF for economic and financial risk), initiatives, and the financial sector (including financial sector regulators). There is no overall analysis of how crisis risks interact, no rigorous, widely respected, multi-dimensional modelling of systemic risks, and no corresponding scenario building against which financial preparedness could be evaluated. Forming surveillance and scenario-building capability is an essential global-level public good to enable preparedness against risk, and should be done in a way that is trusted by those with financial firepower to be able to respond to crises.

It is accepted good practice in public financial management to undertake regular stress tests against plans and preparedness measures. A stress test is a kind of scenario analysis, where an extreme negative scenario is used. The IMF, for example, is tasked with reviewing and stress-testing financial systems and institutions against the potential risk of major systemic threats, shocks, and crises.66

A global surveillance body or partnership capable of analysing future crisis risk and assessing the capacity of delivery systems and testing plans, instruments, and institutions against potential crisis scenarios, would provide critical feedback for actors at country, regional, and international levels on gaps and blind spots in preparedness. It would identify gaps in the repertoire and supply of instruments and financing, identify where new instruments and institutions might be needed to build adequate global financial preparedness against future crises, and assess the costs of maintaining the standing

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66 The IMF undertakes regular assessments of the stability of the global financial system and markets against emerging and future vulnerabilities. It has also been using stress tests extensively over the last decade to assess the ability of banking systems to withstand major adverse developments. These are meant to find weak spots in the banking system at an early stage, and to guide preventive actions by banks and those charged with their oversight. The 2008 global financial crisis catalysed a serious rethink about the methods and scope of this stress testing, highlighting the importance of expanding the scope of stress tests beyond the individual risks to banks, to systemic risks. Efforts are continuing to develop new risk-modelling techniques and stress-test methodologies to better identify the risks that trigger widespread economic and financial instability.
responsive capacity of the international crisis response system.

Upgrade the crisis financing toolbox

A fit-for-purpose, international crisis financing system is only possible if countries or organisations are willing to formally and explicitly take responsibility for risks that are not their own—that is, to take on explicit contingent liabilities and pre-arrange the finance to meet those obligations. Box 12 outlines some options for how countries or organisations could take on financial responsibility for risks. Some options could be more cost-effective than others, depending on risk and circumstance. Cost-effectiveness analysis can be useful for selecting between different options.

Box 12: Where could contingent liabilities relating to crisis sit within the international crisis financing system?

One way of explaining different ways that the international crisis financing system could take on responsibility for crisis risks is to ask the following: if there is a risk of a crisis occurring or worsening, leading to an increase of US$1 billion in requirements, how would this be financed?

1. International donors could agree to pay more and ‘own’ some specific risks. The cheapest option (in terms of lowest cost of capital) would probably be for the additional money to come from increased ODA from a range of governments, as high-income countries in particular have access to ready income and cheaper borrowing. This could be spread quite evenly across countries according to pre-agreed proportions.\(^\text{67}\)

However, there are two main challenges to this. First, donor countries may be unwilling to take on crisis risk for another country due to domestic political considerations. Second, even if some countries are willing to take on risk, they may not have the in-house expertise to put in place appropriate controls for analysing and proactively managing them.

2. Contingency funds. Many crisis contingency funds already exist but only a few, such as the Start Network’s Start Fund, are able to pre-commit to explicit responsibilities in the sense described above. Some other funds, such as the UN-administered CERF, World Bank’s CRW, and IFRC’s Disaster Relief Emergency Fund (DREF), are starting to experiment with some form of taking responsibility for early action. There are two main challenges with this approach. Firstly, contingency funds can lock up scarce donor funding that might never be disbursed. And given the high opportunity cost of this funding, it is typically only cost-effective for risk with a high probability of manifesting (Paterson, 2019). Secondly, strong controls would need to be in place for analysing and proactively managing individual crisis risks.

3. Donors or development institutions could reallocate from planned development expenditures. Another option would be for donors or development institutions to agree to fund any unanticipated crisis response costs by reducing or delaying planned development expenditures. Many donors already do this when a disaster strikes—but they decide ex post. Agreeing to make payments in advance, on the basis of thresholds and triggers, would bring clarity and predictability to the crisis funding. The opportunity cost of this option could be low for small budget reallocations, which might be possible without too much disruption, but would likely be very high for larger budget reallocations. And like the previous options, there would need to be strong controls in place for analysing and proactively managing individual crisis risks.

4. International financial institutions (IFIs) borrow more to cover additional crisis finance needs, backed by guarantees from the international community. Countries in crisis could be responsible for repaying these loans once out of crisis, with debt relief for those unable to repay in full, perhaps timed to coincide with IFI replenishment cycles.

The main challenge with this approach would be the need for IFIs to put their credit rating at risk, which they most likely would not want to do. In addition, like the previous options, there would need to be strong controls in place for analysing and proactively managing individual crisis risks, which would be unfamiliar to IFIs.

67 These countries could choose to reduce their ‘regular’ ODA contributions to account for this potential future increase in contribution to crisis response, so that their ‘annual average ODA’ remained unchanged. For example, a country that took on an estimated 10% risk of having to pay an additional US$200 million per year could reduce its regular ODA spend by US$20 million, keeping its ‘annual average ODA’ unchanged. This option may be more attractive to countries that are free to target annual average ODA than those with legal commitments to actual ODA.
This section has raised questions on whether existing institutions can deliver on the vision of a fit-for-purpose international crisis financing system. Further work will be required to assess the adequacy of existing institutions to meet future crisis financing needs. However, there may be a particular gap to enable the cost-efficient provision of development insurance (i.e., insurance tied to development objectives), that could require a new kind of financing institution.

**Box 13: Tying insurance to development impact: the case for development insurers**

The term ‘development insurer’ was introduced in Clarke and Dercon (2019) to describe a financial institution that offers insurance and complementary technical assistance, tied to explicit development objectives. Development insurers differ from traditional commercial insurance and sovereign risk pools in that they would be accountable for the development impact of their products and services, including the impact of any claim payments. And they differ from development banks in that they would be set up and regulated like an insurer rather than like a bank. For example, ARC has pre-agreed contingency plans with audit and reporting controls, is evaluated by an independent team that publicly reports on what is working or not from a development perspective, and has a financial structure like an insurer.

Development insurers have the potential to help countries take a holistic approach to proactively managing specific risks to poverty alleviation and economic growth. This is because development insurers would be able to take on financial responsibility for disaster risks, making them full partners to countries in managing those risks.
Commit to monitoring, evaluation, accountability, and learning

The international crisis financing system could learn more, and faster, through regular scrutiny and commitment to learning, accountability, and transparency in each new instrument. Learning from these early experiments can also help to guard against a loss of confidence in, and financial support for, instruments in their experimental phases. The International Red Cross and Red Crescent Movement, for example, has invested in continuous learning and adjustment of its FbF instruments, through ongoing real-time feedback from national societies and rigorous post-disaster evaluations. This investment in learning and commitment to adapt has provided valuable insights that help refine instrument design (see Box 14).68

Regular scrutiny, learning, and lesson-sharing can provide practical evidence to inform scale-up and system-wide shifts. There are already communities of practice and regional dialogue platforms sharing lessons and experiences on FbF that provide a model for system-level learning through investments in evidence and a culture of transparency and dialogue.69

Box 14: Building in scrutiny, learning and adaptation to the design and implementation of FbF

The International Red Cross and Red Crescent Movement committed from the outset to invest in evidence, learning, and adaptation in developing its FbF instruments and approaches. This has stimulated regular revisions of assumptions and design—essential to the Movement’s aspiration to move FbF beyond pilot stage to instruments capable of operating at scale.

Evaluation survey data for a pilot in Bangladesh confirmed that households receiving FbF cash transfers were able to eat more regularly, and to eat better quality food, and were less likely to take out high-interest loans. There was also some evidence to suggest the psychosocial stress associated with the flood was reduced compared with other households. The intervention may also have prevented the distress sale of assets following the first flooding peak, but there was no evidence of this effect lasting past the second flood peak. There was also no evidence to confirm that the FbF cash reduced the incidence of disease among beneficiary households, or that it altered the ability of adults to resume work.

This evidence led to significant changes in the FbF trigger methodology and the scale of the programme in Bangladesh, with the government integrating FbF into the country’s DRR system. Evidence from the Bangladesh study has also influenced other FbF projects to work towards reaching national scale, and to use impact-based forecasting that integrates weather forecasts, impact and analysis and risk data to define trigger points. The Bangladesh study also fed into the decision to create an FbA window within the IFRC internal contingency fund, the DREF.

Sources: Research interviews; Gros et al., 2019.

68 Elsewhere, through routine feedback, the Movement has learned that if it wants to scale and have the possibility of responding to priority needs rather than being tied to a particular locality, it needs to pick different, less location-specific pre-agreed responses. It also learned through implementation that it needed to build in a ‘stop’ mechanism for situations where despite trigger thresholds being met, a response was not needed.

69 An International Dialogue Platform, facilitated by the German Red Cross, takes place in Berlin annually. Three regional Dialogue Platforms also take place in Africa, Asia, and Latin America. The platforms provide a forum to share experiences among pilot country stakeholders, practitioners, scientists, and decision makers to refine methodologies and design. See: https://www.forecast-based-financing.org/dialogue/
CONCLUSION

The ways in which the international system finances the prevention, preparedness, and response to crises needs to change in order to lessen the impact of suffering and losses today and in the future. This report offers a diagnosis of some of the key challenges and dysfunctions in the international crisis financing system, and offers the outline of a new vision and agenda for change. Driving change across a diverse collection of autonomous actors, each with their own interests and incentives, and with no central point of command, is challenging. There are opportunities to influence the pace and scale of change, notably, investing in a sustained period of experimentation and learning, and through convening and supporting accelerators and anchor points in the system with high levels of influence. In addition to suggesting a vision and agenda therefore, a process to deliver change is needed.

As part of this report, the Centre is putting forward a call to action that calls on committed decision makers, influencers, and technical experts in the development, humanitarian, and financial sectors to build on the growing appetite for better financing to target prevention, preparedness, and response to crises, by coming together to agree a way forward for crisis financing reform.
Glossary

Contingent liabilities
Obligations to pay costs associated with a possible, but uncertain, future event. Because there is no obligation to pay unless the event occurs, contingent liabilities might not be formally listed as a liability on an organisation’s balance sheet. Contingent liabilities might be explicit or implicit:

- explicit contingent liabilities are contractual commitments to make certain payments if a particular event occurs — the basis of these commitments can be contracts, laws, or clear policy statements;
- implicit contingent liabilities are political or moral obligations to make payments, for example in the event of a crisis or a disaster — governments do not recognise these liabilities until a particular event occurs; implicit contingent liabilities are difficult to assess, let alone manage in a consistent manner, precisely because of their implicit nature (the Centre).

Crisis
A situation creating severe and widespread needs that exceed the existing local and national capacities to prevent, mitigate, or respond. This includes crises arising from a range and combination of hazards including conflict, weather and climate-related events and stresses, and disease (the Centre). The current report focuses on risks and crises that cause significant suffering and loss of life for the world’s poorest in low and middle-income countries.

Crisis financing
Funding and financing that promotes and specifically targets prevention, preparedness, and response to crises. It could take the form of: (i) cash flow to recipients (e.g. grants) that could be arranged in advance or agreed in real time; (ii) cash flow to and from recipients via a financial intermediary (e.g. loan or insurance) (the Centre).

Crisis financing instruments
The combination of a crisis objective, payment plan, disbursement plan, and accountability mechanism, which together contribute to crisis prevention, preparedness, and response (the Centre).

Crisis risk
The potential suffering and loss of life that could occur in a specific time period due to a crisis, determined probabilistically as a function of hazard, exposure, vulnerability, and capacity (the Centre).

Crisis risk financing
Funding and financing that promotes and specifically targets a specific crisis risk, arranged before a potential shock. This can include paying to prevent and reduce the risk, as well as paying to prepare for and respond to a shock (the Centre).

Disaster
A sudden, calamitous event that seriously disrupts the functioning of a community or society and causes human, material, and economic or environmental losses that exceed the community’s or society’s ability to cope using its own resources. Though often caused by nature, disasters can have human origins (IFRC, n.d.).
Fragility
The combination of exposure to risk and insufficient coping capacity of the state, system and/or communities to manage, absorb or mitigate those risks. Fragility can lead to negative outcomes including violence, the breakdown of institutions, displacement, humanitarian crises or other emergencies (OECD, 2016a).

Hazard
A process, phenomenon or human activity that may cause loss of life, injury or other health impacts, property damage, social and economic disruption or environmental degradation (UNISDR, 2016).

International crisis financing system
The network of entities that provide or receive international aid (ODA) in order to enhance, support or substitute for state provision to address the risks or impacts of crisis (the Centre, closely based on ALNAP’s description of the humanitarian system (ALNAP, 2018)). This report acknowledges that there is no single cohesive ‘system’ in terms of governance, coordination or operation, so uses this term advisedly as a short-hand to refer to the group of institutions and operational organisations involved in both the current international aid effort and the proposed future effort.

Official development assistance (ODA)
Defined by the OECD Development Assistance Committee (DAC) as ‘government aid that promotes and specifically targets the economic development and welfare of developing countries’ (OECD, 2019b).

Preparedness
The knowledge and capacities developed by governments, response and recovery organisations, communities, and individuals to effectively anticipate, respond to and recover from the impacts of likely, imminent or current crises (the Centre, based on UNISDR, 2016). This report typically distinguishes between financial preparedness (e.g. the creation of budgetary or financial mechanisms to respond to a particular type of crisis) and delivery system preparedness (e.g. investments in enabling social protection systems to be able to scale up rapidly following a disaster).

Prevention
Activities and measures to avoid existing and new crisis risks (the Centre, based on UNISDR, 2016). The current report uses the term to also include mitigation activities that lessen or minimise the adverse impacts of a hazardous event without fully avoiding the impacts.

Resilience
The ability of a system, community or society exposed to hazards to resist, absorb, accommodate, adapt to, transform and recover from the effects of a hazard in a timely and efficient manner, including through the preservation and restoration of its essential basic structures and functions through risk management (UNISDR, 2016).

Sustainable development
Development that meets the needs of the present without compromising the ability of future generations to meet their own needs (UN, 1987).

Vulnerability
The conditions determined by physical, social, economic and environmental factors or processes that increase the susceptibility of a community to the impact of hazards (UNISDR, 2016).
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A way forward for crisis financing


ACRONYMS

AAAA Addis Ababa Action Agenda
APDEF (UNDP) Asia Pacific Development Effectiveness Facility
ARC African Risk Capacity
AU African Union
CAR Central African Republic
Cat DDO World Bank Catastrophe Deferred Drawdown Option
CERF (UN-administered) Central Emergency Response Fund
CGD Center for Global Development
CRRF Comprehensive Refugee Response Framework
CRW (World Bank) Crisis Response Window
DAC (OECD) Development Assistance Committee
DEC Disasters Emergency Committee
DFID (UK) Department for International Development
DRC Democratic Republic of Congo
DREF (IFRC) Disaster Relief Emergency Fund
DRR Disaster risk reduction
EU European Union
EWEA Early Warning Early Action upper case when referring to an organisation-specific mechanism; lower case as a generic term.
EWS Early warning system(s)
FAO Food and Agriculture Organization
FbA Forecast-based Action upper case when referring to an organisation-specific mechanism; lower case as a generic term.
FbF Forecast-based Financing upper case when referring to an organisation-specific mechanism; lower case as a generic term.
GAR (UN) Global Assessment Report on Disaster Risk Reduction
GHD Good Humanitarian Donorship
GCRP Global Crisis Risk Platform
GHRF Commission on a Global Health Risk Framework for the Future
GRIF Global Risk Financing Facility
HRP Humanitarian response plan
IAAC Inter-Agency Standing Committee
ICAI Independent Commission for Aid Impact
ICRC International Committee of the Red Cross
IDA (World Bank) International Development Association
IDMC Internal Displacement Monitoring Centre
IDP Internally displaced persons
IFAD International Fund for Agricultural Development
IFI International financial institution
IFRC International Federation of Red Cross and Red Crescent Societies
IGAD Intergovernmental Authority on Development
IMF International Monetary Fund
INFORM Index for Risk Management
IPC Integrated Phase Classification
IPCC Intergovernmental Panel on Climate Change
IRC International Rescue Committee
NGO Non-governmental organisation
NUA New Urban Agenda
ODA Official development assistance
OECD Organisation for Economic Co-operation and Development
QCPR Quadrennial Comprehensive Policy Review
RPBA Recovery and peacebuilding assessment
RRP Refugee response plan
SDGs Sustainable Development Goals
UN United Nations
UNDESA United Nations Department of Economic and Social Affairs
UNDRR United Nations Office for Disaster Risk Reduction
UNHCR United Nations High Commissioner for Refugees
UNICEF United Nations Children’s Fund
UNISDR United Nations International Strategy for Disaster Reduction
UN OCHA United Nations Office for the Coordination of Humanitarian Affairs
WASH Water, sanitation, and hygiene
WFP World Food Programme
WHO World Health Organization

70 Upper case when referring to an organisation-specific mechanism; lower case as a generic term.
71 Upper case when referring to an organisation-specific mechanism; lower case as a generic term.
72 Upper case when referring to an organisation-specific mechanism; lower case as a generic term.