

THE FUTURE OF CRISIS FINANCING: A CALL TO ACTION



BRIEF

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.

About this brief

This brief provides an overview of *The Future of Crisis Financing: A Call to Action*—a report that sets out a new vision for crisis financing, based on planned approaches and appropriate financing packages and instruments. The 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. The full report is available from: disasterprotection.org/crisisfinance.

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Disclaimer

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Rohingya refugee children in a child friendly space in Balukhali camp, Cox's Bazar, Bangladesh, September 2017. Image: Mashrur Noor Afsar/ Department for International Development Bangladesh



● THE FUTURE OF CRISIS FINANCING: A CALL TO ACTION

“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 Future of Crisis Financing 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.¹ Financing alone cannot offer solutions to current crises or reduce future risks. But how crises and crisis risks are paid for 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. Ultimately, with the right planning, incentives, tools, and commitment, the cost of crises could be paid for with money—and not lives. 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 of how budgets work, and financial instruments are used, 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. It 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. 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.

The Future of Crisis Financing 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 Poole, L., Clarke, D., and Swithern, S. (2020) 'The future of crisis financing: a call to action', Centre for Disaster Protection, London.

The Centre for Disaster Protection (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 the full report and this brief 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.

The Future of Crisis Financing 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 (the Centre, closely based on ALNAP's description of the humanitarian system in The State of the Humanitarian System 2018).

The Future of Crisis Financing 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.

● 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 financing 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 (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:

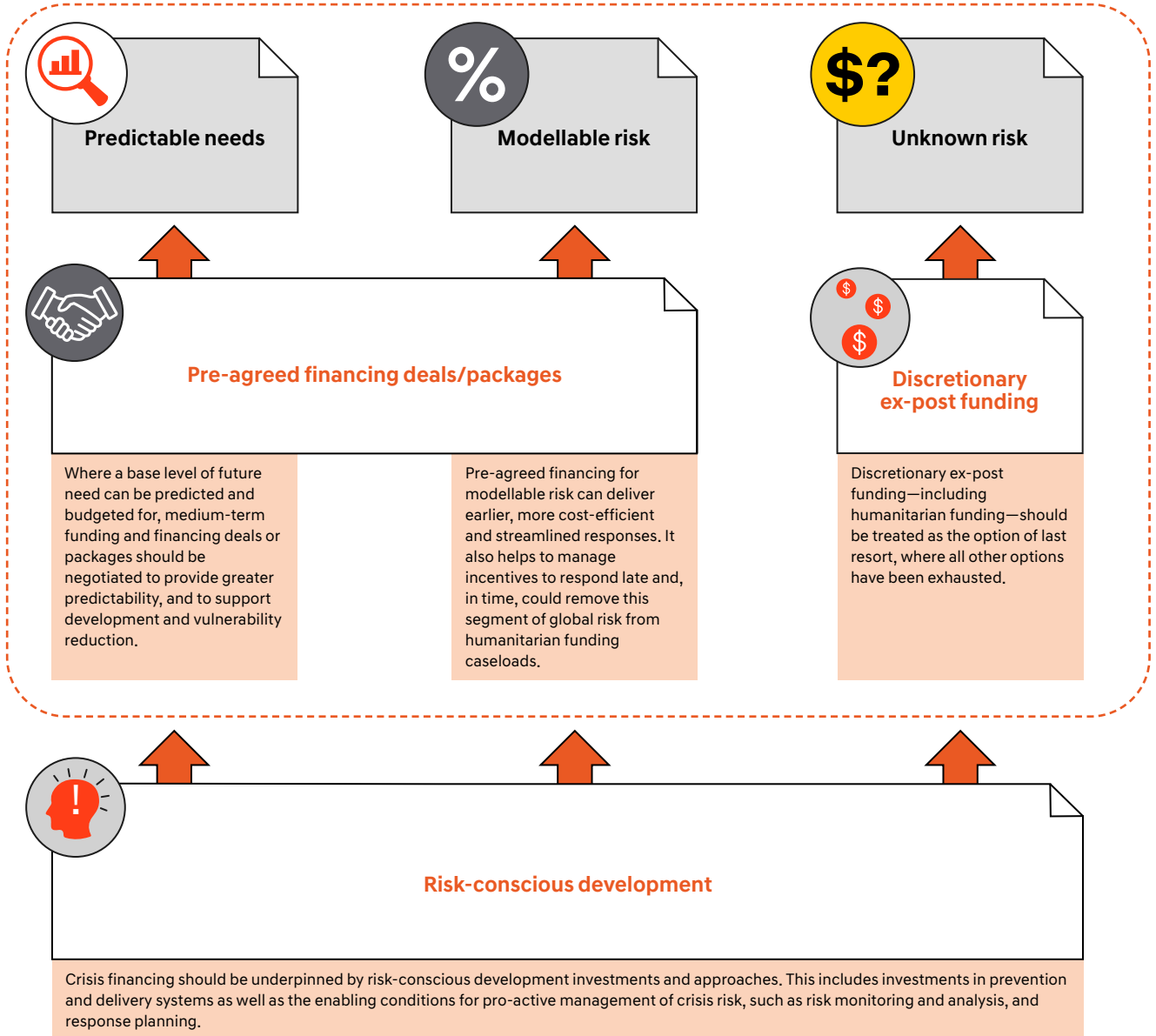
- governments have the primary responsibility to assist and protect citizens from risk and crises;
- international actors (notably non-affected governments and multilateral institutions) support and assist affected governments to meet their responsibilities per commitments made through, for example, 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.

Figure 1: 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.



● 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 needs, modellable risk, and unknown risk—to introduce greater predictability, and incentivise risk management and preparedness.

Crisis financing packages at country level should be underpinned by risk-conscious development investments to 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.

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.



In Beira, Mozambique, Cyclone Idai caused extensive damage to the city's infrastructure, including roads. Image: Sarah Farhat/World Bank

● 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 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. Such a body or partnership would identify gaps in the toolkit 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.



Mohamed Tarawally and his [Ebola] decontamination team arrive at Makamie in Port Loko District, Sierra Leone. Image: Corporal Paul Shaw/ UK Ministry of Defence

● 4. 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, by investing in a sustained period of experimentation and learning, and by 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.

The report is also a call to action. The Centre 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.



Flooding in Uganda,
Image: Jakob Dall/ Danish Red Cross, courtesy of
the International Federation of Red Cross and Red
Crescent Societies

Contact information

Centre for Disaster Protection
60 Cheapside
London
EC2V 6AX
United Kingdom

info@disasterprotection.org

 [CentreForDP](https://twitter.com/CentreForDP)

disasterprotection.org

Cover image: A man stands surrounded by the devastation wrought by Typhoon Haiyan, Tacloban, Philippines.

Image: Russell Watkins/Department for International Development

