



## Key terms, concepts, and definitions

### Extract from *The Future of Crisis Financing: A Call to Action*

The literature and discussions on crisis financing centre on several key concepts and terms—but definitions and use can vary by organisation or institution. In order to help bring coherence to the discourse, *The Future of Crisis Financing: A Call to Action* proposed a set of definitions for several key terms. It also curated a set of definitions for commonly used terms—and introduced a couple of new concepts. A collection of these words is presented below. It aims to help build a shared lexicon around crisis financing.

## Key terms

### 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.

### Crisis financing

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

### 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.

### 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.



## Key concepts

### Global surveillance function

The report argues that the international crisis financing system requires global surveillance of risk, and assessment of financial preparedness at country and international system levels. Appropriate surveillance could incentivise financial preparedness, and reduce the risk of gaps, incoherence, and poor value for money. Its core functions would be: **core surveillance** (collation and interpretation of risk surveillance data, evidence, and scenario building); **stress testing of country-level financial preparedness** (analysis of future crisis finance risk; assessment of the cost of responding through existing national and international delivery systems; and testing plans, instruments, and institutions against potential crisis scenarios); and **analysis of system-level financial preparedness**.

### 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*. Currently there is no single cohesive 'system' in terms of governance, coordination, or operation—so the term is used 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.

### Predictable needs

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. This type of need might include: refugee hosting; people on the edge in relatively stable settings; and people trapped in chronic conflict.

### Modellable risk

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. This type of risk might include: climate-related and seismic hazards; and outbreak and pandemic diseases.

### Unknown risk

Discretionary ex-post funding—including humanitarian funding—should be treated as the option of last resort, where all other options have been exhausted. This type of risk might include: unforeseen escalations and 'unknown unknowns'.

## Other 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; 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.

### 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).

### 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).

### 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).

## References

ALNAP (2018) 'The state of the humanitarian system 2018', London.

IFRC (n.d.) 'What is a disaster?', IFRC website, <https://www.ifrc.org/en/what-we-do/disaster-management/about-disasters/what-is-a-disaster/> [accessed 1 December 2019].

OECD (2016a) 'States of fragility 2016: understanding violence', p. 22, Paris.

(OECD) (2016b) 'Official development assistance (ODA)', OECD website, [www.oecd.org/dac/stats/What-is-ODA.pdf](http://www.oecd.org/dac/stats/What-is-ODA.pdf) [accessed 23 November 2019].

UN (1987) 'Report of the World Commission on Environment and Development: Our Common Future', s.l.

United Nations International Strategy for Disaster Reduction (UNISDR) (2016) 'Report of the open-ended intergovernmental expert working group on indicators and terminology relating to disaster risk reduction', report of the second session (formal and informal), Geneva.

The above concepts and definitions were either developed or curated as part of [The Future of Crisis Financing: A call to Action](#)—a report concerned with how the international community deals with meeting the financial costs of crises in support of both nationally and internationally-led actions (Poole, Clarke and Swithern, 2020). The report sets out a new vision for crisis financing based on planned approaches and appropriate financing packages and instruments.

The report and research assets are available for download from: [www.disasterprotection.org/crisisfinance](http://www.disasterprotection.org/crisisfinance)

#### **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.

Centre for Disaster Protection 60 Cheapside, London, EC2V 6AX, United Kingdom.  
[info@disasterprotection.org](mailto:info@disasterprotection.org)

April 2020