



Methodology for calculating pre-arranged ODA funding

Note for discussion

Introduction

There is considerable and growing interest in how to better manage disaster finance, including interest from donors and international finance institutions (IFIs) in increasing the amount of pre-arranged crisis funding coming from Official Development Assistance (ODA). This has been discussed at the technical level for some time and – recognising the work of the InsuResilience Global Partnership, the Risk-informed Early Action Partnership (REAP), and the Crisis Lookout Coalition – there is now increasing traction at the political level. One input to this process has been the Centre for Disaster Protection’s reports on [covid-19](#) and on [nine natural hazards](#), which have revealed that pre-arranged funding represents 2% and 2.3%, respectively, of total spend on those crises.¹

The next step is to quantify the amounts that individual donors and institutions spend on pre-arranged funding. Developing a consistent and agreed methodology would make it possible to do this, and thus to support intentions to increase pre-arranged funding. Importantly, it would facilitate better comparability between donors, and would provide consistency in looking at how this spend is accounted for, year on year, in order to track the trend and advocate for progress.

This discussion note explores the key issues in developing a methodology for calculating pre-arranged funding, including considering what sort of funding would ‘count’ as pre-arranged, and it starts to unpack the challenges of calculating this. This note is submitted to support the dialogue on this issue, and as a contribution to donors and IFIs who are considering how best to calculate pre-arranged funding, with a view to jointly agreeing a methodology in the coming months.

What is pre-arranged funding?

The draft definition from the Centre for Disaster Protection describes pre-arranged finance as funding that has been approved in advance and that is guaranteed to be released to a specific recipient when a specific pre-identified trigger condition is met. The trigger may be based on data or models related to impact, forecasts, or projections of need, or on policy decisions; the funding may be used for anticipatory action or in response to a crisis, either linked to a clear plan for a very specific purpose (such as forecast-based financing (FbF)) or general budget support (such as a Cat DDO (Catastrophe Deferred Drawdown Option)).²

Pre-arranged funding is therefore different from funding pots, envelopes, or facilities that are allocated for *general* crisis/disaster response, without specific triggers relating to when, how, and to whom the funding is allocated, such as donor humanitarian budgets, the Crisis Response Window (CRW), or the Rapid Response Window of the UN Central Emergency Response Fund (CERF).

A few key principles to guide the work

The motivation for this work is to encourage donors and other organisations to a) measure and b) increase the volume of pre-arranged funding. As such, the methodology should have the following characteristics:

- It should **err on the side of simplicity**, rather than constituting a complex forensic exercise. There will obviously be trade-offs between simplicity and accuracy and the first iteration should probably tip in favour of simplicity, as data may not be easy to find and collect, and there is a risk that too much complexity will be off-putting. This recognises that counting every last penny/cent, and undertaking an audit trail of all spend, is not likely to be necessary or possible. The methodology will use ‘rules of thumb’ and approximations to support easy calculation; these will have a firm basis in the data, but may be averaged or approximated, and will be standardised to ensure consistency. Openness and transparency around how these figures are developed will ensure that the calculated figures remain comparable and trustworthy.
- It should be recognised as producing an **indicative, rather than a precise, figure**. We hope that it will stimulate donors to improve the ease of measurement of pre-arranged funding over time, which will both improve accuracy over time and strengthen the case for increased funding. The methodology can be refined and improved as experience, data availability, and data transparency increases (albeit with some implications for year-on-year comparability).
- It should be reasonably **inclusive**. There will inevitably be differences of opinion on ‘what is in and what is out’, but broadly speaking we seek to keep quite a clear, narrow, and prescriptive focus for ‘direct’ funding – as this has a clear connection to impact for crisis-affected populations – and we embrace a broader definition for ‘indirect’ funding – see below.

Two categories – direct and indirect pre-arranged funding

Direct pre-arranged funding

Direct pre-arranged funding fits the Centre for Disaster Protection’s description outlined above: ‘funding that has been approved in advance and that is guaranteed to be released to a specific recipient when a specific pre-identified trigger condition is met’. This is a relatively narrow definition, and includes the following:

- **Contingent grants** – programmes that have been specifically designed to scale up to shocks, with guaranteed funding and triggers. This includes FbF, such as that from the Red Cross and the World Food Programme, anticipatory action, such as that by the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) and the Start Network, and other bilateral programmes with guaranteed funding and specific triggers, such as certain crisis modifiers and CMAM Surge.
- **Contingent credit** – provided through institutions such as the World Bank (Cat DDOs) and the Inter-American Development Bank (Contingent Credit Facility for Natural Disaster and Public Health Emergencies), and bilaterally (e.g. JICA’s Stand-by Emergency Credit for Urgent Recovery). (However, see below on loans.)

- **Insurance and other risk transfer mechanisms** – this includes regional risk pools in the Caribbean and Central America (CCRIF SPC), Pacific (PCRIC), Africa (ARC), and South East Asia (SEADRIF), and other insurance at sovereign, provincial, meso, and micro levels.

Indirect pre-arranged funding

Indirect pre-arranged funding constitutes a basket of other funding that supports and enables pre-arranged funding and response. This includes the following types of funding:

- Funding that acts as a **catalyst for countries or institutions to pre-arrange their funding**. This includes development and innovation costs for new or improved disaster risk finance (DRF) strategies and instruments – which includes funding to programmes and multi-donor trust funds, such as the World Bank’s Disaster Risk Financing and Insurance Programme, the Global Risk Financing Facility, ARC, InsuResilience Solutions Fund, Start Network instruments etc. It also includes technical assistance and training.
- Funding for **research and learning that increases the volume and quality** of pre-agreed funding– this includes research to develop, monitor, or evaluate DRF instruments and mechanisms, and partnerships/organisations which support knowledge management, such as the Centre for Disaster Protection, the InsuResilience Global Partnership, REAP, and the Start Network.
- Funding for **preparedness programmes or initiatives**, as these are necessary precursors for effective pre-arranged financing and shock-responsive programmes. This includes the development of risk information, risk assessment, early warning systems, contingency planning, stockpiling, and capacity building.
- Funding for **certain shock-responsive programmes** (bilateral and multilateral) that are *specifically designed* to pivot in response to shocks, with consideration of how and when to pivot, but no firm guarantee of pivoting, and with no specific funding amounts set aside. This could include programmes or initiatives that have a specific mechanism enabling them to pivot to support preparedness and early response (this is different from general disaster risk reduction measures that would be put in place at any time), such as some multi-year humanitarian funding, as well as preparedness investments in FCDO projects that include an internal risk facility. These are the kinds of programmes that would require relatively small steps to move into the ‘direct’ category.

Related areas

There are other measures that donors can take to mitigate the impacts of crises, such as disaster risk reduction, broader resilience measures, and adaptation programming. These are critically important and are part of a broader spectrum of activities around crisis risk, but the present work focuses on capturing instances where the finance and preparation is in place to enable a swift and effective response when a hazard shifts from ‘probable at some (undefined) point’ to ‘likely and imminent within an identifiable timeline’ or ‘manifest’.

Issues for consideration in developing the methodology

1. To date, the focus of pre-arranged funding has primarily been on natural hazards

It is worth recognising that most of the innovation and experience to date in regard to pre-arranged funding and anticipatory action has related to natural hazards and epidemics, rather than protracted crises and conflict. These risk profiles are better understood and there is less sensitivity around, and less complexity involved in, responses.

There has been a positive development from natural hazards in relatively stable environments (e.g. FbF for flooding in Peru and Bangladesh) to more fragile and conflict-affected states (such as OCHA's pilots on drought in Somalia and flooding in South Sudan), but the pre-arranged aspect remains focused on natural perils rather than conflict. There is certainly scope to expand this further, and this would be a constructive step forwards.

In relation to conflict and protracted crises, there is the potential to introduce pre-arranged funding for particular spikes in the crisis – for example, to respond to a surge in the number of people displaced, such as the Displacement Crisis Response Mechanism in Uganda.³ There are very few examples like this at the moment but it is hoped and expected that this will change with further development and learning.

2. How to account for loans

Grants and loans – even where loans are highly concessional – are obviously entirely different for the recipient country, and thus cannot be treated equally in the methodology for calculating pre-arranged funding. This has been recognised by OECD-DAC⁴ which introduced a new methodology in 2018 for calculating ODA figures. This makes it easier to compare loans and grants, by introducing a 'grant equivalent' system such that reported ODA will be higher for a grant than for a loan, and more concessional loans will earn greater ODA credit than less concessional loans. The methodology is described well [here](#), and is based on four factors: the interest rate; the grace period (i.e. the time from the commitment to the first repayment date of the loan); the maturity (the time from the commitment to the last date the loan is expected to be repaid); and the discount rate (which is used to determine the present value of future repayments). The World Bank also has a handy calculator [here](#).

This methodology captures the estimated benefit to the recipient (equivalent to the 'disbursed cost' – see below), rather than the opportunity cost to the donor. The latter would be better estimated by using a discount rate based on the marginal cost of borrowing – this is currently nearer 0% than the 5% used by OECD-DAC – however, this marginal cost will vary between countries and over time, and we would prefer to use an existing methodology that has already been scrutinised and agreed by donors.

It is thus suggested that this methodology adopt the agreed OECD-DAC approach, adding together grants and grant equivalents to reach a total amount.

3. Which metric of pre-arranged funding should be used?

As pre-arranged funding is, by definition, not disbursed immediately, and insurance payouts can be higher than premiums paid, there are a number of ways to calculate pre-arranged funding amounts, each of which tells a slightly different story. The different ways of calculating these amounts are as follows:

- **Committed by donors:** This is the total amount of funding in the year in which it is committed, such as when an agreement is signed. This figure represents the effective ODA amount being committed by a donor.
- **Disbursed to recipients:** This is the amount of funding in the year(s) in which it is disbursed. This acknowledges that not all pre-arranged funding is accessed; it more fully reflects the impact of the pre-arranged funding to the crisis, and accurately depicts the year in which it is utilised.
- **Available pre-arranged funding:** This represents the maximum amount that has been set aside and that could be triggered in any one year. This means, for example, that funding committed but not used in year 1 would be included again in year 2 because it remains available. This metric avoids the stochastic nature of committed funding, which peaks in year 1, with zero funding in following years.

Table 1: Examples of pre-arranged funding metrics applied to common DRF types

		Contingent grant	Contingent loan	Insurance
Commitment (by donor)	<i>When is it booked?</i>	At time of signing	At time of signing	At time premium (or part-premium) is paid
	<i>How much is booked?</i>	Maximum amount of contingent grant	Grant equivalent of total loan	Cost of premium (or part-premium)
Disbursement (to recipient)	<i>When is it booked?</i>	At time/s of disbursement	At time/s of disbursement	At time/s claim/s is/are paid
	<i>How much is booked?</i>	Amount/s disbursed	Grant equivalent of amount/s disbursed	Claim/s paid
Available	<i>When is it booked?</i>	Each year between time of signing to time fully disbursed or closure of the agreement	Each year between time of signing to time fully disbursed or closure of the agreement	Each year insurance cover is in force
	<i>How much is booked?</i>	Undisbursed balance	Grant equivalent of undisbursed balance	Maximum possible claim payment, i.e. sum insured

Each of these three metrics has its own clear merits: calculating figures for all three would expose different aspects of the issue.

4. Using attributable shares

Some funding can be included in its entirety – such as all donor funds that support Red Cross FbF programmes – but other funding will be included based on its attributable share. Thus, for pooled funds that include a mix of pre-arranged and *ex-post* funding – such as the CRW, CERF, humanitarian country based-pooled funds, etc – a simple calculation will be done to approximate the proportion of pooled funds that are used for pre-arranged funding, and this proportion will be applied to donor contributions to that fund; the proportion will be revisited every year or two. As an example, in the case of CERF, this would be as follows:

- CERF has allocated up to US\$ 140 million for anticipatory action over 18 months (early 2020 to end 2021);⁵
- the estimated total CERF budget for those 18 months = US\$ 1.15 billion.

As such, CERF Anticipatory Action funding is approximately 12% of all its funding in 2020/21, thus 12% of donor contributions to CERF would be counted as direct pre-arranged funding. It is recognised that this 12% figure is an approximation – the spend on anticipatory action is ‘up to’ US\$ 140 million, and the total CERF budget is an estimate – but this is a reasonable approximation. This percentage is likely to change in 2022 and can then be modified for future calculations.

Attributable shares would also be used for insurance – so where a donor has paid x% of an insurance premium, then they would be able to book x% of the payout (for the ‘disbursed’ metric) or of the sum insured (for the ‘available’ metric).

5. Integrated programmes and initiatives

Inevitably, programmes and initiatives are not neatly designed to fit the categories that we are using. There will be some work that incorporates a range of measures – particularly resilience or comprehensive risk management approaches – and some which is hard to define (such as adaptive programming). In terms of programmes, this is likely to be a relatively small amount – the R4 programme is one example where insurance measures are totally integrated with risk reduction, savings, and livelihoods diversification.⁶ In such cases, best estimates will need to be used to identify an indicative percentage of the funding for pre-arranged finance.

6. Access to data and transparency

If donors and IFIs will be calculating the amount of pre-arranged funding themselves, access to data may not be a problem. However, voluntary reporting has clear limitations, considering donors’ ambitious development agendas, the need for reporting on a range of different issues, and overstretched donor administrative departments. Relying on voluntary self-reporting is likely to be insufficient if the objective is to capture progress over time (requiring regular calculations, ideally every year), and across a range of institutions, for peer comparisons and to encourage a race to the top. Thus it may be more realistic to assume that this will need to be done by a specialist external organisation. This obviously means that data need to be publicly available, and this will be challenging considering current levels of transparency. This may result in important funding amounts being missed. For example, information on premium costs and bond pricing is currently not made public, sometimes with reference being made to commercial confidentiality. This speaks

to an important requirement for greater transparency in the DRF space where ODA is involved, and also to the need to develop workarounds for this methodology; perhaps providers could supply percentages/proportions, if not total figures. Further input on this is required.

7. Pre-arranged funding as a percentage of total crisis funding

Calculating the total amount of pre-arranged funding will be a useful exercise in itself and looking at trends over time (in terms of total committed, disbursed, and available funding) will be revealing.

More can be learned by considering the amount of pre-arranged funding as a percentage of total crisis funding, to see if the existing work by the Centre for Disaster Protection on covid-19 (which points to 2% of total spend on the crisis being pre-arranged) and nine natural hazards (2.3% of the total spend) is indicative of the broader crisis financing landscape. To calculate the total amount of crisis funding there are two considerations:

- First, whether to include funding for all crises – including responses to natural hazards, epidemics, economic shocks, and insecurity/conflict. As described above, most pre-arranged funding is for responses to natural hazards, and thus including all humanitarian/crisis spend may seem inconsistent, especially as by far the bigger proportion of global humanitarian funding is focused on fragility and conflict. However, it is likely to be extremely difficult, if not impossible, to separate out the spend on natural hazards from that on other crises, especially where there is a complex emergency. As one example, people in the Democratic Republic of the Congo are food-insecure as a consequence of escalating conflict and displacement, disease, economic decline, natural hazards, and covid-19; it would not be possible or appropriate to separate out the natural hazard proportion.
- Second, how to keep the focus on crisis funding. It would be much simpler to count all ODA, across the humanitarian and development spectrum, but to ensure logical clarity the denominator needs to be crisis funding – defined as funding and financing that promotes and specifically targets prevention, preparedness, and response to crises.⁷ For most donors and institutions, this may be quite straightforward, and is simply all humanitarian funding; for some institutions that have more complex funding streams, this may be more challenging.

Next steps

This short note has been drafted to provide a framework for developing a methodology for calculating pre-arranged funding. The Centre for Disaster Protection is extremely interested in gathering perspectives from donors on the issues raised in this note, canvassing opinions and views on the best way forward, as well as working through the methodology in a live example with a small number of engaged donors. The latter would help to provide a sense check around data availability, to compare the pros and cons of different approaches, and to assess whether the correct balance has been struck between simplicity and accuracy. This will flush out aspects that need to be further elaborated, will strengthen the methodology, both conceptually and practically, and will support a methodology that can be subsequently rolled out for a broad range of donors and institutions.



About this paper

This is a note for discussion. It was written by Debbie Hillier of Oxford Policy Management and Michèle Plichta of the Centre for Disaster Protection as a contribution to the current debate and to the Crisis Lookout Coalition's work on reform of the crisis financing system.

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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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¹ Another estimate is provided in an ODI report: 'Analysing gaps in the humanitarian and disaster risk financing landscape', available here: <https://odi.org/en/publications/financial-flows-mapping-the-potential-for-a-risk-finance-facility-for-civil-society/> This finds that 'predictable funding released based on pre-agreed triggers or plans through regional risk pools and early action systems is equivalent to less than 1% of the UN appeals funding channelled to these crises.' This is not quite equivalent to the Centre's work, which includes contingent loans and the Pandemic Emergency Facility in its calculation of pre-arranged funding, and which includes crisis funding from development sources in its denominator.

² Please note that this is a draft definition that requires peer review.

³ <https://documents1.worldbank.org/curated/en/472101606119818621/pdf/Data-Driven-Development-Response-to-Displacement-Crisis-in-Uganda-The-Displacement-Crisis-Response-Mechanism.pdf>

⁴ www.oecd.org/dac/OECD%20DAC%20HLM%20Communique.pdf

⁵ www.unocha.org/story/un-humanitarian-chief-release-140m-cerf-funds-anticipatory-action-projects

⁶ [/www.wfp.org/r4-rural-resilience-initiative](http://www.wfp.org/r4-rural-resilience-initiative)

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<https://static1.squarespace.com/static/5c9d3c35ab1a62515124d7e9/t/5e8f497f17ee5e7ee2dcfe19/1586448768437/Key+terms.pdf>