THE ROLE OF DISASTER RISK FINANCE IN TACKLING PANDEMIC AND EPIDEMIC RISK

CENTRE FOR DISASTER PROTECTION

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INSIGHT PAPER

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About the Centre for Disaster Protection

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Global health architecture is at an inflection point.

When applying a DRF approach, gaps in current high level proposals begin to emerge as opportunities for reform.

The communiqué issued by the G7 health ministers following their meeting in Nagasaki (13–14 May) sends an important collective signal of intent about proactively addressing future pandemic and epidemic disease risk. While building on preceding G7 proposals from 2021 (Oxford) and 2022 (Berlin), this G7 is the first since covid-19 hit that can look forward, rather than merely respond to the ongoing health crisis. As such, the communiqué coordinates legally and non-legally binding instruments for pandemic prevention, preparedness, and response (PPR), including the World Health Organization (WHO) CA+ Convention, the Political Declaration on PPR and amendments to the International Health Regulations (IHR), which will be adopted in the next year.

The supporting G7 Shared Understanding on Enhanced Finance–Health Coordination and PPR Financing note pushes for enhanced coordination and proposes a new financial three-layers approach for early stage containment of pandemics : (1) initial domestic resource mobilisation, (2) existing multilateral mechanisms and financing instruments, and (3) a new dedicated 'surge' financing framework. This layering strategy is familiar for other risk types (e.g. climate-driven shocks), but first time applied to pandemic and epidemic risk.

Despite such positive signals, both statements are notably, if unsurprisingly, light on next steps or details – including an in-depth examination of where new finance will come from or the conditions under which it will be released and channelled.

This note is intended to begin the process of shifting the discussion on pandemic and epidemic risk finance to a more practical and applied approach that favours pre-arranged plans and finance that is accessible equitably. It outlines key trends in how finance currently flows toward outbreak PPR, identifies key emerging finance initiatives and opportunities governments to help scale up pre-agreed finance, and sets out the potential benefits of applying a disaster risk finance (DRF) lens to new initiatives and mechanisms as they are developed and deployed.

The Cinderella of crisis financing: Epidemic outbreak response

Despite standing to benefit substantially from pre-arranging funding, the health sector has arguably, to date, been under-represented in DRF discussions. The global financing architecture for outbreak response remains today characterised by several smaller scale, often-siloed financing facilities and instruments, predominantly channelled via multilateral institutions (mainly development banks and recently the IMF) and the UN system. Most funding flowing through these instruments and organisations is discretionary grant funding and is often issued post event, in response to a funding appeal.

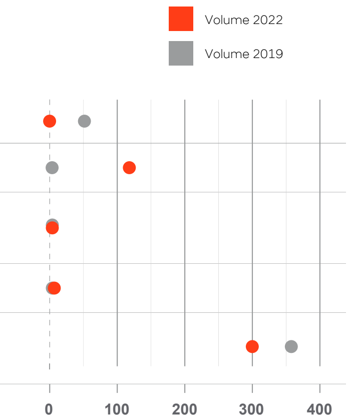
After the 2014 Ebola crisis in West Africa, the international development community took various institutional and operational steps to improve the guidance, investments and financing instruments to support both the timeliness and effectiveness of emergency responses to infectious disease outbreaks. These instruments include notably the World Bank's now defunct Pandemic Emergence Facility (PEF), the only global catastrophic bond designed specifically to respond to severe epidemic and pandemic events in countries receiving funding through the International Development Association.

The Centre for Disaster Protection has recently carried out early-phase work to map the evolving policy and financing landscape in the epidemic response space for the period 2018–22. Initial analysis suggests that in 2019 and 2022 approximately USD420 million has been used annually for epidemic outbreak response,[1] but a significant proportion (more than 70%) through instruments not dedicated specifically to pandemic and epidemic response or pre-arranged ahead of an outbreak.

Currently, and as a result of the lessons learned from the covid-19 global response, contingent loans are the most common and sizeable form of pre-arranged financing available for health emergencies. Typically issued by multilateral development banks, they offer governments rapid access to relatively large amounts of loan financing when specific conditions are met, and if the country declares a state of emergency after the occurrence of a crisis. Activation requirements are therefore somewhat discretionary. Contingent loans were a major source of financing for governments during the covid-19 response, in some cases used on an exceptional basis to grant quick funding to countries. They have since been made a standard loan product by most development banks. However, they are heavily concentrated in countries with stronger macro-economic conditions and are far less likely to be accessible to low-income countries, where some of the deadliest epidemics occur.

Figure 1[2]: The volume spent for outbreak response (excluding covid-19): 2019 vs. 2022 (million USD)

Pre-arranged	Government eligibility as recipient	Instrument	Volume 2019	Volume 2022
Yes	Yes	Sovereign insurance	50	-
		Contingent loans*	4	114
	No	Anticipatory action protocols	3	3
No	Yes	Relief funds	1	2
	No	Humanitarian Pooled Funds	362	300
		Grand Total	**420**	**419**



* Data for contingent loans represents disbursed amounts, as reported in International Aid Transparency Initiative (IATI).

Source: Authors, based on data collection from public sources

1 Excluding funding dedicated for research and development of vaccines and therapeutics and procurement of those vaccines.

2 Based on data collected from Amandeep Singh (2023), Independent Global Health Consultant

A far smaller volume of pre-arranged financing – less than 5% – is linked to specific triggers and clear conditions for its disbursal – confirming the Centre's own findings on a larger scale on volumes of pre-agreed finance available for the covid-19 response. In the absence of a renewal of the PEF in 2020, these pre-arranged instruments dedicated to health emergencies are confined to a handful of examples, including anticipatory action frameworks developed by the United Nations Office for the Coordination of Humanitarian Affairs (UN OCHA) for disease outbreaks in the DRC, Mozambique and Madagascar, or the pilot insurance product launched by Africa Risk Capacity (ARC) in Senegal in 2022. The total volume of funding that they can disburse in any given year is currently less than USD15 million.

First parametric sovereign insurance product for outbreak response.

Last December, African Risk Capacity launched the first parametric insurance product in Senegal against high-impact epidemic risks, intended to deliver predictable funding at the early-response phase of an outbreak or epidemic, before it reaches pandemic level. As it stands, this is the only pre-arranged finance mechanism engaging the private sector and it aims to fill the gap left by the World Bank's now-defunct Pandemic Emergency Fund. But it will not achieve that ambition unless it is scaled up significantly.

While the response to covid-19 has driven an uptick in volumes of funding for and attention to pandemic and epidemic risk financing, including welcome policy and operational changes within major funders,[3] the international architecture and practice remains largely unchanged, with the notable exception of the newly created Pandemic Fund.

Emerging from G20 processes and welcomed by the G7, the Pandemic Fund was established in November 2022 and hosted by the World Bank in partnership with the WHO. It aims to fill the USD10.5 billion estimated annual gap in PPR financing,[4] concentrating funds for investments in PPR by governments via 13 implementing entities. As of July 2023, financial pledges to the Pandemic Fund totalled a record USD2 billion+ from 25 donors – though its first call for proposals from countries and implementers has seen requests exceed USD2.5 billion. The Fund's focus and priority investments are directed to pandemic preparedness. It is not intended to provide the on-tap liquidity needed to support pandemic response – and there is a risk it monopolises the attention of donors to this element of the PPR equation alone. As it is currently set up, the Fund might struggle to measure and demonstrate the impacts of its own investments, and it must articulate the unique value it can bring and be clear on its limitations. This must include clarifying how it fits within the wider health architecture, given implementation will be restricted to a highly limited list of pre-approved World Bank partners.

Staying ahead of the curve: Applying a disaster risk finance lens to epidemic and pandemic risk finance

Timely finance can have a significant impact in tackling epidemic outbreaks, by outpacing the exponential rate at which infection can spread. DRF is the discipline of planning and establishing financing for disasters before they happen through systems that identify and track risks

3 For example, on 3 May 2022, the Board of Directors of the Asian Development Bank approved the recommendations of the policy paper on Enhancing Contingent Disaster Financing, which included expanding the coverage of contingent disaster financing operations to include health emergencies on a permanent basis, in addition to disasters triggered by natural hazards.

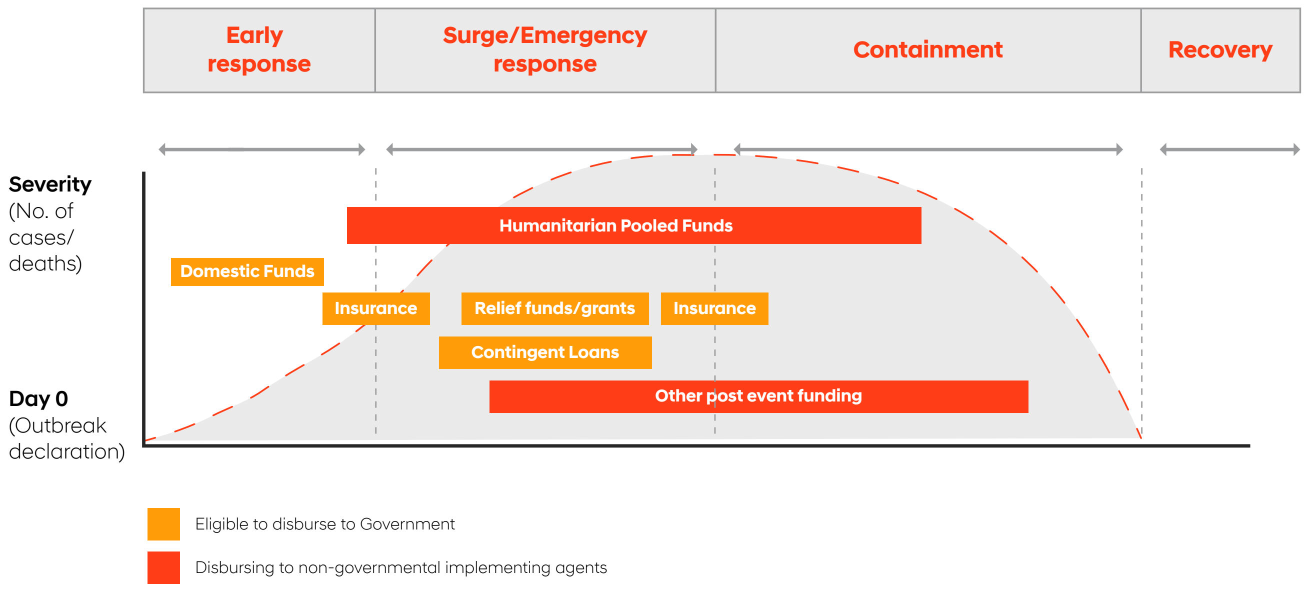
4 Analysis of PPR architecture, financing needs, gaps and mechanisms. Prepared for the G20 Joint Finance & Health Task Force, March 2022 (World Bank 2022).

proactively. DRF instruments range from contingency funds, contingent loans and other budgetary mechanisms to formal insurance contracts and derivatives. The subset of DRF instruments that are considered **pre-arranged financing** have pre-defined conditions for their release, which help to reduce reliance on discretion, and increase predictability and the speed of disbursement. This is assured by objective and quantifiable **triggers** (the conditions under which funding is disbursed) and **planning at national level** (how funding is channelled, to whom and what it is spent on when it is triggered).

There are three broad layers of response funding when a health emergency strikes in a country. These range from domestic funding, including budget reallocations, to contingent credit lines or insurance contracts that are signed in advance and are triggered for release upon meeting the criteria for a health emergency. The last layer includes all post-event sources of finance, such as relief grants and humanitarian response funding, which are routinely budgeted and pooled in anticipation of health emergencies but are released on an ad hoc basis, primarily via the UN and NGOs, after the event has occurred.[5]

Both the G7 communiqué and the Shared Understanding note propose a new dedicated 'surge' financing framework as a final layer of response funding to enable deployment of 'necessary funds quickly and efficiently in response to pandemics without accumulating idle cash'.

Figure 2: Chronology of financing an outbreak response (theoretical, based on previous outbreaks)



Source: Authors, based on data collection from public sources for previous outbreaks

5 For post-event mobilisation of resources and response, the WHO operates a small Contingency Fund for Emergencies (CFE) and UN OCHA operates a modified Central Emergency Response Fund (CERF) for health emergencies, available to UN agencies.

The G7 proposal represents a significant step since judicious use of risk transfer mechanisms for high-severity events can provide an efficient means of providing access to funding without tying up budgetary resources in years in which shocks do not happen – but its framing is key. The sums proposed for this new layer by the most recent WHO/G7 Joint Finance and Health Task Force (JFHTF) paper far greater than the Pandemic Fund (USD30 billion). The surge finance facility needs to complement the Pandemic Fund's investments in preparedness and detection and be activated at the onset of a new pandemic (0–6 months after an outbreak starts) to initiate international response measures to reduce transmission and mitigate direct health impacts. At a time of straitened resources,[6] donors are unlikely to agree to ring fence large volumes of funds to be made available in days or weeks on a 'just in case' basis. But agreeing reliable conditions for funds release *in advance*, as well as the conditions for activation and the coordination mechanisms between international actors, will be critical to the credibility and viability of the surge proposal, even before money is being put aside for the next pandemic.

For the G7 to succeed with the layering mechanism, DRF mechanisms and approaches ought to be the norm in designing financing instruments that pay for outbreak response. The discipline of developing DRF systems for the emergency response to other crises brings with it important lessons about *how* to leverage, layer and connect new funding sources and actors and prioritise allocations though clearly defined triggers.

While a proposed new global finance surge mechanism for pandemic risk shows the right level of ambition, it will rerun its predecessors' failings unless we first get in place the right layers to make it viable. Critically, a *global* pandemic response mechanism can only be viable if proper *national*-level mechanisms and plans are first established to hold and absorb finance dedicated to response, to better address epidemic risk at the outbreak stage and head off those risks that can be managed earlier.[7] The most recent paper on surge finance specifically notes that the outbreak response expenditures that should be paid for domestically are not considered in the estimate of the financing need for the next pandemic.

What next?

The G7 Shared Understanding note highlights the need to strengthen finance and health co-ordination by addressing gaps and mapping existing funding mechanisms. The World Bank and WHO attempted in 2021 to map for the first time the 'funding gap' for outbreak response, noting that no institution nor financing mechanism solely focused on it. The next mapping phase, under the leadership of the G20 Joint Finance and Health Task Force, was asked for in the G7 communiqué. It should build on this work and include direct consultation with countries beyond HQ levels, and a consideration of more than just WHO and Bank instruments in terms of possible scalable sources of funding. There is significant existing expertise and information from beneficiary countries, regional banks and the private sector for this process to draw on to constitute a genuinely collaborative and consultative process.

High-level meetings at the UN General Assembly in September – including on pandemic PPR – offer a moment to assess priorities half-way between when the Nagasaki health ministers' communiqué was released, and Japan concludes their G7 presidency. There is a critical opportunity in the months ahead to make bold and concrete progress on the ambition that the G7 has laid out, to integrate DRF disciplines and mechanisms across reforms in all three layers,

6 The ongoing consultations by the Intergovernmental Negotiating Body on the pandemic treaty with member states and other global stakeholders on pandemic accord (WHO CA+) had initially called for member states to prioritise and increase or maintain domestic funding by allocating in its annual budgets not lower than 5% of its current health expenditure to PPR and health systems recovery. However, in the latest draft, dated 2 June 2023, this proposed article has disappeared (WHO 2023)

7 Note that we define pandemic phases according to the WHO (NCBI 2023).

and to meaningfully scale up pre-agreed finance for health crises to make lasting change in the way we manage pandemic and epidemic risk.

As the incoming G7 president, Italy has a unique opportunity to build both on Japan's leadership and the legacy of its own G20 presidency in the middle of the covid-19 pandemic. For example, the G20 Joint Finance and Health Task Force was launched during the G20 Italian presidency in 2021 and intended to bring a multi-year planning horizon to 'improve readiness for large-scale pandemic response interventions.' The G7 Shared Understanding note reinforces the importance of the G20 Joint Finance and Health Task Force, so embedding in a similar way other working practices and strengthening co-ordination between G20 and G7 initiatives will be critical to avoid further fragmentation and dilution of an otherwise still fragile outbreak response finance space. It should seize this opportunity to build a more inclusive, cohesive and DRF-driven system when designing the next generation of pandemic and epidemic risk finance instruments.

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