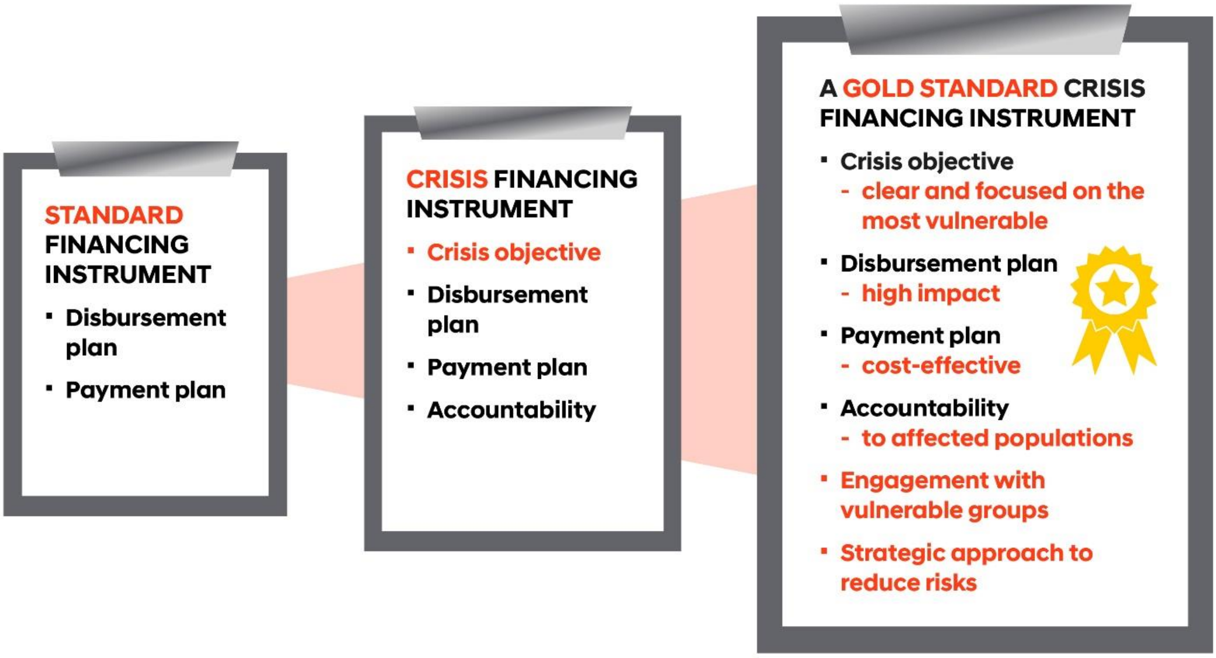
What are crisis financing instruments and what do they look like?

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

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. Examples include loans (an amount called the loan principal is disbursed at the start of the loan; the loan is paid in a series of future repayments); contingent loans (the loan principal is disbursed after an eligible event; the loan is paid in an arrangement fee plus a series of future repayments); and insurance products (a claim payment is disbursed after an insured event occurs; a premium payment is paid up front).

Financing instruments have a key role to play in strategies and commitments to address crisis prevention, preparedness, and response requirements. 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 would 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.

Key definitions

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 financing instruments

The combination of a crisis objective, payment plan, disbursement plan, and accountability mechanism, which together contribute to crisis prevention, preparedness, and response.

About the Future of Crisis Financing report

The above concept and content was developed for The Future of Crisis Financing: A Call to Action by Lydia Poole, Daniel Clarke and Sophia Swithern (2020)—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. It 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

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

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