A vision for a future crisis financing system

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

An effective international 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 should function as a global safety net in times of crisis, and support and enable prevention and preparedness against future risk.

Currently, crisis response financing is discretionary, fragmented, and highly unpredictable. There is no system to evaluate or assess the adequacy of financing capabilities in meeting current or future demand—and there are structural disincentives for governments and international actors to prioritise prevention and preparedness. Moreover, there is a risk that continuing on a path of fragmented reform and instrument-led innovations could lead to more complicated and more costly crisis financing—and that fundamental systemic weaknesses and gaps will be overlooked. Further, the current system 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.

In order to bring coherence to the discourse, The Future of Crisis Financing: A Call to Action proposes a new concept and definition of crisis financing, and a vision and logic for a more effective international crisis financing system. This extract sets out the following.

- What might a new system look like?
- What are the key elements of the proposed new logic?
- What is the role of government and international actors?
- What is the role of communities?
- Key definitions
What might a new system look like?

What are the key elements of the proposed new logic?

Pre-agreed financing deals and packages for predictable needs and modellable risk

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.

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.
Discretionary ex-post funding for 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’.

System-level surveillance

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.

Risk-conscious development investments and approaches

Crisis financing should be underpinned by risk-conscious development investments and approaches. This includes investments in prevention and delivery systems as well as the enabling conditions for pro-active management of crisis risk, such as monitoring and analysis and response planning.

What is the role of governments and international actors?

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 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.

What is the role of communities?

Building crisis financing and response systems in advance of a crisis, and negotiating longer-term approaches to achieve more reliable financing responses, provide the perfect opportunity to build in engagement through design, targeting, and implementation phases.
The involvement of the primary client group is fundamental to ensuring that the right problems and the right people are targeted, and that instrument design is not driven by novelty or other provider priorities. Participation also improves design in very practical ways. It can help to increase the targeting accuracy of crisis finance triggers by bringing in local knowledge and unforeseen variables.

**Key definitions**

**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.

---

**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 Swithin (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

April 2020