

# FINANCING PREPAREDNESS



**WORLD HUMANITARIAN SUMMIT  
PUTTING POLICY INTO PRACTICE**

**THE COMMITMENTS INTO ACTION SERIES**

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## *The Commitments into Action series*

Humanitarian needs continue to grow, with millions of people affected by conflicts, natural disasters and other crises every year. Simultaneously, these shocks undermine development gains and block the path out of poverty and towards sustainable development. Furthermore, these negative events can destabilise neighbouring countries and have regional or even global repercussions.

And yet, many humanitarian crises remain underfunded or forgotten. Donors and operational agencies make hard decisions about which operations to prioritise and which to let go. In short, there is insufficient quality money — money to reach all those in need, to purchase what they need and when they need it. Human suffering continues unabated.

In May 2016, the World Humanitarian Summit reflected on the shifting nature of crises and on the need for new ways of funding and delivering humanitarian assistance, so that humanitarian aid can remain a key and effective tool for the critical task of saving lives and preserving livelihoods. The question of how to better finance humanitarian operations — including how to finance some of the emerging good practices and new ways of working in humanitarian crises — was seen as key to delivering a better response.

The OECD, under its mandate to monitor the effectiveness of aid and to promote peer learning, will continue to support its members to deliver on the commitments they made at the Summit, especially the commitments around better humanitarian financing.

As part of this work, the Commitments into Action series was developed to provide straightforward, practical guidance for OECD Development Assistance Committee members and other humanitarian donors. It is aimed at helping them translate their humanitarian policy commitments into quality results in the field, deliver better finance and better engage with the humanitarian community on the key issues surrounding humanitarian responses in modern crisis situations. The series specifically targets professionals in donor agencies making decisions about humanitarian funding.

All guidelines are available on a dedicated website designed for humanitarian donors:  
<http://www.oecd.org/development/humanitarian-donors/>.

**Table of Contents**

- 1. Introduction..... 1
- 2. Description and definition..... 1
- Source: IASC, 2013 ..... 3
- 3. Why disaster preparedness is important ..... 3
- 4. Commitments..... 4
- 5. How donors can support preparedness ..... 5
- 6. Administrative preparedness ..... 12
- 7. Risk analysis ..... 13
- 8. Co-ordination and co-operation..... 13
- 9. Impact and monitoring ..... 13

## 1. Introduction

There is growing acknowledgement that the current business model for humanitarian assistance does not adequately prepare for disasters. (UN, 2017) Yet the human and financial benefits of preparedness are clear: preparedness saves lives and saves money. In the absence of preparedness actions, it costs more and takes longer to respond to humanitarian needs when a disaster strikes and when humanitarian needs peak. While many countries have preparedness strategies, only a minimal proportion of aid goes to disaster risk reduction or preparedness. In 2015, it represented only a very small proportion of total bilateral humanitarian official development assistance. (UN, 2017)

Investing in preparedness makes sense in many ways. Donors will still need to respond to emergency needs. But preparedness, rooted in comprehensive risk and contextual analysis, can maximise the potential of response funds to meet humanitarian needs in a more timely, appropriate and effective manner.

Preparedness also helps manage the critical phases of shocks so that systems, communities and households have the best chance to recover from and manage the impact of crises. Preparedness also help to mitigate the impact of disasters when they hit, and ensure humanitarian responses can address needs effectively and efficiently.<sup>1</sup>

The momentum for disaster preparedness has grown considerably in the last few years, following several extreme climate events and health pandemics. The 2016 World Humanitarian Summit underscored the importance of disaster preparedness, initiated and strengthened a number of preparedness initiatives. These aim to help reach an essential level of readiness in order to reduce the suffering and loss of life and dignity from disasters, and to ensure that development gains are not lost when disaster strikes. New instruments, including innovative financing and insurance mechanisms, are now available to support preparedness.

This guideline reviews some of the options available for effective financing disaster preparedness and looks at how donors can increase efficient humanitarian response. It focuses on direct and simple actions that humanitarian donors can take within existing channels and modalities to better finance preparedness.

## 2. Description and definition

**Preparedness:** According to UN Inter-Agency Standing Committee (IASC), which is the primary mechanism for co-ordination of humanitarian assistance among UN agencies and partners, preparedness is the ability of governments, professional response organisations, communities and individuals to anticipate and respond effectively to the impact of likely, imminent or current hazards, events or conditions, the knowledge and capacities developed by governments, professional response and recovery organizations, communities and individuals to effectively anticipate, respond to, and recover from, the impacts of likely, imminent or current hazard events or conditions. (IASC, 2011)

For donors, preparedness means investing in systems that will allow national authorities and humanitarian organisations and communities to be aware of and anticipate risks, and allows them to deploy staff and resources quickly and effectively once a crisis strikes. Those may include early warning systems, ongoing risk and vulnerability assessment, capacity building, creation and maintenance of stand-by capacities, and the stockpiling of humanitarian supplies. (UNISDR/OCHA, 2008)

**Disaster risk reduction:** According to the UNISDR, Disaster risk reduction is analysing and reducing and/or preventing the factors that cause disasters. Examples include reducing exposure to hazards,

making people and property less vulnerable to disasters, managing land and the environment wisely, and improving preparedness and early warning for adverse events.<sup>2</sup>

**Risk financing:** Risk financing is a financing strategy to ensure that adequate funds are available to meet financial needs should a disaster occur. Such financing can be established internally through the accumulation of funds set aside for future use (acting as a financial reserve) or obtained externally through prearranged credit facilities. (OECD, 2012)

**Risk transfer:** Risk transfer is a process of shifting the financial consequences of particular risks from one party to another. For example, insurance, such as climate risk insurance, is a well-known form of risk transfer, where an insurer covers a risk and receives in exchange ongoing premiums (UNISDR, 2009).

Table 1 presents categories of emergency preparedness and focus areas, adapted from the common framework for preparedness.

**Table 1. Preparedness matrix - Categories of emergency preparedness focus areas**

<b>Preparedness matrix</b>	
<b>Categories of emergency preparedness Focus areas</b>	
<b>Hazard/risk analysis and early warning</b>	<ul style="list-style-type: none"> <li>• Strengthen early warning systems and dissemination (local, national, regional, international).</li> <li>• Hazard/risk analysis.</li> </ul>
<b>Institutional and legislative frameworks</b>	<ul style="list-style-type: none"> <li>• Donor engagement and representation in institutional and legislative frameworks, resource allocation and funding mechanisms.</li> <li>• National plans of action, national platforms, national disaster management authorities.</li> <li>• International and regional agreements.</li> </ul>
<b>Resource allocation and funding</b>	<ul style="list-style-type: none"> <li>• National and regional risk pooling mechanisms through nationally available resources.</li> <li>• International agency emergency funding arrangements including risk pooling mechanisms (external) and core emergency program budgets (internal).</li> </ul>
<b>Co-ordination</b>	<ul style="list-style-type: none"> <li>• Government co-ordination mechanisms.</li> <li>• National/sub-national leadership structures.</li> <li>• Inter-agency co-ordination at national and sub-national levels</li> <li>• Contextual standards established by cluster and sector.</li> </ul>
<b>Information management and communication</b>	<ul style="list-style-type: none"> <li>• Information management systems (national, regional and international).</li> <li>• Communication systems.</li> <li>• Cluster and sector information management systems.</li> </ul>
<b>Contingency/preparedness and response planning</b>	<ul style="list-style-type: none"> <li>• Community preparedness.</li> <li>• Contingency/preparedness and response planning.</li> <li>• Ensure the contingency planning process is realistic rather than idealistic.</li> </ul>

<b>Training and exercises</b>	<ul style="list-style-type: none"> <li>• Simulations and drills in the presence of national and/or international actors.</li> <li>• Accredited training opportunities.</li> <li>• Specific country-context training opportunities.</li> </ul>
<b>Emergency services, standby arrangements and prepositioning</b>	<ul style="list-style-type: none"> <li>• Stockpiling (national, regional, international).</li> <li>• Cash systems and national and other social protection systems.</li> <li>• Civil protection, emergency services, search and rescue.</li> <li>• Contingency partnership agreements (national, regional, international).</li> <li>• Human resources, standby agreements.</li> </ul>

Source: IASC, 2013

### 3. Why disaster preparedness is important

Donors and humanitarian actors long have strived for finding ways to reduce the lag time between outbreak of a disaster and humanitarian aid delivery. But the humanitarian financial system remains essentially reactive and focuses on responding to disaster rather than preparing for them.

By improving the speed and quality of assistance provided, preparedness can make a major difference in saving lives and reducing human suffering. For donors investing more on preparedness pays off as it can also increase the value for money of relief action and ensure that scarce resources are directed to where they will have the greatest impact.

#### Preparedness increases efficiency

When a disaster occurs, humanitarian needs appear immediately and escalate rapidly. Response to a large-scale disaster can be immediate, notably in the form of emergency assistance that military or civil protection services provide. For all types of crises donors can also support the humanitarian system, generally under the umbrella of a humanitarian response plan, which is how most humanitarian finance is channeled. However, this type of financial support is generally unpredictable or can be insufficient to meet relief, recovery and reconstruction needs, as the financial gap in the global humanitarian response demonstrates (OCHA, 2017). Better financial preparedness against risks is a central part of a comprehensive approach to disaster management; it means that funds arrive earlier, aid is delivered faster and efficiency increases.

#### Preparedness decreases costs

Prepositioning emergency relief through a regular logistical chain and training national and local capacity in an area that is prone to recurrent disaster clearly will cost less than flying in emergency relief and international experts during an emergency.

Similarly, failure to make adequate financial provision against risk is extremely costly for individuals and governments who face a crisis as well as for donors. The cost of responding to a disaster is greater when no one was prepared for it. Donors can also face reputational risks when crisis response is delayed. As noted by Poole (2014), humanitarian agencies generally blame late funding for any delayed humanitarian response. All of the studies of the cost benefits of preparedness find a positive return on investment. Recent research shows that the average return on investments in preparing for emergencies is 2:1, with some significant investments yielding as high as 7:1. Preparedness also saves one to six weeks of time. (The Boston Consulting Group, 2015)



### **Preparedness can enhance national and local leadership**

When disaster strikes local actors are often the first to respond. Government and national or local organisations can rapidly mobilise their resources to respond to a disaster. Donors should first and foremost ensure that local actors are equipped with a proper emergency preparedness capacity because they will save most of the lives and assets after a disaster.

Moreover, supporting local actors ahead of crises strengthens local leadership, which can be more acceptable for both the government and population than high profile international support in the affected country. In strengthening local and national capacities to respond to shocks and minimise loss of lives and livelihood, preparedness also enables a quicker recovery. (Harris, 2013)

### **Preparedness increases resilience and can bridge humanitarian and development funding**

Good preparedness requires humanitarian and development actors to work together. It starts with a solid risk analysis. This can increase coherence of disaster preparedness with disaster risk reduction and risk management programmes and activities that address risks from a development perspective. Such a joint approach can also boost the population's resilience to shocks. For example, a social safety net can address humanitarian needs and preserve livelihoods when it is designed to increase the scope of its coverage in case of extreme weather events.

### **Preparedness decreases the humanitarian carbon footprint**

The humanitarian community is increasingly mindful of the potential environmental impact of its activities. The humanitarian response to disaster can have a considerable carbon footprint, especially when resources are sent from far off destination. (UNEP/OCHA, 2014) For example, bringing in relief items by airlift multiplies greenhouse gas emissions. Therefore, preparedness can considerably reduce the carbon footprint.

## **4. Commitments**

The importance of crisis preparedness has long been acknowledged, and is rooted in a broad range of international commitments and technical guidelines. Most recently, the World Humanitarian Summit addressed and encouraged better emergency preparedness, notably through the Global Partnership for Preparedness (UN Multi-Partner Trust Fund Office, 2017). The table below shows some of the main international agreements and commitments that include provisions on preparedness.

<b>Sustainable Development Goals (SDGs)</b>	<p>SDG 1.3: Implement nationally appropriate social protection systems and measures for all including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.</p> <p>SDG 1.5: By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate related extreme events and other economic, social and environmental shocks and disasters.</p>
<b>Sendai Framework for Disaster Risk Reduction 2015-2030</b>	<p>Priority 4: Enhancing disaster preparedness for effective response and to “Build Back Better” in recovery, rehabilitation and reconstruction.</p>
<b>Agenda for Humanity</b>	<p>Change people’s lives: from delivering aid to ending needs Core responsibility four-B: Anticipate, do not wait for crises. (para 118- 122)</p>
<b>Good Humanitarian Donorship</b>	<p>Principle 1: The objectives of humanitarian aid are to save lives, alleviate suffering and maintain human dignity during and in the aftermath of man-made crises and natural disasters, as well as to prepare and strengthen preparedness for the occurrence of such situations.</p>

## 5. How donors can support preparedness

Donors can support preparedness through financing mechanisms that allow funds, capacity and relief items to be ready ahead of a crisis. At the minimum, donors should be prepared for potential disasters in their development partner countries and may choose to support preparedness in other countries based on a comprehensive risk analysis that balances the likelihood a disaster may occur against the human and financial cost of not being prepared.

There are three main ways for donor to support preparedness:

1. Preparing funds for an early response, making sure that money is already available before a disaster hits so that humanitarian actors can start their relief operation immediately.
2. Preparing partners for early action is about financing activities ahead of disaster so that they are prepared before the shock, mitigating the impact of disaster on the population.
3. Protecting the most vulnerable is a way for individuals or governmental system to be protected against losses that are induced by a disaster.

Disaster preparedness can take many forms, of which some examples are listed below.

## 1 - Preparing funds for an early response

### *Emergency financial reserve*

Many donors include an emergency reserve in their annual humanitarian budget that is available for unforeseen events requiring urgent funding. Any leftover funds are released at the end of each financial year and made available for regular activities, if no crisis requiring them occurs in the budget cycle. Emergency reserves provide donors a degree of financial preparedness: funds are available, can be released rapidly and help to shorten the lag time between the crisis onset and delivery of aid funds. Good practice is to create drawdown arrangements with humanitarian partners – prearranged contracts that let partners access a certain amount of funds immediately following a disaster, with minimal administrative procedures. Donors should work out in advance how to use funds leftover or unused under these drawdown agreements at the end of the financial year to improve the predictability of financing.

<b>Interest for donors</b>	<ul style="list-style-type: none"> <li>– Funds are easy to access and to use.</li> <li>– Early response is possible in case a crisis hits.</li> </ul>
<b>Risk for donors</b>	<ul style="list-style-type: none"> <li>– Rushed administrative process to disburse unused funds before the fiscal year ends.</li> </ul>
<b>What donors can do</b>	<ul style="list-style-type: none"> <li>– Enhance predictability with drawdown agreements with selected partners for rapid response.</li> <li>– Consider using some of the emergency financial reserve to support direct preparedness on a risk-informed basis.</li> </ul>

### *Building contingent capacity for disasters into planning processes*

Development planning processes rarely plan for and build in contingent financing capacity against risk, even in countries where shocks are common and predictable. It is, therefore, good practice for donors to ensure that contingency planning for known risks, such as seasonal hazards like droughts and hurricanes, are systematically included in development and humanitarian plans. These contingency sections of the overall plans should also have potential funding sources attached, so that when disaster strikes relief providers know immediately where funding for the response will come from, and do not have to undertake a lengthy appeals process. Donors should be up front about how they will be able to release funds to respond to these contingencies.

<b>Interest for donors</b>	<ul style="list-style-type: none"> <li>– Financing for high probability, high impact disasters is already built in to planning processes.</li> </ul>
<b>Risk for donors</b>	<ul style="list-style-type: none"> <li>– Donors may be unable to commit contingent financing up front.</li> </ul>
<b>What donors can do</b>	<ul style="list-style-type: none"> <li>– Raise awareness of the need to include financing and planning for disasters in all development and humanitarian planning processes.</li> <li>– Support actors in-country to think about risk financing and risk transfer mechanisms, or other financing mechanisms for high probability, high impact disasters.</li> </ul>

### *Global and country-based pooled funds*

Pooled funds provide a way to pre-position funds ahead of a crisis so that money is available up front, either at global level or at country level. The United Nations Central Emergency Response Fund (CERF) and other pooled funds act as an external and pooled emergency reserve. They can allow rapid disbursement of funds. However, pooled funds such as the CERF or humanitarian country-based pooled funds primarily focus on saving lives and emergency response, not on preparedness or pre-positioning items. Non-governmental organisations (NGOs) have also created an anticipation window within the NGO-managed START Fund (START, 2016).

<b>Interest for donors</b>	<ul style="list-style-type: none"> <li>– Early response is possible in case a crisis hits.</li> <li>– Funds are easy to disburse, without specific risk analysis.</li> <li>– Strengthens partnership with the humanitarian community.</li> <li>– Confidence to respond to humanitarian needs in a more coherent way.</li> </ul>
<b>Risk for donors</b>	<ul style="list-style-type: none"> <li>– Some pooled funds require funds to be used within a certain time frame that may not be adequate for the context.</li> <li>– Slow disbursement from some pooled fund defeats the added value of rapidly available prepositioned funds.</li> <li>– limited visibility for donor’s contribution.</li> </ul>
<b>What donors can do</b>	<ul style="list-style-type: none"> <li>– Support pooled fund.</li> <li>– Ensure pooled funds disburse rapidly by being active at board level.</li> <li>– Discuss visibility arrangements with CERF or pooled fund management teams.</li> </ul>

### *Disaster Relief Emergency Fund (DREF)*

The International Federation of Red Cross and Red Crescent Societies established the Disaster Relief Emergency Fund (DREF) in 1985 to provide immediate financial support to National Red Cross and Red Crescent Societies. The DREF acts as a loan facility only for those national societies in countries affected by a disaster. This includes small-scale disasters. Both the loan and the grant facilities are also used to help national societies prepare for imminent crises. Funds for DREF are sought through an annual appeal (IFRC, 2012).

<b>Interest for donors</b>	<ul style="list-style-type: none"> <li>– Early response is possible when a crisis hits.</li> <li>– Funds are easy to disburse.</li> <li>– Supports national actors.</li> <li>– Ensures response to humanitarian needs, including after small-scale disasters.</li> </ul>
<b>Risk for donors</b>	<ul style="list-style-type: none"> <li>– Possible limited visibility for donor’s contribution.</li> </ul>
<b>What donors can do</b>	<ul style="list-style-type: none"> <li>– Support DREF as part of their effort to strengthen local responses.</li> <li>– Discuss visibility arrangements with the IFRC.</li> </ul>

## **2 - Preparing partners for early action and immediate response**

### *Emergency supply pre-positioning and training*

Demand for relief materials spikes in crises, as does the price of commodities and transportation. Stockpiling critical supplies in strategic locations in anticipation of future emergencies is a traditional

preparedness activity. Most countries and fragile contexts manage emergency supply items through a national disaster management agency (NDMA) or Ministry of Health. Humanitarian actors such as UN agencies, Red Cross and Red Crescent Societies, and the larger humanitarian NGOs also maintain emergency stocks and logistical capacities.

Pre-positioning items and training field staff to respond can address regular and foreseeable humanitarian needs. For example, humanitarian actors reliably forecast peaks in malnutrition in the Sahel or the Horn of Africa. Yet it is challenging for those humanitarian actors and for governments in landlocked countries to keep a regular inflow of Ready to Use Therapeutic Food (RUTF), the most critical item for managing malnutrition cases. Donors who maintain long-running responses to protracted or recurrent crises may consider supporting pre-positioning such items, either through direct funding to NEDMAs, to a logistics cluster or to other relevant organisations. This would lower costs and increase efficiency. It is also good donor practice to permit stock replenishment by partners as part of a humanitarian response.

Prepositioning emergency supply needs to be accompanied by well-trained staff and solid partnership arrangements, if they are to be effective.

<b>Interest for donors</b>	<ul style="list-style-type: none"> <li>– Prepositioned stock can be used for emergency response.</li> <li>– Early response is possible in case a crisis hits.</li> <li>– Partnerships developed through support to training and simulations.</li> <li>– Increased visibility can be sought with partner.</li> <li>– Cost-efficiencies when agencies jointly manage stock.</li> <li>– Buying stocks when prices are good is less expensive than waiting for crisis time when prices can increase sharply.</li> </ul>
<b>Risk for donors</b>	<ul style="list-style-type: none"> <li>– No crisis occurs in the year of support.</li> <li>– Stock expires, if they are not used.</li> </ul>
<b>What donors can do</b>	<ul style="list-style-type: none"> <li>– Combine funding for pre-positioning and partner capacity building, and training for emergency.</li> <li>– Consider stock replenishment as eligible and as part of emergency response.</li> <li>– Establishes preparedness arrangement with partners.</li> </ul>

### *Forecast-based financing*

Forecast-based financing is an innovative approach that triggers humanitarian action and funding for preparedness, based on forecasts of extreme weather and climate conditions. Humanitarian responders, meteorological services and communities agree on specific preparedness actions that are worth carrying out once a forecast reaches a certain threshold of probability. Each action is allocated a budget and funds are disbursed automatically once the threshold is reached, according to predefined standard operational procedures. This requires weather data to be accurately measured and accessible for forecast-based financing to be most effective in situations that are likely, but not certain. (Coughlan de Perez et al., 2014).

Such innovative financing is gaining traction, and alongside ongoing pilot projects, such as Germany’s partnership with the IFRC (Box 1), the World Food Programme (WFP) has also developed the Food Security Climate Resilience Facility- a multilateral, multi-year, replenishable fund that combines preparedness, resilience building and early action, based on weather forecasts (WFP, 2015).

Interest for donors	<ul style="list-style-type: none"> <li>– Confidence that trusted partners link early warning with early action.</li> </ul>
Risk for donors	<ul style="list-style-type: none"> <li>– Disasters just under parametric thresholds can have significant economic impacts, rendering the scheme irrelevant.</li> <li>– Inadequate data quality or measurement.</li> </ul>
What donors can do	<ul style="list-style-type: none"> <li>– Consider supporting existing forecast-based financing mechanisms (such as social protection or micro-insurances) or ensure coherence with existing weather severity thresholds.</li> <li>– Ensure that quality weather data is available.</li> </ul>

**Box 1 – Forecast-based Financing (FbF) partnership between Germany and the International Federation of the Red Cross and Red Crescent Societies.**

Many climate-related hazards can be forecasted, and humanitarian actors have access to information about when and where to expect extreme weather events such as storms, floods or droughts. The German government supports the German Red Cross and the International Federation of the Red Cross and Red Crescent Societies (IFRC) in the creation of an anticipatory humanitarian system that acts on increased risk of climate extremes before a disaster happens. In this system, funds for agreed humanitarian preparedness actions are released after a forecast is issued and before a potential disaster strikes.

With forecast-based financing (FbF), the Peruvian Red Cross and its partners have better prepared for possible floods in Peru during El Niño years. They have defined guidelines regarding who takes action and when, where and with what funds, based on forecasts. These actions may include the purchase of materials to reinforce houses when a seasonal, or a three-month, forecast predicts floods, for example. Then, if a short-term, or a seven-day, forecast indicates that flooding is likely, the Peruvian Red Cross immediately distributes the materials and residents can quickly reinforce their homes.

The success of FbF depends on a co-ordinated effort by a range of actors, including meteorologists, climate scientists, humanitarian and development actors, governmental authorities, donors and local communities. Together, these partners determine the preparedness actions to be taken as thresholds of forecast risk are met. Each preparedness action, defined in advance, is budgeted so it can be implemented quickly when needed.

No forecast is 100% certain and forecast-based financing presupposes that a forecasted extreme event may not always materialise. But the essence of FbF is that over time, “the losses implied by occasionally ‘acting in vain’ will be more than offset by the added benefits of scientifically enabled early action” before a disaster does materialise.

*Source:* German Red Cross (2016)

***Investing in the building blocks of a good response***

A number of building blocks need to be in place if preparedness efforts are to be fully effective. Forecasts and early warning systems, disaster risk mapping and analysis, co-ordination mechanisms, such as UNDAC,<sup>3</sup> or an efficient and co-ordinated civil protection are examples of the existing building

blocks on which any preparedness measures should be built. Investing in such preparedness activities is good practice.

<b>Interest for donors</b>	<ul style="list-style-type: none"> <li>– Risks assessment is based on credible data and analyses.</li> <li>– Partners are ready for preparedness activities and early response in case of disaster.</li> </ul>
<b>Risk for donors</b>	
<b>What donors can do</b>	<ul style="list-style-type: none"> <li>– Consider supporting existing forecast mechanisms with multi-year agreements.</li> <li>– Link their civil protection training or early response mechanisms with existing co-ordination platforms such as UNDAC or the European Civil Protection, when relevant.</li> </ul>

## Protecting the most vulnerable in case of crisis

### *Social protection*

Social protection, including social safety nets, is recognised as a key instrument for protecting individuals from shocks. When it is designed to quickly provide support in response to a shock, social protection (but also humanitarian cash-based responses) can be considered as a preparedness mechanism.<sup>4</sup>

Although national governments remain responsible for the design and management of social protection programmes in their countries, humanitarian donors can play a role in strengthening existing policies and supporting the creation of new social protection systems in areas where these programmes do not exist or are underdeveloped. In contexts that are exposed to shocks, donors can support the national social protection system’s ability to respond to shocks, and notably, its ability to quickly and effectively increase the number of beneficiaries to include those newly affected by crises. Within the framework of their development activities, donors can engage with the government’s social protection system and create linkages with humanitarian cash programmes as a preparedness measure. At the very least donors should ensure the harmonisation of criteria used to determine the beneficiaries of each programme.

<b>Interest for donors</b>	<ul style="list-style-type: none"> <li>– Create a sustainable system to help protect the most vulnerable and the poorest in a partner country, in line with SDG 1.</li> </ul>
<b>Risk for donors</b>	<ul style="list-style-type: none"> <li>– Government resistance to add disaster response windows in existing social safety nets.</li> <li>– Crisis affected people are not covered by the social protection payment system. This may especially impact displaced people.</li> </ul>
<b>what donors can do</b>	<ul style="list-style-type: none"> <li>– Undertake public financial management assessment of national systems and programmes before a crisis strikes.</li> <li>– Explore options to support cash response preparedness with the humanitarian country team.</li> </ul>

### *Climate risk insurance at micro level*

Climate risk insurance is a risk transfer mechanism that pays out to policy holders according to weather data (rather than losses as for classical insurance scheme), and can provide timely assistance and

security to people most vulnerable to extreme climate-related events. Climate risk insurance is based on an index or a set of parameters correlated with the intensity of the climate-related event such as wind speed or rainfall during a certain window of time; the data may be collected by a weather station, a satellite or a mobile phone network.

At the micro level, individual policies are usually aggregated by co-operatives or NGOs. Individuals and households require the financial capacity to save, borrow and purchase insurance – together with a sufficient understanding of these products to make informed choices. Despite a high rate of financial exclusion in most countries affected by humanitarian crises, micro-insurance schemes and initiatives are increasingly prevalent in the development arena, even if accessibility of insurance to the poor remains a challenge (Box 2).

**Box 2 –Agricultural weather-index insurance in Sri Lanka**

The Federation of Thrift and Credit Co-operative Societies of Sri Lanka (SANASA) is an umbrella organisation for community-based micro-insurance companies that are committed to raising the standard of living of low-income Sri Lankan families. This organisation developed a co-operative insurance model for weather-based crop insurance specifically adapted to the Sri Lankan environment. SANASA designed an index product for paddy farmers in 2011 and another product for tea farmers in 2012, with the goals of increasing investment by farmers and improving harvests and livelihoods. The insurance, for example, provides financial liquidity after a disaster for farmers to overcome any financial challenge as well as additional coverage for funeral assistance and health that is bundled with the weather index insurance. Farming families were able to improve their situations to some extent and the 40 to 50 percentage of renewal rate was seen as positive. However, an evaluation of the project found challenges, including reaching the poorest households and getting reliable rainfall data that farmers trust from the Sri Lankan meteorological department. It also recommended a comprehensive customer survey to be done before launching such products and analysis of the correlation between rainfall and agricultural yield.

*Source:* Schaefer and Waters, 2016.

Such insurance products are adequate to protect and prepare against punctual and irregular extreme weather. But they are unfit to protect against global risks such as desertification or sea level rise. Nor are they suited to protect against regular low-intensity weather events for which support to adaptation and safety nets can be more cost effective.

<b>Interest for donors</b>	<ul style="list-style-type: none"> <li>– Possible promotion of financial inclusion.</li> <li>– Links with the private sector that provides risk capital, expertise and technology.</li> </ul>
<b>Risk for donors</b>	<ul style="list-style-type: none"> <li>– Public/private partnerships can lead to unbalanced risk sharing with the private sector that can receive significant yield benefits, whereas the public sector covers only losses.</li> <li>– No buffer partner available, such as a UN agency or an NGO, to mitigate and share risks in case of difficulties with the programme management.</li> <li>– Weather data collection is not granular, leading to inclusion or exclusion errors, with people not being paid and losing trust in the system.</li> <li>– Micro-insurance is not able to rapidly scale up its activity and timely payment in case of large-scale shocks.</li> <li>– The most vulnerable and poorest are excluded from the coverage.</li> </ul>
<b>What</b>	<ul style="list-style-type: none"> <li>– Pre-assessment of micro-insurance capacity.</li> </ul>



**donors can do**

- Ensure technical capacity to measure and collect quality weather data in the coverage area.
- Complement micro-insurance schemes with social or humanitarian programmes to ensure the most vulnerable are also covered.
- Ensure sufficient technical skills to deal with complex financial instruments.

### *Disaster risk financing*

Disaster risk finance aims to help countries manage the cost of disaster and climate shocks. It establishes pre-agreed lines of contingent credit to be accessed in the event of a disaster, providing emergency liquidity at the very beginning of the crisis when funding is most scarce. Disaster risk financing is a good way to support government risk management. Several facilities are already in place. These include the African Risk Capacity (ARC), the Caribbean Catastrophe Risk Insurance Facility (CCRIF), and the Disaster Risk Financing and Insurance (DRFI) program- a joint program of the World Bank and the Global Facility for Disaster Reduction and Recovery.

However, such risk transfer mechanisms are not appropriate in all contexts, notably those affected by conflict or fragility. In these contexts, donors investing in risk financing should continue to invest in approaches that have a more reliable outcome for populations in the short term, such as social safety nets or emergency preparedness (Poole, 2014).

## **6. Administrative preparedness**

In addition to financing preparedness, donors can support a successful early response when disaster strikes through streamlining their own administrative procedures and improving the flexibility of their funding. Donors should also take into consideration any potential administrative impediments to their rapid response to crises. For example, donors who can only mobilise their humanitarian funds after a long approval process or a call for proposal may consider investing in preparedness to compensate for the lack of rapid response capacity.

### *Partnerships*

Emergency contingency partnerships are another useful mean to pre-position humanitarian aid. Arrangement with selected partners or alliances which may include prepositioned funds or fast track approval processes can ensure an effective early response. These give humanitarian partners confidence they will be supported, allowing them to take the risk of deploying resources, scale up operations to prepare for a foreseen crisis, and meet humanitarian needs at the very onset of a crisis.

### *Flexible development programming to national actors*

A national or local actor who is already partnering with a donor on development projects can also be involved in the response to humanitarian needs. In fragile countries or contexts at risk, this can be done by building flexibility into the grant with the local development partner. Crisis modifiers, for example, are provisions that allow the national or local actor to move funds from development activities to crisis response. They may also allow the donor to provide additional funds for crisis response, without modifying the grant agreement.

Additional facilities can be created. The World Bank, for example, offers catastrophe deferred draw down options that provide access to additional resources such as grants, credits and loans following a crisis. These require the borrowing country to have an adequate national disaster risk plan in place, a prerequisite that incentivises disaster preparedness. (WB, 2011)

Allowing local development actors to build their emergency response capacity within their development programmes, and to scale up their activities to respond to humanitarian needs, can be beneficial. However, donor should assess whether the humanitarian assistance delivered by its national development partner will respect the humanitarian principles.

## **7. Risk analysis**

Financing preparedness is financing risk mitigation. Risk analysis, then, is a crucial step. Donors supporting preparedness should undertake a risk analysis to assess the likelihood and impact of events that could potentially lead to a humanitarian crisis as well as the preparedness activities and partnerships that should be supported in a particular context. Donors should also take advantage of risk analysis developed by national authorities, humanitarian agencies, development agencies, and local and international research institutions.

### *What if no crisis occurs?*

One of the main perceived risks for preparedness funding is the risk that no emergency materialises, leaving donors with the impression that public money was not spent efficiently. This risk can be managed by adopting the idea of 'no regrets' programming that will deliver results even if no shock occurs. For example, cleaning sewage in anticipation for extreme rainfall will provide benefits to the population, even if no disaster occurs. When they are based on and justified by a risk analysis, preparedness actions always increase the resilience and the ability of the supported partners to deal with different types of hazards in a timely, efficient and equitable manner.

### *What if a crisis occurs?*

Supporting preparedness will increase early response to disasters and the efficiency of that response. However, humanitarian needs may persist. Donors who support preparedness should also be ready to participate in humanitarian efforts when disaster occurs.

## **8. Co-ordination and co-operation**

Wherever many stakeholders coexist, co-ordination is important. Preparedness is no different. For donors, co-ordination is relatively straightforward when their contribution to preparedness is channeled through pooled funds or when they are working in support of a national disaster preparedness plan.

Support to a national disaster preparedness plan, such as in-kind or financial support to national food reserves or stockpiling of relief items, should follow a transparent process under government leadership, when appropriate. Donors' allocations should also be transparent.

## **9. Impact and monitoring**

Many preparedness activities can be relatively easy to monitor when they aim to put in place capacity, processes and items ahead of a crisis, when constraints are less critical than during the crisis response. The impact of such activities, however, is much harder to assess, making political buy-in difficult to gain. Performance indicators can serve as explicit measures of whether progress has been achieved or not. They are a way to measure what actually happens against what has been planned or anticipated in

terms of quality, quantity and timeliness. The United Nations has set such indicators related to natural disaster preparedness (UNISDR/UNOCHR, 2008).

While it is broadly recognised as a key area of humanitarian assistance, research is still needed to define the most impactful elements of preparedness and their interaction in reducing suffering and costs during a crisis. Donors can consider supporting this learning process as part of their efforts for preparedness.

## NOTES

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- 1 For more discussion about preparedness, the Humanitarian Response website provides a set of guidance and tool available here: [www.humanitarianresponse.info/en/node/129181](http://www.humanitarianresponse.info/en/node/129181).
- 2 See United Nations Office for Disaster Risk Reduction (UNISDR), [www.unisdr.org/who-we-are/what-is-drr](http://www.unisdr.org/who-we-are/what-is-drr).
- 3 The United Nations Disaster Assessment and Coordination (UNDAC) is part of the international emergency response system for sudden-onset emergencies. UNDAC teams can deploy at short notice (12-48 hours) anywhere in the world. They are provided free of charge to the disaster-affected country, and deployed upon the request of the United Nations Resident or Humanitarian Coordinator and/or the affected Government, <https://www.unocha.org/legacy/what-we-do/coordination-tools/undac/overview>
- 4 For a full discussion, see the guideline in these series, Commitments into Action, on cash-based responses, <http://www.oecd.org/development/humanitarian-donors/docs/cashbasedresponse.pdf>

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