LEVERAGING INNOVATIVE FINANCIAL STRATEGIES FOR EFFECTIVE ANTICIPATORY ACTION

THE ISSUE

ANTICIPATORY ACTION: SHAPING THE FUTURE OF HUMANITARIAN RESPONSE

Johnny Rabemananjara, a fisherman and farmer, received Early Cash transfers for a period of six months to enable his family to stockpile supplies and invest in alternative income sources in the event of crops losses. Madagascar, 2023.
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> "Changing the way we deal with disasters and their impacts requires a shift from largely reactive to more anticipatory approaches to disaster management."

In a world of increasing technological advances, we can now forecast many hazard types, predict their impacts, and monitor their emergence. Given these capabilities, it is neither ethical, dignified, nor effective to delay humanitarian action. Changing the way we deal with disasters and their impacts requires a shift from largely reactive to more anticipatory approaches to disaster management. We need to emphasise the need to act based on risk and to ensure that funds and resources are not only available, but pre-arranged to allow for timely action before lives are lost and damage occurs. Such a shift is crucial not only in the context of climate change and escalating humanitarian needs, but also in the context of a widening funding gap. To stretch available funding and maximise its impact, traditional humanitarian funding mechanisms must be transformed, and new strategies explored.

Disaster Risk Financing (DRF) encompasses a range of budgetary and financial strategies already used by countries, organisations, and communities to manage the financial impacts of disasters. Terminology around DRF varies, but in essence, it refers to mechanisms to pre-arrange financing that are activated upon the occurrence of a disaster.

Anticipatory Action (AA) represents a paradigm shift in humanitarian action and disaster risk management (DRM). By definition, AA involves acting ahead of predicted hazards to prevent or reduce acute humanitarian impacts before they fully unfold. In return, this requires pre-agreed plans that identify partners and activities, reliable early warning information, and pre-agreed financing, released rapidly when an agreed trigger point is reached.

Making use of DRF tools to enable AA represents a pivotal evolution in the humanitarian and DRM sectors. When used in tandem, the combined approach can significantly enhance the way we manage disaster risks and their impacts allowing for a proactive rather than reactive response to disasters.

FINANCIAL STRATEGIES THAT SUPPORT A MORE EFFICIENT ANTICIPATORY ACTION:

- **Utilising DRF instruments and mechanisms** to channel existing humanitarian funds to AA represents a significant shift towards a more proactive, and efficient DRM approach. Leveraging approaches such as Forecast-based Financing, released ahead of a shock based on forecast information, is critical to bridging the gap between long-term Disaster Risk Reduction (DRR) and rapid humanitarian response.

- **Global pooled and contingency funds** like the Central Emergency Response Fund (CERF), the Disaster Relief Emergency Fund (DREF), and the Start Network's funding mechanisms play crucial roles in supporting AA. These initiatives offer quick and, in most cases, pre-agreed funding for AA, while risk pooling ensures that the available funds are used more efficiently, stretched further, and protect more people while reducing insolvency risk.

- The establishment of **innovative collaborations** such as the African Risk Capacity (ARC) Replica initiative, which enables humanitarian agencies to "replicate" the insurance coverage that sovereign governments have purchased from ARC. As another example, a reinsurance policy was secured for the DREF that quickly replenishes the fund if expenditures for AA and humanitarian response cross a pre-defined threshold, thereby ensuring liquidity in times of extraordinary or overlapping crises. Both examples demonstrate the viability of collaborations that link parametric insurance with humanitarian efforts and enable more efficient AA.

- Implementing **layered DRF strategies** can address a broad spectrum of disaster risks by aligning different financial instruments to various levels of risk intensity and frequency. For example, (re)insurance solutions provide coverage for catastrophic events with return rates of decades to centuries, while contingency funds and loans cover smaller, more frequent risks. Typically, AA is located in between and focuses on events with medium intensity and medium return rates of three to five years. By recognising the applicability of each instrument and creating a layered risk cover, sovereign states and humanitarian partners can ensure that financial disaster risks are effectively covered and, hence, populations effectively protected.

- **Developing comprehensive DRM frameworks and strategies** at national and regional levels that incorporate AA linked to DRF can significantly improve preparedness, anticipation, and response efforts. This can foster an environment that promotes and supports the integration of AA with DRF instruments and enhances coordinated responses and efficient resource allocation.

Sandrine Rahaingonirina, a washerwoman, was given Early Cash transfers for six months. This allowed her family to accumulate supplies and explore additional sources of income in preparation for potential crop failures. Madagascar, 2023.
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DISASTER RISK FINANCING INSTRUMENTS POTENTIALLY APPLICABLE FOR ANTICIPATORY ACTION:

1. Parametric Insurance: Pays upon a predetermined trigger event, such as hurricane wind speeds, enabling quick disbursement, making it suitable for AA. In Guatemala, for example, the World Food Programme (WFP) explores such a forecast-based parametric insurance covering small farmers against climate-related risks.
2. Catastrophe Bonds (cat bonds): High-yield debt instruments raising money for states and insurers in a crisis event, adaptable to support AA by risk transfers. Notably, the World Bank issues cat bonds for natural hazard-prone countries, enabling financial support for AA efforts.
3. Sovereign Risk Pools: Mechanisms like the African Risk Capacity (ARC) allow member states to share and transfer disaster risk, securing coverage under more favourable terms. The ARC, for instance, has a contingency planning component that ensures that payouts support pre-determined measures which opens possibilities for AA.
4. Contingency Funds (budgets & loans): Reserves set aside for disaster events, providing a readily available financing source for timely response activities, including those initiated ahead of a hazard. Examples include the Philippines' Local Disaster Risk Reduction and Management Funds (LDRRMF) for both emergency response and AA actions and the World Bank's Catastrophe Deferred Drawdown Options (CAT DDOs), which permits loans on pre-determined conditions upon reaching risk thresholds. While not active yet, contingency loans also show potential to be designed for anticipated events.

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HUMANITARIAN DRF INSTRUMENTS THAT CURRENTLY SUPPORT AA:

- OCHA's Country Based Pool Funds (CBPF)
- OCHA's Central Emergency Response Fund (CERF)
- IFRC's Disaster Response Emergency Fund (DREF)
- Start Network
  - Start Fund Anticipation
  - Start Ready
- WFP Immediate Response Account (IRA)
- FAO Special Fund for Emergency and Rehabilitation Activities (SFERA)
- ECHO Crisis Modifier
- ARC Replica
- WHH's WAHAFA and similar NGO-based funds

LIMITATIONS TO THE APPLICATION OF AN EFFICIENT SYSTEM

Approaches combining Disaster Risk Financing and Anticipatory Action encounter various limitations. Firstly, both DRF and AA rely on accurate hazard and risk information, which may be lacking in contexts without robust forecasts and early warning systems, rendering AA infeasible. Similarly, DRF instruments like insurance require precise risk modelling, often hindered by inaccessible data. Additionally, stakeholders may lack the capacity to effectively utilise and/or understand such information for AA and DRF mechanisms. Challenges such as unstable financial infrastructure for DRF and limited access for AA further complicate matters. Moreover, differing goals, mandates, and operating methods of the stakeholders involved create barriers that lead to a lack of mutual understanding and trust. For instance, humanitarian principles may conflict with the purchase of insurance policies using humanitarian funds. Additionally, varying interpretations of risk hinder effective coordination and collaboration among stakeholders. Lastly, the commitment to innovative finance for AA remains limited, with a small fraction of humanitarian funding allocated to integrated AA and DRF despite significant potential. Political commitment to AA and DRF is also lacking, as ex-ante disaster management entails more political risk and generates less political capital than responsive action.

WHAT IT TAKES FOR ANTICIPATORY ACTION TO BE SUCCESSFUL AND EFFECTIVELY FINANCED:

- For the integration to be effective, **investments** in improving the **accuracy of forecasts, expanding the coverage** of early warning systems, and developing localised risk models are crucial. The United Nations Secretary General's 'Early Warnings for All' initiative is promising in this regard. In addition, quality risk models and forecasts should be made available to all relevant and especially local stakeholders on fair conditions to ensure equitable participation in DRF and AA.
- **Ensuring political commitment** is crucial for making AA a core element of the humanitarian and DRM system. The significant commitments made by the G7 in 2022 illustrate a growing recognition and dedication to integrating AA within DRF but are still to be realised in their full potential – an urgent task G7 states should prioritise. At the same time, well-crafted DRM strategies ensure a favourable environment for AA, DRF, and integrated approaches.
- **Encouraging cross-sectoral cooperation** that includes academia, humanitarian, development, and climate communities[1], governmental stakeholders and the financial and insurance sector is vital to bringing together a wide range of resources, expertise, and perspectives but also necessary for DRF and AA to be efficient. This, in turn, constitutes a crucial element in supporting the humanitarian-development nexus, fostering resilience and safeguarding development gains.
- **Integration of global and localised financing mechanisms** ensures that DRF strategies are robust, flexible, and accountable. Global funds can pool risk and provide the large-scale financial backing and stability needed for major disasters and foster innovation in financial instruments, risk modelling, and early warning systems. Localised mechanisms ensure that financing is quickly accessible where it is needed most, and that AA is closely aligned with local realities. Likewise, allowing direct access to financial mechanisms by local actors ensures acceptance and ownership of AA. Finally, to ensure accountability towards the community that co-created AA protocols and plans, pre-arranged funding must grow equally to the number and reach of the systems to guarantee that people are actually protected.

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1. While this article discusses various financing strategies to support Anticipatory Action (AA), it's important to acknowledge the potential of climate financing in this context. Due to limited space, this aspect is not explored in detail here. Future discussions could beneficially examine how climate financing can be effectively integrated into AA initiatives, contributing further to resilience building.