

FINANCE FOR EARLY ACTION

TRACKING COMMITMENTS, TRENDS,
CHALLENGES AND OPPORTUNITIES



Risk-informed
Early Action
Partnership

Finance for Early Action

Tracking commitments, trends, challenges & opportunities

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EXECUTIVE SUMMARY

This study, commissioned by the Risk-informed Early Action Partnership (REAP), aims to document commitments, trends, opportunities and challenges in relation to finance for early action. It provides detail of recent pledges of finance for early action, aims to improve

understanding of where resources are coming from and how they are spent, and documents how the financing architecture is evolving. It includes recommendations for how to scale-up and improve finance for early action.

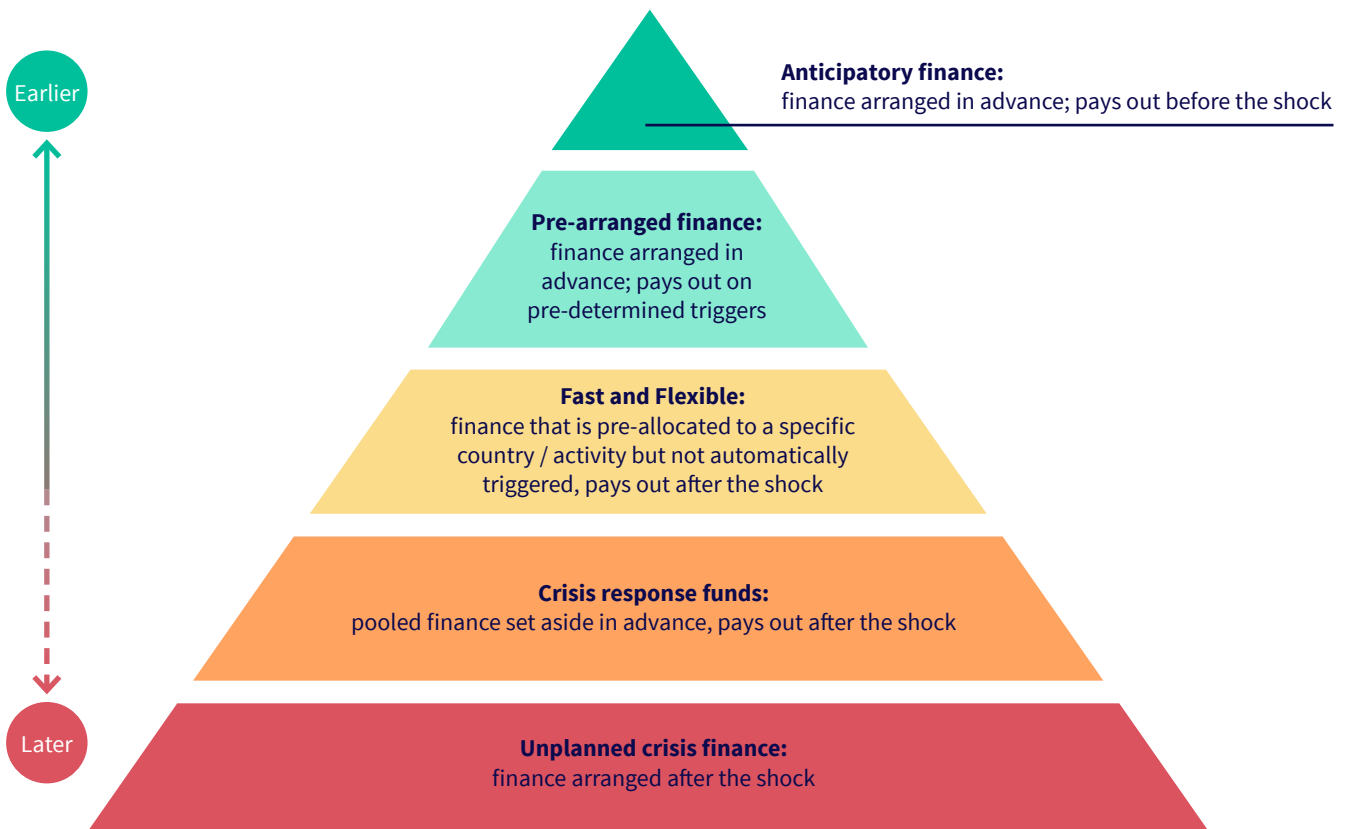
Understanding Finance for Early Action

This study focuses on ‘Anticipatory Finance’ as well as finance for ‘Early Response’. There is no internationally agreed definition of ‘finance for early action’, so the study adopts a working definition encompassing ‘Anticipatory Finance’ (funds are released *before* the peak impacts of a hazard that is known to be imminent, in order to reduce those impacts) but also includes finance for ‘early response’ (finance is released after the shock but arrives quickly). This working definition includes all ‘pre-arranged’ finance where funds are released based on pre-agreed triggers and thresholds, for example, contingent loans and insurance. The study also reflects on non-triggered crisis financing instruments and funds, for

example crisis response funds, as these are widely used and some are able to provide support quickly after a shock.

There are multiple instruments and approaches to finance crisis risk and response, each varying in speed and complexity. These can loosely be categorised into five groups, depicted in the pyramid figure below. The pyramid is an over-simplification, but it shows that crisis financing can vary in its level of sophistication, the extent to which it is arranged in advance and how early it comes in a crisis. The reality is much more complicated and blurred, and some specific instruments or funds straddle the categories. Within each layer there are also examples of faster and slower instruments or funds.

Figure 1: Approaches to paying for crises



Finance typically gets faster higher up the pyramid. ‘Anticipatory finance’ and ‘pre-arranged finance’ usually arrive fastest. ‘Unplanned crisis finance’ is typically very slow and some crisis response funds disburse funds very late.

Although the pyramid is not to scale, it illustrates that the largest amounts are going to unplanned crisis finance, significantly less to pre-arranged finance, and very small amounts to Anticipatory Action (AA). The total amounts of finance differ considerably between

the pyramid layers, with very small proportions being spent on pre-arranged or anticipatory finance:

- Over US\$30 billion goes annually to humanitarian assistance
- Pre-arranged financing is estimated to account for between 1 and 3% of total crisis spend
- AA funding appears to be more of a magnitude of US\$100s of millions, at best.

Evolving Trends in Finance for Early Action

The main funders of early action are Germany and the UK, with a growing range of other countries also now offering support. Germany have made the largest forward commitments and have internal targets relating to the percentage of their humanitarian budget that is pre-arranged. However, ‘early action’ as a concept resonates with a wide range of donors and is growing in visibility.

Tracking pledges and spend on early action is very difficult. This is because initiatives that relate to this agenda come from across humanitarian, development, disaster risk management (DRM) and climate sectors, funded by different parts of donor or national governments and implemented by a wide range of organisations. They are not necessarily labelled or ‘tagged’ as relating to early or anticipatory finance, in part due to the lack of shared terminology in this field. Many of the pledges made during 2021 were actually re-announcements of money that had been previously pledged. Donors should be significantly more transparent to help better track finance in this area.

There are indications that overall amounts of finance for early action are growing. Tracking of Climate and Disaster Risk Financing and Insurance (CDRFI) by the InsuResilience Global Partnership (IGP) demonstrates a 15% increase in beneficiaries and a 41% growth in the overall project pipeline. Pledges made at high level events throughout 2021 totalled at least US\$700 million for early action initiatives. Donors should be held to account to ensure these pledges materialise as soon as possible.

Despite the increasing attention that early action is getting on the international stage, this has not yet led to the necessary systemic shift in funding flows. In particular, AA still receives a very small proportion of the overall amounts of crisis financing, although these

amounts have risen over the last few years. A review of five main funds shows that the anticipatory action windows usually represent a small percentage of the overall fund, with a total of just \$41.5 million being triggered in 2020 across all five funds, funding interventions in at least 20 countries.

Funding for AA is therefore extremely small. This is particularly true when compared to crisis financing from both humanitarian and development organisations. For example, contingent loans can be around \$0.5 billion for a single country.

Funding for early action is very fragmented. Many interviewees noted that a proliferation of donors and actors working in this space had led to a very fragmented landscape, further evidenced by a review of pledges at COP26. This is part of the rationale for the German government’s G7 proposal for a Global Shield against Climate Risks, which aims to reduce fragmentation¹.

As a consequence of under-funding and fragmentation, early action is not yet happening at scale, with an emphasis on pilots. AA in particular has typically been conducted through ad hoc and uncoordinated pilots. The need to scale up and a wish to move beyond disparate piloting was a repeated theme in key informant interviews.

Early action, and particularly AA, has predominantly been promoted and implemented by humanitarian actors. However, development and climate actors are increasingly working on this agenda. Development actors have long been providers of finance for crisis response, although this is not always widely understood. AA funds have predominantly been implemented by humanitarian agencies, but there are signs that actors from other sectors are beginning to consider AA

¹ See paragraph 34 of the May 2022 [G7 Development Ministers’ Communique](#).

and are implementing supportive programmes, including in relation to Adaptive Social Protection (ASP) and forecast-based insurance. There is much greater scope for collaboration and recognition of overlaps between the work of these mainstream development actors, who have a range of instruments for early response, and large humanitarian agencies. If development agencies are financing crisis response on a large scale, there is no reason why they could not incorporate earlier or anticipatory approaches, given that these arguably link well with longer-term development aims of resilience-building and climate change adaptation.

More funding flows to ‘system strengthening’ initiatives than to directly finance early or anticipatory action. Analysis of pledges made in 2021 indicates that approximately 65% of early action funding would go to system-strengthening and capacity-building initiatives (often termed ‘build’ funding) with the remaining 35% allocated to ‘fuel’ the system, i.e. direct funds to be made available in the event of a shock or to pay for actual coverage, for example premium subsidies. Interviewees generally felt that donors were more comfortable with providing ‘build’ funding rather than ‘fuel’ but it is not clear what an optimum split would be between these types of funding, or how this may differ by country context and over time. Interviewees gave a range of reasons why donors may favour ‘build’, including that ‘capacity development’ is a more traditional or familiar type of programming for donors, where funds are definitely needed and the money is reliably used up each year, as opposed to money being set aside but potentially not triggering and then appearing to have been ‘wasted’.

Insurance continues to be supported by the main donors for early action, but there are polarised views across stakeholders on the use of insurance and engagement of the private sector in early action. Germany, the UK and the US all announced premium subsidies for climate insurance at COP26 - donors are increasingly attracted by the prospect that one dollar in product development and premium payments can leverage many more in crisis financing from the insurance industry. However, some interviewees had reservations about profit-making incentives in the private sector, and concerns that cultures, priorities and ways of working were too different from the humanitarian, development or climate sectors. Many interviewees were unable to comment on how the private sector could contribute to

early action, beyond offering insurance, although there are some strong examples of public / private collaboration leading to mutual benefit and learning. For example, some humanitarian actors are starting to pool their risks and take out insurance to enable them to significantly increase the amount of need they cover.

Donors continue to earmark to specific countries or activities, creating burdens for implementing agencies. Despite the emphasis on reducing earmarking across the humanitarian sector, for example as part of the Grand Bargain, the practice continues and causes difficulties for those implementing funds for early action. As well as earmarking to specific countries, donors also earmark for AA within a wider crisis fund. This is not necessarily a helpful show of support as AA is not appropriate in every context or for every hazard.

Early action finance and programming has tended to focus on extreme weather events, particularly rapid onset such as floods, with less progress made in fragile and conflict-affected states (FCAS). There has been some expansion to drought, but other hazards remain relatively over-looked in comparison, for example, conflict, displacement, extreme heat and disease outbreaks. AA, requires technical capacities and data in relation to forecasting that are often missing in FCAS, on top of the standard challenges encountered when working in such contexts. In FCAS there are likely to be different intersecting and compounding shocks, which also makes the design of triggers harder, as thresholds may be met due to a completely different shock or combination of shocks.

Wider links to disaster risk reduction (DRR), resilience-building and climate change adaptation are not always realised. Finance for early action should be seen as part of a ‘resilience continuum’, where early actions can be linked with broader climate change adaptation, resilience initiatives and development programming. This would draw in wider actors and provide a more coherent framework within which early action can be situated. However, this is not the norm, with ‘early action’ often viewed as a stand-alone period of activity, just prior to a crisis response, but not integrated into a longer-term timescale or perspective. In particular, links are not always made to use finance for early action to incentivise DRR or wider resilience, for example, building premium reductions into insurance products if certain risk reduction investments are made.

Barriers and challenges

Systemic barriers to scaling up finance and making it more effective include the following:

- Lack of a global approach to finance for early action
- Culture and operations of humanitarian agencies not fully aligned to early action
- Silos between sectors, government departments and actors
- Political disincentives, especially for ex ante decision-making
- Poor communication of risks and potential approaches to manage them
- The need for related governance reform, particularly in relation to public financial management
- Weak forecasting capacities and data gaps

Recommendations

1. Deliberately re-position ‘early action’ as a development and climate issue, not just a humanitarian topic

A key concern for those working on early action is how to scale up and move beyond the ad hoc pilots that are the current norm. In order for early action to become the default, it must move out from its current position as a humanitarian approach, funded out of humanitarian budgets. Early action must become an integrated link in the chain of building countries’ and people’s resilience to crises, not a separate set of humanitarian activities that are financed in a vacuum. This would help to bring development and climate actors into the discussions and help early action activities to be designed and implemented in a way that better aligns with, and actually incentivises, on-going DRR and climate change adaptation activities on the ground. This would also potentially create access to development and climate resources, which are often significantly larger than the amounts available in humanitarian budgets but are still usually ‘risk-blind’. There is far greater scope for adapting climate and development financing instruments to become ‘earlier’, or more anticipatory, than is currently being realised, and particularly to use financial instruments to incentivise risk reduction and resilience building.

2. Work on a coherent plan with division of labour between the actors and reduced fragmentation

As different actors are increasingly brought in to finance and deliver early action, there is a need for a coherent overall plan, both internationally and within countries. Perceptions of organisational mandates often seem not to match the reality on the ground and the early action space is characterised by small-scale, ad hoc, uncoordinated

projects. The German government’s G7 2022 proposal for a Global Shield Against Climate Risks could be a game-changer in this regard, reducing fragmentation, analysing risks and matching them to appropriate finance, ultimately producing coherence internationally and at the individual country-level.

3. Aim to progress financial instruments ‘up the pyramid’

It is clear that money is being programmed for early action but the bulk of finance for disasters still falls into the ‘unplanned crisis finance’ category, which makes it slow and unreliable. The priority is therefore *not* just identifying ‘new money’ to be channelled to early action funds and activities (although additional funding for system strengthening is still very much needed). Instead, the focus must be on re-shaping existing approaches and funding instruments to make them more conducive to earlier action. Donors, implementing agencies, governments and communities should therefore assess how they can generally ‘move up the pyramid’ by making adjustments to their crisis financing instruments and approaches to make finance flow faster and with more arranged in advance. This would then naturally increase the amount of money available for early action from its currently very low base.

4. Build sustainability by involving governments from the beginning

Whilst getting development and climate actors more involved in early action is a key next step, it is clearly not going to lead to longer-term sustainability as that will only come with government ownership and leadership. There is consensus that vulnerable country governments need to be involved to a greater extent and the ultimate aim has to be that early action becomes governments’

preferred way of working, and government budgets and systems are revised to enable this. However, this is currently far from the reality in most vulnerable countries and clearer plans are needed for how to overcome the political disincentives, governance barriers and distrust of forecasts. Government ownership of early action is not an inevitability, but it is a necessity.

5. Build scale and sustainability by making the most of the private sector

Another element of creating sustainability is to forge better collaboration with the private sector, both internationally and at the local level. However, there is still scepticism and distrust of private sector actors amongst humanitarian and development actors. Some do not yet appreciate that the private sector is essential for two elements that

are currently missing from early action: scale and sustainability. Honest conversations are needed about some of the challenges of collaboration and a commitment to push through to find solutions. Both private and public actors can learn from each other and should recognise each other's strengths. For example, humanitarians and development actors have extensive knowledge of the context, tried and tested delivery channels and can bring their experience with innovations like anticipatory action and Shock Responsive Social Protection (SRSP), while the private sector can bring access to data and capital, willingness to innovate, rigour, discipline and accountability.

6. Review all early action financing instruments against the good practice checklist. See below.

Good practice checklist

Finance for early action should:

Be fast

When funds arrive early in a crisis, they have the maximum impact on lives and livelihoods

Be government-led

Move beyond consultation to genuine government leadership and ownership

Be sustainable

Replace ad hoc, short-term approaches

Incentivise risk reduction and resilience

Align with wider resilience initiatives and create incentives to reduce risks, not just respond to crises

Involve local actors

Empower local communities, businesses and civil society organisations to shape finance for early action

Embed monitoring and evaluation

Build the evidence base and best practice through rigorous, transparent and independent M&E

Link to a flexible plan

Link finance to plans to help ensure support reaches the most vulnerable, whilst also enhancing coordination and raising awareness of risks

INTRODUCTION AND METHODOLOGY

The Risk-informed Early Action Partnership (REAP) brings together an unprecedented range of stakeholders across the climate, humanitarian, and development communities with the aim of making 1 billion people safer from disasters by 2025. REAP was launched at the UN Climate Action Summit in 2019 with four targets designed to drive a systemic shift towards acting earlier, to reduce the impacts of disasters. The targets include ‘one billion more people are covered by financing and delivery mechanisms connected to effective early action plans’ and ‘\$500 million invested in early warning system infrastructure and institutions to target early action in ‘last/first mile’ communities, building on existing initiatives’.

REAP is therefore keen to track finance for early action, understanding where resources come from, how they are being utilised and how the financing architecture is evolving. This study aims to answer those questions and identify what key improvements need to be made to enable scaled-up and more effective finance for early action.

This report is informed by extensive documentary review, analysis of financial pledges for early action made during 2021 and key informant interviews with 26 representatives from across the humanitarian, development, climate, private and public sectors. Preliminary findings were presented for feedback at the Crisis Lookout Coalition workshop in April 2022 and the recommendations made in the report will be presented at a Donor Roundtable convened by the UK and Germany in mid-2022, aiming to build on progress made by the G7 on this topic.

UNDERSTANDING ‘FINANCE FOR EARLY ACTION’

This study focuses on finance for ‘early action’, for which there is no internationally agreed definition.

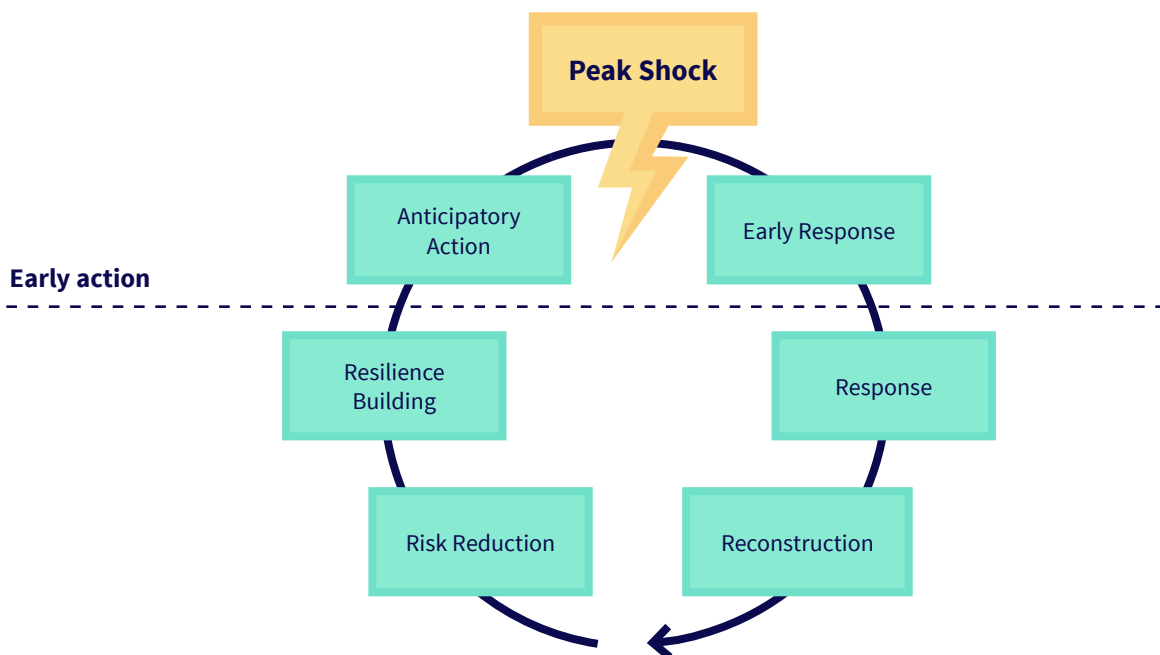
REAP is currently undertaking work to produce a glossary of terms which includes ‘early action’, but this is still in progress. Therefore, this study will instead adopt a working definition of ‘finance for early action’, incorporating the following:

- **Anticipatory Finance** – where money is released *before* the peak impact(s) of a hazard that is known to be imminent, in order to reduce those impacts. This differs from general DRR or climate adaptation / resilience building endeavours, including funding to set up early warning systems, as it relates to a specific risk that has been forecast.
- **Finance for ‘Early Response’ (ER)** – where money is released *after* the shock but arrives quickly². Although the money is released after the shock, it could have been ‘pre-arranged’ (for example, insurance) or

it could have been allocated from general crisis response funds like UN-OCHA’s Central Emergency Response Fund (CERF). It differs from routine crisis response because it arrives more quickly once the crisis has emerged.

In reality, the boundaries between ‘anticipatory action’ (AA) and broader resilience work, or between ‘early response’ and more ‘normal’ crisis response, are blurred. The graphic below depicts anticipatory action and early response on a Disaster Risk Management (DRM) continuum, as integrated elements of an overall process of helping reduce vulnerability to shocks. This study will focus specifically on financial flows to support the segment marked ‘early action’, either through direct finance or funding to support the systems necessary to deliver early action, but these phases should not be designed, programmed or evaluated in isolation.

Figure 2: Early action as part of a resilience and response continuum

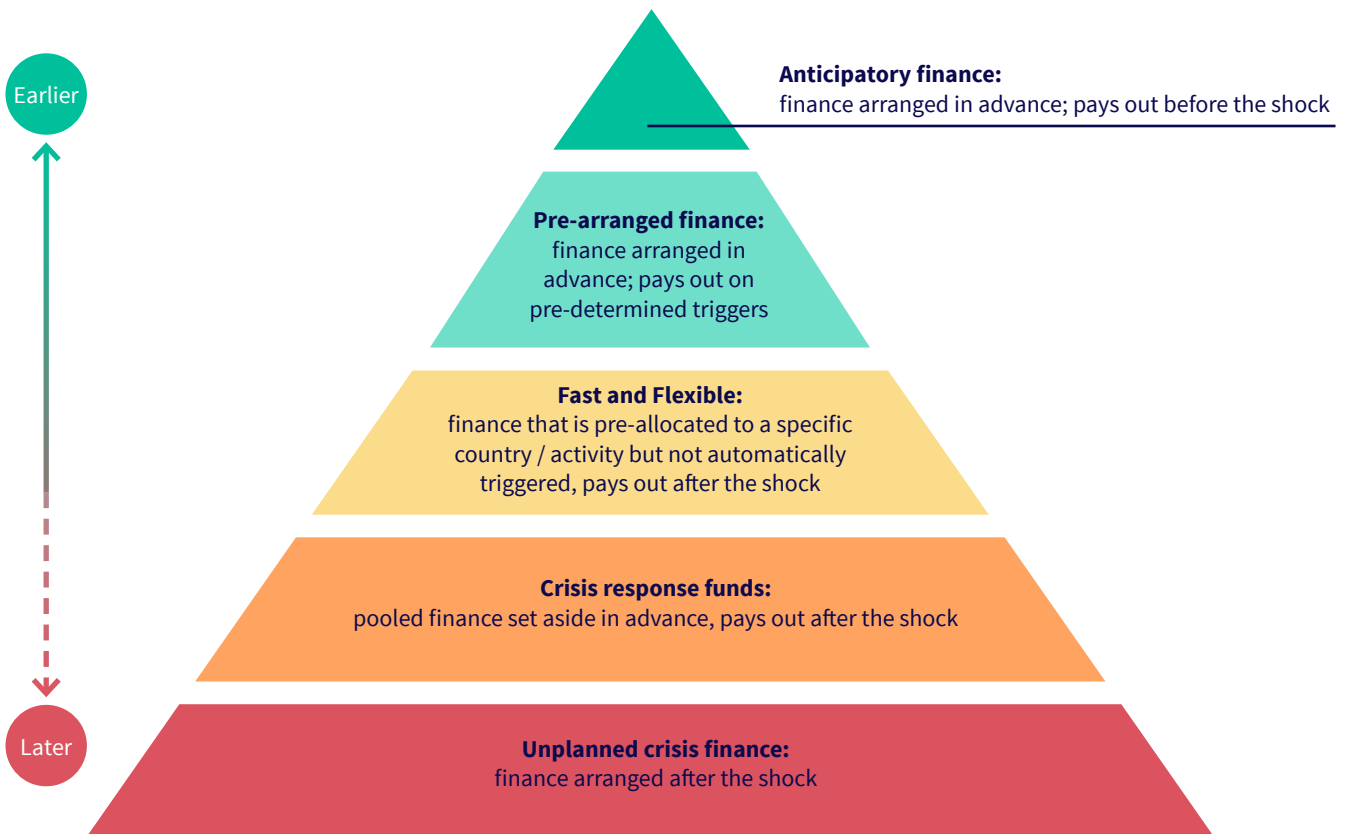


² The purpose of this study is not to create definitions and so a particular threshold or timescale for what counts as ‘early’ or ‘quick’ has been deliberately omitted.

There are multiple instruments and approaches to finance crisis risk and response, each varying in speed and complexity. These can loosely be categorised into five groups, depicted in the pyramid in figure 2. The pyramid is a simplification, but it aims to show that crisis financing can vary in its level of sophistication, the extent to which it is arranged in advance and how early it comes in a crisis. The reality is much more complicated

and blurred, and some specific instruments or funds straddle the categories. Within each layer there are also examples of faster and slower instruments or funds, for example, some crisis response funds also have ‘rapid response’ windows in them. The diagram therefore intends to show generalised categories and emphasise some typical characteristics.

Figure 3: Approaches to paying for crises



- At the bottom of the pyramid is **‘Unplanned crisis finance’** which is arranged after the shock and so is typically slow and unreliable. Examples are humanitarian appeals or budget reallocations. This still forms the bulk of crisis financing.
- The next layer up, **‘Crisis response funds’**, vary in speed and some can disburse money quickly under their ‘rapid response’ windows. However, some are also very slow. They are a ‘step up’ from ‘unplanned crisis finance’ as money is set aside, so in theory should be available more quickly, and does not have to be redirected from other parts of the budget. The finance is not pre-allocated to particular countries, risks or programmes. Examples are the United Nations (UN) Central Emergency Response Fund (CERF), the International Federation of Red Cross and Red Crescent Societies (IFRC)’s Disaster Response Emergency Fund (DREF) or the World Bank’s Crisis Response Window (CRW).
- The middle layer is **‘Fast and flexible’** financing, which is often overlooked. These instruments go further than crisis response funds as the money is actually allocated to a specific country or activity, and so some of the administrative infrastructure is set up ex ante. However, finance is not automatically triggered. Examples are crisis modifiers where a programme has an associated budget line that can be released if a disaster occurs. There is little empirical information on how fast or widely-used these approaches are, but their level of pre-planning suggests that they could help speed up processes and multiple interviewees expressed support for scaling up this type of finance.

- **‘Pre-arranged finance’** (PAF) has had more attention in recent years. Precise definitions are still under development, but the Centre for Disaster Protection is developing a methodology for measuring ‘PAF’ that defines it as funding that has been approved in advance and that is guaranteed to be released to a specific recipient when a specific pre-identified trigger condition is met³. Examples are insurance, triggered contingency funds or contingent loans.
- **‘Anticipatory Finance’** relates to pre-arranged finance as it is always arranged in advance but is differentiated by the fact that it always pays out before the peak impacts of a shock, whereas most pre-arranged finance pays out after the shock. Using the definition mentioned above, pre-arranged finance is also released by specific triggers. Anticipatory Finance is often based on triggers but not always, for example, it can be released based on a committee decision. Examples of Anticipatory Finance are ‘Forecast-based Action (FbA) by the DREF’ or the CERF’s Anticipatory Action pilots.

Finance typically gets faster higher up the pyramid.

‘Anticipatory finance’ and ‘pre-arranged finance’ typically arrive fastest (Crossley, 2021; Yang et al., 2021) and fit under the above definition of ‘finance for early action’,

and are therefore the primary subject of this report. Less is known about the ‘fast and flexible’ category and ‘crisis response funds’ vary considerably in how quickly they disburse funding after a shock. Some instruments and funds that fit into these categories will provide quick response and so fit the definition above of ‘finance for early action’, but this has to be determined on a case-by-case basis.

Although the pyramid is not to scale⁴, it does illustrate that the largest amounts are going to unplanned crisis finance, significantly less to pre-arranged finance, and very small amounts to Anticipatory Finance. This is explored further later in the report (see Part C) but as an approximation we can say that over \$30 billion goes annually to humanitarian assistance⁵; pre-arranged financing is estimated to account for between 1 and 3% of total crisis spend (Crossley, 2021; Weingartner and Spencer, 2019; Yang et al, 2021); whereas anticipatory action funding appears to be more of a magnitude of \$100s of millions, at best. Most humanitarian caseloads are in protracted crises situations, rather than being linked to particular hazards that require a fast response, so the bottom layer of the pyramid cannot all become pre-arranged, but there is clearly much scope for increasing the use of approaches at the top of the pyramid.

³ Hillier and Plichta (2021) state ‘The trigger may be based on data or models related to impact, forecasts, or projections of need, or on policy decisions; the funding may be used for anticipatory action or in response to a crisis, either linked to a clear plan for a very specific purpose (such as forecast-based financing (FbF)) or general budget support (such as a CAT DDO (Catastrophe Deferred Drawdown Option))’.

⁴ For future advocacy, it may be useful to develop ‘pyramids’ to scale for different crises, to aid understanding of how finance flows in general and for different types of event.

⁵ *The Global Humanitarian Assistance Report 2021* states for 2018, 2019 and 2020 humanitarian aid totalled over \$30 billion each year.

EVOLVING TRENDS IN FINANCE FOR EARLY ACTION

Who are the main funders of early action and how is this changing?

Germany is viewed as the main donor to, and promoter of, early action. Germany was an initial donor to well-known ‘early action’ initiatives such as African Risk Capacity (ARC) and Forecast-based Action by the DREF, and spearheaded the creation of the InsuResilience Global Partnership (IGP), following the German-led G7 in 2015. A 2022 review by the German Federal Foreign Office (GFFO) noted that promoting AA in the humanitarian sector had been a priority focus and a key strategic objective over recent years, including encouraging other donors to invest in the agenda. Germany’s interest in early action shows no sign of abating, with a commitment made at the UN Office for the Coordination of Humanitarian Affairs (OCHA)’s High Level Event on Anticipatory Action in September 2021 to allocate at least 5% of its humanitarian funding to anticipatory humanitarian action by 2023, double its contribution in 2022 and allocate EUR 100m in 2023 (GFFO, 2022). Germany’s Federal Ministry for Economic Cooperation and Development (BMZ) has also demonstrated ongoing commitment to the CDRFI agenda, with large pledges throughout 2021 to IGP. No other donors have yet followed suit with a percentage spend target, or similar levels of forward-looking commitments.

The UK is another active donor to early action, often co-investing with Germany in related projects such as the Global Risk Financing Facility (GRiF). The UK was also an early investor to initiatives like ARC, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and Start Fund, and established the Centre for Disaster Protection to provide advisory services, research and quality assurance across the sector. Following the UK-led G7 in 2021,

the UK pledged £120m to disaster risk financing (DRF) and related work, although much of this still remains to be programmed. The recently published UK International Development Strategy mentions anticipating crises, pre-arranging finance and commits to further work with innovative finance in this area.

A wide range of countries are increasingly funding early action. While Germany and the UK are the most prominent donors, many other countries are also supporters. The US, for example, following the 2021 change in administration, has been increasingly supportive of early action, including announcements at COP26 to launch the President’s Emergency Plan for Adaptation and Resilience (PREPARE), which includes DRF. The US also funded ARC Replica and announced premium financing for the African Development Bank (AfDB)’s Africa Disaster Risks Financing Programme (ADRFi), at COP26. Other early action donors include Australia, Belgium, Canada, Denmark, EU, France, Italy, Ireland, Japan, Jersey, Netherlands, Norway, Sweden and Switzerland, to name a few.

The concept of early action resonates with many donor countries and is growing in visibility. There is an increasing set of evidence demonstrating that early action offers a more cost-effective, long-lasting alternative to traditional crisis response (FAO, 2021; Pople et al., 2021), which is particularly important to donors in the context of rising climate risks and shrinking aid budgets in some countries. It is also perceived to be more dignified and empowering than ex post aid, as communities can know in advance what support they will get, under what

circumstances, and so are able to plan and manage their risks accordingly. OCHA's High Level Event on Anticipatory Action in September 2021 highlighted the broad appeal of the concept, as it was attended by 75 different countries, including several from outside the traditional group of aid donors, for example the United Arab Emirates (UAE).

It was also a very prominent theme for COP26, with over 40 sessions or workshops related to anticipatory action.⁶ A recent G7 Foreign Ministers' Statement⁷ contains strong support for anticipatory action, ensuring it will continue to have visibility throughout 2022.

How much money is being committed to early action?

It is very difficult to track pledges and spend on 'early action'. Projects that relate to this agenda include initiatives across the humanitarian, development, disaster risk management and climate sectors globally and, due to the lack of shared terminology, are not necessarily labelled or 'flagged' as relating to early or anticipatory action. In addition, standard metrics and definitions of disbursement and commitment are not necessarily appropriate for pre-arranged finance. For example, money may be committed in one year, but not trigger – it is however, still 'available'. In addition, money may be spent on an insurance policy, but the premium and product development costs will differ from the amount of coverage it provides (which will typically be much larger), which is also different from the specific amount that may be released in a payout.⁸ These complexities are added to the usual, well-documented difficulties of tracking aid money and donor pledges, for example announcements that never materialise, or which are re-announcements of previous commitments presented as new money. Disentangling what is really 'new money' is a difficult and time-consuming process. Donors should be significantly more transparent.

There are indications that overall amounts of finance for early action are growing. IGP undertakes an annual monitoring exercise to track the protection of poor and vulnerable people from climate and disaster risks across

its partners. The 2021 IGP Annual Report stated that in 2021, more than 150 million people benefitted from climate and disaster risk finance and insurance (CDRFI) solutions across 24 implementing programmes, with 324 projects in 108 countries. This represented a 15% increase in beneficiaries and 41% growth in the overall project pipeline (IGP, 2022). Furthermore, during 2021 multiple pledges were made by donors to finance early action, including at the G7 and COP, demonstrating that additional new money is still being allocated to this agenda (see opposite page). Donors should be held to account to ensure these pledges materialise as soon as possible.

Despite the increasing attention that early action is getting on the international stage, this has not yet led to the necessary systemic shift in funding flows.

In particular, AA still receives a very small proportion of the overall amounts of crisis financing. The table on page 16 sets out the main AA funds operating in 2020 (the most recent year for which comprehensive data is available), showing that amounts allocated and triggered are relatively very small. Interviewees confirmed that amounts set aside for AA have risen within these funds over the last few years, however, where funds have an anticipatory action window, it still represents a small percentage of the overall fund. The CERF's AA activity is the largest – most of the other AA funds are operating with less than \$10 million of funding.

⁶ *A step forward for anticipatory action at COP26 - Anticipation Hub (anticipation-hub.org)*

⁷ *G7 Foreign Ministers' Statement on Strengthening Anticipatory Action in Humanitarian Assistance - Federal Foreign Office (auswaertiges-amt.de)*

⁸ *For a fuller consideration of these issues, please see Methodology to calculate pre-arranged ODA funding (note for discussion). This discussion note by the Centre for Disaster Protection is part of an exercise to start tracking levels of pre-arranged finance, currently being piloted by the German and UK governments.*

What was pledged for early action during 2021?

2021 was a pivotal year for the early action agenda, with high profile events discussing the topic including the Climate Adaptation Summit, G7 Summits, OCHA's High Level Event on AA and COP26. It was therefore not necessarily a representative year, but an interesting one, when funding announcements are also likely to have been impacted by the continuing Covid-19 pandemic and the emergency in Afghanistan. Pledges and commitments do not always materialise, and so they cannot be counted as definite future funding for early action. However, they can be a useful indication of donor priorities and likely future focus. A review of 2021 public pledges led to the following observations:

- At least US\$700m of future funding relating to early action was announced at high-level events during the year⁹. This includes direct funding for early actions as well as funding to build and strengthen the necessary systems. It was often unclear how many future years the funding covered.
- Actual amounts pledged were significantly higher, but on investigation pledges often contained duplication or 'old money' that was simply being re-announced. For example, many pledges that came later in the year actually referred to commitments that had already been made. However, some relevant pledges may have been missed, given that this topic straddles the humanitarian, development and climate sectors, meaning that announcements can come from varying government ministries and agencies and may use different terminology. In particular, lots of multilateral finance is used for early finance, for example IDA envelopes are used for CAT DDOs and contingent finance, and these are not captured in pledges.
- Of the approx.. US\$700m future funding for early action, US\$246m¹⁰ or approximately 35% was identified as direct finance for early action (i.e. available for disbursement in a crisis as opposed to funds for capacity building and system strengthening). These funds contribute to REAP's Target 2 that '1 billion more people are covered by financing and delivery mechanisms connected to effective early action plans, ensuring they can act ahead of predicted disasters and crises'.
- Of the US\$700m future funding for early action, at least US\$106m appeared to relate to early warning system (EWS) development. REAP's Target 3 is for '\$500 million [to be] invested in early warning system infrastructure and institutions to target early action in 'last/first mile' communities, building on existing initiatives'. It was not possible to determine from the available information whether this money was definitely targeted at last/first mile communities or built on existing initiatives, just that it focused on EWS development. However, this amount is likely understated – some pledges were announced as being to generally support 'resilience' or 'climate change adaptation' and may well include hidden EWS funding that was not explicitly mentioned in the announcement or project document.¹¹

⁹ This includes pledges where the associated press release used terminology relevant to early action (including 'early warning' or 'early action', also 'anticipatory action', 'forecast-based financing' and other related terms) and / or where staff in the donor agency or recipient organisation confirmed it was relevant.

¹⁰ This is an approximate figure as some amounts pledged had not been programmed at the time of writing, and even where programming had occurred, the split between 'fuel' and 'build' was not always clear.

¹¹ For example, the Green Climate Fund have stated that \$1.2 billion of their budget is going to climate information and early warning: [GCF boosts SIDS early warning systems to avert climate-related disasters](#) | Green Climate Fund.

Table 1: Funds for Anticipatory Action

	Total for 2020	Notes
Anticipatory Action by the CERF	\$33.4m ¹² triggered (from a rolling allocation of approximately US\$140m for anticipatory action, starting from 2019)	Funded interventions in three countries. CERF's total allocations for 2020 were \$848m.
Forecast-based Action by the DREF	\$1.59m triggered ¹³	Early Action Protocols activated six times across five countries. CHF 350K is the maximum that can be requested.
Special Fund for Emergency and Rehabilitation Activities (SFERA) by the Food and Agriculture Organization of the UN (FAO)	\$4.1m triggered ¹⁴ (from an allocation of \$12.5m since 2004)	Funded interventions in ten countries. The amount triggered was three times the 2019 amount. An indicative amount of \$500K is used for each activation, although allocated amounts may differ depending on context and availability of funds. FAO also implemented CERF AA funding.
World Food Programme (WFP)'s AA Trust Fund	\$100k triggered, approximately \$3m available but did not trigger ¹⁵	No maximum ceiling for an AA disbursement. WFP also implemented CERF AA funding.
Start Fund¹⁶	\$2.3m triggered	11% of the overall fund's disbursements were anticipatory.
Total triggered	\$41.5m	

The proportion of humanitarian crisis response finance being channelled to AA via established funds is therefore extremely small. The total amount triggered for AA in 2020 from the five main funds totals \$41.5 million and funded interventions in at least 20 countries. To set these amounts in context, unplanned crisis finance, or traditional humanitarian response, dwarfs the amounts triggered for AA: it was over \$30 billion for each of 2018, 2019 and 2020¹⁷. The AA funds listed in the table above are not the full picture of each humanitarian agency's spend on AA. For example, in 2020/21, as well as SFERA's AA funding and implementing CERF AA funds, FAO provided an estimated \$230 million for AA as part of their locust campaign in the Horn of Africa and Yemen, on top of broader capacity building

support. However, although the table does not capture all AA spending, reviewing these funds does suggest that AA is not yet institutionalised to a significant extent within humanitarian approaches and funds.

Funding for AA is particularly small compared with other types of crisis financing. Much greater amounts of crisis finance are available from the development sector, in crisis funds or contingent lending. For example, the World Bank's Crisis Response Window,¹⁸ which has taken an average of 398 days to disburse in the past¹⁹, was set at \$3.3 billion in the latest round of IDA replenishment in December 2021²⁰. Multilateral development banks can offer contingent disaster lending to individual countries of \$0.5 billion²¹. These examples all demonstrate how small current financial flows for anticipatory action are in

¹² From CERF's Annual Results Report 2020

¹³ Information taken from DREF's Annual Report 2020 and converted to USD using IRS historical exchange rates

¹⁴ Information taken from Special Fund for Emergency and Rehabilitation Activities (SFERA) (fao.org)

¹⁵ Information provided by WFP via email.

¹⁶ Start Network's Annual Review 2020 states that the Start Fund disbursed 11% of its overall £16.3 million before the crisis occurred. This gives a total of £1.793m which, using IRS historical exchange rates, converts to approximately \$2.3m.

¹⁷ Global Humanitarian Assistance Report 2021.

¹⁸ This would fit into the 'Crisis Response Funds' category on the pyramid in figure 2.

¹⁹ See this Centre for Disaster Protection blog and associated discussion paper.

²⁰ See Building Back Better from the Crisis, World Bank.

²¹ Using the categories set out in the pyramid in figure 2, this type of contingent disaster financing would count as 'pre-arranged finance' as the finance is arranged in advance and triggers on declaration of an emergency, so is often very quick to arrive.

comparison with other approaches to paying for crises. The reality does not yet meet the rhetoric.

This is part of a wider, well-documented trend of underfunding disaster preparedness and disaster risk reduction that needs major readjustment. Of the funds spent annually by donors on humanitarian assistance, less than 5% was spent on preparedness

(Alcanya, 2019). ODA spending generally has not prioritised risk reduction or management, even in countries where there are regular disaster responses, and climate funds are well below reaching their target of 50% funding for climate adaptation. Unfortunately, there continues to be a heavy bias towards ad hoc, discretionary and ex post crisis finance rather than early or anticipatory funding.

Trends in how the money is used

Funding for early action is very fragmented. Many interviewees noted that a proliferation of donors and actors working in this space was leading to a very fragmented landscape. This is part of the rationale for the German government's G7 proposal for a Global Shield against Climate Risks, which aims to reduce fragmentation²². For example, at COP26, a total of \$263m of new money for early action was announced, by 11 different donor countries and organisations. The total was spread across 13 different initiatives, with all individual announcements being less than \$46m. In contrast, also at COP26, the Adaptation Fund received pledges of almost \$356m (despite only asking for \$120m). This amount of money, channelled into a single fund, was almost \$100m more than the total amount pledged for the 13 early action initiatives. This demonstrates how lots of actors are interested in early action, but it is currently attracting relatively small amounts of money, filtered through multiple different initiatives.

One consequence of under-funding and fragmentation is that early action is not yet happening at scale, with an emphasis on pilots. AA, in particular, has typically been conducted through ad hoc and uncoordinated pilots (Scott, 2022). The need to scale up and a wish to move beyond disparate piloting was a repeated theme in key informant interviews. Some of the potential reasons include donor and government reticence to commit to long-term support or build automaticity into their funding commitments, and humanitarian agencies not yet being fully aligned operationally to the AA agenda. These and other barriers are discussed more in Part E.

Early action, and particularly AA, has predominantly been promoted and implemented by humanitarian actors. However, development and climate actors are increasingly working on this agenda. AA funds have predominantly been implemented by humanitarian agencies, but there are signs that actors from other sectors are beginning to consider AA and are implementing supportive programmes. For example, the Green Climate

Fund (GCF) is working with the IFRC on systems strengthening for Forecast-based Financing, and the World Bank is supporting Niger to incorporate early warning satellite data to trigger anticipatory scale-up of its social protection programme.²³ The insurance sector is also embarking on AA through forecast-based insurance, for example, Global Parametrics have developed B-Ready, a micro-insurance product in the Philippines that pays out in anticipation of a disaster based on forecast data.

This is important as development actors have long been providers of finance for crisis response, although this is not always widely understood or appreciated. For example, a review of recent disasters found that most response funding (74%) came from development actors not humanitarians, with a surprising 50% coming from the World Bank, which was also one of the slowest sources of finance (Crossley, 2021). The World Bank does have some faster crisis response instruments and has long been a promoter of early response through pre-arranged disaster risk finance, for example CAT DDOs, which trigger on declaration of an emergency. The Asian Development Bank (ADB) and other regional development banks have similar contingent lending instruments, also triggered by a government's declaration of an emergency. Whilst there are not yet indications of these kind of instruments becoming 'anticipatory' or triggering earlier in a crisis (as governments typically prefer a softer trigger that they can control), they do demonstrate that multilateral development banks are providers of considerable amounts of finance for early response. There is much greater scope for collaboration and recognition of overlaps between the work of these mainstream development actors and large humanitarian agencies. Some development actors who were interviewed argued that they should stick to their core mandates and leave both crisis response and AA to humanitarians, but this was not a majority view. If development agencies are financing crisis response on a large scale, there is no reason why they could not incorporate earlier or anticipatory approaches, given that these

²² See paragraph 34 of the May 2022 G7 Development Ministers' Communiqué.

²³ See for example *Responding faster to droughts with satellites and adaptive social protection in Niger* (worldbank.org)

arguably link well with longer-term development aims of resilience-building and climate change adaptation.

Donors appear to be more comfortable with funding ‘system strengthening’ initiatives than providing direct finance for early or anticipatory action.

Those working on this agenda often distinguish between ‘build’ and ‘fuel’ money – ‘build’ being initiatives that create and strengthen the underlying systems and capacities needed for early action and ‘fuel’ being direct funds to pay for early action or actual coverage, for example premium subsidies²⁴. Interviewees generally felt that donors were more comfortable with funding ‘build’ initiatives rather than ‘fuel’. A review of pledges made during 2021 supported this view as only 35% of the total amount pledged was specifically identified as being ‘fuel’ money. Interviewees gave a range of reasons why they felt this was the case, including that ‘capacity development’ is a more traditional or familiar type of programming for donors, where funds are definitely needed and the money is reliably used up, as opposed to money being set aside but potentially not triggering and then appearing to have been ‘wasted’.

It is not clear what the split between ‘build’ and ‘fuel’ money should be – clearly both are needed.

More work should be done to clarify what an appropriate split should be between the different types of funding, and aid understanding of how this differs by country context and over time. System strengthening is getting the bulk of funding currently, and is still very much needed – we should be careful to ensure that advocacy messages are nuanced to reflect this and do not call for an unconsidered swing towards ‘fuel’. Donors may want to review their overall split between ‘build’ and ‘fuel’ but there will also need to be flexibility depending on specific countries’ needs. ‘Build’ programmes working on improving risk data and early warning information were judged to be particular favourites with donors, possibly because the outputs have multiple uses across sectors. In contrast, initiatives to strengthen capacities for trigger and threshold development, and operational capacities for early action were perceived to be under-funded. One approach, for example taken by the Global Risk Financing Facility (GRIF), is to fund both ‘build’ and ‘fuel’ through the same programme. This approach could help ensure an appropriate balance is struck, avoiding a scenario where capacities are strengthened but no actual funds are available to cover people’s risks, or where there are funds that cover risks but these do not have maximum impact because the associated systems are not in place to administrate or get money out to people when they need it.

Insurance continues to be supported by the main donors for early action, with recent announcements of significant support to be provided to countries as premium subsidies.

Germany, the UK and the US all announced premium subsidies for climate insurance at COP26, expected to be channelled through ARC, CCRIF and the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI). Through the ARC Replica initiative, humanitarian organisations can also purchase ‘replica’ policies of those bought by government. This has been done by WFP and Start Network, for example in Senegal and Zimbabwe. Given shrinking aid budgets, donors are increasingly attracted by the prospect that one dollar in product development and premium payments can leverage many more in crisis financing from the insurance industry.

Despite this, there are polarised views on the use of insurance and the engagement of the private sector in early action.

Some interviewees acknowledged the rise of insurance as an instrument to finance early action, but had reservations about profit-making incentives in the private sector, and concerns that cultures, priorities and ways of working were too different from the humanitarian, development or climate sectors. Some stated that their organisations lacked the technical skills to work with the private sector productively, for example, in developing an insurance policy that would offer value for money. Interviewees also cited examples of how efforts to collaborate had fallen short because of different approaches, for example, ‘no regrets’ actions may resonate for humanitarian actors but are less compelling for insurers or risk modellers seeking to ensure technical rigour and accuracy.

Greater collaboration between the public and private sectors could produce mutual benefit and learning.

Whilst it is clear that there are differing approaches between the sectors, trial and error and collaboration would be beneficial for both. For example, the public sector could benefit from the private sector’s huge technical capacities in relation to risk information and analysis. In turn, the private sector could learn from humanitarians’ experiences with anticipatory action to help them innovate by designing insurance products that could trigger before the peak impacts, given that most insurance is not anticipatory. Some collaborative examples exist, for example Start Network’s partnership with the Insurance Development Forum (IDF), which facilitated the creation of Start Ready, or the IDF’s Tripartite Agreement with IGP and the United Nations Development Programme (UNDP). However, it is clear that much more is possible.

²⁴ It is worth noting that some AA funds include money for immediate, local-level capacity building activities under the label of ‘readiness’, e.g., training staff in order to complete the early action. This is not the same as broader capacity building initiatives that would count as ‘systems strengthening’ or ‘build’, e.g., programmes to build awareness of AA approaches, develop triggers and thresholds, support policy development, etc.

Risk pooling combined with insurance offers potential to meet a greater number of needs with the same level of funding – this approach can help address both rising needs and pressure on aid budgets.

Some early action funds have used a combination of risk pooling and insurance in order to be able to increase the number of people they protect. For example, the Start Network used actuarial analysis to discover that pooling their risks meant they could cover four times as many people²⁵. Others are investigating whether this approach holds potential for them. For example, the 'FbA by the DREF' fund currently holds money in reserve to cover all its Early Action Protocols (EAPs). However, the probability that every EAP in IFRC's portfolio will trigger in the same year is extremely small, meaning that holding 100% of funds in reserve is not necessary. By pooling these risks and buying insurance to protect them should the risks all materialise at the same time, IFRC could potentially significantly increase the amount of need it is covering (Bedenham and Wilson, 2021). This approach needs to be better understood by donors, who often express concern about the idea that their money will sit unused in accounts should a fund not trigger – pooling can remove this concern, as well as demonstrating efficient use of funds.

However, some donors dislike approaches that pool funds and continue to earmark to specific countries or activities, creating burdens for implementing agencies.

Despite the emphasis on reducing earmarking across the humanitarian sector, for example as part of the Grand Bargain, the practice continues and causes difficulties for those implementing funds for early action. For example, for one AA fund, all but Germany and Ireland insist on earmarking their contributions. For another early action fund, although it is a pooled fund, one large donor requires that they are consulted every time the fund triggers and decide retrospectively if they will reimburse the fund. This kind of donor practice is totally contrary to established donor best practice, creating burdens for the implementer, but also undermining the very principles of ex ante, pre-arranged financing, where funding is agreed in advance so that it can be relied upon in the event of a crisis. As well as earmarking to specific countries, donors also sometimes earmark for AA within a wider crisis fund. This is not necessarily a helpful show of support as AA is not appropriate in every context or for every hazard.

Early action finance and programming has tended to focus on extreme weather events, particularly rapid onset such as floods.

There has been some expansion to drought, but other hazards remain relatively over-looked in comparison. Examples include conflict, displacement, extreme heat and disease outbreaks, although the Covid-19 pandemic has also focused more attention on this issue generally. Interviewees also felt that the focus is typically on large-scale events. Hazards present different challenges in relation to financing for early action and it may be that different approaches are required, depending on the particular hazard. For example, where relatively good modelling and forecasting exists then AA using objective data as triggers is possible, but for other hazards it may be that softer triggers are needed until advances are made.

Less progress has been made on financing early action in fragile and conflict-affected states (FCAS)

(IGP and MCII, 2021). Documentary review also suggested that few early action initiatives focus on or relate to the Middle East and North Africa (Peters, 2021). OCHA has deliberately included FCAS in their anticipatory action via the CERF, conducting pilots in Somalia and South Sudan. AA in particular requires technical capacities and data in relation to forecasting. These are often missing in fragile and conflict-affected states on top of the standard challenges encountered when working in such contexts. For example, in one FCAS, the lack of forecasting data has required AA implementers to adapt their processes and consider using observational data instead. In FCAS there are likely to be different intersecting and compounding shocks, which also make the design of triggers harder, as certain thresholds may be met due to a completely different shock or combination of shocks.

Wider links to disaster risk reduction (DRR), resilience-building and climate change adaptation are not always realised.

Several interviewees argued strongly that finance for early action should be seen as part of a 'resilience continuum', where early actions can be linked with broader climate change adaptation, resilience initiatives and development programming. This would draw in wider actors and provide a more coherent framework within which early action can be situated. However, this is not the norm, with 'early action' often viewed as a stand-alone period of activity, just prior to a crisis response, but not integrated into a longer-term timescale or perspective. An example of better integration would be increased use of early action finance (e.g. insurance) being explicitly linked to social protection programmes.

25 See Start Network's [Annual Review 2020](#)

In particular, links are not always made to use finance for early action to incentivise DRR or wider resilience. Ideally, finance for early action would help create incentives for risk reduction and improved resilience. For example, ADB's policy-based contingent disaster lending requires certain prior actions to be completed before the grant or loan is signed off. These typically include measures to enhance broader resilience, for example cabinet approval of a DRF strategy or the establishment of parametric insurance. Similarly, in order to purchase an

ARC insurance policy, countries must work to develop a contingency plan demonstrating how any payout would be effectively channelled to affected communities – in this way, a financial instrument generates longer-term benefits in relation to improved risk understanding, management and planning across government departments. It would be good to see an increase in direct links between finance and risk reduction, for example, premium reductions built into insurance products if certain risk reduction investments are made.



WHAT DOES GOOD PRACTICE LOOK LIKE?

There is not yet clear international consensus on ‘best practice’ in this area, underpinned by a strong evidence base. There are a range of views and guidance, for example the Centre for Disaster Protection’s seven ‘keys’ to unlock effective Disaster Risk Financing²⁶, or IGP’s Pro-poor Principles²⁷ and SMART Principles for Premium

and Capital Support²⁸. Documentary review, combined with practitioner interviews, identified seven areas that were repeatedly emphasised as being important. These are presented in the checklist below, with a successful, current example for each one.

Good practice checklist

Finance for early action should:

Be Fast

Explanation The money needs to be disbursed quickly. It also needs to arrive at the appropriate time for the action, but overall the consensus is that in general, money needs to get out faster to the people who need it.

Real world example Parametric insurance is typically very quick to release funding, for example all five payouts from CCRIF in 2019-2020 were received by governments within 14 days of the event.

A review of funding to nine crises found that pre-agreed funding that was in the form of budget support paid out fastest, for example a CAT DDO in Peru paid out seven days after it was activated (Crossley et al, 2021).

Be Government-led

Explanation Where possible (in some contexts it will not be possible), finance for early action should be integrated into a government-led approach. For example, it should align with the current strategies and policies including DRF strategies, Sendai Framework etc and should engage with government from the outset.

Real world example ARC facilitates a government-led approach, where plans for the payout are developed ahead of time and shared with stakeholders. With ARC Replica, humanitarian agencies can purchase a ‘replica’ policy. The arrangement strengthens government leadership, aids information sharing and helps to ensure complementarity between government and humanitarian responses.

²⁶ [7 keys to unlock effective DRF — Centre for Disaster Protection](#)

²⁷ [Annex 5: Pro-poor Principles.pdf](#)

²⁸ [Enhancing affordability and sustainability of climate risk insurance through smart financing - Global Resilience Partnership](#)

□ Be sustainable

Explanation Ultimately, crisis finance has to be sustainable over the long-term, i.e. not reversible if political priorities change or budgets tighten. This means moving beyond humanitarian-led approaches to engage development partners able to provide sustained concessional finance, as well as national and local governments, private sector and community groups.

Real world example A criteria for new schemes could be an assessment of likely sustainability, including national/local buy-in and having a credible transition strategy.

For example, premium subsidies are often designed to be phased out over time, but this must be accompanied with a realistic assessment of what other sources of finance could replace them.

□ Incentivise risk reduction and resilience

Explanation Finance for early action should align with relevant wider resilience initiatives and create incentives to reduce risks, not just respond to crises, as much as possible.

Real world example Policy-based lending instruments, such as the ADB's Contingent Disaster Financing, require pre-agreed resilience-enhancing activities to be completed prior to signing off on the loan or grant.

□ Involve local actors

Explanation Communities should not be viewed as passive recipients of finance for early action. Involving vulnerable communities in design and implementation will help to ensure the instrument and the actions it finances are fit for purpose and will have maximum impact. Local private actors are also often overlooked.

Real world example The Start Network operate on a 'hub' system in several countries, for example, in Pakistan and the Democratic Republic of Congo. Each hub is a locally-owned network of humanitarian organisations who control the resources and responses. The hubs enable local organisations to take a lead in hazard prioritisation, generation of risk information, development of DRF strategies, as well as implementation of AA and response activities.

□ Embed monitoring and evaluation

Explanation Given the relatively short history of early action, and the small scale of most funding, it is important to track and learn from current interventions, sharing findings globally to foster innovation and a better grasp of best practice. There is a particular need for independent and rigorous evaluation, in order to move beyond internal 'lessons learned' reviews or descriptive case studies.

Real world example OCHA's evaluations of the CERF AA pilots are well known in the sector and are generating useful impact data. FAO have been careful to consistently include a monitoring and evaluation component in every SFERA funded project it has launched since 2016. Despite being a small fund, they have now produced eight evaluations that combine data from household surveys and qualitative interviews. As well as aiming to produce data on return on investment and value for money, the evaluations also document community perspectives and lessons learned.

□ Link to a flexible plan

Explanation Having a pre-agreed plan of how finance will be spent once a crisis arrives may help to enhance coordination, raise awareness of risk, avoid politicised decision-making and ensure that funds are used appropriately to meet the needs of the most vulnerable people. However, plans do need to incorporate flexibility and have the ability to adapt once more is known about the specifics of an imminent crisis, so that the response is well-tailored.

Real world example ARC have a two-stage planning process: the original contingency plan that is created prior to the policy being purchased is later developed into a Final Implementation Plan (FIP) once a payout is imminent and more is known about its location, timing and impacts.

Some AA funds, for example 'FbA by the DREF' have also recently decided to relax their planning requirements to incorporate the ability to flex more once a specific crisis is on the horizon.

There are opposing views on the types of triggers that are most useful and hence this has not been included in the checklist above. Some interviewees felt that having pre-agreed triggers and thresholds for finance for early action was very important to embed automaticity and ensure that funding flowed when it was needed, rather than being open to political influence. Pre-agreed hard triggers based on objective data are possible for some hazards, in some contexts, but numerous actors shared experiences of when this standard had not been achievable or desirable. For example, some felt that adopting a government-led approach meant it was necessary to use soft triggers (for example, declaration of a state of emergency) because they were more politically palatable and an easier 'sell' to government. Others, for example, those working in low-income countries and FCAS, have found

that the data and necessary systems are either missing or too unreliable. Others emphasised the significance of having 'fast and flexible' funding mechanisms that they could deploy based on informed decision-making in the moment, arguing this was more important than having complex triggers and thresholds agreed ahead of time. This can help in situations where there are multiple risks, with potentially compounding impacts. An example is the Start Fund where funding is not guaranteed ahead of time. Instead, members can raise an alert based on a forecast which is then considered by a committee of humanitarian decision-makers. Membership of the committee rotates and their role is to see if the alert fits with the criteria of the fund and decide whether to release funding or not, within 72 hours.

WHAT PREVENTS SCALING-UP AND MORE EFFECTIVE FINANCE FOR EARLY ACTION?

Systemic barriers to scaling up finance and making it more effective include the following:

- **Lack of a global approach to finance for early action.** Earlier parts of this report have emphasised increasing donor commitments to early action, but the reality still significantly lags behind the rhetoric. The amounts of money being channelled to early action are still incredibly small and do not shift the norm. Additionally, the fragmentation and lack of coordination across initiatives and organisations prevent the transformative progress that is needed. There is not yet a globally-agreed approach with strong political leadership and commitment from donors.
- **Culture and operations of humanitarian agencies.** Some interviewees complained of reticence within their organisations, often at a senior level, to experiment or embrace early action. There is a need for advocacy within the humanitarian sector, as well as outside. Operationally, many agencies are not set up to respond early, are not clear on what activities are required on what timescales, and have not been held to account in the past for their slow response times. A major shift is required that will require investment, new skillsets and capacities, and stronger leadership on the issue.
- **Silos between sectors, government departments and actors.** Early action is genuinely a nexus topic and sits at a point of juncture between the mandates and priorities of international humanitarian, development and climate actors, and between multiple ministries in country, including those relating to finance, economic development, climate and environment, agriculture, disaster risk management, social welfare, and so on. It also involves both the public and private sectors. These actors all have different institutional perspectives, priorities, ways of working and administrative structures which creates a challenge for collaboration and joined-up solutions. They sometimes lack understanding of each other's work and approaches, clinging to outdated perspectives of 'who should do what' that do not reflect realities on the ground or make space for early action programming. This is a problem at country level and on the donor side too, where humanitarian, development and climate budgets are often managed separately, and greater coordination is needed.
- **Political disincentives, especially for ex ante decision-making.** An implicit aim of early action is to remove some of the uncertainty that surrounds funding for disaster management and response to make it more predictable and reliable. However, discretionary ex post aid is typically more attractive to donors – it is more visible and flexible which is useful when aid budgets are under pressure and politicians' priorities change. Being 'on the hook' to provide large amounts of future funding carries risks for a donor. Similarly, governments have strong incentives to keep the status quo of discretionary crisis finance both in how they use their own budget and in how they receive and use funds from others. Whilst humanitarian actors have been using the term 'no regrets' to justify early action, for a government the concept is less appealing; being seen to have wasted money or to not have effectively responded to a crisis can be a cause for deep regret with serious political repercussions. Decision-making processes, particularly around the allocation of budget, are typically entrenched and driven by a wide range of political pressures. Even in high-income countries, early action with automatic finance is not the norm for the risks they face. These political barriers and how they relate to finance for early action are not currently well understood and could be investigated more, both in relation to donor governments and vulnerable countries.

- **Poor communication of risks and potential approaches to manage them.** On a global level, there is no shared understanding of what the biggest risks are, where they are located and who faces them. The ‘global protection gap’ remains unknown and countries often do not have access to high quality risk information, presented in a way that decision-makers can understand both the risks they face and the potential of different approaches to address the biggest threats. This is compounded by confused terminology across the sector and a proliferation of different financial instruments for managing risk that are not always easily understood. Evaluations and studies of the effectiveness of different early action approaches are typically packaged as individual reports on ad hoc pilots, often pitched more at meeting donors’ needs for performance reporting (for example, focusing on cost-effectiveness indicators) than necessarily focusing on evidence that would be compelling enough to make vulnerable governments completely change their approach to managing disasters.
- **The need for related governance reform.** In many countries, administrative, legal and public financial management reforms are needed before money can be triggered ahead of a crisis or to ensure that

disbursed money flows quickly through government systems and out to beneficiaries. For example, in the Philippines, anti-corruption measures prevent government funds triggering before needs arise and would require changes to legal frameworks and Public Financial Management (PFM) processes, both of which would be time-consuming and require high levels of political will (Scott, 2022). Similarly, parametric insurance can pay out within hours but there are multiple examples of funds then getting stuck in government accounts rather than flowing quickly out to beneficiaries (for example, IRAM 2020). Detailed analytical work is needed in each context to understand how to move forward.

- **Forecasting capacities and data gaps.** Reliable forecasts are essential for anticipatory action and some early response financing instruments, such as parametric insurance, require technical skills in risk modelling and access to accurate data, including on hazards, exposure and vulnerability. In low-income contexts, and particularly in fragile and conflict affected states, data is often partial and the necessary skills to interpret it are often missing. This leads to a lack of trust in forecasts which impacts on willingness to innovate and trial anticipatory approaches.

RECOMMENDATIONS

1. Deliberately re-position ‘early action’ as a development and climate issue, not just a humanitarian topic

A key concern for those working on early action is how to scale up and move beyond the ad hoc pilots that are the current norm. In order for early action to become the default, it must move out from its current position as a humanitarian approach, funded out of humanitarian budgets. Early action must become an integrated link in the chain of building countries’ and people’s resilience to crises, not a separate set of humanitarian activities that are financed in a vacuum. Rethinking and re-positioning early action to make it genuinely part of a ‘resilience continuum’ would help to bring development and climate actors into the discussions. This would help early action activities to be designed and implemented in a way that better aligns with, and actually incentivises, on-going DRR and climate change adaptation activities on the ground. It would also potentially create access to development and climate resources which are often significantly larger than the amounts available in humanitarian budgets, but are still usually ‘risk-blind’. There is far greater scope for adapting climate and development financing instruments to become ‘earlier’, or more anticipatory, than is currently being realised, and particularly to use financial instruments to incentivise risk reduction and resilience building.

This recommendation relates to the familiar request to ‘bridge silos’ and needs to be applied on many levels and in varying practical ways. Some possible examples include:

- Early action practitioners make the effort to change their language so that it positions early action as a resilience activity, and reach out to colleagues from other sectors to ensure their work is understood and aligns with broader programming
- Humanitarian agencies deliberately partner with a development or climate actor in all their anticipatory action activities and vice versa, as much as possible. Convening around particular pieces of work and using shared tools and approaches will help, for example, sharing risk analysis and vulnerability assessments.
- Partnership organisations like REAP consciously re-orient themselves to engage with more development banks and climate funds and focus their work programme on bringing those actors together, match-making opportunities and showcasing collaboration
- Researchers track crisis finance so that it is clearer where money comes from and identify the largest sources of potential finance for early action across development and climate funding, developing clear advocacy messages on how these and other instruments can be adapted to support early action
- Donor governments use their considerable influence to advocate for an increased focus on early action financing within the humanitarian, development and climate multilateral organisations they fund
- New G7 proposals for a Global Shield for Climate Risks incorporate humanitarian, development and climate actors and financing instruments in the design, embedding and advocating for early action as a primary objective.

2. Work on a coherent plan with division of labour between the actors and reduced fragmentation

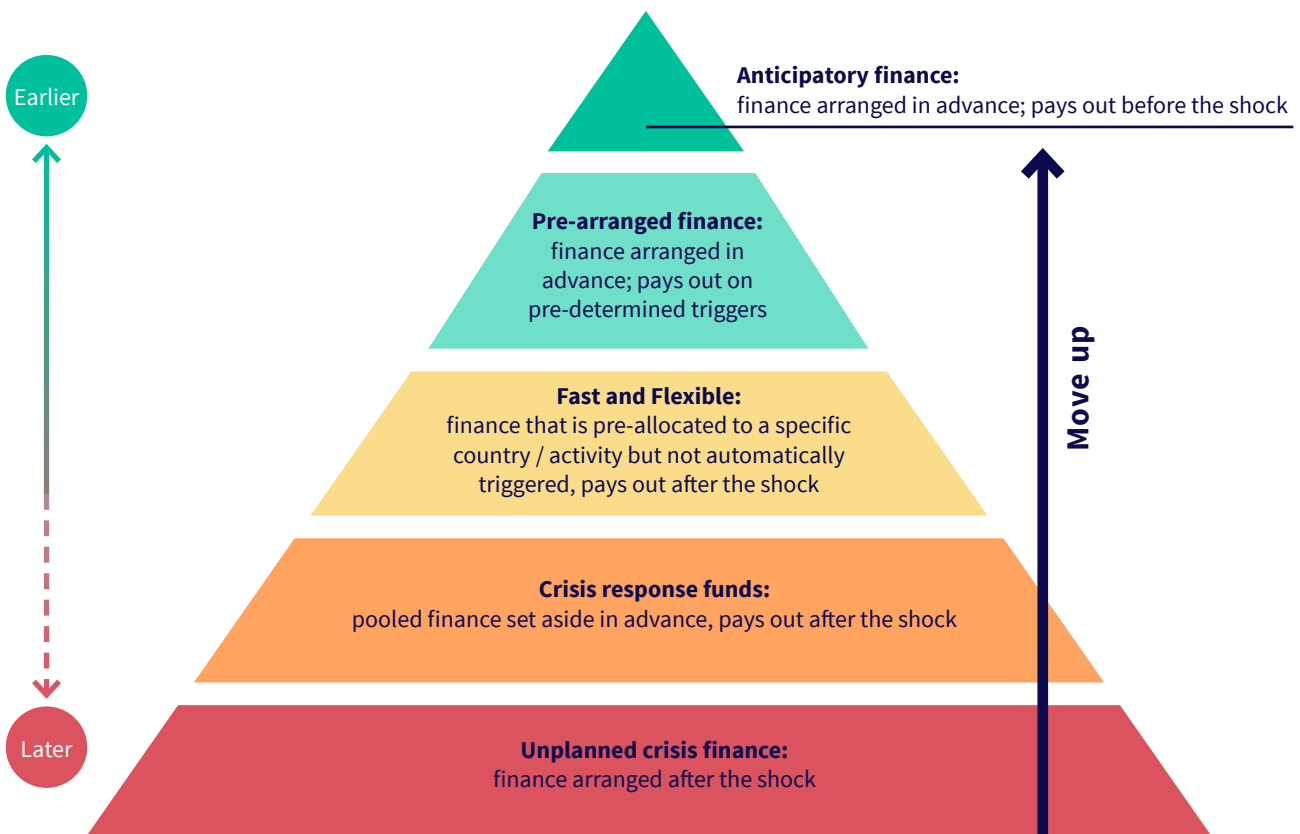
As different actors are increasingly brought in to finance and deliver early action, there is a need for a coherent overall plan, both internationally and within countries. Perceptions of organisational mandates often seem not to match the reality on the ground and the early action space is characterised by small-scale, ad hoc, uncoordinated projects. As Kellett and Peters stated in 2014, “financing for emergency preparedness is complicated, fragmented and piecemeal, especially the international contribution, with an array of separate institutions, mechanisms and approaches” (p.11). In 2022, this is unfortunately still the reality. It is not an easy ask, but a coherent, overarching strategic plan is needed, that matches risks and protection gaps with finance for early action. The Crisis Lookout Coalition²⁹, supported by over 50 organisations (humanitarian, development, public, private) called for this type of systemic change in 2021. The German government’s G7 2022 proposal for a ‘Global Shield Against Climate Risks’ could be a game-changer in this regard, reducing fragmentation, analysing risks and matching them to appropriate finance, and ultimately producing coherence internationally and at the individual country-level.

This level of ambition is needed to bring the systemic change that is required. It provides an opportunity to bring actors together and agree on a suitable division of labour between sectors and actors, where each plays to their strengths.

3. Aim to progress financial instruments ‘up the pyramid’

It is clear that money is being programmed for early action but the bulk of finance for disasters still falls into the ‘unplanned crisis finance’ category, which makes it slow and unreliable. The priority is therefore not just identifying ‘new money’ to be channelled to early action funds and activities (although additional funding for system strengthening is still very much needed). Instead, the focus must be on re-shaping existing approaches and funding instruments to make them more conducive for earlier action. Donors, implementing agencies, governments and communities should therefore assess how they can generally ‘move up the pyramid’ shown below (and discussed in detail in Part B) by making adjustments to their crisis financing instruments and approaches to make finance flow faster and with more arranged in advance. This would then naturally increase the amount of money available for early action from its currently very low base.

Figure 4: Progress financial instruments up the pyramid



²⁹ See *The Crisis Lookout Coalition*

Actors could review their whole portfolio, or specific instruments or funds. For example, a government who typically pays for crises using last-minute budget reallocations after a shock could move up the pyramid by establishing a ‘crisis response fund’. Similarly, an international organisation with a ‘crisis response fund’ could move up the pyramid by setting aside some of its financing to become ‘fast and flexible’, pre-allocating finance to programmes in vulnerable countries, perhaps even with some pre-determined triggers. Similarly, an insurer that provides ‘pre-arranged finance’ could aim to start offering ‘anticipatory finance’ by innovating with products that would trigger before the peak impacts of a shock are felt. There is a limit to how much finance can realistically and usefully be provided in anticipation of a shock, for example, because not all hazards are predictable. More work is needed to understand exactly what percentage is desirable, but it is clear that we are a long way from having reached a saturation point. Gradual movements up the pyramid will increase the amount of finance that is available earlier in a crisis, which will reduce suffering and support livelihoods.

4. Build sustainability by involving governments from the beginning

Whilst getting development and climate actors more involved in early action is a key next step, it is clearly not going to lead to longer-term sustainability as that will only come with government ownership and leadership. There is consensus that vulnerable country governments need to be involved to a greater extent and the ultimate aim has to be that early action becomes governments’ preferred way of working, and government budgets and systems are revised to enable this.

However, this is currently far from the reality in most vulnerable countries. Although most vulnerable countries are highly motivated to protect themselves better from risks, anticipatory action has been a humanitarian-led approach and there is not yet strong demand from countries for it. For example, there are very few examples of governments using their own budgets and systems for AA – it has typically been humanitarian-funded via parallel channels. Several organisations have been calling for national governments to adopt anticipatory action approaches (for example, the Anticipatory Action Task Force’s G7 Policy Brief, 2022), but it should be acknowledged that this is a long way off in most countries and a clearer plan is needed for how to overcome the political disincentives, governance barriers and distrust of forecasts.

There are more examples of governments investing their own funds in pre-arranged finance for earlier response, for example by buying sovereign insurance, but these mechanisms are not available or well-understood across all regions. Also, the various donor pledges made throughout 2021 to provide premium subsidies underscore that added incentives and direct funding are still needed to get countries to join the risk pools.

Early action actors should ensure that they strategise about how to work with governments as much as possible, for example ensuring that they use government systems for delivery of anticipatory action, rather than defaulting to parallel channels. Actors need to be able to work across multiple different ministries as early action tends to fall between departmental mandates – establishing interdisciplinary Technical Working Groups can help with collaboration. Ministries of Finance are not typically the lead government department that humanitarian agencies work with on a day-to-day basis, but collaborating with them on risk finance and early action is crucial to ensure that approaches fit with wider policies and processes, and to cultivate improved awareness of risk and potential impacts across the government’s budget.

Attention needs to be paid to better understanding the political disincentives and barriers to government engagement in early action, identifying opportunities and creating incentives. Political economy analysis could help with this, and lead to more targeted advocacy, capacity building and evidence generation. Government ownership of early action is not an inevitability, but it is a necessity.

5. Build scale and sustainability by making the most of the private sector

Another element of creating sustainability is to forge better collaboration with the private sector³⁰, both internationally and at the local level (local private actors are often completely missing from these conversations, with the attention being on large multi-national corporations). The private sector has been involved in crisis response for decades, for example via insurance, and there are many examples of publicly funded programmes to build support and a better enabling environment for private sector engagement, for example the InsuResilience Investment Fund (IIF).

However, there is still scepticism and distrust of private sector actors amongst humanitarian and development actors. Some do not yet appreciate that the private sector is essential for two elements that are currently missing from early action: scale and sustainability. Honest

³⁰ Private sector actors go beyond just insurers and reinsurers to include investors, financial institutions, risk modelling agencies and service providers, for example.

conversations are needed about some of the challenges of collaboration and a commitment to push through to find solutions.

The potential contributions of the private sector are not yet fully appreciated by most early action actors. When asked about the role of the private sector, many interviewees suggested provision of insurance was the only or primary role, sometimes mentioning corporate social responsibility (CSR) funds. There was little appreciation of wider potential benefits, for example the vast technical expertise and rigour resident in the sector. Private actors have significant technical capacities and tools in relation to early warning data, remote sensing, triggers and thresholds, and so on. They are also providers of multiple services that relate to early action, for example risk modelling or digital payment systems, and they are key analysers and communicators of risk information. They can also help shape public policy conversations around risk, for example through discussions on insurance regulation. In short, private sector involvement in early action is not yet maximised, and the potential and need for it is not even widely understood by early action actors.

Both private and public actors can learn from each other and should recognise each other's strengths. Some collaborations are happening, for example the Insurance Development Forum have a number of public/private

initiatives such as the Tripartite Agreement with IGP and UNDP, and Start Network have created an Advisory Group comprising private sector representatives to provide crucial advice on their risk pooling. There are differences in approach; for example, the concept of 'no regrets' does not resonate as well with an insurer or risk modeller's technical approach as it does with a humanitarian. However, each sector can learn from the other. For example, humanitarians and development actors have extensive knowledge of the context, tried and tested delivery channels and can bring their experience with innovations like anticipatory action and Shock Responsive Social Protection, while the private sector can bring access to data and capital, willingness to innovate, rigour, discipline and accountability.

6. Review all early action financial instruments against the good practice checklist

There is more to financing early action than just getting money in place earlier in a crisis timeline. Experiences on the ground show that all early action financing instruments and funds need to incorporate multiple different areas of good practice. Actors should review the early action financing instruments that they fund or use against the checklist provided in Part D to see what changes could be made to improve their approach.

Good practice checklist

Finance for early action should:

Be fast

When funds arrive early in a crisis, they have the maximum impact on lives and livelihoods

Be government-led

Move beyond consultation to genuine government leadership and ownership

Be sustainable

Replace ad hoc, short-term approaches

Incentivise risk reduction and resilience

Align with wider resilience initiatives and create incentives to reduce risks, not just respond to crises

Involve local actors

Empower local communities, businesses and civil society organisations to shape finance for early action

Embed monitoring and evaluation

Build the evidence base and best practice through rigorous, transparent and independent M&E

Link to a flexible plan

Link finance to plans to help ensure support reaches the most vulnerable, whilst also enhancing coordination and raising awareness of risks

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