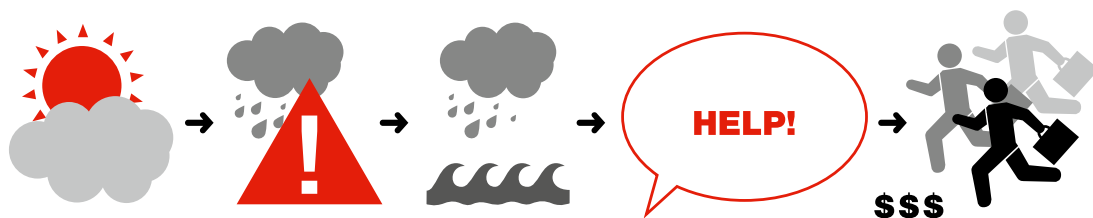


FORECAST-BASED FINANCING

An innovative approach

THE CHALLENGE

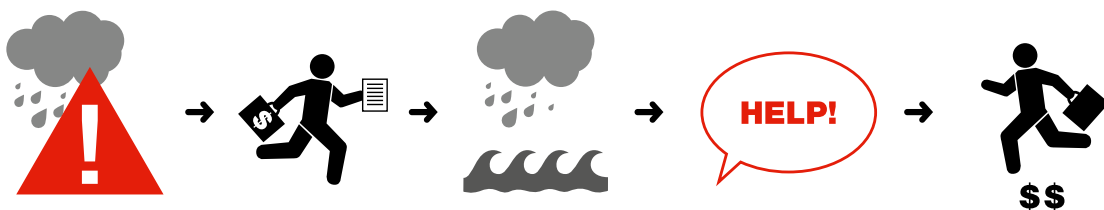
Humanitarian finance is available when a disaster strikes and suffering is almost guaranteed. But climate-related risks are rising worldwide, and just waiting for disasters to happen is not an option:



THE OPPORTUNITY

Many humanitarian actions could be implemented in the window between a forecast and a disaster. Many climate-related hazards can be forecast; humanitarians get information about when and where extreme-weather events like storms, floods and droughts are expected.

Can we set up an automatic system that triggers and funds preparedness actions before a disaster strikes when a credible warning arrives? If so, we could prevent suffering, use humanitarian funds more efficiently, and contribute to strengthened community resilience:

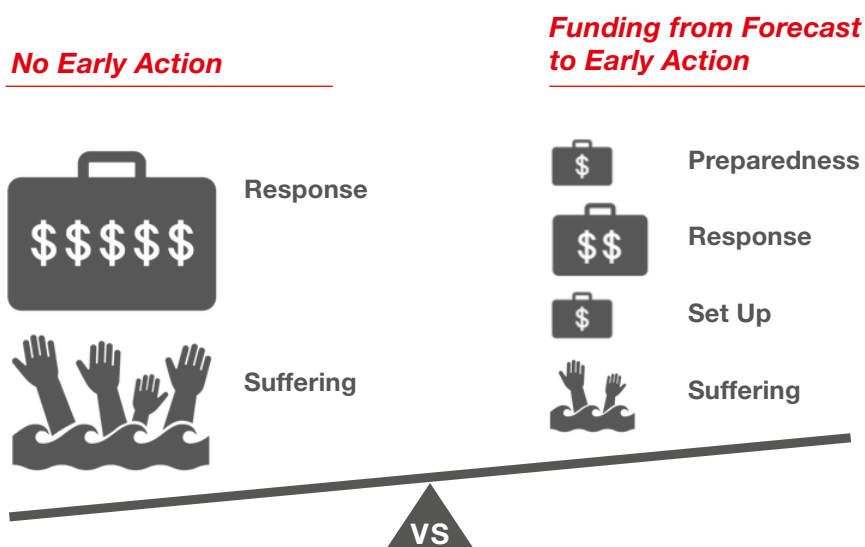


THE INNOVATION

Forecast-based Financing (FbF) releases humanitarian funding based on forecast information for pre-agreed activities which reduce risks, enhance preparedness and response, and make disaster risk management overall more effective.

A key element of FbF is that the allocation of resources is agreed in advance. The relevant forecast thresholds that trigger the early actions that aim at reducing the humanitarian impact of the disaster, as well as roles and responsibilities of all involved in implementing the actions are defined in Standard Operating Procedures (SOPs).

How do we allocate humanitarian resources?



The Action Plan for Humanitarian Adaptation to Climate Change – a strong commitment of Germany's Federal Foreign Office

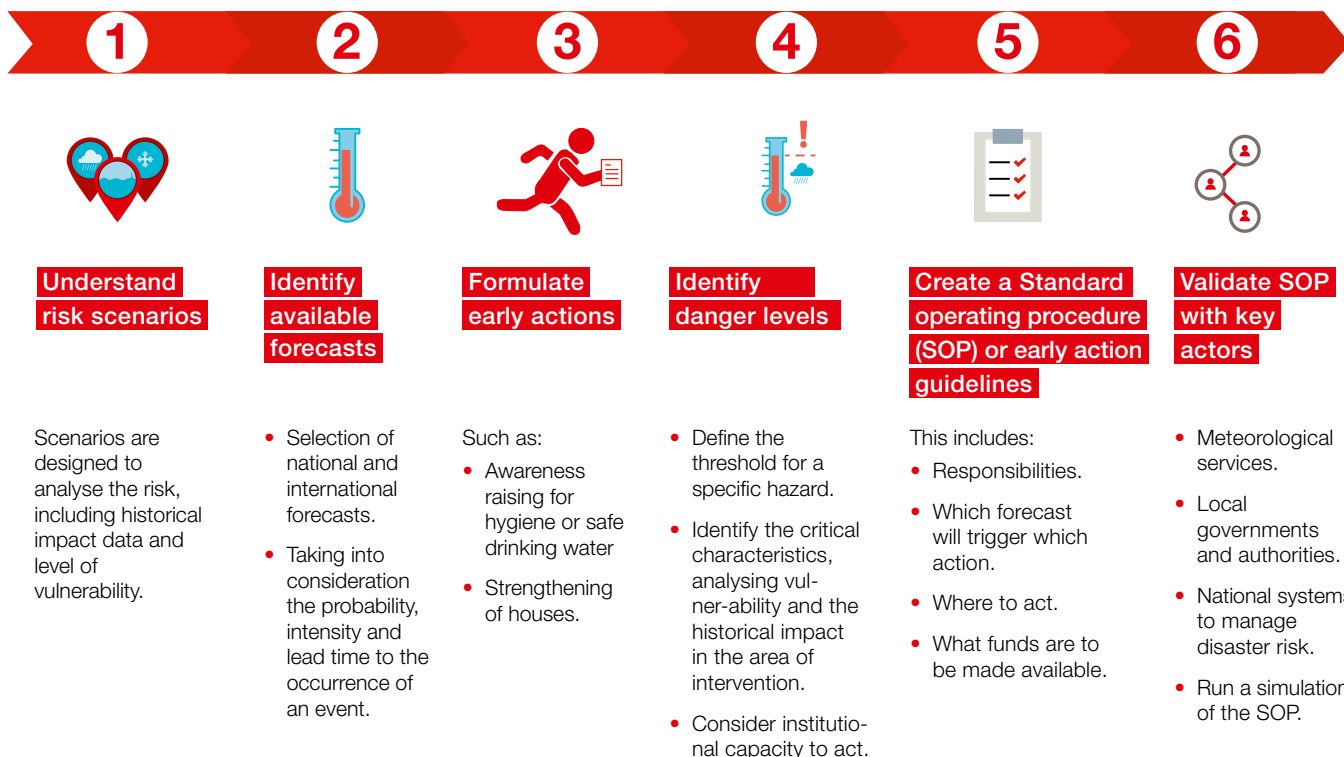
In the past decade the Early Warning Early Action agenda has spurred investments in climate services, forecast information and communication protocols worldwide. As a result, lives and livelihoods have been spared during hazardous events, particularly in cyclone-prone regions. However, the full potential of early action has not yet been realized; many of the most devastating natural disasters in recent years had been forecasted before they occurred; yet actions to reduce their impact remained limited.

The global community has committed to reverse this trend. Countries have committed to strengthen the Early Warning Systems in the Sendai Framework on Disaster Risk Reduction. They have promised to reduce the risks of extreme events in their Nationally Determined Contributions to the Paris Climate Agreement, and they have pledged to address disaster risk reduction as a cross-cutting necessity to achieve the Sustainable Development Goals.

In 2014 Germany's Federal Foreign Office recognizing the increased need of humanitarian assistance after disasters, decided to launch the Action Plan for Humanitarian Adaptation to Climate Change. Within the framework of this action plan and under the coordination of the German Red Cross (GRC) with partners such as WFP, the Red Cross/Red Crescent Climate Centre, the International Federation of Red Cross and Red Crescent Societies, UNOCHA, Welthungerhilfe and research institutes, an innovative methodology – FbF – has been jointly developed and tested in several pilot countries.

Pilot experiences – how to put the theory into practice?

Since early 2015 the GRC is jointly with the respective National Red Cross and Red Crescent Societies implementing FbF pilot projects in Uganda, Togo, Peru, Bangladesh and Mozambique. All the projects are following steps 1 to 6 in developing and testing SOPs:



A first phase: assessing the risks and identifying early actions

As part of the Federal Foreign Office Action Plan, GRC piloted FbF projects in **Peru, Bangladesh and Mozambique**. Additional experiences have been gathered in **Uganda and Togo**. The focus in each country is different depending on the results of climate risk assessments carried out when starting the project.

- **Peru** focused on different hazards: cold waves and snowfall in the Peruvian high Andes, El Niño in northern Peru and flooding in the Amazon rainforest. Actions identified for coldwaves included distribution of family warm-up kits to reduce pneumonia and other diseases occurring during cold waves as veterinary and feeding kits for Alpacas. For floodings and strong rains, hygiene kits and water purification tablets were distributed to reduce the incidence of waterborne diseases and houses at risk were strengthened using standardized building kits.
- **Mozambique** is frequently exposed to tropical cyclones and floodings. GRC and the Mozambique Red Cross jointly developed SOPs to reduce the impact of tropical cyclones and flooding on the population in the Limpopo river basin. Identified early actions range from strengthening of houses at risk, to hygiene activities reducing the risk of waterborne diseases and preparation of evacuations including provisional shelter.
- **Bangladesh** is one of the most disaster-prone countries in the world and extremely vulnerable to climate change. Apart from floods, Bangladesh grapples with strong tropical storms and cyclones in the southern coastal belt, as well as droughts and earthquakes. The FbF project is focusing on the impacts of river floods and of tropical storms and cyclones. Beside the distribution of health and hygiene kits with the aim of ensuring access to safe drinking water and reducing the risk of waterborne diseases, unconditional cash transfers have been used in pilot communities allowing people to evacuate their families and their belongings to safe areas without selling all their assets in order to afford that.



- **Togo** pilots FbF for hydro-power dam-related flood-risk management and therefore helps to mitigate risk in communities. The project focuses on better communication lines and improved early warning systems for down-stream communities and other activities preparing communities to possible flooding. Radio messages are broadcasted and evacuation drills carried out.
- **Uganda** used FbF to prepare communities and the most vulnerable families to the impacts of flooding, especially through the distribution of hygiene kits and awareness campaigns to reduce the incidence of diseases.

Main lessons learned: preparing for a second phase

1. An FbF mechanism needs to be closely coordinated with the national authorities, especially in disaster risk management of a country or region to ensure ownership, particularly including responsibility for technical and financial coordination, and sustainability. It should be sensitive to national and local adaptive capacity.
2. An FbF mechanism must be dynamic, so it can be improved based on robust evidence. It requires iterative process to understand risks, forecast skills, evidence of the effectiveness of early actions among other elements.



The second phase of FbF: our strategy

Based on knowledge gathered and lessons learned during the first phase, the following strategic focus areas have been determined for the continuation of the pilot projects in the second phase:



Consolidation and further development of SOPs: During the first phase many SOPs were developed in a way that limited thresholds and early actions to one specific community. In the context of the second phase SOPs should be developed and adjusted in a way that allows their implementation in different communities depending on the forecast. This would increase the scope of FbF in the respective countries as well as increase the number of opportunities of testing FbF.



Building Evidence - Measuring what matters: To successfully establish FbF in national and global systems of DRM (Disaster Risk Management), it needs to be shown that FbF does indeed reduce humanitarian impact of extreme weather events – suffering, losses and damages – when implemented correctly. By expanding the scope of the SOPs in the second phase more activations and testing will be possible and hence allow collecting experience.



Strengthening capacities: Strengthening of capacities in terms of knowledge and equipment will be continued in the second phase with the objective to put national societies in the position to independently manage the activation of SOPs and take a lead in the advocacy to integrate FbF in national systems. FbF as a system also depends on the institutional preparedness of government and other DRM actors at national, regional and local level. The pilot projects will strengthen these capacities and provide technical support for the improvement of early warning systems and forecasts. This is also important for the sustainability of FbF, which in the longer-term depends on the institutional ownership of government and other DRM actors.



Creation of a Financing Mechanism: One major element of the second phase is the establishment of a financing mechanism that enables humanitarian organisations to implement FbF. Only when funds are rapidly available actions can be taken before the disaster occurs. The Foreign Office, the Frankfurt School of Finance and GRC are working on developing a pilot international financing mechanism that can make funds available quickly and ensure that they reach the humanitarian actor when needed.



Alliance for Action – Convening a community of practice at national, regional and global level: Achieving an FbF system for as many locations and hazards as possible requires a coordinated dialogue process. FbF projects should embark on this process by convening a community of practice, nationally, regionally and internationally.

Taking FbF to Scale

Over the next three years a global financing mechanism for forecast-based actions will be established. In the framework of the humanitarian landscape, this FbF fund will be an important addition to the existing emergency relief funds that release funding after disasters occur. It will automatically allocate funding for approved SOPs submitted by national and international humanitarian organizations once forecast thresholds are reached. It will contribute to expanding the scale of FbF through the continued acceptance of new SOPs, contingent on their quality and based on transparent eligibility criteria. The National Red Cross Red Crescent Societies in the respective high risk pilot countries are supported with technical assistance, equipment and capacity building by GRC, RCCC and IFRC to independently develop, implement and assess SOPs and access the fund.

Ultimately, Forecast-based Financing SOPs can be coordinated, and responsibilities can be shared, among national government entities responsible for disaster risk management and financing. Through coordinated dialogue, the goal of this process are evidence based SOPs, backed by a group of national stakeholders who are committed to fulfill their specific roles and responsibilities for forecast-based actions, and have the requisite organizational funding to do so.

Achieving such a result requires continued scientific research on forecast skills, sound understanding of risks, and prioritization of early actions. In order to guide these processes, a Forecast-based Financing manual has been developed and is online available.

How does FbF support implementation of global commitments?

The FbF concept bridges the climate-development-humanitarian divide; tackling this divide is critical to fulfill the commitments made by States in the post-2015 agendas. If a Government and its partners establish a funding mechanism, design scientific thresholds to trigger early action, and commit to implement the SOPs, then disaster risk reduction, climate change adaptation and humanitarian response will be more cost-effective, efficient and ultimately unnecessary human suffering will be averted.

Conclusion

FbF is an opportunity to invest in a new way of working, simultaneously addressing the commitments in the post-2015 agendas and offering a better future for the most vulnerable.

The Red Cross Red Crescent National Societies pioneering FbF, carrying out their mandate of humanitarian assistance and in their auxiliary role to their respective governments, are offering a new alternative to manage risks. In this framework, climate science, risk knowledge, pre-committed funding, and years of experience in disaster response are married together to promote a more effective way at reducing risks and responding to disasters. To scale this up, political will and changes in the humanitarian financial landscape are essential.

