# **Policy Recommendations**

Humanitarian and development practitioners agree that the funding gap must be closed and a comprehensive strategy to fund the development and operationalization of forecast-based finance systems at the national and international level is needed. The following policy recommendations are based on emerging experience with the small-scale forecast-based finance pilots, and on discussions with policymakers, practitioners and thought leaders already engaged in FBF concept development and operations:

- 1. Having pre-disaster financing arrangements (e.g. a "Preparedness Fund") earmarked and readily available at shorter timescales is essential for the sustainability and ability to scale up success of this system.
- 2. Standard operating procedures (SOPs) need to be elaborated nationally and internationally. This will require donor collaboration and meaningful engagement with diverse stakeholders including government, civil society, and the local private sector. Early experience underscores the importance of establishing clear strong institutional arrangements including multi-agency working groups that involve beneficiaries for collective elaboration of standard operating procedures. Once developed, FbF systems need to be evaluated and revised on an ongoing basis.

## Forecast based finance and the post-2015 policy landscape

Forecast-based finance offers an important opportunity to inform and support implementation of various key global agreements and commitments shaping the post-2015 policy landscape.

- The Sendai Framework for Disaster Risk Reduction (SFDRR) explicitly emphasizes the need to shift away from disaster management to disaster risk management and for the need for more mobilization of risk-sensitive investment to avoid creation of new risks. Forecast-based finance supports the SFDRR's Priority 2: Strengthening disaster risk governance to manage disaster risk and Priority 4: Enhancing disaster preparedness for effective response and to "Build Back Better" in recovery, rehabilitation and reconstruction.
- The International Conference on Financing for Development resulted in the Addis Ababa Action Agenda (AAAA), which refers to the need to manage and finance disaster risk as part of sustainable development strategies and cost effective measures. Forecast based finance speaks directly to this priority action area.
- Forecast-based financing is featured in the Synthesis Report of the World Humanitarian Summit, a key meeting of humanitarian community in May 2016, which will inform the direction of future humanitarian response.
- UNFCCC COP 21 in December 2015 needs to result in an overarching climate change agreement. It is clear that better arrangements to build resilience in the face of rising climate risks will be a key ingredient. Forecast-based finance offers a very specific, actionable solution that builds on existing capacities yet directly addresses the rising risks. It features in several side events in Paris, including as part of the A2R resilience initiative launched by US Secretary-General Ban Ki-Moon.

reconciling short-term disaster response with long-term risk reduction through forecast-based finance (FBF)



### Key messages

- A serious funding shortfall exists
- The Red Cross Red Crescent and its partners have developed forecast-based financing, sed and before a disaster hits.
- Science-based decision-making helps targeting those vulnerable people who are most the most cost-efficient way.
- Piloted in over fifteen countries, bability is high.
- A comprehensive strategy to fund and operationalize the approach cess is key to ensuring the success of forecast-based finance.







### **CLOSING THE GAP:**

for both disaster response-oriented action and longterm disaster risk reduction and development.

an innovative mechanism whereby early preparedness action is funded after a forecast is relea-

at risk of being affected by climate-related disasters and hence use scarce resources in

this innovative funding approach can improve effectiveness by triggering action when risk pro-

at the national and international level, developed through a multi-stakeholder participatory pro-



### The global policy backdrop

The scenario is all too familiar: a disaster strikes and humanitarian finance arrives ex-post; the world watches as local communities contend with loss of lives, livelihoods, and economic setback that undermine development gains.

The Intergovernmental Panel on Climate Change, the world's leading body of climate scientists, has called for policymakers to adapt to a changing climate by preparing better for extreme events. Climate related risks are on the rise, the number of people in need of humanitarian assistance is increasing, and the amount of humanitarian finance for disaster response is stagnating. Waiting for disasters to happen is no longer an option; a more efficient system is needed. Value-for-money or cost-benefit approaches have to be applied for humanitarian operations and development investments alike, so we can use scarce financial resources more effectively.

As a result, policy directives have increasingly spurred investment in improved early warning systems, yet there is sparse evidence that these systems are clearly linked to early action. The majority of funding mechanisms to manage risks continue to systematically focus either on long-term disaster risk reduction (DRR), or on disaster response and reconstruction.

Forecast-based finance offers policymakers and practitioners and opportunity to invest in a cutting edge approach that spans the humanitarian-development continuum and focuses on triggering early action based on a scientific warning, effectively closing the gap between emergency preparedness, disaster risk reduction and disaster response.



Developed by the Red Cross Red Crescent and its partners, Forecast-based finance (FBF) is a mechanism whereby humanitarian funding is released to take anticipatory pre-defined action after a forecast is issued and before a potential disaster strikes. Since 2012, this innovative approach to financing preparedness action has been piloted by the partners in at least fifteen countries, tackling hazards as diverse as droughts, floods and cold waves, and demonstrating how response-oriented actions can enable long-term disaster risk reduction and development.



## Prevention is better than cure – or why Forecast-based finance is a wise investment

Over the last decade, climate and weather models became more accurate and continue to provide freely available information. Despite forecast information being readily available around the world, it is rare to find forecast-based contingency plans in humanitarian organizations that would translate the information into action on the ground. It is even rarer to find financial mechanisms available to humanitarian organizations on the basis of science-based forecasts or early warnings. While preparedness plans are typically designed to anticipate potential disasters, they are based on the average levels of risk, not on real-time forecasts. As such, they do not allow for dynamic prioritization of scarce funding when a risk is temporarily increased (e.g. due to the forecast of an extreme event). Indeed, the risk of acting in vain often prevents anticipatory investment in actions that could reduce risk and build local resilience over the long term.

### The success of this pioneering approach depends on coordinated effort by a range of actors including meteorologists, climate scientists, humanitarian and development actors, governmental authorities, donors and local communities.

Together, they agree on a specific set of preparedness actions - "standard operating procedures" -- that are worth carrying out once a specific parameter of a forecast reaches a certain threshold of probability. Each pre-defined action is budgeted for, which is key to ensuring that once a threshold is surpassed, funding will automatically be used to take early action.

Guided by its "Action Plan for Humanitarian Adaptation to Climate Change", the German Federal Foreign Office has been a leading funder of the FBF pilot projects in Uganda and Togo, together with the German Ministry for Economic Cooperation and Development. For example, in Peru, to be better prepared for increased chance of flood during El Niño years, the Peruvian Red Cross and partners have defined an standard operating procedure whereby the Peruvian Red Cross draws on an existing "FBF Preparedness Fund" to purchase house-reinforcing materials when a seasonal (3 month) forecast predicts a strong risk of flooding. The Peruvian RC keeps these materials ready and if a short-term (7 day) forecast exceeds a pre-defined threshold that indicates flooding is likely, the Peruvian Red Cross immediately distributes materials and residents quickly reinforce their homes.

In Uganda, a standard operating procedure has been collectively developed by Uganda Red Cross and its partners, which stipulates that they will distribute a specific set of materials (e.g. water purification tables, soap, shovels) when the forecast indicates a 50 % chance of flooding. These two examples of project-specific Preparedness Funds in Uganda and Peru ensure materials can be purchased and distributed in a timely manner.

Of course, no forecast is 100 % certain. In both projects, it is understood that sometimes early action will be taken "in vain" meaning the expected extreme event will not materialize.

The key of the FBF design is precisely such that over time, the negative consequences of not taking early action are outweighed by benefits of a system that succeeds when disasters do materialize.