

# Mobilise Public and Private Finance Before Disasters Strike

Mark Lowcock

**D**ISASTERS AND EMERGENCIES are predictable. Not in the sense that we know exactly when and where the next one will be, but in the sense that we know that droughts, earthquakes, floods, hurricanes, cyclones and storms are a fact of life and, because of climate change, are on the rise. Climate costs in 2030 related to the humanitarian sector are projected to be \$20 billion<sup>1</sup> – approaching the size of the whole international humanitarian response today (\$25 billion) by 2050.

The traditional approach to dealing with humanitarian crises has been to watch disaster and tragedy build – whether from famines, wars, storms or disease – and then gradually decide – normally driven by public and political reaction to media coverage – that we need to respond, then to mobilise money and organisations to help, and then after that to start to get help to the people who need it.

That is a reactive approach. It saves many lives. But it is slower, and hence less humane and more expensive, than it needs to be. It would be better to take an anticipatory approach, where we plan for the next crises. If a poor farmer knows that the farm's seeds will not produce a harvest due to an imminent drought, we should supply drought-resistant seeds, rather than waiting for the family to starve and the children to show up malnourished in a clinic. If we know that cholera is likely to break out in a particular location, we should remind people to wash their hands, and make sure there are clean water sources and enough hydration medicine at the local clinic, instead of waiting until people are infected and fall ill.

I am talking here not about preventing crises in the sense of stopping them from happening at all – by diplomacy and mediation to resolve disputes before they dissolve into conflict, or by investing in irrigation to reduce dependence on rain-fed agriculture in drought-prone places – although I am in favour of those things wherever possible. Anticipatory action in the humanitarian sphere is about acting as soon as we know there will be a crisis, but before it strikes. It is about predicting disasters before they arrive and having a response plan with money available in advance to pay for their impacts.

In developed countries that is what happens. People take out insurance policies against emergencies. Governments do contingency planning and practise drills. Why are the same concepts not part of the routine approach to helping more vulnerable countries? There are

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1. UNHCR, 'Climate Change and Disaster Displacement', <<https://www.unhcr.org/uk/climate-change-and-disasters.html>>, accessed 4 November 2021.

several reasons. First, we have not previously had the data and tools which now allow us to predict many crises. (Weather models, for example, can now predict quite precisely the path of storms days ahead of their arrival, while the triggers for violent conflict are manmade and harder to predict<sup>2</sup>). Second, as some have speculated, the political will to act cannot be mobilised until we all see the suffering on our screens. And third, bureaucratic inertia and a misguided tendency to act only at the very last minute inhibit our responses.

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The UK could tackle each of these blockages and increase the impact of its support for disaster response. It has already contributed to improvements in data analytics, by investing in early warning systems and forecast-based financing including through the establishment of the Centre for Disaster Prevention in 2017.

Both donor and recipient governments are often reluctant to acknowledge publicly that a crisis is looming. The UK could help to incentivise a more risk-informed mindset, to improve the way governments plan for and fund crisis response.

Below I set out different ways in which the UK can improve the impact of its support for crisis response, for both rapid onset and protracted problems.

## Risk Financing and Insurance

A first step towards a more anticipatory approach in crisis-prone poor countries is to make greater use of disaster-risk insurance. In high-income countries, almost half of natural hazard costs are covered by insurance policies issued by private companies.<sup>3</sup> Poorer countries lack coverage,<sup>4</sup> on average it is just 5%.

In December each year, the UN Office for the Coordination of Humanitarian Affairs (OCHA) publishes a major report, the Global Humanitarian Overview, setting out likely humanitarian

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2. See Airbel Impact Lab, ‘Crisis Risk Finance’, <<https://airbel.rescue.org/projects/crisis-risk-finance-innovative-finance/>>, accessed 4 November 2021.
  3. See, for instance, Munich Re, ‘Record Hurricane Season and Major Wildfires – The Natural Disaster Figures for 2020’, 7 January 2021, <<https://www.munichre.com/en/company/media-relations/media-information-and-corporate-news/media-information/2021/2020-natural-disasters-balance.html>>, accessed 16 November 2021.
  4. Government Office for Science, ‘Reducing Risks of Future Disasters: Priorities for Decision Makers’, Final Report, 2012.

problems across the globe for the following year, together with high-level response plans and details of the resources needed to implement them. They are followed up with detailed country plans, which for the major crises (Syria, Yemen and others) are the subject of international fundraising meetings convened by the UN. This overview has in recent years developed a good track record in forecasting overall needs, although every year a number of new, unpredicted problems also arise: in 2019, the unexpected crises included the Ebola outbreak in the east of the Democratic Republic of the Congo; in 2020, the coronavirus pandemic; and, in 2021, the conflict and resulting famine in northern Ethiopia.

In 2018, my colleagues at OCHA estimated that 20–30% of the needs we identified in our Global Humanitarian Overview could in principle be met through insurance.<sup>5</sup> Interestingly, insurance companies such as Swiss Re and Munich Re, asking the same question, got to roughly the same answer. The main kinds of disaster for which insurance can help are weather-related events – droughts, floods and storms – but some disease-related problems can be covered too. Insurance providers are understandably wary of offering cover for conflict-related problems, given that they arise from deliberate human decisions.

Insurance provides fast, predictable payouts. It also makes people more aware of risk. Whether the policyholder is a country, a business owner or a family, buying insurance boils down to deciding that the cost of coverage is cheaper than footing the bill when disaster hits. Insurance markets only work when people trust that the policy they buy will be honoured. In many of the poorest countries, where institutions, contract enforcement and property rights are weak and the rule of law patchy, insurance markets are correspondingly under-developed. But this can be addressed by government action.

At the national level, governments can buy insurance. Sovereign-risk pools, through which countries collaborate with one another to take out similar policies, can help to reduce the cost of coverage. One important new initiative I tried to support while working at the UN as emergency relief coordinator (ERC) is African Risk Capacity (ARC), an African Union-led financial entity supported by the African Development Bank and donor countries including the UK. It shares the risk of severe drought through a continental sovereign-risk pool. Its policies pay out when satellite data says not enough rain has fallen. It is also developing products for river flooding and tropical cyclones. An important feature of ARC's approach is that payouts are, like all decent insurance policies, automatic and rapid once the covered event occurs. They are also conditional on the country using the funds to implement a pre-agreed contingency plan that targets the most vulnerable. In other words, you do not get the coverage unless you have developed a response plan for the potential problem. That helps to speed up the response when disaster strikes, because the plan is already in place. Up to 2019, ARC made payouts for eight countries. One package, funding drought response in Senegal, Malawi, Mauritania and Niger, totaled \$34 million, helping 2 million people with food, water and livelihoods.

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5. Mark Lowcock, 'Anticipation Saves Lives: How Data and Innovative Financing Can Help Improve the World's Response to Humanitarian Crises', speech given at the London School of Economics, London, 2 December 2019.

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Governments can do the same thing within their own countries too. Since 2010, the government of Kenya has offered index-based livestock insurance for pastoralists. The policy pays out automatically once satellites detect that available forage is becoming too scarce for animals to survive. What that means is that pastoralists can protect their animals before they starve or become sick. The insurance here, in other words, provides not just the resources to act, but also the signal that action is necessary. A similar initiative, Global Parametrics, backed by the British and German governments, is launching an insurance scheme potentially protecting 4 million people in Africa and Asia from climate-related threats to their livelihoods. Through these partnerships, the UK can share skills and knowledge to improve the use of insurance before disasters hit and build government capacity to distribute payouts to the people and sectors that need it most.

## Leveraging Private Sector Finance

Insurance can bring private sector resources and skills into disaster response. I spent quite a bit of time as ERC trying to encourage insurance companies, including leading companies from the UK, to dip their toes a bit further into this water. Generally, the initiatives trying to break new ground in this area are small in scale. For instance, when Hurricane Maria hit Dominica in September 2017, the damage was estimated at more than \$900 million.<sup>6</sup> The insurance policy the government had from the Caribbean facility paid out \$19 million.<sup>7</sup> The cost of enhanced coverage makes policies unaffordable for some people and some governments. A larger guaranteed payout would promote a faster and ultimately cheaper recovery from major disaster. Caribbean and Pacific storms appear to be getting more frequent and destructive. Numerous countries could find themselves in the path of one, but most will still not in any given season. That means it would probably be good value for money for development banks such as the World Bank and the Asian Development Bank to subsidise small countries' access to enlarged versions of the current insurance products, and, together with other donors, be willing to subsidise the premium payments too.

Beyond that there are two other areas in relation to insurance where British players, including in the City of London, could help to catalyse progress: first, more insurance products that pay out earlier, ahead of a shock; second, more insurance products that incentivise reducing and

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6. ReliefWeb, 'Dominica: The Impact of Hurricane Maria - Disaster Profile – January 2018', Assessment Capacities Project, 31 January 2018.

7. Caribbean Catastrophe Risk Insurance Facility, 'CCRIF to Make Payout to Dominica of US\$19 Million Following the Passage of Hurricane Maria', 22 September 2017, <[https://www.ccrif.org/node/11921?language\\_content\\_entity=en](https://www.ccrif.org/node/11921?language_content_entity=en)>, accessed 16 November 2021.

managing risk. To give an analogy, young people seeking car insurance in the UK can get cheaper premiums if they have speed-restriction devices put in their vehicles. Insurance policies for crisis-prone countries could be written to require advance planning for disaster response as a condition of any payout.<sup>8</sup>

Other potential innovations include more widespread use of catastrophe bonds – another instrument that provides cash to governments immediately after a disaster. Typically, a third-party company is set up to issue the bond, make low-risk investments to grow the capital and collect a premium from the government that is often less expensive than buying insurance. If things go the investors' way, they recover their capital in full, plus the interest generated, plus the government's premium. If a disaster happens, investors lose their capital, which goes as an instant payout to the government.

For countries which have affordable access to the capital markets but are too rich to be eligible for the cheapest money from multilateral development banks, introduction of disaster clauses into states' general borrowing on the international capital markets can also be particularly useful.

It is important not to overstate the impact the private sector can have. Inherent to the private sector is the fact that there needs to be a financial return. In many of the places where humanitarian needs are most acute, and especially where the underlying cause is conflict, there is limited scope for combining financial return with humanitarian response. Most lifesaving work in these places will still need to be paid for by grants, or very cheap loans of the sort that can only be offered by publicly subsidised organisations.

## Multilateral Development Banks

Most governments organise contingency financing for themselves through their national budget process. But many poorer countries are unable or too fiscally constrained to do this to a sufficient degree.

Pre-agreed, contingency financing from the multilateral system – especially the multilateral development banks led by the World Bank, in which all countries are shareholders – can give countries access to grants or loans at concessional rates to finance emergency response and reconstruction. There is a lot of scope for these multilateral lending institutions to help with crisis management. But historically the development banks have not seen humanitarian crises as a priority area for their work. So, help from them has only been available at much too small a scale, and sometimes with too high an opportunity cost, to play the role it could in supporting responses to humanitarian disasters. I tried as the ERC to help remedy that, by promoting initiatives such as the World Bank famine action mechanism in 2017, which was supported by Google, Microsoft and Amazon.

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8. Koko Warner et al., 'Adaptation to Climate Change: Linking Disaster Risk Reduction and Insurance', UN International Strategy for Disaster Reduction Secretariat, January 2009.

The World Bank in particular was interested in building analytical models to use to trigger responses, and attaching some of its own resources for instant release when the triggers were met. The financial and economic issues were clear cut. The long-term economic rationale was also compelling: famine raises child mortality, increases stunting and impairs cognitive development, and all those things have life-long ramifications. I was hopeful that the famine action mechanism could make a real difference.

In Somalia, the UN and the World Bank have developed an anticipatory action framework to respond to out-of-the-ordinary droughts. The idea is that this mechanism will release finance when a drought is predicted to lead to an intensification of humanitarian need, as was the case in 2010–11 and 2016–17. Funds will be released, for example, for the distribution of drought-tolerant seeds, to provide supplementary fodder for livestock and to rehabilitate water points.

In a related World Bank initiative, the establishment of the Global Risk Financing Facility, with additional money from Germany and the UK, is also working on helping governments to scale up risk financing and early action.

All these initiatives are a step in the right direction. But they need to be scaled up, in the recognition that the most vulnerable countries are falling further behind the rest of the world and one of the reasons is that they are continuously knocked back by crises. Working with others, the UK should push the World Bank to play a stronger role in crisis response in the most vulnerable countries, speeding up disbursements and ensuring financing is targeted at the most vulnerable. This should include supporting longer-term work to build the capacity of relevant ministries to anticipate crises, and flex national health, social protection and other systems (and finances) to respond early.

## Humanitarian Appeals

The main humanitarian agencies should also do more to promote anticipatory action from within the resources they control. This is not straightforward. Around 90% of the money raised each year for UN-coordinated humanitarian responses is earmarked to specific appeals (for Syria, Yemen and so on).<sup>9</sup> That money cannot be redirected into new problems – and nor should it be.

Much of the money that is available for first responses to new problems is held in the UN's central emergency response fund. When I was responsible for the fund from 2017 to 2021, we financed a suite of anticipatory projects covering a variety of shocks across different regions, guaranteeing that money would be released instantly and automatically as soon as data revealed that warning thresholds had been crossed.

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9. UN Office for the Coordination of Humanitarian Affairs, 'Global Humanitarian Overview 2021', <<https://gho.unocha.org/>>, accessed 16 November 2021.

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**“Working with others, the UK should push the World Bank to play a stronger role in crisis response in the most vulnerable countries**

One of these pilots addressed food security risks caused by drought in Somalia. When the data revealed in June 2020 that the problem was coming, a pre-agreed response plan was implemented. The central emergency response fund automatically released \$15 million to provide 1.3 million people across Somalia with assistance in the sectors of health, nutrition, water and sanitation with the aim of mitigating loss of livelihoods, deterioration of nutrition and outbreak of diseases.<sup>10</sup> Part of the aim was to generate evidence to corroborate the value of anticipatory action. One finding in Somalia was that the preparatory work reduced the time needed for funding to be released by a factor of two to three.<sup>11</sup>

Another pilot tackled the annual floods in Bangladesh. In early July 2020, it had become clear who would be badly affected by that year's floods. The trigger to initiate a response from the fund was reached on 4 July 2020. Money was then allocated within four hours, allowing agencies to start delivering assistance to 220,000 people straight away, even though the waters had not yet reached the victims' homes. An independent review of this pilot was carried out by the London-based Centre for Disaster Protection.<sup>12</sup> It confirmed that 'through effective coordination and encouragement, even with a very short turnaround, partners took a major step in scaling up anticipatory action ... demonstrating what it takes and the potential human impact'.

On the basis of evidence collected on pilots so far, the rationale for anticipatory action has been corroborated. The approach does indeed lead to faster and cheaper responses. But there are other benefits too. Because they got help before the peak flooding, beneficiaries in Bangladesh were empowered to prepare themselves and face the crisis on their own terms. Women and girls who received dignity or hygiene kits were more likely to access healthcare and continue their education.<sup>13</sup> High satisfaction rates were reported by beneficiaries, not least on the quality and timing of the help they got, which they said translated into significant quality-of-life improvements, better mental health and reduced financial stress.<sup>14</sup> None of this is very surprising. But it ought to motivate a much larger shift towards anticipatory action in humanitarian response.

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10. UN Central Emergency Response Fund (UN CERF), 'CERF Allocation: Somalia: Drought, 15 Jul 2020', <<https://cerf.un.org/what-we-do/allocation/2021/summary/20-RR-SOM-44036>>, accessed 16 November 2021.

11. UN CERF, 'Anticipatory Action Update', CERF Advisory Group Meeting, November 2020.

12. Ashley Pople et al., 'Anticipatory Cash Transfers in Climate Disaster Response', Working Paper 6, Centre for Disaster Protection, April 2021.

13. UN CERF, 'Anticipatory Action Update'.

14. *Ibid.*



An annualised response involves short-term procurement, short-term grants and constant turnover of staff because their employment contracts cannot exceed the period for which funding is available. This all makes for a more expensive, more fragile and less effective response for people affected by crises. It means that senior staff spend a huge proportion of their time chasing the next funding grant and negotiating with donors, and that they need large support teams to help with that work. Ultimately, of course, the donors end up paying for all this. The upshot, however, is that overhead costs are higher and therefore the proportion of the available money that gets used to help the intended beneficiaries is lower than need be.

The obvious solution is for funders to provide longer-term grants. In 2016, at the World Humanitarian Summit, the countries providing 80% of the UN's humanitarian funding (the UK among them) agreed to provide more of their money through multi-year grants.<sup>15</sup> This multi-year funding has now reached some \$5 billion annually.<sup>16</sup> Working with others, the UK could support a further increase and efforts to ensure that the UN system passes the benefits on by making more longer-term grants to NGOs.

## Conclusion

Humanitarian aid helps more than 100 million people a year and saves millions of lives.<sup>17</sup> But humanitarian agencies are overwhelmed by the needs they face in many places. One way of dealing with that is to make the system faster, more proactive and more efficient. Working with others, and drawing on the capabilities of British NGOs, the private sector and researchers, the UK can make a valuable contribution to that – to everyone's benefit, including our own.

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15. Inter-Agency Standing Committee, 'Moving Forward on the Grand Bargain Quality Funding Agenda in 2021 and Beyond', Enhanced Quality Funding Workstream (7&8) Statement, June 2020, <<https://interagencystandingcommittee.org/system/files/2020-06/Workstream%207%268%20-%20Grand%20Bargain%20Annual%20Meeting%202020%20Statement.pdf>>, accessed 16 November 2021.
  16. Approximate figure based on data in Development Initiatives, 'Multi-Year Humanitarian Funding: Global Baselines and Trends', March 2020; Victoria Metcalfe-Hough et al., 'The Grand Bargain at Five Years: An Independent Review', Humanitarian Policy Group and Overseas Development Institute, June 2021.
  17. UN Office for the Coordination of Humanitarian Affairs, 'Global Humanitarian Overview 2021', December 2020.



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