



CONTEXT

The bigger financial picture

Reducing the vulnerability of populations at risk and responding to their urgent needs requires a clear understanding of the available resources and a sophisticated financing toolkit. Different financing approaches, modalities and instruments already exist and many more are emerging. These need to be deployed and scaled up according to their comparative advantage in different types, phases and contexts of crises.

Within this evolving financing landscape, international humanitarian assistance remains a vital resource in crisis-affected settings. However, in 2014, it represented just 4.8% of known international resources to the 20 recipients that received the most humanitarian funding. This compares with non-humanitarian development assistance, which accounted for 12%, and remittances, which according to available data represented a quarter of international in-flows. Context is critical though and these aggregates mask considerable differences between countries.

Domestic governments have the primary responsibility to respond to crises in their territories and often invest significant amounts in both preparedness and response. Refugee hosting is a crucial domestic element of humanitarian response and the majority of refugees are hosted in countries

with low domestic capacity to support them. However, a lack of comparable data makes it difficult to measure the full value of the contributions of developed and developing host states.

The need for more long-term development investments to address risk, prevent crises and build resilience has prompted calls for increased investments in vulnerable settings. In environmentally vulnerable settings, risk transfer and insurance mechanisms are attracting renewed attention with additional investments in many disaster prone countries.

In the case of fragile states, agreement is needed on which states are actually fragile and what constitutes fragility, as is a refocus on people and local vulnerabilities, rather than on countries. In the case of disease, the 2014 Ebola virus disease outbreak showed the need for sustained investments in health infrastructures. The recent peak in humanitarian assistance and official development assistance (ODA) for infectious disease control now needs to give way to sustained investment in the development of resilient health systems and infrastructures.

The financing context

It is not only a question of finding more funding to fill the shortfall in crisis prone and affected settings (see Chapter 3). Rather, there is growing awareness that a more sophisticated financing toolkit for crises is required – one that can respond and adapt to different contexts as needed. A number of reports and initiatives¹ have made the case for a diversified set of mechanisms, tailored to specific needs, working to their comparative advantage and moving away from a ‘one size fits all’ approach.

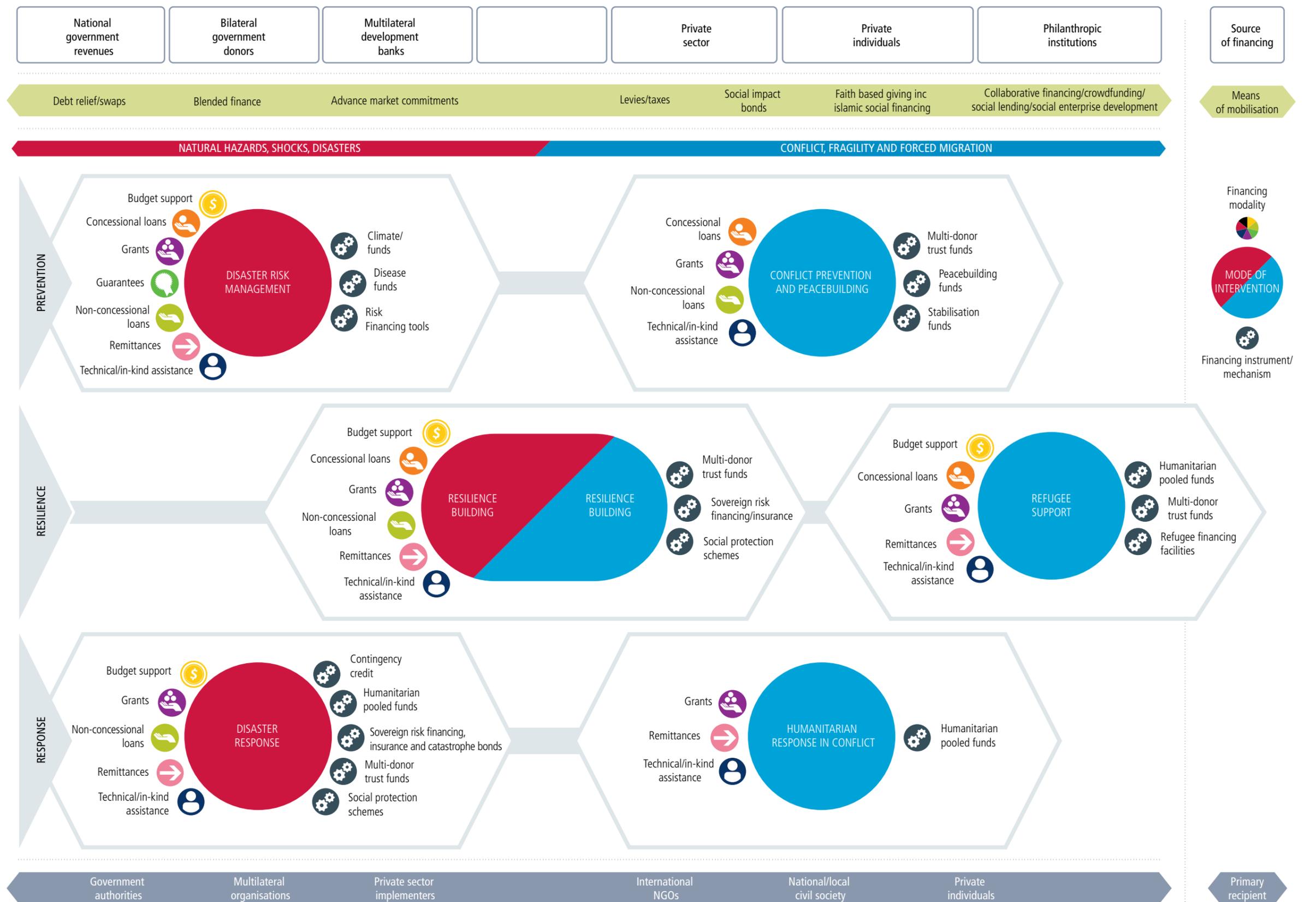
In this complex and proliferating lexicon of financing, Figure 2.1 maps out the key sources, means of mobilisation, modalities, modes of intervention, instruments and primary recipients of financing for crisis prevention, resilience and response. It shows that diverse approaches and financing instruments are already beginning to emerge, though not all will work everywhere, particularly in the case of market-mediated instruments. The options are currently more limited in efforts to address conflict and fragility than natural hazards. A glossary of terms is available in *Methodology and definitions*.

These tools are clearly at different levels of evolution and scale. They range from those that are well established and already operating at considerable volume (such as grants and concessional loans), to those that are relatively new additions to the crisis financing landscape (such as risk transfer tools and refugee financing facilities). Others have potential but are yet to be applied effectively and at scale in crisis settings (such as social impact bonds and advance market commitments).

Notes: This graphic shows major sources of financing, means of mobilisation, financing modalities, modes of intervention, instruments and primary recipients of financing for crisis prevention, resilience and response. It is intended to be illustrative and therefore not comprehensive. Sizes of shapes are not representative of scale and because of its complex nature, how financing flows between these components is not shown.

FIGURE 2.1

Modalities and instruments of financing crisis prevention, resilience and response



The challenge of meeting people's immediate humanitarian needs in crisis settings, while simultaneously addressing the underlying causes of their vulnerability, requires a range of domestic and international resources. Not all resources at play in a country will be available or appropriate for these purposes, but understanding the overall financing context is important.

International humanitarian assistance is a vital resource that serves to alleviate the worst of human suffering. However, even in countries receiving the largest amounts of international humanitarian assistance in 2014, it still accounted for just a small proportion of overall resources – 4.8% of all international resources.

Domestic governments have the primary responsibility to prepare for and respond to crises in their own territories and often invest significant amounts in both preparedness and response. In aggregate in 2014, domestic resources represented 61% of total resources in the 20 recipients of the most international humanitarian assistance. Yet these crisis-affected countries relied more on international flows than did other developing countries, where domestic resources constituted 78% of the total.

ODA (excluding humanitarian assistance) to the group of 20 recipients of the most international humanitarian assistance in 2014 accounted for 12% of all international resources – compared with 4.3% in aggregate to all other developing countries. In both groups, however, ODA was dwarfed by remittances, which accounted for almost 25% in the group of recipients of the most humanitarian assistance. The opportunities created by foreign direct investment (FDI) were clearly lower in the group of 20 crisis-affected states – at 13%, they represented half the proportion in other developing countries.

While aggregates may be useful to illustrate differences between groups, different countries experience very different needs and the resource mix varies considerably from place to place – as Figure 2.3 illustrates.

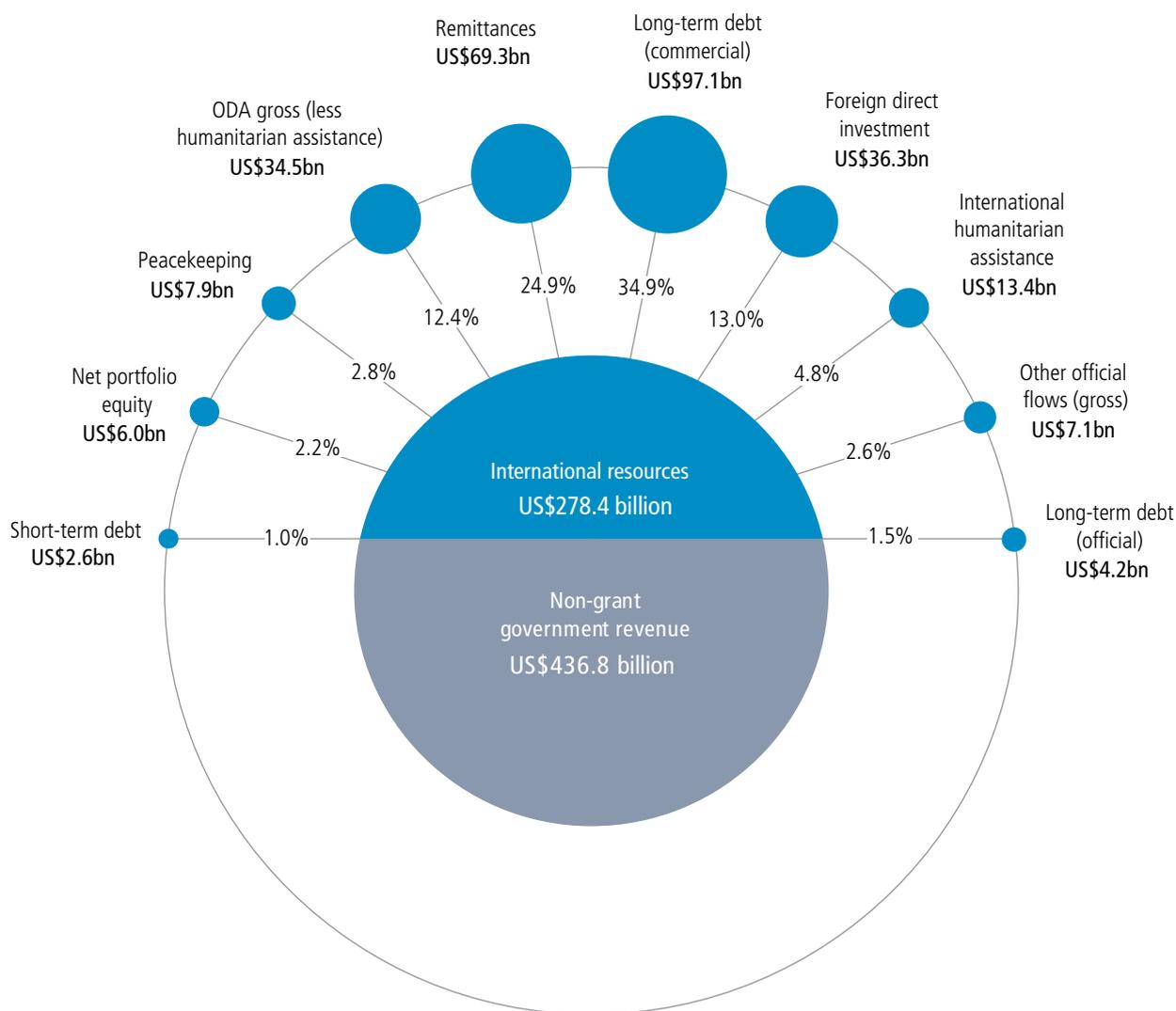
Yemen is a country in the midst of violent conflict. Even in 2014, before the most recent escalation of violence, more than half of the population (around 14.7 million people) were estimated to be in need of humanitarian assistance.² In that year, Yemen's overall mix of resources was dominated by domestic government revenue, accounting for nearly 70% of all financing. Internationally, however, remittances were by far the most significant source of financing, representing 70% of total international inflows (compared with an aggregate 25% for the 20 recipients of the most humanitarian assistance and 20% for all other developing countries). Yemen is a strong example of the relevance of the UN Secretary-General's call to lower transaction costs and commission rates for remittances and for the need to implement relevant commitments made by the G8, G20 and in the 2030 Agenda for Sustainable Development.³

The Democratic Republic of the Congo (DRC) remains in a state of protracted crisis where humanitarian needs persist and outbreaks of conflict continue to cause displacement.⁴ At the same time, DRC has considerable mineral wealth and the extractive sector is a significant contributor to the formal and informal economies, accounting for around 95% of the country's total exports.⁵ Subsequently, FDI is DRC's main source of international financing, accounting for 34% of all international inflows (compared with an aggregate 13% for the 20 recipients of the most humanitarian assistance). Unlike in Yemen, international financing overall makes up more than half of all resources in DRC – just over 56% (US\$6.1 billion) of the total resource mix. Within that amount, peacekeeping costs in DRC (which is host to the largest peacekeeping mission in the world) were the second largest globally in 2014,⁶ accounting for almost a quarter of all international resources to the country (24%).

Even in the countries receiving the largest amounts, international humanitarian assistance accounted for a small proportion (4.8%) of overall international resources.

FIGURE 2.2

Resource mix in the 20 countries receiving the most international humanitarian assistance, 2014

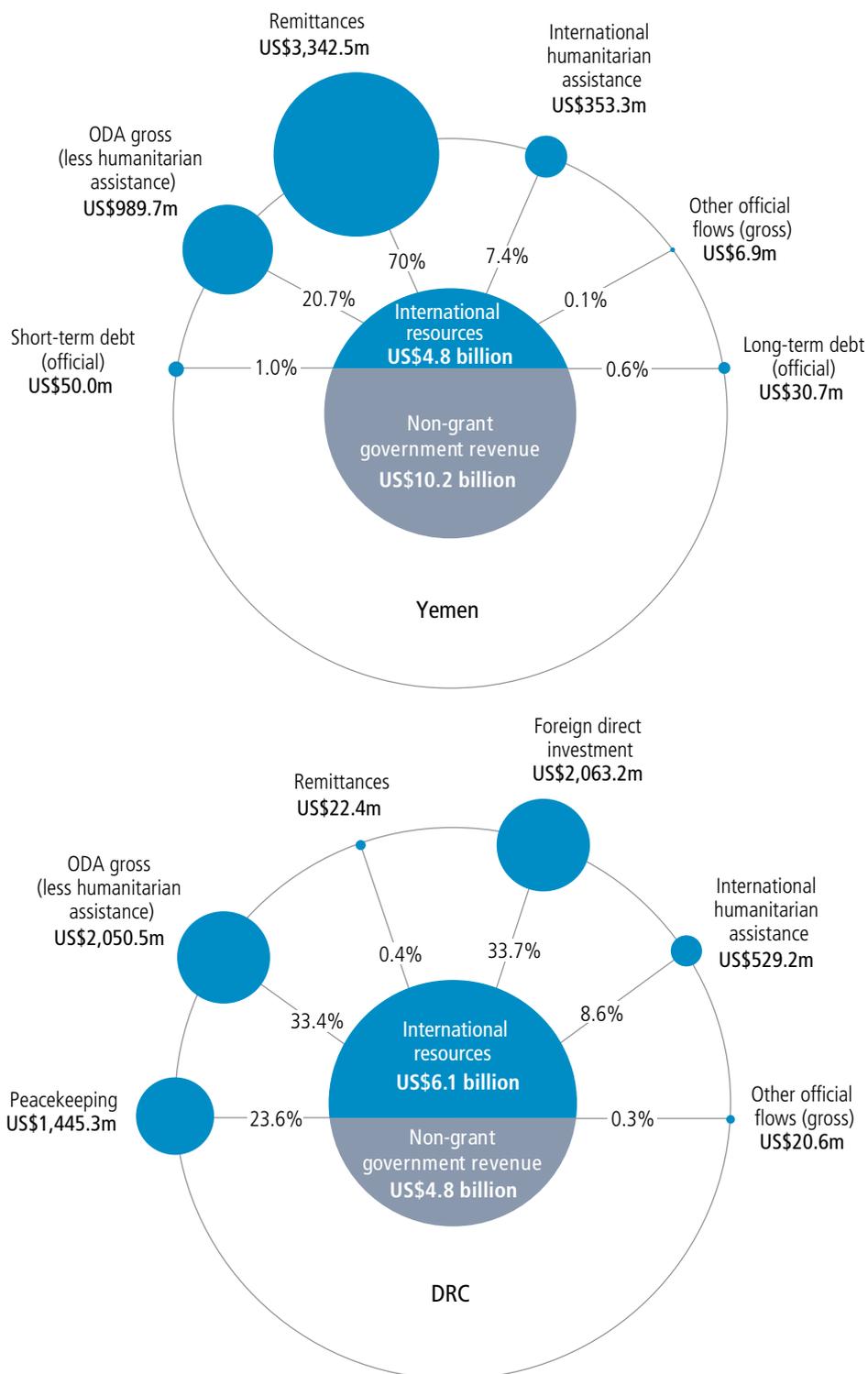


Source: Development Initiatives based on OECD Development Assistance Committee, UN Conference on Trade and Development (UNCTAD), World Bank, International Monetary Fund, Stockholm International Peace Research Institute, Office for the Coordination of Humanitarian Affairs Financial Tracking Service and Central Emergency Response Fund data

Notes: Negative flows for net portfolio equity, short-term debt and FDI have been set to zero at the country level. Recipients data for some resource flows is not available and therefore is excluded from the graph. Data is in constant 2014 prices.

FIGURE 2.3

Resource mix in Yemen and the Democratic Republic of the Congo (DRC), 2014



Source: Development Initiatives based on OECD Development Assistance Committee, UN Conference on Trade and Development, World Bank, International Monetary Fund, Stockholm International Peace Research Institute, Office for the Coordination of Humanitarian Affairs Financial Tracking Service and Central Emergency Response Fund data

Notes: Negative flows have been set to zero (foreign direct investment (FDI), long-term official debt, long-term commercial debt, short-term debt, net portfolio equity). Data is not available for peacekeeping and net portfolio equity. Data is in constant 2014 prices.

Domestic resources: refugee hosting

Protecting refugees is primarily the responsibility of states.⁷ A large number of governments, local authorities and host communities make significant investments to uphold the material aspect of this responsibility. Yet their contributions – both non-financial and financial – are hard to measure, particularly as national and local budgets may be difficult to access and contributions come from multiple budget lines.

The largest numbers of refugees are in countries neighbouring conflicts. In 2015, Jordan hosted the largest number of refugees and asylum seekers (2.81 million, mostly from Palestine and Syria), followed by Turkey (2.75 million, mostly from Syria) and Pakistan (1.57 million, mostly from Afghanistan).⁸ However, the countries that host the largest numbers of refugees and asylum seekers generally do not have the highest levels of domestic public resources. Pakistan for example, as the country hosting the third largest numbers of refugees in 2015, had a non-grant revenue⁹ of US\$208 per capita. Sweden, which hosted a fifth of the number of refugees and asylum seekers as Pakistan that same year, had revenues 116 times higher (US\$24,124 per capita). In Turkey, the figure stood at US\$3,400.

There is no single or comparable way of measuring the financial value of national and local contributions in refugee-hosting countries, and in many places budget data is lacking. However, even where there is little data, changes in budgets and spending may be indicative. Resource-constrained governments may increase their use of domestic financing mechanisms (through commercial borrowing and accessing central bank reserves) in order to respond to the needs of refugees and host communities. In Lebanon, net domestic financing rose

65% in real terms between 2010 and 2015 – the period in which the number of refugees in the country rose from 464,853 to 1,535,662. The rise cannot be exclusively attributed to the increase in refugee numbers, but is suggestive.

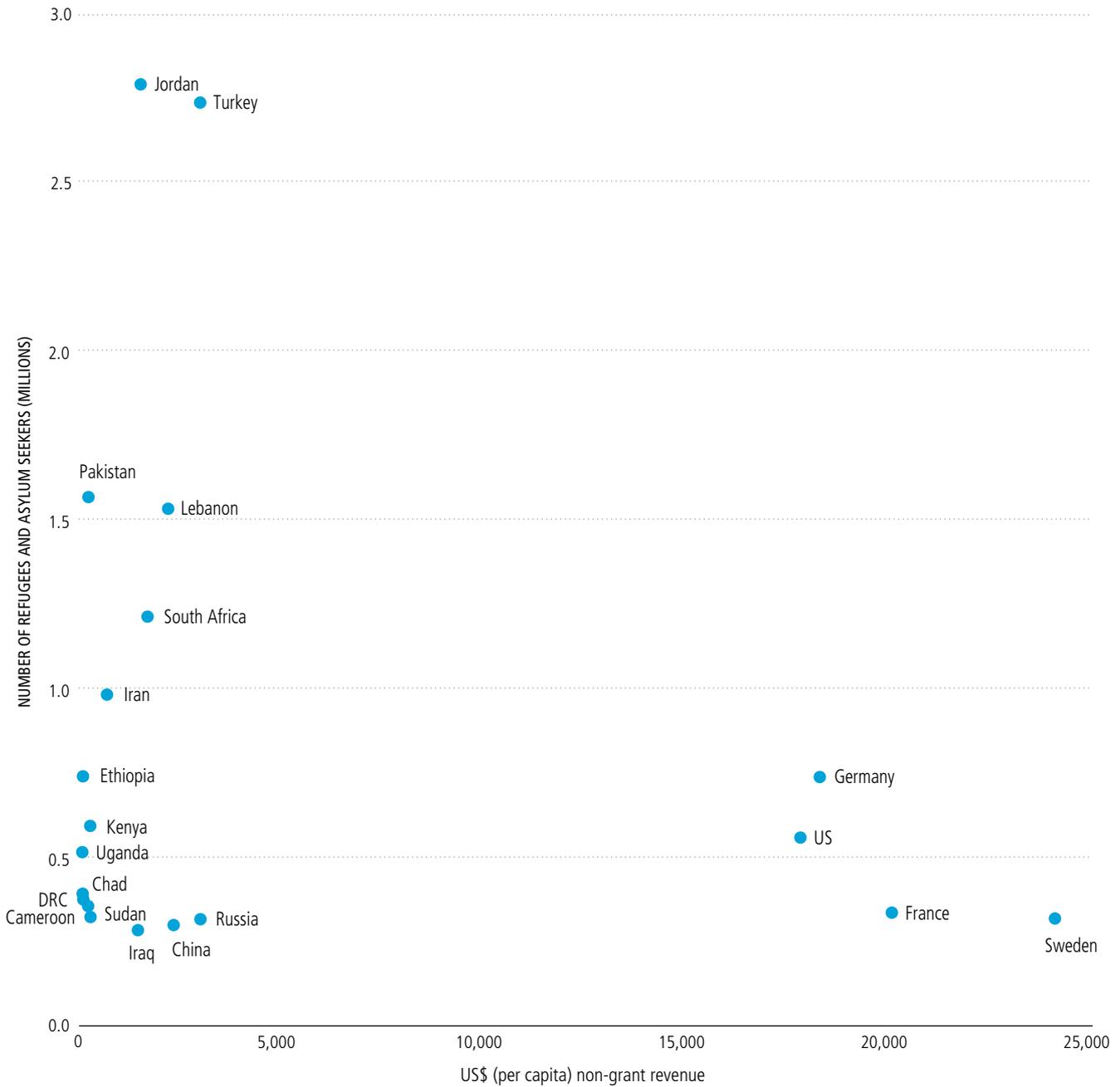
In Jordan, the Ministry of Planning and International Cooperation has conducted a number of impact and needs assessments that provide some indication of domestic expenditure, which stood at around US\$251 million in 2012, excluding sector-specific and security spending.¹⁰ In the Jordan Response Plan for the Syria Crisis 2016–2018,¹¹ the government presented an upper estimate of a US\$1.1 billion funding gap. This scale of funding required to fill the gap is around 8.6% of total government expenditure in 2016.

As the report of the UN Secretary-General on addressing large movements of refugees and migrants¹² highlights, the search continues for greater sharing of global responsibility in response to rising levels of displacement. This includes deploying a more tailored and diverse repertoire of financing instruments to support host countries to meet the immediate and long-term needs of refugees. New initiatives on financing to protracted displacement situations are emerging, such as the New Financing Initiative to Support the Middle East and North Africa Region (see Chapter 4). In addition, the World Bank announced that it is developing a global financing response platform to facilitate long-term support in protracted emergencies, including in large refugee-hosting settings.¹³

The countries that host the largest numbers of refugees and asylum seekers generally do not have the highest levels of domestic public resources.

FIGURE 2.4

Number of refugees/asylum seekers hosted against non-grant government revenue for the 20 countries hosting the most refugees and asylum seekers, 2015

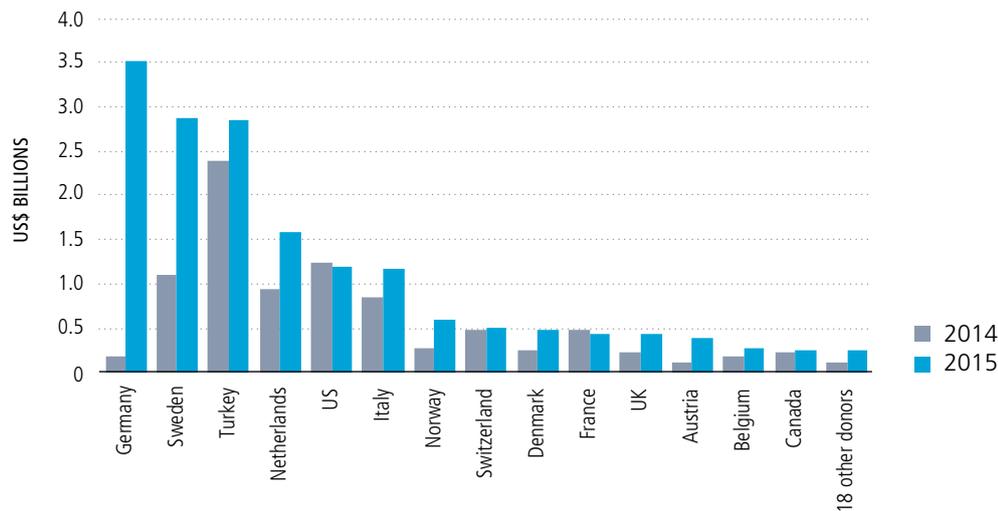


Source: Development Initiatives based on the UN High Commissioner for Refugees (UNHCR), United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) and International Monetary Fund World (IMF) Economic Outlook (April 2016 version) and IMF article IV reports

Notes: All revenue data is from the financial year 2015. For five countries (Pakistan, Iran, Ethiopia, Kenya and Uganda) revenue data is based on the financial year 2014/2015. In 10 countries, in-year projections were used and for one (Sudan) a projection for 2015 revenue data was made in late 2014. The number of refugees hosted within Palestine and Syria according to UNRWA data are not included due to lack of available data on non-grant government revenue for Palestine and Syria.

FIGURE 2.5

In-donor refugee-hosting costs reported to the OECD DAC in 2014 and 2015



Source: Development Initiatives based on OECD Development Assistance Committee data

Notes: In-donor refugee costs are reported as ODA for all donors and Syrian refugee-hosting costs are reported as humanitarian assistance by Turkey. Data is in constant 2014 prices.

While there is no platform for reporting comprehensive and comparable refugee-hosting expenditure, donors that report to the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) can count some of their domestic refugee-hosting costs as ODA. Turkey, though not a DAC member, voluntarily reports its ODA to the DAC. As a developing country eligible for aid,¹⁴ Turkey counts its own expenditure related to the hosting of Syrian refugees within its own territory as humanitarian assistance,¹⁵ and counts some other refugee-hosting costs as part of its ODA.

The amount of in-donor refugee-hosting costs reported as ODA had risen steadily for a number of years, but increased markedly in 2014 and even more sharply in 2015. The aggregate rise in volumes reported to the DAC for refugee-hosting costs between 2014 and 2015 was 86% (US\$7.7 billion).¹⁶ Over the same period, the number of refugees and asylum seekers in

countries reporting to the DAC rose by 47%. Germany, the donor with the largest spike in funding, reported 20 times as much ODA to refugees within its territory in 2015 as in 2014. Importantly, however, these increases from DAC donors in aggregate have not come at the expense of other combined ODA spending.¹⁷

DAC-reported figures only tell part of the story, however. Not only is more spent outside what can be counted as ODA, but what is reported within this category varies significantly between countries. As per OECD DAC guidelines, donors can only report refugee-hosting costs as ODA for the first 12 months,¹⁸ meaning that longer-term assistance is not counted. Within what can be counted, there are also inconsistencies and variations in how donors report refugee-hosting costs, resulting in very different totals and per capita averages. For example, some donors only count costs for the period while asylum seekers are awaiting decision;¹⁹ some only count

costs after a decision on asylum has been made;²⁰ and others include costs for both periods.²¹ The extent to which donors include the costs associated with participating in quota refugee resettlement programmes as ODA also varies. The differing methodological approaches taken by donors when reporting refugee-hosting costs are outlined in the note produced by the OECD DAC following its High Level Meeting in February 2016.²²

Refugee-hosting costs, whether reported to the DAC or not, also need to be understood in the context of broader conditions of support provided to refugee populations. For example, the cost of hosting people in camps is different to hosting people in communities; and maintaining benefits packages can be more costly than extending the right to work. A number of recent studies²³ have also evidenced the actual and potential economic contribution of refugees in their host countries, rather than the costs related to hosting them.

Domestic and regional resources: disaster risk reduction

Risk reduction is not only crucial for saving lives and protecting assets, but is also essential for building resilience to the impact of crises in the long run and a cost-effective investment to protecting development gains. A recurrent theme from Sendai to the World Humanitarian Summit has been the need for increased investments that can respond to and mitigate risk. As Figure 2.1 shows, there is a wide range of different instruments and vehicles for addressing disaster risk, ranging from international humanitarian spending on disaster prevention and preparedness (see *Humanitarian funding to address risk*, page 56), risk transfer tools (see the following section on the African Risk Capacity as an example), climate adaptation financing, social protection schemes and other mechanisms.

The Sendai Framework for Disaster Risk Reduction²⁴ outlines a number of guiding principles to help build resilience and reduce disaster risk. These assert the primary responsibility of governments to prevent and reduce risk and set out the need for coherent and inclusive national and local plans, as well as for adequate, complementary and needs-based resourcing.

Case study: Colombia's risk management and adaptation investments

Colombia is classified as an upper middle income country, with a gross national income per capita of US\$7,970 in 2014.²⁵ The country has relatively strong levels of governance and institutional capacity,²⁶ including several specialised institutions set up to respond specifically to emergencies caused by conflicts and natural hazards.²⁷

However, five decades of armed violence, as well as frequent disasters caused by natural hazards, have left around 5.8 million people in need of humanitarian assistance.²⁸ Colombia is particularly vulnerable to climate change and floods, landslides and other extreme weather phenomena that affect many tens of thousands of people every year.²⁹ The 2010 to 2011 El Niño weather phenomenon had a profound impact on the country, costing an estimated US\$6.2 billion;³⁰ and the current 2015 to 2016 phenomenon is causing droughts and crop damage likely to add up to considerable further losses.³¹

In response to these risks, Colombia has established a multi-faceted climate adaptation and prevention system.³² In 2012, the national risk management system was adopted into law,³³ defining the structure and roles and responsibility of actors,

both at the central and subnational level. This also involves non-state actors, including the Federation of Colombian Insurers and the Red Cross. The structure has been further refined and mainstreamed in the latest national development plan.³⁴

Many different government ministries, departments and agencies are responsible for risk reduction and management and climate adaptation. While this makes it difficult to estimate total government spending for resilience to natural hazards, in the 2016 central government budget, the adaptation fund accounted for 1% of the total, of which the National Unit for Disaster Risk Reduction has a 0.05% share.

International support through ODA for Colombia's climate adaptation action appears to have increased overall in the last five years, though investment in projects that identify adaptation to climate change as either a principal or significant policy objective fluctuated considerably in that period.³⁵ Disbursements for climate adaptation-related action in 2014 totalled US\$102 million – equivalent to 8% of total ODA to Colombia that year.

Regional approaches to risk financing

Insurance can operate at a number of levels in disaster-prone contexts, offering payouts in the first instance to states, organisations, communities or individuals. As well as offering a safety net in the event of disaster, insurance can provide the security to protect livelihoods and incentivise and support investments in risk reduction.³⁶ Regional risk transfer and insurance mechanisms such as the Caribbean Catastrophe Risk Insurance Facility³⁷ have been part of the portfolio of mechanisms to respond to and mitigate risk for nearly a decade, but are gathering renewed political attention and investment.

The African Risk Capacity (ARC) is Africa's first sovereign catastrophe insurance pool. It is informed by data from the Africa RiskView, which combines weather and crop data with information on vulnerable populations and historic analysis of the costs of

response. Payouts to ARC policy-holding governments are triggered when the estimated cost of responding crosses a certain pre-defined threshold.

Since its launch in May 2014, nine countries have joined the ARC pool and three participating countries (Mauritania, Niger and Senegal) have received their first payouts totalling a combined US\$26 million. ARC aims to target between 20 and 30 countries for membership in the next four years, reducing the cost of overall insurance premiums for participating governments by pooling their risk.

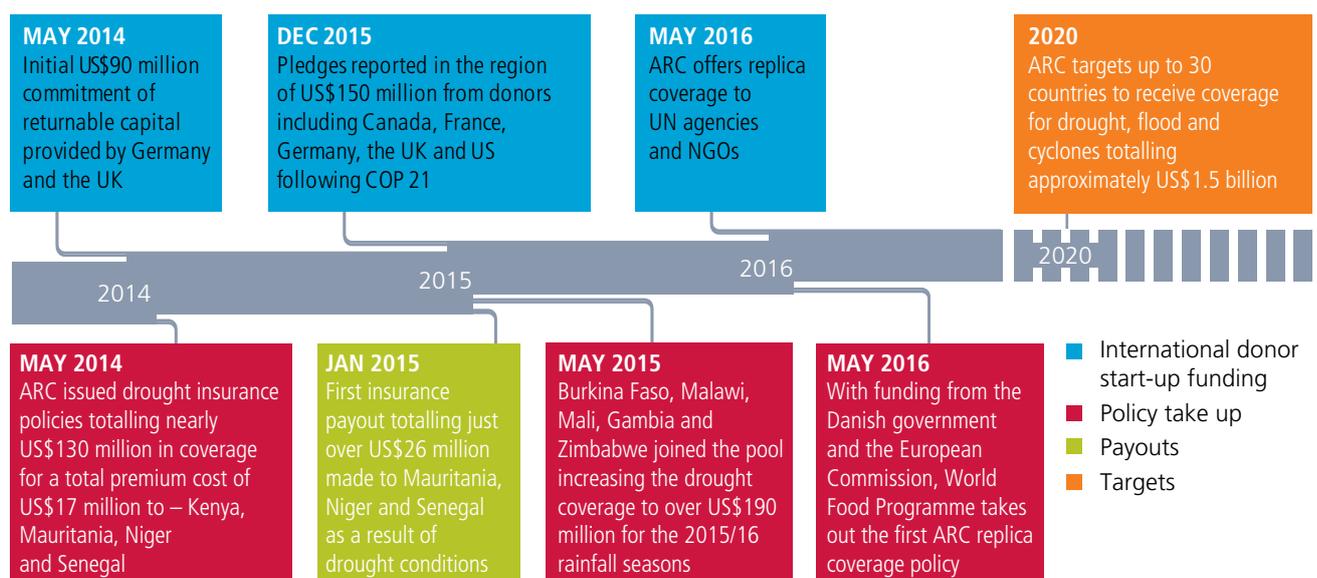
A recent 'replica' coverage facility opens up ARC services to international organisations, including UN agencies and non-governmental organisations (NGOs). This initiative enables those organisations to work alongside governments with matching coverage, and to align their response plans

with nationally agreed priorities.³⁸ At the World Humanitarian Summit, the World Food Programme (WFP) announced that funding from the Government of Denmark and the European Commission will allow the WFP to extend ARC replica coverage to more African countries.

A UN-led multi-stakeholder initiative – Anticipate, Absorb, Reshape (A2R) – was launched during the Climate Conference (COP 21) in November 2015. Working with ARC and other partners, A2R aims to provide over 30 countries with US\$2 billion in coverage against droughts, flooding and cyclones.³⁹

FIGURE 2.6

Timeline of the evolution of the African Risk Capacity (ARC)



Sources: Africa Risk Capacity, DEVEX and the World Food Programme

Notes: COP21: 2015 UN Climate Change Conference.

Official development assistance: fragility

While humanitarian assistance is vital, longer-term development assistance is also needed to address the causes and consequences of instability and fragility. The UN Secretary-General has called for increased investments in stability and conflict prevention, and for donors to set targets to allocate a significant percentage of their aid budgets to fragile situations.⁴⁰

Analysis of aid to fragile states clearly depends on their classification, but this is shifting and contested. Knowing how much donors allocate to them requires agreement on which states are actually fragile and what constitutes fragility.

The Fund for Peace (FFP) Fragile States Index groups countries according to degrees of fragility ranging from stable to warning and alert. Depending on which categories are considered 'fragile', different figures emerge. For example, looking at the alert and warning categories combined, Figure 2.7 shows that there is only a marginal difference (an average of 1%) between the proportion of official humanitarian assistance and other ODA. However,

looking at the alert category alone the difference is wider (on average 32%) over the eight-year period. There are also significant year-on-year variations when individual countries move between categories.⁴¹

ODA is an important resource in fragile and conflict-affected countries. Figure 2.7 shows that between 2007 to 2014, 42% of ODA excluding humanitarian assistance was allocated to countries falling in the 'alert' categories of fragility and 56% was allocated to countries in the 'low warning' category. In the same period, almost three-quarters (74%) of official humanitarian assistance within ODA was targeted at developing countries falling within the 'high alert' categories of the index.

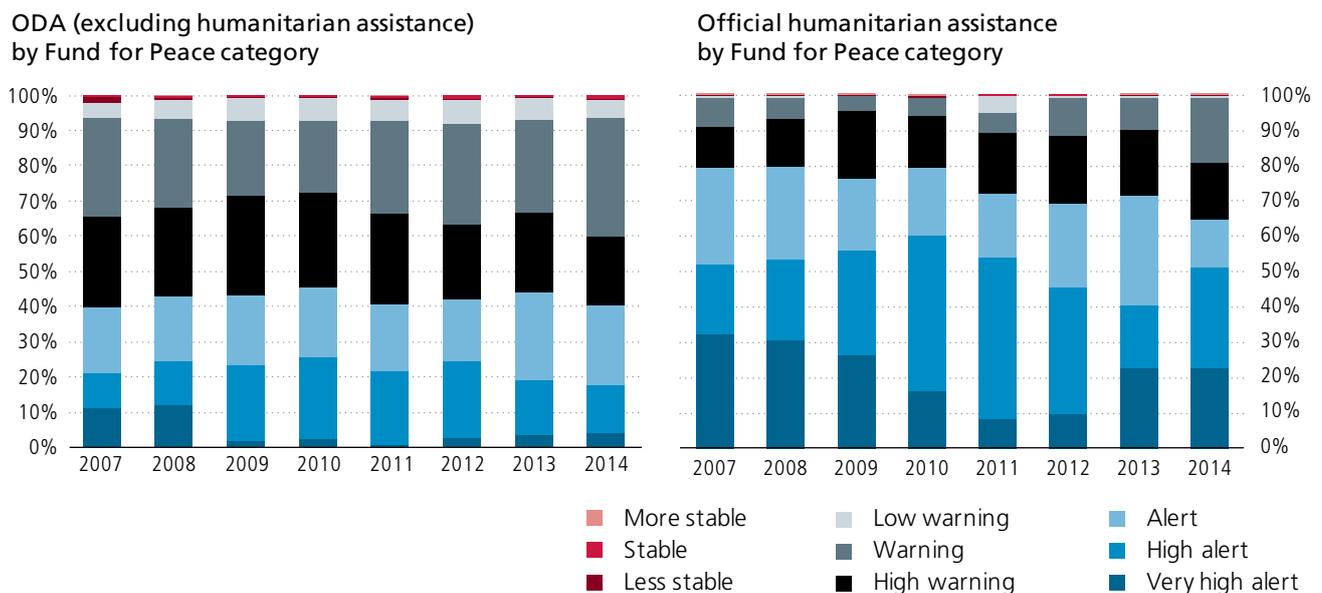
There are also a number of other lists that include different indicators and countries. For example, the UK Department for International Development has recently developed its own list of fragile states and regions,⁴² and the OECD DAC is exploring a framework for clustering

countries based on different types of vulnerability, and is considering moving away from a list.⁴³ Considering subnational fragility – people rather than country classifications – may also be a more accurate means of identifying where resources to reduce fragility are most needed.

The technical and political challenges of scaling up aid to fragile situations require new ways of working.⁴⁴ This is particularly the case in contexts where the government is itself a party to the conflict and/or has weak institutional capacity. There are some examples emerging, including through experiences of implementing the 'New Deal for Engagement in Fragile States'.⁴⁵ Individual projects like the Tamkeen programme in opposition-held territories in Syria – with funding from the UK Government and the EC Department of Humanitarian Aid and Civil Protection (ECHO) – also aim to support local people through strengthening local government bodies, even in the midst of civil war.⁴⁶

FIGURE 2.7

ODA (excluding official humanitarian assistance) and official humanitarian assistance to developing countries by Fund for Peace category, 2007–2014



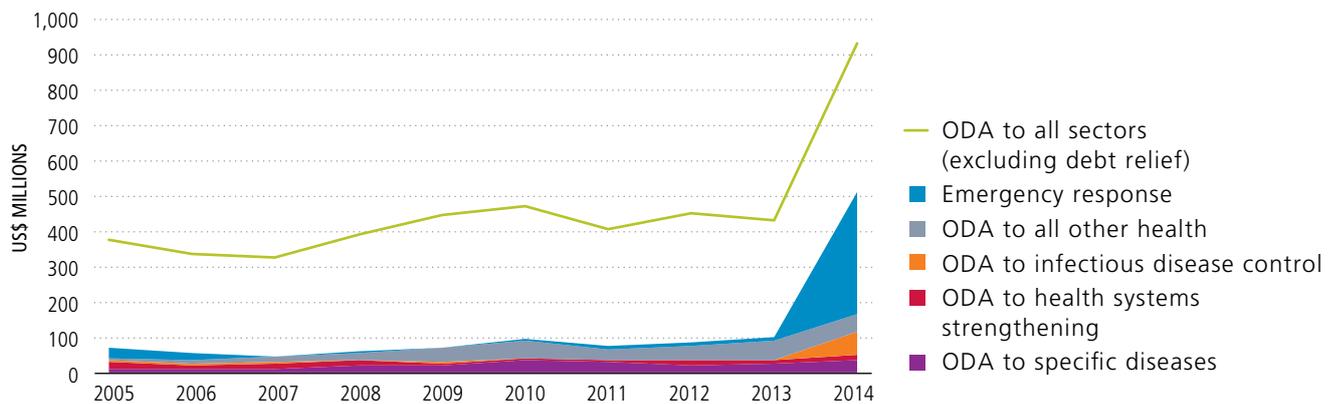
Source: Development Initiatives based on Fund for Peace (FFP) Index and OECD Development Assistance Committee data

Notes: For each FFP category, aggregate ODA (excluding humanitarian assistance) and official humanitarian assistance flows include the sum of disbursements to developing countries included in each category. FFP categories 'Sustainable' and 'Very sustainable' have been excluded from the analysis since they include no eligible ODA recipients.

Official development assistance: health

FIGURE 2.8

ODA to Sierra Leone 2005–2014, showing investments in health-related interventions and emergency response before and during the Ebola virus disease outbreak



Source: Development Initiatives based on OECD Development Assistance Committee (DAC) data

Notes: Total official development assistance (ODA) to the specified categories is derived from data reported against a number of relevant OECD DAC Creditor Reporting System (CRS) purpose codes. Figures for emergency response represent only that reported as ODA to the CRS. Data is in 2014 constant prices.

The 2014 Ebola virus disease outbreak challenged both development and humanitarian models with a scale and type of crisis that neither was prepared for. Many lessons have emerged on how national and international agencies could have worked better, faster and in a more coordinated manner, particularly in the worst-affected countries of Guinea, Liberia and Sierra Leone.

The crisis highlighted how a lack of sustained and adequate development investment in public health infrastructure, including wider systems strengthening, left countries unable to cope with sudden shocks. Weak health systems were unable to treat patients, halt the spread of the virus, or deal with other ongoing health needs, including those related to infectious diseases such as malaria.⁴⁷

Sierra Leone has one of the lowest levels of government spending per capita. In 2014, at PPP\$367 per person,⁴⁸ it was among the lowest 20 globally. In the nine years leading up to the Ebola outbreak, ODA was an important source of income to the country and averaged over half of all international inflows over the period,

though levels of investment fluctuated year on year.

ODA investments specifically in the health sector in Sierra Leone before the Ebola outbreak represented an average of 16% of ODA between 2005 and 2013. However, levels also fluctuated over the period, varying from between 11% and 22% as a proportion of ODA, or between US\$38 million and US\$94 million in volume.

Although the average proportion of investment was in line with global averages of health-related ODA (13% of ODA), rather than focusing on strengthening public health infrastructures, the largest proportion (almost one-third) of Sierra Leone's health-related ODA was directed to disease-specific interventions, particularly malaria, tuberculosis and HIV/AIDS. In contrast, around a fifth was invested in health system strengthening – a total of US\$111 million between 2005 and 2013; and again, disbursements were volatile, ranging from US\$22 million in 2005 to just US\$6 million in 2010.⁴⁹

Following the virus outbreak in Sierra Leone in 2014, ODA to the

country more than doubled – up from US\$433 million in 2013 to US\$929 million in 2014. This was largely driven by a forty-fold rise in emergency response, which reached US\$344 million – over five times greater than the average annual health-related ODA before the outbreak between 2005 and 2013. Unsurprisingly, health-related ODA directed to infectious diseases also rose in 2014. At US\$66 million, it was more than 340 times higher than during the previous year.

Detailed and comparable ODA data is not yet available for 2015 and 2016, making it too early to judge the scale or consistency of investments following the peak of the outbreak in 2014 or the declaration of its end in 2015. It is, however, clear that Sierra Leone, as well as Liberia and Guinea, will require predictable, sustained and significant investments to help rebuild their health systems and economies. If future crises are to be averted, the major peak in humanitarian assistance must give way to sustained investment in developing resilient health systems and infrastructures.