

'Forecast-based financing'

of preparedness: developing an operational protocol

The challenge

Humanitarian finance is available mainly 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 the disaster strikes when a credible warning arrives? If so, we could prevent suffering, use humanitarian funds more efficiently, and contribute to community resilience.



The innovation

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

How does FBF work?

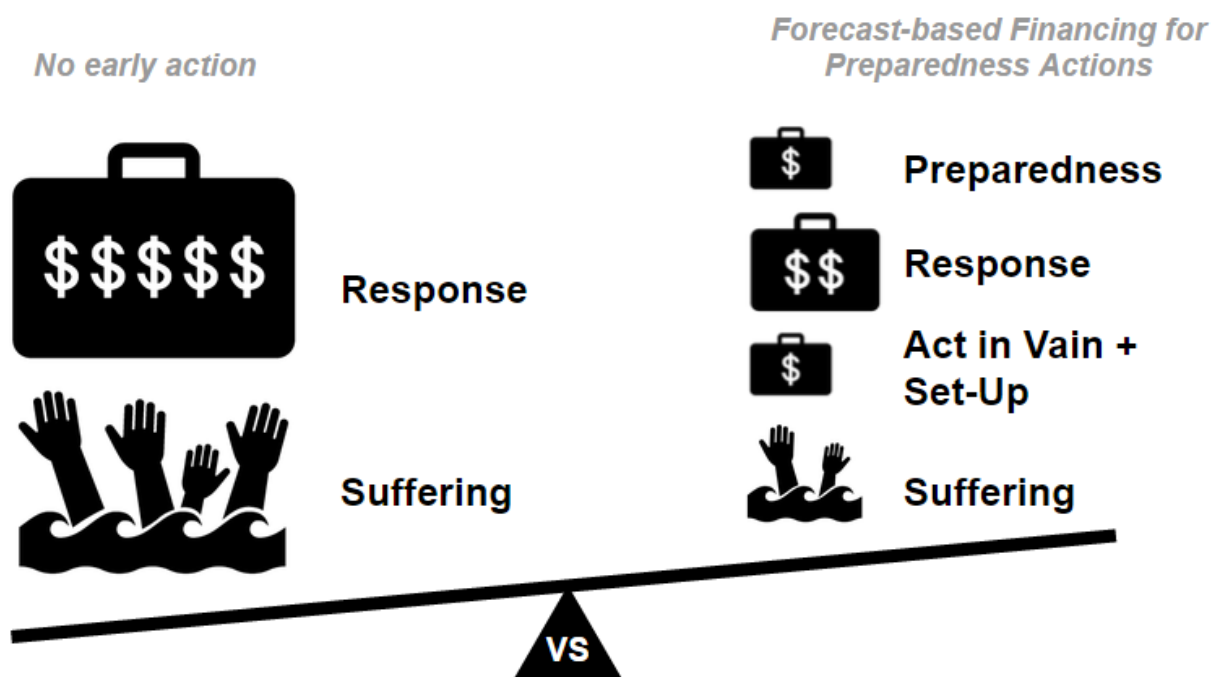
A humanitarian agency and stakeholders like meteorological services and communities at risk agree on selected actions that are worth carrying out once a forecast reaches a certain threshold of probability.

Then each action is allocated a budget to be activated when a forecast is received.

What if the disaster does not happen?

No forecast is 100%. Sometimes early action will be taken but the expected extreme event will not occur – i.e. we “acted in vain”. But FBF is designed so that, over time, the negative consequences of not taking early action are greater than occasionally acting in vain.

A key element of FBF is that the allocation of resources is agreed in advance, so actors can weigh the risk of occasionally acting in vain against consistently failing to take early action. These agreed standard operating procedures (SOP) also ensure that FBF funding will not be used ad hoc for measures that might not be worth taking.



How do I determine when to act?

We first brainstorm what kind of actions can be taken before a disaster. Then, we match each action with the appropriate forecast.

Broadly speaking, forecasts showing a greater likelihood of disaster will be matched with more expensive actions; forecasts with only a small likelihood of disaster will be matched with low-regrets actions.

Some actions, like hand-washing campaigns before a flood, will have lasting effects that are beneficial to the community even if the extreme event does not materialize.

These actions are written into the SOPs that establish who will do what when each forecast arrives. But because SOPs are just that – *standard* – disaster managers will not face any blame if the disaster does not materialize.

The final result will be an institutional mechanism that improves the effectiveness of humanitarian response.

Why is FBF different from ordinary preparedness?

Regular preparedness is also designed to anticipate potential disasters, but is based on the average level of risk.

Forecast-based financing allows humanitarian agencies to scale up preparedness when science indicates the risk is elevated, as indicated by the early warning.

Has FBF been implemented?

The first such preparedness funds in the Red Cross Red Crescent Movement are now being field-tested by the Ugandan and Togolese Red Cross, with financial and technical support from the German government and Red Cross, and technical support from the Climate Centre.

Others are planned, including the FoodSECuRE initiative by the World Food Programme.

The private sector has also embraced financial instruments that release funds for preparatory actions based on forecasts – ranging from civil aviation to insurance schemes based on El Niño to anticipate flood losses in Peru.

Does FBF replace the current disaster programming?

No – it is complementary. We will need to continue disaster risk reduction and response. In fact, we need all three to be effective.

Local disaster preparedness teams trained could, for example, distribute water purification tablets under FBF; but if a disaster then exceeds what was prepared for, response is still needed.

The best way to reduce suffering and build resilience will be to combine FBF, risk reduction, and response.

For further reading on the scientific analysis behind this concept, see this [article](#). For more information, contact climatecentre@climatecentre.org. Image credits: Jamie Murphey.