BETTER ASSISTANCE IN CRISES RESEARCH

Financing in fragile and conflict contexts: evidence, opportunities, and barriers

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Summary

Interconnecting, compounding and protracted crises affect a growing number of countries. Globally, 1.5 billion people – one in five of the world's population – live in fragile and conflict affected situations (FCAS), yet financing to key sectors is not keeping pace with need. Regular social protection financing and programme coverage in FCAS are far below the global average, and levels of financing to humanitarian assistance, while growing in overall terms in the past decade, have remained static when compared to levels of need.

Risk and climate finance face a series of barriers to their application in FCAS, where the potential for 'non-traditional' financial sources – such as remittances – to connect the most vulnerable to social protection have traditionally been underexplored. The Covid-19 pandemic has again exposed these fault lines and highlighted the need both for more investment in regular social protection systems and programmes, and for more 'shock-responsive' forms of support that can scale flexibly when faced with a diversity of risk factors.

This paper provides a summary of the main trends and issues regarding both regular and risk financing in FCAS. It considers the main lessons observed in financing social assistance in FCAS and provides reflections on further avenues of research for the Better Assistance in Crises (BASIC) Research programme. It identifies useful examples now emerging from countries developing risk-informed programmes for the most vulnerable, but argues that a lack of comparable data is hampering research and learning, requiring more detailed in-country engagement.

The paper notes that answers to a range of political economy questions are needed. This is both to make risk-aware financing, policymaking and programming more effective in FCAS; and to strike a balance between financial instrument requirements on the one hand, and programmatic and institutional capacity on the other. Likewise, new forms of risk ownership and client-facing accountability are needed to reframe the financing landscape and its applicability to FCAS.

About the authors

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List of acronyms

ARC	African Risk Capacity
ASPIRE	Atlas of Social Protection Indicators of Resilience and Equity
BASIC	Better Assistance in Crises
CBPF	country-based pooled fund
CERF	Central Emergency Response Fund
CRS	Creditor Reporting System
DAC	Development Assistance Committee
EU	European Union
FTS	financial tracking service
FCAS	fragile and conflict-affected situations
GCF	Green Climate Fund
GDP	gross domestic product
IATI	International Aid Transparency Initiative
ICRC	International Committee of the Red Cross
IDA	International Development Association
IFI	international financial institution
IMF	International Monetary Fund
LMIC	mow- and middle-income country
NGO	non-governmental organisation
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
ODA	official development assistance
OECD	Organisation for Economic Cooperation and Development
PFM	Public financial management
SPACE	Social Protection Approaches to Covid-19: Expert Advice
SRSP	shock-responsive social protection
UK	United Kingdom
UN	United Nations
UNFCCC	UN Framework Convention on Climate Change
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
WFP	World Food Programme

Contents

List of acronyms 3

1. Introduction 5

1.1. Paper background and rationale 5

1.2. Approach, methods and key research questions 6

2. Review of regular finance in FCAS 7

2.1. Methodology: literature search approach and other sources of data 7

2.2. Difficulties with terminology and tracking 8

2.3. Overview of international finance in FCAS 9

2.4. Overview of domestic finance in FCAS 15

3. Review of risk finance in FCAS 17

3.1. *Ex post* risk-financing instruments 19

3.2. *Ex ante* risk-financing instruments 19

3.3. Other financial instruments 21

4. What are we learning about financing in FCAS? 23

5. Reflections on and implications for BASIC Research 25

References 27

Annexes 31

Annexe 1: Key definitions 31

Annexe 2: Regular social protection funding sources 34

1. Introduction

1.1. Paper background and rationale

During its inception phase, Better Assistance in Crises (BASIC) Research was tasked with exploring potential research questions about financing basic assistance. To examine how financing for BASIC can be more sustained, more nationally led, better value for money, and less reliant on humanitarian aid, two reviews took place. The first explored how value for money approaches that are developed in more stable and secure contexts might be adapted, revised and recalibrated to be more appropriate to situations affected by violent conflict and other crises (Wylde 2022). The second, this paper, considers existing financial systems and risk-financing arrangements for routine social assistance by governments, and humanitarian assistance by other agencies. It seeks to provide an outline of existing financing systems and instruments, and to explore what is known about how these can be deployed in support of improved programming outcomes for people affected by crises. An explanation of what is meant by 'financing' and a broad overview of different instruments is provided in Annexe 1. The rationale for the focus on financing is outlined below.

Globally, the risks and threats natural and human-made shocks pose are rising (Poole, Clarke and Swithern 2020). The costs of natural hazards are also increasing, with losses of US$210 billion being recorded worldwide in 2020 (of which only US$82 billion was insured), up significantly from 2019, which saw US$166 billion in losses (Munich Re 2021). Between 2000 and 2019, the United Nations Office for Disaster Risk Reduction reported 7,348 major recorded disaster events, which claimed 1.23 million lives and affected 4.2 billion people (many on more than one occasion), resulting in global economic losses worth around US$2.97 trillion. This was a sharp increase from the previous 20 years, with 4,212 disasters, which claimed around 1.19 million lives and affected 3.25 billion people, resulting in global economic losses worth around US$1.63 trillion (UNDRR and CRED 2020). After falling for decades, since 2010 violent conflict has increased dramatically. By 2030, the World Bank estimates up to two thirds of the world's extreme poor could live in fragility, conflict, and violent settings (World Bank 2020c). Conflicts drive 80 per cent of all humanitarian needs and reduce gross domestic product (GDP) growth by two percentage points per year on average (*ibid*.). Forced displacement is at record levels, with huge impacts on peace building and sustainable development (UNHCR 2020).[1]

Multiple interconnected and compounding crises, such as conflict, natural disasters and forced displacement, therefore affect a growing number of countries. The number and intensity of humanitarian crises is changing and rising, driven by stressors such as climate change, population growth, inequality, environmental degradation and pandemics. Globally, 1.5 billion people – one in five of the world's population – live in contexts of fragility (OECD 2016). The compounding and protracted nature of complex crises, along with the rising number of new crises, present a critical development challenge for low- and middle-income countries (LMICs) that undermines efforts to reduce poverty and achieve the United Nations (UN) Sustainable Development Goals. The changing nature and complexity of crises also challenge existing financing arrangements (Poole *et al*. 2020). The Covid-19 pandemic has further complicated this picture, providing insight into new trends and retrenching old patterns of financing crises that reflect wider structural issues with the system.

Although risks are rising and compounding, amounts of finance to key sectors in FCAS are not keeping pace. Finance for the social protection and humanitarian sectors, the two sectors of central interest to this report, was low in relation to need even before Covid-19 struck. Consolidated UN appeals have remained around 60 per cent funded over the past decade, despite the size of appeals growing exponentially. Social protection coverage globally remains minimal, with only 45 per cent of the world's population having access to any form of social protection, a figure which dips below 10 per cent in many low-income countries (Development Initiatives 2020; ILO 2017).

[1] More than two thirds (68%) of the 26 million refugees worldwide come from just five countries (UNHCR 2020).

This worrying lack of coverage comes at a time when global extreme poverty increased in 2020 for the first time in decades (World Bank 2020d). By 2030, 85 per cent of the extreme poor – some 342 million people – will live in FCAS (Samman *et al*. 2018). Financing aid in general and – assistance specifically – in FCAS is complex, often arriving late or earmarked for certain actors and activities, despite commitments made by signatories to the Grand Bargain and the World Humanitarian Summit in 2016 to improve the timeliness, flexibility, transparency and efficiency of aid. This constrains options to work across the nexus of humanitarian and social protection (hereafter referred to as 'the nexus'), with additional challenges, given that the principles typically governing domestic, development and humanitarian funding may not be well aligned.

The increased scale and impact of compounded crises has led to an increased focus recently on crisis and risk finance as part of high-level reform agendas, and an increase in the range of innovative financial instruments available to finance crisis management and response. A new cast of actors, including the private sector, humanitarian and development organisations, and international financial institutions (IFIs), are experimenting with new and improved models. New avenues to better finance crises have opened up, offering the potential to meet needs in a more timely and effective way.

IFIs have developed a growing range of financial products and mechanisms adapted to fragile contexts, including pre- and post-crisis grants and contingent loans. Humanitarian finance is exploring anticipatory action measures and risk-financing approaches. Climate finance, especially for adaptation finance, could support resilience and shock-responsive approaches in fragile contexts. All these instruments have potential but face a series of particular challenges in FCAS. Despite the appetite for change, the international crisis finance system is not yet fit to meet either current needs or future risk.

Improving the different types and increasing levels of finance alone cannot end current crises or stop future crises from occurring. Finance is changing the way actors talk and think about crises, and to anticipate and respond to them in a more efficient manner. However, more important than the financial instruments themselves is the process followed to understand context, capacities and downstream factors, such as planning, coordination, disbursement, fund management, monitoring and evaluation, grievances, redress and so forth (CDP 2020a).

There is growing recognition of the need to understand how alignment across humanitarian, development, peace-building and other sectors in FCAS brings possible synergies and drawbacks. This 'nexus thinking' has emerged through a combination of different lines of thought including questioning the 'exceptionality' of many crises, which would be better addressed through longer-term risk management; accompanied by recognition of the need for a nuanced application of humanitarian principles and more 'risk-aware' development; and greater investment in the role the state plays in relation to humanitarian actors in crises as the provider of such support. Finance, and the degree to which different instruments and sources enable or inhibit more joined-up ways of working and better use of collective resources, is at the centre of these discussions.

This paper presents an overview of the crisis finance literature as it relates predominantly to international finance for FCAS. It discusses what we are learning about finance in FCAS, and some of the barriers and prerequisites to improving it. Based on existing available data and literature, as well as informal discussions with practitioners, it summarises the current state of play, and concludes with reflections and implications for BASIC Research.

1.2. Approach, methods and key research questions

This paper revolves around three broad research questions:

- What are we learning about the financing trends and mixture of financial instruments being used in FCAS to provide basic assistance?
- What are the barriers and prerequisites to improving financing in these settings?
- Which themes and topics are of most relevance and interest for further research under BASIC?

For the purposes of this research, connections will be explored with other thematic areas (e.g. what works, politics, value for money, etc.). In addition, this paper builds on the Social Protection Approaches to Covid-19: Expert Advice (SPACE) review of the main finance flows and mechanisms for shock-responsive social protection (SRSP) (SPACE 2021), using this as a point of departure to explore practical issues around

finance and value for money in FCAS specifically. Each subsection provides additional analysis relevant to FCAS, and also provides additional sections for finance sources that are highly relevant to FCAS, such as remittances systems and *zakat* – in Islam, obligatory (religious or legal) charity – as well as additional thematic issues of relevance to FCAS (e.g. on refugee finance).

This paper uses a set of key definitions to frame the work (such as 'risk', 'shocks', 'humanitarian finance' and 'crisis finance', etc.), which can be found in Annexe 1. It is worth highlighting here that during the inception phase the terminology used to describe the contexts BASIC Research will focus on shifted from 'fragile and conflict-affected situations' (FCAS) to 'protracted crises'. The various types of protracted crises are outlined in a framing paper for BASIC Research (Sabates-Wheeler *et al*. 2022).

2. Review of regular finance in FCAS

This section provides a quick review of both regular finance to different forms of basic assistance in FCAS, and an overview of risk finance approaches that are currently in use in FCAS. Section 3 goes on to reflect on what is being learned around financing in FCAS. As a note, it is difficult to get the full picture of international aid flows due to problems with reporting and tracking financial data (see below).

2.1. Methodology: literature search approach and other sources of data

A desk-based literature review comprising searches of Google and Google Scholar was carried out to identify recent and relevant literature on finance in FCAS. In addition, a BASIC Research Officer undertook a detailed literature review, compiled into files for both finance in FCAS (global and country based) and more general SRSP literature, including elements on finance. The countries of focus for the searches comprised an initial BASIC Research longlist (Lebanon, Niger, Nigeria and Yemen, Iraq, Jordan, Mali and Somalia). The results of this search were summarised in an Excel spreadsheet. Alongside country contexts, documents were searched and reviewed using the key definitions provided in Annexe 1, and the financial instruments list provided in Table 3.1.

Two global databases and reporting platforms were searched to obtain a broad picture of international humanitarian and social protection finance flows to FCAS as part of official development assistance (ODA). These were the Organisation for Economic Cooperation and Development Assistance Committee (OECD DAC) Creditor Reporting System (CRS) (OECD n.d.), which covers development and humanitarian ODA; and the Financial Tracking Service (FTS) of the UN Office for the Coordination of Humanitarian Affairs (OCHA), which covers humanitarian ODA. In addition, a review was undertaken of the World Bank's public expenditure reviews and project appraisal documents for those countries where they existed. The overview of climate finance for FCAS built on the work of SPACE (2021), supplemented with a further literature search.

The problems around tracking and analysing international ODA expenditure are detailed below. Obtaining a picture of national finance flows to humanitarian and social protection expenditure is more challenging still, as LMICs are not obliged to record their own contributions, though some can opt to report expenditure voluntarily to the FTS, CRS, World Bank *Atlas of Social Protection Indicators of Resilience and Equity* (ASPIRE) and other databases (e.g. Turkey declares its humanitarian financial commitments to Syrian refugees within its own borders through OCHA's FTS). Understanding domestic finance flows therefore requires reviewing global literature such as the International Monetary Fund (IMF)'s *World Economic Outlook* or the World Bank's *Global Economic Monitor*, which are often incomplete for FCAS; or by undertaking country-by-country reviews of literature and data, which was not possible for this paper beyond a light-touch review. Further research at country level is required of primary and grey literature, as many sources are not publicly available, and governments do not necessarily declare and release all their financial information in a comparable way.

Lastly, we sent interview requests to four potential key informants, of whom two responded, proceeding to semi-structured interviews.

2.2. Difficulties with terminology and tracking

Tracking finance flows to different sectors is a difficult task. Aside from the main databases listed above, other data and databases are used to supplement the data picture dependent on the issue, such as development finance data provided by the International Aid Transparency Initiative (IATI); ASPIRE (social protection); the United Nations High Commissioner for Refugees (UNHCR) Global Focus database (displacement); the Heidelberg Institute for International Conflict Research's Conflict Barometer (conflict); the Internal Displacement Monitoring Centre (displacement); tracking data for Covid-19 provided by the Centre for Disaster Protection (Covid-19); the INFORM Risk Index; the Centre for Research on the Epidemiology of Disasters' Emergency Events Database (EM-DAT) (natural hazards); and so forth.

There is no universal system, or obligation, for reporting expenditure on international or domestic humanitarian assistance, though humanitarian data is increasingly also published according to the IATI Standard (a set of rules and guidance on how to publish useful development and humanitarian data). OCHA's FTS is open to all humanitarian donors and implementing agencies to voluntarily report contributions of internationally provided humanitarian assistance, according to an agreed set of criteria for inclusion. OECD DAC members are obliged to report their humanitarian and development ODA to the CRS in accordance with definitions set out by the DAC. Some other governments and most major multilateral organisations also voluntarily report to the DAC.

Reporting to the CRS and FTS is not done in a uniform fashion. Different terms are used across databases to tag resources, meaning obtaining an overall picture of funding flows to different actors and activities is complicated. The CRS enables measurement of ODA allocations by sector or other purpose categories such as 'non-sector allocable aid' (e.g. general budget support, humanitarian aid, etc.). However, it does not refer to the type of goods or services provided and each activity can be assigned only one purpose code[2] activity. As a result, where funding cuts across several sectors, either a multisector code or the code corresponding to the largest component of the aid activity[3] is used (McCord *et al*. 2021).

In addition, these databases tend not to rigorously capture the contributions of national actors to crises within their own borders; and data on private donations – an increasingly important source of development and humanitarian finance – to international humanitarian assistance is limited. Few private donors voluntarily report their contributions to the FTS or CRS, and it is not possible for agencies to indicate whether the funding they received was from institutional or private sources (Development Initiatives 2020). Organisations such as Development Initiatives have created their own databases from various sources to create a composite picture of private finance. Another key issue is tracking funding beyond the first-level entity or recipient, as funding is often passed to one or more intermediaries before reaching a crisis location, with a lack of data on these subsequent transactions (*ibid*.).

These methodological challenges are also found in climate finance, including definitional ambiguity around what does or does not count as climate spending. This problem is particularly pronounced for adaptation spending, which delivers routine development benefits, as well as benefits related to climate resilience. Challenges include accusations of overclaiming climate relevance to show progress against targets; double counting, particularly important in relation to climate ODA which may flow from donor governments though multiple channels to implementing agencies; and how to report on climate finance through lending instruments and whether it should be counted differently from grant financing.

Similarly, there is a lack of granular detail as to how climate finance is allocated at project level (i.e. beyond a sectoral definition such as 'water and sanitation' towards specific types of activities). Lastly, while relatively reliable and timely reports on donor funds can be sought through the CRS, significant data gaps exist around the tracking of private sector investment and domestic government expenditure on climate change, particularly in LMICs.

[2] For a definition of 'purpose code', see DAC Glossary of Key Terms and Concepts.
[3] For a definition of 'aid activity', see DAC Glossary of Key Terms and Concepts.

2.3. Overview of international finance in FCAS

ODA overview

ODA is provided through a mix of grant and concessional loan[4] finance. It is a critical component of financing to lower-income countries for social protection and humanitarian assistance. The list below provides a global snapshot of ODA, with additional information on ODA to crisis-affected countries:

- ODA, inclusive of humanitarian assistance, totalled US$154 billion worldwide in (2019). Humanitarian assistance made up 16 per cent of this total (US$25.3 billion). In the countries most affected by crises it has grown faster than overall ODA in the past decade (Development Initiatives 2020; Dodd, Knox and Breed 2021).
- Overall, ODA growth for the least developed countries (a list of countries dominated by but not limited to FCAS) is slowing, and spending in sectors key to strengthening human capital – health, education and social protection – is decreasing as a share of total ODA (Caio, Knox and Tew 2020).
- There has been a pronounced growth in the percentage share of developmental ODA being delivered through bilateral and multilateral loans to countries affected by crises. These rose from 13 per cent of total ODA in 2010 to 30 per cent in 2018.
- Long-term development grants have decreased in share from 75 per cent to 55 per cent over the same period (Development Initiatives 2019; Caio *et al*. 2020),[5] a trend that did not slow with the onset of Covid-19, where 93 per cent of finance from IFIs came in the form of loans (Hill *et al*. 2020).
- A very small percentage of ODA is channelled into disaster risk reduction activities (0.88% in 2018, US$1.3 billion out of US$147 billion). This is noteworthy, given that the majority of major crises are protracted, and 13 of the 20 countries most vulnerable to climate change also had a global humanitarian appeal in 2021, with most also experiencing active conflict (Development Initiatives 2019; Caio *et al*. 2020; New Humanitarian 2021).[6]
- Other international flows to crisis-affected countries are also important. For instance, for countries with humanitarian appeals that past two or more consecutive years, remittances make up 37 per cent of international finance, while foreign direct investment constitutes 12 per cent (see more on remittances below) (Development Initiatives 2020).

International social protection finance in FCAS (as part of ODA)

International finance for social protection forms one component of ODA finance. It is provided through bilateral and multilateral agencies and IFIs. While bilateral flows dominate overall ODA, this is not the case in the social protection sector, where in 2019 multilateral agencies provided 69 per cent of ODA, a share which has increased steadily over the past decade. As a percentage of overall ODA, spending on social protection and other related sectors over the past two decades has fluctuated between 0.5 and 1.8 per cent. ODA reached a high of around US$2.75 billion in 2010 as support to programmes expanded following food, fuel and financial crises in 2008 (McCord *et al*. 2021). Of this figure, 50 per cent was directed to low-income countries and 30 per cent to lower middle-income countries (*ibid*.).

Globally, much social protection is currently funded domestically through taxation, deficit financing and large-scale contributory social insurance schemes. However, low-income countries are particularly dependent on external ODA and other donor funding for systems development and implementation, especially in terms of supporting non-contributory social assistance provision, due to their limited domestic resource mobilisation capacity (*ibid*.). ODA allocations to social protection make trivial inroads into the funding gap for the provision of basic social protection (*ibid*.).

[4] *Concessional loans* have more generous terms than market loans, including below-market *interest rates*; *grace periods* in which the *loan* recipient is not required to make debt payments for several years; or a combination of low interest rates and grace periods (see *What sources of grants or concessional financing exist to help with mini-grids in developing countries?*).

[5] Loans are also unevenly distributed across those countries most affected by crises; a small number of countries experiencing protracted crises receive a disproportionately large share of all ODA loans (Development Initiatives 2019; Caio *et al*. 2020).

[6] It is, however, well targeted: of the US$1.3 billion total, 77 per cent (US$973 million) went to 60 countries at high or very high risk of experiencing natural hazards (Development Initiatives 2019).

There was an increase in finance to the sector due to the Covid-19 pandemic. In fact, global covariate shocks, starting with the global financial crisis of 2008, have stimulated significant donor and government interest and investment in social protection systems development, supported by the UN's Agenda 2030, the Sustainable Development Goals and the World Humanitarian Summit, which all identified social protection as a key instrument for addressing the impacts of covariate shocks. However, it is not yet possible to assess whether the aggregate medium-term effect of Covid-19 on funding for the social protection sector will be positive, as was the case of the global financial crisis of 2008, or negative, as this will depend on both future ODA trajectories overall, and also the extent to which social protection is identified as a key instrument for recovery (Longhurst *et al*. 2021).

Either way, social protection coverage remains low, with only 45 per cent of the world's population having access to any form of social protection, a figure that falls as low as 18 per cent in sub-Saharan Africa and is below 10 per cent in many low-income countries (ILO 2017). The global median for social assistance spending across the globe is 1 per cent of GDP, excluding health fee waivers. This dips to a median of 0.7-0.8 per cent of GDP in East Asia and the Pacific, the Middle East and North Africa, South Asia and sub-Saharan Africa (World Bank 2018).

Research indicates the post-pandemic global funding gap for social protection will be US$707 billion per year, confirming the need for continued and increased finance from the international community (Durán-Valverde *et al*. 2020). Many of the economies of low-income countries were facing a debt crisis prior to Covid-19. Even maintaining existing levels of provision to social protection may be a challenge unless external and domestic resources are ring-fenced for this purpose. The IMF has introduced conditions as safeguards to protect domestic social sector allocations in a context of austerity, but it is not yet clear whether these will be effective, given the severity of the crisis (McCord *et al*. 2021).

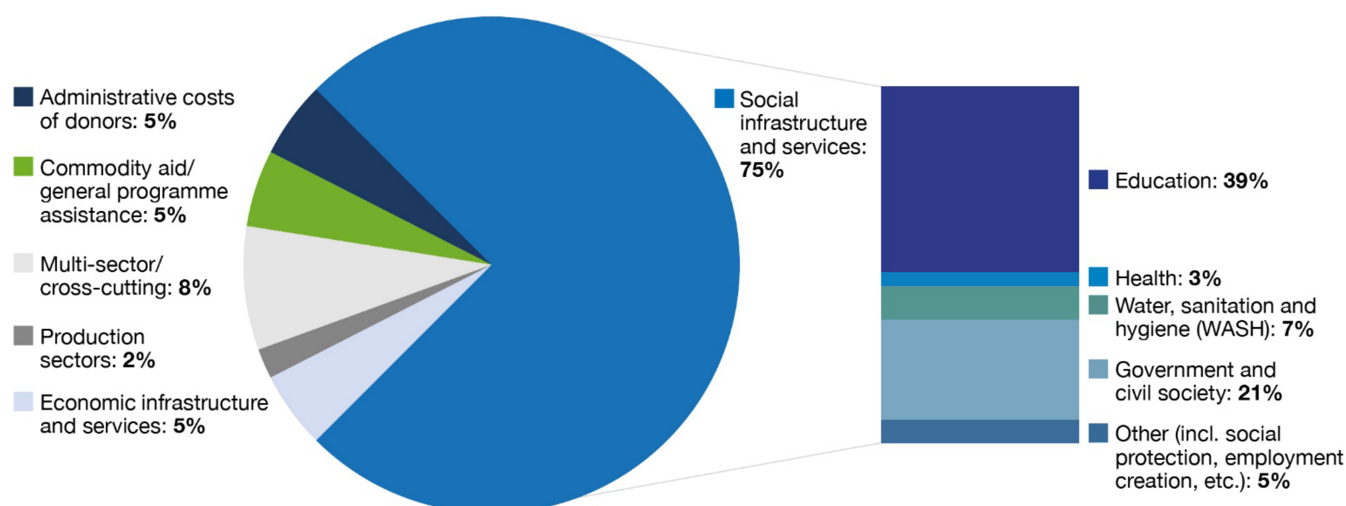
The rationale for ODA support to social protection is different in FCAS and tends to put greater emphasis on state building and social cohesion. Although there is weak empirical evidence on the impact of social protection in promoting and improving social cohesion, measures such as subsidies and categorical cash benefits are widely used in FCAS to ease political and social tensions (Ovadiya *et al*. 2015). This is particularly the case in post-conflict situations; for example, Timor-Leste introduced a universal social pension for war veterans in 2008 in response to violent conflicts in the mid-2000s. Governments in FCAS also rely heavily on external ODA to provide this social protection support. In South Sudan, all social assistance spending consists of two large programmes financed and implemented by the World Food Programme (WFP) (World Bank 2018). In FCAS, donor agencies may be looking for a peace or stability dividend for investments in social protection that is not the case in other contexts.

Levels of administrative capacity, along with the relative strength of institutions and rule of law in a country, determine the balance of programming between social assistance, social insurance and labour, which can vary widely in FCAS. Lower capacity and a weak enabling environment lead to a concentration of emergency and fragmented policies, and programmes with low coverage and coherence. But the situation can be highly dynamic, with shifts in programming changing based on countries' circumstances. As emergencies occur or as countries stabilise, the composition of social protection shifts to meet needs; for example, through periodic scale-ups of cash transfer programmes.

Finance sources are critical determinants for the direction of social protection policy and programming in FCAS, and external finance steers and shapes medium- to long-term policy discourse. To varying degrees, countries and territories such as Sierra Leone, the West Bank and Gaza, and Yemen have all rationalised and scaled up their social protection programming following emergency situations, and forged a national social protection vision, with strong technical support and finance from external partners (Ovadiya *et al*. 2015).

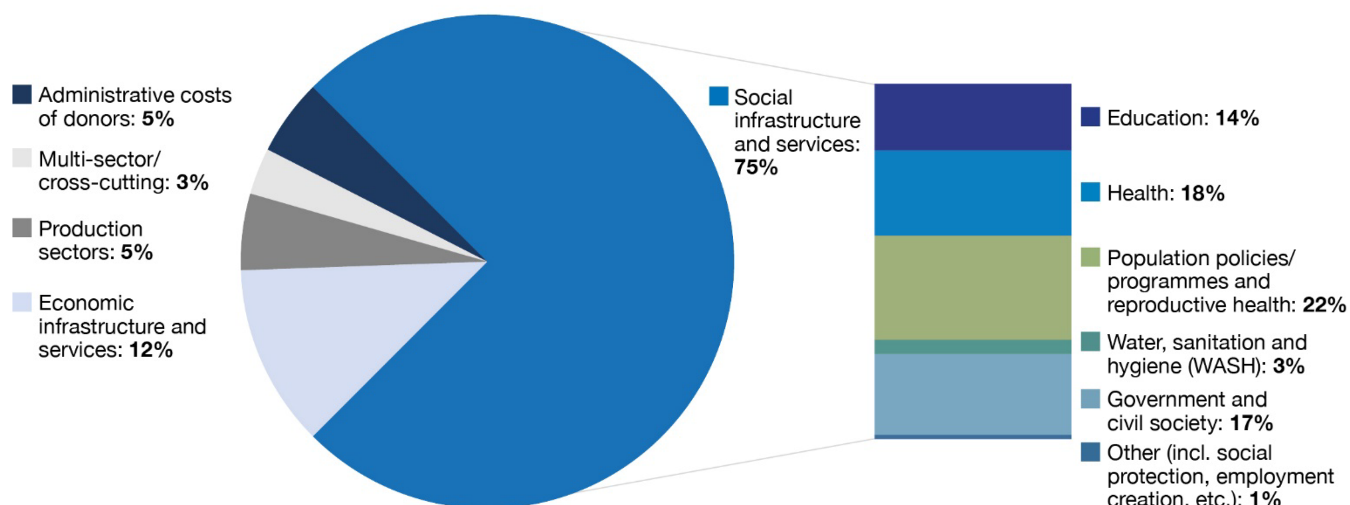
However, as shown in Figures 2.1 and 2.2, while spending for 'social infrastructure and services' constitutes a large proportion of ODA support in FCAS (75% in the two examples here), amounts for social protection specifically are far less significant (5% and 1%, respectively).

Figure 2.1: ODA spending, Lebanon (2020)



Source: Authors' own, created using data from OECD (n.d.).

Figure 2.2: ODA spending, Nigeria (2020)



Source: Authors' own, created using data from OECD (n.d.).

International humanitarian finance in FCAS (as part of ODA)

Humanitarian finance has increased exponentially over the past decade; it grew by 452 per cent between 2007 and 2019 (authors' calculation, based on Development Initiatives 2020). In 2019, donors provided a total of US$29.6 billion in international humanitarian assistance (from all sources to all types of crises). UN appeals rose to their highest on record in 2019, requesting a combined US$30.4 billion, before dipping slightly in 2020. The amount provided by donors as a percentage of need has remained reasonably constant at around 61 per cent over the past decade, demonstrating that support has increased in overall terms, but remains relatively static in relation to need. In addition, the overall rate of growth in donor finance to humanitarian assistance is slowing, with year-on-year rises decreasing from 23 per cent in 2014 to 3 per cent in 2017 (Development Initiatives 2020).

Twenty donors provide 97 per cent of international humanitarian aid, with the top five in 2021 being the United States, Turkey, Germany, the European Union (EU) and the United Kingdom (UK). Turkey's substantial contribution is not directly comparable to the top five because it is not spent internationally, but domestically on supporting Syrian and other refugees. Recipients of government support have remained stable as well, with around two thirds of finance going to multilateral agencies, and about half of this amount (48%) consistently going to just three UN agencies over the past decade: WFP, UNHCR and the United Nations Children's Fund (UNICEF) (Konyndyk 2018). Trends from the Covid-19 response show a continuation of this pattern.

The International Red Cross and Red Crescent Movement and International Committee of the Red Cross fundraise separately from UN-coordinated appeals, and generally meet about 80–90 per cent of their needs annually (*ibid.*), while the private sector provides around a fifth of humanitarian funding, most of which goes to natural hazard-related disasters, and 89 per cent of which is channelled to non-governmental organisations (NGOs) (Development Initiatives 2019).

Pooled funds, which combine contributions from donors to provide rapid, needs-based support to humanitarian responses (including underfunded appeals), have grown and evolved over the past ten years. Although only making up between 5 and 6.6 per cent of total international humanitarian assistance since 2010 (Development Initiatives 2020), contributions to global and country-based pooled funds (CBPFs) have seen sustained growth since 2010, with the Central Emergency Response Fund (CERF) more than doubling in size, from US$827 million to US$1,869 billion;[7] and CBPFs more than doubling since 2015, reaching a total of US$1,040 billion in (2019).[8]

While most donor government funding goes to UN agencies, international NGOs consistently receive more than two thirds of the funding allocated from CBPFs (*ibid.*), but these remain dwarfed by global pooled funds. As noted in section 3, a growing area of investment for pooled funds is in anticipatory and forecast-based action, integrating many of the principles of disaster risk finance into humanitarian action. The rules for pooled fund management have also been adapted significantly to introduce greater flexibility in the face of the Covid-19 crisis, with the hope this will be continued.

Financing for crises should reflect their complex and long-term nature, addressing humanitarian and development needs in tandem. Yet the majority of humanitarian funding remains short term (lasting one year or less) and earmarked for specific projects or activities. For the 20 largest country recipients of humanitarian assistance, increases in humanitarian assistance have not been matched by increases in non-humanitarian ODA (Development Initiatives 2018).

Climate finance

Climate finance,[9] encompassing adaptation and mitigation finance,[10] has theoretically opened up new avenues to address the impacts of climate- and weather-driven natural hazards, but use of climate finance to support programmes with a humanitarian or social protection dimension has been very limited (see Box 2.1). Climate finance tends to have been used to fund physical infrastructure rather than human capital development. Likewise, support for FCAS is limited for a mixture of reasons related to capacity, politics and risk appetite.

[7] The growth of CERF was predominantly funded through a US$404 million contribution from the UK government, which led to CERF growing from US$555 million in 2018 to US$860 million in 2019, more than three times the amount of the UK government's 2018 contributions, though its contributions dipped sharply again in 2020 to US$88 million (CERF 2020).

[8] In 2019, four CBPFs – Yemen, Syria cross-border, South Sudan and Iraq – accounted for over half this total.

[9] According to the Standing Committee on Finance of the UN Framework Convention on Climate Change (UNFCCC), climate finance is defined as 'finance that aims at reducing emissions, and enhancing sinks of greenhouse gases; and aims at reducing vulnerability of, and maintaining and increasing the resilience of, human and ecological systems to negative climate change impacts' (UNFCCC 2014).

[10] Adaptation finance is funding that helps governments, businesses, communities and individuals adjust to current or future climate changes; mitigation finance reduces or prevents climate change occurring.

Box 2.1: Ethiopia's social protection proposal to the GCF

The case of a rejected United Nations Development Programme/Government of Ethiopia GCF proposal in 2017 clearly demonstrates the differences of opinion over whether climate finance can support social protection and other livelihood measures. The adaptation project proposed to the GCF board for a total of US$99 million aimed to support 1.2 million vulnerable people through a combination of improving access to water and food, promoting alternative livelihoods, empowering women, improving health and wellbeing, increasing access to climate information, improving the resilience of ecosystems, and introducing improved and climate-smart technologies. The GCF's independent Technical Advisory Panel had recommended that the project should be redesigned to prioritise water-related activities, and other sectoral and landscape interventions.

The GCF board members displayed diverging views on what should or should not be considered 'climate-linked' activities. Broadly speaking, the higher-income countries on the board opposed approving the project, feeling the extensive list of actions were more applicable to a rural development project; whereas LMIC members were more in favour of supporting it, arguing that there was no seamless differentiation between climate and development, and that a good adaptation project must address different aspects of vulnerability (Third World Network 2017; GCF 2017). The decision to reject the project drew criticism from commentators, who argued that supporting climate-resilient livelihoods and government capacity for service provision in the context of climate change was precisely what multilateral climate finance mechanisms were established to do, and not simply focusing on the infrastructure surrounding communities (Climate Change News 2017; Care and Oxfam International 2017; Longhurst *et al*. 2021).

The United Nations Environment Programme concluded that annual costs of adaptation in LMICs could range from US$140 billion to US$ 300 billion annually by 2030, potentially rising to US$500 billion per year by 2050 (UNEP 2016). Estimates of mitigation needs in LMICs required to limit global temperature rises to 2°C vary widely, but the main studies suggest a range of US$180–540 billion per year between 2010 and 2030 (Fankhauser *et al*. 2016). The latest reported contributions to the UN Framework Convention on Climate Change (UNFCCC) Standing Committee on Finance's Biennial Assessment (published in 2018, covering flows in 2015 and 2016), recorded a total of US$49.4 billion provided from higher-income countries (known as 'Annex II countries') to LMICs, of which the majority (50%) was for mitigation, with much smaller amounts going to adaptation (12%) (UNFCCC SCF 2018). In terms of sectoral distribution, according to the OECD (2020), between 2016 and 2018 the energy sector accounted for 34 per cent of funding, followed by transport and storage (14%), with other dominant sectors including agriculture, and water and sanitation.

Very little climate finance, especially multilateral climate finance, is understood to be channelled to the social protection sector, although concrete estimates and accurate data are hard to find. In the case of the Green Climate Fund (GCF), established under the UNFCC Paris Agreement, a review of 11 approved adaptation projects with government implementation partners found just one that had a component related to SRSP (in the Philippines) (Longhurst *et al*. 2021). For climate finance delivered through bilateral and multilateral agencies, there is anecdotal evidence of more funding going to social protection, though the level of detail is not available to understand divisions of funding precisely. For example, the World Bank in 2019 reported commitments of US$14 billion in climate-related finance, of which US$445 million was identified as being for 'social protection and jobs' (World Bank 2020e). The UK Government's *2020 UK Climate Finance Results* report documents that of £5.8 billion allocated to climate finance between 2016/17 and 2020/21, 87 programmes contributed to 'helping people cope with the effects of climate change', a portion of which went to social protection mechanisms to help people cope with the effects of weather-related shocks (DFID 2020; Longhurst *et al*. 2021). In neither case was it possible to identify a detailed breakdown of funding.

Furthermore, the definition of climate finance from the UNFCCC does not include loss and damage finance, which covers the adverse impacts of human-induced climate change that cannot or will not be avoided by mitigation or adaptation. Loss and damage is a central concept to any discussion on climate finance as it relates to preparedness, response and recovery to covariate shocks. Yet it remains a politically charged topic in international climate change negotiations, and one which does not yet benefit from any financial provision under the UNFCCC, multilateral climate change funds, or bilateral and multilateral climate finance support.

An expert group was established after the 2019 Conference of the Parties – the decision-making body of the UNFCCC – on how to facilitate LMICs' access to GCF funds and existing financial resources for loss and damage. Commentators have noted, however, that discussions have largely been symbolic in nature, and the implementation of the 2013 Warsaw International Mechanism for Loss and Damage has been very slow overall (Raju, Schaefer and Watson 2021).

Chief among the challenges around climate finance – for LMICs in general, and for FCAS in particular – are onerous access and eligibility criteria to global climate funds (including lack of capacity in low-income countries to meet fund management, reporting and project implementation requirements); lack of metrics within social protection, resilience and other related programmes to measure mitigation or adaptation benefits; and lack of agreement among principal funders on whether support to livelihoods constitutes a viable channel for climate finance (see Box 2.1).

Refugee finance

The global displacement crisis has grown and become more complex in the past decade. Of the 97.3 million 'people of concern' to UNHCR, 21 million are refugees and 49 million are internally displaced people (UNHCR 2021a). Most of these have spent an average of ten years away from their homes, with around 76 per cent of refugees living outside of camp settings (IRC 2017). LMICs host 88 per cent of the world's refugees. Despite the enormous generosity these countries have shown, the prolonged presence of refugees can fuel resentments and divisive politics (*ibid*.). Refugees often have limited access to jobs, education, and basic protections and freedoms required to rebuild their lives. The legislative landscape around providing social protection to forcibly displaced people can be complex, as the 'duty of care' implicit in social protection does not normally extend to non-nationals, or assistance is tied to a permanent place of residence (Seyfert *et al*. 2018).

This situation has led to calls for new ways of financing responses to and durable solutions for displacement. The most important recent development has been the humanitarian-development partnerships and political commitments arising from the World Humanitarian Summit; and the Global Compact on Refugees and the Comprehensive Refugee Response Framework, which call for a multistakeholder approach to provide protection and longer-term solutions for refugees worldwide, including easing pressure on host countries, enhancing refugees' self-reliance, and enabling the interim legal stay or a temporary right to remain, and economic and social inclusion of refugees. Some countries are also expanding social protection-style programmes to internally displaced people and refugees with the support of international partners, presented by the international community as part of a road map for 'care and maintenance' in camps, to align delivery between humanitarian and social protection programmes, working towards full integration within national systems (Mitchell 2018).

IFIs such as the World Bank, Islamic Development Bank and other partners created the Global Concessional Financing Facility to provide concessional finance to LMICs hosting large refugee populations. The World Bank launched a finance window (the Regional Sub-Window for Refugees and Host Communities), which provided up to US$2 billion in grants and concessional loans to low-income countries to meet the development needs of refugees and host communities as part of the International Development Association (IDA)18 replenishment (replenishment of IDA resources by World Bank partners normally happens every three years). The IDA19 scale-up window – funds provided in addition to the IDA-19 replenishment to scale up transformational and impactful development projects – provided an additional US$2.2 billion for operations, including US$1 billion for operations in response to the impacts of Covid-19 (IDA n.d.).

The Global Concessional Financing Facility represents a significant development in the way international partners finance displacement. Compact agreements have emerged as a new approach supported by such finance, bringing together donors and development and humanitarian actors under host-country leadership to develop multiyear agreements for refugees and host communities. They are shaped by shared outcomes focused on long-term solutions for refugees, a common analytical and results framework, policy reforms and results-based management (IRC 2017).

While not appropriate to every country, and in need of further refinement and reform, compact approaches have driven progress in several countries such as Jordan and Lebanon. Financing from the World Bank's IDA Window for Host Communities and Refugees (sometimes referred to as the Refugee Sub-window) has

also enabled significant changes in refugee policies in several countries, such as Ethiopia's Refugee Proclamation (2004), which enabled refugees to move freely outside of camps, attend primary school and access the labour market; and Chad's first-ever national refugee policy (2020), which reflects the rights of refugees as laid out in the 1951 Refugee Convention (*ibid.*).

However, most assistance to refugee populations still flows outside of national systems. Missing from some of these critical initiatives is a clear road map to harmonise fractured responses to displacement, and link or transition to national systems and services. Projects need to carefully calibrate the balance between contributory and non-contributory models for social safety-net or social service provision, based on sound socio-demographic analysis of recipient groups (differentiating between citizens and displaced groups), to develop self-reliance and ensure project sustainability (UNHCR, 2021b). Likewise, the increased involvement in FCAS of IFIs poses some broader political questions, particularly as their primary interface is with national governments, which in cases where they are party to conflict, or where government services have collapsed, can be problematic, necessitating different partnership and implementation modalities.

2.4. Overview of domestic finance in FCAS

Domestic finance for humanitarian response

Despite the Grand Bargain signatory donors committing to channel at least 25 per cent of international humanitarian assistance to local and national actors by 2020, this figure stood at 2.1 per cent (US$444 million) in 2019, decreasing from 3.5 per cent (US$782 million) in 2018. Obtaining information on how much countries contribute to their own crisis responses is also difficult, as most governments do not report this as international humanitarian assistance, including the majority of expenditure by governments on efforts to support refugees within their own borders. However, as the case of Turkey illustrates, these sums – be they in cash or in kind (e.g. food assistance, technical and logistical support, human capacity, etc.) – can be sizeable. Including assistance spent within its own borders on the Syrian refugee response, Turkey was the top international humanitarian donor in 2019, providing US$7.6 billion in aid.

Domestic financing of social protection

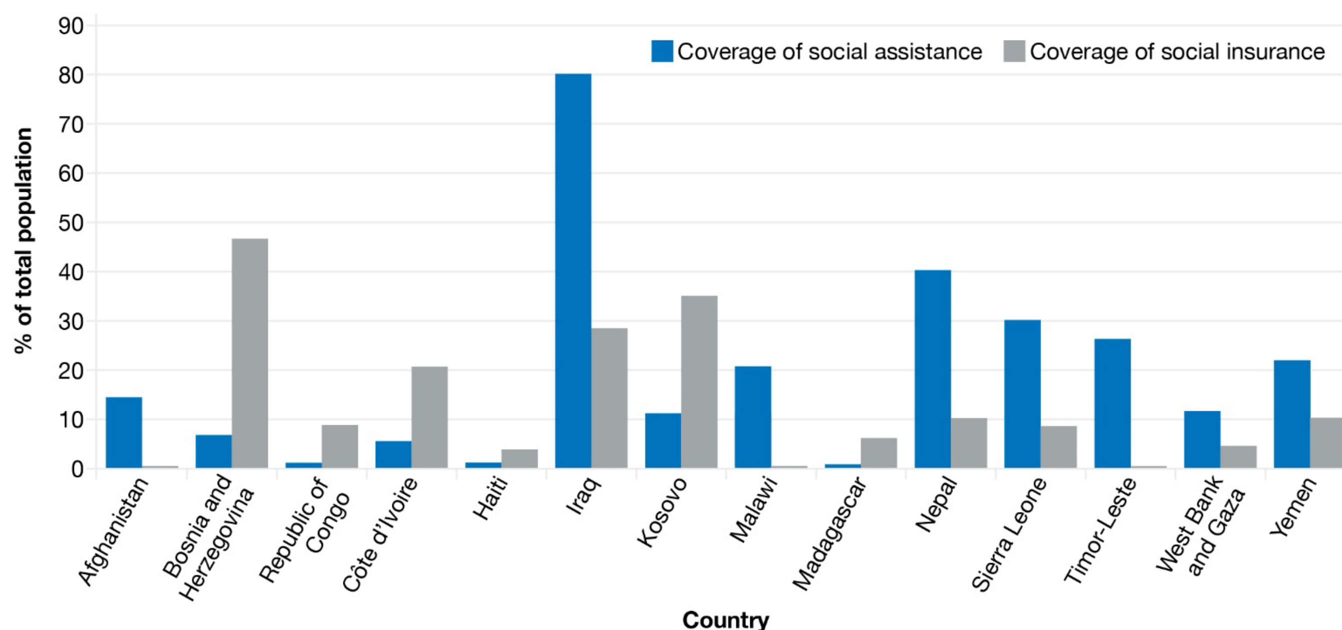
It is not within the scope of this paper to comprehensively explore the complexities of domestic fiscal space for social protection. Comprehensive reviews can be found elsewhere (such as Ortiz, Cummins and Karunanethy 2017), with Annexe 2 providing an overview of finance sources for social protection. However, such global reviews, themselves based on other secondary sources such as the IMF's *World Economic Outlook* or the World Bank's *Global Economic Monitor*, lack detail when considering FCAS. This is due to lack of data, lack of common reporting standards, and the inability or unwillingness of the countries themselves to account for expenditure. The issue becomes even more blurred for concepts such as resilience building or SRSP, which cut across sectors and actors. A country-based approach to gathering and analysing data is required, which is beyond the remit of this paper but would provide fertile ground for further research under BASIC Research.

In 2018, FCAS spent on average about 1.38 per cent of GDP on social safety net programmes (i.e. social assistance) (Hanna 2020). Most FCAS rely on external funding for social protection, though some high-capacity or resource-rich FCAS are exceptions (such as Kosovo and Timor Leste, respectively); or in the case of social insurance, schemes funded by employers (including the government for public sector employees) and employee contributions. In most FCAS with low capacity and weak enabling environments, most social protection programming is externally funded and off budget. In countries with high capacity and weak enabling environments, social protection finance is mixed, ranging from high dependence on external sources in places such as the West Bank and Gaza, to less dependence in countries such as Iraq (Ovadiya *et al*. 2015).

The majority of FCAS direct a large proportion of social protection expenditures to social insurance programmes and categorical benefits, though coverage of these programmes remains low and can be regressive (*ibid*.). Social insurance is a prime example, as it normally covers civil servants and sometimes formal sector employees, who are typically non-vulnerable groups. The coverage of pension systems that include social pensions remains low in most FCAS. Social assistance and safety nets, as well as subsidies, are commonly used to deliver social protection to the poorest people; although, depending on design, the non-poor can benefit disproportionately, particularly from consumption subsidies (*ibid*.).

As a result of this funding picture, FCAS generally suffer from low coverage of social protection programmes, particularly social insurance and labour market programmes. On average, the coverage of social protection programmes in FCAS is around 27 per cent, compared to a global average of 43 per cent (*ibid*.). However, this rate masks large variations within and between social insurance and social assistance programmes. Overall, social insurance coverage lags behind social assistance coverage, and the poor are most likely not covered by either social insurance or social assistance schemes.

Figure 2.3: Social assistance and social insurance coverage in fragile and conflict-affected countries[11]



Source: Authors' own. Adapted from Ovadiya, Mirey; Kryeziu, Adea; Masood, Syeda; Zapatero, Eric. 2015. Social Protection in Fragile and Conflict-Affected Countries : Trends and Challenges. Social protection and labor discussion paper,no. 1502;. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/22077 License: CC BY 3.0 IGO.

Note: Coverage data corresponds to different years for each country/economy: Afghanistan, 2007; Bosnia and Herzegovina, 2007; Republic of the Congo, 2005; Côte d'Ivoire, 2002; Haiti, 2001; Iraq, 2006; Kosovo, 2006; Madagascar, 2010; Malawi, 2010; Nepal, 2010; Sierra Leone, 2011; Timor-Leste, 2007; West Bank and Gaza, 2007, and Yemen, 2005.

As Covid-19 spread, evidence shows that countries mobilised domestic or international resources to respond to the pandemic, though in most cases this proved to be through reallocating budgets as opposed to finding new financial sources (Longhurst *et al*. 2021; Beazley, Bischler and Doyle 2021). Tactics included line ministry budget reallocations, reorientating budget support programmes, relying on funding by international partners, increasing lending amounts or benefiting from pre-existing credit line flexibility. Capacity to mobilise domestic resources depended on both the political commitment to social protection and the ability to match existing funding with new sources. Evidence from countries such as Pakistan, Kenya, Bangladesh and Sierra Leone shows they managed, on a small scale, to reallocate domestic resources relatively quickly, which allowed them to partially fund social assistance responses; in the case of Pakistan, the Prime Minister's Relief Fund for Covid-19[12] was designed to match donor contributions with federal funding (*ibid*.). However, while these countries may either be poor or managing issues of insecurity, they are not in the same league as FCAS in terms of financial resources, planning and absorption capacity, which in most cases (but not all) is far more limited. In addition, the extent to which this reallocation of funding and increased lending could adversely affect future social protection provision is unknown.

[11] In Iraq, which has social assistance coverage of 80 per cent, universal food vouchers account for the high coverage rate (Ovadiya *et al*. 2015).

[12] See: *Prime Minister's Relief Fund for Covid-19*.

3. Review of risk finance in FCAS

A wide range of financial instruments is available to governments for financing shocks. 'Instruments' here refer to types of finance, financing packages or products specifically designed to provide money for certain risks (Longhurst *et al*. 2021). For the most part, FCAS still rely heavily on ODA support for regular social protection (especially social assistance) programmes, and *ex post* humanitarian appeals for emergency response (funded predominantly by the international community). Nevertheless, IFIs such as the World Bank have increased the range of instruments available to governments, including in fragile contexts, on the back of IDA support. Some of these include pre-arranged finance, such as Catastrophe Deferred Drawdown Options (CAT-DDOs); and the insurance-like Pandemic Emergency Financing Facility.

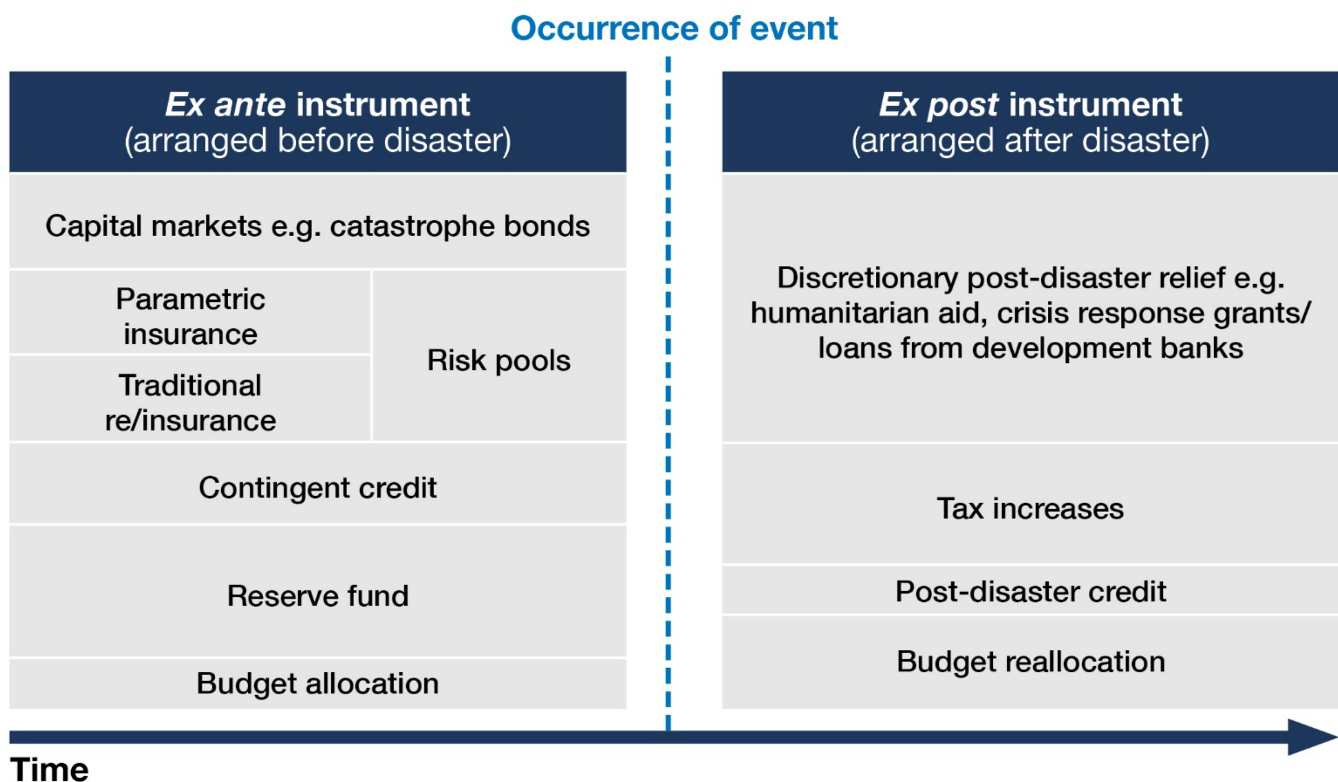
In terms of conceptual framing, risk finance can be separated into:

- Money planned and agreed on before a shock occurs (*ex ante*); and
- Money arranged after a shock has occurred (*ex post*).

Figure 3.1 provides an overview of the principal financial instruments.

Table 3.1 compares the pros and cons of different financial instruments, and their suitability for addressing different types of shock.

Figure 3.1: Potential risk-financing instruments for crisis response



Source: Authors' own. Adapted from CDP (2022). Reproduced with permission.

Table 3.1: Comparison of financial instruments

Instrument	Pros	Cons	Best suited to
Ex ante			
Contingency / reserve / dedicated disaster funds set aside as a financial buffer (e.g., Philippines: the National Disaster Risk Reduction and Management Fund is financed through an allocation in the annual budget).	Fast, encourages forward-planning, well-documented, strong government control, high potential for early action measures.	High opportunity costs, fiscal discipline required, no risk-transfer element, funds exhaustible, and discretionary.	**Low risk layer: frequent low-impact events**, e.g., annual flooding or localised drought or conflict.
Triggered contingent finance (humanitarian anticipatory action) using objective triggers to receive grants from a pre-arranged fund released in advance of the shock to incentivise risk-reduction activities (e.g., CERF in 2017 released USD106m in response to signs of famine in Northeast Nigeria, South Sudan, and Somalia).	Fast, flexible, objective triggers, pools resources, increasingly anticipatory, no repayment, fewer conditions.	Little mainstreaming or coordination, issues of 'acting in vain' (triggering support for a shock that does not materialise), high degree of technical input required.	**Low risk layer: frequent, low-impact shocks**, or those that exceed the capacity of national actors; also, as a pre-cursor to larger shock-responsive efforts.
Triggered contingent finance (credit lines): pre-arranged loans which can be drawn-down rapidly after pre-identified shocks (e.g., World Bank IDA CAT-DDOs to all IDA-eligible countries meeting criteria).	Fast, encourages forward-planning, cheap, can incentivise risk-reduction pro-activity.	Conditional, adds to debt-burden (possibly prohibitively for some countries), potential for less political scrutiny (if normal processes are bypassed in a disaster)	**Mid risk layer: higher-magnitude events that occur less frequently** but with overwhelming impact e.g., widespread flooding or hurricane.
Parametric risk-transfer instruments: pre-agreed financing arrangements where a third party agrees to assume the costs associated with the occurrence of a certain event (e.g., insurance, such as the African Risk Capacity.	Cheap, fast, incentivises planning and fiscal discipline, transfers some risk, objective triggers.	Expensive for frequent shocks, vulnerable to political criticism, requires risk literacy / technical input.	**High-severity, low-frequency events:** e.g., severe droughts, hurricanes or earthquake.
Catastrophe bonds (cat bonds) that transfer catastrophe and natural disaster risks from a risk owner to global capital markets (e.g., USD225m cat bond to protect against earthquake and tropical cyclones in Philippines).	Can be cost-effective for catastrophic risk, transfers some risk, incentivises transparency, planning and fiscal discipline.	Can be expensive for frequent shocks, higher development / transaction costs, requires risk literacy / technical input, often focuses on money-in rather than targeting vulnerable.	**High-severity, low-frequency events** with otherwise overwhelming economic and human impacts.
Ex post			
Budget reallocations diverting existing government funds away from public services and ongoing projects and towards disaster response effort (1993 Cyclone Kina – Fiji launched a rehabilitation programme equivalent to 5.3 per cent of total expenditure).	Easy and quick to implement.	Re-directs funds from other projects, limited transparency, limited resources.	**Frequent stopgap** whilst accessing additional financing, but unsustainable long-term option for financing disasters.
Conventional humanitarian finance, provided by donors after the impact of a shock has been experienced.	Flexible, can respond to need and doesn't have to be repaid	Can be slow so the hazard impact increases, unreliable, and can undermine planning	**Used for different shock types**, but unsustainable long-term option for financing disasters
Post-disaster borrowing, financing additional expenditure through taking on additional debt (e.g., IMF's Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI), which provide rapid financial assistance to countries facing an urgent balance of payments need).	Last resort can be cost-effective.	Slow to arrange, adds to debt-burden, conditional, costly.	Unpredictable and infrequent disasters, regardless of scale.

Source: Longhurst et al. *(2021)*

3.1. *Ex post* risk-financing instruments

Budget reallocations involve reconfiguring state budgets, diverting existing funds away from public services and ongoing public projects towards disaster response efforts. This process differs across countries but is either done through virements – movements of budgetary resources between line ministries, programmes or line items which do not require parliamentary approval – or larger reallocations, which in most countries require a supplementary budget and legislative approval. Some donors have established their own financing procedures during disasters to enable reallocation of their funding within and across programmes, such as the World Bank's Contingency Emergency Response Component.

Post-disaster borrowing is an option open to governments beyond or in addition to appeals, which can take many forms. It includes access to crisis windows offered by development banks, government-issued bonds, or other commercial (or concessional) borrowing; examples include the World Bank's IDA Crisis Response Window, and the IMF's Rapid Credit Facility and Rapid Financing Instrument. Funds are supposed to be disbursed within six months on average; however, analysis from the Centre for Disaster Protection found the average time from crisis to first disbursement from IDA's Crisis Response Window (pre-Covid-19) was 398 days (Hill, Patel and Plichtal 2020).

As noted above, ODA is increasingly taking the form of loans as opposed to grants, including in FCAS, a pattern which continued during the Covid-19 pandemic, when loaning by international partners and fund reallocation within governments increased (as opposed to enabling access to new forms of finance). Increased loaning and fund reallocation not only raise questions over debt distress for the poorest countries, but also whether they increase countries' reliance on humanitarian appeals to address budgetary shortfalls and unforeseen events (Development Initiatives 2019; Hill *et al*. 2020)

In addition, governments and international partners issue humanitarian appeals. As noted above, in the past 15 years humanitarian finance has grown exponentially, mostly through appeals, though rates are slowing. The size of emergency appeals and the degree to which they are funded varies widely. Of the 36 UN appeals in 2019, the Syria Refugee Response and Resilience Plan requested US$5.4 billion, while the Iran appeal requested US$25 million (Development Initiatives 2020). Appeals can be funded bilaterally by governments or private donors, or through mechanisms such as pooled funds.

Most crises are now protracted and complex,[13] with the majority of humanitarian finance going to a small number of countries experiencing protracted crises. In 2018, the ten largest humanitarian aid-recipient countries were experiencing protracted crises, with most also experiencing an active conflict (Development Initiatives 2019, 2020; New Humanitarian 2021). Therefore, focus is turning to ways of making crisis finance more sustainable, predictable and timely, especially through risk finance.

3.2. *Ex ante* risk-financing instruments

Although the majority of humanitarian and crisis finance in FCAS is provided *ex post*, a greater focus is now being placed on the need to shift finance to *ex ante* approaches. While, in theory, *ex ante* risk-financing principles and instruments can be applied to different types of shocks, in practice a limited number of institutions offer *ex ante* risk-financing instruments applicable to contexts of conflict or forced displacement (though certain countries experiencing conflict and forced displacement have risk financing in place for climate- and weather-induced hazards). Nevertheless, a select number of examples of risk financing in FCAS are appearing. These are briefly summarised below.

[13] Protracted crisis countries are defined as countries with at least five consecutive years of UN-coordinated humanitarian or refugee response plans. The number of countries in protracted crisis more than doubled from 13 in 2005 to 31 in 2019 (Development Initiatives 2020).

Triggered contingent finance (grants) – triggered grant finance, similar to parametric insurance, works to overcome delays inherent in *ex post* humanitarian funding, with funding released in advance of a shock to incentivise anticipatory action activities[14] based on a set of hard or soft triggers[15] and pre-agreed response plans. Examples include CERF's early funding support for warning signs of famine in 2017, releasing US$106 million to Nigeria, South Sudan and Somalia for early action activities;[16] and the International Federation of Red Cross and Red Crescent Societies Disaster Response Emergency Fund's country-level Early Action Protocols, 38 of which have been approved or are under development, including in FCAS such as Mali, Niger and Sudan.

Already in place for more frequent, low-severity weather- and climate-related shocks, with more experimentation large humanitarian funds could develop triggers for different types of shock. A wide array of actors are piloting and scaling such initiatives, some with strong links to social protection.[17] However, stubborn narratives around the various constraints on humanitarian action (e.g. humanitarian principles, aid politics, etc.) mean that in the bigger picture, broader simultaneous investment is required from development programmes to bear the burden of mainstreaming risk and preparing for crises (Levine *et al*. 2020). Development finance needs to become more risk aware; without this shift in mindset, needs will always outstrip resources.

Triggered contingent finance (loans or contingent credit) – this refers to pre-arranged loans that can be drawn down rapidly after pre-identified shocks (including but not limited to weather- and climate-related events), with the terms of the line of credit agreed beforehand to avoid lengthy negotiations and delays in the midst of a crisis. Both hard (e.g. the intensity of a hurricane) and soft triggers (e.g. the declaration of an emergency) can be used. Contingency credit lines have typically been offered by IFIs and can also be offered by commercial lenders. An example is the World Bank's CAT-DDOs, which are offered to countries if they meet the basic eligibility criteria.[18] Countries can borrow up to a limit of US$250 million or 0.5 per cent of GDP (whichever is lower); once triggered, funds can be received within 72 hours. However, such contingent credit options are very limited in FCAS. Across all current CAT-DDOs, only one country on the World Bank's 2021 list of FCAS (Tuvalu) has been approved for a CAT-DDO (for the effects of a climate-related disaster).[19]

Risk transfer solutions are pre-agreed financing arrangements where a third party agrees to assume the costs associated with the occurrence of a certain event (e.g. an insurance company agrees to disburse a pre-agreed sum of money in the event of a pre-agreed occurrence – such as a drought – set against premium payments). Other examples of risk transfer solutions include catastrophe bonds and other financial derivatives (e.g. index-based livestock insurance).

African Risk Capacity (ARC), a sovereign risk pool owned by African Union member states, offers insurance cover for drought to member states (including FCAS such as Niger and Mali). To be eligible, the purchasing member state must be able to pay the premium and present a contingency plan showing how a potential payout would reach the most vulnerable populations affected by the shock. Many member states have included scaling up safety nets in their contingency plans; however, evidence as to whether triggered funding has been channelled through social safety net programmes is lacking (Fava *et al*. 2020; Longhurst *et al*. 2021).

[14] Anticipatory action includes interrelated investments in preparedness; surveillance; early warning, early action; and forecast-based action (Levine *et al.* 2020).
[15] Hard triggers are based on objective data and criteria, whereas soft triggers are those which leave an element of discretion to individual people or processes to decide whether or not to launch a response.
[16] CERF is also piloting this approach in five countries: Somalia, Chad, Ethiopia and Malawi (for drought); and Bangladesh (for flooding) (CERF 2019, 2020).
[17] See, for example, the range of initiatives in forecast-based action alone – one part of wider anticipatory action – in Wilkinson *et al*. (2018).
[18] The basic eligibility criteria for a CAT-DDO are: (a) the existence of an adequate macroeconomic policy; and (b) the preparation, or existence, of a satisfactory disaster risk management programme that addresses natural disasters.
[19] Determined through a search of current IDA projects including the term 'CAT DDO'; see [Projects](#).

Risk transfer solutions, compared to other financing options, only tend to become cost-effective for less frequent, more severe risks, such as catastrophic droughts, floods or storms. They also rely on strong government systems to manage and deliver funds. Some weaknesses may rule out certain mechanisms or necessitate public financial management (PFM) reform as a prerequisite. Any identified weaknesses during 'normal' times will be accentuated during a crisis. For example, Niger and Senegal both received insurance payouts from ARC in 2014/15 following a drought. However, there were significant delays in implementation as funds were retained by the national treasuries, with an inability to transfer the funds to the responsible government departments in a timely manner (ARC 2017).

Among risk transfer solutions, **parametric insurance instruments** are now being tested to finance anticipatory action to support preparedness for shocks, an area central to the mandate of humanitarian actors. Likewise, risk-pooling instruments, such as ARC, also offer humanitarian agencies the opportunity to 'replicate' their coverage to reach additional households, enabling humanitarian actors to access market risk capital to cover costs related to humanitarian action in specific countries (Hobson 2020).[20] However, discussions around linking this to existing social protection systems and programmes, and the role of humanitarian actors and financing mechanisms in this picture, in many cases remain unclear but suggest a potentially useful line of inquiry. Likewise, while risk finance hinges on contingency planning, this does not necessarily mean all actors are following the same contingency plans, complicating efforts to coordinate action on the ground.

The Covid-19 crisis has demonstrated again that arranging pre-existing risk financing for shocks enables a swifter and more effective response. But it has also shown that those types of mechanisms are not prevalent in FCAS, and they are not easily translated or adapted to other types of shock.[21] For instance, contingent budget lines and protocols set up for one type of shock attached to one programme (most commonly climate- and weather-related events), are not easily applied or adapted to another (such as a pandemic), or hit other programmatic and political hurdles. This has been demonstrated in Sierra Leone, Ethiopia, Uganda and Kenya, where issues have included the need to re-draft protocols, lengthy negotiations with donors, overly complicated bureaucratic approval within governments and challenges in targeting (Beazley *et al*. 2021). It is possible that experiences of the Covid-19 pandemic will lead to recognition that establishing risk financing with very narrow parameters is unhelpful and that a more flexible approach is needed.

3.3. Other financial instruments

Humanitarian impact bonds

These are at the more innovative end of the financing scale. Trialled by the International Committee of the Red Cross (ICRC), their aim is to encourage social investment from the private sector in fragile contexts; in this case, ICRC's health programmes in Mali, Nigeria and the Democratic Republic of Congo. The total value of the project is 44 million Swiss francs, with 18 million Swiss francs as an initial loan and 26 million Swiss francs in 'outcome funding' (Ecorys 2019). An initial payment by 'social investors' – New Re, part of Munich Re Group, and others identified by co-sponsor Bank Lombard Odier – has enabled ICRC to build and run activities at three physical rehabilitation centres for people managing disabilities.

At the end of the project, 'outcome investors' – the governments of Belgium, Switzerland, Italy, the UK and La Caixa Foundation – will pay based on results achieved, independently assessed against an efficiency ratio, determined by the number of people who receive mobility devices per physical rehabilitation professional, compared to existing centres. The funds from the outcome investors are used to pay back the social investors partially, in full or with an additional return, depending on how well ICRC performs in terms of the efficiency of the new centres (ICRC 2017). The humanitarian impact bond is noteworthy for attempting to engage new private sector financing in FCAS, through a model that is outcome and investor focused. However, it was evaluated to have been complex to design and expensive to implement, which has also affected staff morale. The evaluation highlighted that opportunities for streamlining costs and complexity were possible, but limited (Ecorys 2019).

[20] WFP and the START Network have supported Mali, Mauritania and Senegal to replicate their coverage in 2018 (Save the Children US 2018; WFP 2018).

[21] The language used in the financing literature is 'polyvalent'.

Remittances

Development Initiatives (2020) estimates that for countries in protracted crisis, while total (development and humanitarian) ODA makes up, on average, 28 per cent of the support an individual can hope to receive from external sources, remittances make up 37 per cent. In Yemen, for example, over 11 per cent of the population received remittances before the conflict (Ghorpade and Ammar 2021). Both the World Bank and OECD find that in many FCAS, particularly middle-income ones, remittances have outpaced aid as a major source of development funding; whereas in non-fragile LMICs, foreign direct investment constitutes a larger share (Ovadiya *et al*. 2015). It is also important to note that remittances may have only a very modest impact on poverty and can increase inequality (Sundar 2019).

With the spread of Covid-19, remittances are likely to remain a very important source of financial support for households, especially among those whose other sources of income may have dried up. However, external factors such as changes in foreign labour admission policies and Covid-19-induced economic contractions may put remittances under strain. Widespread economic hardship within FCAS could further curtail the ability of other kinds of informal transfers – *zakat*, domestic remittances and charitable donations – to extend support to poor and vulnerable households.

These trends would suggest that remittances could nevertheless play an important role in giving recipients access to social protection. Kenya and Rwanda are currently running diaspora pension funds, with other possibilities including risk pools for health insurance, funded in part or whole through remittance payments, which can be sold to members of the diaspora, who can pay insurance premiums for family members living in their country of origin (UNDP 2016). This could play a potentially instrumental role in reducing the cost of access to health care, as access to health insurance is more effective than direct remittance transfers to cover health expenditures. Given the various constraints around risk financing in FCAS mentioned above, leveraging remittance flows to gain access to social protection has potential and has been underexplored. However, robust analysis of the extent to which remittances reach the poorest households will be important to ensure any programmes supporting remittances are progressive.

Zakat

Zakat is a rules-based system of obligatory (religious or legal) charity, mandated by Islamic law to redistribute wealth to specific categories of eligible recipients (poor, needy or debt-ridden people). Muslims around the world who possess wealth over a particular threshold are obliged to donate 2.5 per cent of one year's cumulative wealth to the poor and disadvantaged. The size of the *zakat* pool is significant, estimated to be between US$200 billion and US$1 trillion each year (Johoora 2021).

Research has found that between 23 per cent and 57 per cent of *zakat* collected is used for humanitarian assistance, making it a significant source of humanitarian finance in many places (Stirk 2016). In 2013, faith-based organisations received and delivered between US$420 million and US$434 million (15–16%) of all international humanitarian assistance channelled through NGOs (*ibid*.). As a quasi-voluntary contribution, *zakat* management practices vary across the world. In some countries (Saudi Arabia, Pakistan and Sudan), it is obliged by state law, while in many others (including Indonesia, Iran, Kuwait and Bangladesh) the state administers voluntary *zakat* funds. Many Muslims also contribute *zakat* to NGOs or donate directly to the needy in their own communities.

Coordinating international crisis finance so it works as a complement to *zakat*, has been on the agenda since at least 2016, when the High Level Report on Humanitarian Financing (commissioned by the UN secretary-general) was issued ahead of the World Humanitarian Summit (WHS 2016). However, there are several logistical and ideological questions to address if its potential is to be realised. Common issues with *zakat* include lack of traceability and trust (often due to a lack of transparency around sources of funds and management of large sources of funds), uncoordinated distribution, and complexities around tax treatment depending on how people donate (Johoora 2021). For humanitarian response, further questions include how *zakat* should be collected and channelled for humanitarian assistance; how and to what extent this should be formalised; and how to reconcile conflicting interpretations about who is eligible to receive *zakat* with humanitarian principles (Stirk 2016).

4. What are we learning about financing in FCAS?

The above system reflects the tension at the heart of humanitarian finance. Originally, it was designed to act as a provider of last resort where the state was complicit or lacked capacity to respond; subsequently, it has become the 'provider of first resort' in many protracted crises where others lack the risk appetite to engage. While the focus of commitments in global forums has shifted towards finding sustainable, multisector, government-led solutions for humanitarian crises, trends in humanitarian finance demonstrate those commitments are not being met.

The Covid-19 crisis has shown there has been real progress in terms of the volume and speed with which funds can be mobilised for a covariate shock; for example, the World Bank managed to transfer half its funding for measures to address Covid-19 within 100 days (Hill *et al*. 2020). Yet the majority of funds were channelled to multilateral agencies, of which 92 per cent went to the same UN agencies – in this case the 'big three': WFP, UNICEF and UNHCR plus the World Health Organization (*ibid*.). Less than 5 per cent of total international humanitarian assistance for Covid-19 has gone to national public sector institutions (Development Initiatives 2020), and almost none of it was available in advance of the crisis. In the first six months of the crisis response by IFIs, only 2 per cent of funding had been pre-arranged (*ibid*.).

It is therefore clear that the Covid-19 crisis has reaffirmed some of the fundamental structural weaknesses of humanitarian and wider crisis finance. This includes in-built preferences among certain donors to favour certain first-level recipients and a sector-by-sector or cluster response (noting that neither social protection nor cash transfers are recognised sectors); and lack of longer-term, risk-aware investment in countries in protracted crisis that absorb the majority of humanitarian finance.

These challenges are not new to the humanitarian reform agenda, which has had key financing themes at its core since 2005:[22] linking resources to needs-based programming; providing more predictable, adequate, flexible and multiyear funding; improving coordination and leadership; and decentralising financing down to crisis or country level. Each reform process since then could partly be seen as responding to the shortcomings of previous efforts (Macrae and Harmer 2003; ODI and CGD 2015; Konyndyk 2018). One central weakness in these rounds of reform has been, as Konyndyk (2018: 1) puts it, the push for 'better-coordinated fragmentation, while ignoring the upstream business model that finances and shapes incentives for humanitarian response'.

With this in mind, below are some key learnings proposed to take forward the discussion on financing in FCAS.

- **Humanitarian finance reform (funding quality)** – this is specific to the technicalities of humanitarian finance reform. It applies to a range of measures that enable humanitarian funding to be more timely, efficient, effective, transparent, appropriate and needs based. While the Grand Bargain set out specific targets for quality funding, they are hard to track and report on, partly as they are voluntary and definitions are loosely interpreted (Development Initiatives 2019). The problem is further amplified the further down the chain you go (i.e. funding becomes more tied and time bound from first- to second- to third-level recipients). Tracking data on these subsequent transactions is even harder to disaggregate at both organisational and system-wide levels.[23] Lack of appropriate humanitarian finance hampers the ability of the humanitarian community to work effectively, as well as to engage in wider discussions around programming 'across the nexus' (Cherrier *et al*. 2019). Improving funding quality is therefore at the heart of humanitarian reform, and crucial to improving provision of shock-responsive forms of basic assistance in crisis contexts.

[22] This started in 2005 with the Humanitarian Reform Agenda following responses to the Indian Ocean tsunami (2004) and the Darfur conflict (2003); the Transformative Agenda of 2011 following the response to flooding in Pakistan (2010) and an earthquake in Haiti (2010); and most recently, the Grand Bargain launched in 2016 (see The Grand Bargain official website).

[23] For example, in 2018 multiyear funding apparently accounted for 37 per cent of total humanitarian-related contributions, according to 11 donors reporting against their Grand Bargain commitments; yet second-level recipients such as local and national actors reported that only 2 per cent of contributions they received were multiyear (Development Initiatives 2019).

- **Understand the 'money out/money in' balance** – before discussing which innovative financial instruments may be able to support different ways of programming across the nexus in FCAS (the 'money in' dimension), a more fundamental issue is having the right understanding of context, actors and processes, as well as assessing downstream coordination and delivery architecture (e.g. targeting, payments, partners, monitoring and evaluation, etc.), the requisite capacity, presence and standards can deliver resources in an objective, timely and efficient manner to the right people (CDP 2020). Regardless of which instruments are used, if funds (irrespective of the source) are to be disbursed through government systems, it is important to take into consideration the strengths and weaknesses of domestic PFM systems. Some weaknesses may rule out certain mechanisms or necessitate PFM reform as a prerequisite, because any identified weaknesses during 'normal' times will be accentuated during a crisis. As noted in the example of parametric insurance above, lack of sufficient government systems can significantly delay the distribution of resources to beneficiaries, and diminish donor or private sector willingness to fund innovative financial instruments to address different 'layers' of risk.
- **Donor engagement is critical but fluctuates** – in several cases (e.g. Jordan, Lebanon, Yemen, Iraq, the Sahel), donors have been noted as crucial contributors in pushing forward the shock-responsive and nexus agendas in FCAS. In Jordan, for instance, donors such as the EU have been influential in convening actors and aligning different forms of finance to help scale national social protection systems for the Covid-19 response, and use this as leverage to also negotiate wider policy reforms and integrate shock-responsive thinking into the national social protection strategy.[24] However, this influence can naturally wax and wane based on changes in donor strategy or personnel. Working at the nexus of social protection, humanitarian assistance, and climate and disaster risk management has resulted in greater recognition that finance is imbued with politics and that risk-aware development cooperation is necessary. However, neither politics nor risk-aware development are automatically or seamlessly compatible with humanitarian imperatives, the 'leave no one behind' agenda or the Sustainable Development Goals. Furthermore, while Covid-19 has clearly demonstrated the added value of flexible funding, including through predictable and front-loaded donor contributions, there are powerful disincentives to this approach, with donors receiving less visibility and recognition for following good practice than those who retain and allocate funds after a disaster when need becomes more apparent (and serious) (Poole and Gressmann 2020).
- **Building the evidence base for crisis and risk finance in FCAS** – more evidence is needed on how to finance innovative approaches to managing risk in FCAS, and how to align financial instruments, sources and actors, which in contexts of insecurity are quite different. Key informant interviews for this paper noted that some of that research is underway. Evidence is scant on the efficiency and effectiveness of using national systems as opposed to humanitarian ones for crisis response. Nevertheless, moving from *ex post* to *ex ante* models, and from more subjective to more objective decision-making processes, is required to bring down the costs and time delays of traditional disaster response, and provide models that are better suited to addressing multidimensional risk. But such an approach also means shifting the loci of decision-making away from traditional networks and power brokers, with significant political economy implications. A new risk governance regime requires new or realigned capacities, and high levels of coordination and good will. It requires increased investments in preparedness, and a new way of looking at opportunity costs, which is not always compatible with politicians keen on immediate visibility and returns (Clarke and Dercon 2019; Poole and Gressmann 2020). There are key gaps in our collective understanding on how to best utilise existing and new financial and programming modalities to manage multidimensional risk effectively. Each of these issues deserves fuller attention, informed by on-the-ground stakeholder insights, and triangulated with donor, government and implementing partner experiences.
- **Improving understanding of and support for tackling capacity constraints for risk finance** – risk-financing mechanisms offer huge potential, but it is essential to address skills and affordability deficits. Risk finance in the development sector is relatively new, with technical expertise centred on private enterprises and IFIs. As a pre-requisite for improving risk ownership as part of more sustainable risk protection strategies, governments need more support to understand the large volume of financial products on the market and requirements for their establishment. That in turn means support to develop the capacity to collect, analyse and model data on risk, hazards and financial impacts to develop disaster risk-financing strategies. Too often, this expertise is not connected to those with programme implementation knowledge, another area that requires collaboration and dialogue. The affordability of

[24] Based on key informant interview notes for this paper.

certain instruments, such as risk transfer solutions, is still out of many countries' reach, which is preventing regional risk pooling mechanisms such as ARC from achieving scale (Hobson 2020; Longhurst *et al.* 2021).

- **Reframing accountability and shifting the view from 'beneficiaries' to 'clients'** – at present, accountability in development contexts is diffuse. Lines of accountability can be at one at the same time to the national government, donors, development agency executive boards, implementing entities themselves or – often not in a meaningful way – the people programmes are designed for or supposed to benefit. This means that recipients of aid themselves have little influence to hold the systems that support them to account, either as clients or as citizens. This forms the basis of a social contract and risk-financing mechanisms in industrialised economies. The term 'beneficiary' indicates this power asymmetry, implying a passive recipient of support. This in turn reflects the lack of accountability, leverage and influence that people in crisis contexts have in deciding how support provided to them is designed and delivered. While these questions are complex in FCAS, the introduction of new forms of crisis and risk finance bring with them added dimensions – science-based modelling, ex-ante agreements and new configurations of stakeholders – that present new challenges and opportunities for putting accountability into practice (Swithern 2021). At heart, changing the way crises are financed will require a shift in the understanding and engagement of the people being served, and a client-based orientation towards beneficiaries that has so far been absent from most discussions.
- **Beyond 'layering' risk, understand who 'owns' it** – The question of how risks can be layered and addressed through different financial instruments is, for now, a largely theoretical process in FCAS. Part of this revolves around who owns the risk in current financing models (i.e. who predicts, analyses, addresses and pays for it). Although many risk-financing instruments are currently off the table in FCAS, much can be done to more effectively address existing risks through improved risk analysis, more structured risk ownership, and more effective operational and financial planning, without attempting to transfer risk to third parties such as insurance or reinsurance companies, or capital markets. Equipping countries to tackle the 'known knowns' of regular risks could be done by incentivising investments in preparedness and improving delivery through routine programmes as a basis for shock-responsive approaches (Scott and Omtzigt 2021). This in turn reduces the size, and therefore cost, of transferring residual risks to markets later (Hobson 2020). This would make backstopping financial mechanisms such as IDA's Crisis Response Window a last resort to protect against 'unknown unknowns' (Clarke and Dercon 2019), and enable the humanitarian sector to focus on responding to crises that are less predictable and/or exceed the capacity of routine programmes to address them.

5. Reflections on and implications for BASIC Research

A series of possible research avenues are presented below.

- **Map the ecosystem of finance flows and partners in BASIC priority countries** – it is not possible to derive a granular picture of who finances what at country level through a review of global financial tracking databases from either international or domestic sources. Global databases that report on and track international finance to FCAS face challenges (see Annexe 1 for details); and domestic finance – for humanitarian assistance, social protection and climate adaptation, in particular – is harder to track and not reported in a comparable manner. Cross-cutting activities such as SRSP fall through the gaps as they are not labelled or trackable as such. As part of a wider financing and value-for-money research agenda, it could therefore be very helpful to do an ecosystem mapping exercise of the main sources of finance (both in terms of sectors and actors) for basic assistance in at least the four priority BASIC countries (Lebanon, Niger, Nigeria and Yemen). More work is needed to build a composite picture of financing in FCAS for activities that cross the spectrum of finance for humanitarian and social protection and climate, derived from data that is often only available at country level, to help understand how financing for basic assistance may be evolving; what the balance of support is between international and national sources; and to understand how different financial instruments could be employed.

- **Undertake research into expanding financial protection strategies beyond climate- and weather-induced covariate shocks to cover other complex risks** – while, in theory, risk-financing principles and instruments can be applied to different types of shocks, they have not yet been applied to contexts of conflict or forced displacement. More evidence is needed on how to finance SRSP in FCAS, and how to align financial instruments, sources and actors, which in contexts of insecurity can be quite different. Key informant interviews indicated that some of this research – such as how to improve risk financing for conflict – has begun; for example, the CDP is working with the International Rescue Committee. On the back of this, it would therefore be advantageous to undertake wider research into the composition of risk management architecture in FCAS, and what options exist – including but also going beyond risk financing – to improve the provision of basic and shock-responsive assistance to the most vulnerable. This could include asking: what contextual factors and political pre-requisites are required to advance crisis finance in FCAS; what other initiatives, beyond risk financing, exist to support SRSP (especially attempts to scale programmes linked to objective contingency planning) and how have these been financed; and how can people-centred approaches be put at the heart of risk-financing design and delivery?
- **Building the capacity of country-based stakeholders to improve risk governance and finance** – more investment is needed to help country-based stakeholders scope out the full range of financial products on offer, their prerequisites and trade-offs; and how to integrate them into a longer-term vision for SRSP at organisational or national levels. More research is needed in this regard to understand the needs and capacity gaps in government and other specialised agencies around risk financing. More country case study materials could examine benefits, drawbacks and entry points for financing SRSP. Too many case studies have served as promotional materials for specific financial instruments. More detail is needed as to why specific financial instruments, in isolation or in combination, succeed or fail. Likewise international organisations need to pay closer attention to building the capacity of governments to receive and absorb risk finance, as well as deliver it to affected people in a timely manner. Where this concerns displaced populations (either IDPs or refugees), additional attention will be needed around the data collection and management when aligning with government programmes that have a social safety net or adaptive / shock responsive social protection objective. Case studies could be coupled with a series of dialogue sessions between policymakers and practitioners to enable open and frank exchange on what works and what does not.
- **Understanding the role of IFIs in FCAS** – the role of IFIs has grown significantly in FCAS through risk-financing instruments and also displacement financing (i.e. IDA sub-windows for refugees). This has also been reflected in the types of finance being offered to FCAS, with a noticeable swing towards loan over grant finance. The levels of finance introduced by the likes of the World Bank have substantially shifted discussions on durable solutions for refugees in certain countries. However, working in FCAS is relatively new terrain for IFIs, whose approach is both conducive to change and also potentially problematic. Factors include working with governments as principal partners but requiring additional expertise, guidance and partnerships when working in conflict settings or with displaced or refugees. Further research, building on pre-existing research and advocacy (e.g. Clarke and Dercon 2019; Charles *et al.* 2019) could review the role and influence of IFIs in FCAS, the layering of their finance with other sources to help extend the services of the state to different demographic groups, and the additional programmatic design factors required (socio-economic analysis, partner coordination, data management, economic inclusion and social cohesion interventions, exit and transition planning) to do this efficiently and sustainably.
- **Reviewing the role of climate finance in supporting regular and shock-responsive programming in FCAS** – climate finance has huge potential to support social protection and other livelihood programmes, but currently metrics on the amount of support are unclear, and multilateral climate finance providers are divided over the idea of supporting social protection at all (see Box 2.1 above). Aligning with the climate thematic pillar under BASIC Research, more research could be undertaken to give an up-to-date view on the degree to which climate finance is already supporting social protection and other resilience-based approaches; progress (or lack thereof) on loss and damage discussions; and some of the pertinent debates around future climate finance for shock-responsive approaches in FCAS. The research could take the form of a series of discussions with those working on climate finance, including on the boards of multilateral climate funds.

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Annexes

Annexe 1: Key definitions

There are no universally understood definitions for the main concepts used in this paper, so our working definitions are provided below.

Crisis financing

Funding and financing that promote and specifically target prevention, preparedness and response to crises. It can take the form of: (1) cash flows to recipients (e.g. grants) that can be arranged in advance or agreed in real time; or (2) cash flows to and from recipients via a financial intermediary (e.g. loan or insurance payments) (Poole *et al*. 2020).

Financing

Financing is the provision of funding for activities, in this case activities that enable the design and delivery of social assistance programmes. Sources of financing for social assistance are multiple: domestic revenues of governments; aid from international development, humanitarian and finance organisations; NGOs; community contributions; and, in the case of social insurance, private companies and individuals themselves. As Barrientos (2007) notes, financing is a complex problem, and the challenge is 'to set in place an effective and sustainable financing mix for social protection institutions and policies'. He suggests that the issues involved are as much to do with economics as with politics. Although his work is not focused on situations of fragility, conflict and other crises, Barrientos flags up that the background is one of rapid social and economic transformation.

Fragile and conflict-affected situations

This paper uses the World Bank's recent categorisation of 'fragile and conflict-affected situations (FCAS)' for LMICs that has evolved out of its Country Policy and Institutional Assessment,[25] published every year in the *Harmonized List of Fragile Situations* (ILO 2016). The World Bank's methodology differentiates between countries based on the nature and severity of issues they face, using the following categories (World Bank 2020a):[26]

- Countries affected by violent conflict, identified based on a threshold number of conflict-related deaths relative to the population. This category includes two subcategories: countries in high- or medium-intensity conflict.
- Countries with high levels of institutional and social fragility, identified based on measuring the quality of policy and institutions and manifestations of fragility.

It is important to note that the World Bank list distinguishes between countries in high- and medium-intensity conflict, and those with high institutional and social fragility. Countries sometimes have combinations of these factors, as they often intersect. There is a distinct set of countries where fragile institutions are the predominant issue, but which are not touched by conflict (e.g. The Gambia, Eritrea and Lao People's Democratic Republic), and others that have stronger state capacity (either with or without issues of conflict) (e.g. Iraq, Myanmar, Kosovo and Venezuela).

[25] The Country Policy and Institutional Assessment ranks countries according to a set of 16 criteria grouped in four clusters (economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions).

[26] It is worth noting that since 2015 the OECD has moved away from binary lists towards a multidimensional concept of fragility to try to capture the different dimensions of fragility that are in constant flux, with significant regional, national and sub-national variations. The OECD's *States of Fragility Report* disaggregates eight composite characteristics of fragility: population, geography, youth, poverty, food insecurity, climate and environment, forced displacement, and violence and armed conflict (OECD 2020).

Humanitarian financing

Humanitarian financing ‘refers to the financial resources for humanitarian action spent outside the donor country… based on what donors and organisations report as such and does not include other types of financing to address the causes and impacts of crises… referred to as crisis-related financing’ (Development Initiatives 2020: 81).

Risk

While there is no universal definition of risk, it is commonly understood as the potential for suffering or loss (including loss of life) that could occur in a specific time period, determined probabilistically as a function of hazard, exposure, vulnerability and capacity (CDP 2020b).

Shock

The word ‘hazard’ in DRM terminology tends to focus on climate- and weather-related events. The word ‘shock’ is used in this paper as a wider term that denotes a wide array of events (e.g. natural, economic, epidemiological, conflict-based, etc.) that households, governments, and humanitarian and social protection systems aim to address (TRANSFORM 2020). It can be seen as the realisation of risk that can lead to losses or negative outcomes. Shocks can affect the individual or household (idiosyncratic), or a large number of people simultaneously (covariate).

Table A1: List of fragile and conflict-affected situations (1 July 2020–30 June 2021)

High-intensity conflict	Medium-intensity conflict	High institutional and social fragility	
		Non-small states	**Small states**
Afghanistan	Burkina Faso	Burundi	Comoros
Libya	Cameroon	Congo, Rep.	Kiribati
Somalia	Central African Republic	Eritrea	Marshall Islands
Syrian Arab Republic	Chad	Gambia, The	Micronesia, Fed. Sts
	Congo, Dem. Rep.	Guinea-Bissau	Solomon Islands
	Iraq	Haiti	Timor-Leste
	Mali	Kosovo	Tuvalu
	Mozambique	Lao PDR	
	Myanmar	Lebanon	
	Niger	Liberia	
	Nigeria	Papua New Guinea	
	South Sudan	Sudan	
	Yemen, Rep.	Venezuela, RB	
		West Bank and Gaza (territory)	
		Zimbabwe	

Source: World Bank (2020a)

Humanitarian financing

This paper follows the definition of humanitarian financing set out by Development Initiatives (2020: 81), which:

> refers to the financial resources for humanitarian action spent outside the donor country... based on what donors and organisations report as such and does not include other types of financing to address the causes and impacts of crises… referred to as crisis-related financing.

Shock-responsive social protection

SRSP looks at the linkages between the social protection and disaster risk management sectors (including humanitarian assistance). It 'focuses on the adaptation of social protection programmes and systems to address large scale shocks, and/or connecting more coherently with other sectors to do so' (O'Brien *et al.* 2018: 7). In other words, it aims to strengthen social protection systems as well as their linkages with disaster risk management and other relevant sectors, to jointly improve the coverage, comprehensiveness and adequacy of support provided to the most vulnerable before, during and after a shock occurs; and to pre-empt the needs imposed by potential future shocks (TRANSFORM 2020).

In this paper, the different attempts at linking humanitarian assistance and social protection are taken broadly as being part of the definition of SRSP, including contexts ranging from non-existent through to highly advanced social protection systems; and all the different ways humanitarian actors design their activities to improve delivery, coordination, and future social protection systems development and alignment.

Social protection and/or social security

The ILO and others use the two terms 'social protection' and 'social security' interchangeably to encompass a set of policies and programmes aimed at preventing or protecting all people against poverty, vulnerability and social exclusion throughout their lifecycles, with a particular emphasis on vulnerable groups (SPIAC-B 2019). Social protection is commonly described as comprising three interconnected pillars: social assistance (most frequently equated with a cash, food or asset transfer); social insurance; and labour market programmes. Social services are increasingly accepted as a further element (Sabates-Wheeler and Slater 2021).

Social assistance

Social assistance is a pillar of social protection, comprising transfers to households or individuals that are non-contributory, direct and regular (mostly monthly). They tend to be provided by governments, NGOs, UN agencies or financial services providers, and are usually funded through taxation or donors (Roelen, Longhurst and Sabates-Wheeler 2018). Other terms include 'social transfers' or 'social safety nets'. Social assistance comprises four elements: social transfers (e.g. cash, vouchers or in kind); public works programmes (a wage transfer in return for labour); fee waivers (e.g. for education or health services); and subsidies (e.g. those implemented by the state targeted at and focused on supporting the poorest households to meet their basic consumption needs).

According to BASIC Research, social assistance in crises encompasses humanitarian assistance. Humanitarian assistance uses the same modalities (cash, vouchers and in kind), but can have different and often narrower objectives, usually framed around saving lives and alleviating suffering. It is also guided by core humanitarian principles of neutrality, independence and impartiality, which can mean it substitutes for states where they are unable to support their citizens, particularly in conflicts (Sabates-Wheeler and Slater 2021).

Disaster risk financing

The Centre for Disaster Protection defines disaster risk financing as an approach covering 'the system of budgetary and financial mechanisms to credibly pay for a specific risk, arranged before a potential shock. This can include paying to prevent and reduce disaster risk, as well as preparing for and responding to disasters' (CDP 2020b).

While this definition of disaster risk financing is broad, in practice it can tend to more narrowly focus on a specific range of processes and financial instruments to anticipate, respond to and recover from (often climate- and weather-related) shocks (Dercon and Clarke 2016; World Bank 2020b).

Disaster risk financing is one necessary component of SRSP financing but not the only one. Financing SRSP is about integrating the disaster risk-financing approach into a wider system and approach to financing that also focuses on longer-term efforts to reduce residual risk and anticipate future shocks (Longhurst *et al.* 2021).

Annexe 2: Regular social protection funding sources

Ortiz *et al.* (2017) offer eight options for expanding fiscal space for social protection financing:

- **Re-allocating public expenditures** – including assessing ongoing budget allocations through public expenditure reviews and other types of thematic budget analyses; replacing high-cost, low-impact investments with those that have larger socioeconomic impacts; eliminating spending inefficiencies; and/or tackling corruption.
- **Increasing tax revenue** – this is the main channel achieved by altering different types of tax rates (e.g. on consumption, corporate profits, financial activities, personal income, property, imports or exports, natural resource extraction, etc.), or by strengthening the efficiency of tax collection methods and overall compliance.
- **Expanding social security coverage and contributory revenues** – in existing social security systems, increasing coverage and therefore collection of contributions is a reliable way of financing social protection, freeing up fiscal space for other social expenditures; social protection benefits linked to employment-based contributions also encourage formalisation of the informal economy.
- **Eliminating illicit financial flows** – given the vast amount of resources that illegally escape developing countries each year, estimated at ten times total aid received, policymakers should crack down on money laundering, bribery, tax evasion, trade mispricing and other financial crimes, which are illegal and deprive governments of revenues needed for social and economic development.
- **Using fiscal and central bank foreign exchange reserves** – this includes drawing down fiscal savings and other state revenues stored in special funds, such as sovereign wealth funds, and/or using excess foreign exchange reserves in central banks for domestic and regional development.
- **Borrowing or restructuring existing debt** – this involves actively exploring domestic and foreign borrowing options at low cost, including concessional borrowing, following a careful assessment of debt sustainability. For countries under high debt distress, restructuring existing debt may be possible and justifiable if the legitimacy of the debt is questionable and/or the opportunity cost in terms of worsening deprivations of vulnerable groups is high.
- **Adopting a more accommodating macroeconomic framework** – this entails allowing for higher budget deficit paths and higher levels of inflation without jeopardising macroeconomic stability.

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