THE STATE OF PRE-ARRANGED FINANCING FOR DISASTERS

CENTRE FOR DISASTER PROTECTION

UKaid
from the British people

2024

Authors: Michèle Plichta and Lydia Poole

About the Centre

The Centre for Disaster Protection works to prevent disasters devastating lives, by helping people, countries and organisations change how they plan and pay for disasters.

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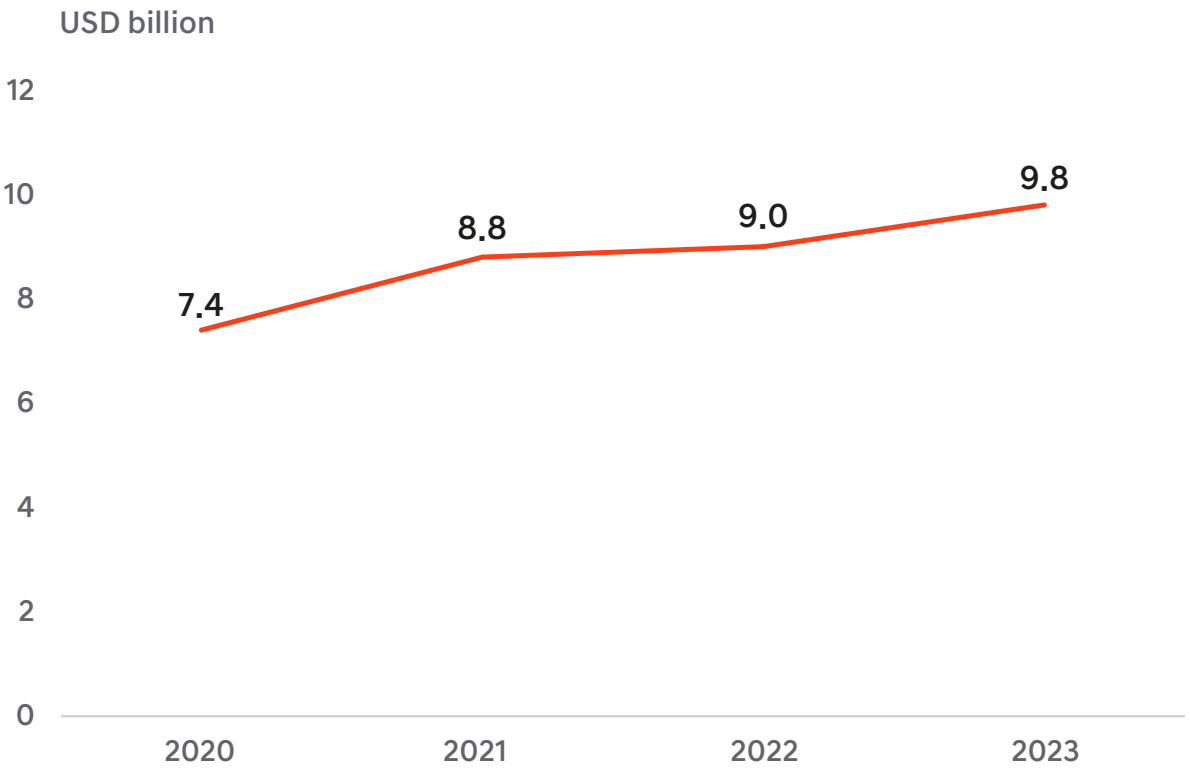
EXECUTIVE SUMMARY

This report takes stock of the current state of pre-arranged financing (PAF) for disasters supported by international development financing, in low- and middle-income countries. The report compiles the latest available data on coverage and payouts provided by these instruments, and on trends and patterns in international development financing for PAF. The report also presents analysis on notable advances in the PAF toolkit, and on the wider policy and operating environment. Key findings are discussed below.

Coverage of PAF instruments supported by international development financing has grown for the third consecutive year. Data reported to the Global Shield Secretariat[1] indicates that financial protection against disasters has continued to grow year on year, to a peak of USD9.8 billion in coverage in 2023. The number of people protected was also reported to have grown in 2023, increasing by 27% from 183 million in 2022 to 232 million in 2023 (Global Shield Secretariat 2024a). The largest volumes of coverage overall were provided by contingent disaster loans and grants, which accounted for USD6.7 billion in coverage in 2023, 68.3% of the total reported. Sovereign risk transfer instruments – including insurance policies provided by regional risk pools, and catastrophe bonds – provided a further USD2.8 billion in coverage, 28.6% of the total reported.

Figure 1: Total pre-arranged financing coverage (2020–23)



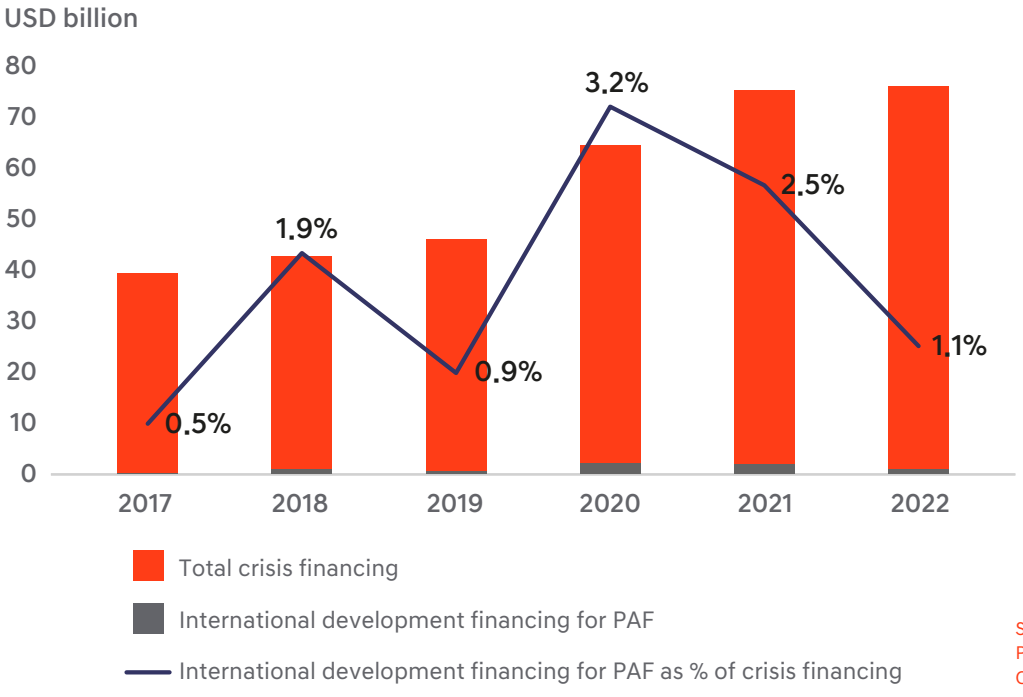
Source: Centre for Disaster Protection, based on data from the Global Shield Secretariat (2024b)

1 See: https://www.globalshield.org/about/governing-bodies-global-shield-structures/secretariat/

Coverage remains concentrated in middle-income countries; however, coverage in 2023 grew in lower-middle-income and low-income countries (LMICs and LICs). Coverage in 2023 continued to be concentrated in wealthier regions, with 16.6% in high-income and 47.4% in upper-middle-income countries (UMICs). Just 3.2% of coverage was in low-income countries. One notable change is a significant increase in coverage in lower-middle-income countries, which accounted for 32.5% of reported coverage in 2023, up from 21.6% in 2022. Absolute volumes of coverage in lower-middle-income countries grew by USD1.3 billion, from USD1.9 billion in 2022 to USD3.2 billion in 2023. While overall coverage remains low in low-income countries, it has nonetheless more than tripled, from USD91.8 million in 2022 to USD308.9 million in 2023, driven largely by increased coverage provided by the African Risk Capacity risk pool (Global Shield Secretariat 2024a).

International development financing for PAF for disasters fell in 2022, reducing in absolute volume terms from USD1.9 billion in 2021, to USD852 million in 2022, just 1.1% of total crisis financing. However, this does not necessarily reflect a downward trend. Rather, the fluctuating levels of international development financing for PAF are due in large part to the event-linked nature of PAF itself. International development financing for PAF is overwhelmingly provided in the form of contingent disaster loans and grants from multilateral development banks (MDBs), which tend to disburse relatively large volumes of funds in response to major shocks. Large volumes of these loans and grants were triggered in 2020 and 2021 in response to major disasters, including the covid-19 crisis. Fewer large shocks triggered contingent disaster loan and grant payouts in 2022. Coverage provided by these instruments also fell in 2022. Yet, a number of governments successfully renewed contingent disaster loan and grant agreements that had been exhausted in 2021 and 2022, and coverage grew overall in 2023.

Figure 2: International development financing for pre-arranged financing as a proportion of total crisis financing (2017–2022)

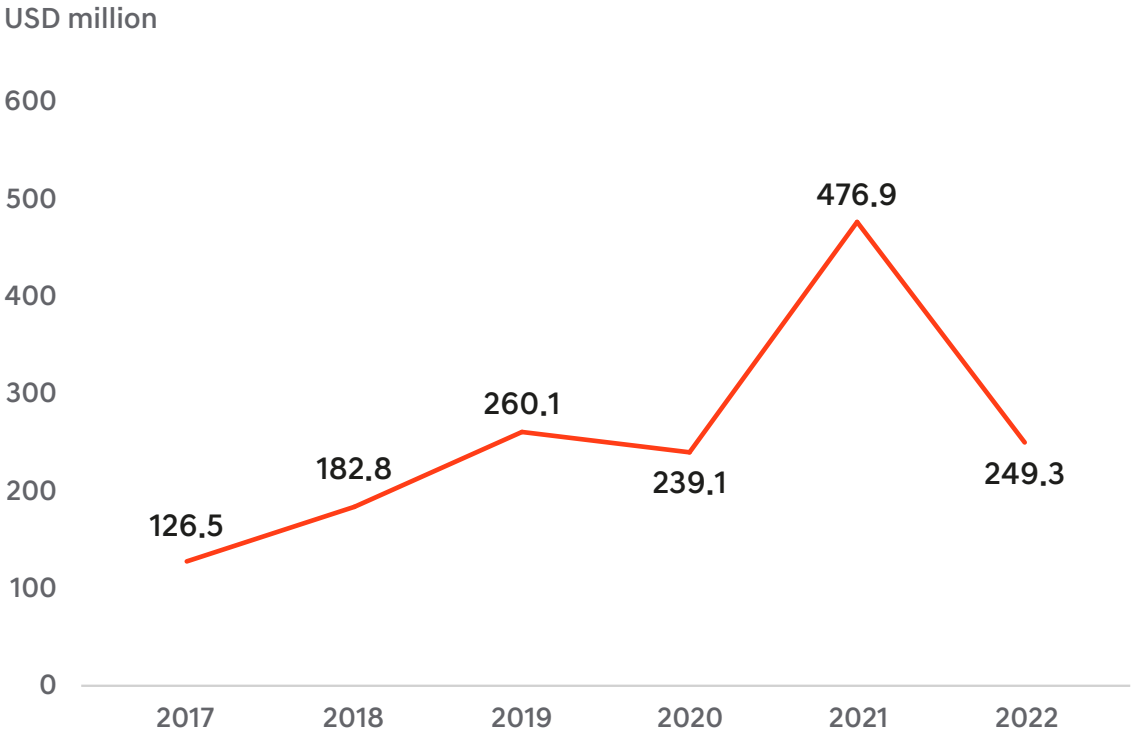


Source: Centre for Disaster Protection, based on data from OECD (2024a)

If contingent disaster loans and grants are omitted from the data, a mixed picture with no clear trend is observed. A peak in international development financing for PAF occurred in 2021, unrelated to specific crisis events.[2] Levels of international development financing for PAF excluding contingent disaster loans and grants dropped back to 2020 levels in 2022, and below the five-year average.

Indications from reporting from the leading five donors of international development financing for PAF[3] to the International Aid Transparency Initiative (IATI), which collects data in near real time, are that a modest increase in PAF (including contingent disaster loan and grant payouts) is expected in the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) data in 2023, primarily driven by increases from the World Bank.

Figure 3: International development financing for pre-arranged financing excluding contingent disaster loan and grant payouts (2017–2022)



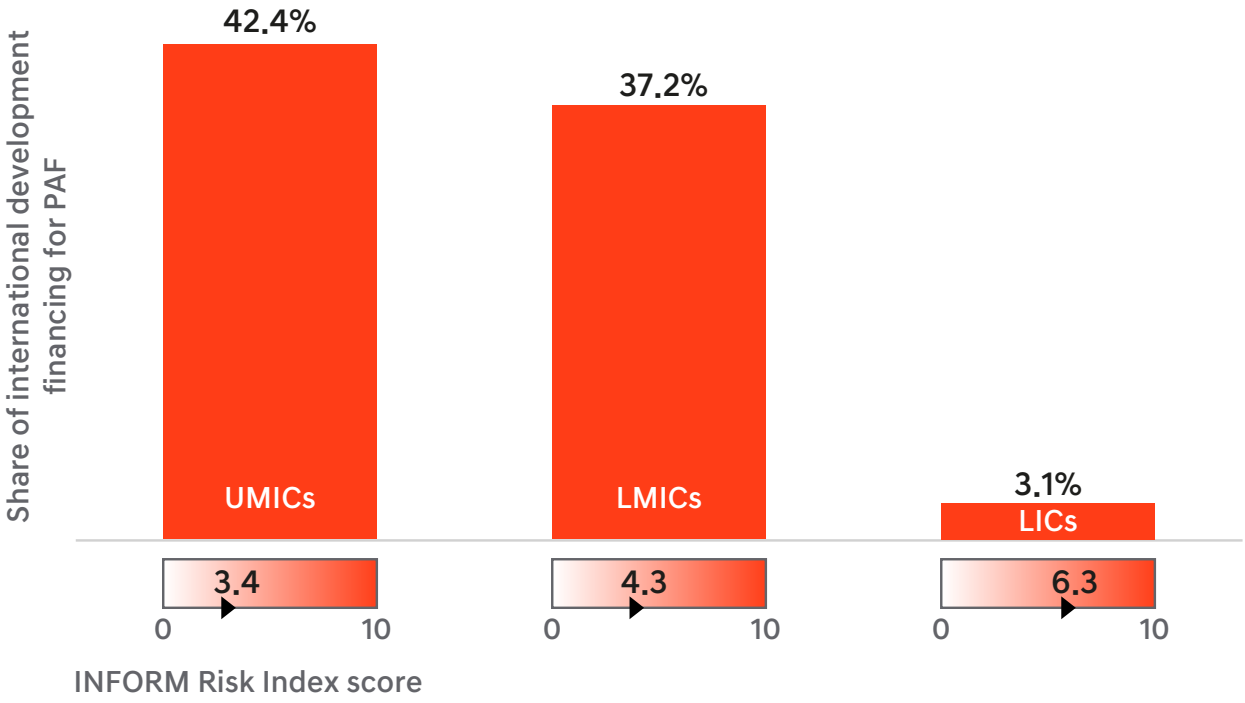
Source: Centre for Disaster Protection, based on data from OECD (2024a)

2 The peak in 2021 was driven in part by a non-contingent loan from the International Bank for Reconstruction and Development (IBRD) to the Government of Indonesia worth USD135.8 million, and increased support and contributions to global funds including the World Bank Global Risk Financing Facility (GRiF) (now the Global Shield Financing Facility), the InsuResilience Solutions Fund (now the Global Shield Solutions Platform) and the Global Index Insurance Facility.

3 The leading five donors – the World Bank, German Federal Ministry for Economic Cooperation and Development (BMZ), UK Foreign, Commonwealth & Development Office (FCDO), Inter-American Development Bank (IDB) and Asian Development Bank (ADB) – in 2022 provided equivalent to 85% of total recorded pre-arranged financing (PAF) reported to the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) Creditor Reporting System (CRS).

International development financing for PAF continues to be concentrated in middle-income countries, with just 3.1% (USD183.8 million) reaching low-income countries between 2018 and 2022. Meanwhile, upper-middle-income countries have received at least 42.4% of this financing (USD2.5 billion) and lower-middle-income countries 37.2% (USD2.2 billion). This distribution runs counter to the distribution of risk and vulnerability, captured in the INFORM Risk Index, which is substantially higher in low-income countries (see Figure 4).

Figure 4: Distribution of international development financing for pre-arranged financing, by income group and INFORM Risk Index scores (2018–2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a), World Bank Group (2024c) and INFORM (2024a)

There have been notable improvements in the PAF toolkit. Climate resilient debt clauses (CRDCs), which have rapidly gained prominence and high-level political and policy support over the past two years, central to agendas such as the influential Bridgetown Initiative,[4] have begun to enter the product offerings of MDBs. The European Bank for Reconstruction and Development, Inter-American Development Bank (IDB) and World Bank have all introduced CRDC terms, with countries taking up the CRDCs from IDB and the World Bank.

As part of the 20th replenishment of the International Development Association (IDA20), the World Bank put forward a series of modifications of its existing suite of crisis financing instruments. These included improved incentives for Catastrophe Deferred Drawdown

4 First launched in 2022, the Bridgetown Initiative called for emergency liquidity, expanding multilateral lending to governments and raising reconstruction grants. The initiative was adopted by the UN Secretary-General as Bridgetown 2.0 and streamlined into development finance reforms, such as the UN Secretary-General's Sustainable Development Goal (SDG) Stimulus.

Options (Cat DDOs); the introduction of the Investment Project Financing with Deferred Drawdown Option (IPF DDO) as a new instrument; and the commitment to a more systematic approach to using contingent emergency response components (CERCs). In the most recent developments in the World Bank's Crisis Preparedness and Response Toolkit,[5] the IPF DDO offer has been formalised, potentially allowing more countries to put in place contingent financing. The possibility to top up existing Cat DDOs through a Rapid Response Option with undisbursed funds from IDA or International Bank for Reconstruction and Development (IBRD) country allocations (up to 10%) was also introduced, as well as the new 'Investment Policy Financing Contingent Emergency Projects' (IPF CERPs). It is not yet clear how countries will respond to these new instruments, but the impact of earlier changes to Cat DDOs and CERCs can now be observed.

Since their introduction in 2018, 27 Cat DDOs have been approved in IDA countries. This number currently exceeds the number of Cat DDOs in IBRD countries (23 in total). In terms of total coverage, however, the amount committed over the years is significantly higher in IBRD countries (USD5.4 billion) compared with IDA countries (USD0.9 billion). Only four Cat DDOs have been approved in low-income countries, including Madagascar in 2019 (USD50 million), the Gambia in 2023 (USD20 million), and two successive Cat DDOs in Malawi in 2019 (USD30 million) and 2023 (USD57 million). The inclusion of CERCs in World Bank projects has steadily increased over time, reaching a peak of 146 in 2022. CERCs played a significant role in the World Bank's response to covid-19 and are now considered one of its key tools for providing rapid crisis financing.

Calls for meaningful reform of the international financial architecture have created a historic opportunity to shift the default in favour of PAF. Recent calls to radically overhaul international financial institutions have been led by low- and middle-income countries and country groupings to a large extent, including through the Group of Twenty (G20),[6] the Bridgetown Initiative and the Vulnerable Twenty Group of Ministers of Finance of the Climate Vulnerable Forum (V20) Accra-Marrakech Agenda,[7] as well as climate finance processes. The potential for major shocks, notably climate shocks, to derail development progress is prominent in these policy agendas. Notably, the Bridgetown Initiative (3.0), led by Barbados, calls for the need to 'shock-proof' economies, while the V20 Ministerial Dialogue XII (April 2024) calls for a set of measures designed to create a 'Shock-Absorbent Financial System for Social Protection, Financial Protection and Loss and Damage'. Protecting economies and people against shocks is an established priority across global policy reform agendas.

And yet, progress has fallen short of the transformation needed to shock-proof economies and to reform the international financial architecture to be more crisis-responsive. Established approaches to development and multilateral cooperation are struggling to adapt at pace to meet the challenges of an increasingly

5 See: https://www.worldbank.org/en/about/unit/brief/crisis-preparedness-and-response-toolkit

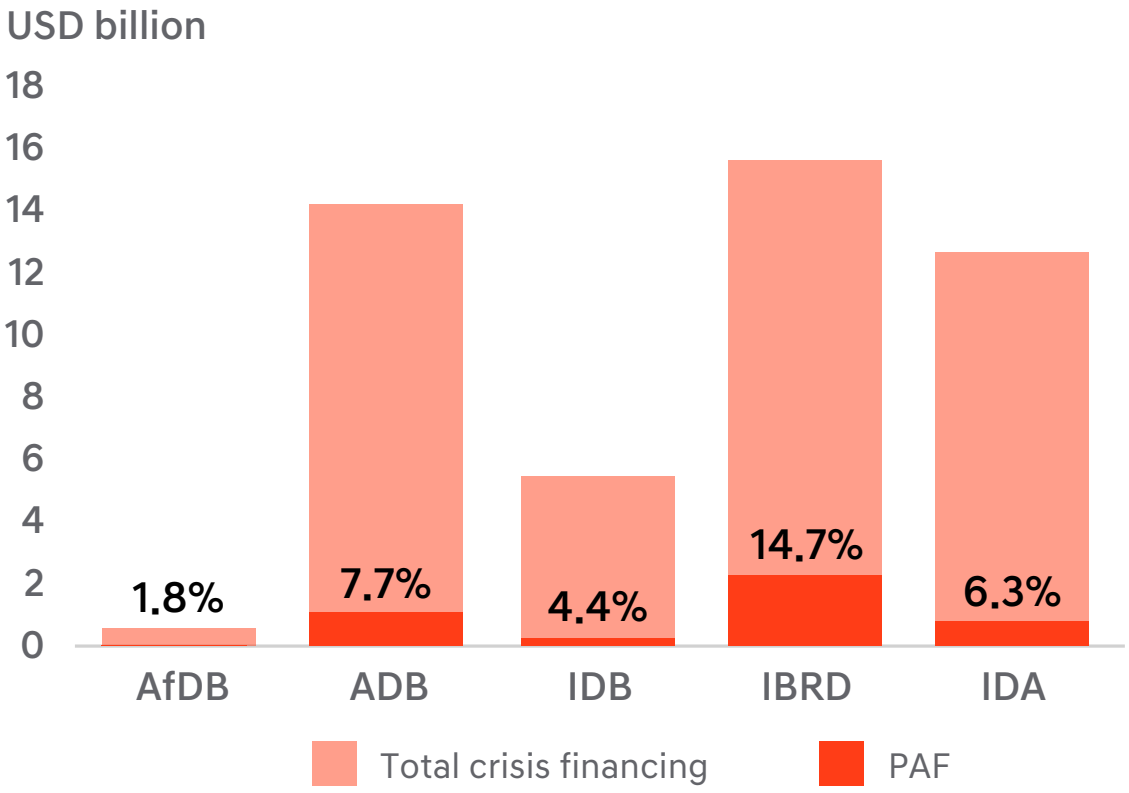
6 Under India's Presidency of the Group of Twenty (G20), an Independent Expert Group was convened to make recommendations on reforming the multilateral development banks (MDBs), which recommended: (1) adopting a triple mandate of eliminating extreme poverty, boosting shared prosperity and contributing to global public goods; (2) tripling sustainable lending levels by 2030; and (3) creating a third funding mechanism that would permit flexible and innovative arrangements for purposefully engaging with investors willing to support elements of the MDB agenda. Brazil's G20 presidency aimed to launch a G20 Roadmap to evolve MDBs in October 2024.

7 The Vulnerable Twenty Group of Ministers of Finance of the Climate Vulnerable Forum (V20) Accra-Marrakech Agenda, adopted in October 2023, also calls on making debt work for the climate, transforming the development finance system to be climate resilient and revolutionising climate risk management: https://www.v-20.org/accra-marrakech-agenda/

multipolar world where major shocks and intersecting 'polycrises' are part of the new reality. International development financing is increasingly called on to respond to shocks, reducing funds available to address root causes of risk and vulnerability and advance development gains.

Crisis response funds remain channelled overwhelmingly through legacy instruments and approaches, which primarily provide financing after shocks occur. The MDBs in particular have become leading providers of crisis financing, including the leading providers of PAF for disasters. The proportion of crisis financing provided as PAF varies substantially by institution (Figure 5). Overall however, the majority of crisis financing provided by the MDBs is mobilised after shocks occur.

Figure 5: Total crisis financing and international development financing for pre-arranged financing, by multilateral development bank (2018–2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a)

Note: AfDB = African Development Bank. Amounts by the Caribbean Development Bank are not shown in the figure, but total crisis financing for this MDB is USD0.5 million and international development financing for PAF is USD0.2 million, or 43.4% of total crisis financing.

The attractiveness and affordability of PAF remains a barrier to uptake and achieving coverage and protection at scale in the most vulnerable places. Affordability remains a major challenge for many countries, with public debt levels and liquidity pressures continuing to rise in 2023. This comes on top of the rising costs of reinsurance and risk transfer to capital markets observed in recent years. International development financing is increasingly being used to bring down the costs of PAF, with widespread use of premium support and more attractive terms for contingent disaster loans from the IDA as well as CRDCs, for example. Approaches to premium support remain somewhat unpredictable and less than reliable. And demand for PAF tools and instruments remains low in many of the places where they are required.

In this second report taking stock of developments in PAF, there are signs of progress, but a far higher level of ambition and urgency are now called for. Coverage has increased, including notably in low- and lower-middle-income countries. There have been further innovations and adaptations in the toolkit, as well as growing willingness to subsidise insurance and increase the attractiveness of the terms of contingent disaster loans. PAF remains far from the default mode of financing disasters, however; and, overall, coverage is low, particularly in low-income countries. International development financing for PAF, when contingent disaster loan and grant payouts are excluded, has fallen back to pre-covid-19 levels. Affordability and attractiveness of PAF tools remain a major challenge, with many countries facing large debt burdens and extremely difficult budgetary prioritisation decisions. And designing an effective PAF architecture requires development partners to understand and adapt to the political and technical constraints that affect a country's ability to build and maintain its fiscal resilience to disasters.

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Data sources

This research relies on a range of data and information sources. Where mentioned, the source data has been adapted for the purposes of this report's analyses. Readers should refer to the original sources of the publicly available data for the unmodified versions.

See Annex 2 for a full overview of the data sources as referenced throughout the report.

INTRODUCTION

The Centre for Disaster Protection (hereafter 'the Centre') exists to address major challenges to effective disaster risk financing (DRF) and promote more impactful and equitable DRF at scale. DRF remains a small and niche component of international crisis financing. Meanwhile, exposure to risk continues to grow at an alarming rate. Pre-arranged financing (PAF) is a particular category of financing within the wider set of actions and financing tools that make up DRF. Its unique characteristics include securing funding in advance of shocks that will be triggered or disbursed when pre-agreed conditions are met (see chapter 1 for a full description and definition). PAF provides a guarantee that when these pre-agreed conditions are met, funding will arrive. It can provide incentives for governments and international organisations to plan and prepare so assistance reaches those who need it most. It can help governments, businesses and communities avoid having to make costly ad hoc responses when disasters strike.

This report's primary purpose is to provide a trusted baseline and trend monitoring tool to enable more evidence-based reflection on and discussion of trends, levels and patterns of international development financing support for PAF. This will enable readers to assess and monitor if international development financing is targeting the right types of investment and reaching the places where it is needed most. The report also attempts to marshal available data on PAF coverage and identifies critical gaps in reporting. It situates this assessment of the state of PAF in low- and middle-income countries in wider global risk, policy, political and economic contexts, and highlights notable trends and innovations in instruments and approaches.

Sources of data and information on PAF are limited. The Centre has developed a unique methodology to identify financing for PAF within international aid statistics – notably the Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC)'s Creditor Reporting System (CRS) data and International Aid Transparency Initiative (IATI)[8] data. The report also relies on data collected from the members of partner organisations, notably the Global Shield Secretariat and Anticipation Hub, as well as data from a range of publicly available sources (listed in Annex 2).

The secondary purpose of the report is to advocate for and work with partner organisations to improve data quality and coverage over time. The report, and the datasets and methodologies it relies on, are all therefore a work in progress. The Centre welcomes critical feedback and collaboration to refine and expand the scope of data and how it is presented.

The report will be published annually, with the expectation that data will improve and analysis will be refined with each cycle. This is the second edition of this data-led report, which attempts to collate the best available data to assess and monitor annually the state of PAF for disasters in low- and middle-income countries. This 2024 report includes important additional data and improvements to the Centre's methodology to capture international development financing for PAF. This includes work by Development Initiatives to apply machine-learning methods to enhance the quantity of transactions identified, and the reliability of transactions identified as PAF and crisis financing. The Centre has also conducted

8 The International Aid Transparency Initiative (IATI) platform is widely used by donor governments, development finance institutions and UN agencies, NGOs, foundations and private sector organisations to report on development and humanitarian aid. More than 1,500 organisations have published their data on IATI.

extensive additional research to supplement data on coverage, and more detailed data on volumes paid out through key PAF instruments.

In addition to this report, the Centre is publishing a companion report, 'Demystifying Pre-Arranged Financing for Governments: A Stocktake of Financial Instruments from International Financial Institutions' (Mustapha and Benson, forthcoming). This stocktake goes beyond the size of the instruments and assesses the performance of the main sovereign-level PAF instruments from three multilateral development banks (MDBs) – the Asian Development Bank (ADB), Inter-American Development Bank (IDB) and World Bank – and four regional risk pools – African Risk Capacity (ARC), the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the Pacific Catastrophe Risk Insurance Company (PCRIC) and the Southeast Asia Disaster Risk Insurance Facility (SEADRIF) – against several criteria seen as critical for effective PAF, such as affordability, timeliness, predictability, financial efficiency, and contribution to building wider resilience and development impact.

1

DEFINING AND MEASURING PRE-ARRANGED FINANCING

1.1. What is pre-arranged financing and how is it measured?

The Centre uses a particular definition of PAF for disasters that may differ from others' uses of the term. In general terms, PAF includes financial arrangements established in advance for a variety of planned or expected purposes. In the Centre's definition, it concerns PAF for disasters and falls within the broader scope of DRF. DRF is financing for all disaster risk management activities; that is, for preventing and reducing disaster risk, and preparing for and responding to shocks. Across this range of activities, DRF instruments include a range of budgetary and financial mechanisms, which are agreed and established in advance of potential shocks.

PAF is a specific subset of DRF instruments and approaches that focus on ensuring funds are available to respond to shocks, and in some cases undertake specific preparedness actions. The unique distinguishing properties of PAF in the Centre's definition are that financing has not only been arranged in advance of a shock, but that funds will be released based on agreed trigger conditions.

These agreed triggers may be either 'hard' – that is, objectively verifiable data-based thresholds – or 'soft', including declarations of emergency. Soft triggers are at the discretion of the funding recipient, rather than the funding provider or a third party.

BOX 1.1: DEFINITIONS OF DISASTER RISK FINANCING AND PRE-ARRANGED FINANCING

Disaster risk financing covers 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.

Pre-arranged financing is financing that has been approved in advance of a crisis, and that is guaranteed to be released to a specific implementer when a specific, pre-identified trigger condition is met.

The trigger may be based on data or models related to impacts, forecasts or projections of need, or a declaration of emergency (or similar) by the specified respondent. The funding may be used for anticipatory action or in response to a crisis, either linked to a clear plan for a very specific purpose or general budget support.

Source: Centre for Disaster Protection (n.d.)

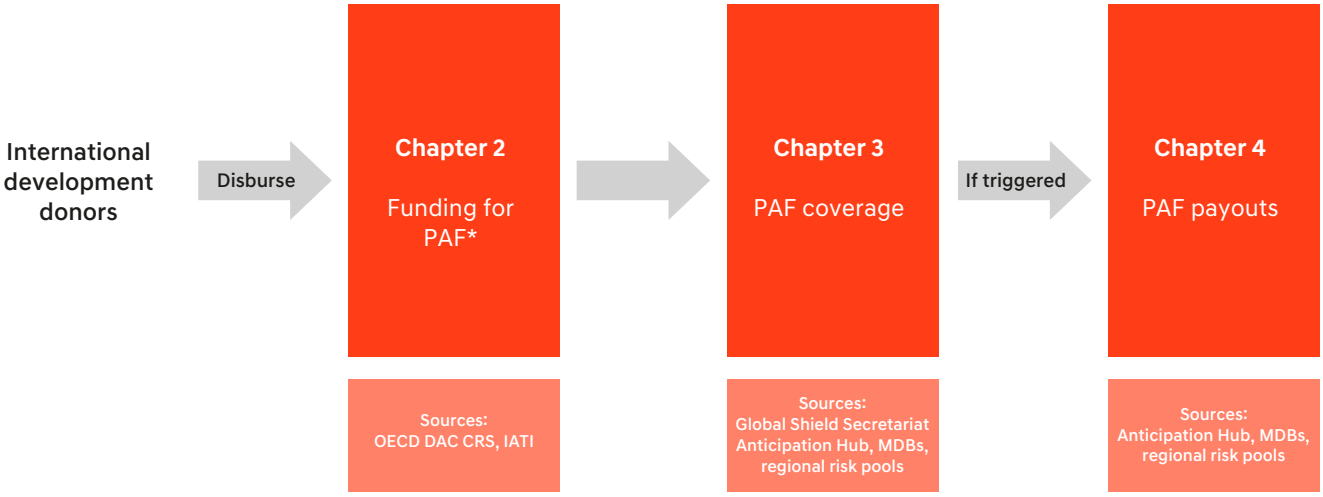
The focus of this report is PAF supported by international development financing. There are three funding 'moments' at which PAF can be measured: (1) the costs of putting in place PAF, including international development financing for PAF; (2) the financial protection or coverage this creates; and (3) the funds which are triggered or disbursed in the event of a shock (see Figure 1.1). There are major challenges with measuring each of these funding moments.

1. **Funding to put in place PAF** – Funding in low- and middle-income countries comes from the risk holder, typically governments, businesses and individuals, and – of particular relevance for this report – international development donors. Very little is known about how much risk holders are spending on PAF, and there is only partial information on how much international development donors are spending, based on their reporting on development financing spending to the OECD DAC CRS. Financial contributions from international development partners include funding that creates direct financial protection against risk, such as through providing contingent disaster loans and grants; and premium support contributions. However, it also covers investments in a broad scope of upstream activities that strengthen the enabling conditions for PAF. These include investments in early warning systems directly linked to PAF instruments; capitalisation of and technical support to the establishment and running of PAF instruments; and associated research, advocacy, training and learning.
2. **Coverage** – Financial protection or coverage against risk is measured as the maximum amount of funds that are available should shocks of an agreed magnitude occur. It includes, for example, the total value of contingent disaster loans and grants, the total coverage provided by an insurance policy or the total potential payout from a catastrophe bond (cat bond). Data is collated on maximum coverage levels of aid-supported PAF, through voluntary reporting to the Global Shield Secretariat and to the Anticipation Hub for anticipatory action. This year, the Centre's research has supplemented the data with information collected from publicly available

data and reporting, and sourced directly from a range of sovereign PAF providers, including MDBs and regional risk pools.

3. **Payouts** – The final category of interest relates to payouts made from PAF instruments when agreed conditions occur and release payment of funds (Hillier and Plichta 2021). There is no systematic collection of data on payouts at present. Illustrative information can be collected from a variety of sources, including disbursements of contingent disaster loans and grants from development partners reported to the OECD DAC CRS, and data collected manually direct from instrument providers where they publish this information publicly. This year, the Centre has included analysis on payouts from data collected from the Anticipation Hub, and from sovereign PAF providers, including MDBs and regional risk pools.

Figure 1.1: Funding moments of pre-arranged financing and use of data sources in this report



Source: Centre for Disaster Protection (n.d.)

*This data also includes funding for investments in enabling conditions for PAF, which does not translate into PAF coverage.

Note: The analysis in this report is based on the most recent (up to 5) years of available data for averages and aggregate amounts, and all available years of data when presenting trends over time.

2

INTERNATIONAL DEVELOPMENT FINANCING FOR PRE-ARRANGED FINANCING

SUMMARY

- International development financing for PAF fell in 2022, reducing in absolute volume terms from USD1.9 billion in 2021 to USD852 million in 2022, just 1.1% of total crisis financing.
- The fluctuating levels of international development financing for PAF are due in large part to the event-linked nature of PAF itself and the importance of sizeable contingent disaster loan and grant payouts, which means there is not necessarily an overall downward trend.
- Indications from reporting from the leading five donors of international development financing for PAF to IATI, which collects data in near real time, are that a modest increase is expected in 2023.
- International development financing for PAF continues to be concentrated in middle-income countries, with just 3.1% reaching low-income countries between 2018 and 2022.

International development financing provides a key tool to promote and incentivise uptake and effectiveness of PAF for disasters. It is also a means by which international actors can provide direct financial protection. However, PAF for disasters is not currently readily identified within international development financing statistics. The Centre has developed a methodology to assess how much official development assistance (ODA) and other aid-like flows qualify as PAF.

To understand international development financing for PAF in the broader context of crisis financing, the Centre also developed a method to assess how much international development financing is directed towards activities to prevent, prepare for and respond to crises. Definitions and methodologies for identifying funding for PAF and crisis financing are summarised in Box 2.1 and described in full in Annexes 1 and 3.

BOX 2.1: KEY TERMINOLOGY AND DEFINITIONS

The Centre's methodology relies on the OECD DAC CRS dataset, which captures transaction-level data on financing flows to developing countries from governments, multilateral organisations and some of the largest private philanthropic organisations.[9] These include several types of financing flows, notably ODA, private development finance and other official flows (OOFs). For the purposes of this report, this grouping of flows is referred to as **international development financing**.

ODA is often understood as 'aid'. The official definition is: 'Flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions which are: (1) provided by official agencies, including state and local governments, or by their executive agencies; and (2) each transaction of which: (2.1) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and (2.2) is concessional in character … Loans whose terms are not consistent with the IMF Debt Limits Policy and/or the World Bank's Non-Concessional Borrowing Policy are not reportable as ODA' (OECD n.d.).

OOFs are aid-like flows from official donors to developing countries that do not meet the strict definition of ODA, but contribute at least in part to development. The official definition is: 'Official sector transactions that do not meet official development assistance (ODA) criteria. OOFs include: grants to developing countries for representational or essentially commercial purposes; official bilateral transactions intended to promote development, but having a grant element of less than 25%; and, official bilateral transactions, whatever their grant element, that are primarily export-facilitating in purpose' (OECD 2024b).

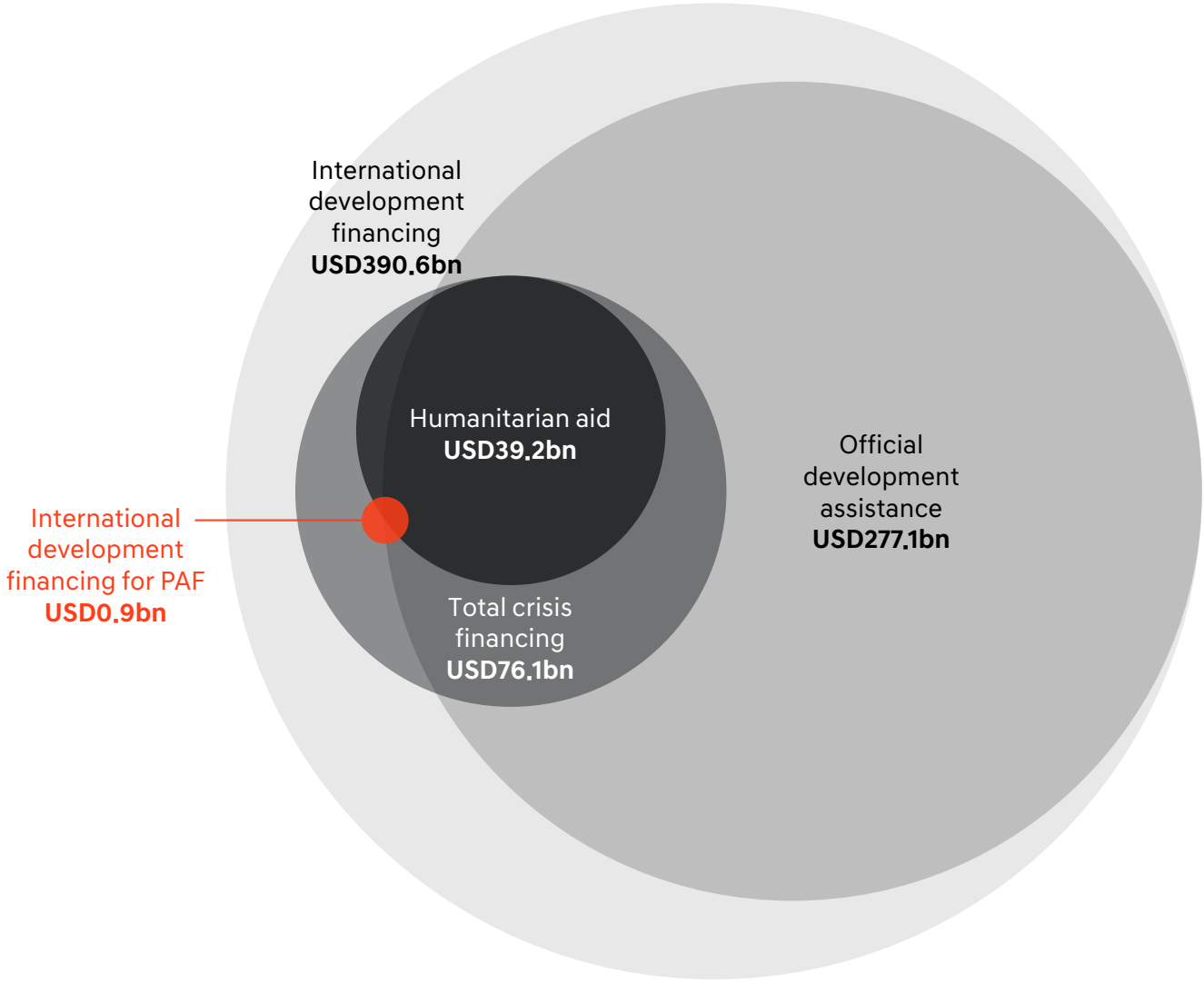
Total crisis financing is a subset of international development financing, which includes activities and flows to organisations whose primary purpose is to deliver prevention, preparedness and response to crises (Centre for Disaster Protection n.d.).

PAF is financing that has been approved in advance of a crisis, which is guaranteed to be released to a specific implementer when a specific pre-identified trigger condition is met (Centre for Disaster Protection n.d.).

9 Donors reporting their official development assistance (ODA) and other official flows (OOFs) include OECD DAC member countries, countries that are not members, and multilateral organisations, as well as several of the largest private philanthropic foundations working for development. A full list is available at: https://www.oecd.org/en/publications/development-co-operation-profiles_2dcf1367-en/full-report.html

2.1 How much international development financing for pre-arranged financing is there?

Figure 2.1: Situating international development financing for pre-arranged financing within aid and aid-like flows (2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a)

Note: To enable comparison, 'ODA' in this report refers to bilateral disbursements and outflows from multilaterals (classified in the CRS as 'ODA loans', 'ODA grants' and 'equity investment'), and not 'official' ODA, which includes bilateral ODA and contributions to multilateral institutions from OECD DAC members. Note that humanitarian aid reported to the OECD DAC CRS includes funds reported by Türkiye that are spent on in-donor country refugee hosting costs.

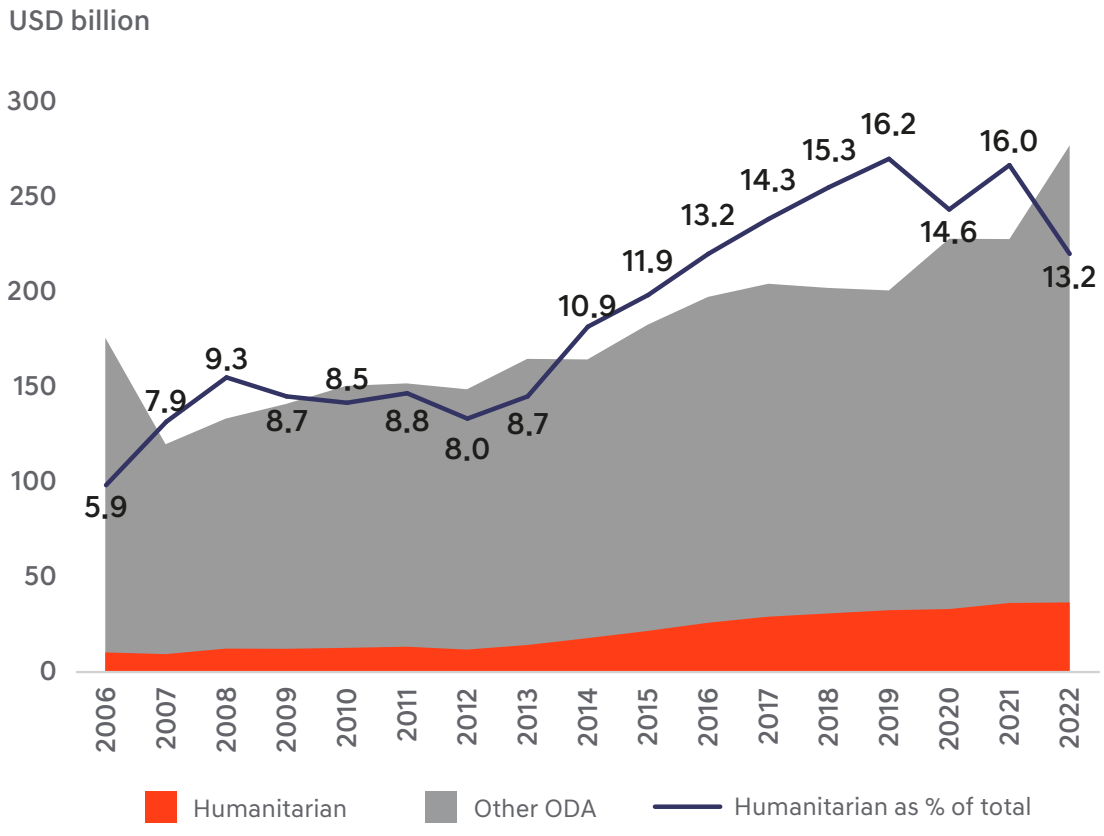
Total volumes of crisis financing have grown year on year, with sharp increases in 2020 and 2021 (40% and 17%, respectively), driven in part by responses to the covid-19 pandemic and linked economic crises. Growth in humanitarian aid, which makes up a large proportion of crisis financing, has also been driven by responses to major conflicts (see Box 2.2 for further analysis of the effects of crises on trends within international development financing).

BOX 2.2: THE SHIFT TOWARDS CRISIS RESPONSE IN INTERNATIONAL DEVELOPMENT FINANCING

Official development financing has grown steadily over the past 10 years, but beneath the headline figures, the news is far more mixed, with a growing proportion of ODA allocated towards addressing the impacts of crises.

The share of ODA spent on humanitarian aid was 8.2% on average between 2006 and 2012. Since 2012, humanitarian aid has grown annually in absolute volume and has also increased as a share of ODA, equivalent to 13.2% in 2022 (see Figure 2.2).

Figure 2.2: Humanitarian aid as a share of total gross ODA (2006–2022)



Source: OECD (2024a)

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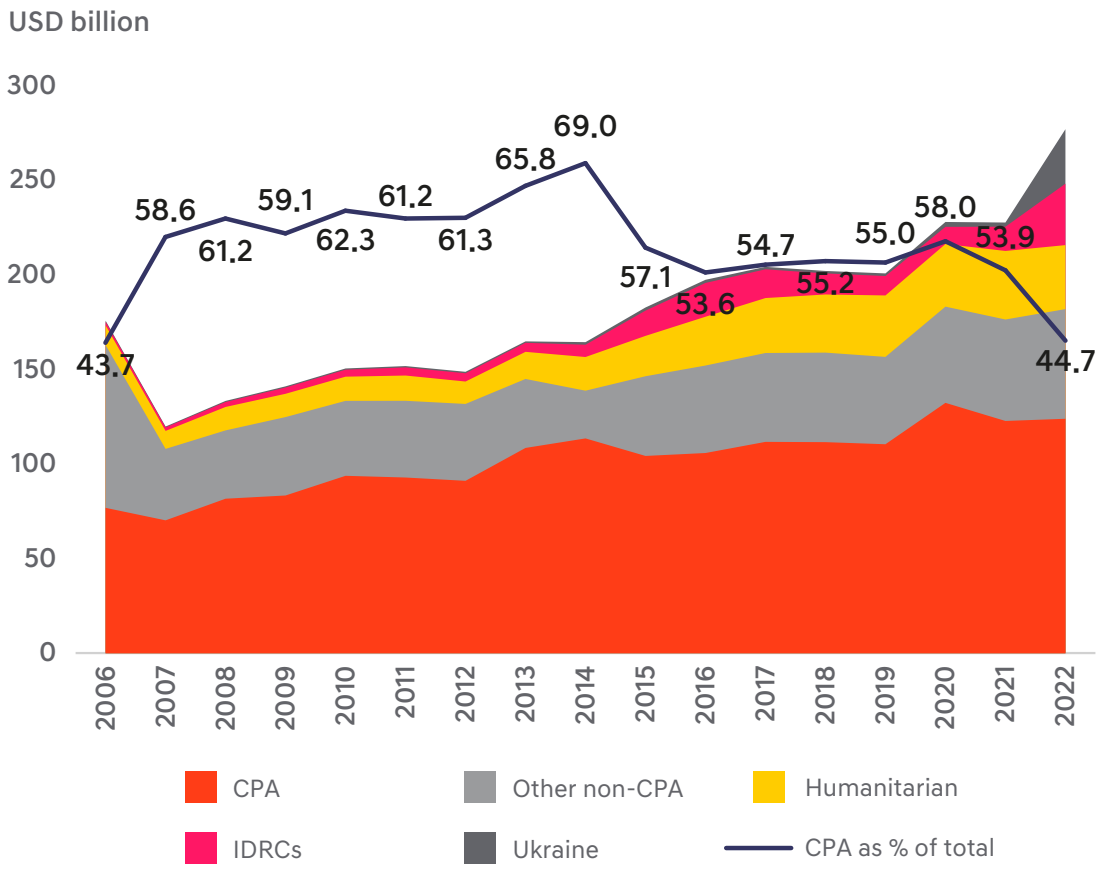
Growth in international development financing in recent years has also been driven in large part by responses to the war in Ukraine, and in-donor country refugee hosting costs (IDRCs) (see Figure 2.3). Both humanitarian aid and IDRCs fall outside the scope of the OECD's definition of country programmable aid (CPA);[10] that is, aid over which recipient countries have, or could have, significant influence. IDRCs most notably remain within the donor country. Together, therefore, these trends mean that a smaller proportion of ODA now comes in the form of CPA, which countries can direct towards their priorities, including addressing the root causes of poverty, risk and vulnerability. CPA, excluding aid to Ukraine, in 2022 fell to just 44.7% compared with an average of 57.1% across the 10-year period 2012–2021.

Figure 2.3: Country programmable and major categories of non-country programmable aid (2006–2022)



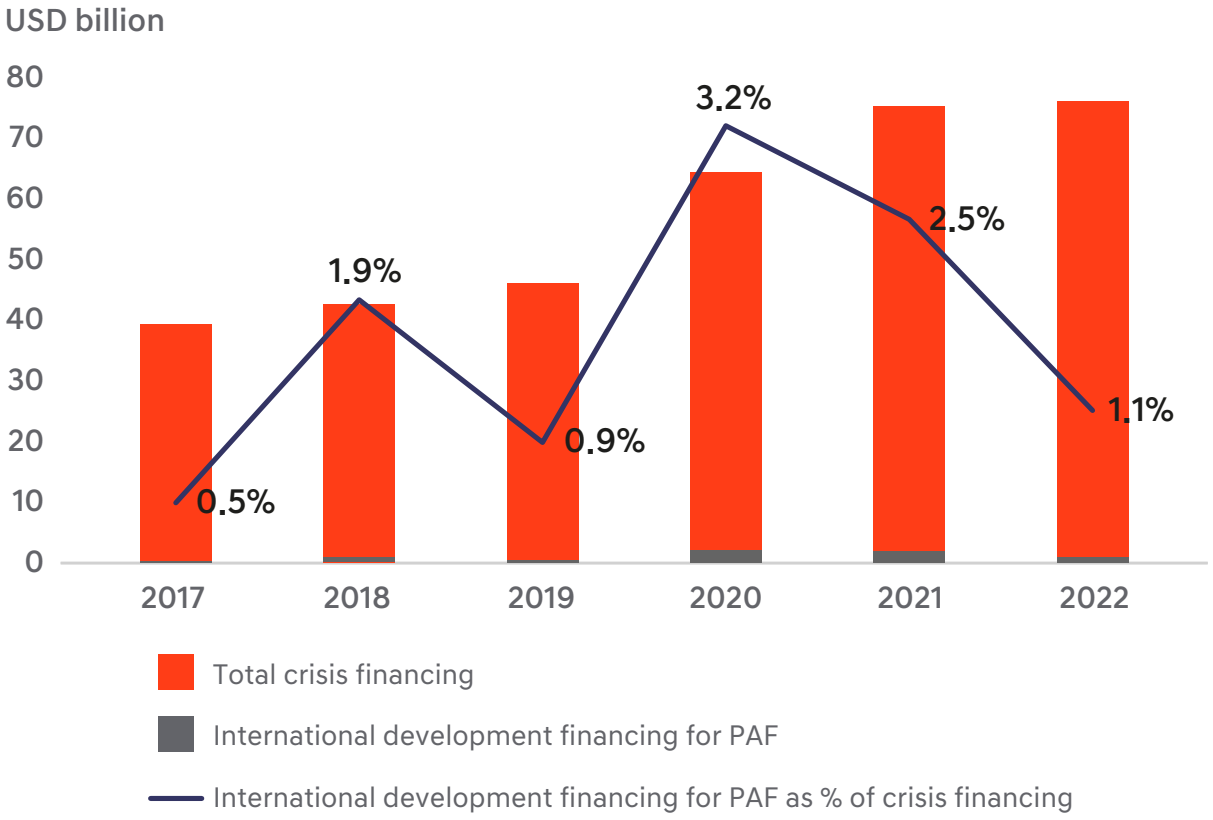
Source: OECD (2024a, 2024c)

Note: CPA to Ukraine is presented separately. CPA is taken directly from the OECD Data Explorer, as it is not currently calculable from the CRS data.

10 Country programmable aid (CPA) is the portion of aid that donors programme at country or regional level. It tracks the proportion of ODA over which recipient countries have, or could have, a significant say. CPA is closer to capturing actual aid flows to countries than the concept of ODA, and has been a good proxy for aid recorded at country level. For a full definition, see: https://www.oecd.org/en/data/indicators/country-programmable-aid-cpa.html

Crisis financing growth slowed to just 1.0% in 2022. International development financing for PAF, meanwhile, which largely comprises contingent disaster loan and grant payouts, fluctuates annually in response to that year's disasters (discussed in detail in section 2.2). Trend recognition is therefore difficult. A substantial increase in 2020 (a 403.9% increase on 2019) was followed by a reduction of 8.3% in 2021, before dropping off sharply in 2022. International development financing for PAF reduced in terms of absolute volume from USD1.9 billion in 2021 to USD852.2 million in 2022, just 1.1% of total crisis financing.

Figure 2.4: International development financing for pre-arranged financing as a proportion of total crisis financing (2017–2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a)

Based on the Centre's analysis of data reported to IATI from the leading five donors of international development financing for PAF, which collectively provided the equivalent of 85% of PAF reported to the OECD DAC CRS in 2022, PAF from this donor grouping increased in 2023. Data reported by these donors to IATI matches fairly closely with the amounts they reported to the CRS, so provides a good indication of trends in the most recent year (see chapter 6 for a more detailed comparison of CRS and IATI data). The World Bank, Germany's Federal Ministry for Economic Cooperation and Development (BMZ), IDB, the UK Foreign, Commonwealth & Development Office (FCDO) and ADB reported USD730 million in PAF to IATI in 2022, rising to USD876 million in 2023 (see Box 2.3). The increase was driven primarily by disbursements from the World Bank, with a small increase also from FCDO. ADB, BMZ and IDB, however, all saw their PAF fall in 2023 compared with their 2022 disbursements.

BOX 2.3: INDICATIONS OF OUTLOOK FOR INTERNATIONAL DEVELOPMENT FINANCING FOR PRE-ARRANGED FINANCING IN IATI DATA

In 2022, the top five selected donors in 2022 reported to the OECD DAC CRS a total of USD760 million in PAF. This was equivalent to 85% of total recorded PAF reported to the OECD DAC CRS in 2022. In the same year, the same top five selected donors reported USD730 million in PAF to IATI. In 2023, USD876 million in PAF was reported, the vast majority of which came from the World Bank.

As in the 2023 report, using data reported to IATI, the World Bank was the largest consistent provider of PAF. In 2022, it reported USD431 million in disbursements to IATI from the IBRD[11] and IDA;[12] 98% was classified as direct PAF (as opposed to investments in enabling conditions for PAF, or 'indirect' PAF). In 2023, this increased to USD705 million, with a slightly lower percentage (86%, USD603 million) classified as direct PAF.

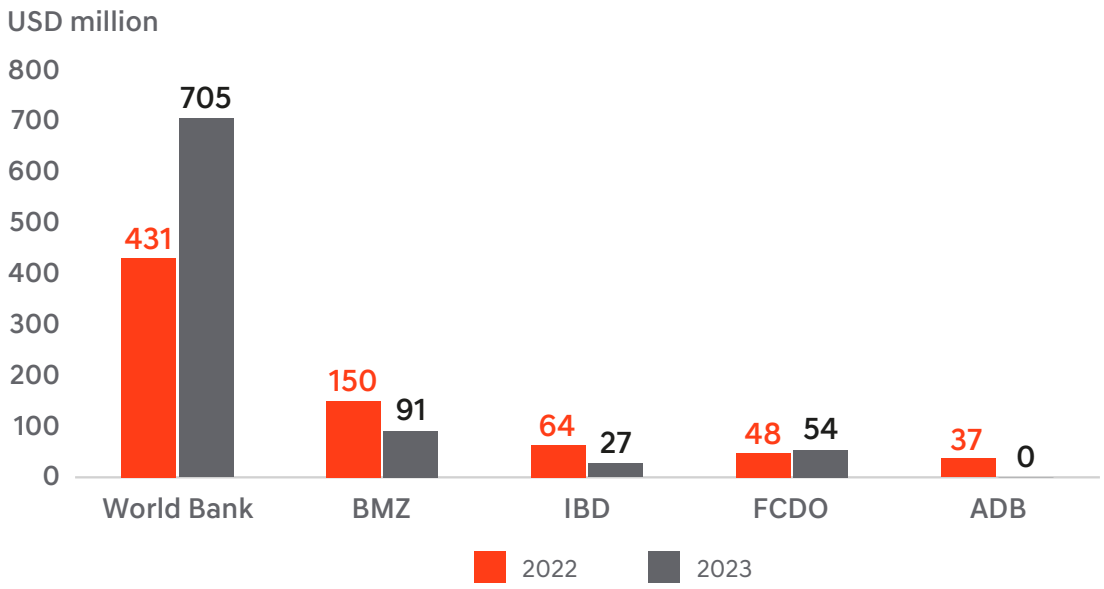
Despite large PAF disbursements in 2021, ADB reported to IATI no clearly identifiable PAF in 2023, with just USD37 million reported in 2022, all of which was direct PAF.

Box continues next page

11 IBRD is the part of the World Bank Group that provides loans, guarantees, risk management products and advisory services to middle-income and creditworthy low-income countries, as well as coordinating responses to regional and global challenges: https://www.worldbank.org/en/who-we-are/ibrd

12 The World Bank's International Development Association (IDA) helps low-income countries by providing financing in the form of grants and low-interest loans: https://ida.worldbank.org/en/what-is-ida

Figure 2.5: International development financing for pre-arranged financing reported to IATI (2022–23)



Source: IATI (2024a, 2024b)

Note: BMZ values are based on budgets due to issues with their reported disbursements. Values are converted to USD using a mid-year rate and not deflated. Due to the near real-time nature of these figures, they are preliminary and subject to change.

Other donors provide smaller amounts of PAF. For example, BMZ budgets for PAF decreased from 2022 to 2023, from USD150 million to USD91 million. In 2022, all of this was classified as indirect PAF; however, in 2023, USD17 million was classified as direct. Overall volumes of PAF are likely to have increased in 2024 since a larger budget was allocated, in excess of USD130 million.

IDB reported the exact same magnitudes to IATI as to the OECD DAC reporting with respect to PAF in 2022, at USD64 million. In 2023, this dropped to USD27 million, following a trend of year-on-year reductions – in 2021, IDB reported USD132 million in PAF. All of this financing from 2021 through 2023 was direct PAF.

At the time of last year's report, there were issues around FCDO's data availability in IATI, but now high-quality reporting is available again. Using this, FCDO reported USD48 million of PAF in 2022, all but USD2 million of which was indirect PAF. In 2023, FCDO disbursed more direct PAF, with USD18 million (34%) of its PAF classified as direct.

Despite the considerable overlap between PAF projects identified in the OECD DAC data and those in IATI, one of these sources does not directly reflect the other and identical reporting is not expected when the OECD DAC releases data for 2023 in late 2024 or early 2025. However, it is reasonable to expect similar trends to those identified.

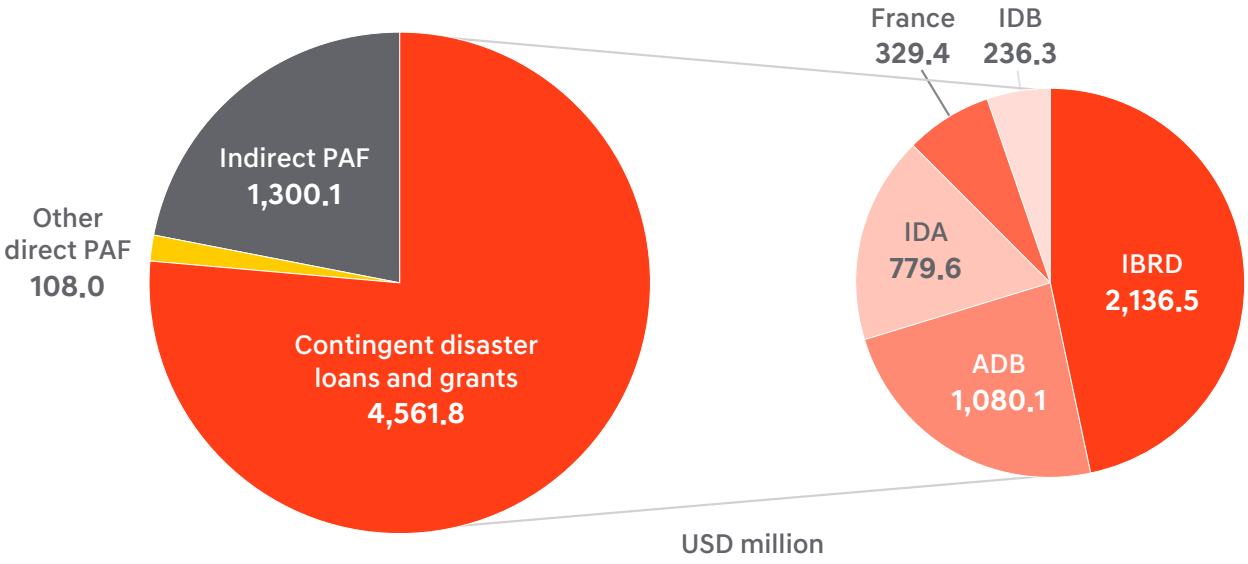
2.2 Contingent disaster loans and grants as a key driver of pre-arranged financing levels

The fluctuating levels of international development financing for PAF are due in large part to the event-linked nature of most PAF itself and because international development financing for PAF is overwhelmingly provided in the form of contingent disaster loans and grants (see Figure 2.6) from MDBs, most notably, IBRD, IDA, ADB, bilateral donor France, and IDB (see Figures 2.6 and 2.7), which tend to disburse relatively large volumes of funds in response to major shocks.[13,14]

BOX 2.4: DEFINITION OF CONTINGENT DISASTER LOANS OR GRANTS

A type of PAF whereby a loan or grant is approved in advance of a crisis and is guaranteed to be provided to a specific implementer when a specific pre-identified trigger condition is met.

Figure 2.6: Major categories of international development financing for pre-arranged financing and providers of contingent disaster loans and grants (2018–2022)

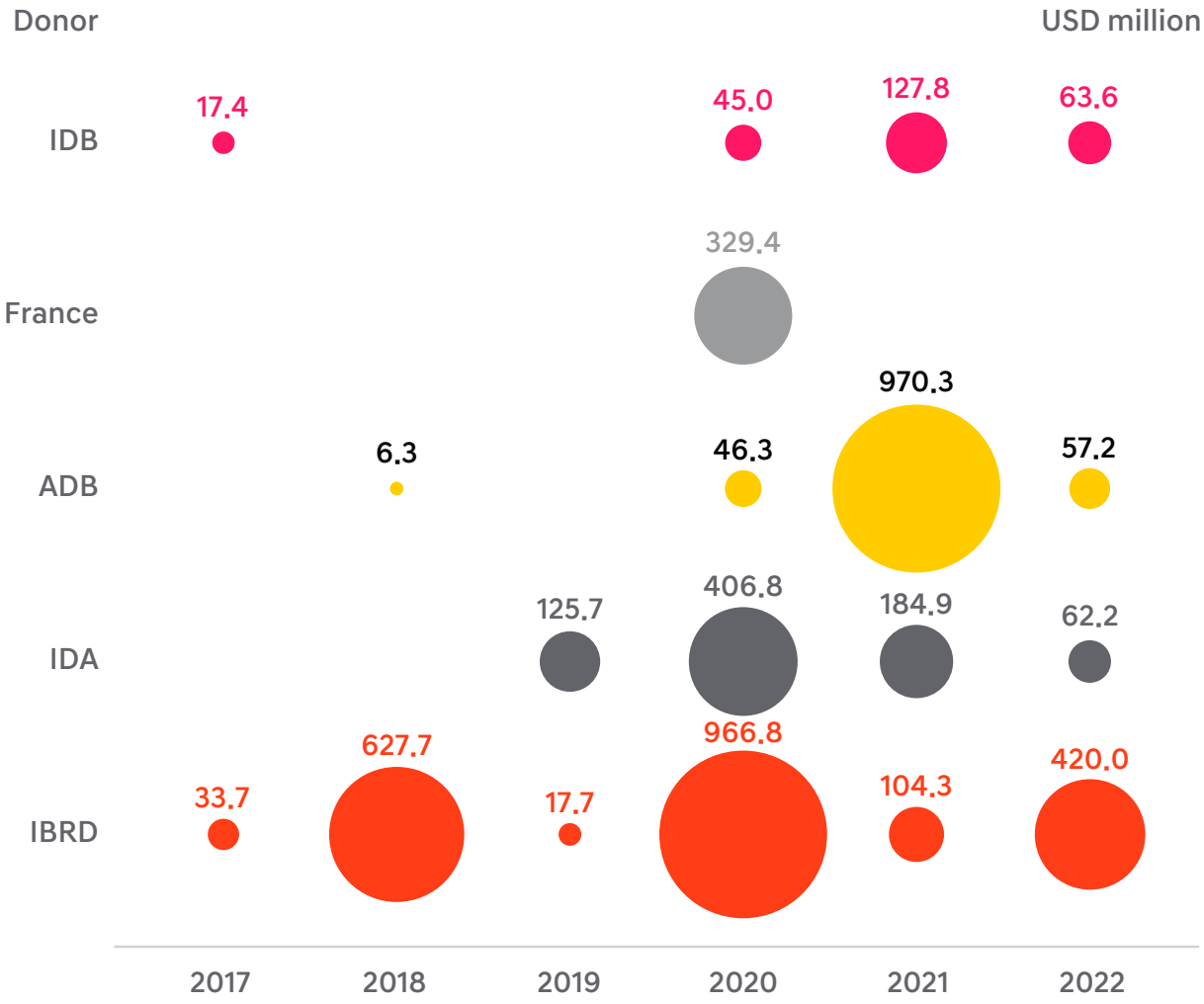


Source: Centre for Disaster Protection, based on data from OECD (2024a)

13 This includes IDB funding through the Contingent Financing Facility, ADB's contingent disaster financing policy, IBRD and IDA Catastrophe Deferred Drawdown Options (Cat DDOs), and bilateral donors' contingent loans.

14 In some cases, World Bank Cat DDO projects also include non-contingent Development Policy Financing. For example, the Fiji Recovery and Resilience First Development Policy Operation with a Cat DDO is a USD145 million project, with only USD10 million of this amount as contingent financing, which has not been disbursed. The remaining USD135 million was disbursed in 2021 to Fiji (World Bank Group 2024a). Because the CRS data does not make it possible to distinguish between the contingent and non-contingent parts of Cat DDO projects, some financing will be included in this data that is not technically PAF.

Figure 2.7: Contingent disaster loan and grant payouts (2017–2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a)

Pre-agreed contingent disaster loan and grant funding is released when a crisis event occurs. Years where large-scale or multiple crisis events occur will result in a spike in contingent disaster loan and grant payouts. Much of the increase in these payouts in 2020 and 2021 was related to the covid-19 crisis. The payouts included a contingent loan to Mauritius from the French Development Agency (AFD) worth USD329 million, marked as responding to the covid-19 crisis;[15] USD200 million of USD970 million in 2021 from ADB is known to have been in response to the covid-19 crisis.[16] IBRD and IDA disbursed substantial volumes of contingent disaster loans and grants in

15 Based on voluntary marking by the reporting donor in the OECD DAC CRS data with the #COVID-19 hashtag.

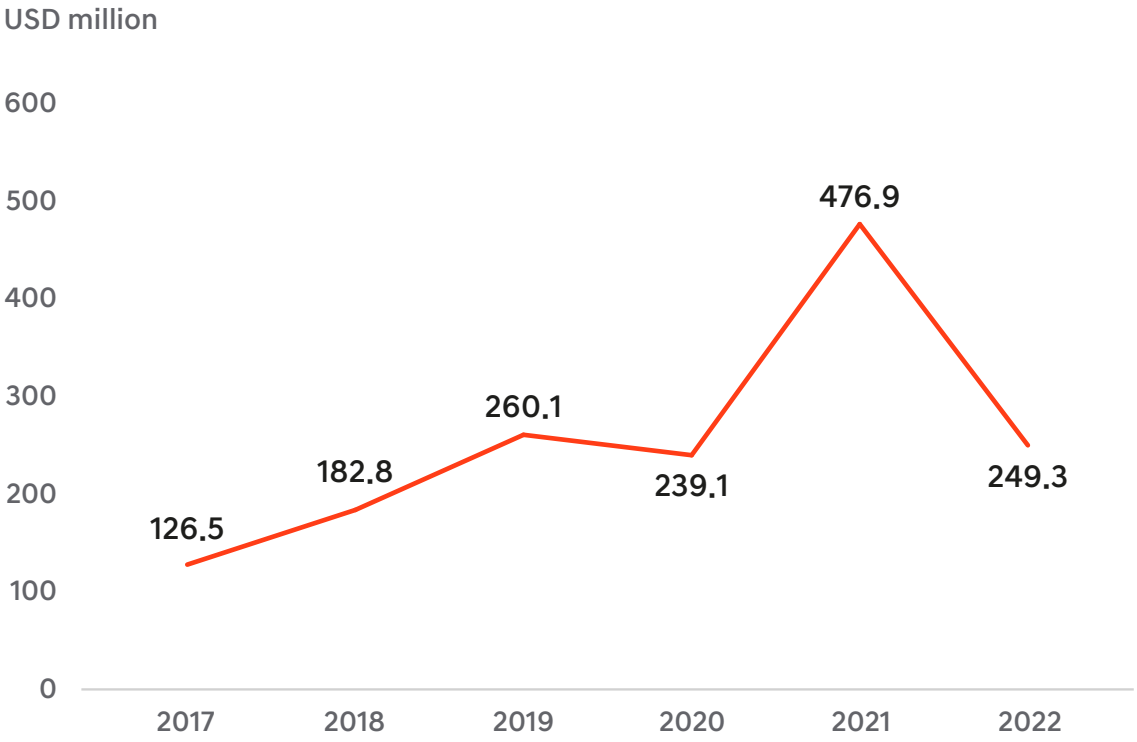
16 Contingent disaster loan disbursements in 2021 from ADB included USD200 million for the covid-19 response in the Philippines; USD300 million for typhoon response in the Philippines; USD280 million for flooding, landslides, tornadoes and high-tide waves in South Kalimantan and earthquakes in West Sulawesi in Indonesia; and USD220 million for tropical cyclones, flooding, landslides, high-tide waves and abrasion in the province of East Nusa Tenggara in Indonesia. Note that these figures are as reported direct from ADB and do not match exactly with values reported in that calendar year in the OECD DAC data.

2020. Based on available reporting by the World Bank, many of these were also in response to the global covid-19 pandemic.[17]

Apart from contingent disaster loans and grants, international support for PAF comprises a variety of support to global funds dedicated to funding disaster insurance and other PAF tools; programmes, coordination entities and services (such as research and evaluations); and projects, including anticipatory action projects. It also includes support to regional risk pools and premium support to purchase insurance coverage from risk pools.

If contingent disaster loans and grants are omitted from the data, a similar pattern emerges over time, with a peak in 2021 (although there was no peak in 2020), which dropped back to around 2019/20 levels in 2022 (see Figure 2.8). However, the peak in 2021 does not appear to be closely related to particular crisis events. Whereas 24.8% of international development financing for PAF, excluding contingent disaster loans and grants, was tagged in 2020 as linked to the covid-19 crisis, just 3.9% was tagged in 2021 as covid-19 related. International development financing for PAF excluding contingent disaster loans and grants fell to USD249.3 million in 2022, 11.5% lower than the five-year average.

Figure 2.8: International development financing for pre-arranged financing excluding contingent disaster loan and grant payouts (2017–2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a)

17 The Centre's database on IBRD and IDA Cat DDOs confirms the following disbursements triggered by disease outbreak in 2020: Bhutan, USD15 million; Cabo Verde, USD10 million; Colombia, USD250 million; Dominican Republic, USD150 million; Guatemala, USD200 million; Honduras, USD119 million; Kenya, USD112 million; Malawi, USD30 million; Maldives, USD10 million; Morocco, USD275 million; Panama, USD41 million; Romania, USD437 million; Samoa, USD5 million; Serbia, USD23 million; and Seychelles, USD7 million (Centre for Disaster Protection, based on data from World Bank Group (2024b)). Note that Romania is not an ODA-eligible country, so is not included in OECD DAC reporting.

The peak in 2021 was driven in part by a non-contingent loan from IBRD to the Government of Indonesia worth USD135.8 million, and increased support and contributions to global funds including the World Bank Global Risk Financing Facility (now the Global Shield Financing Facility (GSFF)), the InsuResilience Solutions Fund (now the Global Shield Solutions Platform) and the Global Index Insurance Facility (see Box 2.5).

BOX 2.5: GLOBAL FUNDS SUPPORTING PRE-ARRANGED FINANCING THAT RECEIVED SUBSTANTIAL ODA CONTRIBUTIONS

Several global funds channel funding to support PAF projects and instruments; these include the Global Shield against Climate Risks (Global Shield), 'a joint G7/V20 [Group of Seven/ Vulnerable Twenty Group of Ministers of Finance of the Climate Vulnerable Forum] initiative to strengthen the financial protection and resilience or vulnerable countries and people' with around EUR300 million raised in funds (GIZ 2023).

The Global Shield has brought together two existing funds and a new fund to provide a single entry point for countries to obtain funding:

1. The **Global Shield Solutions Platform** builds on the earlier InsuResilience Solutions Fund. The platform is a multi-donor grant facility hosted by the Frankfurt School of Finance and Management gGmbH (GSSP 2024).
2. The **GSFF** hosted by the World Bank, which is the reformed Global Risk Financing Facility. The facility primarily provides financing that can be integrated into World Bank programmes supporting government partners (GSFF 2024).
3. The **Climate Vulnerable Forum and V20 Joint Multi-Donor Fund** aims to facilitate coordination among forum and V20 countries, and enhance members' capacities to deliver on key climate action priorities (V20 2020).

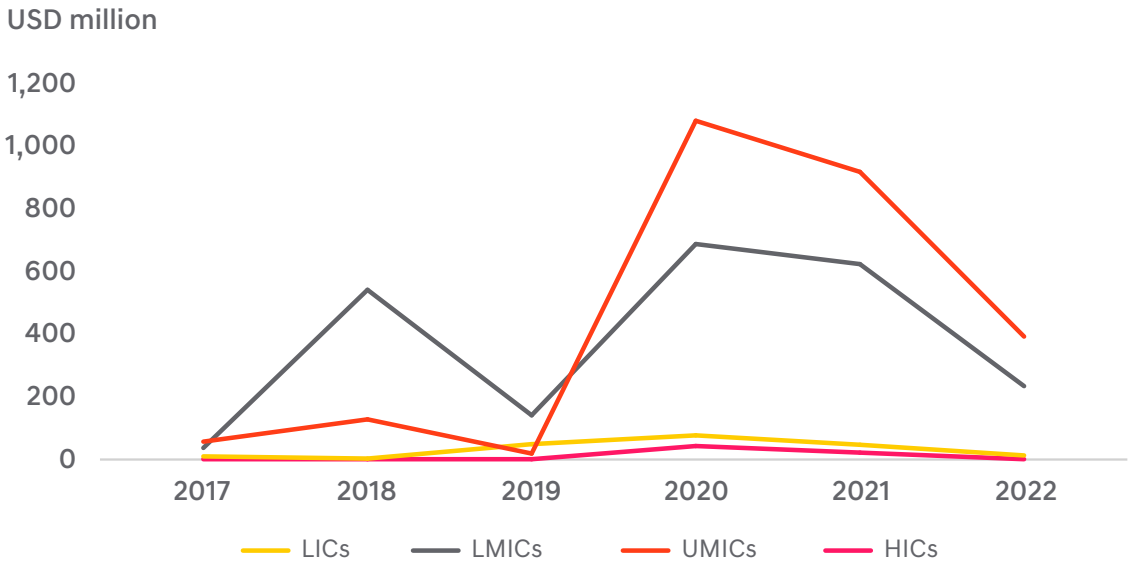
Climate-vulnerable countries are invited to apply to access support from the Global Shield, with countries selected by the Global Shield Board against a prioritisation framework that assesses country readiness, risk exposure and macroeconomic variables. Selected countries follow an 'in-country process' to assess and select projects to put forward to the three funds in a request for support. Selected countries included, in the first round, Bangladesh, Costa Rica, Ghana, Jamaica, Malawi, Pakistan, the Pacific Islands, the Philippines and, in the second round, the Gambia, Madagascar, Peru, Rwanda, Senegal and Somalia.

The Global Index Insurance Facility is a World Bank programme supporting access to catastrophe risk insurance and index insurance for smallholder farmers, micro-entrepreneurs and microfinance institutions. The programme is funded by the EU, and the governments of Germany, Japan and the Netherlands (GIIF 2024).

2.3 Where is international development financing for pre-arranged financing going?

International development financing for PAF is concentrated in middle-income countries, with just 3.1% (USD183.8 million) reaching low-income countries between 2018 and 2022. Meanwhile, upper-middle-income countries received 42.4% of this financing (USD2.5 billion) and lower-middle-income countries 37.2% (USD2.2 billion) (see Figures 2.9 and 2.10).[18] While total international development financing for PAF fell overall in 2021 and 2022, it contracted most sharply in low-income countries in both 2021 and 2022. In 2022, low-income countries received just 1.4% of the total (compared with 3.1% over the five-year period 2018–2022). Lower-middle-income countries also received a lower share than the five-year average in 2022 (27.3% in 2022 compared with 37.2% over the five-year period 2018–2022), while upper-middle-income countries saw their share increase (from 42.4% across the five-year period 2018–2022, to 45.9% in 2022).

Figure 2.9: International development financing for pre-arranged financing, by income group (2017–2022)



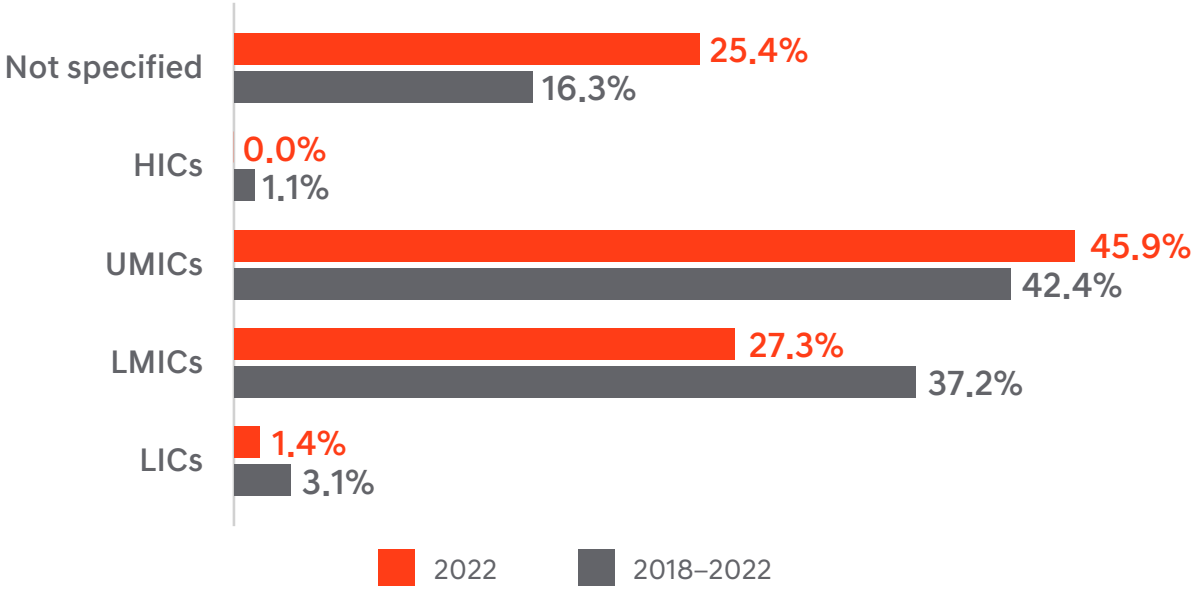
Source: Centre for Disaster Protection, based on data from OECD (2024a) and World Bank Group (2024c)

Note: The category 'not specified' is omitted from this chart.

This may not reflect the full picture, however. Funds not allocated to a country or region grew in 2022 as a share of the total, to 25.4% (see Figure 2.10). This is attributable in part to increased contributions to global funds supporting PAF as noted above. These bodies in turn allocate funds, including premium support, to downstream partners and governments, which are not visible in the OECD DAC CRS data.

18 The remaining 16.3% of the total PAF volume is not allocated to specific countries, so cannot be classified by income group.

Figure 2.10: Shares of international development financing for pre-arranged financing, by income group (2018–2022)

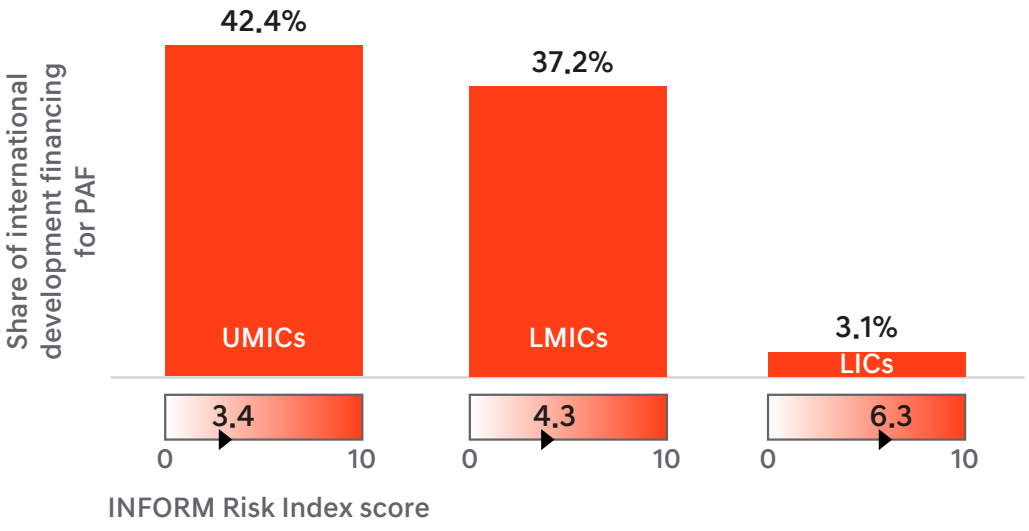


Source: Centre for Disaster Protection, based on data from OECD (2024a) and World Bank Group (2024c)

Note: The category 'not specified' typically includes funds allocated to regional- or global-level programmes that cannot be attributed to particular countries.

These regional concentrations of international development financing for PAF run counter to the distribution of risk and vulnerability, captured in the INFORM Risk Index, which is substantially higher in low-income countries (see Figure 2.11).

Figure 2.11: Distribution of international development financing for pre-arranged financing, by income group and INFORM Risk Index scores (2018–2022)

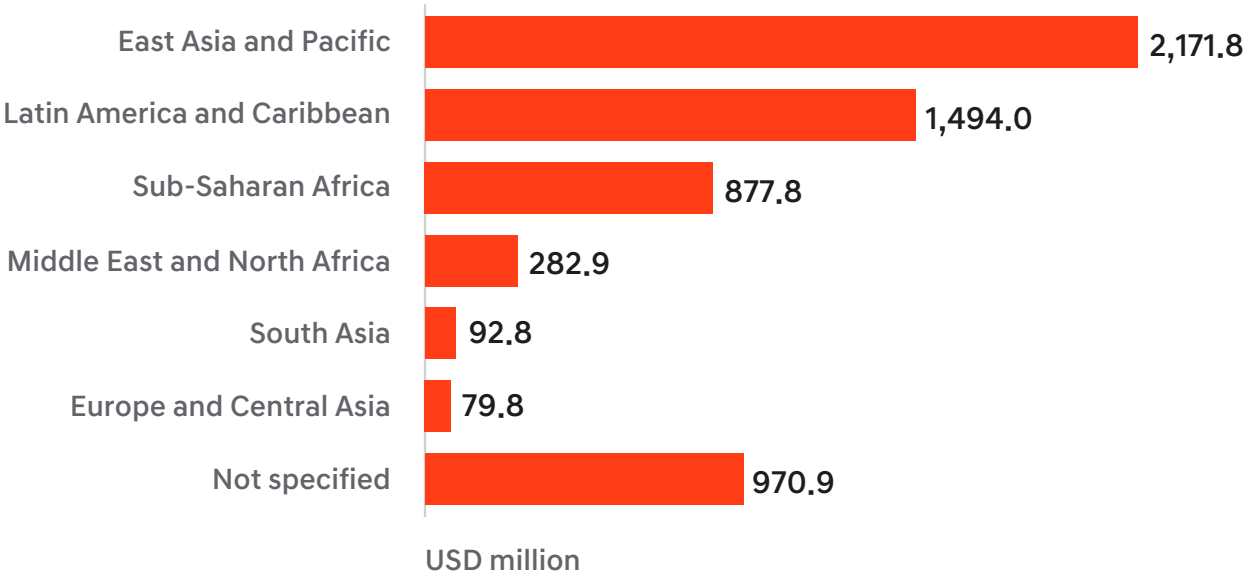


Source: Centre for Disaster Protection, based on data from OECD (2024a), World Bank Group (2024c) and INFORM (2024a)

The distribution of PAF by region is heavily concentrated in the East Asia and Pacific region (36.4% of the total in the five-year period 2018–2022), followed by Latin America and the Caribbean (25.0%) and sub-Saharan Africa (14.7%) (see Figures 2.12 and 2.13). Within the East Asia and Pacific region, funds were heavily concentrated in two countries, the Philippines (USD1.2 billion, 20.2% of total international development financing for PAF between 2018 and 2022) and Indonesia (USD621.9 million, 10.4%).

The regional distribution in 2022 demonstrates a significantly different pattern, with a much stronger concentration in Latin America and the Caribbean (42.7%), a far lower share in East Asia and Pacific (23.1%), and a substantially lower share in sub-Saharan Africa (7.6%) (see Figure 2.13).

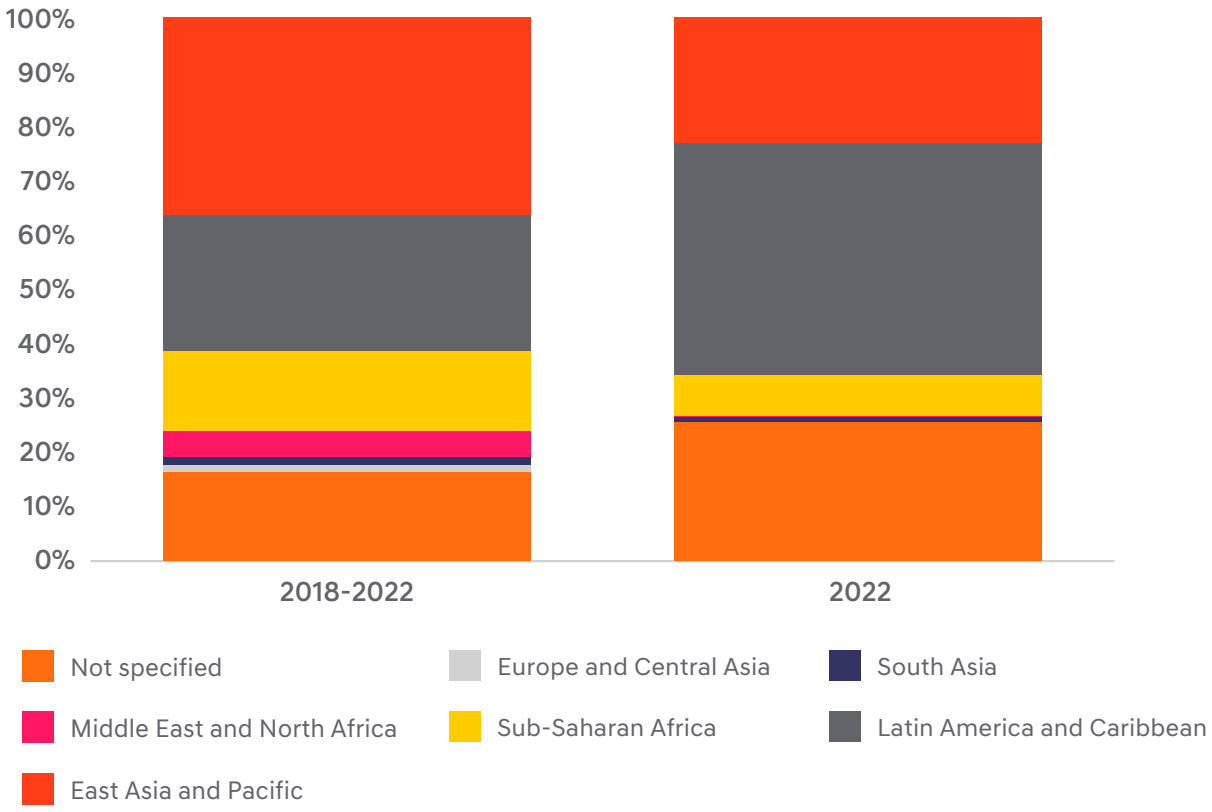
Figure 2.12: International development financing for pre-arranged financing disbursements, by region (2018–2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a) and World Bank Group (2024c)

Note: The category 'not specified' typically includes funds allocated to regional- or global-level programmes that cannot be attributed to particular countries.

Figure 2.13: Comparison of five-year and latest year distribution of international development financing for pre-arranged financing disbursements, by region (2018–2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a) and World Bank Group (2024c)

Note: The category 'not specified' typically includes funds allocated to regional- or global-level programmes that cannot be attributed to particular countries.

International development financing for PAF by capita varies significantly across countries receiving PAF. Figure 2.14A shows that in 2022, certain small island developing states (SIDS) received remarkably large amounts on a per capita basis, with USD1,022 per capita for Tuvalu at the top of the ranking. However, it is mainly the small population size that explain why nine SIDS are receiving the largest amounts of international development financing for PAF per capita. Figure 2.14B shows a different picture for the total amount by country in 2022. Here, Colombia is the largest recipient, with USD300 million, followed by the Philippines, with USD121.5 million, which both reflect Cat DDO payouts by IBRD.

Figure 2.14A: International development financing for PAF per capita and INFORM Risk score (2022) by recipient country in 2022

Source: Centre for Disaster Protection, based on data from OECD (2024a), World Bank Group (2024d) and INFORM (2024b).

Note: For the remaining USD216.8 million of PAF in 2022, only the region is specified and/or the recipient is unknown. Per capita amounts are calculated based on population data for 2022.

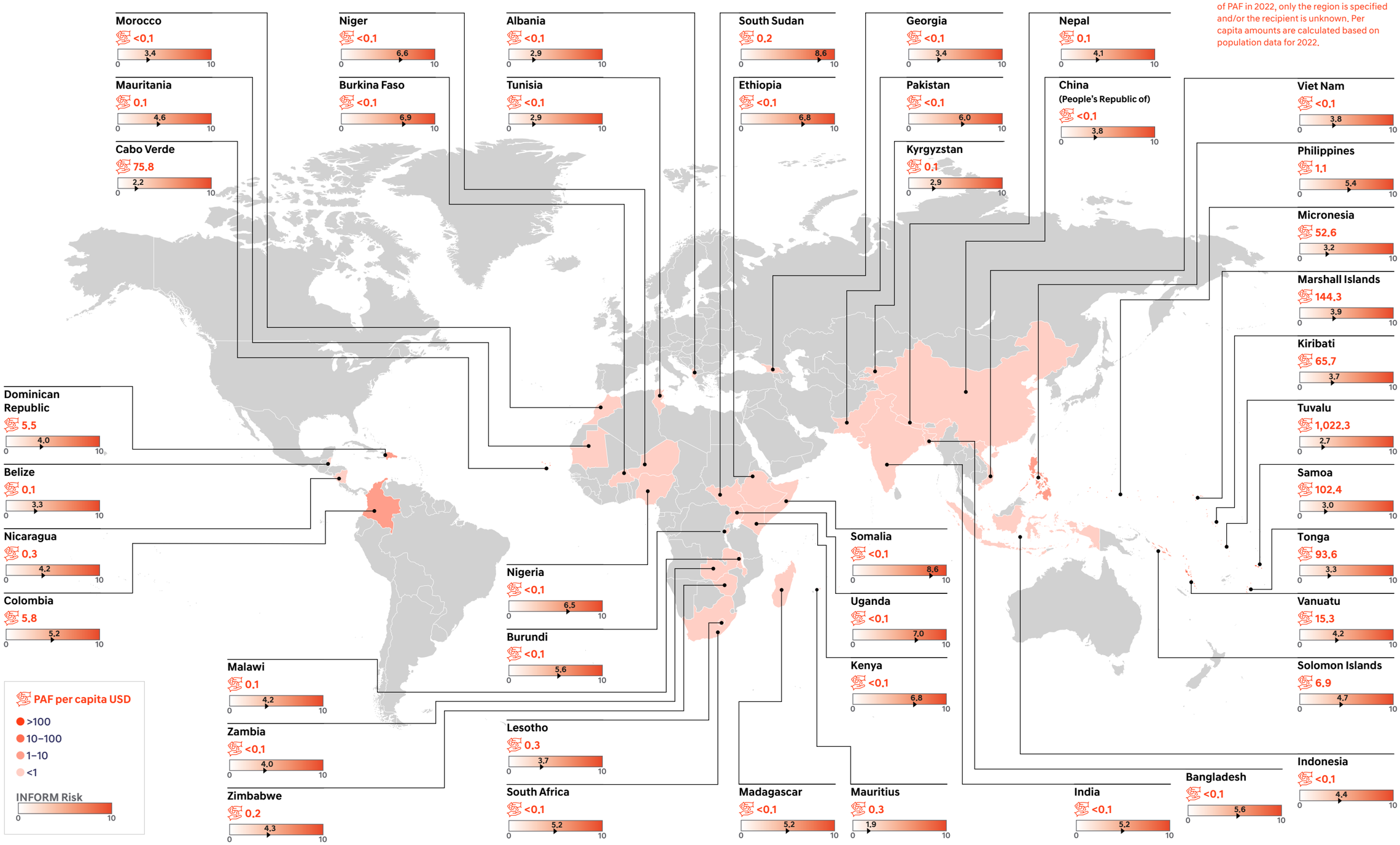
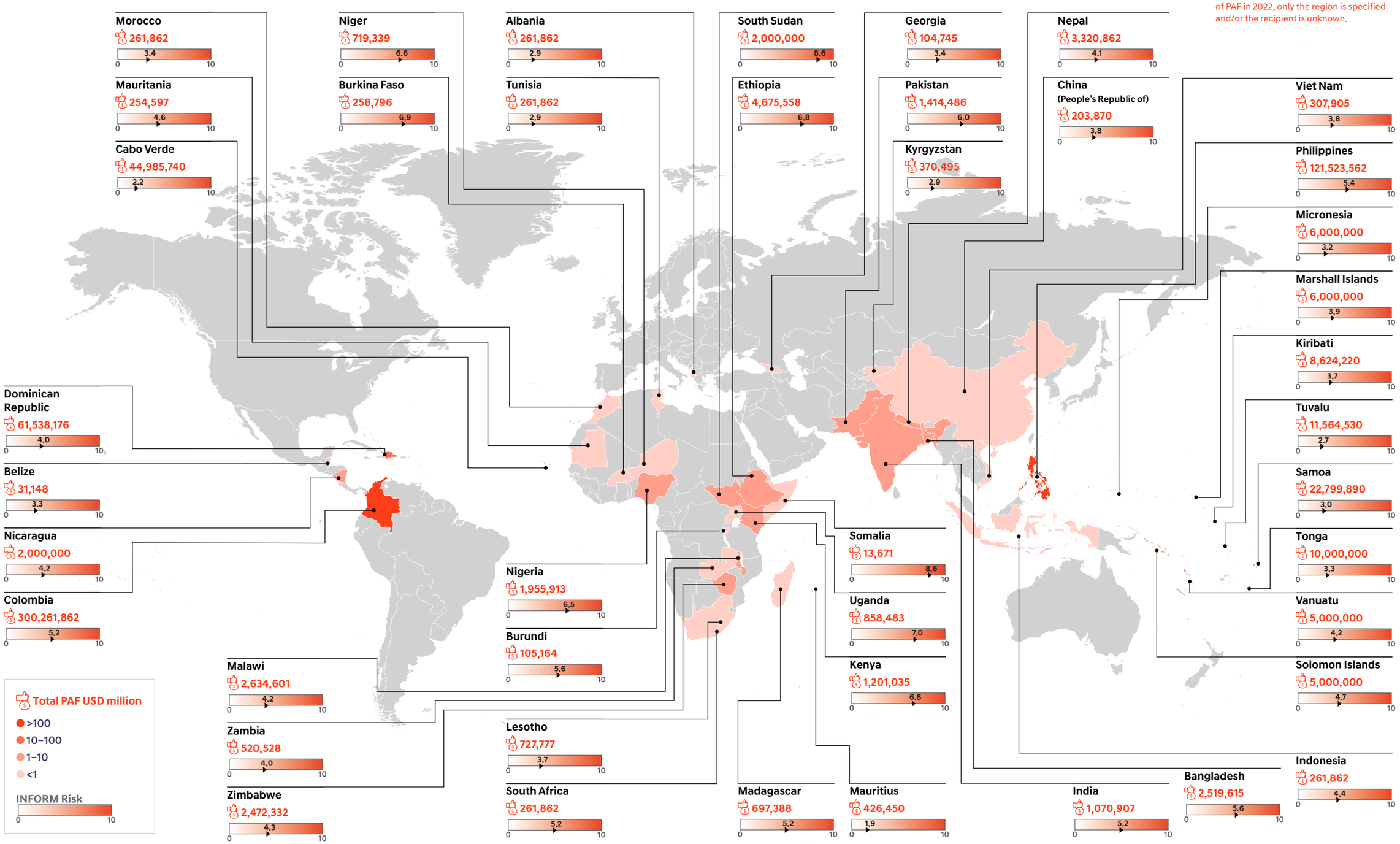


Figure 2.14B: International development financing for Total PAF and INFORM Risk score (2022) by recipient country in 2022

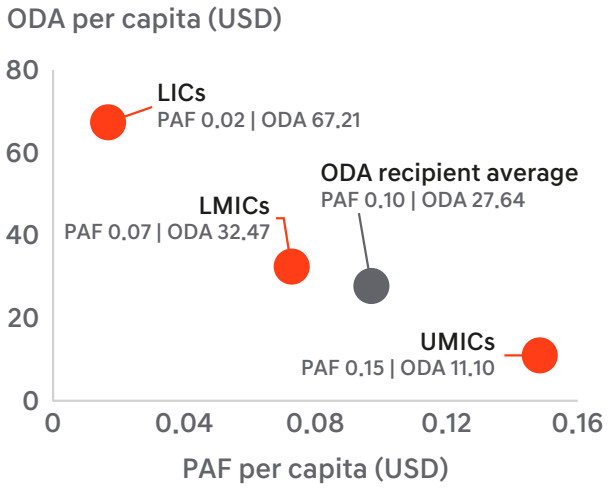
Source: Centre for Disaster Protection, based on data from OECD (2024a), World Bank Group (2024d) and INFORM (2024b).

Note: For the remaining USD216.8 million of PAF in 2022, only the region is specified and/or the recipient is unknown.



Comparing the amounts of ODA per capita received across income groups, Figure 2.15 shows that international development financing for PAF is less concentrated in areas of greatest poverty. Levels of ODA per capita were highest in 2022 in low-income countries (USD67.2 per capita) by a wide margin, followed by lower-middle-income countries (USD32.5 per capita) and upper-middle-income countries (USD11.1 per capita). The opposite trend is observed for international development financing for PAF, with the highest per capita amounts in upper-middle-income countries (USD0.15 per capita), lower-middle-income countries (USD0.07 per capita) and low-income countries (USD0.02 per capita).

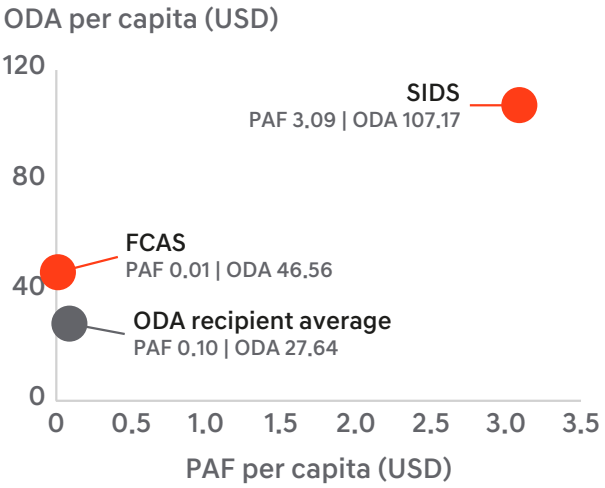
Figure 2.15: ODA and international development financing for pre-arranged financing per capita, by country classification (2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a) and World Bank Group (2024c, 2024d)

Note: This includes all ODA-eligible countries for which population data was available.

Figure 2.16: ODA and international development financing for pre-arranged financing per capita in FCAS and SIDS (2022)

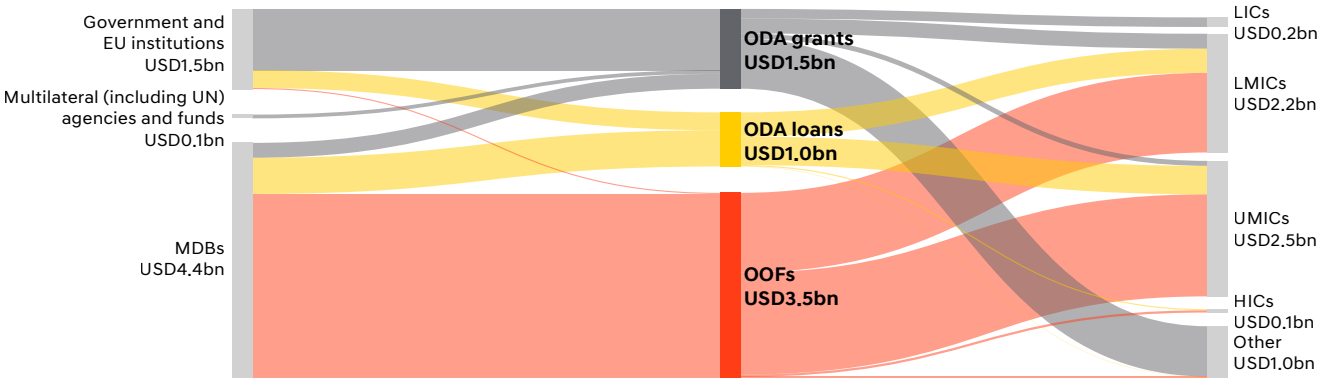


Source: Centre for Disaster Protection, based on data from OECD (2024a, 2024b) and World Bank Group (2024c, 2024d)

Note: This includes all ODA-eligible countries for which population data was available. Classifications of fragile and conflict-affected states (FCAS) and small island developing states (SIDS) are based on the 2024 update of the OECD list of recipients.

2.4 What else explains these key trends?

Figure 2.17: International development financing for pre-arranged financing, by major donor groupings, type of flow and recipient income group (2018–2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a) and World Bank Group (2024c)

Note: The recipient category 'other' includes funds allocated to regional- and global-level programmes that cannot be attributed to specific countries.

MDBs are the major providers of international development financing for PAF, contributing 72.3% of the total between 2018 and 2022, while governments and EU institutions provided 26.3%. Private donors, and multilateral agencies and funds (excluding MDBs), played a much smaller role (0.3% and 1.5%, respectively) (see Figure 2.17).

Figure 2.17 shows that more than half of international development financing for PAF (57.9%, USD3.5 billion) between 2018 and 2022 did not qualify as ODA, but fell within the scope of OOFs. This is not unique to PAF, however; in fact, over the past 10 years international development financing overall has experienced faster growth in OOFs than ODA (see Box 2.6).

BOX 2.6: SHIFTS TOWARDS LESS CONCESSIONAL FORMS OF INTERNATIONAL DEVELOPMENT FINANCING

OOFs have grown much faster over the past 10 years than ODA, meaning international development financing flows have become less concessional. This may be a reflection of pressure placed on finance providers to increase volumes of financing without a commensurate increase in donor contributions (UN 2024).

Since 2012, gross ODA disbursements (and ODA-like philanthropic flows) have increased by

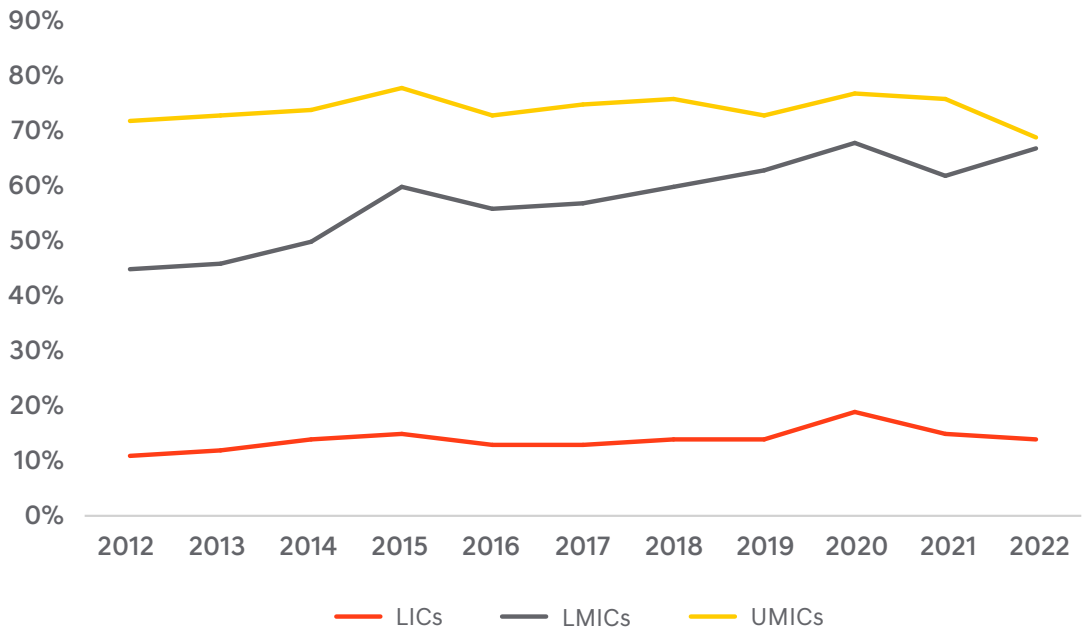
Box continues next page

89.6%; however, this has been exaggerated by aid to Ukraine and IDRCs – excluding these categories, the figure was 54.3%. By contrast, OOFs increased by 123.4%. Meanwhile, the share of grants in total disbursements to developing countries since 2012 has fallen from 60.1% to 54.6% (and from 71.4% in 2007).

This change in the composition of ODA towards loans is driven in part by the growing role of MDBs; but the composition of DAC members' ODA has also changed, with the share of grants falling from 81.8% to 77.8% between 2012 and 2022 (or from 81.0% to 72.2% if IDRCs and aid to Ukraine are excluded).

The trend towards greater use of loans is most prominent in lower-middle-income countries (see Figure 2.17), where the share of both concessional and non-concessional loans as a proportion of total gross disbursements has grown, increasing from 45.5% to 67.0% between 2012 and 2022. Despite middle-income status, many of these countries, such as Angola and Bangladesh, are still classed as 'least developed countries'.

Figure 2.18: Concessional and non-concessional loans as a percentage of net disbursements to developing countries, by income group (2012–2022)



Source: OECD (2024a) and World Bank Group (2024c)

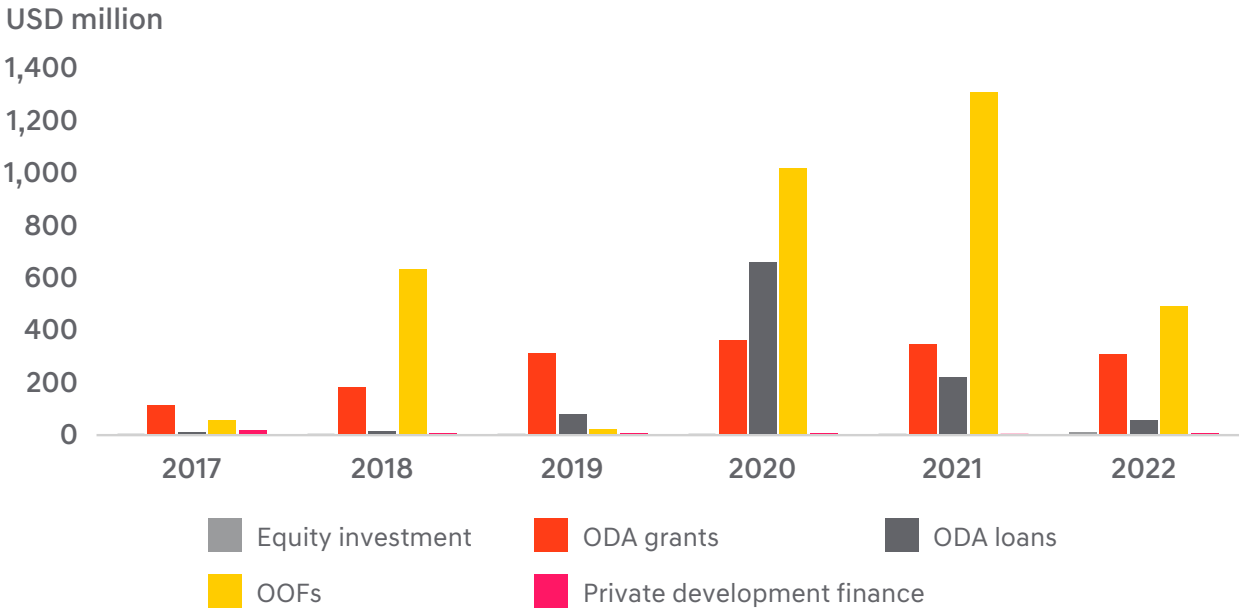
Most OOFs for PAF were provided by ADB, IBRD and IDB, with funds flowing to upper-middle-income countries, and lower-middle-income countries.[19]

Below these five-year aggregates, the volumes and relative shares of funding types significantly vary year on year, closely tracking patterns in contingent disaster loan and grant disbursements, with peaks in volumes of OOFs disbursed in 2020 and 2021 corresponding with the large contingent disaster loan payouts from ADB and IBRD in response to covid-19 (see Figure 2.19). ODA loans, meanwhile, have fallen from a high in 2020, with a peak in disbursements in contingent disaster loans and grants from IDA. Both OOFs and ODA loans will eventually be repaid by the recipient governments, which means these amounts do not fully represent the costs incurred by donors. Box 2.7 assesses the 'grant equivalent' part of the concessional contingent disaster loans by MDBs to better reflect this.

Volumes of ODA grants did not experience such a strong event-based expansion and contraction in response to covid-19, growing by 15.5% in 2020, before contracting by 4.3% in 2021 and 10.6% in 2022, returning to close to 2019 levels.

In 2022, an equity investment contribution was reported for the first time. This comprised a USD5.3 million investment from BMZ in the InsuResilience Investment Fund Private Equity II.[20]

Figure 2.19 International development financing for pre-arranged financing, by funding type (2017–2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a)

19 The World Bank's overview of IDA-eligible countries shows that certain upper-middle-income countries are able to borrow on small economy terms, which means the concessionality is then high enough to qualify as ODA: https://ida.worldbank.org/en/about/borrowing-countries

20 The InsuResilience Investment Fund provides 'debt and equity, along with technical assistance, to qualified insurers, re-insurers and companies in the insurance value-chain in developing countries': https://www.insuresilience.org/programme/the-insuresilience-investment-fund-iif/

BOX 2.7: CALCULATING THE GRANT ELEMENT OF CONTINGENT DISASTER LOANS BY MULTILATERAL DEVELOPMENT BANKS (2017–2022)

While some contingent disaster financing provided by MDBs is in the form of grants, most of it is in the form of loans. However, these loans tend to be on more favourable terms compared with what countries could borrow at market rates. This means that loans with favourable terms also have a hidden grant amount, which is known as the 'grant element'. These favourable terms include: (1) a low-to-zero interest rate; (2) a 'grace period' for the repayment of the loan, which means borrowing countries only start repaying after a number of years; (3) adjustments to the number of repayments made per year; and (4) adjustments to the period the loan is repaid over.

Based on this information, it is in theory possible to calculate the grant element for each loan provided. The OECD DAC methodology for these calculations and additional simplifying assumptions applied for analysis in this section are described in Annex 4.

Focusing on the World Bank Catastrophe Deferred Drawdown Options (Cat DDOs), the IDB Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF) and ADB contingent disaster financing payouts, Figure 2.20 compares the total amount disbursed and its grant equivalent. Based on the assumptions made, on average, 38% of contingent disaster loan and grant disbursements between 2017 and 2022 can be counted as grant funding to recipient countries.

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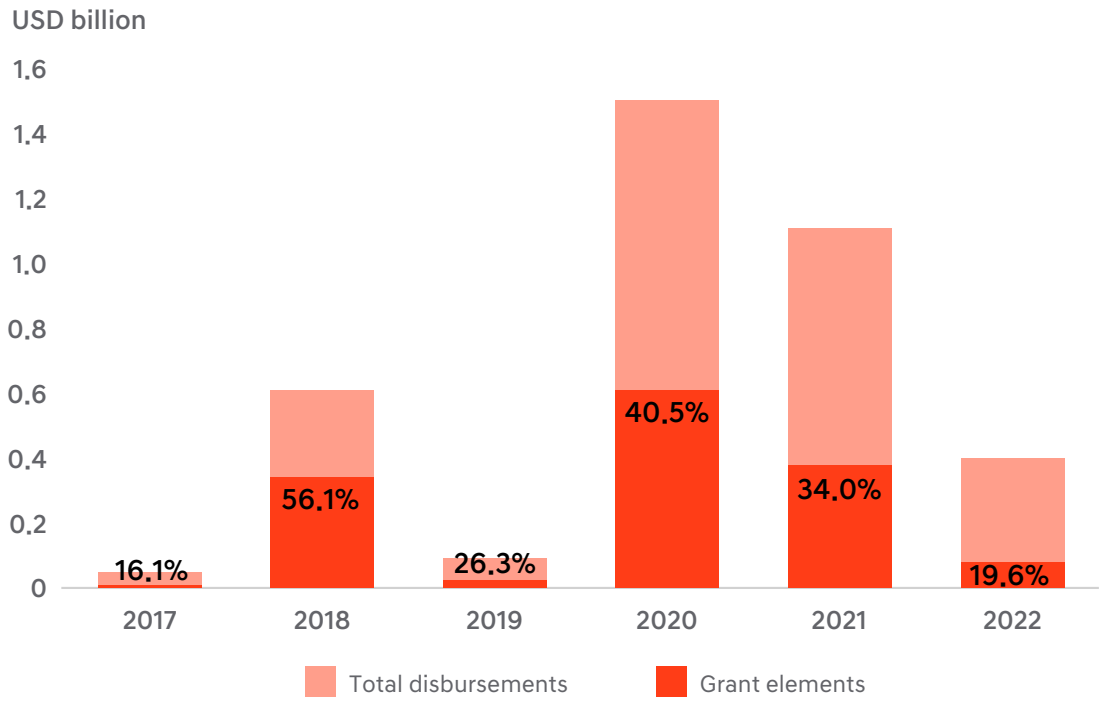
Figure 2.20: Total multilateral development bank contingent disaster loan and grant disbursements, and their grant elements (2017–2022)



Source: Centre for Disaster Protection, based on data adapted from Mustapha and Benson (forthcoming)

Note: An IBRD Cat DDO to the Philippines, which was approved in 2021 for an amount of USD500 million and had two disbursements (USD80 million in 2021 and USD120 million in 2022), has been excluded due to missing data.

While the total amount of these contingent payouts gives a sense of the funding that becomes available to countries to respond when a shock happens, taking into consideration the grant equivalent can give more information about the financial support affected countries receive from donors.

It is important to note that these findings shift significantly based on the assumptions made to calculate the grant element. More detailed future research is required to calculate actual grant elements at the time of disbursement.

3

FINANCIAL PROTECTION OR COVERAGE PROVIDED BY PRE-ARRANGED FINANCING

SUMMARY

- Coverage of PAF instruments supported by international development financing has grown for the third consecutive year, to a peak of USD9.8 billion in 2023.
- The largest volumes of coverage overall were provided by contingent disaster loans and grants, which accounted for USD6.7 billion in coverage in 2023, 68.3% of the total reported.
- Coverage remains concentrated in middle-income countries; however, coverage in lower-middle-income and low-income countries grew substantially, from USD91.8 million in 2022 to USD308.9 million in 2023, largely driven by the ARC risk pool.

The principal value of PAF is the financial protection or coverage it creates against risk, and the funds triggered and disbursed when shocks happen. The financial protection or coverage against risk is measured as the maximum amount of funds that are available should shocks of an agreed magnitude occur.

This chapter reviews overall trends and patterns in the coverage provided by PAF supported by international development financing, based on the most comprehensive data available from the Global Shield Secretariat, which collects data from implementing partners contributing to InsuResilience Vision 2025. This year, the Centre has supplemented this data with information from the leading sovereign instrument types and anticipatory action frameworks and funds (see Box 3.1).

BOX 3.1: DATA ON PRE-ARRANGED FINANCING COVERAGE AND PAYOUTS

This year, the report includes data on coverage and payouts from both the Global Shield Secretariat and the Centre's own research.

The volumes of coverage reported are the maximum potential payouts that specific financial instruments would provide if trigger conditions were met. Caution should be exercised in interpreting this data, as the likelihood of these conditions being met varies widely and coverage may be a poor indicator of average annual disbursement. For example, catastrophe (cat) bonds may have very high levels of coverage, but are typically for low-frequency, high-impact events. They are therefore much less likely to pay out in full in a given year than, for example, a contingent disaster loan arrangement, which might target more frequent shocks and be expected to pay out in full relatively frequently. Consequently, while cat bonds may give the impression of large volumes of coverage, this cannot be readily compared with the coverage provided by other types of instruments.

1. **Global Shield Secretariat data** – The Global Shield Secretariat (formerly the InsuResilience Global Partnership Secretariat) collects data from Vision 2025 Programmes as part of its annual reporting to monitor progress towards agreed targets (Global Shield Secretariat 2024a).[21] Reporting is voluntary and therefore not comprehensive. Nevertheless, this currently represents the most extensive dataset on the coverage of aid-supported PAF mechanisms targeting vulnerable low- and middle-income settings. The Global Shield Secretariat data includes instruments such as contingent budgets, contingent credit, microinsurance (for businesses and households), sovereign and sub-sovereign risk transfer mechanisms, and shock-responsive social protection systems. It also focuses on a subset of possible PAF products; notably, products supported by G20+ (G20 developing nations) donors, which address climate and disaster risks, and not, for example, the development of private insurance markets beyond climate and disaster risks.[22] Coverage volume represents the amount of protection provided by climate and disaster risk financing and insurance instruments, determined by calculating the total maximum payouts that would be disbursed if trigger conditions were met (Global Shield Secretariat 2024a).
2. **Centre for Disaster Protection data on sovereign PAF instruments** – The Centre has compiled a dataset on coverage and payouts direct from three MDBs (ADB, IDB and the World Bank) and four regional risk pools (ARC, CCRIF, PCRIC and SEADRIF). Data is compiled from information extracted from MDB loan and grant agreements, and annual reports of regional risk pools, with additional information provided direct from some instrument providers. This data is a subset of that captured in the Global Shield data, but it contains additional detail and a longer time series.

Box continues next page

21 In 2023, 35 programmes reported 646 projects.

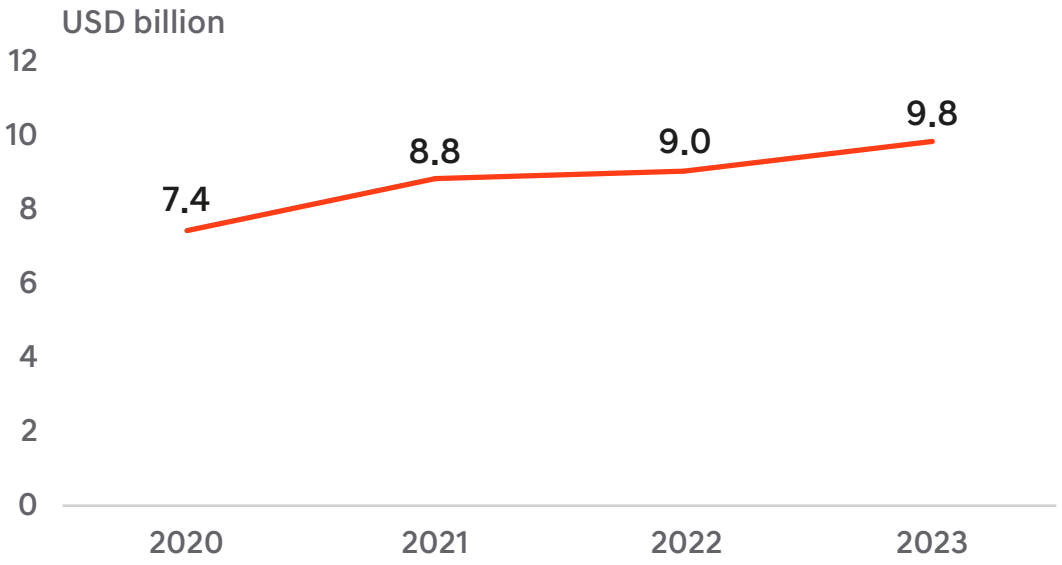
22 This means the Global Shield Secretariat data does not capture a broad scope of microinsurance schemes. Annually, the Microinsurance Network collects more comprehensive coverage: https://microinsurancenetwork.org/the-landscape-of-microinsurance

3. **Anticipation Hub data on anticipatory action** – The Anticipation Hub regularly collects data from partner organisations on the coverage provided by anticipatory action frameworks and funds triggered or disbursed when pre-agreed conditions are met. As a voluntary reporting exercise, it is likely that some existing anticipatory action frameworks are not captured. Nevertheless, the Anticipation Hub's data currently represents the most comprehensive assessment of funding for anticipatory action available and triggered or activated to meet the needs of at-risk people.

3.1 How much coverage is there?

Data reported by Global Shield Secretariat partners indicates that financial protection against disasters has exhibited statistically significant growth year on year, rising to a peak of USD9.8 billion in coverage in 2023 (see Figure 3.1),[23] in contrast with the trends observed in international development financing for PAF, which fell in 2022. An explanation is that international development financing for PAF is largely composed of contingent disaster loan and grant disbursements, which only occur in response to disasters, and it thus tends to fluctuate more. While in 2022, fewer disasters occurred that triggered these contingent payouts compared with previous years, more PAF overall was in place should it have been needed. The numbers of people protected were also reported to have grown in 2023, increasing by 27% from 183 million in 2022 to 232 million in 2023 (Global Shield Secretariat 2024a).

Figure 3.1: Total pre-arranged financing coverage volumes (2020–23)



Source: Centre for Disaster Protection, based on data from the Global Shield Secretariat (2024b)

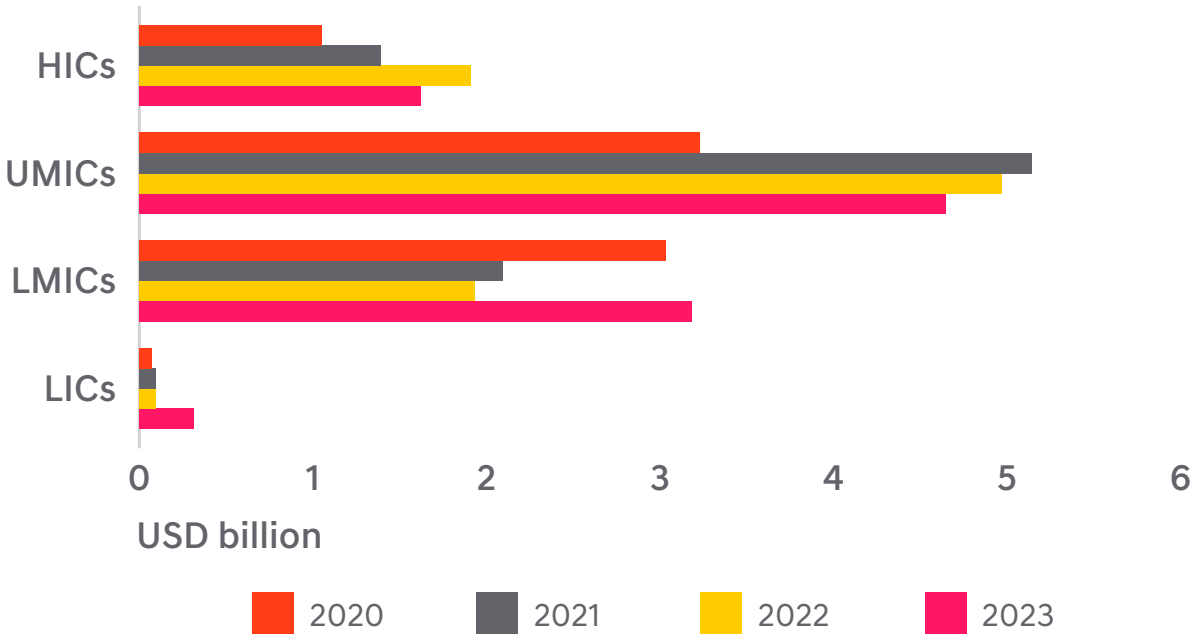
23 The trend of approximately USD750 million per year has a p-value of 4.3%.

3.2 Where is the coverage going?

Coverage continued to be concentrated in wealthier regions in 2023, with 16.6% in high-income countries and 47.4% in upper-middle-income countries (see Figure 3.2). Just 3.2% of coverage was in low-income countries. One notable change, however, is a significant increase in coverage in lower-middle-income countries, which accounted for 32.5% of reported coverage in 2023, up from 21.6% in 2022. Absolute volumes of coverage in lower-middle-income countries grew by USD1.2 billion, from USD1.9 billion in 2022 to USD3.2 billion in 2023.

While overall coverage remains low in low-income countries, it has nonetheless more than tripled, from USD91.8 million in 2022 to USD308.9 million in 2023. This growth was driven largely by increased coverage provided by the ARC risk pool (Global Shield Secretariat 2024a). There has also been an increase in reporting of projects offering micro- and meso-level insurance for households and businesses in sub-Saharan Africa, from 63 projects in 2022 to 116 in 2023 (Global Shield Secretariat 2024a).

Figure 3.2: Pre-arranged financing coverage volumes, by income group (2020–23)

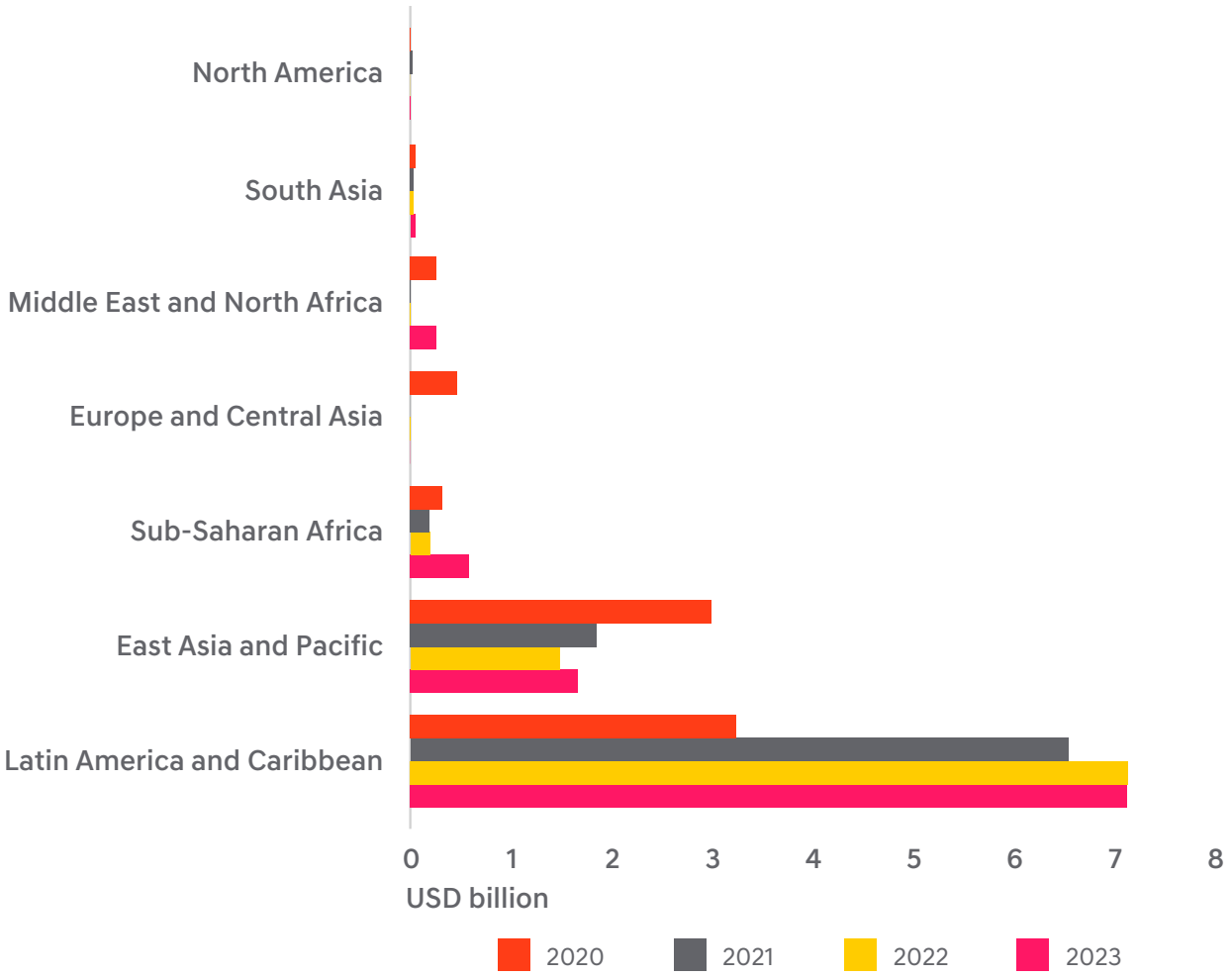


Source: Centre for Disaster Protection, based on data from the Global Shield Secretariat (2024b) and World Bank Group (2024c)

Note: For 0.4% of the combined coverage volume, the income group is not recorded. This mainly consists of coverage going to a number of SIDS that are not included in World Bank country and lending groups.

Concentrations of coverage by region track closely with income groups, with the highest levels of coverage by a wide margin in the Latin America and Caribbean region, which predominantly comprises upper-middle- and high-income countries (Figure 3.3).

Figure 3.3: Pre-arranged financing coverage volumes, by region (2020–23)

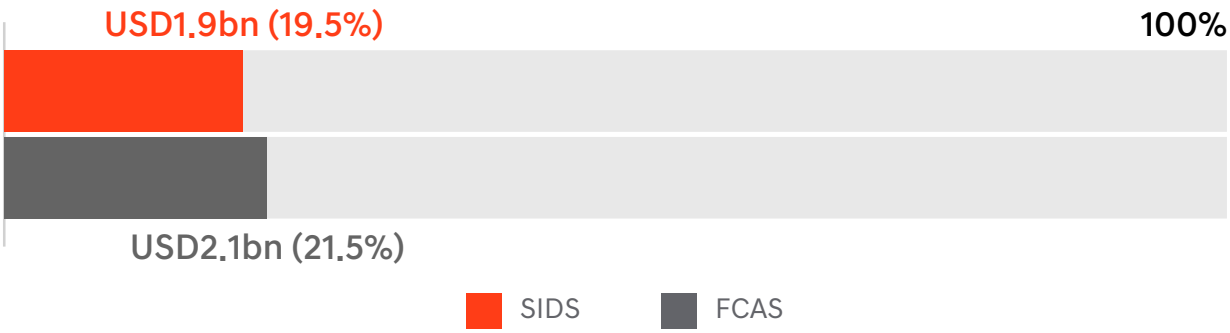


Source: Centre for Disaster Protection, based on data from Global Shield Secretariat (2024b) and World Bank Group (2024c)

Note: For 0.4% of the combined coverage volume, the region is not recorded. This mainly consists of coverage going to a number of SIDS that are not included in World Bank country and lending groups.

Country groupings of SIDS and fragile and conflict-affected states (FCAS) each accounted for around one fifth of reported coverage in 2023 (Figure 3.4). Coverage in both instances is heavily concentrated in a small number of countries, however; three countries accounted for 87.3% of coverage reported for SIDS (Jamaica 30.8%, Dominican Republic 27.8% and Haiti 25.2%) and three accounted for 71.2% of coverage reported for FCAS (Honduras 25.7%, Haiti 22.9% and Nicaragua 22.6%). Each of these SIDS and FCAS with the highest levels of coverage are in the Latin America and Caribbean region. SIDS in the East Asia and Pacific region, meanwhile, accounted for 7.9% of SIDS coverage and sub-Saharan Africa just 1.02%. While four FCAS in Latin America and the Caribbean accounted for 73.6% of FCAS coverage, 21 FCAS in sub-Saharan Africa received 24.6% of reported coverage in 2023.

Figure 3.4: Proportion of total pre-arranged financing coverage going to SIDS and FCAS (2023)

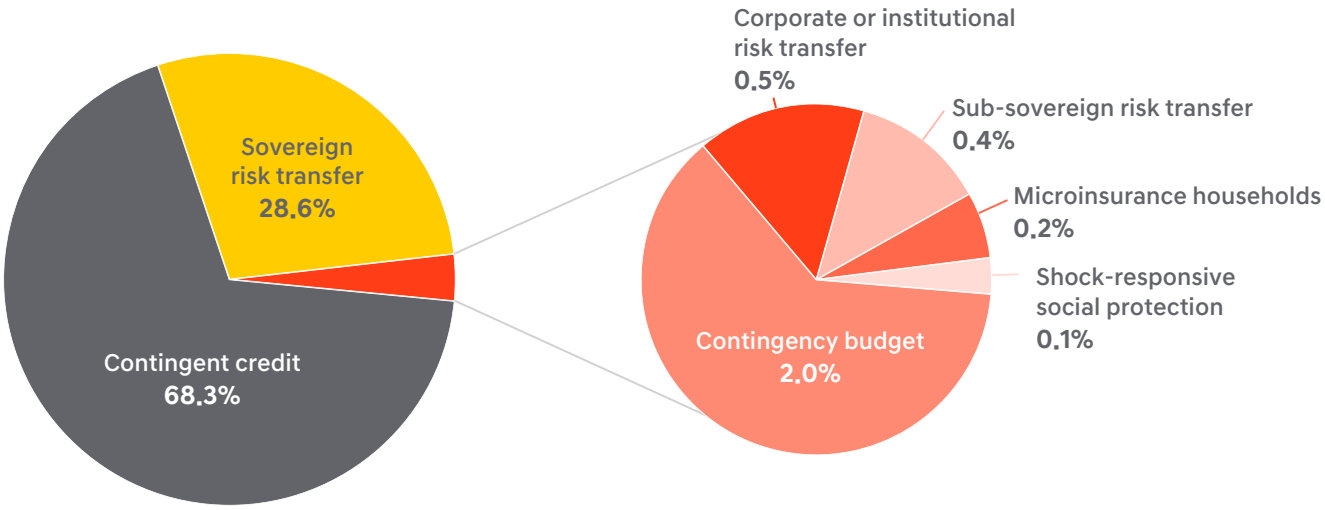


Source: Centre for Disaster Protection, based on data from Global Shield Secretariat (2024b) and the OECD (2024d)

3.3 What roles do different instruments play?

The largest volumes of coverage overall were provided by contingent credit instruments, which accounted for USD6.7 billion in coverage in 2023, 68.3% of the total reported. Sovereign risk transfer instruments – including insurance policies provided by the regional risk pools, and cat bonds – provided a further USD2.8 billion in coverage, 28.6% of the total reported.

Figure 3.5: Pre-arranged financing coverage, by instrument type (2023)



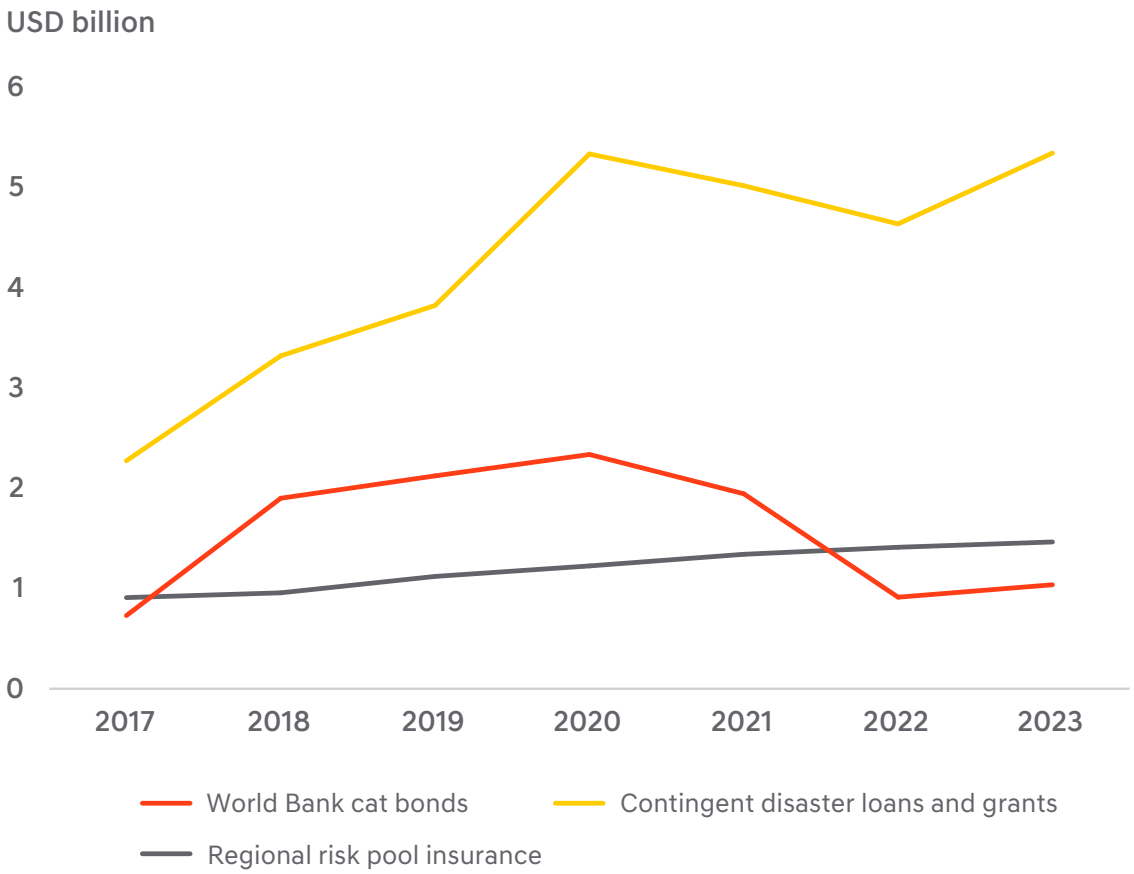
Source: Centre for Disaster Protection, based on data from Global Shield Secretariat (2024b)

Note: The Global Shield Secretariat categorisation of contingent credit instruments aligns with what is called 'contingent disaster loans and grants' elsewhere in the report. Only data from projects that provided the necessary information to estimate coverage volumes are available, which means that micro- and meso-level coverage is not fully reflected.

Sovereign instruments

This distribution is consistent with the longer-term trend observed in data the Centre collected on coverage provided by the leading sovereign instruments, contingent disaster loans and grants, cat bonds, and insurance provided by regional risk pools (Figure 3.6).

Figure 3.6: Pre-arranged financing coverage, by leading sovereign instrument types (2017–2022)



Source: Centre for Disaster Protection, based on Mustapha and Benson (forthcoming)

Note: Regional risk pool coverage includes policies issued to both sovereign and humanitarian clients.

Coverage provided by World Bank-issued cat bonds varied over the period. However, five earlier cat bonds were re-issued in 2024,[24] which will be reflected in the 2024 data as a substantial increase in coverage.

Coverage provided by contingent disaster loans and grants provided by ADB, IDB and the World Bank have grown substantially across the reporting period, increasing by 126.1% between 2017 and 2023 (see Figure 3.6). Coverage

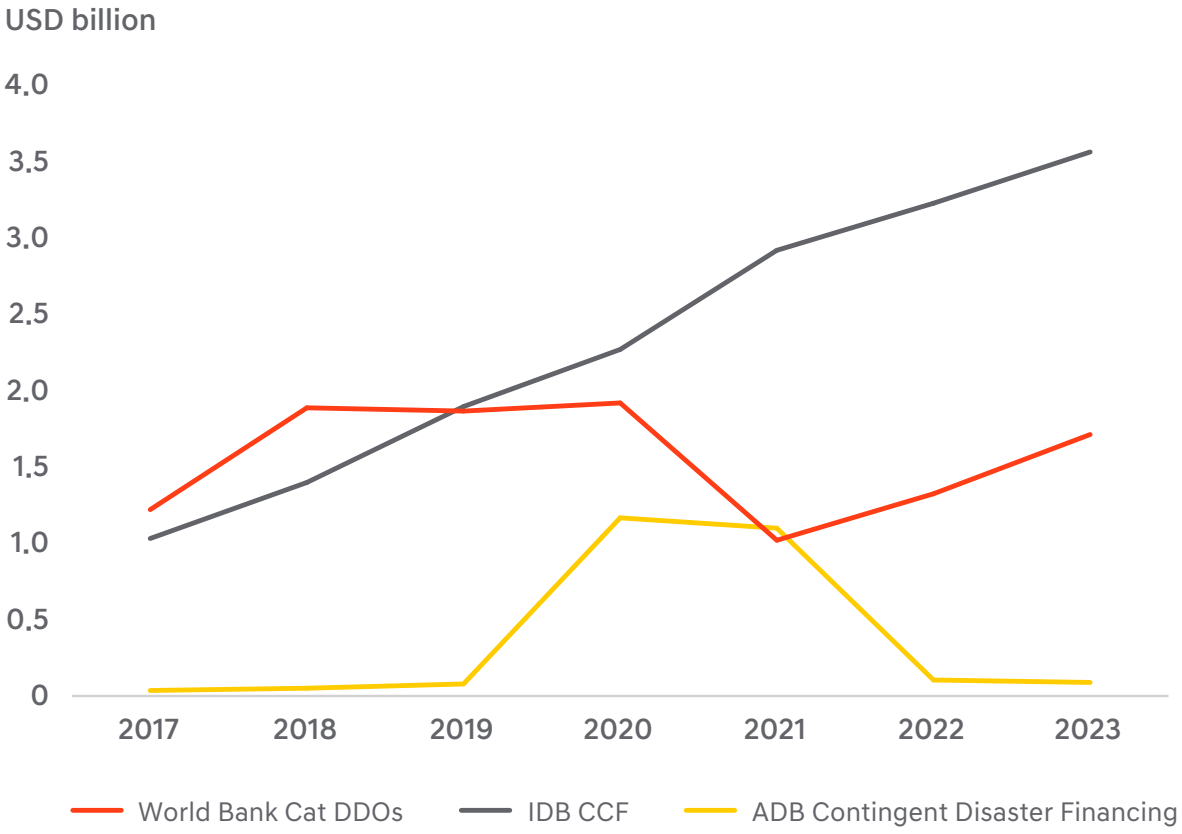
24 Mexico earthquake (lower risk), Mexico earthquake (higher risk), Mexico tropical cyclone (Atlantic), Mexico tropical cyclone (Pacific), and Jamaica tropical cyclone cat bonds.

provided by World Bank Cat DDOs varied across the period, from a high of USD1.9 billion in 2020 to USD1.1 billion in 2021 (Figure 3.7). Research by the Centre found that processing of new Cat DDOs was largely put on hold in 2020 to prioritise processing new financing for the covid-19 response (Mustapha and Benson, forthcoming).

Contingent disaster loan and grant coverage provided through the IDB Contingent Credit Facility for Natural Disaster and Public Health Emergencies (CCF) loans has increased steadily, notably since amendments were introduced in 2019,[25] reaching a record high of USD3.6 billion in 2023.

ADB's contingent disaster loan offer is relatively new and was only formally introduced in 2019 (Mustapha and Benson, forthcoming). Prior to this formalisation, ADB provided contingent disaster loans via waivers to its standard policy-based loan instrument, the first of which was approved in 2016.

Figure 3.7: Pre-arranged financing coverage from multilateral development bank contingent disaster loans and grants (2017–2023)



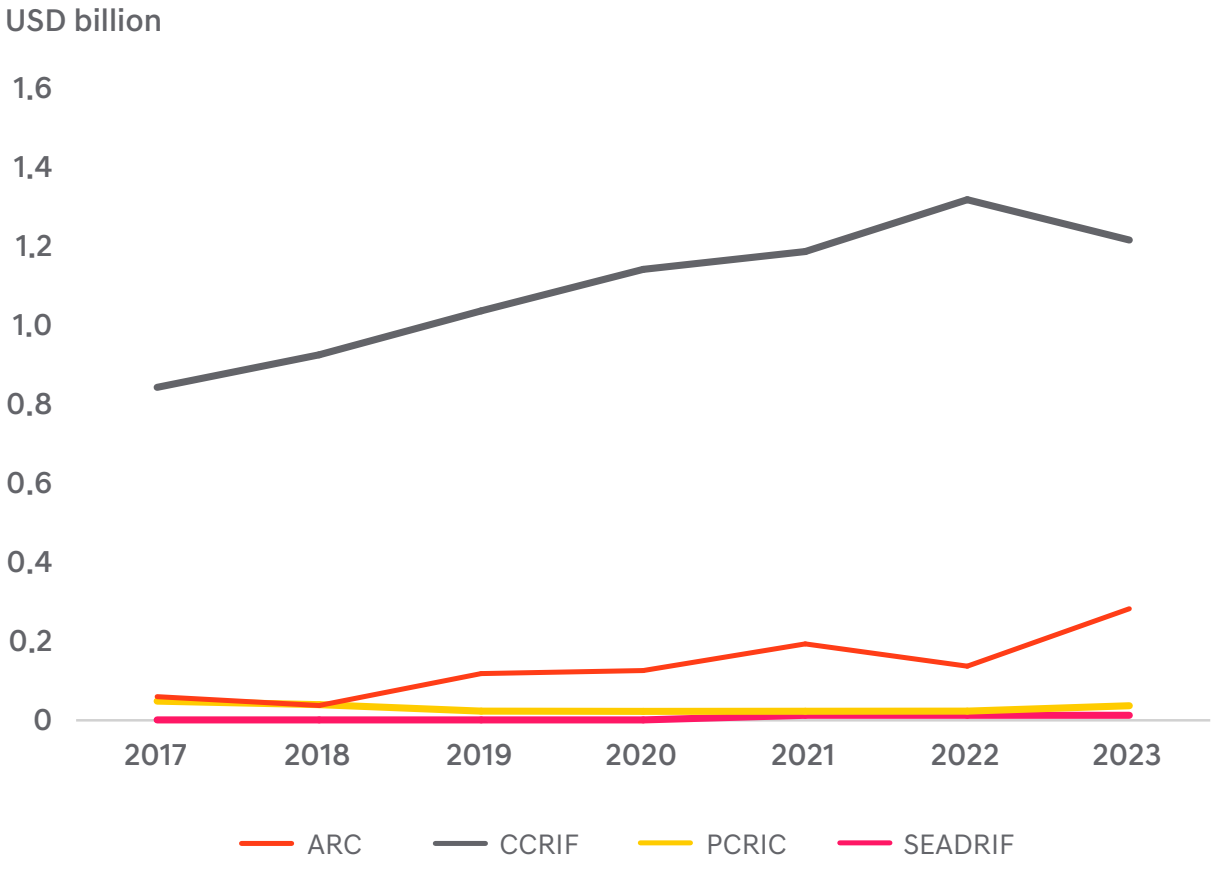
Source: Centre for Disaster Protection, based on Mustapha and Benson (forthcoming)

25 Including changes to the commitment fees, an option for replenishment of funds after drawdown(s) and the introduction of a second, soft trigger modality (Modality II) (Mustapha and Benson, f0rthcoming).

Coverage provided by the regional risk pools grew steadily across the period, but with substantial variations in the volumes provided and coverage trends across the four risk pools. CCRIF saw steady annual growth across the 2017–2022 period, and in 2022, CCRIF provided USD1.2 billion in coverage, 88.6% of the total coverage reported by the four risk pools, falling somewhat in 2023 to USD1.1 billion.

Coverage provided by ARC grew from a low in 2018 of USD34.3 million to a high in 2023 of USD264.4 million, a 106.9% increase from 2022 coverage levels (see Figure 3.8). This growth in ARC coverage in 2023 was largely responsible for the overall growth in risk pool coverage that year. Coverage provided by PCRIC ended the reporting period lower than it started at USD33.7 million in 2023, compared with USD44.7 million in 2017. Coverage provided by SEADRIF was static at USD11.0 million in 2021, 2022 and 2023, with a policy for only one country.

Figure 3.8: Pre-arranged financing coverage from regional risk pools (2017–2023)



Source: Centre for Disaster Protection, based on Mustapha and Benson (forthcoming)

Anticipatory action

Anticipatory action is a programmatic approach that originated within and is currently delivered by humanitarian organisations. Anticipatory action comprises actions taken before the peak impact of a shock to prevent or reduce potential disaster impacts (IFRC 2022). Conditions or triggers for the release of funds and initiation of actions are typically agreed against hazard forecasts as part of a 'framework' or response plan.

In contrast with PAF supported with international development financing overall, anticipatory action coverage is strongly concentrated in low-income countries, and in sub-Saharan Africa and South Asia (see Figures 3.9 and 3.10).

In 2023, based on data collected by the Anticipation Hub, 54.1% of anticipatory action financing coverage was in sub-Saharan Africa and 22.0% in South Asia; and 48.6% of coverage was available to low-income countries and 45.4% to lower-middle-income countries.

Figure 3.9: Anticipatory action financing available, by income group (2023)

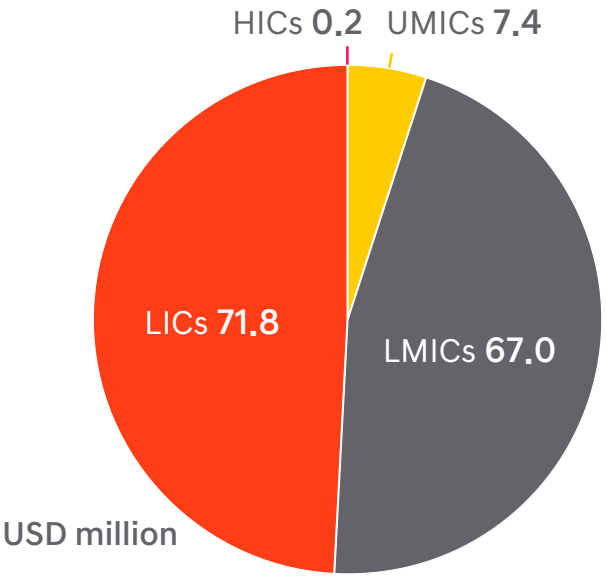
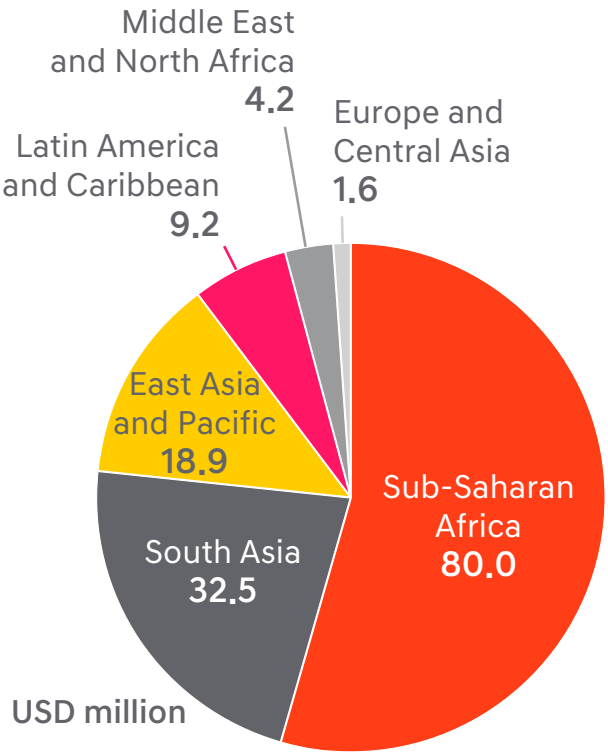


Figure 3.10: Anticipatory action financing available, by world region (2023)



Source: Centre for Disaster Protection, based on Anticipation Hub (2023) and World Bank Group (2024c)

4

PRE-ARRANGED FINANCING PAYOUTS

SUMMARY

- Comparing three types of sovereign instruments, contingent disaster loans and grants provided 91.8% of total PAF payouts between 2019 and 2023, compared with just 5.3% from World Bank-issued cat bonds and 2.9% from regional risk pools.
- By design, instruments targeting high-impact but relatively infrequent risk events are expected to pay out less frequently, but the relative amounts tend to be larger.
- Anticipation Hub data indicates that the amount disbursed by anticipatory action frameworks increased in 2023, to a new high of USD198.1 million.

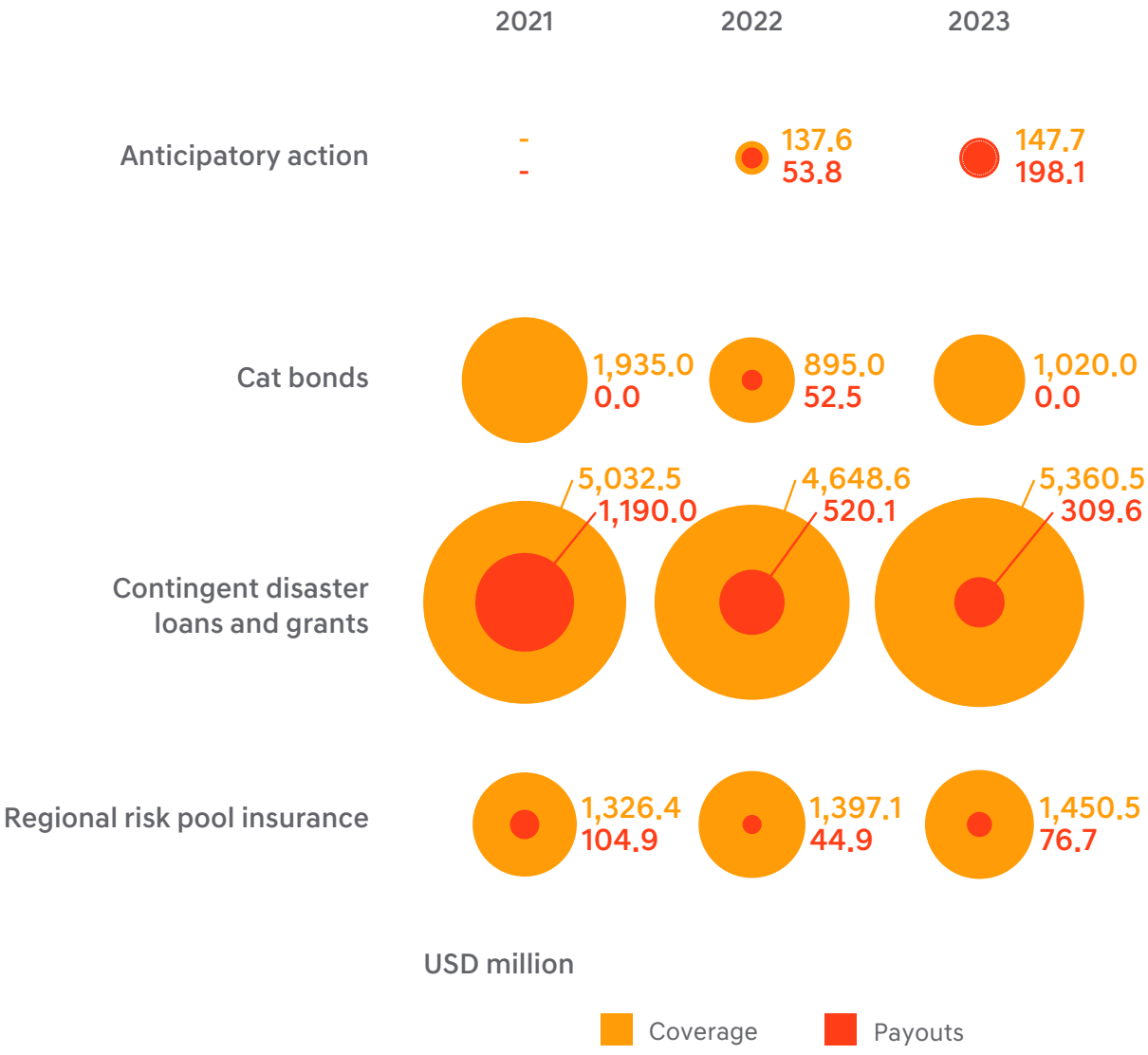
Information on the payouts made from PAF instruments, when agreed conditions are met and payments are released, is not collected systematically. The following chapter is new to the report this year, and the Centre has collected information from a variety of sources on payouts from leading sovereign-level instruments, and from the Anticipation Hub on funds available and disbursed through anticipatory action frameworks and funds (see Box 3.1).

4.1 How much has been paid out?

Payouts should, by design, vary year on year based on the scale and impact of disasters experienced in that year, linked to the level and frequency of risk which instruments are designed to address (Figure 4.1). Instruments that are designed to respond to more frequent shocks would also logically be expected to provide payouts more often; whereas instruments targeting high-impact but relatively infrequent layers of risk might be expected to pay out infrequently, but in relatively large amounts when they do.

Contingent disaster loans and grants have paid out the largest volumes of PAF among the three types of sovereign instruments included in this analysis, providing 91.8% of total payouts reported in the five-year period 2019–2023, compared with just 5.3% from World Bank-issued cat bonds and 2.9% from regional risk pools (see Figure 4.2).

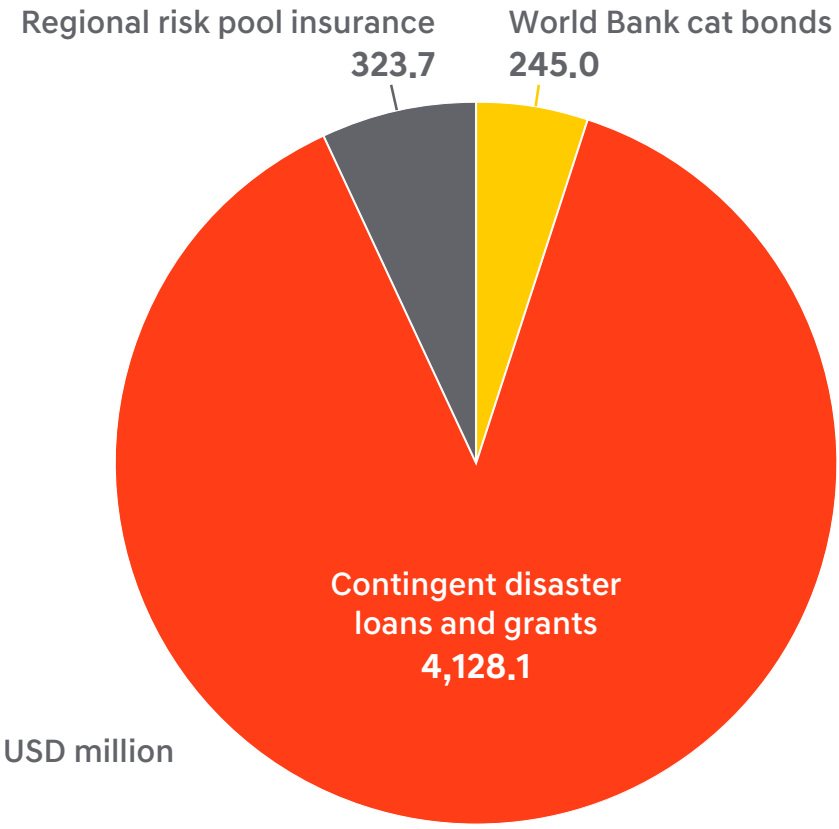
Figure 4.1: Pre-arranged financing and coverage, and payouts from leading sovereign instrument types and anticipatory action frameworks and funds (2021–23)



Source: Centre for Disaster Protection, based on Mustapha and Benson (forthcoming), and Anticipation Hub (2023)

Note: Anticipation Hub began collecting data from partners from 2022; currently, only two years of data are available.

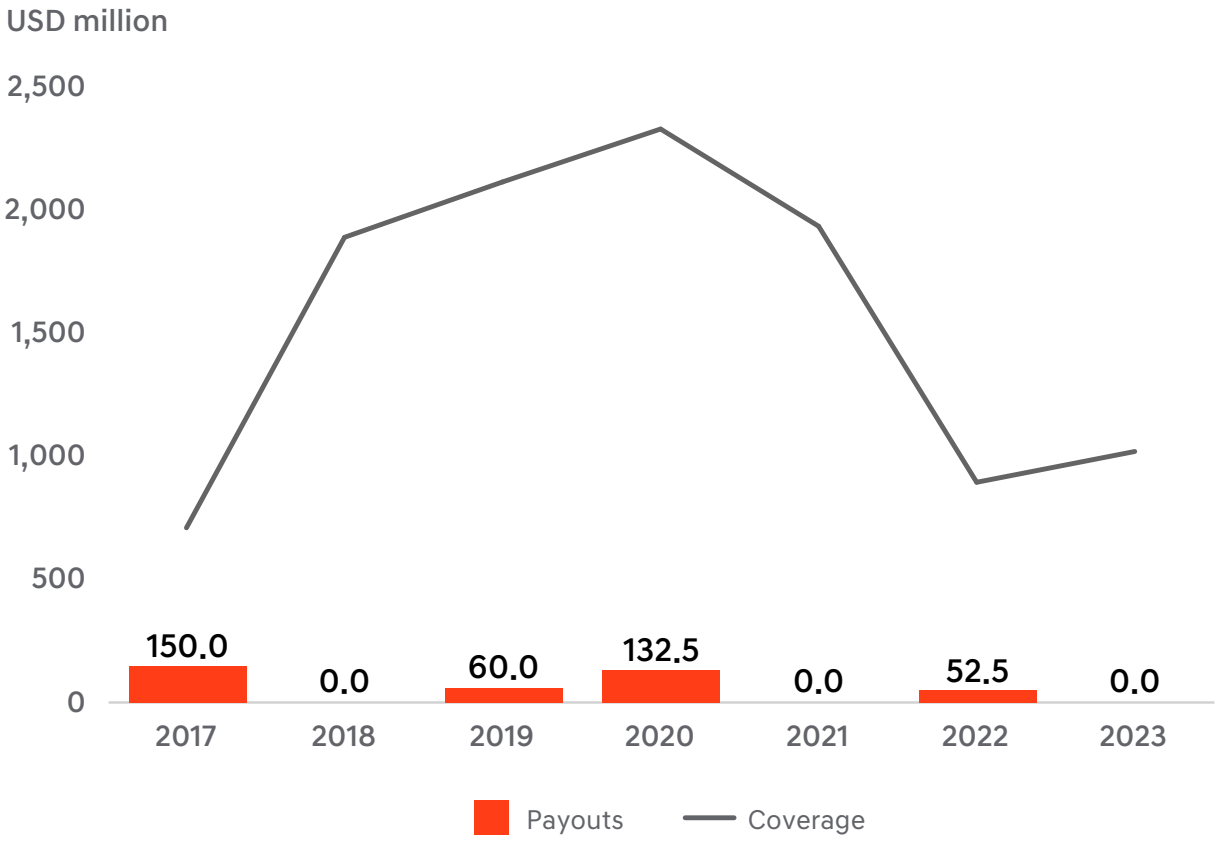
Figure 4.2: Total payouts from leading sovereign pre-arranged financing instrument types (2019–2023)



Source: Centre for Disaster Protection, based on Mustapha and Benson (forthcoming)

Cat bonds provide relatively large volumes of coverage for events that happen with relatively low frequencies and high impacts. As expected, payouts from World Bank-issued cat bonds – which are also few in number – occur sporadically (see Figure 4.3). The Mexico cat bond in 2017 paid out USD150 million in response to an earthquake in Chiapas state. The cat bond providing coverage for the World Bank's Pandemic Emergency Financing Facility paid out a total of USD132.5 million in 2020 to multiple countries to support their covid-19 response. The Peru cat bond in 2019 paid out USD60 million in response to an earthquake. The Philippines' cat bond was triggered in December 2021 in response to typhoon Odette, when the 35% trigger point was breached, releasing a USD52.5 million payout in early 2022 (Artemis 2022).

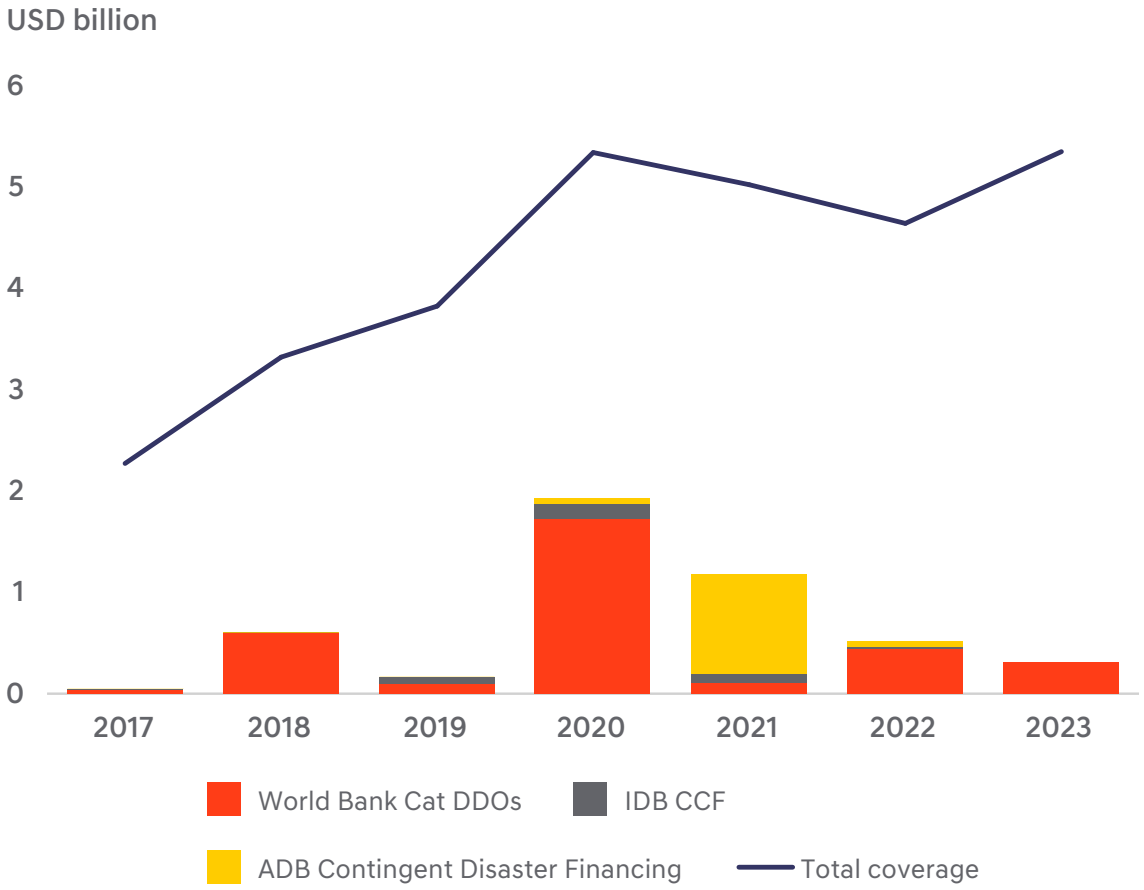
Figure 4.3: World Bank-issued cat bond total coverage and payouts (2017–2023)



Source: Centre for Disaster Protection, based on Mustapha and Benson (forthcoming)

As noted above in section 2, 2020 and 2021 were both years with very high rates of disbursement of contingent disaster loans and grants, both in response to the covid-19 crisis and a series of climate-related disasters, with total payouts from ADB, IDB and the World Bank totalling USD1.9 billion in 2020 and USD1.3 billion in 2021 (see Figure 4.4). Payouts dropped sharply in 2022 and 2023; however, coverage levels remained high.

Figure 4.4: Contingent disaster loans and grants total coverage and payouts (2017–2023)



Source: Centre for Disaster Protection, based on Mustapha and Benson (forthcoming)

Regional risk pools cover risks that occur with greater frequency than those covered by cat bonds. The two largest risk pools each cover a range of risks; the greatest coverage provided by CCRIF is for tropical cyclones and by ARC for drought. Payouts therefore reflect climatic conditions in the respective regions in any year (see Figure 4.5).

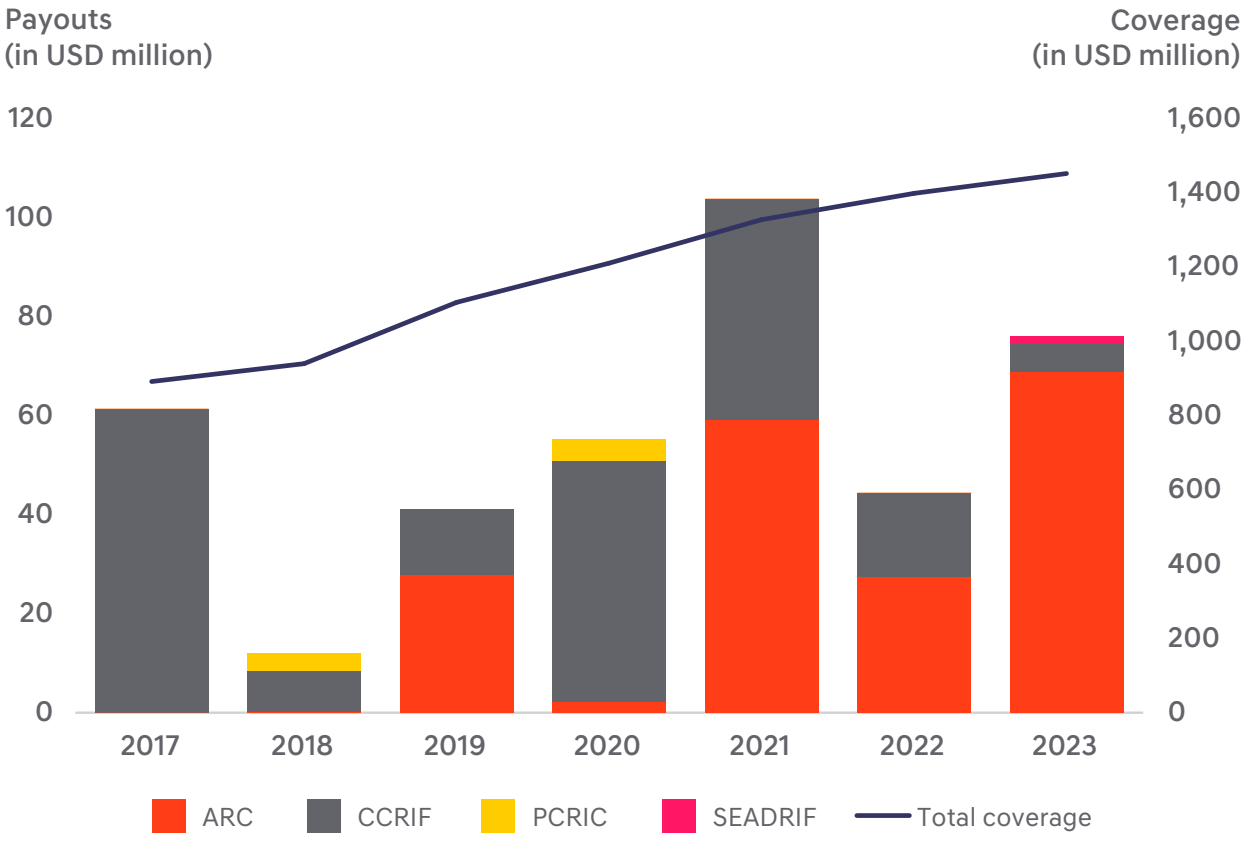
The Caribbean experiences high-impact hurricanes, including Irma and Maria in 2017, which triggered historically high CCRIF payouts. Following two relatively quiet years in 2022 and 2023, 2024 looks set to see new historic levels of CCRIF payouts. The hurricane season runs from roughly June to November. Already by the end of July 2024, CCRIF had confirmed historic levels of payouts, including USD6.3 million to the Government of Guatemala under its excess rainfall policy; USD44 million under the Government of Grenada's tropical cyclone, coastal fisheries and excess rainfall policies; and payouts to utilities companies in Grenada of USD9.3 million, Grenada Electricity Services under a parametric wind policy and USD2.2 million to the National Water and Sewerage Authority under its wind and rainfall policies (Artemis 2024a). Jamaica also received payouts of USD10.3 million under its excess rainfall policy and USD16.3 million under its tropical cyclone policy.

ARC experienced record payouts under risk pool

10 (2022/23), with many member countries affected by the El Niño phenomenon, which caused drought conditions in Southern Africa (ARC 2024a). Severe drought conditions continued in 2024 in Southern Africa; 2024 looks set to see high levels of payouts, with payouts of USD10 million issued to the Government of Zambia and USD3.3 million to the UN World Food Programme (WFP) under its ARC Replica[26] policy in Zambia (ARC 2024b). Payouts were also confirmed in July of USD16.8 million to the Government of Zimbabwe, in addition to USD6.1 million and USD8.9 million to ARC Replica partners WFP and START Network, respectively (ARC 2024c).

Payouts from the PCRIC risk pool since 2017 include payouts of USD3.5 million in 2018 and USD4.5 million in 2020 to the Government of Tonga in response to tropical cyclones. SEADRIF issued its first payout of USD1.5 million, to Lao PDR in 2023 in response to flooding.

Figure 4.5: Regional risk pool insurance coverage and payouts (2017–2023)

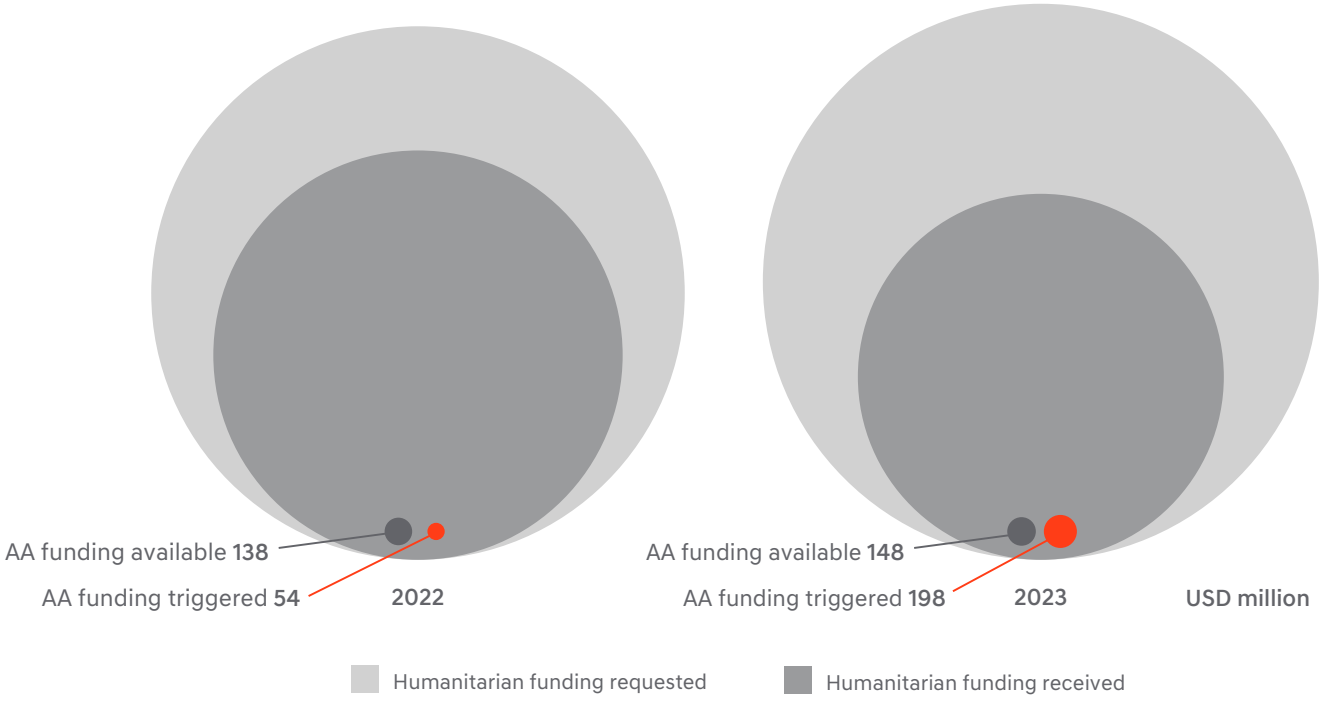


Source: Centre for Disaster Protection based on Mustapha and Benson (forthcoming)

26 ARC Replica matches ARC country insurance policies to also provide coverage to partnering humanitarian actors: https://www.arc.int/arc-replica

Data collected by the Anticipation Hub indicates that funds available within anticipatory action frameworks and funds increased by 7.4% between 2022 and 2023. The amount disbursed, however, exceeded the amount budgeted for in the frameworks and increased by 268.2% in 2023, to a new high of USD198.1 million (see Figure 4.6). Overall, this still represents a very small share of total humanitarian funding: just 0.8% of total humanitarian funding contributions to UN-coordinated appeals reported to the UN Office for the Coordination of Humanitarian Affairs (OCHA) Financial Tracking Service in 2023. The humanitarian funding gap widened significantly in 2023, with funding requirements USD4.5 billion higher in 2023 than in 2022, and funds received just USD23.4 billion, compared with USD30.4 billion received in the previous year.

Figure 4.6: Anticipatory action funds available and triggered as a share of total humanitarian funds requested and received in uncoordinated appeals (2022–23)



Source: OCHA (2024) and Anticipation Hub (2023)

5

SITUATING PRE-ARRANGED FINANCING IN A WIDER GLOBAL CONTEXT

SUMMARY

- Low- and middle-income countries and country groupings have led recent calls to radically overhaul international financial institutions, including through the G20, the influential Bridgetown Initiative, and the V20 Accra-Marrakech Agenda, as well as climate finance processes.
- International financial architecture reforms focus on increasing volumes of financing, expanding the mandates of MDBs to address climate risk and resilience, more inclusive governance arrangements, and better aligned development, climate and crisis finance agendas.
- International development financing is increasingly being used to bring down the costs of PAF, with widespread use of premium support and more attractive terms for contingent disaster loans from IDA as well as CRDCs, thereby addressing affordability as a major barrier to uptake of PAF at scale.
- Recent developments in the World Bank's Crisis Preparedness and Response Toolkit put forwards a series of modifications in its offer of crisis financing instruments, which include the introduction of new instruments, such as the Investment Project Financing with Deferred Drawdown Option (IPF DDO), as well as the improvement of existing ones, such as the Cat DDO.
- CRDCs are gaining high-level political and policy support, reflecting one example of notable improvements in the PAF toolkit.

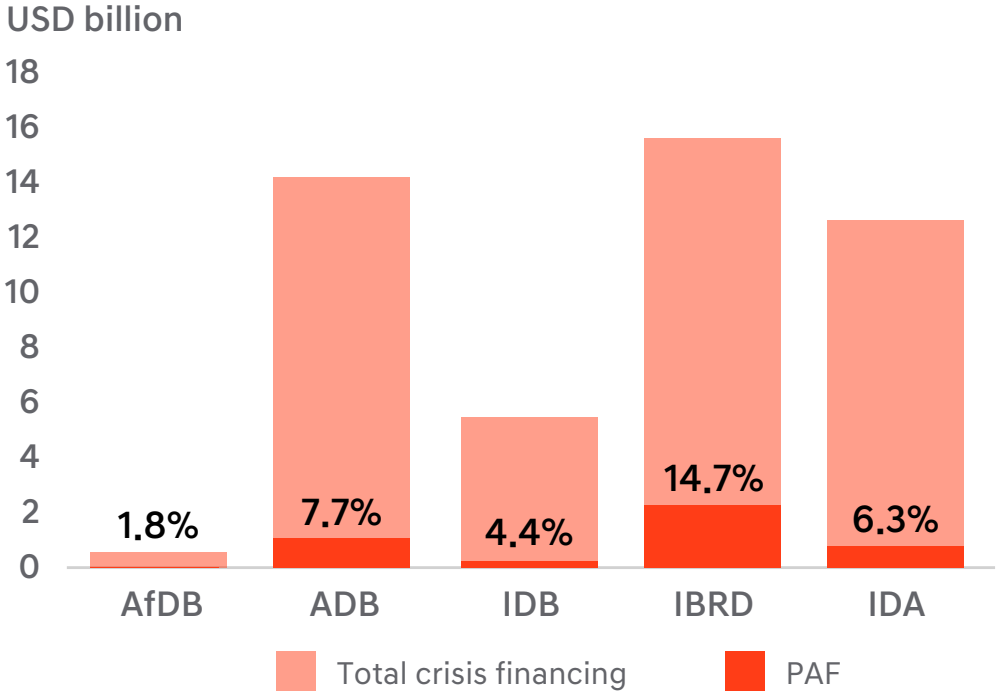
The following discussion considers trends in the wider policy and funding landscape, and opportunities within current policy and institutional reform agendas to support more widespread and equitable PAF for disasters. The discussion also considers themes and priorities emerging from reform agendas where these intersect with observed changes in the crisis financing toolkit. It includes influences from the MDB reform agenda, the World Bank Evolution agenda,[27] and the World Bank's Crisis Preparedness and Response Toolkit; and progress in relation to targeted calls across many reform agendas to introduce CRDCs.

5.1 Developments in the international policy environment

The international financial architecture is under strain to meet financing needs in an evolving crisis landscape. International development financing is increasingly called on to respond to shocks, reducing funds available to address longer-term development challenges, and the root causes of risk and vulnerability. These funds are channelled overwhelmingly through legacy instruments and approaches that were not adequately structured for this purpose.

MDBs have become leading providers of crisis financing, including the leading providers of PAF for disasters. The proportion of crisis financing provided as PAF varies substantially by institution (see Figure 5.1), linked to the level of demand from client countries, the instruments on offer and their attractiveness to client country governments. Overall, however, the majority of crisis financing MDBs provide is mobilised after shocks occur.

Figure 5.1: Total crisis financing and international development financing for pre-arranged financing, by multilateral development bank (2018–2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a)

Note: AfDB = African Development Bank. Amounts by the Caribbean Development Bank are not shown in the figure, but total crisis financing for this MDB is USD0.5 million and international development financing for PAF is USD0.2 million, or 43.4% of total crisis financing.

27 See https://www.devcommittee.org/content/dam/sites/devcommittee/doc/documents/2023/Final%20Updated%20Evolution%20Paper%20DC2023-0003.pdf

Against this backdrop, political momentum for meaningful architecture reform is building. Calls to radically overhaul international financial institutions (IFIs) have been issued from many quarters, predominantly led by low- and middle-income countries and galvanised by country groupings including the G20,[28] the influential Bridgetown Initiative,[29] and the V20 Accra-Marrakech Agenda.[30] Major MDB shareholders[31] have added to the momentum for reform, in the context of the World Bank Evolution agenda, and development by the World Bank and regional development banks of expanded crisis toolkits.

The momentum behind architecture reform is expected to continue as part of key policy fora across the latter half of 2024 and into 2025 – embedded into the financing discussions and agendas of the Azerbaijani presidency of the United Nations Climate Change Conference in November 2024 (Conference of the Parties (COP) 29) and Brazilian presidency of COP30 in November 2025; the 21st World Bank IDA replenishment; the Brazilian presidency of the G20 in 2024 and the South African presidency in 2025; and to feature prominently in the negotiations and agreement of the landmark Fourth International Conference on Financing for Development in 2025.

Calls for reform span many issues, but with a particular focus on increasing volumes of financing; expanding the mandates of MDBs to address climate risk and resilience and cross-border challenges such as pandemics; focusing on more inclusive governance arrangements; and better aligning interlinked (but too often siloed) agendas for development financing, climate financing and crisis financing. The potential for major shocks, notably climate shocks, to derail development progress are prominent in calls for reform. Notably, Bridgetown 3.0 calls to 'shock-proof' economies, while the V20 Ministerial Dialogue XII (April 2024) calls for a set of measures designed to create a 'Shock-Absorbent Financial System for Social Protection, Financial Protection and Loss and Damage'. Most critically, calls for reform foreground the interests of climate- and crisis-affected countries enduring the brunt of disaster risk and their demands for meaningful change. Notably, Bridgetown 3.0 calls for developing countries to have a stronger voice and greater representation in governance structures of the IFIs.

Calls for more, better and more equitable PAF for disasters are increasingly salient within the context of these reform agendas, and have entered the lexicon and statements of aspiration in a growing number of policy commitments (see Annex 5).

5.2 Advances in the pre-arranged financing toolkit

Building on reflections on advances in the financing toolkit in *The State of Pre-Arranged Financing for Disasters 2023* report, which looked at developments in cat bonds, regional risk pools, anticipatory action and World Bank Cat DDOs (Plichta and Poole 2023), the following discussion reflects on notable developments in a further selection of instruments. These include

28 See footnote 6.

29 See footnote 4.

30 See footnote 7.

31 For example, major shareholders – the G7, plus Australia, the Netherlands and Switzerland – in October 2022 issued a request to the World Bank to "refresh its vision" and align with the goals of the Paris Agreement to reduce greenhouse gas emissions. As cited in: https://www.ft.com/content/5945ac4d-a0a9-434f-8b79-68875849b7df

CRDCs, which have rapidly gained prominence and high-level political and policy support over the past two years, central to agendas such as the Bridgetown Initiative, and have begun to enter MDBs' product offerings.

As part of IDA's 20th replenishment (IDA20), the World Bank put forwards a series of modifications of its existing suite of crisis financing instruments. These included improved incentives for Cat DDOs (World Bank 2022); the introduction of the Investment Project Financing with Deferred Drawdown Option (IPF DDO) as a new instrument; and the commitment to a more systematic approach to using contingent emergency response components (CERCs).

Climate resilient debt clauses

A CRDC is a provision in a sovereign debt contract that enables the borrower to temporarily stop repaying debt (generally, both interest and principal repayments) for a pre-agreed period when a pre-defined event occurs, such as a violent storm or severe flooding (Mustapha et al. 2023).

BOX 5.1: CLIMATE RESILIENT DEBT CLAUSE DEFINITION

A CRDC is a state-contingent debt instrument that suspends repayments for a pre-agreed period when a pre-defined trigger threshold is met. These built-in debt deferrals can be designed to be net present value neutral and not to extend the instrument's original maturity date.

CRDCs can be a valuable addition to the DRF toolkit, providing access to quick liquidity by temporarily reallocating cash that would otherwise be used to repay debt, and providing an alternative to costly budget reallocations (Mustapha et al. 2023). CRDCs may provide a sovereign borrower's economy time to recover before resuming debt service, potentially reducing the risk of debt default and costly restructuring (Mustapha et al. 2023). If markets or creditors price in this reduced credit risk, it may also reduce the cost of borrowing (Mustapha et al. 2023).

Grenada in 2015, and later Barbados in 2018 and 2019, were first movers in negotiating these clauses into restructured debt instruments and, in the case of Barbados, a primary bond issuance as part of a debt-for-nature swap.[32]

However, it is only recently that these clauses have been integrated into MDB toolkits. IDB in 2020 was the first among the MDBs to offer CRDCs. In the context of increasingly strident calls to reform the IFIs to respond to twenty-first century risk, particularly from the Bridgetown Initiative, other MDBs are actively taking steps to offer CRDCs to their sovereign clients. The World Bank in 2023 introduced CRDCs as part of its enhanced Crisis Financing Toolkit for 45 SIDS. The African Development Bank (AfDB) and European Bank for Reconstruction and Development (EBRD) announced their introduction at COP28 in November 2023. Various countries are also offering these clauses or plan to offer them. These include Canada, France, Spain, the UK and the US.

32 See: https://www.prnewswire.com/news-releases/barbados-announces-successful-closing-of-landmark-debt-conversion-that-will-support-marine-conservation-for-generations-301629490.html

Uptake of these clauses among borrowers is slowly building. IDB noted that by March 2024 six out of 12 eligible countries[33] had activated Principal Payment Option clauses (the IDB term for CRDCs) (IDB 2024). Based on publicly available information, as of September 2024, seven of the 45 eligible SIDS had taken up CRDCs offered by the World Bank (Mustapha and Benson, forthcoming). Both IDB and the World Bank have reduced transaction fees associated with their CRDC offerings (Mustapha and Benson, forthcoming),[34] which has stimulated uptake, particularly for the World Bank option.

There are also efforts to promote the inclusion of CRDCs in sovereign bond contracts. The Government of Grenada recently became the first country to trigger the CRDC in its international bond following the devastation of Hurricane Beryl in June/July 2024. Since Grenada in 2015 and Barbados in 2022, no bond issuances have included a CRDC despite the publication of a term sheet in 2022. This is due to a number of demand- and supply-side constraints relating to trigger design, and considerable uncertainty on pricing implications and market conditions more broadly (Mustapha et al. 2023).

World Bank Catastrophe Deferred Drawdown Options

Since the introduction as part of the IDA20 cycle of the '4-for-1' offer, where for each quarter of funding from country allocations, there is a matching quarter from IDA's Crisis Response Window (CRW)[35] and a matching half from other general IDA resources, 10 more Cat DDOs have been approved in IDA countries.[36] This brings to 27 the number of Cat DDOs approved in IDA countries since their introduction in 2018. This currently exceeds the total number of Cat DDOs in IBRD countries (23 in total), even though they have been available to these countries for a decade longer (Figure 5.2). This may be because, unlike IDA CAT DDOs, 100% of the IBRD equivalents are funded through countries' lending envelopes, which has an opportunity cost for governments (Mustapha and Benson, forthcoming).

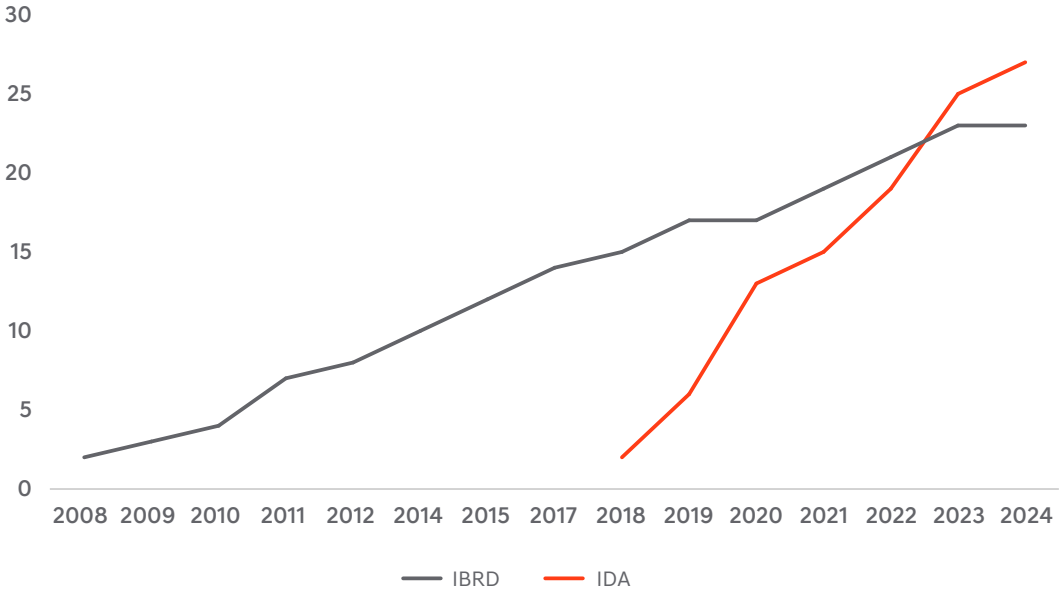
33 A country must have an active contingent credit facility loan to be eligible for IDB's principal payment option.

34 IBRD reduced the transaction fee from 0.1% per annum to 0.05% per annum on outstanding loan balances; the World Bank in June 2024 waived an earlier 0.05% fee altogether and now offers CRDCs at no cost (Mustapha and Benson, forthcoming).

35 USD250 million of the Crisis Response Window's last resort resource is reserved for this (World Bank 2023).

36 Benin, USD80 million; Cabo Verde, USD10 million; Fiji, USD10 million; the Gambia, USD20 million; Kiribati, USD2 million; Malawi USD57 million; Mauritania, USD24 million; Solomon Islands, USD5 million; Tonga, USD20 million; Vanuatu, USD4 million (Centre for Disaster Protection, based on data from World Bank Group (2024b)).

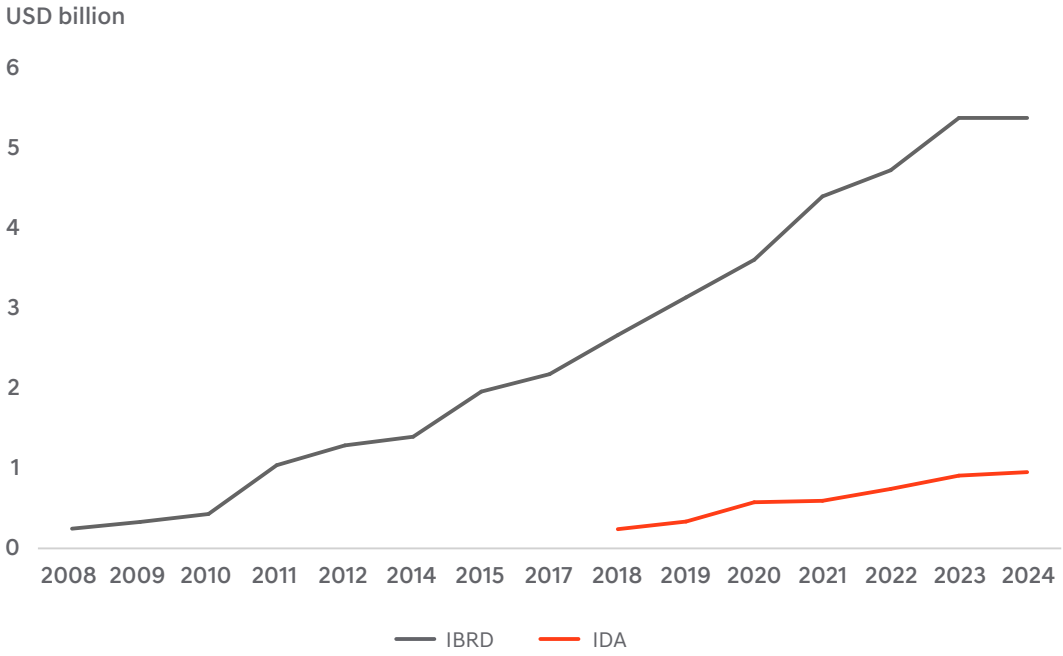
Figure 5.2: Cumulative number of approved Cat DDOs for IBRD and IDA countries (2008–2024)



Source: Centre for Disaster Protection, based on data from World Bank Group (2024b)

Note: This excludes three Cat DDOs to 'blend' countries, whose classification means they can lend from both IDA and IBRD.

Figure 5.3: Cumulative approved amounts of Cat DDOs for IBRD and IDA countries (2008–2024)



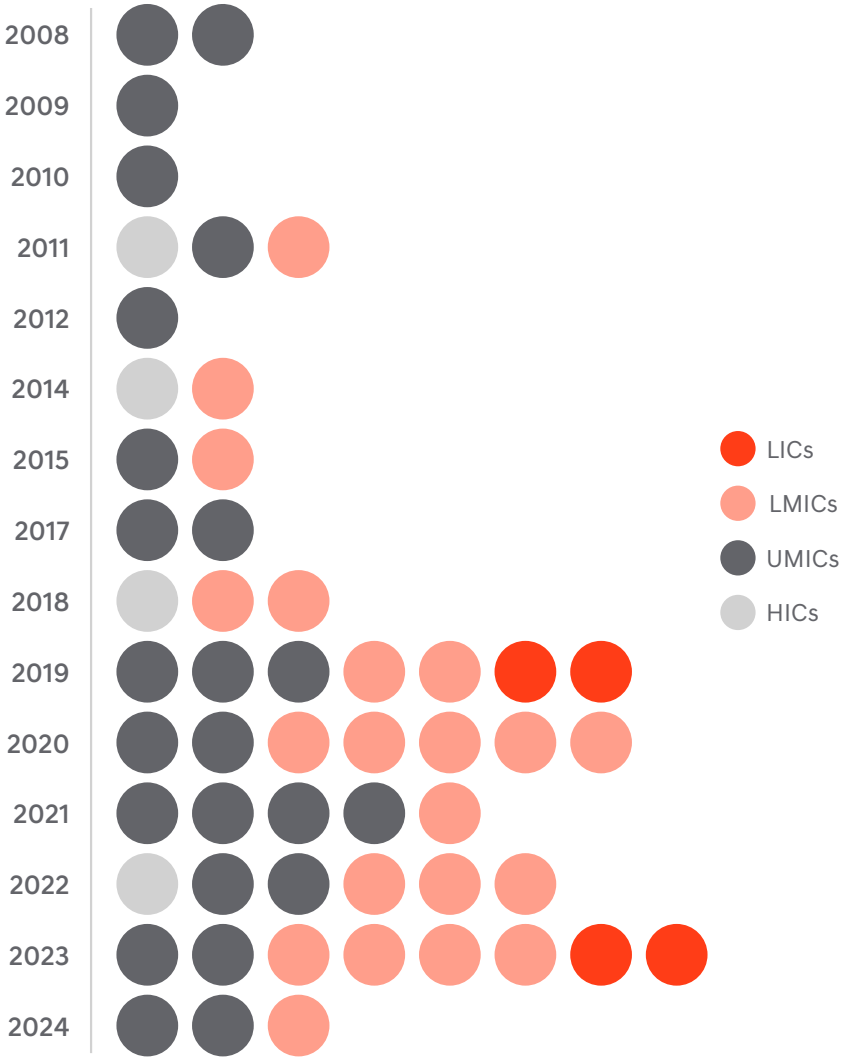
Source: Centre for Disaster Protection, based on data from the World Bank Group (2024b)

Note: This excludes three Cat DDOs to 'blend' countries, whose classification means they can lend from both IDA and IBRD.

In terms of total coverage provided by Cat DDOs, however, between 2008 and 2024 the amount was significantly higher in IBRD countries (USD5.4 billion) compared with IDA countries (USD0.9 billion) (Figure 5.3). The difference in size can be largely explained by the country limits for both types of Cat DDOs, which is dependent on the GDP of countries and tends to be significantly lower for IDA countries (World Bank Treasury 2024a, 2024b).[37]

Uptake by low-income countries in particular has been consistently low (Figure 5.4), with four approved Cat DDOs in total, including by Madagascar in 2019 (USD50 million) and the Gambia in 2023 (USD20 million). The remaining two were by Malawi, in 2019 (USD30 million) and 2023 (USD57 million).

Figure 5.4: Number of approved Cat DDOs, by income group (2008–2024)



Source: Centre for Disaster Protection, based on data from the World Bank Group (2024b)

37 For IDA countries, the country limit is USD500 million or 1% of GDP, whichever is lower. For IBRD countries, it is USD1 billion or 0.5% of GDP, whichever is lower.

Contingent emergency response components

World Bank investment project financing can include a CERC to address emergency recovery activities (for up to 18 months). While they are mostly used as a budget reallocation mechanism (a 'zero-dollar component'), it is also possible to pre-allocate an amount to this component, hence they are a further form of PAF.

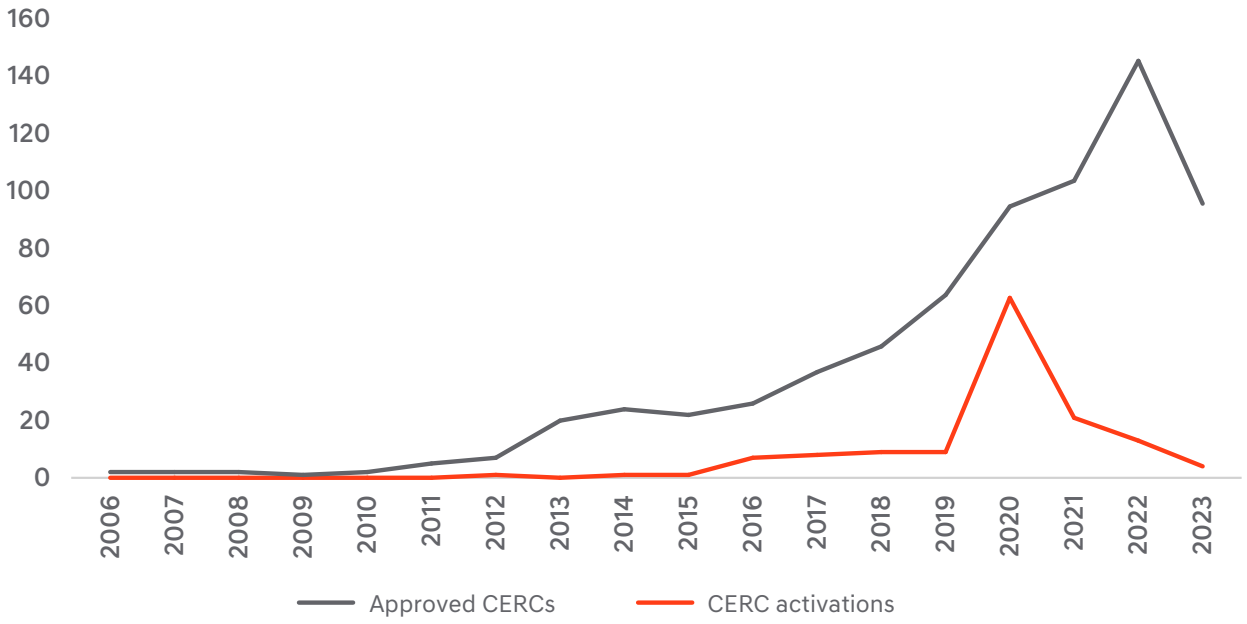
On their introduction in 2006/07, CERCs were intended as particularly relevant to lower-income countries; at that time, Cat DDOs were not available to IDA countries (World Bank 2009). IDA countries can access up to 5% (or up to USD5 million in the case of small island states and countries) of their undisbursed investment project portfolios from the IDA immediate response mechanism following a crisis, including to channel resources through a CERC.

Project funds that are drawn down through CERCs can be replenished through restructuring the project and adding new funding from the country allocation. Alternatively, the CRW can replenish, in part or whole, project funds that are drawn down through CERCs to respond to CRW-eligible crisis events. The CRW also includes Early Response Financing through which the CRW can pre-allocate up to USD25 million to a CERC for disease outbreaks and food insecurity or, latterly, top up project funds following use of CERCs for this purpose, subject to set caps (World Bank 2022).

While including a CERC requires predefining, through an operations manual, what type of expenditures the emergency financing can be used for, not all CERCs are PAF according to the Centre's definition. That is because at the time of project approval, the CERC can either have funding pre-allocated to it, or it can be included as a zero-dollar project component, in which case it is used as a budget reallocation mechanism and not a PAF instrument (World Bank 2009). In the latter case, the scope of the CERC is often defined at a later stage rather than when the project is approved.

Since their introduction in 2007, the inclusion of CERCs in World Bank projects has steadily increased over time (Figure 5.5), with a total of 146 CERCs in 2022 being the highest number in a single year. CERC activations peaked in 2020, with 54 in response to the covid-19 crisis out of a total of 63 that year, making it a 'key mechanism for providing rapid support' (World Bank 2022).

Figure 5.5: Number of approved World Bank projects including CERCs and activations, by fiscal year (2006–2023)



Source: Centre for Disaster Protection, based on data from World Bank Group (2024e)

Note: Fiscal year 2023 = 1 July 2022 to 30 June 2023.

Although CERC activations over the years have been recorded for a total of 122 projects and add up to USD3.2 billion, only 18 of these projects had amounts pre-allocated to them,[38] indicating that the main use of CERCs has not been for PAF, as they are most typically set as zero-dollar project components.

With detailed information on the exact allocations, reallocations and disbursements of CERCs only available in individual project documents, it is challenging to quantify the precise amount of PAF provided by the World Bank through this specific instrument. However, it is clear the approach to using CERCs is far less systematic; they play a much smaller role than Cat DDOs as a PAF instrument.

Investment Project Financing with Preferred Drawdown Option and Contigent Emergency Projects

As part of the most recent developments in the World Bank's Crisis Preparedness and Response Toolkit, the World Bank has also formalised its offer of the IPF DDO as a new contingent financing instrument and way to pre-arrange financing. As discussed in this section, while Cat DDOs offer financing in the form of unearmarked budget support, IPF DDOs are linked to specific development objectives of a project (Stefan and DeGrauw 2024). Cat DDOs, and budget support more generally, come with requirements in relation to the macroeconomic policy frameworks countries have in place, which restricts access to this instrument by countries that do not meet these criteria (World Bank Treasury 2024b). In

38 This is at project appraisal stage.

contrast, all countries that borrow from the World Bank are eligible for Investment Policy Financing, which means IPF DDOs can allow more countries to put contingent financing in place. Malawi is the first IDA country to receive approval for an IPF DDO, worth USD60 million (World Bank 2024).

Another development is the possibility to top up existing Cat DDOs through a Rapid Response Option (RRO). RROs allow countries to rapidly access undisbursed funds from their IDA or IBRD country allocation (up to 10%), either to this end, or to use it towards newly introduced Investment Policy Financing Contingent Emergency Projects (IPF CERPs). IPF CERPs build on an assessment of a country's crisis preparedness, allowing for the rapid reallocation and disbursement of emergency funding (World Bank Group 2024f). While existing CERCs also facilitate this, they are included as project components, whereas IPF CERPs are stand-alone projects. Thus, while not relying on PAF, IPF CERPs potentially allow a more focused approach to crisis preparedness by having one specific project per country through which various budget reallocations can swiftly be channelled.

One key test for the toolkit will be whether their use ends up matching stated intentions or not. Previous well-intentioned World Bank budget reallocation instruments such as the Immediate Response Mechanism, which was introduced in 2012 and has now been replaced by the RRO, have received limited uptake.

5.3 Affordability amid growing liquidity challenges

While there have been improvements on the supply side, including a policy environment increasingly demanding attention to crisis financing, and a growing range of instruments on offer, and instruments available on more favourable terms, demand for PAF in low- and middle-income countries is often limited for a variety of reasons. The political incentives to resource and prioritise investments in planning, preparedness and PAF are weak, even more so for governments facing major fiscal constraints. The affordability of PAF instruments is a growing challenge for many governments.

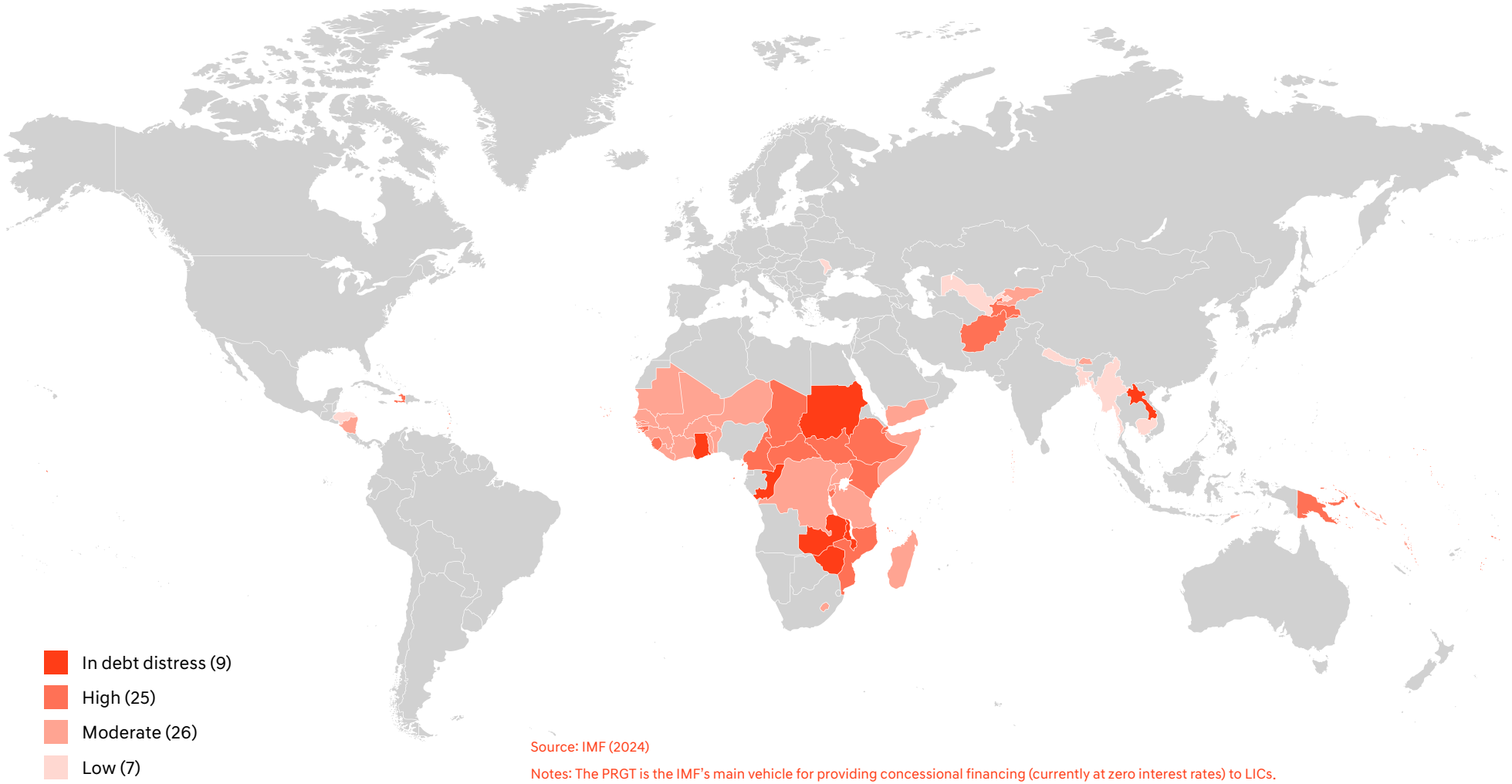
Debt levels in developing countries continued to rise in 2023, continuing a trend of sharp increases in debt levels since 2015 (UN 2024). As of 30 April 2024, of 69 countries assessed under the IMF/World Bank Debt Sustainability Framework,[39] nine countries were in debt distress, 25 countries were at high risk of debt distress, 26 countries at moderate risk, and seven countries at low risk (see Figure 5.6).[40] According to the IMF, 'the median low-income country is spending over twice as much on debt service to foreign creditors as a share of revenue than it did 10 years ago – roughly 14% at the end of 2023 from 6% 10 years earlier' (Pazarbasioglu and Saavedra 2024).

Rising levels of debt and costs of debt service represent major challenges for many low- and middle-income countries. PAF instruments that add to countries' debt stock are unlikely to be attractive to governments struggling to manage large debt burdens.

39 Based on the joint International Monetary Fund-World Bank Debt Sustainability Framework, a standardised framework for conducting a public and external debt sustainability analysis (DSA) in low-income countries.

40 Note that Eritrea in 2024 did not publish a DSA. St Lucia was not included in the list in 2024 as it reported against a different DSA; and Guyana, which was included in 2023, is not eligible for the Poverty Reduction Growth Trust. Somalia has progressed since 2023 from being assessed as being in debt distress to being at moderate risk of debt distress. Ghana, Malawi and Zambia are engaged in debt restructuring processes.

Figure 5.6: Risk of debt distress rating for the poverty reduction growth trust (PRGT) eligible IMF member countries as of 30 April 2024



Source: IMF (2024)

Notes: The PRGT is the IMF's main vehicle for providing concessional financing (currently at zero interest rates) to LICs.

The costs of putting in place financial protection against shocks via risk transfer instruments are also under pressure from rising costs in reinsurance and capital markets. Regional risk pools, for example, have all noted pressures from high costs of reinsurance.[41]

Analysis of World Bank-issued cat bonds provide an illustration of rising costs of risk transfer in hardening capital markets. The Centre's analysis of the costs of repeat issuances of World Bank-issued cat bonds in Chile, Jamaica and Mexico[42] indicates that risk multiples have increased, in some cases substantially, between first and second issuances (Meenan 2024). The Jamaica cat bond issued in 2024, for example, was 61% more costly than the previous issuance in 2021 (Meenan 2024) (see Figure 5.7). This means that each unit of coverage cost 61% more in premiums than in the previous issuance; or, conversely, if USD1 in premiums previously bought an expected payout of USD100 it now buys USD62 (Meenan 2024). Meeting the World Bank's stated aspiration to expand its disaster risk transfer products – primarily cat bonds – by 400% to USD5 billion over the next five years (Artemis 2023a) may prove difficult to achieve under such conditions.

Figure 5.7: Changes in expected risk multiples for recent World Bank-issued cat bonds (2018–2021)

Cat bond issuance	Year	Risk multiple	Year	Risk multiple	% change
Chile earthquake	2018	2.91	2023	4.75	63%
Mexico earthquake (lower risk)	2019	3.89	2024	4.44	14%
Mexico earthquake (higher risk)	2019	1.56	2024	1.88	21%
Mexico tropical cyclone (Atlantic)	2019	1.73	2024	2.37	37%
Mexico tropical cyclone (Pacific)	2019	1.6	2024	2.93	83%
Jamaica tropical cyclone	2021	2.89	2024	4.67	61%

Source: Meenan (2024)

41 In its 2024 annual report, for example, the Southeast Asia Disaster Risk Insurance Facility described how in October 2023, at a Sovereign Risk Pools Summit co-organised with the Centre for Disaster Protection and Gallagher Re, representatives of the four regional risk pools, donors and development partners 'discussed extensively' the cost of (re)insurance as a common challenge (SEADRIF 2024). The Pacific Catastrophe Risk Insurance Company (PCRIC) cited high costs of reinsurance as a driver of its requirements for additional donor funding (Artemis 2024b).

42 Note that multiple factors affect the prices of catastrophe (cat) bonds, not only the modelled expected loss value. However, given that the repeat issuances in Figure 5.10 cover the same types and regions, at essentially the same risk levels, and assuming that other structural features have not changed significantly in the repeat issuances, it is fair to compare risk multiples charged for previous and repeat issuances to understand the order of magnitude of the changes in price.

But while affordability is a substantial deterrent to uptake and retention of PAF, it is also a problem international development financing actors have the capacity to address, at least in part.

Regional risk pools – with the exception of CCRIF – have struggled to attract and retain customers (Mustapha and Benson, forthcoming).[43] For example, SEADRIF still has only one policy holder. Of 55 eligible African Union member states, only 39 so far are signatories to the ARC Establishment Treaty; of these, only 12 have ratified the treaty (ARC 2024d). In the 2018/19 ARC risk pool, participation had dropped to just three countries, with coverage of USD34.3 million (Chamberlain and Bernards 2024). Attitudes towards providing governments with financial support to purchase insurance in the form of premium support among donors began to change around this time, with the notable introduction of ARC Replica in the 2019/20 risk pool, which allowed WFP and the Start Network to purchase policies with funding from the Danish and German governments (Chamberlain and Bernards 2024), and the establishment in 2019 of AfDB's Africa Disaster Risk Financing (ADRiFi) programme.[44] By 2021, development partners paid around 60% of ARC's premiums for sovereign drought policies (ARC 2022). All four risk pools now receive premium support, with ARC and PCRIC[45] most reliant on this support as a means to attract and maintain clients, while the premium of SEADRIF's sole client, Lao PDR, was paid in full through an IDA project (Mustapha and Benson, forthcoming).

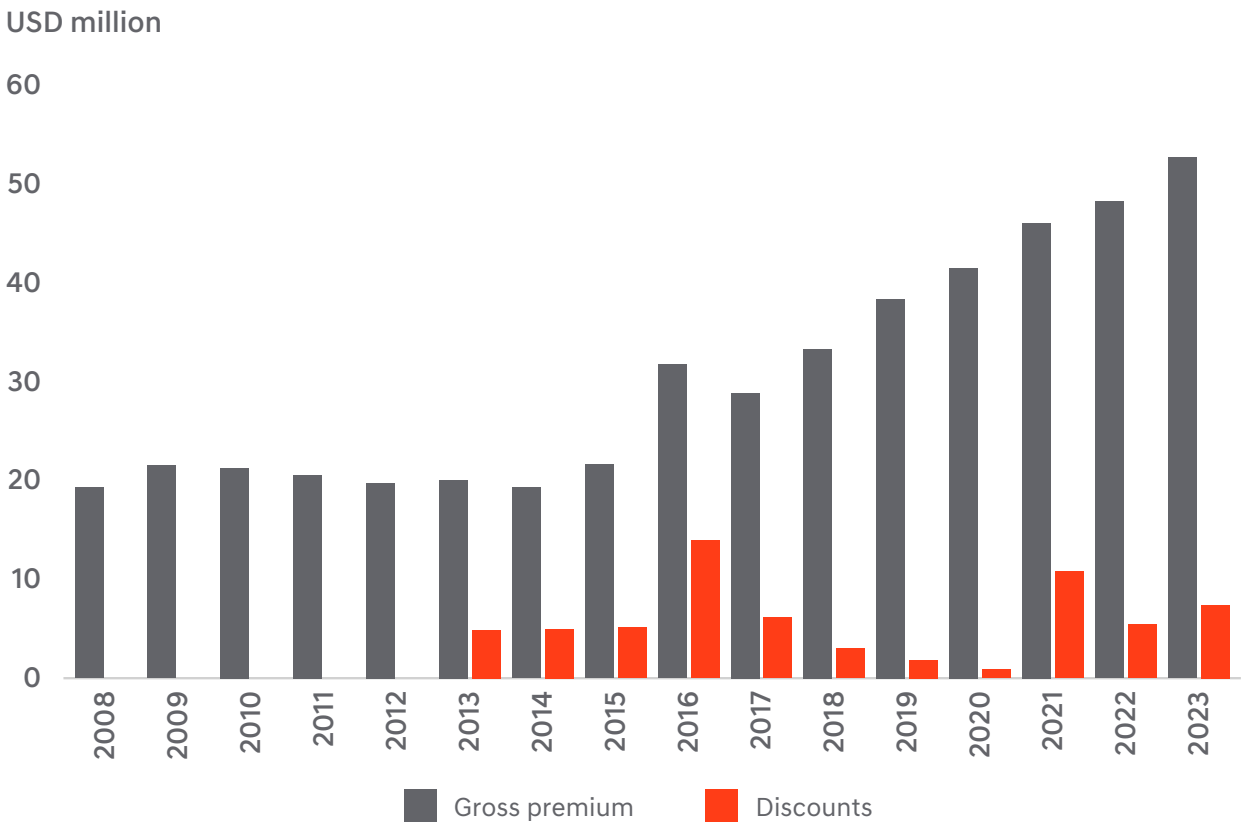
Donor premium support has played a major role in expanding the coverage regional risk pools provide and ensuring the risk pools remain financially viable. However, premium support is provided on an unpredictable and ad hoc basis from the perspective of member country governments and the risk pools themselves (Bertram and Scott 2024). CCRIF follows its own approach, meanwhile, and since 2013 has offered premium discounts linked to payouts made in the previous year (Meenan 2024) (see Figure 5.8). In 2020, donors including Canada and the EU began contributing to a fund managed by the Global Facility for Disaster Reduction and Recovery to support CCRIF's premium discount offer (Artemis 2020).

43 Mustapha and Benson (forthcoming) find that, as a percentage of the total countries eligible, 79% have used Caribbean Catastrophe Risk Insurance Facility instruments, with almost all countries renewing their policies.

44 The Africa Disaster Risk Financing (ADRiFi) programme is a collaboration between the African Development Bank (AfDB) and African Risk Capacity (ARC) launched in 2019, which is taking a more flexible approach in how it provides premium support for countries. The programme provides direct premium support of up to 50% of total premiums over a five-year period to countries buying ARC insurance cover. To pay for their own half of the premium, countries may use concessional financing from AfDB.

45 Development partners covered an average of 55% of premiums for the policies issued by PCRIC in 2023 (Mustapha and Benson, forthcoming).

Figure 5.8: Premium income and discounts offered by Caribbean Catastrophe Risk Insurance Facility (2008–2023)



Source: Centre for Disaster Protection, based on CCRIF (2023)

Uptake of PAF among low-income countries is low. This is in part a function of the difficulties countries face prioritising PAF, particularly when it adds to their debt burdens. However, many of the PAF tools and instruments on offer were designed for upper-middle-income countries (Plichta and Poole 2023) and the tools on offer do not yet meet their needs.

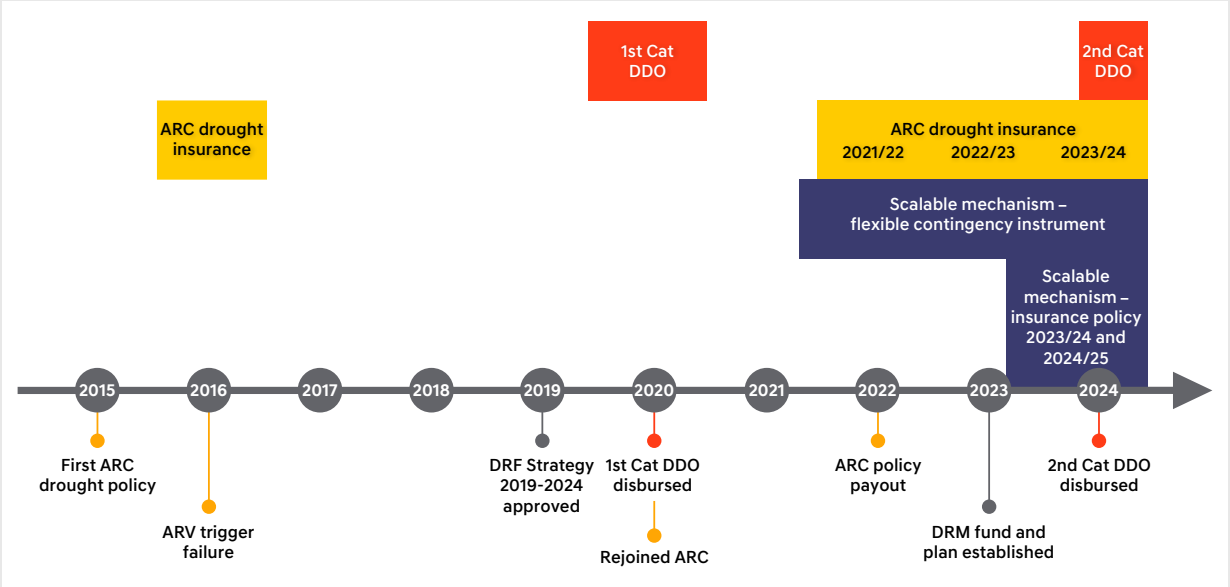
Malawi, however, a low-income country that is currently undergoing debt restructuring, demonstrates a concerted effort to adapt existing tools and create tailored solutions, including developing sector-specific PAF tools, by adapting triggers to incorporate local data sources and conditions, and adjusting expectations on ability to pay. These measures show the potential for innovations in the PAF toolkit to be generated from applied experience, as opposed to top-down instrument-led solutions (see Box 5.2).

BOX 5.2: MALAWI CASE STUDY

Climate-related shocks – drought in particular – are a major threat to Malawi's poverty reduction and development ambitions. Their impacts are felt most acutely by Malawi's rural poor communities, many of which depend on rain-fed agriculture. For every three Malawians who moved out of poverty between 2010 and 2019, four fell back into poverty due to the impact of weather shocks (Caruso et al. 2022). Malawi is also increasingly experiencing tropical storms, resulting in flooding and infrastructure damage.[46] However, drought remains the greatest risk, of which the impacts are felt primarily at the household level.

Since 2019, the Government of Malawi has put in place new policies and instruments, advancing its ambitions to strengthen financial preparedness against shocks. Malawi in 2015/16 was an early purchaser of parametric insurance against drought from the ARC risk pool. However, controversially, the policy failed to be triggered, with a discretionary payment ultimately made nine months after the government declared an emergency. Despite this earlier experience, the Government of Malawi in 2019 adopted a DRF strategy and has put in place a range of PAF instruments, most notably, a bespoke set of instruments tailored to support scaling up the country's unconditional Social Cash Transfer Program (SCTP).

Figure 5.9: Key developments in pre-arranged financing for disasters in Malawi



Box continues next page

46 The joint Government of Malawi-EU-UN-World Bank post-disaster needs assessment conducted in 2023 in the immediate aftermath of Cyclone Freddy, for example, estimated the largest total disaster effects were in the infrastructure sector (USD178.0 million), with the transport subsector sustaining the highest damages and losses (USD110.8 million), followed by water and sanitation (USD41.1 million), energy (USD13.4 million), and water resources (USD12.8 million) (Government of Malawi 2023).

The World Bank has played a key role in these developments, providing financing, technical assistance and incentives, including through the use of policy actions attached to contingent disaster grants, and linking policy and investment priorities across PAF and social protection programming. For example, in the aftermath of Cyclone Idai in 2019, the Government of Malawi took out a World Bank IDA Cat DDO for USD30 million, which it drew down in full in April 2020 in response to the covid-19 crisis (World Bank Group 2023a). The policy actions included in this 2019 Cat DDO included adopting a DRF strategy and approving the government's shock-responsive social protection strategy and implementation plan.

At the same time, the Government of Malawi and donor partners have been investing in building the shock-responsive capabilities of the SCTP. More recently, the World Bank's Social Support for Resilient Livelihoods Project, with additional financing from the GSFF, includes a novel, layered set of PAF instruments designed to support scaling up the social protection system before the start of the lean season, based on forecasts, which in principle would allow people to stock up when food prices are lower, and avoid negative coping mechanisms (World Bank Group 2023b). The instruments include a contingency fund to cover less severe and more frequent drought response, with initial funding from IDA, and a risk transfer product to provide additional funding for scaling up in response to less frequent shocks. ARC underwrites the risk transfer product, providing USD10.2 million in coverage for the 2023/24 and 2024/25 agricultural seasons (Artemis 2023b), with the premiums paid by the GSFF.

A two-step trigger designed for the scalable mechanism builds on lessons from the earlier ARC parametric drought insurance experiences of 2015/16. The first step uses data from two rainfall remote-sensing indices; and the second, a trigger evidence review, designed to catch any potential basis risk events or divergence between remotely sensed data and what is observed on the ground.

In addition to the scalable mechanism, the number of sovereign PAF instruments in Malawi is growing. The Government of Malawi rejoined ARC in 2020; with premium support from the AfDB's ADRiFi programme, it took out drought insurance policies in 2021/22, 2022/23 and 2023/24.[47] The government in late 2023 also took out a new development policy financing operation with a Cat DDO, which included a contingent financing component of USD57 million that disbursed in April 2024 (World Bank Group 2023a), and took policy actions including 'enacting a new Disaster Risk Management Act', and 'establishing a National Disaster Risk and Emergency Management Plan and Disaster Risk Management Fund' (World Bank Group 2023c).

Whereas the Government of Malawi paid in full for its ARC policy in 2015/16, donors heavily subsidise all of the country's current PAF instruments. Current ARC policies are subsidised at rates that exceed ADRiFi's usual rules; ADRiFi expects the Government of Malawi to pay just 8% of the premium next year. The GSFF has paid the full premium for the insurance for the scalable mechanism and IDA funds have furnished the scalable mechanism contingency instrument. Malawi's Cat DDOs are grant financed.

47 While AfDB paid the full premium in 2021/22, it expected the government to provide 5% and, subsequently, 8% of the premium in the following two years (AfDB 2022).

6

TRANSPARENCY AND DATA QUALITY

SUMMARY

- In 2024, the Centre convened a Community of Practice on PAF data quality and transparency to work with partner organisations on making improvements in these areas.
- Using data reported to IATI, it is possible to analyse how disbursements to PAF have changed in closer to real time than using OECD DAC CRS data.
- With support from Development Initiatives, the methodology for this year's report included machine-learning methods, to increase the number of transactions identified and improve the efficiency of the methodology.

The Centre's work on tracking international development financing for PAF is also concerned with working with partner organisations to improve data quality and coverage over time. Over the past 12 months, the Centre has explored potential routes to improving transparency, reporting and the quality of the Centre's own dataset. The following discussion describes areas where progress has been made.

6.1 Identifying opportunities to improve reporting on pre-arranged financing

The Centre convened a Community of Practice on PAF data quality and transparency with the following objectives:

- Exchanging knowledge on identifying relevant financing in international aid databases (notably, OECD DAC CRS data and IATI data) to improve the methodology for future reports and analysis.
- Identifying and understanding priority applications of crisis financing data for research and practice, including supporting organisations to track and monitor funding against targets.
- Identifying and agreeing priorities and developing work plans (including responsibilities) for advocacy to improve the quality and availability of crisis financing data.

The first meeting of the Community of Practice in April 2024 was attended by representatives from the Development Initiatives, FCDO, the German Federal Foreign Office, the Global Shield Secretariat, OCHA, OECD, Open Data Services, Practical Action, Risk-informed Early Action Partnership, the United Nations Development Programme and the University of Sussex.

Discussion topics included a range of practical technical options to improve data reporting, including use of reporting hashtags in both OECD DAC and IATI data. The group agreed that further evidence of use cases and demand would be required to inform potential future advocacy to improve reporting. Development Initiatives has undertaken a consultation exercise with potential users and reporters.[48]

The Centre and Development Initiatives will continue to investigate options to improve the quality and transparency of reporting on PAF, including through public reporting platforms options to tag and identify investments in PAF more easily, and by convening key stakeholders to better understand use cases and political appetite to improve reporting. To ensure complementarity, these efforts will also be linked with accountability initiatives that focus on increasing funding for different aspects of PAF, such as the Global Shield, Getting Ahead of Disasters Charter,[49] and the Inter-Agency Standing Committee's Grand Bargain Caucus on Scaling up Anticipatory Action.[50]

6.2 Near real-time tracking of international development financing for pre-arranged financing

OECD DAC CRS data is comprehensive and comparable, being reported and curated against agreed standards. However, the reporting and verification process takes considerable time, resulting in the latest DAC data typically being available around 18 months after the fact – the most recent available detailed data in 2024 is for the year 2022, for example. For the second year, the Centre has tested the feasibility of using data reported to IATI[51] as a future solution to provide insights in closer to real time.

There are limitations to what IATI data can tell us with respect to PAF since it is not a curated database and is updated according to publishers' time frames. The data provided can differ considerably to how donors would report to the OECD DAC (more/fewer projects, different values, more/less project information, etc.) and retrospective changes are possible. The timeliness of data publishers provide can also change; however, a critical mass of donors who support PAF report monthly data within two months of the month's end.

From the data reported to the CRS on international development financing for PAF in 2022, we observe that 85% is disbursed by ADB, Germany (specifically, BMZ), IDB, the UK (specifically, FCDO) and the World Bank. Using data reported to IATI it is possible to analyse in closer to real time than using the CRS data how

48 Consultations indicate some demand for improved public data on international development financing for PAF. However, the PAF definition itself does not seem to be widely socialised or understood well enough to facilitate comparable reporting; priorities for reporting purposes vary across a broad range of private sector, humanitarian and development organisations. While some actors have made or expect to make commitments to increase PAF, they do not have the ability to track this internally, nor is there an agreed method to track this information in publicly available data sources. Currently, there appears to be little appetite to develop new reporting standards and processes that would be additional to existing reporting requirements, nor to set additional targets.

49 See: https://gettingaheadofdisasters.org/

50 See: https://interagencystandingcommittee.org/group/grand-bargain-caucuses

51 See footnote 8.

disbursements to PAF have changed. All five of the aforementioned donors reported well and in full to IATI up until the end of 2023.[52] Analysing near real-time data from these donors therefore affords a reliable insight into the current trends in PAF in 2023, in addition to the view up to 2022 from the CRS. A description of the methodology can be found in Annex 3.

BOX 6.1: SUMMARY OF METHODOLOGY TO IDENTIFY INTERNATIONAL DEVELOPMENT FINANCING FOR PRE-ARRANGED FINANCING IN IATI

Data was retrieved from the IATI Datastore and Registry for the identified donors and a natural language processing (NLP) model search was then performed on this data in the fields 'title narrative', 'description narrative' and 'transaction description narrative'. We used an NLP model trained on the OECD DAC CRS data to predict if a project met the Centre's criteria to qualify as international development financing for PAF. Where projects could not conclusively be marked using the NLP model as direct, indirect or not PAF, we manually reviewed the project (see Annex 3 for a full description of the methodology).

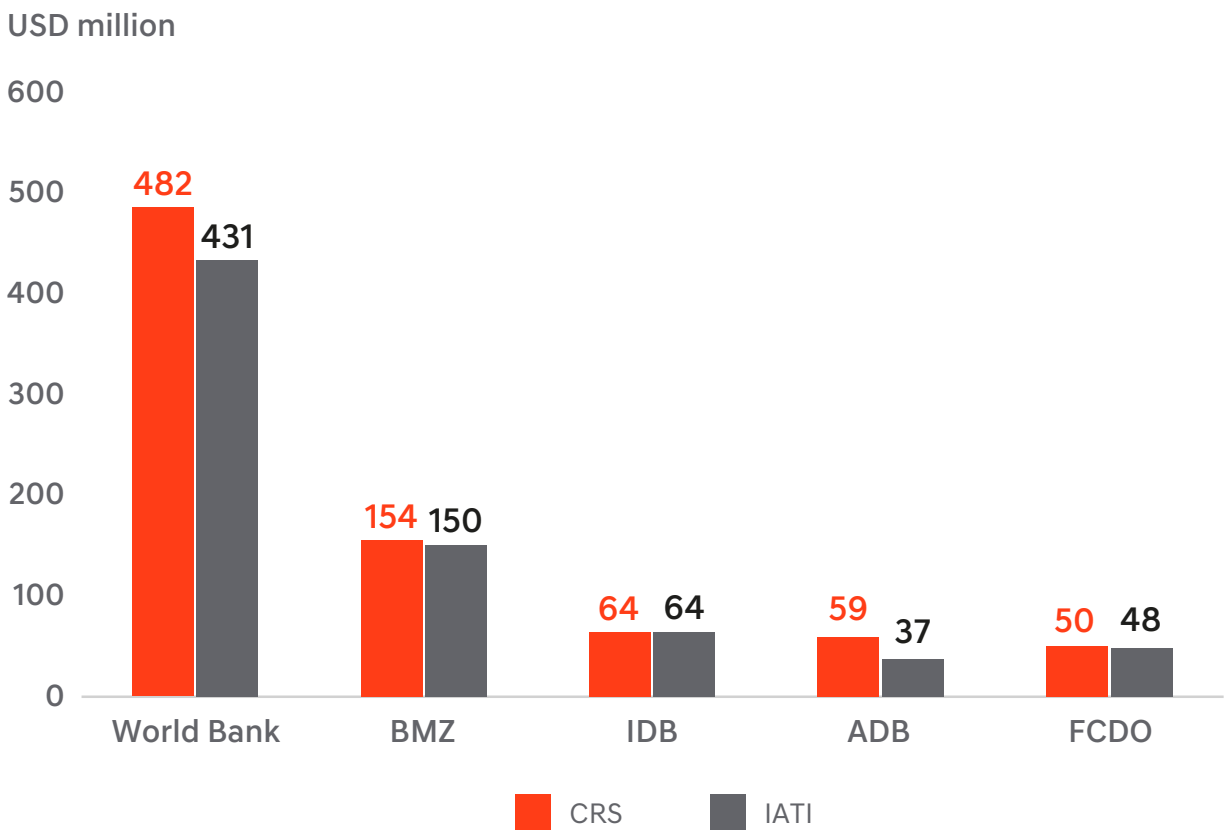
Comparison between CRS and IATI

Comparing PAF reported to the CRS and IATI in 2022 among the selected donors suggests that the information available through IATI is comprehensive. IDB reported exactly to IATI as it does to the CRS and FCDO's reporting was very close; for others, however, there were differences between how they reported to IATI and the CRS.

The largest absolute difference was for the World Bank, which reported USD482 million to the CRS and USD431 million to IATI. For the second year running, the research in this report confirms that the volumes of PAF identified through the two different databases in 2022 are generally similar, and therefore greater trust can be put in using IATI when considering future trends in PAF.

52 IDB data was retrieved from the IATI Registry, rather than the IATI Datastore, due to minor issues with the data.

Figure 6.1: International development financing for pre-arranged financing reported to IATI and the Creditor Reporting System (2022)



Source: Centre for Disaster Protection, based on data from OECD (2024a) and IATI (2024a, 2024b)

Note: For all donors other than IDB, data comes from the IATI Datastore; for IDB, data was retrieved from the IATI Registry. BMZ IATI values are based on budgets, due to issues with their reported disbursements; BMZ CRS values are commitments to align more closely with the budgets from IATI. Values are converted to USD using a mid-year rate and not deflated. Given their real-time nature, these figures are preliminary and subject to change.

It is not simple to precisely measure PAF flows in real time; however, the past two years of analysis have shown how useful IATI can be in addition to slower, more curated systems. With the will of those parties involved, and strong accountability mechanisms and safeguards in place, a system to track PAF in real time is possible. Some specific sectors have used markers, sectors and tags to facilitate a simpler quantification method. The technical feasibility and appetite for the use of these methods will be investigated through the Centre's work with Development Initiatives and the Community of Practice.

6.3 Improving the Centre's methodology and the robustness of data

The Centre's methodology to identify PAF in the OECD DAC CRS data is complex. It relies on the quality of project descriptions and human judgement to identify projects to include or exclude. This is labour intensive, and introduces subjectivity and bias. The Centre has exhaustively documented the decisions, steps and definitions that the methodology follows (see Annex 3). Through the Community of Practice, and in partnership with Development Initiatives, the Centre invited scrutiny and challenge of these decisions and steps in 2024.

The Centre also worked with Development Initiatives to test if machine learning could increase the number of transactions identified and if it would improve the efficiency of the methodology, through training the model to identify and screen out false positives, and reduce the volume of transactions that require manual review, thereby reducing subjectivity.

The 2023 report dataset and the dataset generated through machine learning were not significantly different (see Table 6.1). Due to the number of transactions, this was mainly beneficial for the total crisis financing dataset generated, where new transactions were identified, and confidence levels greatly reduced the number of transactions that required manual review. The same was true for the PAF data, but manual review was still key to make sure all the identified projects were in line with the definition of PAF.

These changes and other tweaks in the methodology caused some shifts in the data for the years 2017–2021 for each of the categories. The total amounts are compared in Figure 6.2.

Figure 6.2: Comparison of total USD amounts and number of transactions identified per financing category for previous and current methodology

	PAF				Total crisis financing			
	USD million		Number of transactions		USD millions		Number of transactions	
	Previous	Current	Previous	Current	Previous	Current	Previous	Current
2017	177.2	177.5 (+0.2%)	139	170	36,139.6	39,402.1	21,002	24,891
2018	836.5	816.7 (−2.4%)	213	237	38,592.9	42,626.3	22,583	26,810
2019	418.9	403.5 (−3.7%)	253	278	41,351.3	46,067.5	24,875	29,344
2020	2,105.2	2,033.4 (−3.4%)	386	418	61,219.0	64,441.8	33,746	38,302
2021	1,942.9	1,864.1 (−4.1%)	440	448	70,960.3	75,372.3	37,171	41,954

Source: Centre for Disaster Protection, based on data from OECD (2024a)

Notes: In addition to changes in the methodology, other shifts are explained by the fact that the previous amounts are in 2021 prices while the current amounts are in 2022 prices.

Identification of PAF in the OECD DAC CRS data relies to a large extent on the quality and detail of project descriptions. Development Initiatives has therefore tested the feasibility of identifying additional transactions through project documents and additional descriptive information available online, using ADB's project portal as an example. Initial findings of this exploratory analysis are described in Box 6.2.

BOX 6.2: IS MORE TEXT ALWAYS BETTER FOR IDENTIFYING PRE-ARRANGED FINANCING?

The main methodology for identifying PAF relies on analysis of textual fields in the CRS data. An examination of the maximum length of these fields reveals that they are restricted to a certain number of characters: project titles are restricted to 300 characters, short descriptions to 150, and long descriptions to either 3,000 or 4,000 depending on the year. Text that does not fit within these limits is truncated from the CRS. The odds of successfully identifying PAF could be affected by the keywords describing it in the descriptive fields being truncated.

With ADB as one the key providers of PAF overall and the top donor of PAF in 2021, Development Initiatives looked at the ADB project portal as a way to access and analyse full project texts for identifying additional PAF for calendar years 2020 to 2022.

The full text of about 1,000 documents was extracted from source PDFs for a sample analysis. The text on the portal was found to be much richer than that found in the CRS, having fields not only for project titles and descriptions, but also rationales, impacts, outcomes, and outputs. Compared with the median 102 words per project found in the CRS, the project text found on the portal showed a median of 308 words per project, whereas the median sample document had 5,014 words.

Of the 796 projects that were also found in the CRS, only eight matched keywords indicating that they might be PAF that were not already identified in the CRS. Of those, seven had previously been manually classified as not PAF or were obvious cases of false positive matches. Only one project was identified as potential indirect PAF.

This indicates that although ADB project texts published in the CRS are significantly shorter than the full texts on the ADB project portal, analysing this additional text did not necessarily offer better information on the relationship to PAF. The vast majority of PAF projects appear to mention their relevant keywords early in the text, so the truncation of text did not greatly affect the ability to detect them. If text from a wider diversity of sources is to be included in future analyses, care should be taken to use a smaller subset of more specific keywords to avoid false positive matches and to focus on donors that – unlike ADB – do not include long or clear enough project text descriptions as part of their CRS reporting. Machine learning could be used to mitigate these false positives, but the additional volume of text would vastly inflate the required processing times.

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LIST OF ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ADRiFi	Africa Disaster Risks Financing
AfDB	African Development Bank
ARC	African Risk Capacity
BMZ	Federal Ministry for Economic Cooperation and Development (of the German Government)
Cat DDO	Catastrophe Deferred Drawdown Option
CCF	Contingent Credit Facility for Natural Disaster and Public Health Emergencies
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CDB	Caribbean Development Bank
CERC	Contingent emergency response component
CERP	Contingent emergency response project
COP	Conference of the Parties (of the United Nations Framework Convention on Climate Change)
CPA	Country programmable aid
CRDC	Climate Resilient debt clause
CRS	Creditor Reporting System (of the OECD DAC)
CRW	Crisis Response Window (of the World Bank IDA)
DAC	Development Assistance Committee (of the OECD)
DRF	Disaster risk financing
DSA	Debt sustainability analysis
FCAS	Fragile and conflict-affected states
FCDO	Foreign, Commonwealth & Development Office (of the UK government)
G7	Group of Seven (informal intergovernmental group of seven nations)
G20	Group of Twenty (intergovernmental forum)
GSFF	Global Shield Financing Facility
HICs	High-income countries
IATI	International Aid Transparency Initiative
IBRD	International Bank for Reconstruction and Development (of the World Bank Group)

IDA	International Development Association (of the World Bank Group)
IDA20	20th replenishment of the IDA
IDB	Inter-American Development Bank
IDRCs	In-donor country refugee hosting costs
IFI	International financial institution
IPF CERP	Investment Policy Financing Contingent Emergency Project
IPF DDO	Investment Project Financing with Deferred Drawdown Option
LICs	Low-income countries
LMICs	Lower-middle-income countries
MDB	Multilateral development bank
NLP	Natural language processing
OCHA	UN Office for the Coordination of Humanitarian Affairs
ODA	Official development assistance
OECD	Organisation for Economic Co-operation and Development
OOFs	Other official flows
PAF	Pre-arranged financing
PCRIC	Pacific Catastrophe Risk Insurance Company
RRO	Rapid Response Option
SCTP	Social Cash Transfer Program
SDG	Sustainable Development Goal
SEADRIF	Southeast Asia Disaster Risk Insurance Facility
SIDS	Small island developing states
UMICs	Upper-middle-income countries
V20	Vulnerable Twenty Group of Ministers of Finance of the Climate Vulnerable Forum
WFP	World Food Programme

ANNEX 1: GLOSSARY

All definitions have been developed by the Centre for Disaster Protection unless stated otherwise.

Climate resilient debt clause
A pause clause is a provision in sovereign debt contracts that enables the borrower to temporarily stop repaying debt service (interest, principal or both) for a pre-agreed period when a predefined event occurs. These built-in debt deferrals can be designed to be net present value neutral and not extend the instrument's original maturity date. Also known as debt pause clause or natural disaster clause.

Contingent disaster loan or grant
A type of PAF whereby a loan or grant is approved in advance of a crisis and is guaranteed to be provided to a specific implementer when a specific pre-identified trigger condition is met.

Disaster risk financing
The system of budgetary and financial mechanisms to credibly pay for a specific risk, arranged before a potential shock. They can include paying to prevent and reduce disaster risk, as well as preparing for and responding to disasters.

Official development assistance
Government aid that promotes and specifically targets the economic development and welfare of developing countries (OECD).

Other official flows
Transactions by the official sector with countries on the DAC List of ODA Recipients that do not meet the conditions for eligibility as official development assistance, either because they are not primarily aimed at development, or because they have a grant element of less than 25% (OECD).

Pre-arranged financing
Financing that has been approved in advance of a crisis and that is guaranteed to be released to a specific implementer when a specific pre-identified trigger condition is met. The trigger may be based on data or models related to impacts, forecasts or projections of need, or a declaration of emergency (or similar) by the specified respondent. The funding may be used for anticipatory action or in response to a crisis, either linked to a clear plan for a very specific purpose or as general budget support.

Total crisis financing
A subset of international development financing, which includes activities and flows to organisations whose primary purpose is to deliver prevention, preparedness and response to crises.

Trigger
A trigger is a predefined threshold of an index underlying a risk finance mechanism, which if exceeded prompts a payout. A trigger may also leave an element of discretion to a designated party about whether or not to launch a response activity.

ANNEX 2: DATA SOURCES

Data	Data source	Hyperlink	Comments
Anticipation Hub anticipatory action in 2023: a global overview	Anticipation Hub (2023)	https://www.anticipation-hub.org/advocate/anticipatory-action-overview-report/overview-report-2023	
CCRIF annual reports	CCRIF (2023)	https://www.ccrif.org/publications/annualreports	
Global Shield Secretariat implementation data	Global Shield Secretariat (2024b)	Unpublished	
IATI Datastore	IATI (2024a)	https://datastore.iatistandard.org/	Retrieved on 19 June 2024
IATI Registry	IATI (2024b)	https://www.iatiregistry.org	Retrieved on 19 June 2024
INFORM Risk Facts and Figures	INFORM (2024a)	https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Risk/Risk-Facts-Figures	
INFORM Trend 2014-2023	INFORM (2024b)	https://drmkc.jrc.ec.europa.eu/inform-index/INFORM-Risk/Results-and-data/moduleId/1782/id/469/controller/Admin/action/Results	
OECD Creditor Reporting System	OECD (2024a)	https://stats.oecd.org/index.aspx?DataSetCode=CRS1#	2024 update
OECD DAC and CRS list of codes	OECD (2024d)	https://web-archive.oecd.org/temp/2024-06-19/57753-dacandcrscodelists.htm	June 2024 update
OECD Data Explorer	OECD (2024c)	https://data-explorer.oecd.org/	
OCHA Financial Tracking Service	OCHA (2024)	https://fts.unocha.org/	Downloaded on 1 July 2024

Data	Data source	Hyperlink	Comments
World Bank Country and Lending Groups	World Bank Group (2024c)	https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups	In effect between July 2022 and July 2023 New compared with previous version: American Samoa = HIC; El Salvador = UMIC; Guinea = LMIC; Guyana = HIC; Indonesia = UMIC; Jordan = LMIC; West Bank and Gaza = UMIC; Zambia = LMIC
World Bank CERCs and CERC activations	World Bank Group (2024e)	Unpublished	As of 25 March 2024
World Bank projects	World Bank Group (2024b)	https://projects.worldbank.org/en/projects-operations/projects-list	As of 11 July 2024
World Development Indicators	World Bank Group (2024d)	https://databank.worldbank.org/source/world-development-indicators	

Note: HIC = high-income country; LMIC = lower-middle-income country; UMIC = upper-middle-income country.

ANNEX 3. METHODOLOGICAL NOTES

Calculating international development financing for PAF using CRS data

For the exercise of calculating international development financing for PAF at global level, the Centre relies on data in the OECD DAC CRS,[53] which captures donor reporting on aid flows to ODA-eligible countries at project or transaction level. All flows reported to the CRS are covered by this methodology, including from non-DAC and private donors.

How the PAF methodology is applied to the CRS data

The PAF methodology aims to capture funding that is in line with the definition of PAF.[54]

This is presented in absolute volume terms and as a percentage of total 'crisis financing', a wider subset of aid. The PAF methodology and tool are designed to capture these two values.

To apply this approach to the CRS data, the following steps are necessary:

1. Identify international development financing for PAF within transaction-level data.
2. Agree and construct a total 'crisis financing' value from groupings of channel codes, purpose codes and transaction-level data.

Detailed description of the approach

Parameters

This methodology was initially developed based on the 2020 and 2021 CRS data, and the purpose codes used to classify information for those reporting years.

For the relevant flows, the current gross **USD disbursement** amount is selected to capture the actual spending on PAF in the reporting year. It also avoids missing out on multi-year project spending where the committed amount is only being reported in the first year of the project.

The amounts are deflated using the most recent year as the base year, so data is in **constant prices** rather than current prices. The base year for this report is 2022.

Approach

The two categories of funding (international development financing for PAF and total crisis financing) are compiled through a combination of selecting identified purpose codes and channel codes, and conducting keyword searches on project descriptions in the transaction-level data.

As a new addition to the methodology and approach this year, a machine-learning algorithm is used in the next step to determine the likelihood of these different classifications, which facilitates

53 The CRS provides detailed information on individual aid activities, such as sectors, countries, project descriptions, etc. used to derive aggregate data. See: https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/idsonline.htm

54 Previously, a methodological component for identifying funding for anticipatory action in the CRS was included as a subset of PAF, but this was not used in the analysis for this year's report, as alternative data sources were identified.

manual review of the data. The newly identified relevant transactions are then added to the pre-existing dataset.[55]

1. Identifying PAF and funding for anticipatory action within transaction-level data

a) Keyword searches across all sector/purpose codes on terms:

Action anticipatoire, Action d'anticipation, ADRiFi, African Risk Capacity, Anticipatory, ARC premium, ARC Replica, Assurance climatique, Assurance contre les catastrophes, Assurance contre les desastres, Assurance indicielle, Assurance secheresse, Cat DDO, Catastrophe Deferred Drawdown Option, Catastrophe insurance, CCRIF, Centre for Disaster Protection, CERC, Climate insurance, Contingency plan, Contingent credit, Contingent Emergency Response Component, Contingent financing, Contingent loan, Crisis modifier, Dedommagement, Disaster financing, Disaster insurance, Disaster Relief Emergency Fund, Disaster resilience improvement program, Disaster resilience program, Disaster risk finance, DREF, DRF, Drought insurance, Early action, Early response, FbF, Financement de la riposte aux desastres, Financial preparedness, Forecast based, GRiF, Humanitarian insurance, Index insurance, InsuResilience, Parametric, Payout, PCRIC, Premium subsidies, Premium subsidy, Riposte anticipative, Risk financing, Risk insurance, Risk mapping, Risk monitoring, Risk pool, Risk transfer, Riposte aux choques, Risque de catastrophe, Risques de catastrophe, Science for Humanitarian Emergencies and Resilience, SFERA, SHEAR, Start Ready, Subventions de prime d'assurance, Transfert de risque

b) After projects have been positively identified through matching keywords, they are screened by a machine-learning algorithm to rank them from most likely to be PAF to least likely. The algorithm is based on a multilingual base version of the Bidirectional Encoder Representations from Transformers (BERT) large language model that was fine-tuned to understand the technical terminology in development assistance project titles and descriptions. After 15 epochs of training the algorithm on the manually curated PAF dataset, it achieved an accuracy rate of 97% and a recall rate of 93%.

c) Results above a selected confidence threshold generated by the machine-learning model are manually checked, to include only what is in line with the PAF definition. This process includes the following steps:

    a. Deleting irrelevant transactions, such as:

    i. Flows that are only related to DRR or resilience building

    ii. Flows that are about conflict-related early warning

    iii. Financing for shock-responsive social protection

    iv. Anything else that is not disaster related.

55 This means that data for the most recent year (2022) has been added for this report, as well as transactions for the years 2017–2021 that were identified through this new approach using the machine-learning algorithm.

b. Classifying the transaction as either direct PAF or indirect PAF:

   i. **Direct PAF:** These are payments into programmes or instruments that are then used to pay out to beneficiaries. More specifically, direct PAF includes premium subsidies to regional risk pools, ADRiFi, Cat DDOs and other contingent credit; and UN Central Emergency Response Fund (CERF), IFRC's Disaster Response Emergency Fund (DREF) and FAO's Special Fund for Emergency and Rehabilitation Activities (SFERA) pooled funds.[56]

   ii. **Indirect PAF:** This applies to all other international development financing for PAF, including capacity building, technical assistance and research related to PAF. It also includes transactions where only one project component is (direct) PAF.

c. Identifying transactions that contribute to DREF and SFERA pooled funds, to then apply a percentage that reflects the amount that counts as PAF. This information is retrieved from annual reports by DREF and SFERA where the organisations specify the use of these funds. For 2022, for example, the respective percentages to apply are 26.0%[57] and 11.7%.[58]

d. Removing CERF transactions that have the CERF as a channel rather than as donor. These are likely to be reporting errors and might cause double counting.

2. Constructing total crisis financing

Total crisis financing includes all humanitarian aid, which sits under the following OECD purpose codes:

720 Emergency Response – 72010 Material relief assistance and services – 72040 Emergency food assistance – 72050 Relief co-ordination and support services – 730 Reconstruction Relief & Rehabilitation – 73010 Immediate post-emergency reconstruction and rehabilitation – 740 Disaster Prevention & Preparedness – 74020 Multi-hazard response preparedness

This is in addition to what is included in total humanitarian financing and what is identified as PAF outside of humanitarian purpose codes, including:

a) All financing under channel codes:

21016 International Committee of the Red Cross – 21018 International Federation of Red Cross and Red Crescent Societies – 21029 Doctors Without Borders – 23501 National Red Cross and Red Crescent Societies – 41121 United Nations Office of the United Nations High Commissioner for Refugees – 41127 United Nations Office of Co-ordination of Humanitarian Affairs – 41130 United Nations Relief and Works Agency for Palestine Refugees in the Near East – 41147 Central Emergency Response Fund – 41315 United Nations Office for Disaster Risk Reduction – 41321 World Health Organization – Strategic Preparedness and Response Plan – 41403 covid-19 Response and Recovery Multi-Partner Trust Fund – 43003 International Monetary Fund –

56 The exception is where it is clear from the description that only a small component of funding is going to these funds. In such cases, the amount of PAF would likely be negligible and is therefore excluded from the data.

57 The calculation is made by dividing the 'AA' or 'Early Action' window by the 'Grand total applications'. For previous years, the percentages are 28.8% (2021), 4.4% (2020), 31.3% (2019), 8.8% (2018) and 10.4% (2017).

58 For previous years, this figure is not readily available in the annual report and the calculation is made by dividing 'FbA Fund Allocations' by ('FbA Fund Allocations' + 'Total DREF Allocations'). For these years, the percentages are 2.2% (2021), 7.2% (2020), 2.4% (2019) and 0% (2017 18).

Subsidization of Emergency Post Conflict Assistance/Emergency Assistance for Natural Disasters for PRGT-eligible members – 43005 International Monetary Fund – Post-Catastrophe Debt Relief Trust – 43006 Catastrophe Containment and Relief Trust – 47123 Geneva International Centre for Humanitarian Demining – 47137 African Risk Capacity Group – 47502 Global Fund for Disaster Risk Reduction

b) All financing under purpose codes:

12264 covid-19 control – 15220 Civilian peace-building: conflict prevention and resolution* – 15240 Reintegration and SALW control – 15250 Removal of land mines and explosive remnants of war – 15261 Child soldiers (prevention and demobilisation) – 43060 Disaster Risk Reduction

* This was added in this 2024 methodology.

c) Keyword searches across other selected channel/purpose codes:

Keywords:

Catastrophe – Cold wave – Conflict affected – Conflict prevention – Crisis – Cyclone – Disaster – Drought – Dzud – Early warning – Earthquake – Emergency assistance – Emergency cash – Emergency food – Emergency liquidity – Emergency recovery – Emergency response – Epidemic – Famine – Flood – Forced migration – Global Risk Assessment Framework – Hazard – Heat wave – Humanitarian – Hurricane – Hyogo Framework – Internal displacement – Landslide – Loss and damage – Outbreak – Preparedness – Refugee – Relief – Sendai Framework – Shock adaptive – Shock recovery – Shock responsive – Tropical storm – Tsunami – Typhoon – Volcano

Run across the following purpose codes:

111 Education, Level Unspecified – 11110 Education policy and administrative management – 11120 Education facilities and training – 11130 Teacher training – 11182 Educational research – 112 Basic education – 11220 Primary education – 11230 Basic life skills for adults – 11231 Basic life skills for youth – 11232 Primary education equivalent for adults – 11240 Early childhood education – 11250 School feeding – 11260 Lower secondary education – 121 Health, General – 12110 Health policy and administrative management – 12191 Medical services – 122 Basic Health – 12220 Basic health care – 12230 Basic health infrastructure – 12240 Basic nutrition – 12250 Infectious disease control – 12261 Health education – 12262 Malaria control – 12263 Tuberculosis control – 12281 Health personnel development – 130 Population Policies/Programmes & Reproductive Health – 13010 Population policy and administrative management – 13020 Reproductive health care – 13030 Family planning – 13081 Personnel development for population and reproductive health – 140 Water Supply & Sanitation – 14010 Water sector policy and administrative management – 14015 Water sources conservation (including data collection) – 14020 Water supply and sanitation – large systems – 14021 Water supply – large systems – 14022 Sanitation – large systems – 14030 Basic drinking water supply and basic sanitation – 14031 Basic drinking water supply – 14032 Basic sanitation – 14040 River basins development – 14050 Waste management/disposal – 14081 Education and training in water supply and sanitation – 151 Government & Civil Society-general – 15110 Public sector policy and administrative management – 15111 Public finance management (PFM) – 15114 Domestic revenue mobilisation – 15142 Macroeconomic policy – 15160 Human rights – 15170 Women's rights organisations and movements, and government institutions – 15190 Facilitation of orderly, safe, regular and responsible migration and mobility – 152 Conflict, Peace &

Security – 15220 Civilian peace-building, conflict prevention and resolution – 160 Other Social Infrastructure & Services – 16010 Social Protection – 16020 Employment creation – 16050 Multisector aid for basic social services – 16062 Statistical capacity building – 210 Transport & Storage – 21010 Transport policy and administrative management – 21020 Road transport – 21030 Rail transport – 21040 Water transport – 21050 Air transport – 21061 Storage – 21081 Education and training in transport and storage – 240 Banking & Financial Services – 24010 Financial policy and administrative management – 24020 Monetary institutions – 24030 Formal sector financial intermediaries – 24040 Informal/semi-formal financial intermediaries – 24050 Remittance facilitation, promotion and optimisation – 24081 Education/training in banking and financial services – 311 Agriculture – 31110 Agricultural policy and administrative management – 31120 Agricultural development – 31130 Agricultural land resources – 31140 Agricultural water resources – 31191 Agricultural services – 321 Industry – 32130 Small and medium-sized enterprises (SME) development – 410 General Environment Protection – 41010 Environmental policy and administrative management – 430 Other Multisector – 43010 Multisector aid – 43030 Urban development and management – 43040 Rural development – 43071 Food security policy and administrative management – 43072 Household food security programmes – 43082 Research/ scientific institutions – 510 General budget support – 51010 General budget support-related aid – 520 Development Food Assistance – 52010 Food assistance – 600 Action Relating to Debt – 60010 Action relating to debt – 60020 Debt forgiveness – 60030 Relief of multilateral debt – 60040 Rescheduling and refinancing – 60061 Debt for development swap – 60062 Other debt swap – 60063 Debt buy-back

d) Similar to the PAF classification, after projects are positively identified through matching keywords, they are screened by a machine-learning algorithm to rank them from most likely to be crisis financing to least likely. Only transactions above the selected confidence threshold are included.

e) Results are spot-checked for irrelevant transactions:

   As a first step, the 500 transactions with the highest value of USD disbursement are checked manually to decide on their inclusion. If irrelevant transactions are identified, they are checked to see if other amounts have been included under the same project title or description, to also exclude these.

   Additionally, due to the large number of transactions that are classified as total crisis financing, only every 1,000 lines of the data where USD disbursement ≠ 0 are checked for false positives.

   The keywords *pandemic*, *reconstruction*, *recovery* and *rehabilitation* are not included on the basis that they pick up too many unrelated projects and, in many cases, there is a second qualifying term included in descriptions that would ensure inclusion.

Review process

For quality assurance, transactions that need a second opinion are highlighted first for closer review. If still in doubt, they are to be discussed more broadly within the Centre.

Transactions that are to be deleted are also first highlighted and then removed after the first review.

Limitations

This methodology intends to use existing codes and classifications as much as possible. However, this means there will be many inaccuracies in the numbers that it produces. Similar to previous work done by the Centre and Development Initiatives on tracking financial flows for crises, keyword searches on project descriptions and titles will be used to capture part of the total crisis financing, as the system currently does not tag this (Crossley et al. 2021). Manual verification would be needed to identify false positives, which can lead to more inaccuracies given the scale of this exercise, which aims to provide a global overview.

There are significant differences in the level of detail and more generally the way of reporting across bilateral and multilateral donors (e.g. the interpretation of purpose codes, use of different languages). This further limits the accuracy of this methodology in calculating the metrics of interest. Over time, increased awareness among donors on the importance of capturing PAF might overcome the lack of detail in reporting and/or introduce a standardised way of tagging relevant aid flows to improve the quality of this exercise (e.g. adding PAF as a 'type of aid' in the OECD DAC CRS reporting code list).

Quantifying PAF using data from IATI in near real time

Major PAF donors identified in the OECD DAC CRS data analysis are prioritised for analysis of their reporting to IATI. These are identified as ADB, BMZ, FCDO, IDB and the World Bank.

The data for the identified donors is retrieved from the IATI Datastore on 19 June 2024, with the exception of IDB. For IDB, the data is pulled directly from the IATI Registry, since IDB's files are not passing validation and therefore not available on the IATI Datastore. There are many reasons that a file may not pass validation; in this case, it is not considered a major issue, hence there is no reason to exclude this data.

Disbursements are selected for all donors except BMZ, where 'budgets' are selected since their disbursements do not reflect actual expenditure due to reporting issues.

An NLP model search is then performed on this data in the fields of 'title narrative', 'description narrative' and 'transaction description narrative'. The NLP model was trained on the OECD DAC CRS data to predict whether a project was PAF. Where projects cannot conclusively be marked using NLP, and to retain consistency with the main PAF dataset, manual review is involved to decide if projects were direct, indirect or not PAF.

ANNEX 4: GRANT ELEMENT CALCULATIONS

This formulae are used to calculate the grant element of concessional loans:

$$1 - PV_2 - PV_N \text{ where}$$

$$PV_2 = r * \frac{1 - \frac{1}{d_g}}{n * d}, \text{where} \qquad d = (1+D)^{\frac{1}{n}} - 1, \text{and} \quad d_g = (1+D)^g$$

$$PV_N = \left(\frac{r}{n}\right) * \left[\frac{1}{\left(1 + \frac{r}{n}\right)^N - 1} + 1\right] * \left(\frac{1}{d_g}\right) * \left[\frac{1 - \frac{1}{d_p}}{d}\right], \text{where}$$

$$d_p = (1+D)^p$$

r = interest rate; m = maturity (year); n = number of repayments per annum; D = discount rate;
p = principal repayment periods(s) (year) (m-g);
N = total number of repayments (p*n); and
g = interval (year).

The key assumptions are:

1. **Fixed interest rate:** Many of these loans have floating interest rates based on a market rate. However, for the calculation of concessionality we have used the rate as it was at the effective date of the loan for the whole term of the loan to provide some view of the level of concessionality at time of agreement.
2. **Discount rate:** A rate of 5% is used, given this is the discount rate assumed by the World Bank and IMF.
3. **Immediate disbursement:** While not the original intention of the loan, the simplifying assumption of immediate disbursement of the funds at the time of approval has been made. In reality, concessionality depends on the interest rates at the time of disbursement.
4. **Structure of repayments:** There is flexibility within each individual loan agreement as to the amortisation schedule and repayment of the loan. Common structures include equal repayment amounts, level payments across two periods with a step change and one final lump sum. While the impact of these repayment structures has an impact on the calculation, the assumption of equal principal payment at each payment date has been taken to allow for ease of calculation. The impact of this assumption is between 1% and 5% on reduced concessionality (with a discount rate of 10%).

5. **Equal payments:** We assumed all loans have equal payments (in line with the above annuity formula) from the end of the grace period to loan maturity (although there were some step changes in principal repayment and bullet loans, this likely provided a more conservative view of concessionality for these loans).
6. **Upfront cost:** In accordance with OECD DAC calculations, we have not considered the upfront cost of these financial instruments, nor any other fees that might be incurred at the beginning of the instrument's life/on the day of disbursement) given the disbursement assumption above.

Where the loan agreement is not available or certain information for the calculations is missing, those contingent loans are excluded from the analysis. For the years studied in this report (2017–2022), this only concerns an IBRD Cat DDO to the Philippines, which was approved in 2021 for an amount of USD500 million and had two disbursements: USD80 million in 2021 and USD120 million in 2022.

ANNEX 5: RECENT POLICY STATEMENTS AND COMMITMENTS ON PRE-ARRANGED FINANCING

Getting Ahead of Disasters: A Charter on Finance for Managing Risks, launched in November 2023 (REAP 2024)	"We will maximize our efforts to arrange finance in advance of disasters so that support is faster, more reliable and better targeted. All types of organisations that provide money for crises, including national governments, humanitarian agencies, donor agencies, climate funds and development finance partners, should make greater use of pre-arranged instruments and approaches in order to reach scale and sustainability." "We will link our pre-arranged finance to robust 'money-out' delivery plans and systems that focus on supporting at-risk communities and the most marginalised people within those groups, in order to deliver larger impacts and greater accountability."
UN Secretary-General's Sustainable Development Goal (SDG) Stimulus (UNGA 2023)	"The SDG Stimulus puts forward three areas for immediate action: 1 Tackle the high cost of debt and rising risks of debt distress, including by converting short-term high interest borrowing into long-term (more than 30 year) debt at lower interest rates. 2 Massively scale up affordable long-term financing for development, especially through public development banks (PDBs), including multilateral development banks (MDBs), and by aligning all financing flows with the SDGs. 3 Expand contingency financing to countries in need."
Accra-Marrakech Agenda (V20 2023)	"We must double down on efforts to accept and address the new climate insecure reality of the world economy and put in place with anticipatory finance (pre-arranged and trigger-based funds) for loss and damage and mainstream surveillance and monitoring of climate risks of all kinds (physical, transition, spillover) in IFI finance and credit rating practices, including through the landmark G7-V20 Global Shield against Climate Risks." This includes PAF options for most vulnerable economies, increased trigger-based design in public/private financial instruments with science/data, dedicated OECD DAC marker for climate-related loss and damage, and systemically make universal surveillance of all climate risks (physical, transition, and spillover).

V20 Ministerial Dialogue XII Communiqué (V20 2024)	**'5. Shock-Absorbent Financial System for Social Protection, Financial Protection and Loss and Damage** • We urge the IMF to include climate resilient debt clauses into its financing programs and leverage its leadership role to encourage their wide adoption for a shock-absorbent financial system; • We call on the international community to replenish the IMF's Catastrophe Containment and Relief Trust (CCRT), which stands today with only 124 million Special Drawing Rights (SDRs) despite being a critical toolkit of the IMF to help countries address loss and damage, and for the IMF to consider expanding eligibility for CCRT funding to include climate-vulnerable economies that are susceptible to rapid onset as well as slow onset climatic shocks; ··· • We call for upscaling of the G7-V20 Global Shield against Climate Risks from USD500 million to USD1 billion by the end of 2024 in order to contribute to reducing the prevailing 98 percent financial and social protection gaps across climate-vulnerable economies. Especially through pre-arranged and trigger-based funds and anticipatory financing for predictability and enhanced risk sharing, especially through strengthening regional risk pools; and • We call on the G7-V20 Global Shield against Climate Risks and MDBs to prioritise actions defined by the V20 Sustainable Insurance Facility (SIF) to the benefit of micro, small, and medium-sized enterprises (MSMEs) in our markets through the development of replicable template-based solutions of proven business models of MSME climate risk insurance, encouraging the local industry to trust them as viable businesses and supporting them through blended financing as needed to lower cost barriers for demand-side implementation of small unit premium programs.'
Bridgetown 3.0 (Bridgetown Initiative 2024)	'We need financing to flow to where it is required and at a sufficient scale to meet the ambition of the SDGs, climate mitigation and adaptation without compromising debt sustainability. We need that financing to be provided on affordable terms, and countries to be given the headroom to borrow. We need a system that is fundamentally just, including providing funds to cover losses and damages from shocks not of their making. • We need a viable insurance market, as a precondition for governments, businesses and individuals to invest in assets—be that infrastructure or homes.'

Contact information

Centre for Disaster Protection
WeWork
1 Poultry
London EC2R 8EJ
United Kingdom

info@disasterprotection.org
Centre for Disaster Protection
disasterprotection.org

Cover image: Sunset behind fishing boat, Lake Malawi, Malawi.
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