DEG Policy Paper
August 2018

Four Key Recommendations for the Global Risk Financing Facility

Input to the consultation process

The World Bank, Germany, and the UK have circulated a Note for Stakeholder Consultation on the Global Risk Financing Facility (GRiF). The proposed GRiF would be a key programme of the InsuResilience Global Partnership, with substantial funding already set aside. The Bond DEG subgroup on Climate and Disaster Risk Finance appreciates the opportunity to input into the consultation process and formally submits these recommendations. There are many details to be finalised before the GRiF is launched in October 2018, and we look forward to an ongoing dialogue to ensure that the GRiF's impact can be optimised for poor and vulnerable people.

1. Further elaboration and careful review required to ensure impact

The note describes the primary purpose of the GRiF as: "focus on helping poor and vulnerable people, and the economy, services and infrastructure they depend on, to recover more quickly when a disaster strikes" - an objective that we readily support. But the consultation note is not yet clear on how this impact will be achieved; it focuses primarily on financial mechanisms whereas it must also promote and be clear on the final impact that the GRiF is seeking.

To achieve the GRiF's objective, further clarity is required in particular on:

- The principles that will underpin the GRiF. We understand that there has been discussion on a set of principles for premium financing – these should be annexed to the concept note (even if they are still draft at this stage) to facilitate understanding of the GRiF.
- A clear focus on the delivery end. As well as the actuarial and financial side, major effort should be put on developing robust contingency plans, delivery systems, strengthening of implementation partners, and targeting, so that once the finance has been received in country, it swiftly goes to where it is needed most.
- Monitoring and evaluation (M&E) for impact. There is no reference to any kind of M&E, and no suggested spend on evidence and learning; this is despite the fact that the GRiF aims to pilot and develop new approaches, and learning is crucial for a relatively new discipline.
- Gender. We note and support the "particular attention" given to gender but suggest that the GRiF should be aiming higher than merely to "explore the integration of a gender lens in risk financing." A gender framework and clear criteria for evaluation should be developed.
- Management of conflicts of interest. This is a specialised and niche area, with the potential for conflicts of interest to occur, including within the World Bank. Careful management is required, including external evaluations where necessary, and with a requirement for open procurement.

Recommendation:

Further elaboration and review is required on *how* the GRiF will ensure and optimise its impact for poor and vulnerable people, with attention paid to the underlying principles of the GRiF, impact chain, M&E, gender, and management of conflicts of interest.

2. Multi-disciplinary approach required to achieve broader risk management benefits and avoid unintended consequences

It is widely recognised that climate and disaster risk financing (CDRF) must be part of a comprehensive risk management framework; the GRiF could offer real added value if it is carefully designed to operationalise this.

Risk financing must be integrated with risk reduction and other sectors for two key reasons:

- Firstly, to achieve the co-benefits that are outlined in the consultation note: "drive greater disaster preparedness and resilience" and "create incentives for disaster prevention, preparedness, response and resilient reconstruction." These are absolutely the right goals, but the note does not explain how these benefits will be achieved in practice, how broader risk management approaches will be integrated with risk financing or describe what resources will be dedicated to this. Because risk financing will not automatically produce these co-benefits. As one example, whereas private sector providers of indemnity insurance are incentivised to reduce risk, this is not the case for index insurance. Thus, those providing funding and support to index insurance schemes will need to take proactive measures to ensure that incentives are built in.
- Secondly, risk financing must avoid the potential trap of crowding out or disincentivising risk reduction work - either at government or donor level. For example, subsidies for insurance premiums could make insurance cheaper than risk reduction measures, thereby disincentivising investment which is crucial to deliver long-term risk reduction benefits.

Ensuring that CDRF drives greater preparedness and builds incentives for risk reduction rather than inadvertently creating disincentives is complex. It requires detailed understanding of the country's policy and approach to disaster risk reduction, and sophisticated engagement between separate teams on CDRF, DRR, social protection, and other sectors.

Recommendation:

To achieve the desired broader risk management benefits, and contribute to a reduction in overall hazard risk, the GRiF cannot work in a narrow risk financing silo. Both GRiF management and operational teams should be multidisciplinary, combining expertise on CDRF with expertise on risk reduction, vulnerability, impact, social protection, and preparedness.

3. Accountability and governance need strengthening

Governance modalities will obviously prescribe the activities and impact of the facility, and thus the governance model must be carefully chosen. The note is not entirely clear on the governance model, but it suggests that operational decision-making, monitoring, and reporting will rest with the World Bank, which will be the administrator of the funding and a key implementer alongside other partners. The note also proposes that a steering committee, which will provide overall review, is made up of one representative from each donor.

This concentration of decision-making within a very small group does not seem to offer the opportunity for a nuanced and accountable approach. The emphasis on upward accountability to donors, rather than downward to the governments and populations of affected countries, is a somewhat outdated governance approach which may struggle to foster optimised impact for the most vulnerable. We would like to see a much greater emphasis on transparent, inclusive and multi-stakeholder governance.

Transparency and accountability to affected populations seem to be significantly missing from the note. Whilst we do not know precisely how the GRiF will operate, we do know that some of the schemes that have been developed in this space by the World Bank – such as Cat DDOs, CCRIF and PCRAFI[1] – have no mechanism for monitoring or public reporting and accountability around the use of the pay-outs or concessional finance, or indeed any requirement for the funds to be spent in a particular way – for example linked to well-developed contingency plans or risk reduction strategies. It is therefore impossible to be clear on impact and confirm that the funding is benefiting poor and vulnerable people, or to identify ways to optimise this.

Recommendations:

- **The GRiF should embody the highest levels of transparency, to build and ensure confidence and accountability for both national and donor taxpayers. Key documents (including the rationale around programmes to be funded, programme reviews, evaluations, etc.) should swiftly be made public.**
- **GRiF decision-making and governance should be clarified and adapted to ensure a progressive, transparent, inclusive, and multi-stakeholder approach. At a minimum, the GRiF steering committee should include a representative of civil society, perhaps with observer status; this model has been used before for other World Bank-operated funds such as the Climate Investment Funds.**

4. Recalibration of the role of civil society

The World Bank has recognised the value of a multi-stakeholder approach in its work, including the importance of, and opportunities for, civil society engagement.[2] Meaningful participation, partnership, and collaboration can ensure a wider reach, foster innovative ideas, and enable faster response in disaster situations; it can also serve as a reality check.[3]

However, in terms of CDRF, most current experience is that there is no, nominal, or late civil society engagement in sovereign-level CDRF processes. A forthcoming discussion paper from MCII finds that the three regional risk pools fall short regarding civil society participation.[4] Civil society appears to be excluded, or invited in when key decisions have already been made, and not treated as equal partners with other stakeholders.[5] Indeed, the World Bank's own literature demonstrates that their current ways of working have neither space nor requirement to engage with civil society.[6]

The GRiF seems to continue this approach with just one mention of civil society in the consultation note. The note also says that the GRiF will "bring together relevant stakeholders at country level" and "respond to demand from country dialogues," but it is not clear if this would include civil society. Further, the GRiF's primary partners are IFIs and the UN. It is not clear why civil society has been excluded. It should be noted that the Start Network are an implementing partner for ARC Replica, and the Red Cross are the key implementing agency for forecast-based financing.

In this context, it may be helpful to note that when opinion leaders in developing countries were asked what the World Bank should do to bolster its value in the country, a significant proportion of the survey respondents across the globe indicated greater need for civil society engagement. The same review found that a lack of citizen and civil society participation is a key factor for slow or failed World Bank projects.[7]

Ensuring that the CDRF achieves its focus on "helping poor and vulnerable people" requires the engagement of all relevant stakeholders. This includes those with expertise and understanding of impact, emergency response, and vulnerability, just as much as those with expertise on finance analytics and risk modelling. Civil society has a crucial role in CDRF, including in:

- Contributing to decisions around what cover should be provided, at what level and for whom – including ensuring that the most vulnerable have an appropriate level of cover.

- Ensuring that the financial mechanisms developed are translated into impact for disaster-affected people, including those who are particularly vulnerable and marginalised; ensuring a focus on people and impact, not only on analytics.
- Supporting customisation of the risk models - the diversity of in-depth civil society knowledge around food security, localised agricultural practices, coping mechanisms, etc., is of huge benefit in setting model parameters and thus influencing impact.
- Strengthening contingency planning, providing a range of inputs around, for example, likely scenarios, delivery systems, and targeting of vulnerable populations.
- As an implementation partner.
- Providing an accountability function for the national government.

Recommendation:

The GRiF requires a new modality for its engagement with civil society organisations – ensuring they are engaged in both policy dialogue and implementation and treating them as core partners.

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[1] Catastrophe Deferred Drawdown Option (contingent credit); Caribbean Catastrophe Risk Insurance Facility; Pacific Catastrophe Risk Assessment and Financing Initiative.
[2] See for example, World Bank (2009) Guidance note on Bank multi-stakeholder engagement http://documents.worldbank.org/curated/en/319671468336604958/pdf/492200BR0SecM2101Official0Use0Only1.pdf
[3] Rosemary Forest (2018, forthcoming) Climate risk insurance: Transparency, Participation, Accountability. An overview assessment on regional risk pools. MCII discussion paper.
[4] *Ibid.*
[5] See for example OPML's 2017 Independent Evaluation of the African Risk Capacity (ARC) Formative phase 1 Report. https://www.opml.co.uk/files/Publications/a0603-independent-evaluation-african-risk-capacity/arc-evaluation-report.pdf?noredirect=1
[6] See for example, World Bank (2014) Financial protection against natural disasters: An Operational Framework for Disaster Risk Financing and Insurance, https://openknowledge.worldbank.org/handle/10986/21725
[7] World Bank blog (2014). https://blogs.worldbank.org/publicsphere/civil-society-engagement-crucial-world-bank-group-s-development-efforts-global-opinion-leaders-say

About Bond

Bond is the UK network for organisations working in international development. We unite and support a diverse network of over 400 civil society organisations to help eradicate global poverty, inequality and injustice.
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