Global Risk Financing Facility

Supporting Early Action to Climate Shocks, Disasters, and Crises

Enabling early action after climate shocks, disasters, and crises requires setting up financing ahead of time and connecting this to pre-agreed interventions.

Taking this approach to scale is at the core of the newly established Global Risk Financing Facility (GRiF).

ALLIANCE PARTNER OF
InsuResilience GlobalPartnership
SUPPORTED BY
Federal Ministry for Economic Cooperation and Development
UKaid from the British people
IMPLEMENTED AND MANAGED BY
WORLD BANK GROUP
GFDRR Global Facility for Disaster Reduction and Recovery

What is the Global Risk Financing Facility (GRiF)?

GRiF is a Multi-Donor Trust Fund (MDTF), which provides grants to test, pilot, and scale up financing instruments that help developing countries better manage financial impacts from shocks and crises. This includes but is not limited to market-based solutions like insurance.

Who will be GRiF's beneficiaries?

GRiF will work through country systems, which means grants will be embedded as part of country projects, reaching ultimate beneficiaries on the ground – including farmers, small and medium enterprises, and others who are often disproportionately impacted from disasters – through country-owned delivery systems. GRiF will aspire to meet the pro-poor principles developed by the InsuResilience Global Partnership, and particularly account for differences in gender vulnerability, while planning and implementing financial instruments.

Why is GRiF needed?

Over the past decade, the World Bank has provided technical assistance to over 60 countries for developing financial protection strategies and instruments that can offer quick liquidity after disasters strike. Countries demonstrate clear demand for such solutions but there are often financial or technical barriers to implementing such solutions at scale. For example, insurance schemes require countries to finance premium payments up front, shock-responsive social protection requires finance for scaling up an existing social protection mechanism, financial mechanisms require significant analytical investment to quantify risk and develop triggers. GRiF will go beyond the current approach of technical assistance to provide financing for lowering the financial barrier to implement and scale up risk financing solutions, including building systems required to effectively channel resources from financial instruments.

Will GRiF provide insurance?

No. GRiF itself is not a direct provider of insurance or other financial instruments; nor is it a new global risk pool. Rather, it will provide financial and technical support to bring down the technical and financial barriers for countries to access and use such instruments.

What kind of activities can GRiF finance?

GRiF can co-finance the establishment of risk financing mechanisms, for example by financing the start-up or operating costs and up-front capital contributions for risk pools. GRiF can also finance start up and operating costs of disaster funds and capitalize these funds through projects. GRiF can also provide financing to lower the cost of risk financing mechanisms, including through the co-payment of insurance premia, buy-down of interest rates, or contingent financing to complement risk transfer solutions. Finally, GRiF can support the implementation of risk financing solutions by providing funding and technical assistance to link financing to national delivery mechanisms (i.e. through the establishment of scalable safety nets), integrate disaster risk in public financial management systems, or improve claims handling systems for public insurance schemes.

How is GRiF managed?

The World Bank will host a Secretariat to manage the GRiF. The Secretariat will include a Technical Manager and a Trust Fund Manager. The Disaster Risk Financing and Insurance Program (DRFIP) in the Finance, Competitiveness, and Innovation Global Practice, will act as the Technical Manager. The Global Facility for Disaster Reduction and Recovery (GFDRR) in the Climate Change Group, will act as the Trust Fund Manager.

Who are the donors of GRiF?

Current donors are Germany and the U.K.

Will GRiF also finance technical assistance and analytical work?

GRiF will provide technical assistance to support the implementation of innovative financing instruments, as part of a finance and technical assistance package. GRiF cannot finance standalone or upstream technical assistance programs if not linked to a financing instrument or mechanism. In addition, GRiF will finance select global investments in programs to develop public goods that add strategic value to the broader risk financing agenda or address a direct issue/gap that allows for innovations in risk financing.

How will GRiF grants be processed?

It is expected that the majority of GRiF funds will be recipient executed and processed as components of lending operations by the World Bank or potentially other multilateral development banks. In some situations, recipient executed grants may also be processed on a standalone basis when clearly linked to larger investment programs.

How will GRiF work with risk financing technical assistance programs financed by other donors?

Existing programs funded by, for example, the European Union, Japan, and Switzerland provide essential technical assistance to countries and focus on the upstream work required to create an enabling environment for risk financing instruments. These technical assistance programs help countries to become 'operationally ready' to access finance from GRiF, which can then be used to implement and scale up relevant financial solutions.

What countries will the GRiF support?

GRiF support will be provided as a priority to the poorest and most vulnerable countries. Support will also be available to countries for particularly innovative projects that help test and demonstrate new approaches and instruments. In the first year of implementation, there is a focus on countries in Asia and Africa. GRiF donors decide on strategic priorities for resource allocation.

How will funding decisions be made?

GRiF will make funding decisions based on a set of principles, which include both strategic allocation and technical appraisal. Criteria assessed include country ownership, participatory approach during the project design, technical quality and value for money of the proposed financial instrument, and competitive procurement of market-based instruments. A Technical Committee comprised of World Bank representatives from key sectors as well as external experts nominated by GRiF donors, will review funding proposals to provide recommendations to the team for enhancing projects.

How will GRiF crowd in the private sector?

GRiF financed projects will build comprehensive financial packages that include market-based solutions. The ability of GRiF to directly co-finance risk transfer instruments will be an important step toward helping more countries access private sector risk financing solutions. To select providers of subsidized financial instruments, teams will work alongside the government to encourage a competitive, robust, and transparent procurement process as well as leverage the private sector in a way that provides most value for money.

How will GRiF incentivize risk reduction and preparedness?

By providing early finance, GRiF will primarily enable faster, more cost-effective response and recovery. It will also drive greater disaster preparedness and resilience by both directly investing in and providing incentives for strong national delivery mechanisms such as national disaster funds or safety net mechanisms, linked to the pre-arranged funding. For example, GRiF grants could help scale up disaster-linked social protection mechanisms to better respond to disasters or other shocks under the condition that well-functioning delivery channels are in place. These kinds of measures would also ensure that financing from GRiF is targeted to reach the poorest and most vulnerable.

How will GRiF ensure inclusive design and participation?

Preparation of GRiF grants will involve meaningful consultation from all relevant stakeholders in the design, implementation, and evaluation of these instruments. This includes community-level organizations and civil society, as well as private sector representatives who can inform and champion solutions on the ground. Through its investments, GRiF will put an emphasis on gender sensitivity, for example through the inclusion of gender-disaggregated data in reporting systems to inform/modify flow of funds and taking into account gender differences in vulnerability.

How will GRiF work in FCV settings?

GRiF will scale up mechanisms tested with disaster risk financing to support pre-arranged finance for other crises. Within the World Bank, GRiF is already supporting the operationalization of the Global Crisis Risk Platform, with an initial grant to support the analytical work to design the Famine Early Action Mechanism (FAM). Additional activities are envisioned in the pipeline to adapt existing climate and disaster risk financing instruments to crisis risk financing instruments and help deploy this in fragile countries. GRiF will also explore partnerships to potentially support partners that work more directly in fragile or conflict situations, such as with the World Food Program, International Federation of Red Cross and Red Crescent Societies, or the Start Network.

How will GRiF relate to GFDRR and other disaster risk management programs?

GFDRR's Strategy includes 'Deepening financial protection' as one of its eight priority areas of engagement. The GRiF, along with other Trust Fund programs implemented by the Disaster Risk Financing and Insurance Program (DRFIP), will deliver on this area of engagement. GFDRR will act as the Trust Fund Manager for the GRiF. Most of GFDRR's other programs are focused on technical assistance grants for risk reduction, preparedness, and post-disaster assessments. GRiF will complement this by scaling up financial mechanisms for early action.

How will GRiF relate to DRFIP?

DRFIP will act as the technical manager for the GRiF. The GRiF is fully aligned with DRFIP's strategy and will leverage the experience and expertise of financial sector specialists already working on implementation of financial protection programs across all regions. The GRiF will scale up many ongoing technical assistance programs managed and implemented by DRFIP.

How will GRiF relate to Center for Global Disaster Protection (CGDP)?

The CGDP is implemented by the World Bank and Department for International Development, U.K. It provides advice, innovation and cutting-edge science to help build cheaper, faster and reliable finance in emergencies. It will closely coordinate with the GRiF by providing advice for activities directly linked to piloting new approaches funded by the GRiF and also invest in developing and deploying early stage technology and innovation for crisis risk financing through a well-structured innovation program.

How will GRiF relate to Insurance Solutions Fund (ISF)?

The ISF is implemented by BMZ/KfW and supports the development of financially sustainable climate risk products in developing countries and emerging markets adapted to their respective needs. The ISF will provide advice and (partial) grant funding up to 2.5m EUR for the development of climate risk insurance products by for governments, humanitarian organizations, small- and medium-sized businesses as well as for private households in developing and emerging markets, while the GRiF will focus on similar products at the sovereign level and help transfer risks to international markets.

How will GRiF coordinate with existing regional risk pools?

Driven by country demand, GRiF could support governments to access existing risk pools, enhance existing risk pools, or in rare circumstances set up new risk pools. In particular, GRiF could co-finance premiums for products from risk pools or serve as a vehicle to finance start-up and operating costs of new risk pools.

How does GRiF link to the InsuResilience Global Partnership?

GRiF is part of the InsuResilience Program Alliance, a platform bringing together programs whose objectives are aligned with the vision and principles of the InsuResilience Global Partnership. The InsuResilience Global Partnership will help create the enabling environment for GRiF investments, since the Partnership can act as a leader in political advocacy, a knowledge platform, and a convener of stakeholders working on the climate and disaster risk financing and insurance agenda.

Illustrative examples of projects that could be financed through the GRiF	
Emergency response and recovery to sudden onset shocks	
Following a shock, governments require immediate liquidity for emergency response and to maintain basic public services that safeguard the livelihoods of the most vulnerable. However, access to short-term liquidity is often a challenge.	The Philippines Parametric Catastrophe Risk Insurance Program: Leveraging international markets to provide US$206 million in parametric insurance protection against severe earthquakes and typhoons for public assets and 25 provinces, premium from budget, building on $500 million World Bank's line of credit (Cat DDO) **GRiF could:** subsidize start-up costs (TA and transaction costs)
Delivering financial support to affected households during or following crises	
Climate shocks and other crises tend to have the greatest impact on the poorest households, who have limited assets and limited capacity to absorb shocks. Furthermore, women and girls often bear the brunt of shocks. Mechanism to deliver rapid assistance during and after a crisis is essential to protect the welfare of poor and vulnerable households.	Uganda Social Protection Project, Third Northern Uganda Social Action Fund: Component on shock-responsive cash for work program to provide rapid assistance directly to most vulnerable households on the early signs of a drought. **GRiF could:** provide co-financing for building systems and provide funding for the contingent component.
Continuity of critical public services	
Damage to public assets such as public buildings, transport (roads, bridges, rail, ports, airport), energy generation, and waste water treatment represent a significant cost to governments. Shocks also interrupt critical public services such as electricity, water, education, or healthcare.	Public Asset Insurance in Indonesia: following a national decree, a pilot for a national insurance program for public assets is under development **GRiF could:** subsidize start-up costs (modeling fees, insurance arrangements) and in the longer-term support establishment of a self-insurance fund.
Financial sector development	
A strong domestic financial sector is essential for rapid disaster response and recovery. Increased insurance penetration helps countries minimize the negative economic impact of disasters. Resilient payments infrastructure enables funds to flow rapidly to affected areas. Increasing access to finance enables governments to channel assistance directly to affected households.	Morocco Integrated Risk Management Program: Supporting catastrophe risk insurance law implementation through establishing a solidarity fund for non-insured low-income households. **GRiF could:** provide co-financing for capital, support of first loss, operating costs.

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