

Financial preparedness against climate and disaster shocks in the time of COVID-19



Global Risk Financing Facility

Supporting Early Action to Climate Shocks, Disasters, and Crises

This note is prepared by the Secretariat of the Global Risk Financing Facility (GRiF). It summarizes how the GRiF will support WB client countries in their efforts to prepare for climate and disaster shocks during COVID-19.



Natural disasters and climate shocks will not stop during the COVID-19 response and recovery phase.

The most vulnerable countries are at high risk of suffering from compound impacts from climate and disaster shocks. This can make it more difficult for these countries to respond and worsen the impact, leading to increased poverty and inequality. Governments in such countries will grapple with serious issues of:

- (i) **Overwhelming or wiping out existing systems:** A disaster may further overload health and civil protection systems, force actions that risk a drastic increase in cases (e.g., evacuations), or completely wipe out systems currently in place.
- (ii) **Depleted emergency funds and limited fiscal space:** Financial decision makers may be left with very limited funds to respond to additional shocks as budgets or contingent financing arrangements are utilized for immediate COVID response.
- (iii) **Increased economic vulnerability:** The economic impact of the pandemic response measures leaves some groups even more vulnerable to further shocks, such as physical damage and asset losses to MSMEs with already severe revenue drops or poor households with lost job and income.



GRiF can support countries to be better prepared for and respond to potential compounding shocks of climate and disaster risks during this time of increased vulnerability.

The program is NOT set up to support pandemic response or economic recovery directly. It can, however, play a critical role to integrate longer term financial preparedness in emergency projects being prepared for COVID-19 response and recovery. This would include establishing financing mechanisms to protect countries against compound shocks as normal buffers may already be exhausted, and prepositioned financial solutions secured for disasters may not be sustained because all available funds are being mobilized for pandemic response (e.g. non-payment of premiums).



Grants are expected to support countries through two main modes. Specific proposals under discussion with teams are summarized in the Annex to this note.




- (i) **Short term analytical and preparatory actions.** Support teams and countries to better plan and design large scale funding for economic recovery (with economic recovery itself being financed by WB projects). Any short term funds should support better targeting of future resources (e.g. from CERCs or new projects) and integrate financial preparedness into these larger resources so that mechanisms are designed with a view of sustainability for responding to shocks beyond the current pandemic, but with a view to respond to climate and disaster shocks in the long term. (BETF: up to \$200k each)
- (ii) **Medium term actions to support countries to prepare for compound shocks.** Finance projects that integrate financial preparedness solutions to support economic recovery by protecting MSMEs and the poorest people against compound shocks from disasters. This could include e.g. protecting financial intermediaries against non-performing loans if a disaster hits pandemic affected areas. These grants are proposed to follow the standard GRiF grants structure and are expected to be integrated in large WB projects. (BETF+RETF: ca. 10m each)





Approval timelines need to be able to respond and meet WB approvals under COVID processes.

The World Bank has reduced project processing timelines for COVID-19 response projects. Either streamlined approval processes or strict adherence to agreed timelines will be necessary to enable GRiF grants to be embedded in fast tracked WB projects. There is a risk that projects either in the current pipeline or potential future projects would decide to move ahead without GRiF funding otherwise.

Annex: Potential Projects under discussion

Name	Lead GP	Overview
SHORT TERM PROJECTS		
 Framework for Assessment of Financial Impacts from Disaster Shocks during COVID-19 on MSMEs	FCI	<p>The activity aims to develop an analytical framework for assessment of financial impacts of climate and disaster shocks on small and medium enterprises (SMEs) in client countries during COVID-19. The assessment will help better understand and quantify the financial impacts from these shocks on SMEs and inform the design of financial and technical support programs to client countries. The project will pilot the methodology in two countries in the East Asia Pacific region.</p>
 Modeling the Funding Gap from compound shocks on Utilities	Water	<p>The objective of this project is to develop a model to estimate the financial gaps faced by utilities as a result of compounding shocks of already stresses utilities from COVID-19 for future climate and disaster shocks. This would estimate the potential size of the problem, identify appropriate solutions to address this problem, and help explore a facility to provide liquidity to utilities and maintain critical services in the face of climate shocks affecting countries recovering from COVID-19.</p>
MEDIUM TERM PROJECTS		
 Burkina Faso Financial Inclusion	FCI	<p>The GRiF grant would co-finance additional finance to an existing IPF to: (i) support the country with improvements in digital finance measures taken by the Central Bank, e.g. measures to limit physical contact with cash; and (ii) design and capitalize a specific window within the existing partial portfolio credit guarantee to protect access to finance for MSMEs affected by COVID-19 and drought/food insecurity.</p>

MEDIUM TERM PROJECTS (Continued)

Name	Lead GP	Overview
 <p>Resilient food systems in West Africa</p>	<p>Agriculture</p>	<p>The objective of the proposed GRiF grant is a regional risk financing instruments to alleviate fiscal constraints for participating countries to respond to agriculture and food security crises during COVID-19 in West Africa. This would explore: (i) the design of a potential “virtual” grain reserve – a system in which countries can commit, or transfer instruments can be made available, to provide funds if needed for intervention in grain markets, instead of storing physical stocks; and (ii) explore the possibility of designing a risk transfer solution that can complement existing risk management mechanisms, particularly the regional grain reserve and ARC initiatives.</p>
 <p>Global Liquidity Facility</p>	<p>Water</p>	<p>The objective of the proposed grant would be to finance costs associated with a multi-country financial liquidity facility to ease the financial stress on water utilities. This could design costs, start up and operating costs, as well as costs associated with instruments that would finance the Liquidity Facility.</p>