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Fostering Stability through Financial Preparedness: Disaster Risk Finance in Fragile, Conflict, and Violence-Affected Environments

Global Shield Financing Facility | Disaster Risk Financing & Insurance Program, supported by World Bank Group

In contexts affected by Fragility, Conflict, and Violence (FCV), vulnerability to shocks is acute, with typically low resilience of institutions, communities, and households. Sixty percent of the 25 most climate-vulnerable countries also feature on the World Bank list of fragile and conflict-affected situations (FCS); people in FCS are three times as likely to be affected by extreme weather annually compared to others. The high exposure and low resilience to shocks combine to have profound long-term impacts on FCS economies, with estimated cumulative GDP losses reaching 4% three years after a significant climate event, compared to 1% in other countries. Supporting communities and businesses to cope with climate and disaster shocks in these contexts can be challenging due to instability, access restrictions, weak institutional capacity, including lacking institutional frameworks for transparent and reliable financial transactions.

60% of 25 most climate-vulnerable countries present in FCS list

3X probability of being affected by extreme weather every year

4% Cumulative GDP losses in 3 years post climate event; only 1% in other countries

Disaster Risk Finance (DRF) in FCV settings

When considering disaster risk finance (DRF) in FCV contexts, it is essential to understand that one size will not fit all. While commonalities exist, such as general vulnerability to shocks, FCV countries differ significantly. For example, in Mozambique, a localized conflict exists in otherwise stable conditions, while Yemen has been grappling with widespread conflict and humanitarian crises for years, and Haiti struggles with gang violence. This presents unique challenges that require tailored approaches. Building upon the foundational principles of DRF, the approach in FCV countries requires a nuanced understanding of the specific challenges, political economy, and capacity of institutions within those settings. The goal is to create robust, adaptable, and sustainable systems that address the immediate needs of vulnerable people and contribute to long-term resilience and stability.

In FCV settings, a significant portion of the population is often on the brink of extreme poverty, with the value of assets and levels of economic activity generally lower than in more stable countries. Given this context, implementing measures to enhance the resilience of these vulnerable households to various shocks is particularly crucial. Adaptive social protection (ASP) can provide timely support to meet the post-disaster needs of those affected by conflict and violence. Cash transfer programs, food aid, and other forms of livelihood support can provide a lifeline to affected populations. These programs must be designed to be adaptive, flexible, and scalable, allowing for rapid scaling in response to disasters or conflicts. Beyond the income support function of ASP in non-FCV countries, ASP in FCV-affected countries can help address grievances underlying and driving conflict and fragility, offering a path to long-term recovery.

In the Democratic Republic of Congo, a $460 million National Agriculture Development Program (NADP) supported by the World Bank enhances smallholder farmers' productivity with climate-smart practices. A $20 million contingency emergency response component (CERC), complemented by Global Risk Financing Facility (GRiF, from which the Global Shield Financing Facility [GSFF] evolved)-funded parametric insurance, provides a robust safety net for agricultural emergency responses against extreme weather events and non-insurable risks.

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Focusing on enhancing access to finance and bolstering the financial resilience of Micro, Small and Medium Enterprises (MSMEs) is pivotal. Instruments like Partial Credit Guarantees (PCGs) offer a way to safeguard MSMEs by ensuring continuous access to credit, particularly during climate-related shocks. This approach not only helps businesses maintain operations post-disruption but also supports the broader financial sector—microfinance institutions (MFIs), banks, etc.—in unlocking finance essential for growth, employment, and resilience. It is important to explore various mechanisms, such as bridge lending, to equip MSMEs with the necessary financial resources before and liquidity after shocks.

Burkina Faso's "Financial Inclusion Support" project, part of the World Bank's $100 million Financial Sector Inclusion Project (FSIP), aims to boost financial access for MSMEs, women entrepreneurs, and farmers. A key feature is the **$35 million** partial portfolio credit guarantee (PPCG), reinforcing loans up to **$174 million**. A **US$12 million** GRiF grant aids this by covering restructured loans and offering short-term capital to MSMEs facing climate challenges.

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Agricultural insurance: Developing domestic insurance markets in FCV contexts can offer a financial buffer against specific risks. Agricultural insurance, for example, can provide financial security to farmers affected by climate variability. Ex-ante, it can help access credit and change behaviours to invest in productive activities. Ex-post, it can provide liquidity to restart activity after losses and support consumption and other needs of the family.

Sovereign insurance can protect government balance sheets, especially in contexts where fiscal space is limited, providing a strategic cushion against shocks. However, the success of such initiatives depends on the availability of accurate data, understanding of local risks, and the inclusion of vulnerable populations in insurance schemes.

In **Mozambique,** a US$90 million International Development Association (IDA) project, combined with a US$8 million GSFF grant, has capitalized and operationalized the country's National Disaster Management Fund, backed by sovereign parametric insurance against tropical cyclone risks and excess rainfall. A US$1 million insurance payout was made in its first season after Tropical Cyclone Freddy twice hit the country in February and March 2023, affecting more than 1.1 million people. This helped replenish the Fund's capital, alleviating the impact on people who lost their homes or faced exposure to waterborne diseases such as cholera.


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Challenges in Implementing DRF in FCV Contexts

Security and Accessibility: Active conflicts can limit access to affected regions, making it difficult to assess risks, deliver aid, or implement DRF strategies. Personnel safety and logistical challenges add layers of complexity to DRF implementation. Humanitarian agencies and financial institutions must navigate these complexities to provide timely support to vulnerable populations.

Institutional and Governmental Constraints: The lack of robust governmental structures or the presence of governments that are not fully functional or internationally recognized can hinder the implementation of DRF. Examples include Yemen and Haiti, where the intersection of fragile governance, limited institutional capacity, and socio-economic disparities necessitates a focused and nuanced approached. Establishing partnerships with local leaders, international bodies, or NGOs is crucial. These entities often become the de facto channels for delivering aid and implementing DRF strategies.

Capacity Limitations: Many FCV countries lack the institutional capacity to design, manage, and implement effective DRF mechanisms. Limited technical expertise, inadequate financial resources, and fragile administrative structures can impede the development of comprehensive DRF strategies. International support regarding knowledge sharing, technical assistance, and financial resources is critical to building local capacity and developing sustainable DRF mechanisms.

Political Economy Considerations: Navigating the political landscape in FCV contexts is complex. DRF strategies must be designed to avoid exacerbating existing conflicts. This involves understanding local power dynamics, ensuring inclusive participation in the DRF planning process, and ensuring data-driven and transparent interventions.

Addressing these challenges necessitates focusing on partnerships with non-government actors to enhance capacity-building, supplement or substitute government systems, and develop essential building blocks for resilience. For instance, leveraging digital payment systems and beneficiary registration can provide reliable mechanisms where traditional methods fall short.

Sustainability of DRF in FCV

Ensuring sustainability in FCV settings involves the following:

Building Local Capacity: Investing in local institutions and building administrative and technical capacity is essential. This requires training and resource provision and creating systems that can withstand political changes or periods of instability. The aim is to foster local ownership of DRF mechanisms and integrate them into national development plans.

In **Niger**, the World Bank's Risk Finance Umbrella (RFU) Program is providing support through capacity building and technical studies, which are helping develop an agricultural insurance market to meet the significant needs of farmers, financial institutions, and the public sector. The team provides technical assistance to the National Committee on Agricultural Index Insurance (Comité National sur l'Assurance Agricole Indicielle, or CNAAI) and directly to the government through the Ministries of Finance, Planning, and Agriculture. The technical assistance is informing the preparation of a World Bank project in Niger that aims to increase value chain competitiveness for the agricultural sector, access to finance, and the country's overall climate resilience.


Photo Credit: Stephan Gladieu / World Bank

Developing Financial Markets: Strong financial markets can offer resilience services that persist beyond political cycles. Initiatives like drought insurance or PCG schemes are not just stop-gap solutions but are part of a broader strategy to lay a foundation for resilience and sustainability. Facilitating access to credit, savings, and insurance can empower businesses and households to manage risks proactively. However, this requires regulatory frameworks that support financial inclusion and the development of products tailored to the needs of vulnerable populations.

Fostering Data and Analytics: Data and analytics enable informed decision-making, enhance risk assessment and modeling, and facilitate effective monitoring and evaluation. They support the development of tailored policies and regulatory frameworks, promoting financial inclusion and resilience. Regular monitoring and assessment are crucial to understanding the effectiveness of DRF mechanisms and making necessary adjustments. This involves assessing financial aspects and examining how DRF interventions impact social cohesion, conflict dynamics, and long-term development goals.

An essential tool in the WB armoury is the Next Generation Drought Index (NGDI), which entails collaboration with experts across academia, technical consultancies, and satellite companies to comprehensively assess drought in specific regions. The NGDI's 'convergence of evidence' approach collects drought data, serving multiple purposes like decision-making, adaptive social protection, and agricultural insurance. Senegal serves as an exciting pilot, with the NGDI enabling users to access data without requiring expert knowledge of analytics or GIS software, allowing for easy comparisons with food security, poverty, or other relevant data to design risk financing products. With the project now expanding to the Horn of Africa, a generalized pan-African analytical tool and dashboard is being developed.

Role of Global Shield Financing Facility in DRF for FCV Countries

The GSFF, through its unique position and access to resources, strives to mitigate the challenges that FCV countries face. It is well-placed to leverage IDA financing, and offers bespoke support for risk assessment, technical assistance, and project pipeline development, mainly focusing on ASP systems. GSFF also has the ability to leverage the expertise and experience of the Bank and its clients on DRF globally and, in particular, in FCV settings. This is part of a broader commitment to enhancing financial resilience and crisis preparedness through a comprehensive suite of analytical tools and financial solutions. GSFF provides pre-arranged financing for ASP systems and leverages the World Bank's resources and expertise in risk assessment and technical assistance.

- **Financial Support for Premiums and Capital:** In countries where fiscal constraints limit the government's ability to invest in DRF, GSFF can provide the funds to help co-finance premiums for insurance products or to capitalize contingency funds. This financial support is crucial in enabling these countries to access DRF mechanisms that would otherwise be out of reach due to budgetary limitations.

- **Facilitating Partnerships and Collaboration:** GSFF serves as a platform for bringing together various actors, including governments, international organizations, private sector entities, and civil society organizations. This ensures that DRF strategies are comprehensive, leverage the strengths of different stakeholders, and are tailored to specific needs.

The DRIVE project in the Horn of Africa leverages domestic insurance markets, fostering partnerships with microfinance institutions, banks, and other development institutions within these countries.

A **$360.5 million** World Bank loan supports the DRIVE project, safeguarding pastoralists' livelihoods in Ethiopia and Somalia. DRIVE boosts financial services access and integrates pastoralists into value chains.

A **$30 million** GSFF grant underpins this, with substantial allocation to financial services for pastoralists.

The project has drawn over **$100 million** in international reinsurance, promising long-term sustainability.

The project is supported by World Bank's IDA, alongside some matching grants from the GSFF, funded by the UK Foreign, Commonwealth and Development office (FCDO) and German Federal Ministry for Economic Cooperation and Development (BMZ)

- **Capacity Building and Institution Development:** GSFF recognizes that more than financial resources are needed to ensure the sustainability of DRF mechanisms. It invests in capacity building, supporting the development of local institutions, systems, and expertise required to effectively design, manage, and implement DRF strategies.

- **Innovation and Learning:** GSFF is committed to innovation and learning. It supports research, data collection, and the development of innovative financial products. By sharing knowledge and best practices, GSFF contributes to the global understanding of implementing effective DRF in some of the world's most challenging environments.

A **US$4.2 million** innovation investment grant was awarded to the Crisis Risk Finance Analytics (CRFA) program, which leverages technological advances to improve the information used to inform pre-arranged financing solutions. Under this program, the World Bank has partnered with the European Space Agency to link information from on-the-ground operations with the most sophisticated analytical technology, making it easier to scale up climate and disaster risk financing in a sustainable, robust, and transparent manner.

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Key takeaways:

1 **It is crucial to recognize the shared vulnerabilities between FCV countries and other nations, particularly their susceptibility to shocks and the critical role of prearranged finance in mitigating these risks.**

a. The focus remains on the fundamental DRF concepts of transparency in operations and establishing robust distribution systems to ensure efficient and effective resource allocation in FCV contexts.

b. Solid analytics should be prioritized to inform decision-making processes, ensuring that strategies and interventions are based on accurate, reliable data.

c. Collaborative Approach with a People-Centric Focus: Working collaboratively with a diverse range of partners while specifically focusing on the well-being of individuals over the protection of assets, underscoring the importance of human-centric approaches in FCV situations.

2 **Diagnostics remain as crucial in FCV countries as in other countries.** While DRF diagnostics are a starting point across settings, it is important that they be adjusted to allow for the specific challenges that FCV countries faces. Diagnostics should be informed by political economy analyses, with FCV experts consulted during the drafting to ensure DRF teams fully understand the drivers of fragility and opportunities for DRF to contribute to greater resilience and stability.

3 The goal is to create robust, adaptable, and sustainable systems that address immediate needs and contribute to long-term resilience and stability. This might involve developing digital payment systems and beneficiary registration, leveraging digital mechanisms when traditional approaches are not feasible.

4 **A focal point in FCV settings is establishing partnerships with non-governmental actors to augment or substitute government systems where necessary,** with the objective of building the foundations of government systems gradually for the long term. Collaborating with a wide range of stakeholders, including local communities, CSOs, international organizations, and private sector entities, can help leverage the strengths of different actors, ensuring that DRF strategies are comprehensive, culturally sensitive, and contextually relevant. For example, replica coverage models, where humanitarian organizations match the insurance policies purchased by governments, can extend the reach of DRF mechanisms and provide a safety net to populations that might otherwise be excluded.

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Global Shield Financing Facility

The Global Shield Financing Facility (GSFF) is a trust-funded program that has evolved from the Global Risk Financing Facility. The program is positioned under the Global Shield against Climate Risks initiative, launched by the G7 and Vulnerable Twenty (V20) Group of Ministers of Finance. The program aims to protect vulnerable countries from the financial impacts of climate shocks and disasters by pre-arranging finance through a suite of financial solutions. The GSFF does this by co-financing World Bank projects and providing grant resources with technical expertise for the design and implementation of these solutions. For more information, please write to: gsff@worldbank.org

Financial Protection Forum

The Financial Protection Forum is a global knowledge repository on Disaster Risk Finance (DRF) and one-stop information platform enabling wider distribution of publications, learning materials, and case studies and serving as a virtual convening space for knowledge exchange on DRF.

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