

Sustaining the Gains: *Feasibility of Risk Financing for Education*

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for
The Global Partnership for Education



Project Overview

Funded by the Rockefeller Foundation, the project had three key tasks:

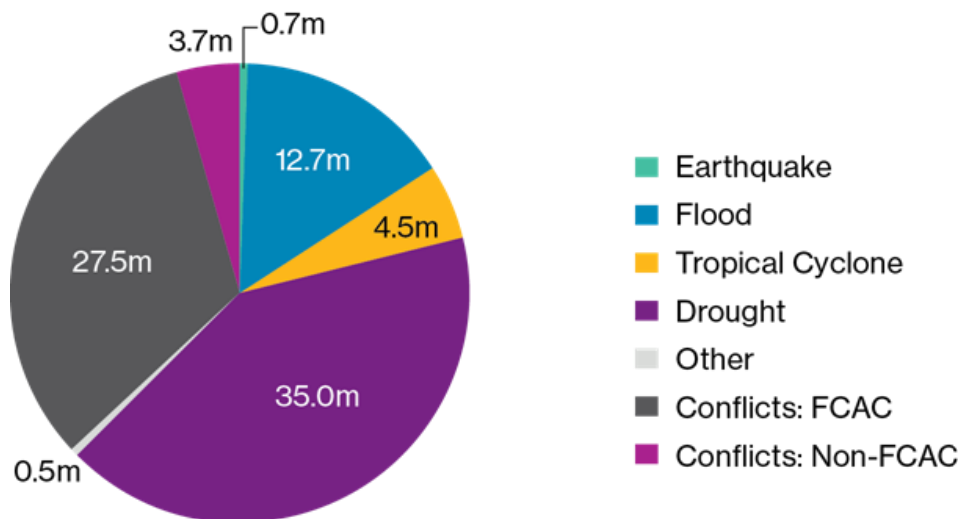
- Develop a policy case for the use of structured disaster risk management (DRM), including insurance tools and products, to build resilience and protect investments in education
- For natural disaster risk:
 - Identify potential methodologies for quantifying risk to education
 - Describe, drawing on international experience, how such risk could be best managed
 - Develop several case studies based on which pilot insurance-based solutions could be implemented in the near-term by GPE and / or its partner countries
- For political risk:
 - Explore what risk modeling and current insurance industry products may be applicable to analysing and managing education sector needs in conflicts and other man-made crises
 - Recommend practical applications and / or additional research work that may be required

Key Finding 1

The impact of emergencies on education is significant

- Natural disasters and man-made shocks impact tens of millions of children every year, causing both direct damage (e.g. loss of classrooms and books) and, much more critically, indirect damage through lost schooling days, increased permanent drop-out rates, and both temporary and permanent reduction in the social benefits of the education environment (e.g. health, nutrition, security)

GPE: No. of Children Affected per year



Key Finding 2

Risk financing* can help manage shocks associated with emergencies

- Risk financing, as has been developed and deployed within the development sector over the past decade, is applicable to the education sector
 - It could be used immediately to better manage natural disaster shocks
 - The deployment of similar tools for political risk related shocks is untested and faces significant challenges
- The benefits of risk financing can only be realized if it is part of a holistic risk management strategy embedded in education sector strategic plans and implemented with a view to building resilience in the medium to long term
- Risk financing has a high benefit to cost ratio when it incentivizes risk reduction and contingency planning, and also when it finances explicit response actions which quickly and effectively reduce interruption in both school provision and attendance

** Risk financing refers to the pre-planned flow of funds to address the impacts of unexpected shocks; risk financing tools include insurance, contingency funds / budgets, contingent credit lines, etc.*

Key Finding 3

GPE can play a critical role in risk management and building resilience

- GPE is in a unique position to support the operationalization of risk management in the education sectors of partner countries
- Developing the capacity of Ministries of Education and Local Education Groups to drive the building of resilience into Education Sector Plans is critical, as is the fostering of national and local ownership of risk management in education service provision
- Key GPE donor partners have supported the development of sovereign disaster risk pools covering the majority of GPE partner countries*, which can act as an efficient vehicle to execute risk financing

** The 89 countries that are already or which will be eligible for GPE financing under the financing and funding framework approved by the GPE Board in March 2017*

Key Finding 4

Risk financing builds on GPE's core business to strengthen education systems

- GPE's business model and platform are appropriately positioned to support countries access a range of risk financing tools
- Under current GPE institutional arrangements, there are immediate opportunities to piggy-back on existing mechanisms
 - the evolution of those institutional arrangements will open up a broader range of tools to explore, including the ability to support risk financing on a portfolio basis (*i.e.* across multiple countries in the same program)

Key Opportunities and Challenges

Building resilience into ESPs and Ministry of Education operations is critical and will need up-front investment to:

- Improve planning for education infrastructure development and post-disaster response
- Develop early warning linked to preparedness, which can be extremely effective in reducing impacts, particularly at the local level

Taking an holistic disaster risk management (DRM) and risk financing approach is not typical in the development sector, but this is changing and can be resourced under several donor initiatives:

- Through the G7 InsuResilience initiative, led by UK and Germany, and the Insurance Development Forum of global public and private sector actors, as well as other developing programs, the disaster risk financing space continues to expand and bring opportunities
- The post-2015 development agenda creates a particular opportunity for new financing to fund DRM at the sovereign (national government) level (or cascading down from the sovereign level)

Key Opportunities and Challenges

For GPE partner countries, risk is already there and has a cost which must be recognized, and sustainable financing flows must be in place to cover that risk:

- The true cost of risk is hidden in the complex humanitarian / development nexus
- Acknowledgment of risk ownership is a critical first step to implementing more cost-effective (and impactful) management approaches, including *ex ante* risk financing
- Waiting for traditional appeals-based aid is not a credible option, so the opportunity is even greater for *ex ante* approaches than in the broader disaster response space

Data gaps are considerable in some places, slowing progress towards understanding the true cost of risk. However:

- The data to quantify the cost of risk is generally available to the extent necessary to structure risk financing solutions for natural disaster shocks across most GPE countries
- For man-made crises, high uncertainty about the risk leads to un-affordable rates for current insurance products
 - Development of models to underpin more affordable solutions is possible but will take significant time and resources

Recommendations for Next Steps

- Emergencies are major disrupters to the delivery of education services across the developing world and significantly undermine the ability of education systems to sustain gains.
- Disruption to the delivery of education services can be minimized via a structured disaster risk management and financing approach
- We recommend that GPE should continue to explore how it can play a role in supporting the design and application of risk financing for education via its own work and with its partner countries
- Two practical steps which could be taken in the short term are:
 - GPE, working closely with potential partner countries, should seek new and additional funds to prepare for and launch one or more of the proposed pilots identified below; and
 - GPE should continue to monitor the evolving disaster risk financing space to identify opportunities for engagement both directly and in partnership with individual countries, including advancing the quantification of political risk in advance of possible development and deployment of appropriate risk financing tools

GPE Pilot Risk Financing Program Ideas: Leveraging existing mechanisms

Parametric insurance has been established for sovereign governments against natural disasters over the past 10 years

- 72% of the 89 GPE countries are eligible for coverage from existing schemes:
 - CCRIF SPC, covering CARICOM and COSEFIN countries in the Caribbean and Central America for cyclone, earthquake and excess rain
 - ARC, covering all AU Member States for drought, cyclone (only 4 are exposed) and, soon, flood (plus epidemics in development)
 - PCRAFI Facility, covering 15 Pacific islands for cyclone and earthquake

To maximize the benefits of rapid payouts from parametric insurance programs, these schemes have targeted coverage for early recovery needs

- In the case of the African Risk Capacity, payouts finance implementation of a pre-agreed contingency plan, ensuring early-action benefits are maximized and the needs of the most vulnerable are met first

Maintaining attendance and learning after drought in sub-Saharan Africa

- Food insecurity is a chronic condition across large parts of SSA
 - Ability to scale up social protection systems is increasingly seen as a critical development tool, with expansion of school feeding programs a key vehicle
 - GPE grants already fund or have funded school feeding programs in SSA
- School feeding programs are a powerful tool to combat childhood malnutrition and to encourage school attendance and enhance learning
 - When drought occurs, there is a spike in child food needs and a plunge in school attendance rates
- ARC has already provided drought coverage to 8 GPE countries, so represents a viable, tested and accessible vehicle for piloting risk financing for education
 - Contingency plans in several of these already include school feeding
 - ARC has three possible modalities for issuing a policy to finance school feeding

Covering sudden onset disaster risk to education at the local level

- The northern third of **Madagascar**'s east coast faces amongst the greatest extreme wind hazard of any land area in the world and, on average, two to three cyclones make landfall every year
 - Cyclone Enawo, which made landfall in early March 2017, was the most damaging storm in a decade. The Government of Madagascar estimates that almost half a million people were directly impacted by Enawo, with education suspended for 100,000 children
- **Haiti** is exposed to multiple perils, and has recently endured massive earthquake (in 2010) and hurricane (Matthew in 2016) impacts on lives, livelihoods and education
 - The 2010 earthquake decimated the education sector at all levels, and while rebuilding the sector has been progressing, exposure to and insufficient planning for the impacts of natural disasters continues to impact improved delivery of education services
- Community-driven early recovery and re-starting of schools is already well-established in Madagascar and is increasingly recognized in Haiti
 - Formalizing financial resource flow to support this would drive even more effective implementation
 - ARC offers a parametric cyclone policy in Madagascar and CCRIF, the Caribbean sovereign pooling facility, paid out to Haiti for both the 2010 earthquake and Hurricane Matthew

Pooled cover for multiple perils in small island ACP states

- GPE partners with many small island developing states in the Caribbean, Africa and Pacific, as well as with several other African and Central American countries, all of which are covered by risk modeling for multiple sudden-onset natural perils
 - These risk models are operating as the basis for sovereign parametric insurance contracts under the auspices of CCRIF (for the Caribbean and Central America), ARC (for the Southwest Indian Ocean countries) or PCRAFI Facility (for the Pacific)
- A GPE portfolio insurance coverage backstopping a dedicated early-response contingency fund would be a powerful vehicle to provide rapid financing to support pre-planned early response across a large number of countries in a very efficient way

Why GPE for disaster risk financing?

- There is a table, but Education doesn't have a seat
 - Through interaction with existing insurance pools and support from MDBs, Ministries of Finance in many GPE countries have developed an understanding of disaster risk financing
 - Through UN-OCHA and many others, disaster preparedness and risk reduction have been mainstreamed into development thinking and sovereign government planning
- GPE can be the lubricant and the glue
 - GPE has strong relationships with Ministries of Education, both political and operational, and can help Ministers claim a seat at the table
 - Through ESPs and LEGs, GPE can encourage both embedding of DRM / DRF into planning and practical implementation of DRM / DRF strategies, including contingency planning for response
- The current GPE toolkit can be expanded
 - GPE has developed two options for funding of rapid response within its current financing framework, both bearing a significant opportunity cost:
 - Restructuring of an existing grant, which takes 2 to 3 months after a request is received; or
 - Fast disbursement of up to 20% of an unprogrammed grant allocation (Maximum Country Allocation, MCA), again requiring 2 to 3 months for mobilization
 - Pre-agreed response financing can help to lessen the impact of shocks on implementation of ESPs and lock-in long-term resilience in the education sector

Thank you
Merci
Gracias
Asante



Background: Global Policy Context

The post-2015 development agenda has embraced disaster risk management and financial protection as key elements for building resilience and securing development gains as summarized below:

- The **Sendai Framework for Disaster Risk Reduction**, adopted by UN Member States in 2015, guides global efforts to prevent new and reduce existing disaster risk through 2030 and highlights financial protection as a key element of resilience
- The **Addis Ababa Action Agenda**, adopted in July 2015, lays out the level of ambition for financing the **Sustainable Development Goals** (SDGs), which were adopted in September 2015. Climate and disaster resilience are mainstreamed across the SDGs and their associated targets, ensuring that global development priorities over the next 15 years will integrate climate and disaster risk management considerations
- The **Paris Agreement of the UN Framework Convention on Climate Change**, which entered into force in October 2016, recognizes, in Article 8, the need for comprehensive risk assessment and management, including the use of insurance, to address loss and damage from climate change
- The **World Humanitarian Summit** in May 2016, where a structured risk management approach including risk financing was discussed as an important tool in ‘fixing’ the global humanitarian system

Background: Education Sector and GPE Context

Achieving the UN Sustainable Development Goal for education (SDG 4) requires the identification and securing of new financial resources

- The International Commission on Financing Global Education Opportunity (the ‘Education Commission’) was formed in mid-2015 as an outcome of the Oslo Summit on Education for Development
 - Amongst other things, the Education Commission recognized that education in emergencies is a key issue in achieving SDG 4, and that innovative financing mechanisms would be required
- GPE’s Board, in June 2016, mandated the Strategic Finance Working Group to develop an “ambitious and comprehensive” financing and funding framework
 - The SFWG in turn recognized the need to specifically investigate risk financing as part of GPE’s broader funding framework, given the critical need to build resilience of education systems in the face of increasing natural and man-made shocks and already low and decreasing funding for early response

Background: Building Education Sector Resilience

The resilience dividend for the education sector is large:

- Early response financing is generally lacking
- Even maintaining pre-disaster funding levels is difficult
- High opportunity cost of un-funding Education Sector Plan

Building resilience into ESPs and Ministry of Education operations is critical:

- Need better planning, both for education infrastructure development and post-disaster response
- Need dedicated, protected financing to support early recovery
- Early warning linked to preparedness can be extremely effective in reducing impacts, particularly at the local level

Background: Theory of Change

OUTCOME PATHWAY FOR RISK FINANCING IN EDUCATION

