RISK REDUCTION AND RISK FINANCE FOR EDUCATION

For Decision

Please note: Board papers are deliberative in nature and, in accordance with the GPE Transparency Policy, are not public documents until the Board has considered them at the Board meeting. It is understood that constituencies will circulate Board documents among their members prior to the Board meeting for consultation purposes.

1. STRATEGIC PURPOSE

1.1 This paper proposes a disaster risk reduction and risk finance approach for GPE.

1.2 Detailed analysis commissioned by the Secretariat shows that education systems face severe risks from political and natural disasters. It is challenging to reduce political risk. However, a variety of institutions and instruments are available to reduce the risk and cost of natural disasters and mobilize funding quickly when they happen. Currently, these instruments and institutions do not prioritize the education sector.

1.3 Rather than establish new tools, the recommended approach makes use of existing Secretariat human resources to connect countries' needs with existing institutions and instruments. The Secretariat proposes initially implementing this approach in a small number of countries as part of the Education Sector Plan development process.

1.4 Subject to review, the approach could be scaled up. This could be done by establishing a mechanism within the Financing and Funding Framework, as a part of a broader theme on education in conflict and crisis within the Knowledge and Innovation exchange, which will be considered for 2019; or by including risk mitigation and risk finance within the Education Sector Investment Case model to be developed in 2018.

1.5 The proposal reflects feedback from key partners, including Education Cannot Wait and the new London Centre for Global Disaster Protection. Annex 1 summarizes coordination and collaboration with these and other actors.

Summary of Finance and Risk Committee Deliberations

Finance and Risk Committee

- The FRC welcomed the proposed approach of integrating natural disaster risk reduction and risk finance into education sector plans by leveraging existing institutions and instruments.
- The Committee recommended the Secretariat's proposed approach of mainstreaming this work into education sector planning, initially in a small number of countries. It clarified that the approach should emphasize disaster risk mitigation and reduction alongside risk finance.
- Based on the proposed approach gaining traction, the FRC suggested exploring whether it could then be further institutionalized through elements of the Finance and Funding Framework (through the Education Sector Investment Case, as a mechanism, or within the Knowledge and Innovation Exchange).
- To ensure transparency and effectiveness, the FRC requested that—subject to the Board's approval of the proposed approach—the Secretariat elaborate an evaluation approach and clear criteria for the selection of the small number of partner countries to be initially included per BOD/2017/12 DOC 05 Option 1.

2. EXECUTIVE SUMMARY

2.1 In previous decisions, the Board approved funding from the Rockefeller Foundation to study the extent of risks affecting education systems. This study determined that education systems face significant natural disaster and political risk.

2.2 Based on a proposed approach to risk finance and risk reduction instruments, the Board instructed the Secretariat to develop an analysis of options to reduce natural disaster risk (BOD/2017/03 DOC 03) for the Finance and Risk Committee to consider.

2.3 This paper proposes that the Secretariat engage with the disaster risk reduction and risk finance agendas through:

- Continued thought-leadership and advocacy, and
- Connecting demand for risk reduction and risk finance instruments with existing institutions and instruments.

2.4 To do this, the Secretariat proposes integrating natural disaster risk reduction and risk finance into a small number of education sector plan development processes.

2.5 The paper presents options for different levels of engagement using this approach. Option 1 is recommended based on existing Secretariat technical capacity and headcount. This calls for the approach to be implemented in up to three (3) ESPs per year. Further options would likely exceed the Secretariat's current capacity.

2.6 Subject to a review of the approach detailed in BOD/2017/12 DOC 05, it may be scaled up e.g. through the articulation of a mechanism within the Financing and Funding Framework, an element of the Education Sector Investment Case model, and / or as a theme within the Knowledge and Innovation Exchange (KIX).

3. RECOMMENDED DECISION / REQUESTED INPUT

3.1 The Finance and Risk Committee recommends that the Board of Directors approve the following decision:

BOD/2017/12 XX Option 1- <u>Risk Reduction and Risk Finance for Education</u>–The Board of Directors:

Instructs the Secretariat to:

a. Support integrating of disaster risk reduction, analysis, and planning as part of the Education Sector Plan development process as set out in BOD/2017/12-DOC 05 Option 1 and in alignment with national priorities.

b. Develop a Risk Reduction and Risk Finance Approach, including to supplement the education sector plan development process with risk measurement and risk mitigation for natural disaster risks in a small number of countries as set out in BOD/2017/12-DOC 05 Option 1.

c. Elaborate an approach to evaluation and transparent criteria for inclusion, and mandates the FRC to review these.

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4. BACKGROUND

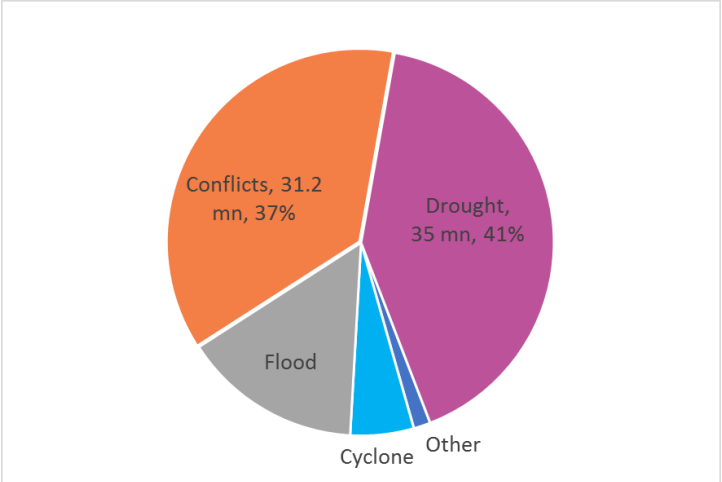
4.1 In September 2016, the Board approved a grant from the Rockefeller Foundation to commission research on mapping and measuring the impact of risk, and to identify and propose innovative approaches and options to building resilience in education systems. The resulting reports are now available (http://www.globalpartnership.org/event/board-meeting-ottawa-june-2017), and are annexed to this paper.

4.2 The analysis concluded that education systems are generally not resilient to disasters. For example, the 2005 Kashmir earthquake in Pakistan caused the collapse of 7,000 schools. Another 7,400 schools in China were destroyed in the 2008 Wenchuan earthquake, and the 2010 Port-au-Prince earthquake in Haiti devastated 1,350 schools.

4.3 The low priority that education receives in disaster planning exposes education systems and children to disasters. The analysis indicates that natural disasters and conflict affected an estimated 84.6 million children on average annually between 2000 and 2016. As Figure 1 summarizes, the majority of these losses were caused by natural disasters.

4.4 More broadly, the evidence suggests that natural disasters severely disrupt education infrastructure and impede access to education. These shocks set back gains in enrolment and learning, and undermine progress made to build robust and effective education systems.

Figure 1: Children affected by type of risk, average share 2000 – 2016 across 89 countries eligible for GPE funding

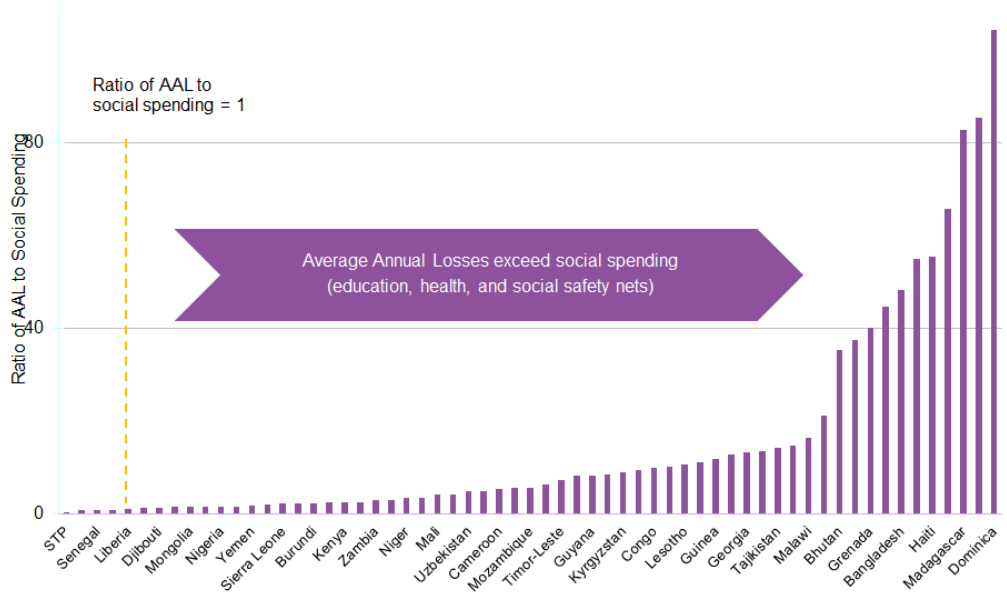


Source: Data from Willis Towers Watson, Save the Children, and Overseas Development Institute, "Sustaining the Gains: Feasibility of Risk Finance in Education." GPE Secretariat analysis.

4.5 Figure 2 below charts the ratio of Average Annual Loss (AAL) from natural disasters (excluding drought) to total social spending, which includes education, health, and social safety nets.

Almost all GPE partner countries face losses from natural disasters that are several times the amount they spend on social sectors.

Figure 2: Average Annual Loss (AAL) from natural disasters are many times social spending (including education) in GPE Partner countries



Source: United Nations Office for Disaster Risk Reduction (UNISDR). "Global Assessment Report 2015: Making Development Sustainable." GPE Secretariat analysis. Notes: Countries to the right of the yellow line have Average Annual Losses from natural disasters that are greater than total average annual social spending.

4.6 Despite robust evidence that natural disasters destroy education infrastructure, affect school-age children, and set back learning, education received just 2.4% of humanitarian funding in the last decade. Disaster response from donors is well-intentioned but remains focused on acute needs like healthcare.

4.7 Three case studies analyzed by the consultancy team show that the size of the benefits of reducing the time children spend out of school due to shocks. A reduction of only 5% is associated with economic gains in the order of US$ 30 million (DRC), US$ 200 million (Pakistan), and US$ 424 million (Syria).[1]

[1] These estimates are based on countries affected by conflict. But they demonstrate the point that the social costs of lost education can be much larger than the costs of damage to physical assets.

4.8 The consultancy report concluded that the overall economic and social costs of lost education are dramatically reduced through investments in reducing the risk of disasters and through mobilizing rapid funding when disasters happen. Section 5, below, summarizes these resources.

4.9 Based on feedback from technical Committees and Partners, the Secretariat has further developed its proposed approach to integrating risk reduction and risk finance tools into its work. The proposed approach calls for the Secretariat to play a brokering role between existing institutions and programs, rather than establishing a mechanism within the Financing and Funding Framework (FFF). As such, the proposed approach would constitute part of the Education Sector Plan development process.

4.10 Subject to the Board's review, the Secretariat could scale this work up at a later date through several elements of the FFF. Decisions about scaling up this work should be linked to sufficient human resources capacity.

5. BUILDING ON GPE'S EXISTING TOOLS

5.1 GPE's model already supplements national budgets with a simple type of risk finance through its accelerated finance facility. A country can access up to 20% of its Education Sector Planning and Implementation Grant (ESPIG) ahead of schedule to address unexpected shocks.

5.2 In 2015, Chad experienced an unexpected influx of refugees fleeing Boko Haram attacks in Nigeria. The Government of Chad worked with the Secretariat to absorb increased demand by accessing US$ 6.9 million of accelerated funding. This funding supported the inclusion of refugee children in Chad's Education Sector Plan.

5.3 There are now numerous risk reduction programs and risk finance instruments available to GPE Partner countries. Emergency lending increases government budgets quickly to deal with the effects of risk. Sovereign risk pools are national-level insurance companies that provide large-scale coverage to deal with rare and expensive risks. But just as education has not been prioritized in national or international emergency aid allocations, these tools do not include the education sector.

5.4 An example of emergency lending is the Catastrophe Deferred Drawdown Option (Cat DDO). The Cat DDO is a development policy loan offered by the World Bank to provide fast liquidity after a

natural disaster. To access this type of loan, the borrower— a national government or authority— must have a disaster response program in place beforehand.[2]

5.5 Similarly, sovereign-scale insurance schemes are owned and operated by the governments that benefit from them in the Caribbean (Caribbean Catastrophe Risk Insurance Facility, or CCRIF[3]), Africa (African Risk Capacity, or ARC[4]), and the Pacific (Pacific Catastrophe Risk Assessment and Financing Initiative, PCRAFI[5]). Funding arrives quickly. These three programs include 63 of the 89 countries eligible for GPE financing.[6]

6. PROPOSED APPROACH

Integrate existing instruments into education sector plans

6.1 Risk reduction and risk finance instruments already exist in GPE partner countries. As mentioned above, existing sovereign risk pools already include 63 of the 89 eligible GPE countries. These tools and institutions offer protection to vulnerable sectors by guiding investments in risk reduction, and by mobilizing money quickly and predictably after disasters strike.

6.2 The Secretariat will work to capitalize on existing tools by initially working to mainstream risk analysis and risk finance approaches into a small number of Education Sector Plans. GPE will connect country-level demand for risk finance products to the supply of these services from existing facilities. This reflects feedback from technical committees that it would be premature for the Secretariat to develop a further Mechanism for this work.

[2] Previously only available to IBRD countries, the Cat DDO is now available to the IDA-eligible countries that comprise the bulk of GPE's grant portfolio.

[3] Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC) is an insurance program that covers 17 Caribbean countries. Rapid disbursement of payments helps governments rebuild infrastructure and deliver emergency services quickly. CCRIF has paid out 22 times for the risks it covers—hurricanes, earthquakes, and heavy rains—for nearly US$ 70 million in total. All payouts were transferred to governments within two weeks after the event and in three cases, interim payments were requested and made one week after the event.

[4] The African Risk Capacity (ARC) collects premiums from its African member states to finance the underlying insurance contracts. In its first year, ARC insured Kenya, Mauritania, Niger, and Senegal for up to US$ 30 million per season. ARC requires countries that want to take out insurance against drought to develop a clear plan for how they will spend the money that is paid out if drought occurs

[5] The Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) graduated from a pilot program established with technical assistance from the World Bank and with donor support, primarily from Japan. In 2015, Tonga and Vanuatu both received payouts of roughly US$ 2 million within one week of the devastation caused by Tropical Cyclone Pam.

[6] These risk pools are owned by the partner governments that participate in them, and are therefore public sector entities. They are not private, for-profit firms.

6.3 As a notional example, by mapping and identifying impact of cyclones as a key risk to Haiti's education sector plan, GPE might work with the Government of Haiti to explicitly include the education sector in post-disaster planning and with CCRIF, the sovereign risk pool to which Haiti already belongs, to increase coverage against natural disasters. (In October 2016, Hurricane Matthew destroyed left nearly 200,000 children out of school in Haiti, of which a significant number remain out of school).

6.4 Similarly, drought has been identified as a key risk to education outcomes (see Figure 1, above). A disaster risk reduction strategy for education could therefore call for school feeding programs to be included in ESPs, based on analysis and financing through the African Risk Capacity (ARC).

Act as a policy intermediary

6.6 The proposed risk finance areas of work does not position GPE as a financial intermediary between countries and existing programs. Rather, the Secretariat will collaborate with organizations that specifically seek to partner with GPE on disaster risk management and planning activities only, positioning the Secretariat as a platform rather than a counterparty. Knowledge and technical products will be incorporated into the KIX learning exchange clearing house function.

Thought leadership and advocacy

6.7 GPE and the Secretariat will build on its role as an advocate and lobbyist for the education sector. In particular, GPE will advocate for education to benefit from existing disaster planning and resilience investments by national governments and local authorities.

7. REASONS FOR RECOMMENDATION

7.1 This recommendation proposes an approach to reducing disaster risk and the impact and cost of disasters on education systems. The recommended option (Option 1, below) takes advantage of existing tools and institutions, and is consistent with the Secretariat's existing human resources capacity.

7.2 Implementing the approach is expected to show the value of investments in lowering disaster risk. The proposed approach also strengthens the Secretariat's leadership and footprint in disaster risk reduction and finance programs, including the Sendai Framework of Action, the Addis Ababa Action Agenda, and the Sustainable Development Goals. Finally, it will further confirm GPE's role as a thought-leader and advocate for education in diverse contexts, including in disaster risk reduction and recovery. The cost is an allocation of existing Secretariat capacity to this workstream.

7.3 Further options that have been considered including establishing a fully-fledged mechanism within the Financing and Funding Framework (FFF), integrating the approach with the Education Sector Investment Case model, or including it in the Knowledge and Innovation Exchange. The FRC requested the Secretariat should initially implement the approach alongside education sector plan development in a small number of countries to demonstrate traction and build a case for scaling up.

8. IMPLICATIONS FOR SECRETARIAT RESOURCES AND RISK ANALYSIS

8.1 Table 1 below summarizes different options for engaging with the risk finance areas of work. Based on existing capacity in the Secretariat's finance and front office teams, the Secretariat has sufficient capacity in place to manage **Option 1**. This calls for continued advocacy and thought-leadership by GPE, alongside support to the education sector planning processes in up to three (3) countries per year.

Table 1- Risk finance resource framework

Option(s)	Description	Resource implications
Option 1 (Recommended)	• Continued advocacy and thought-leadership by GPE • Collaboration with Foundations and other actors to invest in GPE research programs where possible • Collaboration with private sector actors and insurance sector in line with Private Sector Engagement Strategy • Support to Education Sector Planning processes **in one to three countries per year**	• 25% Innovative Finance Lead's time • 25% Private Sector Specialist's time • Additional support from one to two short-term consultants or full-time equivalent staff and cross team support, possibly seconded to GPE through private sector partnerships • Continued support and advocacy from GPE's Leadership and cross teams ***Pros**: engagement with risk finance, continued advocacy for education inclusion, pragmatic approach to opportunities to include risk awareness and planning, where feasible, in a few ESPs.* ***Cons**: call on Secretariat bandwidth*
Option 2 *Medium-scale*	• Continued advocacy and thought-leadership by GPE • Collaboration with Foundations and other actors to invest in GPE research programs where possible • Collaboration with private sector actors and insurance sector in line	• 75% Innovative Finance Lead's time • 75% Private Sector Specialist's time • Additional support from two to three short-term consultants or full-time equivalent staff and cross team support, possibly seconded

Option(s)	Description	Resource implications
	with Private Sector Engagement Strategy ● Support to Education Sector Planning processes **in four to ten countries**	to GPE through private sector partnerships ● Continued support and advocacy from GPE's Leadership team ● Additional support from at least one short-term consultant and/or cross team support ***Pros**: deeper and sustained engagement with risk finance advocacy, expanded approach to risk awareness and planning, where feasible, in a small number of ESPs.* ***Cons**: significant call on Secretariat staff time, possibly distracting from other priorities.*
Option 3 *Large-scale*	● Continued advocacy and thought-leadership by GPE ● Collaboration with Foundations and other peer organizations through in-kind support, knowledge sharing and information exchange as well as investment in GPE's research programs where possible ● Collaboration with private sector actors and insurance sector in line with Private Sector Engagement Strategy ● Support to Education Sector Planning processes across **all ESPIG- or GPE Multiplier-eligible countries**	● 100% Innovative Finance Lead's time ● 100% Private Sector Specialist's time ● Additional capacity and headcount implications ● Additional support from four to five short-term consultants or full-time equivalent staff and cross team support, possibly seconded to GPE through private sector partnerships ● Continued support and advocacy from GPE's Leadership team ***Pros**: high-level and robust engagement with risk finance, expanded approach to risk awareness and planning, where feasible, in an increased number of ESPs.* ***Cons**: Expanded increase in resource and time commitments by Secretariat.*

8.2 The core risk that is anticipated is that there will be excess demand for this approach as part of ESP development. To manage this risk, the Secretariat proposes to implement the approach in up to just three (3) countries based on clear criteria for country selection that will be reviewed by the relevant technical committee. Subject to review of this approach, it could be scaled up and resources and capacity secured for the Secretariat to deliver it at larger scale.

9. NEXT STEPS

9.1 Subject to the Board's review of the proposed approach, the Secretariat will articulate an evaluation strategy for report to technical committees and the Board.

92 The Secretariat would also set out indicative criteria to ensure a transparent selection of countries for the approach (for example, based on appropriate timing in the education sector plan development process and inclusion in existing sovereign risk institutions).

10. PLEASE CONTACT Theodore Talbot at: ttalbot@globalpartnership.org for further information.

11. ANNEXES/ REFERENCE(S) AND GLOSSARY

Annex 1: Collaboration with Selected Actors

Annex 2: *Sustaining the Gains: Feasibility of Risk Financing for Education*. Willis Group, Start Network, and Overseas Development Institute.

Annex 1: Collaboration with Selected Actors

The Secretariat has benefited from conversations with peer agencies who are also at the forefront of working with the world's most at risk children, to ensure that GPE's risk finance areas of work aligns and compliments their broader efforts.

Education Cannot Wait (ECW): GPE is well placed to work alongside ECW, as they have already invested in and collaborated with GPE to scale up education response. The Secretariat has also benefited from high-level conversations with the ECW leadership regarding GPE's proposed risk reduction and risk finance work. ECW's aims to reach all crisis-affected children and youth with safe, free and quality education by 2030. The right to education is most at risk during emergencies but it is also the exact time when it is needed the most. If national governments have options for risk smart finance in place with a specific focus on education, funding from ECW could supplement any financing accessed by national governments. This could significantly help scale-up education responses in crisis settings. Improving risk analysis and resilience in sector planning support to authorities through GPE's risk finance work will allow rapid allocation of funds so that education is not left behind when national reserves are overwhelmed. As such, it would complement ECW's work in responding to natural disasters.

G-7 *InsuResilience* Initiative: The overall objective of the initiative is to stimulate the creation of effective risk insurance markets and the smart use of insurance-related schemes for people and risk-prone assets in developing countries. By initiating *InsuResilience* the G7 countries acknowledged the central role insurance plays in a comprehensive risk management approach as a means to protect the poor. To unlock this increase in coverage, the initiative seeks to boost "indirect" insurance through support to sovereign risk pools alongside new efforts to increase direct access to insurance products amongst poor and vulnerable households (meso- and micoinsurance).[7]

The increased coverage through indirect insurance therefore dovetails with GPE's proposed risk finance areas of work, which calls for collaboration with peer organizations to increase support to the education sector from sovereign risk pools. Discussions with key leaders involved in this initiative concluded that the Secretariat's advocacy role for the inclusion of education in risk finance is not only timely, it is urgently needed. GPE is well placed to provide thought-leadership and collaboration to platforms such as *InsuResilience* in its formative stages, so that education is included from the onset.

London Centre for Global Disaster Protection: The British government, including DFID, established the Centre as a hub for leveraging the U.K.'s risk, science, insurance expertise and innovation to help developing countries with disaster planning and to provide more cost-effective, rapid and reliable finance in emergencies. The Secretariat has benefited from informal conversations with the London Centre. GPE will continue this dialogue, both as an advocate for education to be featured in all disaster planning and where

[7] http://www.cseindia.org/userfiles/InsuResilience.pdf

possible, to connect the Centre's services with country-level demand to inform better and more robust risk finance and resilience for education.

UNICEF: Over the years, UNICEF has contributed to strengthening resilience through its work in social protection, disaster risk reduction (DDR), climate change, peacebuilding, and national capacity development, as guided by the organization's Core Commitments for Children in Humanitarian Action (CCCs).[8] This work has been integrated into UNICEF's broader programing in a number of areas, including education in emergencies. At the global level, UNICEF contributes to GPE's goal setting, policy harmonization, strategic analysis, monitoring and evaluation and joint advocacy efforts. At the country level, it coordinates, manages or supervises GPE programs.

Given GPE's symbiotic relationship with UNICEF, integrating national education sectors into disaster planning and risk finance will therefore draw on UNICEF's thought-leadership and best-practices in DDR. In particular, GPE will coordinate closely with UNICEF where the latter is the Grant Agent.

[8] https://www.unicef.org/esaro/5484_emergencies_results.html

Annex 2: *Sustaining the Gains Report*

Feasibility of risk financing for education - Final summary report. June 2017

Feasibility of risk financing for education - Task 1 report. June 2017

Feasibility of risk financing for education - Task 1 report annex. June 2017

Feasibility of risk financing for education - Task 2 report. June 2017

Feasibility of risk financing for education - Task 2 report annex. June 2017

Feasibility of risk financing for education - Task 3 report. June 2017

Feasibility of risk financing for education - Task 3 report annex. June 2017