Guiding Principles and Appraisal Framework for GRiF Grant Support

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Global Risk Financing Facility

Supporting Early Action to Climate Shocks, Disasters, and Crises

1. This note sets out the principles and appraisal framework for the use of grant financing under the Global Risk Financing Facility (GRiF) MDTF. It has been prepared as part of the ongoing discussions among development partners, including DFID and BMZ, on how to use grants, especially under the GRiF, to maximize the impact of disaster risk financing and insurance solutions on the financial resilience of developing countries against climate and disaster shocks and crises, and the benefits to vulnerable people from earlier action and faster recovery.

2. The note presents a set of guiding principles and appraisal criteria to guide resource allocation decisions for the GRiF at the portfolio level and appraise funding proposals for grant support to disaster risk finance and insurance instruments at the project/product level.

3. The use of grant financing to support disaster risk finance and insurance solutions is a complex, sensitive and evolving area of work, with a limited track record. Development partners should therefore adopt a flexible, evidence-based approach to implementation that enables adjustments over time to refine operational modalities and manage risks.

4. The types of investments covered under this note, and to be co-financed by GRiF grants, include, but are not limited to: (i) Start-up costs and operating costs for risk financing vehicles; (ii) Capitalization of risk financing vehicles; (iii) Cost of financial instruments, e.g., insurance premiums; (iv) Costs for linking pre-arranged funding to national delivery mechanisms.

5. The technical appraisal process will be led by the GRIF Secretariat, and specifically the Technical Manager and the Technical Committee, which will include external experts. The appraisal will be aligned with the Quality Enhancement Review process within the WB, in the case instruments are developed under WB lending operations. A project or product would not necessarily need to meet all criteria fully, but the appraisal process would need to provide justifications in the context of all the criteria.

6. The principles and criteria are important to both development partners providing funding to the GRiF as well as task teams applying for grants, however they apply in different ways.

7. To task teams, these principles and criteria should provide a guide to the most important potential risks and considerations in the development of a risk financing operation. They build on many years of operational experience in developing and designing risk finance programs. Addressing all sections in these criteria will support task teams to design and prepare a stronger operation, maximizing impact, pre-empting and addressing potential risks up front, and answering the most common questions or challenges to risk financing projects encountered.

8. To development partners, the principles and appraisal criteria provide an assurance that grant funding is used in line with the development objectives and quality standards envisioned when establishing the GRiF. Following these criteria is a procedure to mitigate the most significant risks to the Bank and to Donor Partners which could arise from the co-funding of financial instruments. The additional effort by the Bank to ensure full alignment with these principles not only helps elevate the project quality, but also replaces the need for development partners to individually review and approve grants as part of their internal risk management processes.

9. **Part A** is a principle for consideration by development partners when agreeing to a workplan for the GRiF to determine which countries and regions should be prioritized. This is a decision taken before task teams begin scoping or apply for grant funding. Selection of a country under Part A can be viewed as the in-principle approval that a project which fulfils all other criteria is eligible for GRiF funding.

10. **Part B** is completed by the task team in consultation with the GRiF Secretariat1. Development partners do not input into the completion of this section. The criteria under this section look at the wider country context, the project design, and the project preparation. This will be completed by the task team while preparing the grant application and should be ready at the Project Concept Note stage of the project. This will support the design of a sustainable and successful disaster risk finance project overall.

11. **Part C** is completed by the task team in consultation with the GRiF Secretariat. Development partners do not input into the completion of this section. This will be completed by the task team during the preparation phase of the project and should be ready at the Quality Enhancement Review stage of the project. This will support the design and preparation of technically sound financial products and processes to implement these products.

[1] The GRiF Secretariat is comprised of the Technical Manager, FCI/DRFIP, and the Trust Fund Manager, CCG/GFDRR. The Technical Manager is responsible to ensure that the GRiF principles (and the associated appraisal matrix) are applied and for technical approval of grants, ensuring technical quality of grant applications, and jointly managing work program planning and business development with the Trust Fund Manager.

Part A.
Portfolio Resource Allocation

The resource allocation on a portfolio basis (preparation of Work Plan) should follow established indicators based on the following principles, and expected minimum criteria:

A1 **Level of economic development and vulnerability.**
Overall resource allocation and degree of grant financing should differentiate according to countries' ability to pay. Priority should be given to the poorest and most vulnerable countries.

> IDA countries will be prioritized against IBRD countries, all other things being equal. Higher risk countries will be prioritized.

Part B.
Project Appraisal: The process and system that the instrument is embedded in

B1 **Sustainability and exit strategy.**
Proposed program of support should demonstrate a clear path to sustainability. Sustainability does not necessarily mean the country itself would be expected pay the premium in full, but a clear strategy needs to be demonstrated for somebody (e.g., donors, IDA) to pay for the product in the medium term. Subsidies would be set at the minimum level to make a project viable and, where appropriate, declining over time towards ultimately self-funding. Proposed financing support under one project should not extend beyond 3 years. This could potentially be extended through a new project, evaluated against these criteria.

> The country is willing and able to allocate sufficient resources toward financial protection.

B2 Country ownership and readiness.

Strong country ownership of the instrument and process to ensure instruments are demand-driven and respond to the needs of local stakeholders. The country should demonstrate readiness to work on disaster risk financing and insurance solutions. Readiness to work on risk financing could include, but is not limited to, for example a DRF strategy, an adequate legal and regulatory framework and/or political commitment[2]. Where the instrument relates to more fragile or conflict-affected states, in line with humanitarian principles, ownership should be as local as possible but as international as needed.

> The country has a disaster risk financing strategy or other explicit policy document in place demonstrating readiness and political support to work on DRF.

B3 Comprehensive financial protection.

Financial solutions should be part of an integrated and comprehensive approach to reducing risks and building resilience for the long-term, including adopting risk layering strategies to comprehensively manage risks. Instruments should be anchored in a strategy that supports long-term fiscal stability and should be considered as part of an overall strategy for paying for disasters. Consideration should be given to potential perverse incentives[3] that may be created through the structuring of subsidies.

> The project demonstrates how it is part of a comprehensive disaster risk financing and insurance strategy.

B4 Participatory process.

The process to design the instrument and systems should aim for the inclusive, meaningful participation of all relevant stakeholders in the design, implementation and evaluation of instruments, especially communities, civil society and private sector, who can inform and champion these solutions.

> The project demonstrates how it will consult with civil society organization and private sector for its design and implementation.

B5 Improvements in preparedness and resilience.

Grants from the GRiF should create incentives for disaster prevention, preparedness, and resilient reconstruction. Even in countries with a strong disaster preparedness system in place, the use of grants as subsidies should lead to clear improvements to the existing system. All projects supported by the GRiF should demonstrate clear additionality.

> The project demonstrates how the GRiF grants will enable improved preparedness and resilience, either directly (in the project) or indirectly (through incentives).

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[2] Readiness on all these aspects should be seen as a goal for all countries, but the political commitment, strategy, as well as regulatory and legal framework may be ad-hoc provisions, while longer reforms are undertaken.

[3] For example, subsidies should not promote an unsustainable or inappropriate risk financing instrument.

B6 Capability, plans, and systems.

Financial arrangements should be linked explicitly to pre-agreed plans and pre-arranged disbursement channels to help post-disaster assistance reach affected populations and re-establish critical services and infrastructure rapidly and effectively, with the end goal of reducing the social and economic impacts of disasters.

The project demonstrates that pre-agreed plans and/or distribution systems are in place or being developed to channel the funding to the targeted beneficiaries.

B7 Accountability and clear decision-making processes.

Safeguards should be in place to ensure that any payouts from the financial instruments supported by the GRiF actually finance the response plan. This includes institutional and regulatory frameworks that clarify roles and responsibilities of stakeholders, manage risks of fraud and corruption, monitor and track the uses and impact of finance, and promote good governance and transparency to citizens. Finance should flow based on objective, evidence-based triggers, and the governance processes around this should be well documented and capacitated, clear, transparent and timely.

The project demonstrates clear accountability rules and decision-making processes either in place or under development as part of the project.

B8 Target beneficiaries.

The project should explicitly meet the needs of the most vulnerable people[4], with a focus on ensuring inclusive and equitable outcomes and a special consideration of gender issues. The design process should consider the appropriate delivery channel to maximise benefits for vulnerable people, including potential impacts of the choice of channel on inclusiveness, gender, conflict and violence and other social vulnerability dimensions where necessary.

The project describes the target beneficiaries and steps taken to support targeting of funds.

[4] Up to USD 3.10 PPP per day for poor people and up to USD 15 PPP per day for vulnerable people. (See definition of poor and vulnerable people in the InsuResilience Global Partnership).

Part C.

Product Appraisal: The instrument itself and the data and models that underpin it

C1 High quality, open data and models.

The data and model underpinning an instrument should be open to external review and meet agreed minimum standards to ensure reliability and remove information asymmetries between parties (e.g., the risk carrier, the client, the donor). Preferably, data and risk modelling would be done in an open and transparent way that crowds in the best science and drives innovation, raises the standard of understanding, and leaves a legacy of open data and information.

> The project demonstrates how data and risk modelling will be subject to external review and made publicly available.

C2 Value for money and suitability of the product.

All parties paying for pre-arranged financing should have access to adequate information and appropriate financial advice to assess value for money, impact and any risks of the product relative to expectations and needs of the client and relative to other potential feasible options that could be taken to achieve the stated objectives. This will be assessed in the context of the broader disaster risk financing and insurance strategy. Products should be priced based on sound actuarial principles that adequately account for the underlying risks and operating expenses. Any financial advice is delivered with the highest standards of integrity, impartiality, competence, and care.

> The project demonstrates the added value of the proposed product in the country's disaster risk financing and insurance strategy (qualitatively and quantitatively).

C3 Communication of the product.

Financial arrangements must be explained using plain language and verifying client understanding; financial advice is delivered with the highest standards of integrity, impartiality, and competence; the product's risks and limitations must be explained in full.

> The project demonstrates clear understanding of the product by the client or actions taken to ensure the client understands the product and it is fully transparent to the client.

C4 Quality and reliability of the product.

Instruments should perform as the providers have led the beneficiaries to expect and as set out in the key policy wording. Providers of financial instruments have the responsibility to consistently deliver transparent outcomes to the clients as providers have led the clients to expect, and to have a process in place to respond quickly if clients are not satisfied with the product (e.g. reviewing any cases of basis risk events quickly and openly). The provider should have a system in place to regularly review the reliability of the product and make any improvements where necessary.

The project demonstrates how the quality and reliability of the product will be monitored.

C5 **Competitive procurement process and non-preferential treatment.**
Providers of financial instruments should be selected following a competitive, robust and transparent process that leverages private sector in a way that provides most value for money (recognizing that this might go beyond price) to the client and encourages a broad range of carriers to participate in the market to ensure for future scalability, stability, and sustainability. The criteria for assessing bids should be open and transparent and meet best practice in the market.

The project demonstrates how the placement of the financial product will follow a competitive and transparent process.

As a minimum, appraisal of an instrument against these criteria under part C. could take the form of a statement of assurance provided by an impartial technical entity using a methodology approved by the donor. A summary of the statement of assurance should be openly shared with all stakeholders.

Operationalization of the Principles

The above-mentioned principles inform a color-coded appraisal framework that will be used to review, enhance, and endorse co-financing proposals. The table below presents this appraisal framework. The objective in all cases should be to strive for achieving a GREEN rating for all indicators through the lifetime of projects, through the grant finance and supporting technical assistance provided through the GRiF. If any indicators remain a RED and the GRIF Secretariat continues with grant approval and implementation, the GRiF Secretariat and the project team will inform the SC with a justification of that continued implementation. Donor nominated technical reviewers will contribute to this appraisal process. The assessment against the principles will be shared with donors as part of the program's annual report, and a summary including the final ratings against each criterion will be made publicly available. The SC will monitor progress accordingly in its regular meeting.

The GRiF Appraisal Framework

	INDICATORS	CRITERIA	DESCRIPTION	SCORING	COMMENTS
B	**Project Appraisal**				
B1.	**Sustainability and exit strategy**	The country is willing and able to allocate sufficient resources toward financial protection.	• **GREEN:** Clear exit strategy for donor support in place with high likelihood of sustainability within 5 years • **AMBER:** Basic plan in place for future allocation of resources towards financial protection and declining subsidy. • **RED:** No exit strategy and very low likelihood of sustainability.		
B2.	**Country Ownership and Readiness**	The country has the required documents in place demonstrating readiness and political support to work on DRF, e.g. DRF strategy, adequate legal and regulatory framework.	• **GREEN:** Country has a DRF strategy or equivalent other explicit policy document in place supporting DRF, including inclusive stakeholder participation. • **AMBER:** Country is working on a DRF strategy or comparable document with appropriate stakeholder engagement. • **RED:** Country does not plan to work on a DRF strategy or undertake other DRF reforms.		
B3.	**Comprehensive financial protection**	Financial solutions should be part of an integrated and comprehensive financial protection strategy.	• **GREEN:** The project is part of an integrated financial protection strategy[5] • **AMBER:** The project contributes toward an integrated financial protection strategy • **RED:** The project is not part of an integrated financial protection strategy.		
B4.	**Participatory process**	Appropriate stakeholder engagement is undertaken with communities, civil society organizations and private sector	• **GREEN:** Stakeholders from the country, the civil society, etc. have been consulted on for e.g. design, implementation and evaluation of instruments • **AMBER:** Stakeholders are being consulted • **RED:** Stakeholders have not been consulted.		

[5] An integrated financial protection strategy is one that promotes comprehensive financial planning, so countries can prearrange finance for hazards with different frequencies and intensities.

B5.	**Improvements in preparedness and resilience**	The project demonstrates how the GRiF contributions will enable improved preparedness and resilience, either directly (in the project) or indirectly (incentives).	• **GREEN:** Clear incentives or investments for additionality agreed and under preparation. • **AMBER:** Incentives or investments for additionality discussed and likely. • **RED:** Incentives or investments for additionality not discussed or rejected.		
B6.	**Capability, plans and systems**	The project demonstrates that pre-agreed plans and/or distribution systems are in place or being developed to channel the funding to the targeted beneficiaries.	• **GREEN:** Contingency plans and pre-arranged disbursement channels are in place and ready to be scaled up in case of a disaster and linked to DRFI instruments. • **AMBER:** Contingency plans and pre-arranged disbursement channels are being developed and intention to link to DRFI instruments • **RED:** No contingency plans nor pre-arranged disbursement channels are in place		
B7.	**Accountability and clear decision-making processes**	The project demonstrates clear accountability rules and decision-making processes either in place or under development as part of the project.	• **GREEN:** Accountability rules are in place and disbursement triggers are objective and evidence-based. • **AMBER:** Accountability rules and objective disbursement triggers are under development. • **RED:** Clear accountability rules and objective disbursement triggers neither exist nor are under development.		
B.8	**Target beneficiaries**	The project explicitly targets benefits to vulnerable people and steps taken to support targeting of funds, with a special consideration of gender issues.	• **GREEN:** The project explicitly targets the most vulnerable people and incorporates dimension of social vulnerability (e.g., gender, age, disability) • **AMBER:** The project does not specifically target the most vulnerable but does target assets or services that will have direct benefits to the poorest and considers dimensions of social vulnerability (e.g., gender, age, disability). • **RED:** The project does not target the most vulnerable and does not incorporate or consider dimensions of social vulnerability (e.g., gender, age, disability).		

C.	Product Appraisal				
C1.	**High-quality, open data and models**	The project demonstrates how data and risk modelling will be subject to external review and made publicly available.	• **GREEN:** Data and model used for the development of the instrument follow good practice, are externally reviewed, and open. • **AMBER:** Data and model used for the development of the instrument partly follow good practice, are externally reviewed, and open • **RED:** Data and model used for the development of the instrument are confidential and proprietary.		
C2.	**Value for money (VFM) and suitability of the product**	The project demonstrates the added value of the proposed product/strategy in the country's disaster risk financing strategy against their objectives and relative to the alternatives (qualitatively and quantitatively).	• **GREEN:** VFM[6] analysis demonstrates high benefit/cost ratio of the product for the beneficiaries and relative to alternatives • **AMBER:** VFM analysis shows limited benefit/cost ratio of the product for the beneficiaries and relative to the alternatives • **RED:** VFM analysis demonstrates poor benefit/cost ratio of the product for the beneficiaries and relative to alternatives		
C3.	**Communication of the product**	The project demonstrates clear understanding of the product by the client or actions taken to ensure the client understands the product and it is fully transparent to the client.	• **GREEN:** The client demonstrates full understanding of the instrument, including its benefits and limitations • **AMBER:** The client demonstrates partial understanding of the instrument. • **RED:** Client does not demonstrate understanding or instrument provider has not explained the benefits or limitations.		
C4.	**Quality and reliability of the product**	The project demonstrates how the quality and reliability of the product will be monitored.	• **GREEN:** Explicit process exists or is under implementation to monitor the product and address any failure to consistently deliver transparent outcomes to the client as providers have led the client to expect.		

[6] VFM and it's levels (high, limited or poor) will be defined in due course, with inputs from the technical committee.

			• **AMBER:** Explicit process to monitor the product and address any failure to consistently deliver transparent outcomes to the client as providers have led the client to expect is proposed. • **RED:** No follow-on process to monitor the product and address any failure to consistently deliver transparent outcomes to the client as providers have led the client to expect is planned.		
C5.	**Procurement process and non-preferential treatment**	The project demonstrates how far the placement of the financial product will follow a competitive and transparent process.	• **GREEN:** Selection of risk carriers and intermediaries is competitive and transparent, without any preferential treatment. • **AMBER:** The government commits to a transparent process and adequate risk mitigation strategies are in place. • **RED:** The government does not commit to a competitive or transparent process, without any preferential treatment or inadequate risk mitigation.		