Fifty Sixth Sovereign Debt News Update: Ghana and Senegal Among Seven States to Benefit from the Global Shield Financing Facility - But is the Facility Africa's Best Tool Against Nature Loss and Climate Change?

By:

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On Monday 14 November 2022, it was announced at the COP27 summit in Egypt that Ghana, Senegal, and five other nations facing climate risks — called 'path¬finder countries' — will be the first recipients of the Global Shield Financing Facility. The Facility aims to help developing countries access more financing for recovery from natural disasters and climate shocks. It will support the Global Shield Against Climate Risks (GSACR), a joint initiative launched on

Monday 14 November 2022 at COP27 by the G7 and Vulnerable 20 Group of Finance Minis¬ters (V20) to better protect poor and vulnerable people from disasters by pre-arranging more financing before disasters strike. Bangladesh, Costa Rica, Fiji, Pakistan, and the Philippines were identified as the other recipients of the package by the Vulnerable 20 Group of Finance Ministers (V20) of 58 climate-vulnerable economies and the Group of Seven (G7).

The V20 acknowledges that climate-fueled risks have driven up the cost of capital and debt to unsustainable levels, especially across climate vulnerable economies, worsening financial protection gaps. Therefore, according to the V20, there is need to increase pre-arranged finance which disburses quickly and reliably before or just after disasters happen, and expanding instruments of financial protection for governments, communities, businesses, and households. This can lower the impact of disasters, make vulnerable countries' economies more resilient, safeguard sustainable development, and protect lives and livelihoods of poor and vulnerable people.

The GSACR aims to increase protection for poor and vulnerable people by providing and facilitating substantially more and better pre-arranged finance against disasters. It also aims to fill current gaps in protection to ensure money arrives within 24 to 48 hours after a disaster, and will be up and running from January 2023. In addition, according to the GSAC Concept for Consultation, greater financial protection and faster and more reliable disaster preparedness and response will help to cost-efficiently and effectively avert, minimise and address losses and damages exacerbated by climate change. The GSACR includes the following:

1. Strengthened coordination within the global climate and disaster risk finance and insurance (CDRFI) architecture across G7, V20 and other climate vulnerable economies to ensure coherence of different institutions' and donors' efforts at the global, regional and national level.
2. A global, flexible, and collaborative financing structure to mobilise and pool respective donor and other funds and enable a more systematic global approach to closing protection gaps.
3. Sustained protection in the face of increasing climate risks by scaling up existing successful CDRFI programmes, including social protection schemes, and preparing country-specific, needs-based CDRFI support

packages, including the scaling up of smart premium and capital support to address affordability barriers.

Structurally, the GSACR-focused financing provided through a central GSACR Financing Structure as a single point of entry encompassing three complementary vehicles: (i) the Global Shield Solutions Platform (GS-SP) building on the InsuResilience Solutions Fund (ISF) (hosted by Frankfurt School of Finance and Management Gmbh (FS)); (ii) the Global Shield Financing Facility (GS-FF, the reformed Global Risk Financing Facility (GRiF)) hosted by the World Bank; and (iii) the Climate Vulnerable Forum (CVF) & V20 Joint Multi-Donor Fund (V20 JMDF). The three will work, depending on their setup, with implementing organisations, governments, private sector, NGOs, humanitarian agencies, and other existing CDRFI programmes and linked service providers to address the needs identified in the in-country dialogue and design and implement respective country support packages.

As far as funding is concerned, Germany is providing 170 million euros as seed contribution, of which 84m euros are core funding to the Global Shield and 85.5m euros for related climate risk finance instruments. Other pledges of core funding to the Global Shield include 35m Danish kroner (about 4.7m euros) from Denmark, 10m euros from Ireland, 7m US dollars from Canada, and 20m euros from France. Other initial contributions include approximately 170m euros from other countries, even as more contributions by donors are expected.

The GSACR builds on the InsuResilience Global Partnership which the V20 and G20 previously introduced with a goal of protecting 500 million people in climate vulnerable countries by 2025. GSAC is a wider approach that encompasses a substantial scale-up of these efforts including social protection schemes, with V20, G7 and further members. A joint pre¬ss release of V20, G7 and the German Ministry of Eco¬nomic Cooperation and Development, announced that the Global Shield will start its implementation immediately after COP27. While giving his remarks on the necessity of the funding, Ghana’s Minister of Finance Ken Ofori-Atta, the V20 Chair, noted that:

- This is a path breaking effort. We hope our funding window will benefit equally compared to pre-existing structures whose performance remains to be proven. Our fiscal space is under constant threat and the inflationary

> pressures of climate change are closing out our options. As part of our Climate Prosperity Plan to reduce the 98 percent financial protection sinkhole, the Global Shield will play a key role in resourcing financial and social protection packages to protect our economy, our enterprises and our communities. The Global Shield is long overdue. It has never been a question of who pays for loss and damage because we are paying for it – our economies pay for it in lost growth prospects, our enterprises pay for it in business disruption, and our communities pay for it in lives and livelihoods lost. We really hope the Global Shield will not only yield impact for the most vulnerable communities, but that it will also contribute to building mutual trust and understanding to help bridge the resourcing gaps facing climate action.

Is Insurance the Best Tool to Address Climate Change and Nature Loss and Damage?

Climate insurance policies don't work in quite the same way as in a car crash, where an insurer assesses the damage and pays for it to be fixed or replaced. With climate insurance, the aim is to get the money out fast. Assessing damage would take too long and push up the price of premiums; so pay-outs are triggered by certain weather conditions, such as a given wind speed in a storm or rainfall dropping below a certain level during drought. That means sometimes, a policy pays out even though the holder got lucky and escaped any damage. And sometimes a policy does not pay out, even though millions of people have been hit. Consider the case of Kenya, which from 2014 to 2016 paid premiums of up to $9 million to African Risk Capacity (ARC), an organization that sells drought insurance to entire African nations. Kenya experienced droughts in each of those years, affecting an estimated 4.6 million people — but ARC's weather model triggered no pay-outs.

The ARC and two other regional risk pools, the Caribbean Catastrophe Risk Insurance Facility and the Pacific Catastrophe Risk Assessment and Financing Initiative, which sell policies to governments in the Caribbean and Pacific regions respectively, are intended to insure up to three-quarters of the 400-million-people goal. These organizations have made payouts, most in the millions of dollars, to dozens of countries. However, no country has recuperated more than 10% of the costs it faced from extreme weather in payouts — and most far less. A policy designed to cover the full cost of every extreme weather disaster would be way beyond the economic means of the affected countries. As a result, not every disaster is covered, and payouts are effectively calculated according to what the holder can afford to pay in premiums, rather than the actual potential costs of a disaster.

Several critics have also questioned whether an initiative with insurance at its core makes sense when places could become "uninsurable" due to worsening extreme weather and multiplying disasters. While exposing the coloniality of inclusive insurance in developing and emerging counties, Yannick Perticone, Jean-Christophe Graz, and Kunz Rahel combine insights from studies on platform capitalism with post/decolonial scholarship in international political economy. The authors argue that the rise of inclusive insurance in these economies relies on three dimensions of what they term datanalysing: (a) an interoperable and safe digital infrastructure legitimized by international standards; (b) the collection of racially hierarchized data; and (c) the appropriation of data by objectifying the targeted individuals. As datanalysing turns populations from the Global South into profitable resources from which extracting financial value, it sustains colonial practices censing and classifying subjugated populations. Thus, financialization, through measures such as ‘catastrophe bonds’, is the neoliberal solution to the rising costs of natural disasters which the insurance industry has experienced since the 1990s. Such has been the case of the Caribbean Catastrophic Risk Insurance Facility (CCRIF) which introduced in 2007 a new mechanism of state security against the uncertainties of climate change.

Similarly, while drawing from the experiences of promotion of index-based livestock insurance in Mongolia – held as a model for innovative risk management via financial inclusion – Marcus Taylor exposes the tensions and contradictions of development and risk management. Taylor notes that conceptualizing development in terms of risk management has become a prominent feature of mainstream development discourse. This, according to Taylor, has led to a convergence between the rubrics of financial inclusion and risk management whereby improved access for poor households to private sector credit, insurance and savings products is represented as a necessary step toward building “resilience.” This convergence, however, is notable for a shallow understanding of the production and distribution of risks. By naturalizing risk as an inevitable product of complex systems, the approach fails to interrogate how risk is produced and displaced unevenly between social groups. Taylor concludes that ignoring the structural and relational dimensions of risk production leads to an overly technical approach to risk management that is wilfully blind to the intersection of risk and social power.

GSACR is, therefore, not a 'silver bullet' for climate vulnerable countries, but a good start

Already, some vulnerable countries have already questioned the GSACR's focus on insurance, with insurance premiums adding another cost to cash-strapped countries that have low carbon emissions and contributed least to the causes of climate change. Avinash Persaud, the special envoy on climate finance to Barbados Prime Minister Mia Mottley, noted that "…we are not yet persuaded, especially of the insurance elements. Using insurance is a method in which the victim pays, just in instalments in the beginning." Persaud added that loss and damage finance should be grant-based. Furthermore, Michai Robertson, a negotiator for the Alliance of Small Island States – which is championing calls for a new UN loss and damage fund in the COP27 talks – said even subsidised insurance premiums could enable insurance companies in wealthy countries to profit off poor and vulnerable nations' suffering. This causes an inherent injustice about them profiting off of our loss and damage. This could mean that a formal loss and damage funding stream would likely go further, also covering longer-onset climate impacts such as sea level rise and threats to cultural heritage.

Elsewhere, Rachel Cleetus, the lead economist at the Union of Concerned Scientists' climate programme, notes that people living under the poverty line are not going to be buying insurance. According to Cleetus, "insurance can help you up to a point but climate change is now creating conditions [sea level rise, desertification and the mass displacement of populations] in many parts of the world that are beyond the bounds of what's insurable."

Elsewhere, Teresa Anderson of ActionAid International observed that the scheme showed that the global community recognised the need to act on loss and damage, but said it was a "distraction" from negotiations on a dedicated funding mechanism for climate damages. To Anderson, "everyone knows that insurance companies, by their very nature, are either reluctant to provide coverage, or reluctant to pay out. But when it comes to loss and damage, this is a matter of life and death."

Other climate activists at COP27 also said that they believed some wealthier G7 countries are positioning the GSAC as a substitute for a new loss and damage fund. Some wealthy-country diplomats have suggested at COP27 that a "mosaic" of protection and disaster response finance could be an alternative to a loss and damage facility, which is opposed by the United States and some other major polluters. Harjeet Singh, a loss and damage specialist with Climate Action Network International which represents more than 1,900 non-governmental groups, criticized the GSAC noting that it is a power game, and that the funders want to control the money.

Nonetheless, the criticisms notwithstanding, while insurance is a key component of the GSACR, it also includes a natural disaster clause that will kick in to pause a country's climate loans in certain circumstances. The repayment money could be used for disaster relief instead. Additionally, the V20 nations have established a loss and damage funding program and some of the GSACR finance will flow into that. Importantly, it is supposed to cover way more diverse set of instruments. The money dedicated so far is a good start but in terms of the magnitude that we're looking at of expected loss and damage, it's really just a kick-starter.

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