

LEARNING NOTE:

Disaster Risk Financing (DRF) workstream

Final version of the DRF workstream
Learning Note following the BRE-TA
Learning Event on 8 December 2023

01 Introduction

The mandate of the Ministry of Finance (MoF) in disaster risk management (DRM) is clear: to ensure adequate and timely flows of public finance towards activities which reduce the expected costs of disasters, as well as towards those that respond to and enable recovery from shocks once they have occurred.¹ Since October 2019, the Disaster Risk Finance (DRF) workstream of the Building Resilience in Ethiopia – Technical Assistance Programme (BRE-TA) worked with the MoF to improve its fiscal resilience to disasters, thus contributing to a key

aspect of the programme’s overall objective, that the Government of Ethiopia will ***‘lead and deliver an effective, more self-financed and accountable response to climate and humanitarian shocks’***. This learning note summarises the key activities and lessons learnt and is organised around the four building blocks of the DRF workstream’s theory of change: understand the costs of disasters and shocks; limit the cost of disasters and shocks; money in (mobilising resources); and money out (expenditure management).

1. www.mofed.gov.et/ministry-en/about-ministry/

The DRF workstream: Summary of lessons learnt

- 1** It is important to align with the MoF's interests and to build on nascent efforts that are already underway.
- 2** Use targeted and localised applied policy research to inform national policy decisions but prepare it in a genuinely collaborative way. Take time to generate evidence and build the case for reform, and ensure an impartial approach to the problem at hand.
- 3** It is essential to understand the institutional environment, as well as the information environment, of public budgets.
- 4** Close involvement of MoF and sectors in selection of tools (such as the budget tagging using the Rio markers) was key to identifying and formulating a suitable technical approach.
- 5** Take the path that involves the least disruption. For example, a new layer was introduced to the budget classification in a way that would not disrupt its existing hierarchy. Similarly, it may be easier to clarify and modify roles within existing systems and structures than to try to create new structures and hierarchies.
- 6** There is little experience of incorporating socially differentiated climate risks into local-level planning, but training can address this. Similarly, integrated cross-sectoral planning needs to be approached in a very practical manner as the institutional culture in Ethiopia is complex, siloed and deeply sectoral.
- 7** Local-level strategic planning for climate risk and uncertainty is a challenge but co-developing climate scenarios with stakeholders helped. However, a stronger institutional entry point to locally led climate-smart development planning is needed in order to sustain the transition.
- 8** Getting the oversight and governance structure right helps to secure political interest and support for reforms.
- 9** As experience of implementing climate finance projects grows there will need to be a gradual shift in responsibility for delivery and ownership from federal to regional levels. To ensure the various tools to strengthen climate finance coordination are effective the federal government needs to initiate a more structured way of working with the regions on climate finance projects.

02 Workstream approach

The DRF workstream applied an adaptive and opportunistic approach, seeking out areas where support was already being provided and filling gaps in technical assistance (TA)

as requested by the MoF. A formal Technical Working Group was organised and a focal person was assigned by the State Minister to coordinate its activities.

The core principles of the workstream's approach were as follows:



Demand-driven: the respective directors in the MoF identified and requested all activities.



Cross-cutting: the workstream closely collaborated with the other BRE-TA workstreams, as befits the cross-cutting nature of MoF's role in public financial management (PFM).



Supportive and collegiate relationships with MoF officials, helped by the recruitment of a number of former (including retired) MoF officials to the team.



Co-creating a theory of change was a useful exercise in translating what was primarily a DRM programme into something which spoke to the mandate of the MoF and their PFM Strategy.



Hands-on support: three senior economists were placed as embedded experts in the Fiscal Policy, Budget, and Climate Resilience and Green Economy (CRGE) directorates of the MoF on specific assignments, but with leeway to support other activities.

There are three lessons to take away from this approach:

- **It positioned BRE-TA as a trusted partner, that could be engaged on other issues, increasing the relevance and usefulness of the TA to the MoF.** Although the experts were primarily assigned to support BRE-TA-related capacity building, they also worked on issues beyond their remit. Examples include supporting the International Monetary Fund negotiations and influencing major reforms, such as the PFM Strategy and Medium-term Expenditure and Fiscal Framework and preparing the first-ever climate Public Expenditure and Financial Accountability (PEFA) in Africa.²
- **It linked BRE-TA support with other DRM initiatives in the MoF,** reinforcing its value. Examples include preparation of the Fiscal Risk Statement and supporting a value for money (VfM) assessment of social protection with the Ministry of Agriculture (MoA) and BRE-TA's Shock-Responsive Safety Net workstream.

2. www.pefa.org/node/5208

03

Building block 1: Understand the costs of disasters and shocks

3.1 Identification and quantification of fiscal risk

Given that fiscal risk monitoring and reporting is one of the areas in which Ethiopia has the lowest PEFA score,³ one of BRE-TA's first activities was to support the MoF in developing measures to identify, quantify, manage, and disclose disaster-related fiscal risks. The purpose was to understand better the sustainability of the government's fiscal stance, increase fiscal transparency, and provide a sound evidence base for investing in risk reduction measures.

Lessons learnt:

1. **Aligning with the MoF's interests to build on nascent efforts.** In 2019 the MoF took the first steps in developing a Fiscal Risk Register and Fiscal Risk Statement. However, the channels through which hazards affect the government's fiscal position, and the magnitude of prospective impacts, were not comprehensively assessed, and the analysis of potential impacts was only qualitative, not quantitative. It was the Fiscal Policy Directorate's interest in further strengthening this area that gave rise to BRE-TA's support to identifying, quantifying, managing, and disclosing disaster-related fiscal risks.
2. **Developing a bespoke model that can be routinely updated and gradually expanded.** BRE-TA supported the Fiscal Policy Directorate to prepare a simple framework

to quantify disaster-related fiscal risks, which was then developed into a bespoke spreadsheet model. Initially, BRE-TA's support focused on a model with modules to quantify the macro-fiscal consequences of drought- and flood-related disasters (the two most significant hazards).

Subsequently, demand grew within the MoF to add two more hazards (epidemics and locusts). Later iterations, supported through BRE-TA by the UK Government Actuary's Department, included capturing state-owned enterprise- and public-private partnership-related contingent liabilities, and building in financing options that could analyse how different combinations of financing instruments might affect the ultimate fiscal impacts.

3. **Developing modelling capacity to ensure ownership and sustainability.** BRE-TA worked hard to ensure that MoF counterparts felt they owned the model and could easily use it for fiscal policymaking. A comprehensive guideline to accompany the model was prepared and disseminated to the MoF team in 2021.⁴ A simplified step-by-step user manual that describes how to use and update the model was then developed and was regularly updated. BRE-TA also conducted training in Excel and Stata on how to use and update the model, linked with the Medium-term Expenditure and Fiscal Framework.

3. www.pefa.org/node/5208

4. www.opml.co.uk/files/Publications/a2422-building-resilience-ethiopia/guidelines-disaster-related-fiscal-risk.pdf?noredirect=1

4. Publishing the model's outputs to increase awareness and underpin its sustainability.

Outputs were published in the MoF's 2021 Flagship Report (and will be published in its 2023 iteration).⁵ They also informed the risk layering strategy in the National Disaster Risk Financing Strategy (DRFS).

Efforts are ongoing to produce an official Fiscal Risk Statement to accompany the upcoming Medium-term Expenditure and Fiscal Framework (2024/25–2029/30). Using the model's results in public-facing, widely read MoF outputs may help generate demand to maintain and update it.

3.2 Climate and disaster budget tagging and tracking

A key part of the TA requested by the MoF was to institutionalise a system of tagging public budgets to identify climate and disaster risk-related expenditure and to support risk-informed planning and financing. Once in place, the system will ease compliance with the Paris Agreement and will provide the MoF with a comprehensive baseline of climate finance invested; it will also help to project climate finance flows and climate-related investment, and inform an appropriate CRGE financing strategy.

Lessons learnt:

1. Understanding the institutional environment, as well as the information environment, of public budgets was essential.

The team invested a lot of time in understanding Ethiopia's PFM architecture, the related institutional structures, and the different information systems that capture public spending.

2. The preparation of adequate user guidance is important, given the dual budget information systems at federal and regional levels. The regions apply the domestic Integrated Budget Expenditure System (IBEX) while the MoF consolidates all budget data in the Integrated Financial

Management Information System (IFMIS), which is poised for a nationwide roll-out. Hence it was important and useful to prepare tagging algorithms that engaged both IFMIS and IBEX users. The IFMIS Project Office at the MoF is well-equipped to map regional tagged information onto the IFMIS format, but further dedicated TA is required to establish budget tagging in regions.

3. IFMIS integration is a key enabler of future thematic budgeting.

The IFMIS Project Office is now prepared to accommodate additional thematic areas, such as gender, should the need arise.

4. There is a need to expand coverage to other databases and information systems within and outside of the government.

The usefulness of the budget tagging and tracking system will grow as more external finance is routed through the MoF and subjected to scrutiny and analysis.

5. Close involvement of the MoF and sectors in the selection of a budget tagging approach was key to identifying and formulating a suitable technical approach.

The team engaged regularly with the MoF and sectoral representatives during

5. BRE-TA's contributions were noted by the Minister, not least in regard to section '2.3 DISASTER RELATED FISCAL RISK': https://www.mofed.gov.et/media/filer_public/44/33/44336247-02d5-499b-91f1-3427f8db22ed/final_macro-fiscal_performance.pdf

the pilot phase, when the most suitable approach was being tested. This included several rounds of training/consultation workshops to ensure that the selected Organisation for Economic Co-operation and Development (OECD) Rio markers approach was backed by strong reasoning.

- 6. Taking a path that involves the least disruption when introducing a new layer of budget classification.** A new system of budget tagging could easily be dismissed as an additional burden for public bodies, highlighting the need for a user-friendly mandate and procedures. The proposed

tags (categories of climate and DRM) were designed to avoid disrupting the existing budget classification hierarchy.

- 7. Learning exchanges and training helped sustain cooperation and focused involvement from government partners.** BRE-TA supported a learning exchange for MoF officials with their peers in the treasuries of Kenya and South Africa, in July 2022 and October 2023, respectively. They discussed a range of topics, including climate budget tagging, IFMIS integration, and DRF instruments.

3.3 Study on the opportunity cost of budget reallocations for COVID-19

Disasters have indirect as well as direct costs, including the opportunity costs of diverting planned funding away from its budgeted purpose and towards disaster response. In general, this category of costs is not well understood, not just in Ethiopia but also in the wider DRF literature. BRE-TA conducted a study to explore how the government financed its COVID-19 response and at what cost, focusing in particular on the inefficient use of budget reallocations to meet unplanned needs. Its purpose was to provide information for the MoF to consider when deciding how to finance future emergencies.

Lessons learnt:

- 1. Use targeted, localised research to inform national policy decisions:** The study took the example of a single shock affecting Ethiopia and used it to build evidence on
- 2. Contribute to the global evidence base.** The evidence from Ethiopia has added to global understanding of the costs of disasters. The BRE-TA-supported study⁶, alongside sister studies from South Africa, Albania, and Pakistan⁷, has been prominently discussed at international forums.⁸
- 3. Conduct the study as a collaborative effort with the MoF.** Close collaboration with MoF staff ensures that the same research skills can be applied in future.

how the economic impacts of disaster could be significantly reduced through applying a more proactive, diverse, and considered approach to DRF. This evidence helped generate support for the DRFS, which sets out an alternative vision for how to finance disaster costs in future.

6. www.disasterprotection.org/publications-centre/opportunity-cost-of-covid-19-budget-reallocations-brief-ethiopia
 7. See the cross-country synthesis: www.disasterprotection.org/publications-centre/opportunity-cost-of-covid-19-budget-reallocations-cross-country-synthesis-report
 8. Including briefings to the UK Foreign, Commonwealth and Development Office's global PFM and DRF teams, as well as presentation at the International Health Economics Association annual congress in July 2022.

04 Building block 2: Limit the cost of disasters and shocks

4.1 Climate-smart woreda development planning

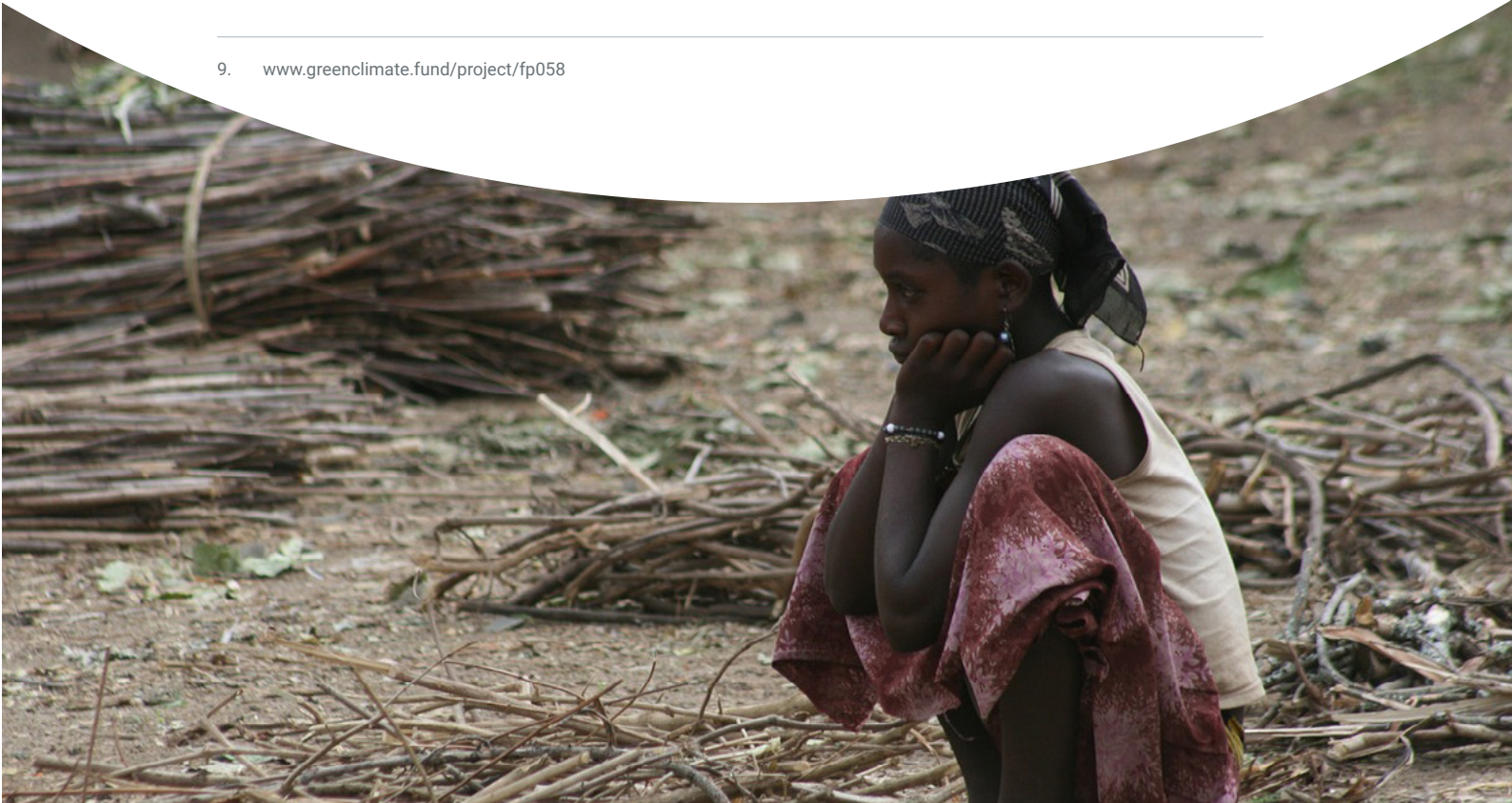
At the MoF's request, the DRF workstream helped the CRGE Facility prepare, pilot, and refine climate-smart development planning (CSDP) guidelines, supplementing the MoF's commitments in regard to building climate finance capacity at the local level, under an ongoing project funded by the Green Climate Fund (GCF).⁹

Lessons learnt:

- 1. There is little experience of incorporating socially differentiated climate risk into planning at the local level, but formal training and peer learning can address this.**
- 2. Cross-sectoral integration needs to be enabled in a very practical manner in an organisational culture that is deeply sectoral.** Multi-sectoral, whole-
- 3. Local-level strategic planning for future climate risk and uncertainty is a challenge but co-developing climate scenarios with stakeholders can help.** Working with scenarios helps to mould otherwise abstract and uncertain climate futures into concrete and locally intelligible realities, clarifying their impacts across sectors and informing actionable plans.

of-government activities associated with the CSDP process were an effective way to share knowledge and raise awareness between (and sometimes within) sectors. However, these activities are capacity-intensive and work against the grain of existing structures; to be effective they must be adequately resourced and supported by a formal national planning framework.

9. www.greenclimate.fund/project/fp058



4. **Flexibility about the locus of climate-smart planning is key to addressing capacity constraints, which vary between woredas.** These constraints include challenges with maintaining digital records, a lack of functional monitoring and evaluation systems, and language barriers beyond English and Amharic (leading to more verbal, informal consensus-building in the local language, which reduces transparency and accountability). This required the team to be flexible about the scale at which local strategic planning happens: either in an individual woreda or in a cluster of woredas, depending on the relative capacities at each level.
5. **A strong institutional entry point is needed to sustain the transition to climate-smart locally led development planning.** BRE-TA's support was provided in the context of an ongoing GCF-funded project, but in the long term a clear institutional entry point for CSDP at the local level is required. This should be in the Ministry of Planning and Development, with an effective cross-sectoral platform at all administrative levels and with specific support from the CRGE Facility, the Ethiopia Disaster Risk Management Commission (EDRMC), and the Ethiopian Environmental Protection Authority.

05

Building block 3: Money in (mobilising resources)

5.1 Developing the national DRFS

The design process of the DRFS was led by the MoF, working with other federal institutions engaged in DRM, and involved a number of consultations, learning sessions, and validation processes. The strategy, and its development process, helped build consensus about a new approach to financing the costs of disasters. It is held up as a leading example by the Centre for Disaster Protection when engaging with other governments on DRF strategy development (they call it 'process learning').¹⁰

Lessons learnt:

1. **Take time to generate evidence and build the case for DRF, rather than jumping straight into finding solutions.** BRE-TA
2. **Government buy-in and knowledge is key.** The design process started with a DRF knowledge exchange workshop in September 2021, which gave the government a better understanding of the potential mechanisms available to them and how they might reduce the fiscal burden of disasters.
3. **Build a broad coalition and evidence base around the need for a more holistic strategy to DRF.** In the case of the DRF workstream, this included supporting the

spent the first two years of the programme building understanding within the MoF about why disasters deserved to be on its reform agenda.

10. www.disasterprotection.org/publications-centre/process-learning-for-disaster-risk-financing

preparation of a 'DRF diagnostic' with the World Bank and sharing the COVID-19 opportunity cost report findings.¹¹

- 4. Bring an impartial approach to the problem.** BRE-TA was not associated with any particular financial instrument, as might be the case with the World Bank or the African Risk Capacity, for example. This helped build trust and buy-in. Furthermore, the DRF workstream developed a risk layering framework that demonstrated the opportunity cost to Ethiopia of a range of financial instruments.
- 5. The right oversight and governance structure can deepen political interest.** Before drafting the DRFS, the team prepared and submitted a workplan and governance structure to the MoF, which it endorsed. The structure included a Technical Committee, led by the MoF, with senior membership from the Ministry of Health, the MoA, and the EDRMC. The drafting team submitted each chapter of the strategy for review by the Technical Committee. The State Minister of Finance also organised a DRFS Steering Committee, consisting of State Ministers from 10 federal ministries and the National Bank of Ethiopia. Political ownership and interest at Minister and State Minister level in the MoF helped to convene the Technical Committee and ensure the full commitment of its members.
- 6. Give sufficient time and space for members to contribute.** It is unrealistic to expect government counterparts to read, engage, and comment on a document, unless sufficient time is given. During the review forums, an entire day of the agenda was set aside for reading and informal discussion, which helped members actively participate and contribute ('process learning').
- 7. Organise learning events throughout the strategy development process.** BRE-TA used these events to help government counterparts understand technical matters before commencing the drafting process, bringing in external experts as appropriate. The involvement of the Centre for Disaster Protection as an independent body helped to provide assurance of quality and global benchmarking.
- 8. Draw on global and local skills and knowledge.** The drafting team included international and local experts who brought a mix of skills and knowledge to the process of strategy development.

5.2 Building evidence-based budget design capacity

Mobilising resources for disasters concerns both identifying new finance and improving the use of existing budgets, since more efficient public expenditure could generate higher budget allocations for prevention and preparedness. In terms of existing finance,

BRE-TA focused on training MoF budget officers to evaluate budget proposals and then supporting them to build the capacity of line ministries¹² to develop evidence-based budgets.

11. www.financialprotectionforum.org/publication/climate-and-disaster-risk-finance-diagnostic-2022-ethiopia

12. Particularly BRE-TA focal institutions: EPHI, EDRMC, and MoA.



Lessons learnt:

- 1. Focus on building good working relationships and trust between the MoF and line ministries.** Bring together budget experts to review submissions, identify gaps, and clarify misunderstandings. This cross-governmental engagement had previously been lacking.
- 2. Budget preparation should be a ministry-wide effort.** Public bodies should engage all relevant sections of their institution when preparing programme-based budgets, rather than leave this to the budget and planning department. In this regard, the Ethiopia Public Health Institute (EPHI) took the initiative to invite at least one representative from each relevant section to its budget preparation process.
- 3. A combination of local and international trainers can yield greater benefits.** This requires the flexibility and resources to work bilingually: most discussions during training were conducted in Amharic, to ensure more active engagement.

5.3 Mobilising additional financial resources for DRF from the GCF and the Adaptation Fund

This support involved a series of proposal write-shops involving the MoF, the Ministry of Water and Energy, the MoA, and their regional and woreda counterparts, which aimed to secure \$25 million from the GCF under its Simplified Approval Process and \$10 million from the Adaptation Fund.

Lessons learnt:

- 1.** Raise awareness of the range of financing windows. Upon recognising some access challenges with the GCF's medium funding category (\leq \$250 million), BRE-TA brought to the MoF's attention the Simplified Approval Process (\$25 million), which it then pursued.
- 2.** Use stakeholder workshops to build capacities. The write-shops involved a wide range of government stakeholders from ministries, regions, and woreda offices. This inclusive approach ensured that the proposals were aligned with needs, while also providing opportunities for capacity building.

3. Objective and standardised criteria for selecting target areas helped to minimise disagreements and accelerate the proposal development process.

06

Building block 4: Money out (expenditure management)

6.1 VfM study on the Productive Safety Net Programme (PSNP)

BRE-TA worked with the Food Security and Coordination office (FSCO) of the MoA to complete a VfM assessment of the PSNP. The purpose was to improve the programme's effectiveness and efficiency, while at the same time strengthening the analytical skills of FSCO and MoF staff through a learning-by-doing approach.

Lessons learnt:

1. **VfM analysis is essential in resource-scarce settings.** It can suggest ways to improve the equity, efficiency, and effectiveness of expenditure, as well as

providing inputs for future government policy design.

2. **A learning-by-doing approach helped to transfer skills,** which could be applied to the formulation of annual budgets and medium-term plans, as well as subsequent VfM analyses.
3. **Data availability is critical.** The study's original ambitions had to be scaled back due to the lack of data. Future assessments should be designed with a clear picture of data constraints in mind.

6.2 Climate finance management capacity and coordination

The MoF requested TA to improve the coordination of climate finance, both across sectors and between tiers of government. An initial assessment revealed that support was critical in two distinct but interrelated areas: implementation gaps at lower levels (regional and woreda) and coordination gaps between federal and regional levels.

Lessons learnt:

1. Create better awareness and understanding of the role and functions of the CRGE to improve coordination.

Coordination of climate finance is led by the MoF (specifically the CRGE Facility) and involves multiple stakeholders,

2. organised into steering and management committees. A key reason for the slow progress and low frequency of these coordination meetings was members' limited awareness of the CRGE's formal roles and functions as the only 'Direct
3. Access Accredited Entity'.

Clarify and modify roles within existing systems and structures rather than try to create new structures and hierarchies.

4. There has been adequate guidance at the federal level on the CRGE's coordination role, but this has not been translated to regional and woreda levels. This motivated BRE-TA to help draft the CRGE Regional Coordination Guidelines, whether the approach was not to propose new roles and stakeholder engagement structures but to mobilise existing regional bureaus and woreda sectoral experts.
5. There needs to be a gradual shift in delivery responsibilities from federal to regional levels. The federal government needs to initiate a more structured way of working with the regions on climate finance, and to provide clear operational guidance to regional and woreda-level counterparts, if they are to be able to absorb and deliver more activities financed by external climate finance providers like GCF and Adaptation Fund.
6. Efforts to improve GCF reporting should start early and locally. BRE-TA support to develop a digital reporting tool for the CRGE Facility revealed the need to interpret how woredas record activities, outputs, and progress (both financial and physical) into a format that would be acceptable to the GCF. For this reason, it is important to invest time upfront in thinking about and preparing reporting formats and their aggregation, at the early stages of a project, and target woreda implementing teams in the process.
7. There is potential to enhance climate-smart woreda development planning by using climate information services (CIS). Local consultations to develop the CSDP guidelines revealed a near-absence of CIS usage across woredas, including a lack of information and capacity among woreda planners to integrate CIS in development planning. BRE-TA's responsive design helped identify specific interventions that would improve CIS integration at the local level.



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