

Disaster Risk Finance

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Disaster Risk Financing
& Insurance Program

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What is DRF

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- ✓ Ensuring money reaches people **who need it the most, when they need it the most**
- ✓ Using **Financial Planning to protect Investments** in human development and productive assets
- ✓ Planning on how to meet the cost of disasters **before they happen**
- ✓ Increasing the speed, predictability and transparency of disaster response

Adapting to **long-term climate changes** and trends



Raising funds from International partners **after a disaster**



Financing risk reduction and development



Without Financial Protection



Negative coping strategies slow down development progress, keep people in poverty, or push them back into it



Losses from the 2008-2011 drought in Kenya was estimated at \$12.1 billion with the majority (72 percent) of losses falling on individuals, households or businesses that owned livestock



The 2004 Indian Ocean Tsunami destroyed over 111,000 fishing boats and \$520 million in damages to fishermen in affected countries



A lack of resources to respond immediately and effectively in the onset of a disaster can lead to rapidly increasing human and economic costs.



The 2010 Chile Earthquake caused a 3 percent (50,000 people) rise in National Poverty Index and an increase in the number of destitute from 80,000 people to 700,000 people



Governments often have to draw funding away from basic public services or divert funds from other development programs



The average household income in the Philippines declined 6.6% in a year following a typhoon. This caused severe reduction in household spending in human capital investments like education, healthcare etc.

With Financial Protection



Investments in human capital and future growth continue – shocks are managed as part of everyday financial planning.



The Caribbean Catastrophe Risk Insurance Facility – the first multi country risk pool – in 2016 offered 16 Caribbean countries \$697 million in earthquake, hurricane, and rainfall coverage



The government has the necessary resources to respond immediately and effectively at the onset of a disaster



The government of Mexico established its Natural Disaster Fund (FONDEN), with a mandatory annual budget allocation (at least 0.4% of total expenditure).



Vulnerable households know that they will receive support in case of a catastrophe and can plan ahead.



The index-based Livestock Insurance Pilot in Mongolia protects the livelihoods of 11,000 herders or 22% of herders in all piloted provinces.



Disaster Risk Finance is...



PROTECTING LIVELIHOODS AND DEVELOPMENT



Increasing the **Financial Resilience** of the national and subnational governments, businesses, households, farmers, and the most vulnerable against **natural disasters** by implementing sustainable and **cost-effective financial protection policies and operations**.

Why should you care?

**LACK OF FINANCIAL PLANNING
AFFECTS EVERYONE**



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Who is Impacted by Natural Disasters and Climate Risk



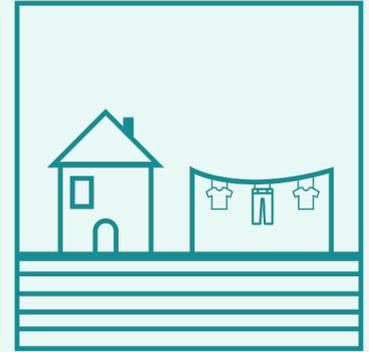
Government



**Home/Business
Owners**



Farmers/Herders



The Poorest

Government



Emergency borrowers, struggling to find money in a time of crisis

Take away already budgeted resources and disrupt planned spending

Difficult and long negotiations with providers of support and within government to prioritize spending, **have to take place during an emergency**

Financial assistance particularly for subnational governments and households is uncertain and unpredictable



Effective risk managers, planning ahead and being prepared



Dedicated resources are available for disaster response, protecting planned investments and public services



Negotiations are carried out in advance and clear rules and financing mechanisms are in place that allow everyone to focus on the response



Subnational governments and households know in advance when they will receive assistance and how much, allowing for improved planning

**HOME/BUSINESS OWNERS****FARMERS/HERDERS****THE POOREST**

Loss of income/livelihood due to damage of often insured or underinsured assets



Access to compensation for property damage and other indirect losses

Loss of already limited assets and resources for investment in human capital



Mitigates shocks by providing compensation for livelihoods, safeguarding people from falling into poverty

Reliance on the government to provide post-disaster assistance



Increases awareness and understanding of financial vulnerability to natural disasters and incentivizes investment in risk reduction

Decreases expenditure on necessities like food, health, and human capital



Rapid assistance to reduce need for relying on negative coping strategies

Embed Financial Protection within a Risk Management Framework

Pillar 1: Risk Identification

Improved Identification and understanding of disaster risks through building capacity for assessments and analysis

Pillar 2: Risk Reduction

Avoided creation of new risks and reduced risks in society through greater disaster risk consideration in policy and investment

Pillar 3: Preparedness

Improved capacity to manage crisis through developing forecasting and disaster management capacities

Pillar 4: Financial Protection

Increased Financial resilience of governments, private sector and households through financial protection strategies

Pillar 5: Resilient Recovery

Quicker, more resilient recovery through support for reconstruction planning

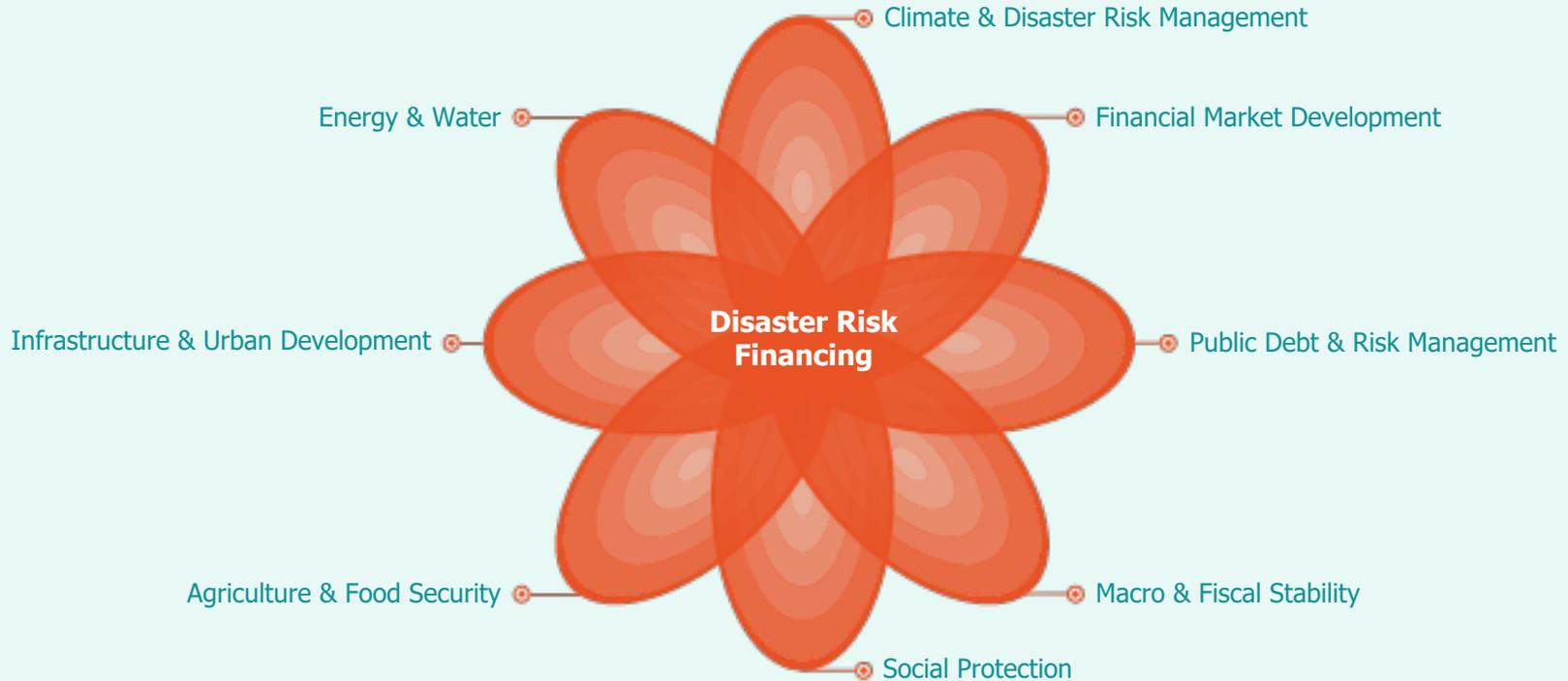


Disaster Risk Finance is one component of a comprehensive approach to risk management



Financial protection complements, but does not replace, risk reduction and resilience measures

Everything is Inter-Connected



DRF Core Principles

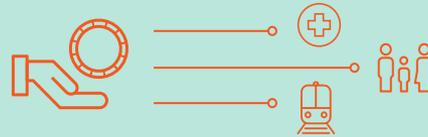
Timeliness of Funding

Speed matters but not all resources are needed at once



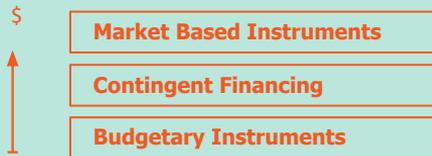
Disbursement of Funds

How money reaches beneficiaries is as important as where it comes from



Disaster Risk Layering

No single financial instrument can address all risk



Data & Analytics

Sound financial decisions require the right financial information and data



What can governments do?

**IMPLEMENT THEIR FINANCIAL
PROTECTION STRATEGY**



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Plan Ahead

STRENGTHENING FINANCIAL RESILIENCE

Take Stock of how disaster response is currently financed



Gather risk information/carry out risk assessments



Decide on policy priorities



Build and implement a financial protection strategy

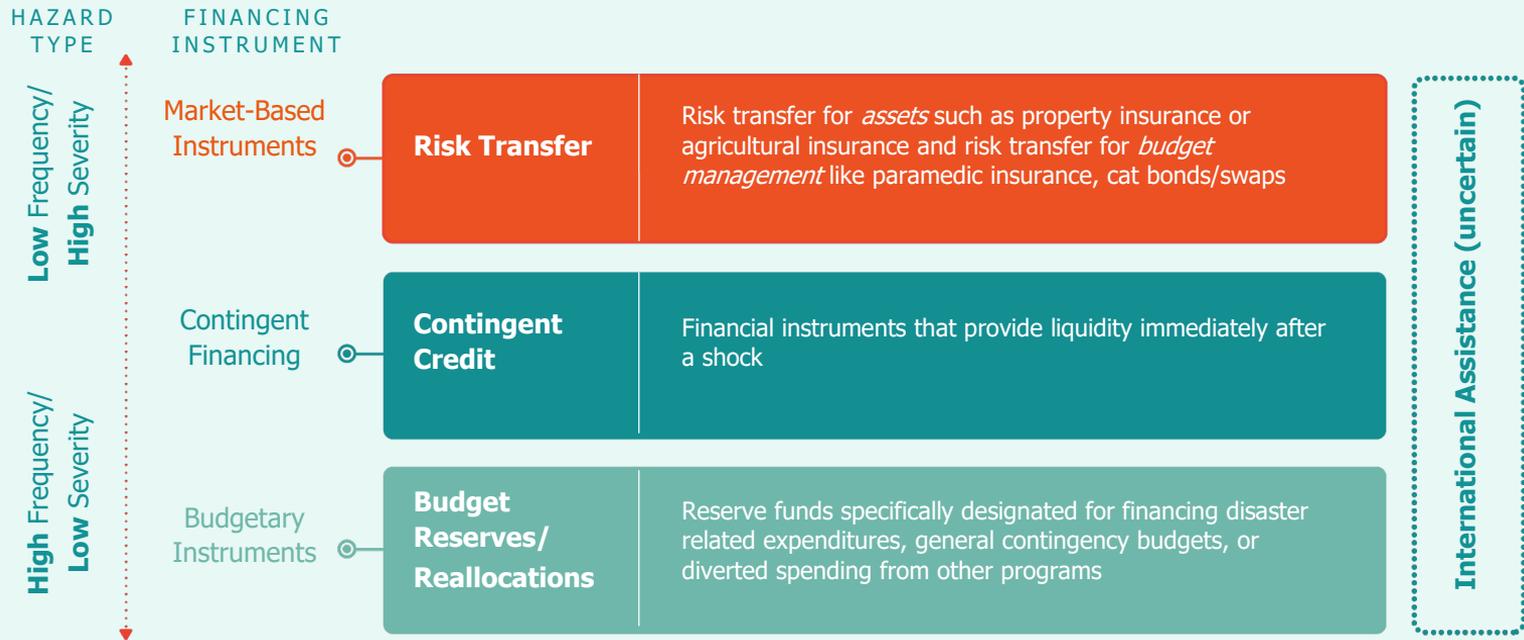


Work with and improve existing processes for DRF



Develop a Risk Financing Strategy

NO SINGLE FINANCIAL INSTRUMENT CAN ADDRESS ALL RISKS



THREE-TIERED RISK LAYERING STRATEGY FOR GOVERNMENT

Design the Systems for Flow of Funds

COORDINATED PLAN For post-disaster action agreed in advance

Fast, evidence-based **DECISION-MAKING PROCESS**

PRE-PLANNED FINANCING to ensure plan can be implemented

- Ensures funds are available quickly when—and only when—they are required
- Binds partners to pre-agreed objectives, decision processes, and implementation and modalities
- Promotes greater discipline, transparency, and predictability in post-disaster spending
- Ensures rapid mobilization of funds, reducing humanitarian costs and potentially saving money

What can the global community do?

**OFFER SUSTAINED FINANCIAL
AND TECHNICAL SUPPORT**



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Understand What Countries Want



What do they want to protect?



How do they want to do it?



What do they need? Finance?
Capacity building? Data?

Provide Long Term Sustained Support



DRF takes time – requires patience



The shift from ex-post to ex-ante financial planning requires behavioral change



Developing financial instruments is expensive and risky



Build institutions and long term capacity

Coordinate to Offer Best Solutions



Governments often spend copious amounts of time working with different partners on the same issues.



Different actors can develop data and analytics that offer different results which affects policy decisions.



Governments can be overwhelmed with competing offers of financial support.

What have we learned?

**SOME FINDINGS THAT CAN
LEAD TO GOOD OUTCOMES**



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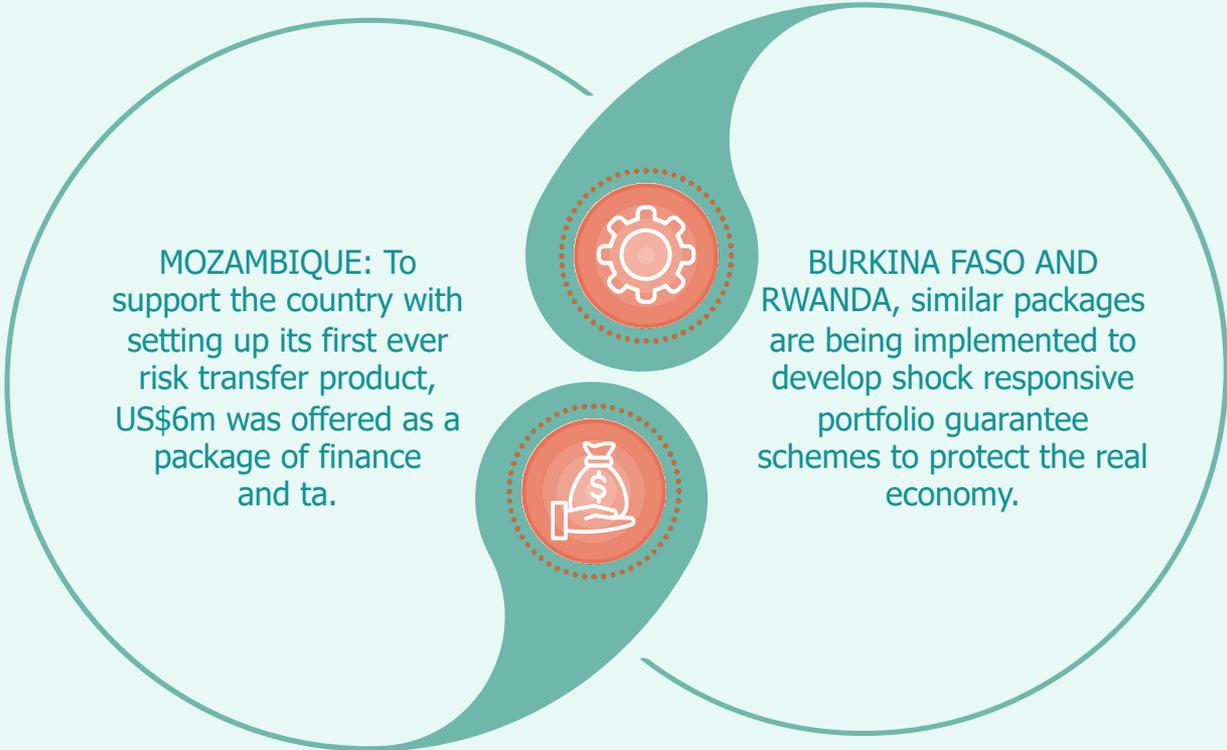
1. Linking Finance to Preparedness Systems



SIERRA LEONE: US\$4 m was held contingent and linked to resources to scale up existing safety net systems. This allowed the government to finance emergency cash transfers to affected populations within a few weeks of the start of the covid-19 pandemic.

MALAWI: the safety net is linked to contingent finance and will be insured. This will allow a larger volume of resources to flow through cash transfers when there is greater need.

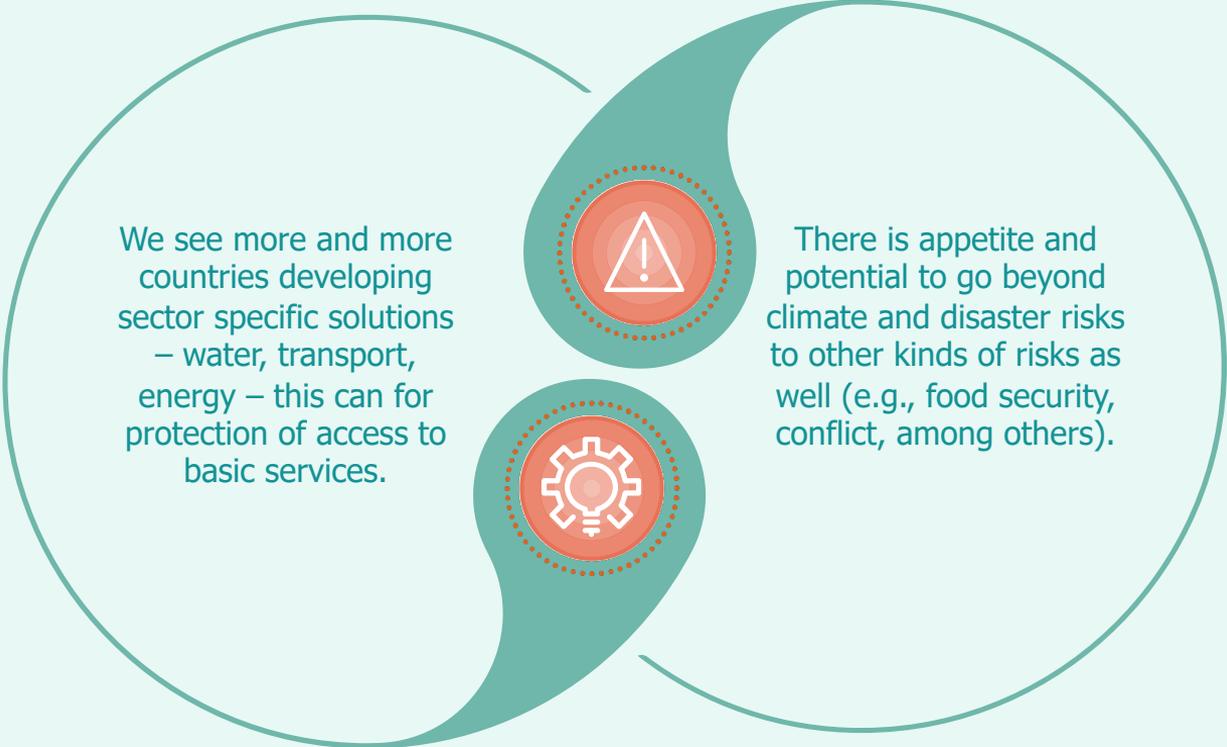
2. **Financial** and Technical Support are a Package Deal



MOZAMBIQUE: To support the country with setting up its first ever risk transfer product, US\$6m was offered as a package of finance and ta.

BURKINA FASO AND RWANDA, similar packages are being implemented to develop shock responsive portfolio guarantee schemes to protect the real economy.

3. **Financial** Solutions can be Applied to Different Sectors and Contexts



We see more and more countries developing sector specific solutions – water, transport, energy – this can for protection of access to basic services.

There is appetite and potential to go beyond climate and disaster risks to other kinds of risks as well (e.g., food security, conflict, among others).

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Thank You!



Federal Ministry
for Economic Cooperation
and Development

