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Disaster Risk Finance

Overview

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World Bank




Disaster Risk Financing & Insurance Program

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Disaster Risk Financing and Insurance Program

A WBG Program to strengthen financial resilience

DRFIP development objective to **increase financial resilience** of the countries through **minimizing the cost and optimizing the timing of meeting post-disaster funding**.

To achieve this objective, DRFIP provides the countries with **Analytical & Advisory Services, Financial Services and Convening Services** on Disaster Risk Finance.

Governments		*The Poorest*	*Farmers and Herders*	*Homeowners and SMEs*
DRF for **Rapid Response Financing**	DRF for **Budget Protection**	DRF for **Resilient Livelihood**	DRF for **Agriculture**	DRF for **Property Cat Insurance**

DRF **Analytics for Informed Financial Decision Making**

DRF **KM and Global Partnerships**

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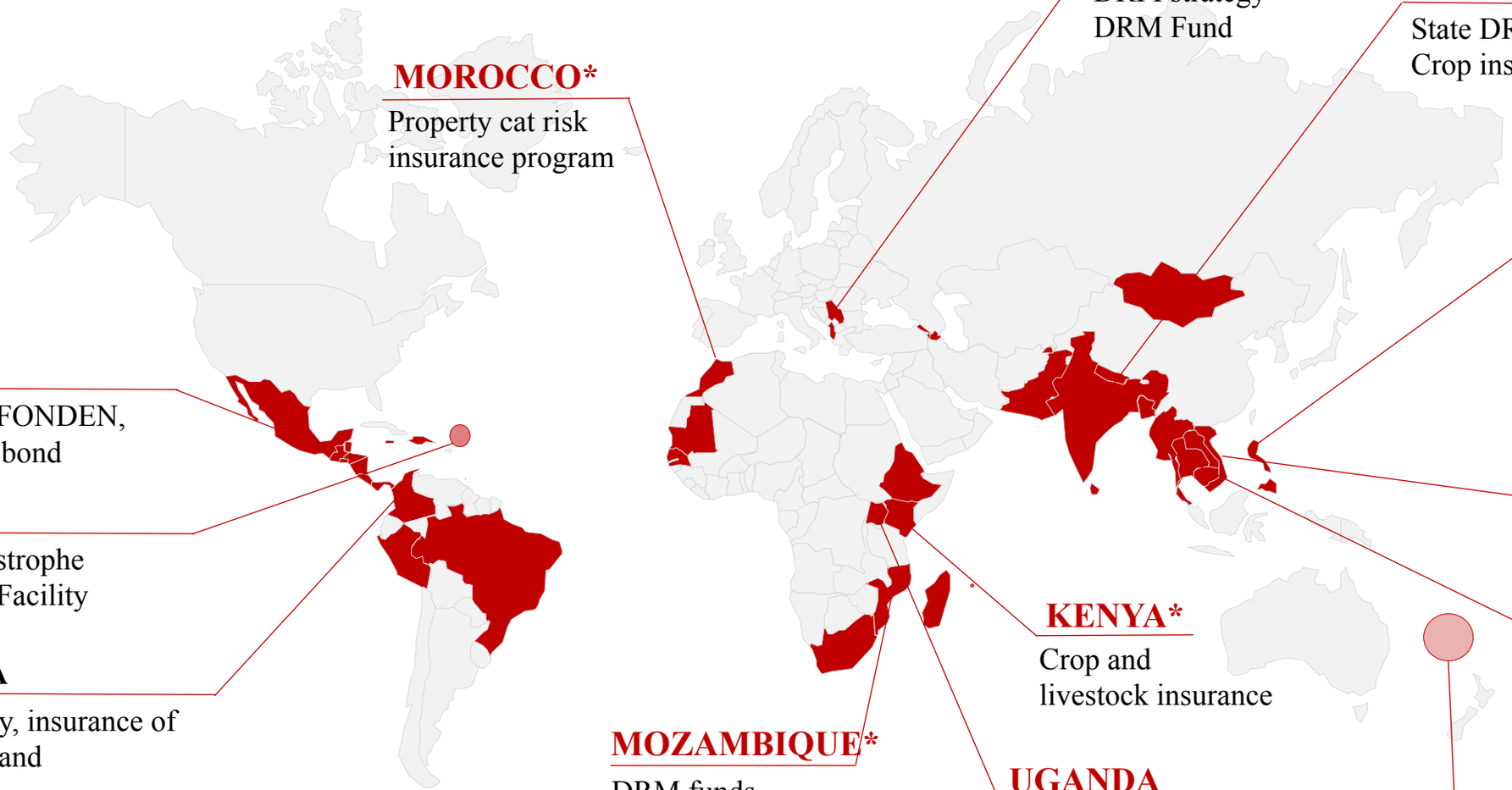
DRFIP – operational engagements worldwide

DRFIP active in more than 50 countries



SERBIA*

DRFI strategy
DRM Fund

INDIA

State DRFI strategy
Crop insurance

MOROCCO*

Property cat risk
insurance program

THE PHILIPPINES*

DRFI Strategy, Local
Disaster Resilience
Insurance Fund, sovereign
risk transfer

MEXICO

DRM fund FONDEN,
catastrophe bond

VIETNAM

DRM Fund, insurance of
public assets

CCRIF

Caribbean Catastrophe
Risk Insurance Facility

KENYA*

Crop and
livestock insurance

SOUTH EAST ASIA*

DRFI strategy in Lao,
Myanmar and Cambodia
South disaster risk insurance
Facility

COLOMBIA

DRFI Strategy, insurance of
public assets and
concessions

MOZAMBIQUE*

DRM funds
Crop insurance

UGANDA*

Disaster risk finance
component for social
protection fund

PCRAFI*

Pacific Catastrophe
Risk Assessment and
Financing Initiative

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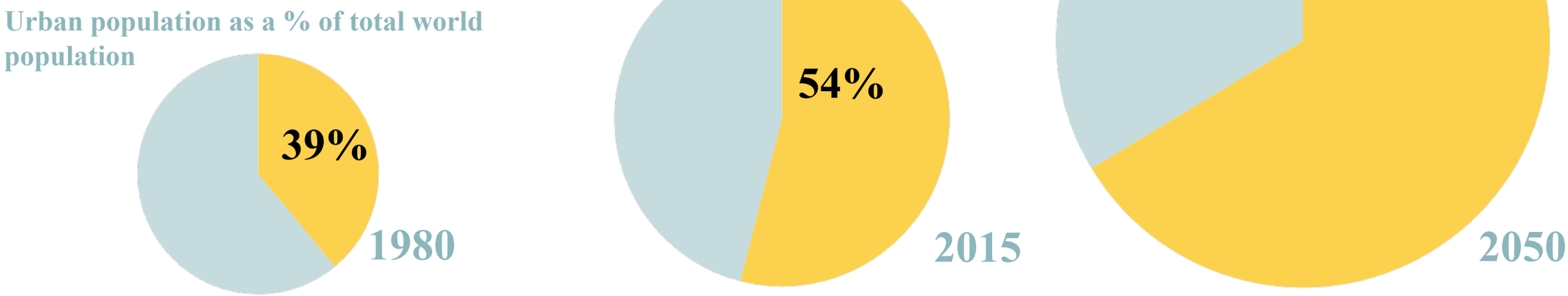
Note: (*) TA linked to lending

Drivers of climate and disaster risk – increasing exposure

- **Economic growth, demographic trends**, and **rapid urbanization** are among main drivers of disaster losses



- **Climate change** will make things worse

- Countries face **complex threats** that can exacerbate disaster and climate impacts

93%
of extreme poor live in **fragile** or **environmentally vulnerable** countries

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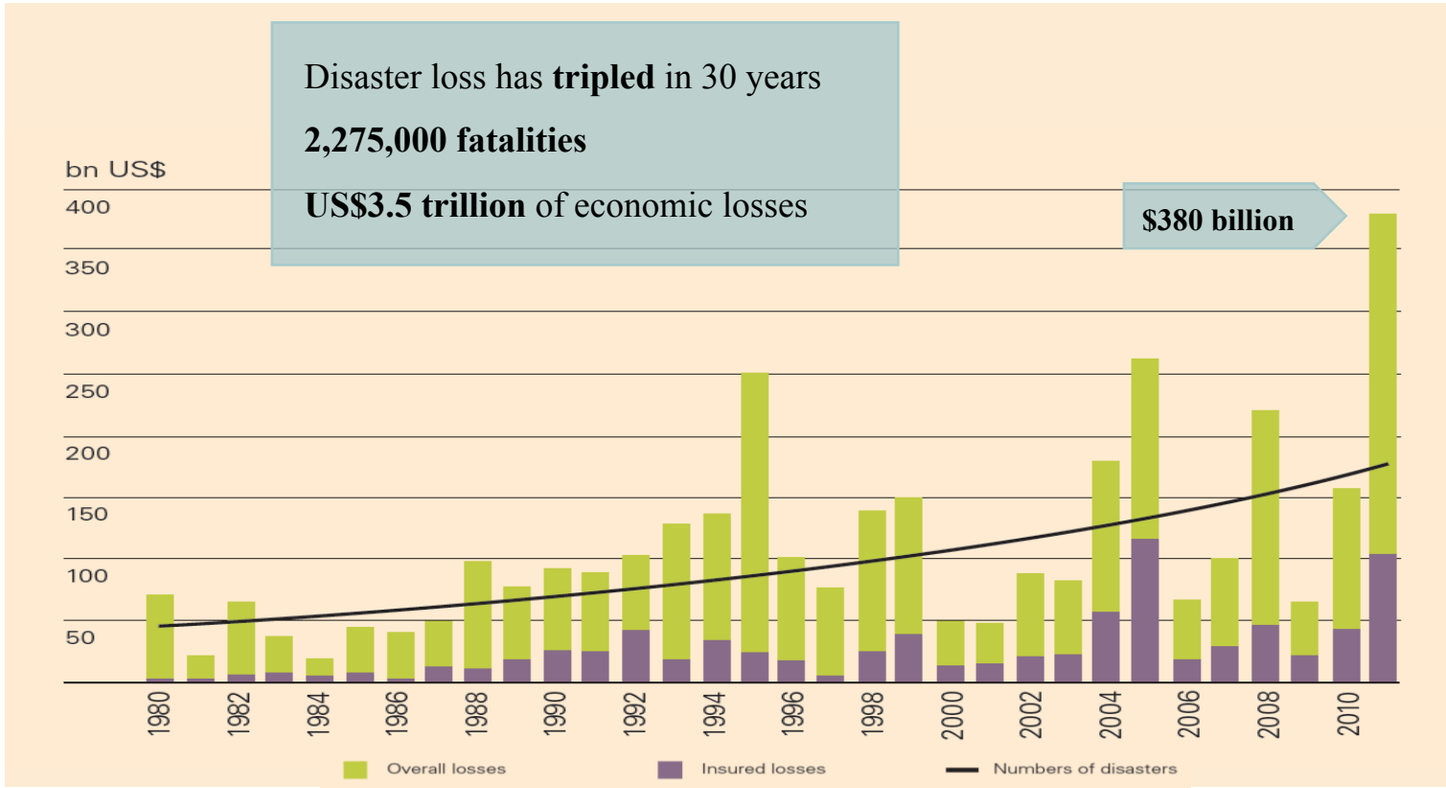
The many impacts of disasters: from public finances …

- Governments play a central role in emergency relief, recovery, and reconstruction in the aftermath of climate and disaster shocks
- Need **rapid access to liquidity** and **swift mobilization** of funds
- Disasters can have **long-term macroeconomic impacts**
- Some evidence of impact on **credit ratings**

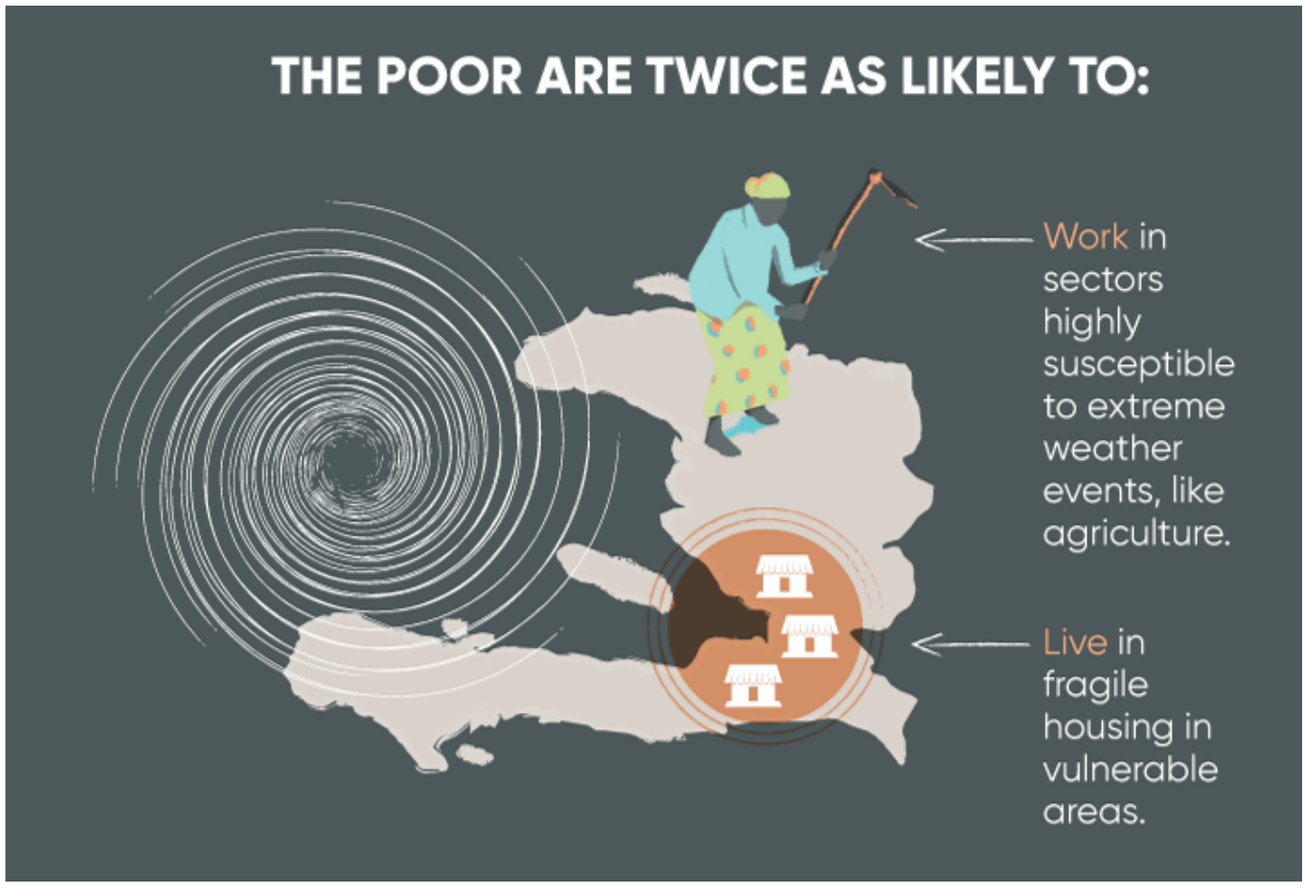


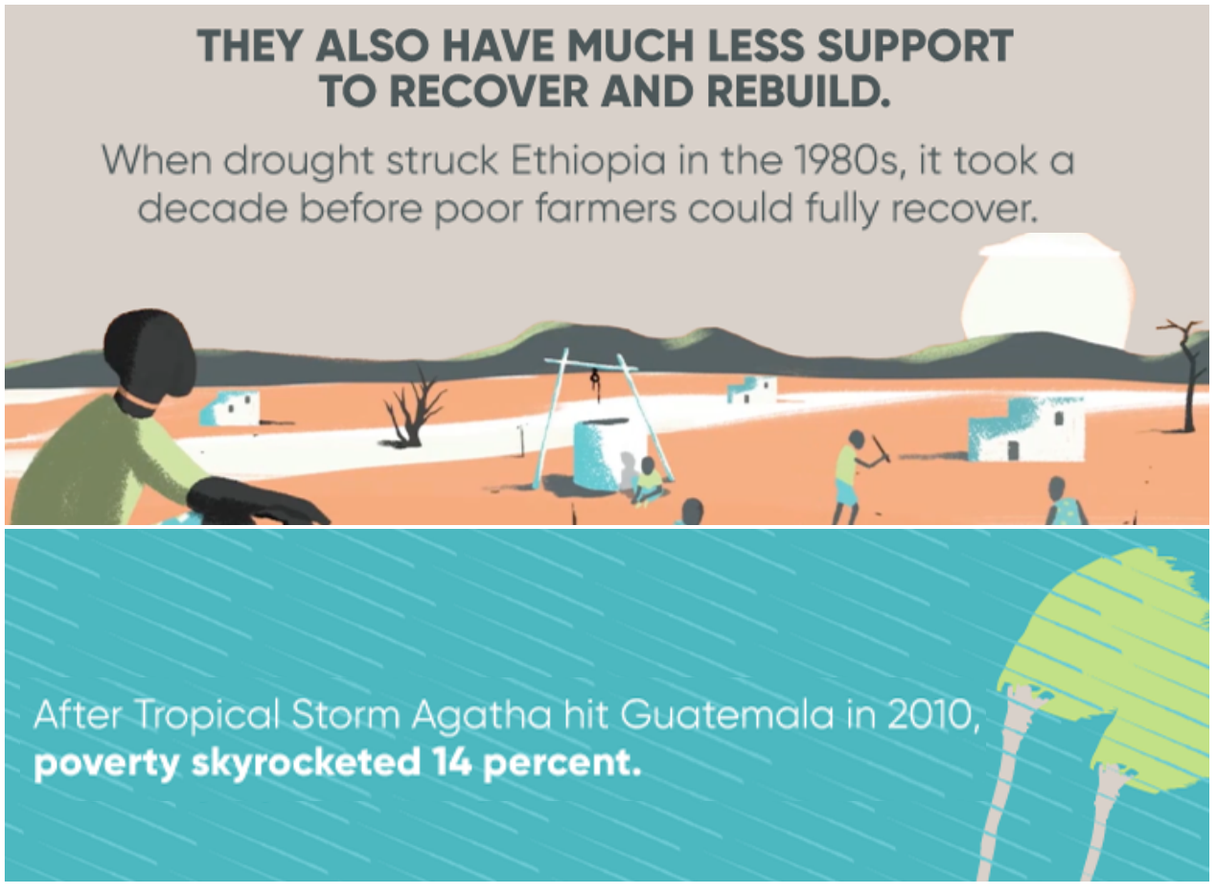
Source: Swiss Re 2016

Rapidly increasing disaster losses present a growing threat

… to poverty reduction

- When accounting for impacts on well-being (drop in consumption) natural disasters cost the global economy **$520 billion** (or 60 percent more than usually reported) and **force about 26 million people into poverty** every year.
- Through their impacts on human capital (in particular, nutrition, education, and health), **disasters can severely affect household's earning potential.**





Managing climate and disaster risk

- A **comprehensive approach to disaster risk management** can prevent losses and reduce impacts
- From traditional *ex-post* humanitarian support, to **preparedness** based on **national response systems**

AVOIDING DISASTERS

Reduce risk and prevent disasters through mitigation and adaptation

+

MANAGING the UNAVOIDABLE

Improve preparedness and response capacity

Moving from crisis response to **risk manager**

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 modalities
- Promotes greater discipline, transparency, and predictability in post-disaster spending
- Ensures rapid mobilization of funds, reducing humanitarian costs and potentially saving money

Based on Dull Disasters (2016). Clarke and Dercon. OUP

Preparing for the unavoidable

COOR

Fast,

PRE-P

FINANCIAL PROTECTION

PRE-PLANNED FINANCING to ensure plan can be implemented

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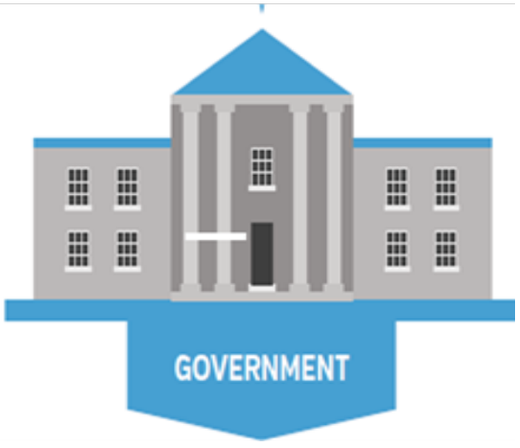
KENYA

- **Hunger Safety Net Programme** gives pastoralists additional CTs in case of shock, allowing them to invest in livestock
- Simple triggers and rules about when, where, and how additional support is provided
- Co-financed by donors and government

MEXICO

- **FONDEN** uses a rules-based system to reconstruct public infrastructure
- Rewards investment in risk reduction
- Collaboration among federal government, state governments, and private sector - clarity before the disaster over who will pay for what

Four Primary Groups impacted by natural disasters and climate risks



Financial protection

Helps proactively **manage residual** risk by planning ahead and setting resources aside to finance disaster response activities before disasters happen

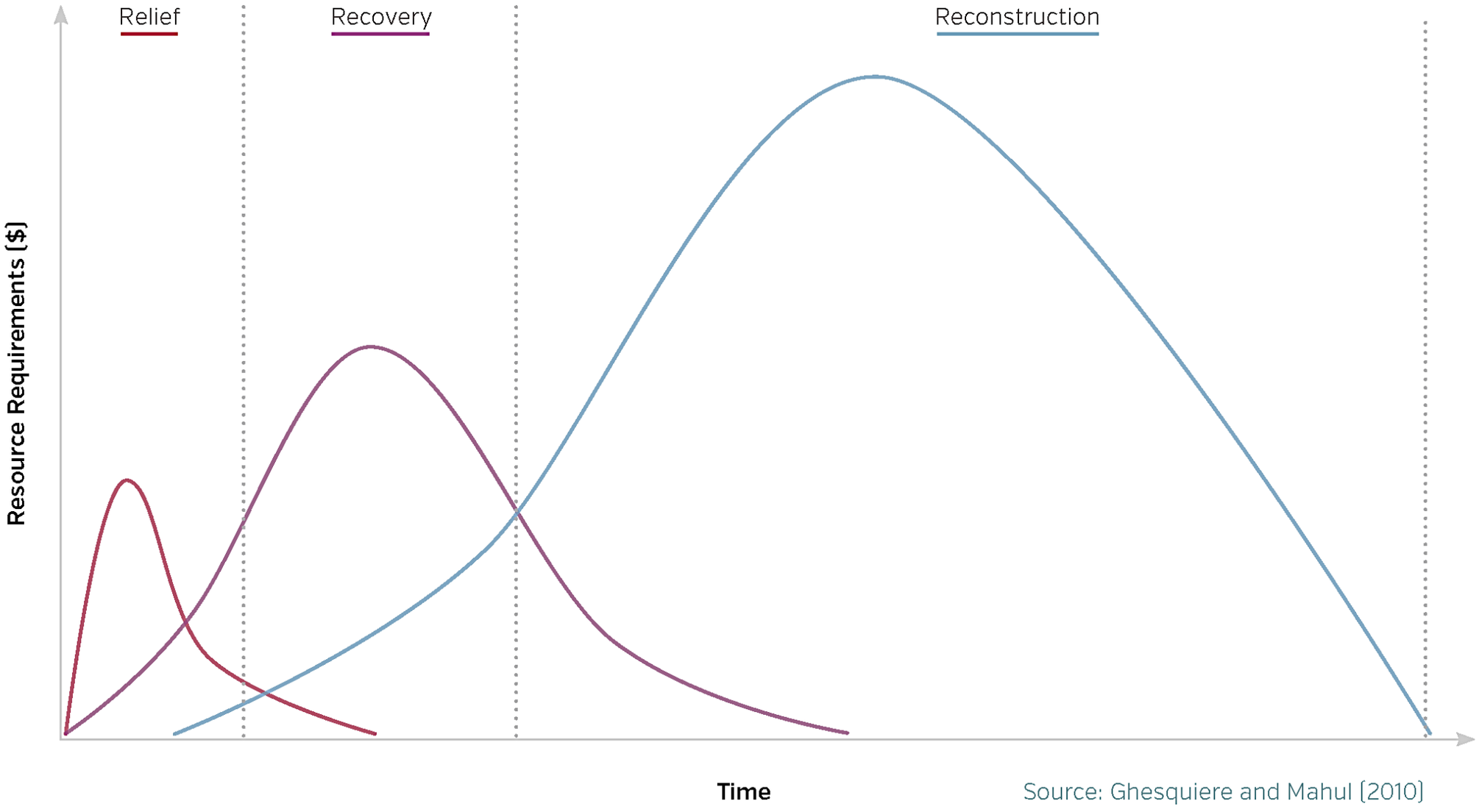
POST-DISASTER FINANCING

- International assistance
- Budget reallocations
- Debt issuance
- Post-disaster financing

PRE-PLANNED FINANCING

- Contingency/reserve funds
- Contingent financing
- Market-based risk transfer solutions
- Catastrophe risk pools

Speed matters, but not all resources are needed at once

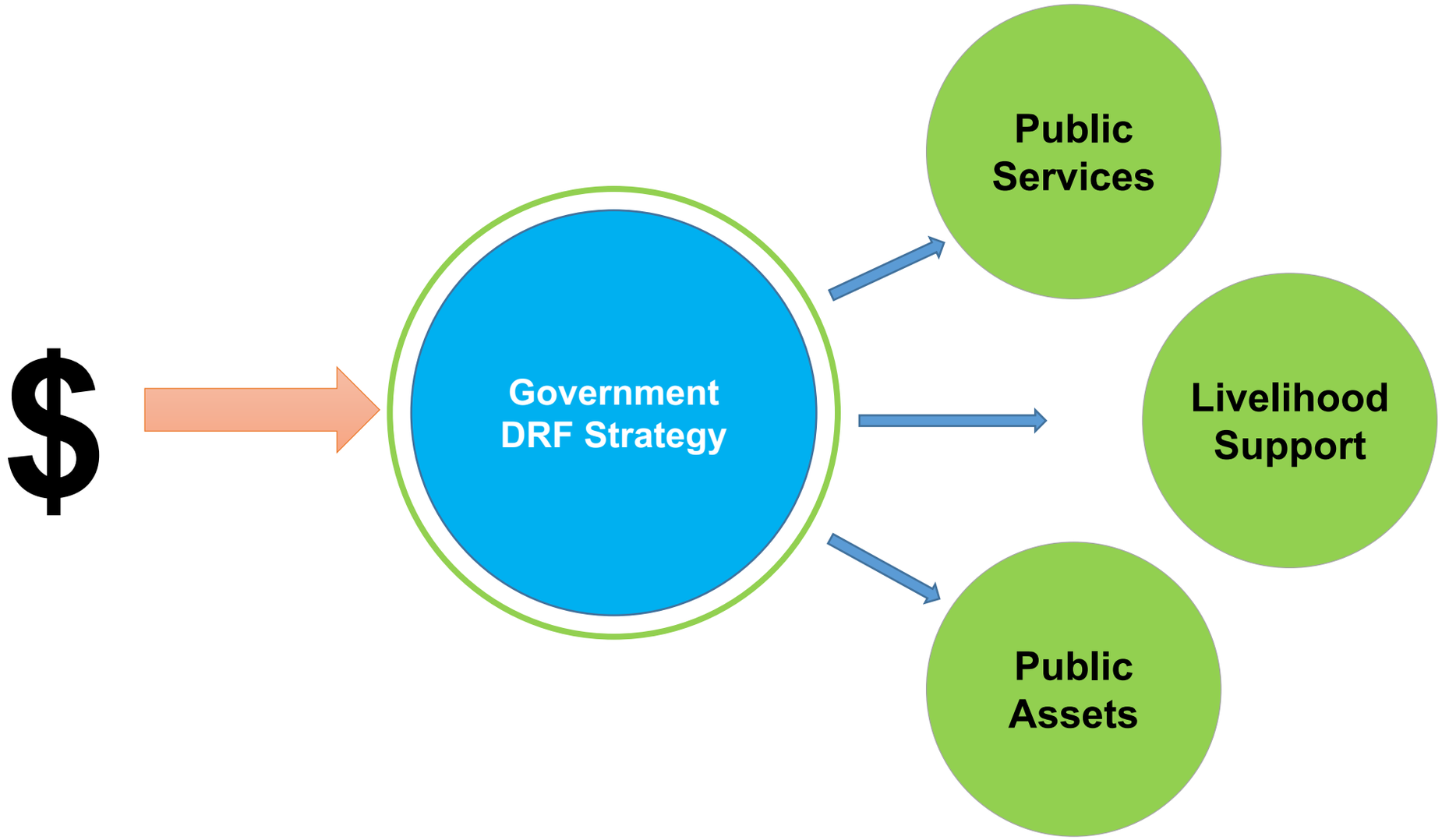


Source: Ghesquiere and Mahul (2010)

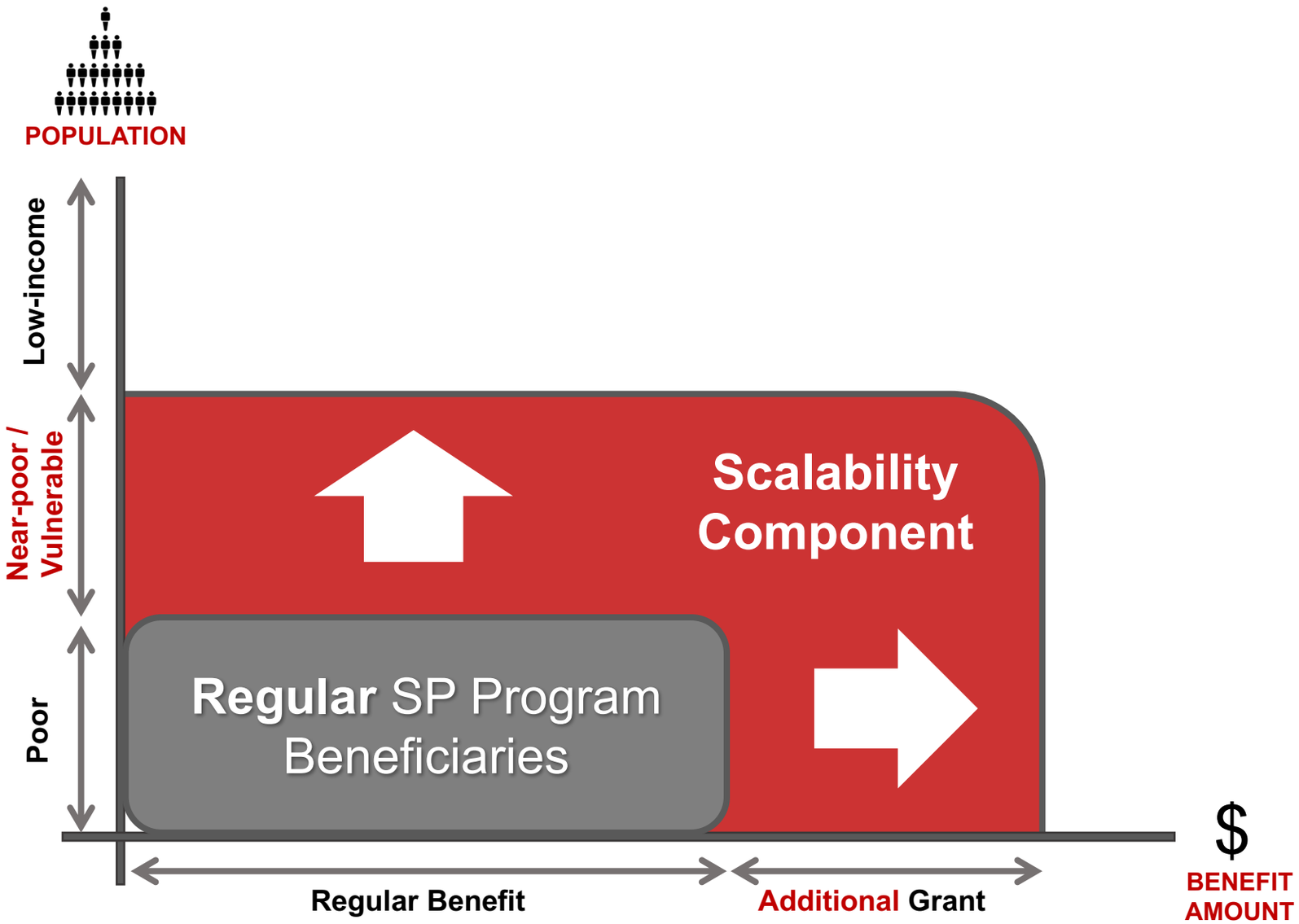
Three-tiered risk layering strategy for governments

No single financial instrument can address all risks

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



Social protection programs can scale up after disasters to reach more people and deliver more assistance



Scalable safety net systems respond to shocks by combining regular social safety net programs with scalability mechanisms that allow existing programs to expand ("scale-up") in order to include **newly eligible beneficiaries**/geographical areas and/or to provide **additional grant money** during a crisis.

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Case Study Uganda: The Northern Uganda Social Action Fund (NUSAF) III

Background

- A **US$130m** World Bank project to build community welfare and enhance resilience against natural disasters in Northern Uganda
- Project included a **DRF component (US$12m),** which looked to build the process and systems in Government to enable NUSAF III to rapidly respond to droughts

Results

- The **El Nino event** in 2016 caused a fail in the rains and widespread drought in the Karamoja region
- Systems developed under the DRF component captured the impact of the drought and **triggered a scale up** of NUSAF public works
- DRF component financed **US$4m** to enable **35,000 additional households** to join the public works program

Long-term objectives

- DRF component estimated to **benefit 84,000 households** over project-lifecycle
- Potential **expansion of DRF mechanism** to additional regions and perils

Contact

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