



SOVEREIGN DISASTER RISK FINANCE IN MIDDLE INCOME COUNTRIES

A partnership with the Swiss State Secretariat
for Economic Affairs (SECO)

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World Bank Disaster Risk Financing and Insurance Program

JULY 2016



 Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER
State Secretariat for Economic Affairs SECO

Program Review

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Foreword



Ivo Germann, Head of Operations, SECO and
Alfonso Garcia Mora, Director, F&M, World Bank

Losses caused by natural disasters worldwide reached an average of \$165 billion per year over the last 10 years. Middle-income countries are affected worst—relative to GDP—as economic growth and urbanization increase the concentration of assets exposed to natural disasters. This can affect growth, slow down development progress and keep people in poverty, or push them back into it. In addition, with under-developed domestic catastrophe risk insurance markets - penetration is estimated at less than 10 percent in most middle-income countries-, the governments bear a large share of these losses, either explicitly or implicitly.

For a finance minister, these costs are a contingent liability that should be accounted for in the fiscal management framework. The IMF's Fiscal Transparency Code reminds us that it is a good practice principle to 'analyze, disclose, and manage the potential fiscal exposure to natural disasters and other major environmental risks'. If not properly handled, such contingent liabilities can cause major budget volatility when they materialize. For example the government will need immediate liquidity following a disaster to pay for emergency response and previously unbudgeted longer term financing for reconstructing infrastructure. Often the government also shoulders additional costs through unplanned post-disaster support to affected local governments, families, and small businesses.

Financial planning for disasters helps governments shift from emergency borrowers to effective risk managers and match potential liabilities with the required financial resources. It ensures that following a disaster funding is available for immediate humanitarian response. But also it avoids interruptions to investments in crucial public services, such as education or health care.

Switzerland's State Secretariat of Economic Affairs (SECO) and the World Bank Group (WBG) have since 2011 built a joint program supporting governments in middle income countries to take a risk management approach for the fiscal management of disaster and climate risks. The Program helps countries develop comprehensive financial protection strategies, bringing together a combination of financial instruments to protect against disasters of different frequency and severity. To ensure efficient response following a disaster, it is focused not just on securing the funds in advance but also put in place the budget systems to rapidly and effectively execute the money in the aftermath.

This Program is being implemented by the Disaster Risk Financing and Insurance Program (DRFIP), anchored in the Finance and Markets Global Practice (F&M GP) of the WBG. It is one component of the broader Swiss-WBG partnership on fiscal risk management for middle income-countries, which also includes a component on government debt and risk management.

The Program offers SECO an opportunity to support its partner countries in achieving macroeconomic stability and longer-term fiscal sustainability, which are essential for long term and inclusive economic growth. An active management of fiscal risk caused by natural disasters makes these countries more resilient against climate change which is expected to exacerbate extreme weather events. SECO's engagement in this partnership is part of Switzerland's longstanding effort to promote disaster risk reduction as an essential requirement for sustainable development.

This work is directly contributing to the WBG's twin goals of ending extreme poverty and boosting shared prosperity. Increased financial resilience against disasters helps break the poverty cycle, often perpetuated by disasters, and prevents countries from losing years of development gains by efficiently managing shocks. The Program also supports the development of deep, inclusive, efficient, and stable financial systems, which is part of the F&M GP's strategy.

Alfonso Garcia Mora
Director
Finance and Markets Global Practice
World Bank

As the first phase of the Program comes to a close, this report highlights the Program's results, pulling together operational lessons learned over the past four years. Enhancing understanding of the economic and fiscal impact of disasters and improving capacity to devise and implement cost-effective financial protection strategies are the key outcome under this Program. This is being achieved for example through the development of a national disaster risk financing strategy for Colombia, Peru, and Serbia; the development of catastrophe risk models in Azerbaijan and Vietnam; the development of a new law in Morocco to deepen the domestic property catastrophe risk insurance market; and supporting the Ministry of Finance of Serbia to consider the establishment of a dedicated Fiscal Risk Unit in Serbia.

While much has been achieved over the past four years, this has just been the start of a longer process in these countries and beyond to shift from emergency borrower to active risk manager. A second phase of the Program is currently under discussion to help governments further improve the financial management of the disruptive shocks from natural hazards.

Ivo Germann
Head of Operations
State Secretariat for Economic Affairs SECO
Swiss Confederation

Acknowledgments



This report was prepared by the DRFIP team, informed by the monitoring and reporting documents produced semi-annually for every country of engagement. Consultation with the World Bank teams that lead the engagement in the different countries have been critical to understand the challenges and lessons learned.

This report was developed to review the progress made and consolidate lessons learned over the four years of the program (2012-2016). It takes stock of ‘what works’ and what we have learned. The report is split in two parts. First, a summary of program progress, outcomes achieved and consolidated lessons learned across the countries. Second, detailed updates on progress made in each country of engagement. The report informed discussions at a peer learning workshop, bringing together

the countries under the Program in Venice, Italy, in May 2016. It formed the basis for active knowledge exchange between the countries and discussions on the second phase of the Program.

The Disaster Risk Financing and Insurance Program is a joint program of the World Bank’s Finance & Markets Global Practice and the Global Facility for Disaster Reduction and Recovery (GDFRR), with financial support from donor partners including SECO, the UK Department for International Development, the European Union, the Government of Japan, The Government of Germany, the Rockefeller Foundation, and the Swedish International Development Cooperation. DRFIP has provided advisory services on disaster risk financing and insurance to more than 60 countries worldwide.

List of Acronyms



ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
DRF	Disaster Risk Finance
DRFIP	World Bank Disaster Risk Financing and Insurance Program
DRM	Disaster Risk Management
IMF	International Monetary Fund
GFDRR	Global Facility for Disaster Reduction and Recovery
MICs	Middle Income Countries
OECD	Organisation for Economic Co-operation and Development
PPPs	Public-Private Partnerships
SBS	Peru's Insurance Supervisory Authority
SECO	Switzerland's State Secretariat for Economic Affairs
The Program	The World Bank-SECO Sovereign Disaster Risk Financing and Insurance Program for Middle-Income Countries
WBG	World Bank Group

Executive Summary



Switzerland's State Secretariat for Economic Affairs (SECO) and the World Bank's Disaster Risk Financing and Insurance Program (DRFIP) launched a partnership to support middle-income countries (MICs) strengthen their financial resilience against natural disasters. Established in late 2011, the Sovereign Disaster Risk Financing and Insurance Program for Middle-Income Countries (the Program) is one component of a broader World Bank-SECO partnership on fiscal risk management for MICs. The Program provides tailored advisory services and institutional capacity building for public financial management of natural disasters.

The Program's engagement has spanned nine countries, making steady progress in many. At its inception the countries proposed for participation were Azerbaijan, Colombia, Egypt, Ghana, Indonesia, Peru, South Africa, Tunisia, and Vietnam. Progress across the different countries has varied in nature and scope. The Program has had successful engagement in Azerbaijan, Colombia, Peru, Indonesia, and Vietnam; it then expanded to Morocco and Serbia. Engagement has not materialized in Egypt, Ghana, South Africa, and Tunisia.

The Program has seen promising outcomes in four years. Understanding of the financial impact from disasters has increased in all participating countries. This understanding has often influenced or enabled changes in the institutional environment of countries to improve financial planning for disasters. For

instance, guidelines provided by the Program have been key to improving the quality and coverage of insurance of public assets in Colombia and Peru, and of private assets in Morocco.

The Program has adopted a demand-driven approach that delivers a large number of outputs targeting specific client needs. In several countries, such as Colombia, Peru, and Vietnam, engagement began with understanding the needs of the government and providing customized solutions for specific demands. Overall, 66 reports have been produced targeting specific technical knowledge gaps and 25 trainings and workshops have reached more than 680 people, strengthening governments' capacity to make informed decisions. This has set the foundation to develop comprehensive national-level strategies.

Lessons from the past four years highlight what has made this engagement successful

1. *Government ownership:* Active ownership of the agenda by the government has been instrumental in countries that have made substantial progress.
2. *Identifying key stakeholders:* Building relationships with several relevant ministries and departments in each country proved to be effective in continuing engagements despite changes in government.

3. *Clear identification of priorities and challenges:* Having that discussion early on in the engagement enabled a strategic approach in the support provided.
4. *Timely delivery of customized solutions:* Responding to client needs in a timely and responsive manner has been a key factor for strengthening relationships.
5. *Regular interaction with counterparts helps build capacity:* Local consultants have made engagement with government officials possible.
6. *Balance between technical and policy solutions:* Giving equal weight to both technical and policy aspects of Disaster Risk Finance (DRF) has helped in finding sustainable solutions that can be implemented.
7. *Capacity building of government officials:* Peer-exchange, training workshops, and targeted technical assistance have contributed to a sustainable DRF agenda.

Program Overview

The Program's development objective is to increase the financial resilience of participating countries to natural disasters. It supports governments in improving their financial capacity to respond in the aftermath of natural disasters while protecting their long-term fiscal balance. In addition, the Program seeks to build government capacity on sovereign financial protection by increasing understanding about disaster risk financing and insurance solutions and by helping countries make informed decisions as part of their broader public financial management, disaster risk management (DRM), and financial sector development strategies.

Each country's pace of progress on the DRF agenda is unique, given differences in the institutional environment, needs, and priorities. Each country in the Program has engaged in different activities and requested a diverse range of outputs customized to their specific needs. The Program has developed a three-stage approach towards scaling up the DRF engagement, beginning with a diagnosis; followed by a preparation phase, setting the ground for the implementation of financial instruments or institutional reforms.

To achieve its objectives, the Program's engagement is designed around a set of key activities. These include:

1. Catastrophe risk modeling;
2. Assessment of economic and fiscal impact of disasters;
3. Review of fiscal management of natural disasters;
4. Review of the regulatory framework for catastrophe risk insurance;
5. Knowledge transfer and training to build capacity for sovereign disaster risk finance strategy;
6. Implementation of market-based disaster risk financing and transfer solutions.

Way Forward

Efforts are under way to move the engagement from the national to the sub-national level. This shift has begun for example in Colombia in light of its implementation of a national-level strategy. The ministry of finance is aiming to develop a five-year implementation plan at the national and sub-national levels by January 2017, which will define products to be implemented, institutions involved, and relevant timeframes.

Increased development of DRF analytics and tools is necessary to meet country demands. Several countries such as Colombia, Indonesia and Peru have already benefitted from more informed decision making as a result of DRF analytics and tools. However, demand for these tools is steadily rising as countries such as Morocco or Vietnam focus on making more informed decisions on the financial management of disaster impacts.

Several countries are developing and enhancing domestic insurance solutions. As countries better manage the fiscal impact of disasters, they increasingly look to reduce the underlying liability to the state through the development of insurance solutions for public

and private assets. This helps transfer risk to specialized risk carriers.

Principles and tools for financial risk management are increasingly applied to new areas that impact the contingent liability of the government. For example, governments start looking to manage the financing of social protection schemes or the potential cost of drought on energy production through better financial risk management. Experience has shown that DRF is most effective when integrated into broader development strategies in areas such as climate and disaster risk management, energy and water, infrastructure and urban development, agriculture and food security, macro and fiscal stability, public debt and risk management, financial sector development, and scalable social protection.

Summary of Program Outcomes

The Program's activities have helped countries improve perceptions and understanding of the economic and fiscal impact of natural disasters. Colombia and Peru have integrated a risk layering approach within their national strategies, while Indonesia, Vietnam, and Serbia are exploring that option. Support for development of catastrophe risk models to facilitate a better understanding of risk and exposure has remained central to the Program, with work undertaken in Azerbaijan, Colombia, Peru, Vietnam and Morocco. Additionally, cost-benefit analyses on the use of fiscal instruments for specific hazards have been carried out for Colombia, Indonesia, Morocco, and Peru.

The Program has improved institutional capacity to devise and implement cost-effective financial strategies for the fiscal protection of the state against natural

disasters. One important outcome has been to inform institutional change in several countries. In Colombia, technical advice is informing laws on risk retention measures such as the national disaster risk management fund. In Morocco, technical inputs have informed the draft law on catastrophe risk insurance to expand the coverage of domestic insurance and to propose a solidarity fund for uninsured households. Other institutional improvements include the potential development of a centralized approach to insurance of public assets in Colombia and its already enhanced coverage and quality of insurance of public assets; support to Azerbaijan for identifying appropriate stakeholders to develop a DRF strategy (such as the country's insurance department, which is designing policies on risk transfer); and support to Serbia to conduct a functional review of its ministry of finance as groundwork for the establishment of a fiscal risk management unit.

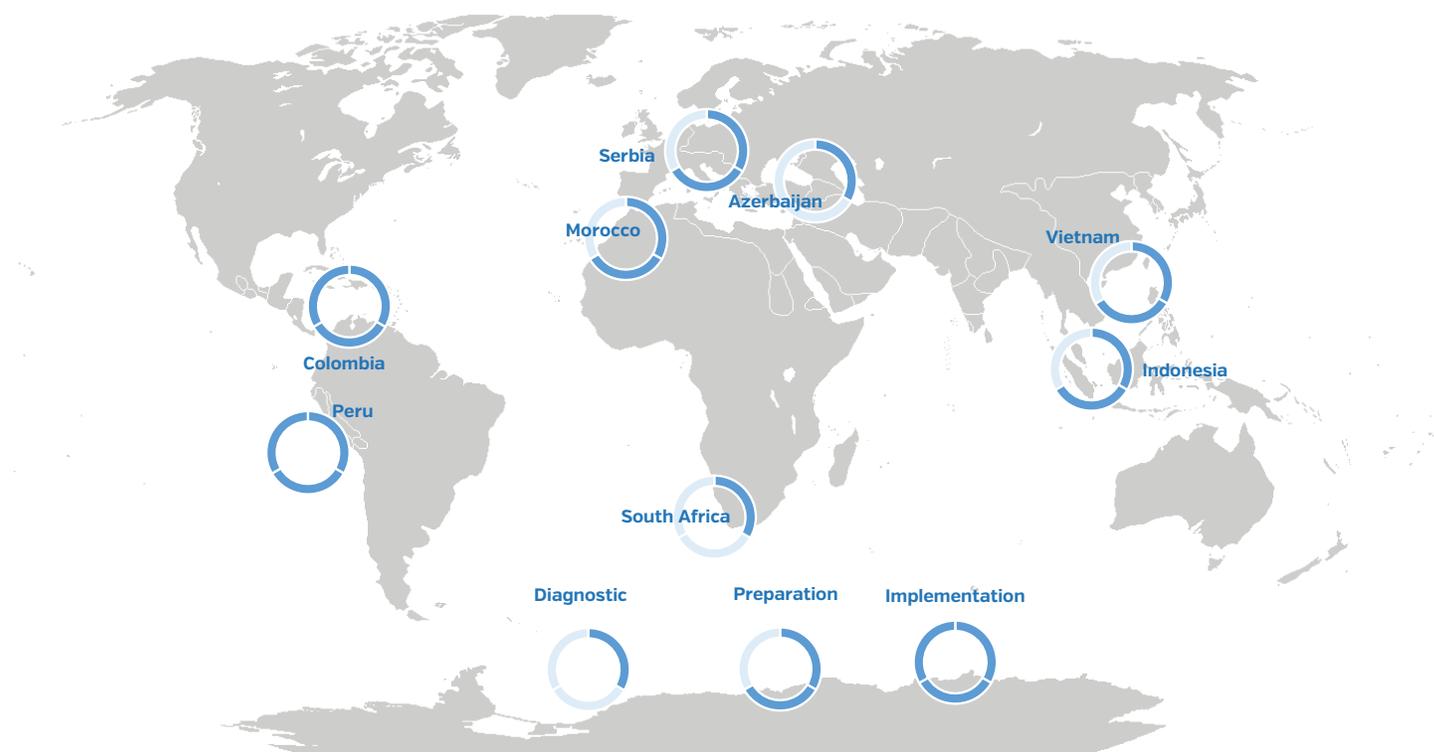
Institutional capacity that the Program has helped build has led to the implementation of successful reforms. For instance, the Program worked with the government of Colombia to analyze international guidelines of best practices on the insurance of infrastructure and implement them in Colombia's requirements for private concessions for the construction of public infrastructure. The Ministry of Finance now uses the guidelines among its criteria for accepting or rejecting proposed public-private partnerships (PPPs). In Peru, the Program also delivered guidelines after analyzing a database of insurance contracts of government concessions; the government incorporated the guidelines into the contract for a road concession and into its standard templates for concessions. The Program's technical support for calculation of a catastrophe reserve is helping to enhance Peru's regulatory framework for coping with catastrophe risk.

Summary of Progress

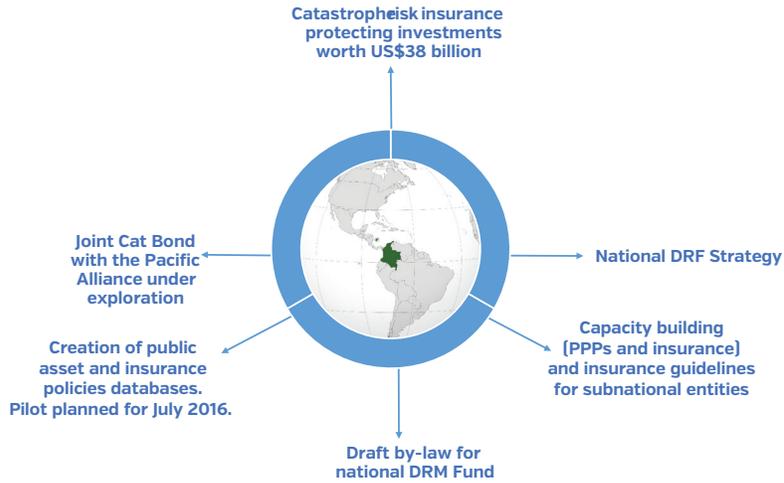
This section provides a brief overview of progress made across all the countries that the Program has engaged in and lessons that have been learned. A key insight has been the need for complementary support on policy development that parallels advances in technical expertise. The development of financial protection strategies at the national level has proven to

be an important driver of institutionalizing progress. Such measures have often created a demand for analytical tools and services to help government officials understand and respond to technical questions. Providing curated access to knowledge materials and technical expertise has been a key demand; the Program has responded, for example, through targeted technical notes and regional and national workshops on experience and lessons learned.

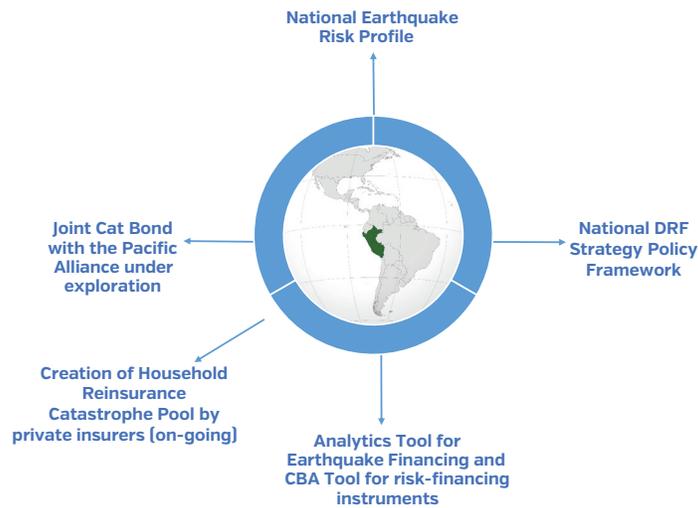
Progress made in the countries under the Program (as of June 2016)



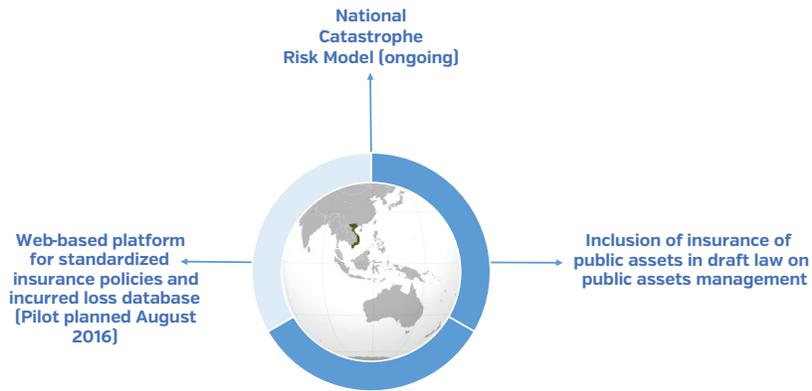
Colombia has improved its understanding of financial vulnerability to disasters, is implementing a national DRF strategy, and is expanding this work to the subnational level.



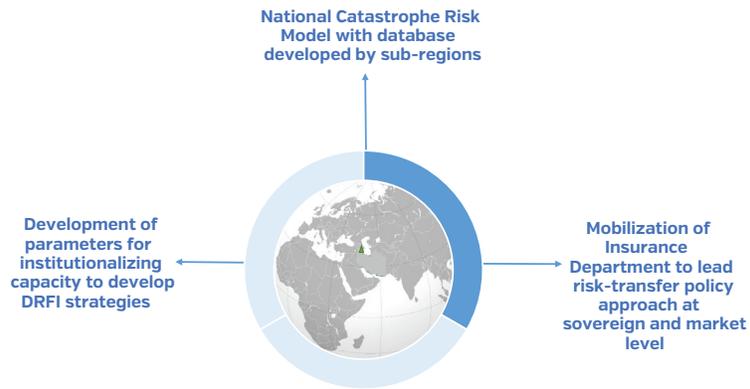
Peru has increased its understanding of the financial costs from earthquakes and has developed a national-level DRF strategy.



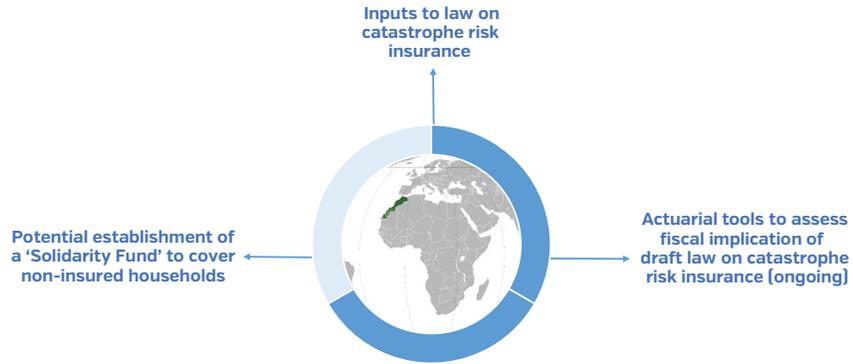
Vietnam has improved its institutional capacity to develop a comprehensive, cost-effective approach to financial protection, supported by the development of a national catastrophe risk model.



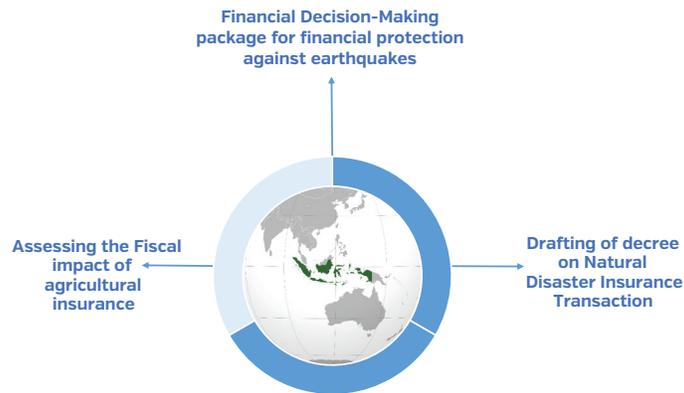
Azerbaijan has focused on catastrophe risk modeling, in addition to mobilizing greater support for the DRF agenda within the government.



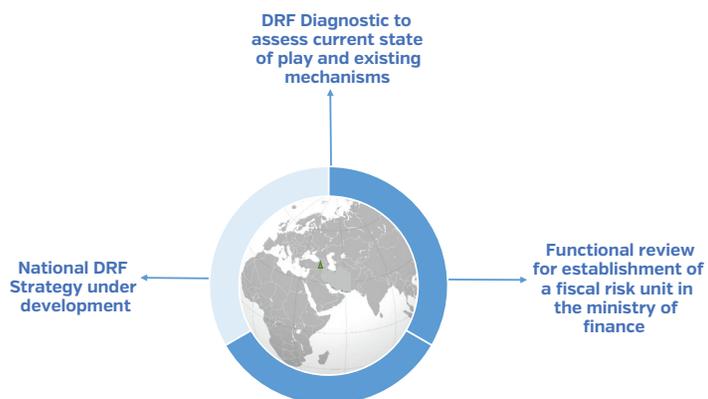
Morocco has developed a holistic disaster risk management approach, including the promotion of domestic catastrophe risk insurance solutions.



Indonesia has built capacity on sovereign disaster risk finance, through analytical tools, training, and workshops on sovereign catastrophe risk transfer solutions.



Serbia has improved its capacity to deal with financial implications from disasters and to develop appropriate financial mechanisms.



South Africa engagement closed as a result of other priorities by government counterparts.

Egypt, Tunisia, Ghana engagement were not initiated, mainly due to the political situation.

Lessons on Disaster Risk Finance from Middle-Income Countries

Government ownership and strong institutional counterparts are key to facilitating progress. The cases of Colombia, Peru, Serbia, and Vietnam highlight the way in which government interest and buy-in further dialogue and action on disaster risk finance. In contrast, a lack of government ownership of the DRF agenda stymied the discussion in South Africa, Ghana, Tunisia, and Egypt. For example, the creation of a dedicated fiscal risk unit in the ministry of finance has often proved to be a key stepping stone towards a strong DRF agenda.

Identifying key stakeholders early in the process is important. Engaging stakeholders with an interest in DRF both inside and outside the government helps to advance project implementation. A high-level champion in the government can be key to anchoring DRF as a government priority. It is also important to identify and build relationships with additional government counterparts, such as officials with responsibilities for managing contingent liabilities, including personnel in fiscal risk offices. Furthermore, so progress does not completely stall due to turnover of key government personnel, relationships with a wider group of stakeholders are needed. Finally, engagement with the local private sector can tap critical technical knowledge and expertise. The legal mandate on DRF is often shared across multiple institutions, and all relevant stakeholders should be involved if possible.

Defining clear priorities and identifying challenges at the start of the Program allow for a strategic approach. Creating an initial work plan spurs the development of actionable and effective policy reforms and financial solutions. Early planning discussions may also

pave the way for developing comprehensive strategies for financial protection.

Start small, practical, and fast. Countries often start engagements by requesting assistance for “simple” and “small” products. By providing rapid, timely, and high-quality responses to such requests, the Program team develops trust and credibility with its government counterparts, making it easier to broaden the scope and nature of the DRF engagement.

Continued contact with counterparts and local capacity are critical. The engagement of local consultants based in the country has been critical in all countries that have made strong progress. An in-country presence has helped the Program maneuver local institutions, ensured regular contact between the teams and government counterparts, and supported the building of capacity of public officials.

Development of efficient and sustainable financial solutions requires a balance between technical and policy work. When implementing financial protection strategies, governments need to develop sophisticated instruments, a task requiring highly technical analysis. Yet governments also need to develop broader strategic policies to set the overall direction and to ensure that the DRF work links to the government’s overall work program in other relevant areas. To develop this balance, it is necessary that World Bank teams have a balance of technical as well as policy expertise.

Peer exchanges, training, and targeted technical advice contribute to building the capacity of government officials in scaling up DRF solutions. Involvement of public officials in specific technical assistance, such as the development of products; facilitation of their participation in workshops and training sessions; and delivery of simple analytical tools to inform decision making have all been

important to building capacity. Collaboration between countries has allowed officials to benefit from one another through exchange of knowledge and experience.

Sharing Knowledge of Disaster Risk Finance Worldwide

The Program has informed discussions and actions on disaster risk finance beyond the participating countries across the world.

The positive spillover effect from the in-depth technical work carried out under the Program is clear in the cases discussed here. These cases also act as models for other middle-income countries striving to develop similar policy approaches to manage the financial costs from disasters. Such peer-exchange goes both ways, and countries in the Program also benefit from the experience of others; for instance, they have learned from Mexico about fine-tuning financial instruments to increase efficiency of their financial protection strategy.

The Philippines has prepared a comprehensive national financial strategy. The Philippine government's strategy, created in 2014, aims to protect three levels of society: the national budget, local governments, and individuals. The work in the Philippines also takes advantage of and helps refine the analytical tools developed for Colombia and Indonesia. World Bank support to the Philippines Insurance Commission to improve regulation of catastrophe risk insurance and management of insurance databases builds on the experience of Colombia, Peru, and Vietnam.

Panama has enacted a national strategic framework for financial management of disaster risk. In 2014, Panama became the first country in the world to enact by law a national strategic framework for the financial management of disaster risk. The development of this strategy

was informed by the experience of Colombia and Peru. The objectives of the strategic framework include (i) incorporating disaster risk analysis in public investment planning processes; (ii) developing instruments and measures for a financial protection strategy in the event of disasters; (iii) systematizing information on and appraisals of investments in disaster prevention, mitigation, preparedness, response, and reconstruction; and (iv) promoting public and private investment in risk management.¹ The adoption of the framework has been the culmination of a series of public reforms, consultations, and studies by the Panama government in recent years and creates a strong legal mandate for establishing a financial management strategy that addresses natural disasters.²

The Program has stimulated global policy discussions on financial resilience to disaster risk in international fora. Financial management of disaster risk has become a subject of international exchanges of knowledge and policy in recent years. Peru, for example, placed DRF in its agenda for its 2016 presidency of the Asia-Pacific Economic Cooperation (APEC) Forum. Morocco presented its experience at the 2015 Understanding Risk and Finance Africa conference to 450 policy makers from across Africa. Several countries took part in a 2015 seminar on Disaster Risk Finance in Asia organized by the Organization for Economic Co-operation and Development (OECD) and the Asian Development Bank (ADB).

The combined experience and knowledge from this sustained partnership and dialogue with public and private sector partners has informed the development of an operational framework for public financial management of natural disasters. The framework is a practical and comprehensive resource on good practices for governments that aim to establish and improve disaster risk financing

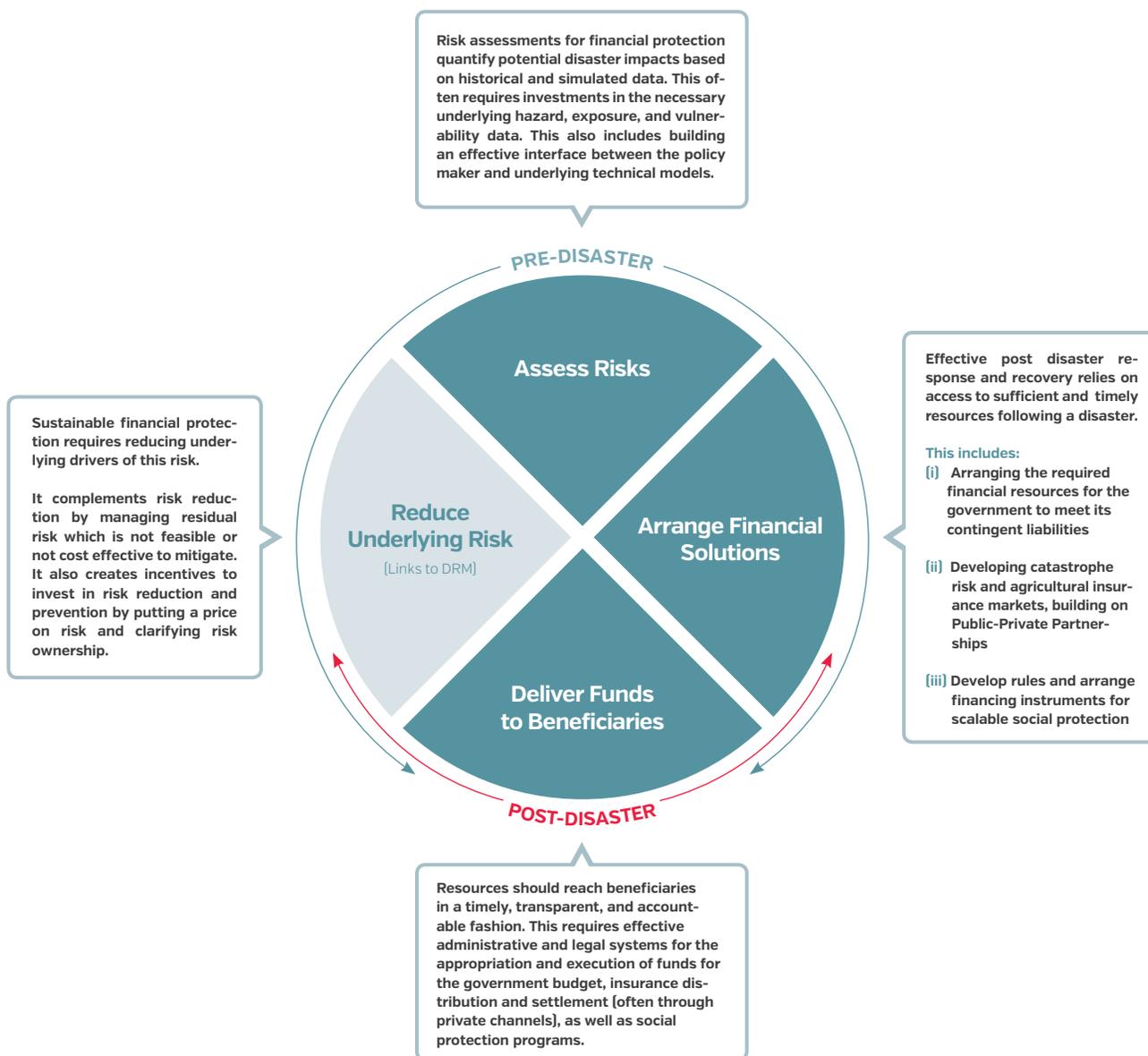
and insurance activities.³ The experience under the SECO partnership has been particularly important in the development of these good practice guidelines.

The operational framework is a practical guide to support decision makers who look to strengthen their nation's financial resilience to natural disasters. Some short-term steps may address urgent problems while decision makers consider long-term and more comprehensive financial protection policies. For example, for a ministry of finance to use risk transfer, it may be necessary to change existing law, a step that

may take several years to accomplish. Over time, a long-term strategy developed around various ongoing activities can help the government build a comprehensive approach to the financial management of disasters.

The figure below shows core technical steps a government needs to take when implementing financial protection solutions. It has to understand the risks it faces, consider where resources may be obtained following a disaster, and identify appropriate channels to ensure that those resources reach the intended beneficiaries without delay.

Operational Disaster Risk Financing and Insurance Framework: Core technical steps



Source: World Bank (2014) Financial Protection against Natural Disasters

ENDNOTES

- 1 <https://www.gfdr.org/sites/gfdr/files/publication/Panama-Strategic-Framework-for-the-Financial-Management-of-Disaster-Risk.pdf>
- 2 <https://www.gfdr.org/sites/gfdr/files/publication/Panama.pdf>
- 3 <https://olc.worldbank.org/sites/default/files/Financial%20Protection%20Against%20Natural%20Disasters.pdf>

Detailed Evaluation of Country Progress

Colombia

Context

In the last 40 years, natural disasters have cost Colombia an estimated US\$2.04 billion and destroyed 190,000 houses. The impact of the 2010–2011 La Niña rainy season brought to light the complexity of hazard risk in Colombia and highlighted existing gaps in the national DRM system. Floods in 2012 alone hit some 3.5 million people with unprecedented damage and losses, underscoring the need to strengthen the national system to manage disaster risks proactively.¹ The La Niña events revealed that infrastructure built under PPP concessions was often not properly insured, saddling the government with the reconstruction cost. As the country planned major new investments in infrastructure through PPPs of up to \$38 billion, it became a top priority to secure adequate catastrophe risk insurance for PPP concessions.

Overview of Progress

In 2013, Colombia became the first country in the world to develop a dedicated national DRF strategy. Colombia's National Development Plan of 2010–2014 required that the Ministry of Finance lead the development of a DRF strategy for reducing fiscal vulnerability of the country. This was reinforced by the passage of DRM legislation in 2012. With the Program's technical assistance, the national DRF strategy was finalized in December 2013. In 2014, the Program supported the government to analyze the functions and mandates of different

government entities to improve collaboration and coordination for implementation of the national strategy.

The Colombian government has enabled protection of infrastructure investments worth US\$38 billion. The Program provided a series of technical notes to inform the development of a pilot scheme for a collective approach to insurance of public assets. The Program provided international good practices from private insurance markets to improve requirements for catastrophe risk insurance of PPPs, which helped protect infrastructure investments worth \$38 billion. In addition, the Program supports the improvement of quality and coverage of insurance for public assets by (i) issuing insurance guidelines for the central and subnational levels; and (ii) developing internet-based software to improve the management of data on insurance policies and exposure of nationally owned property. The drafting of a bylaw on DRM for the National Fund will strengthen budgetary measures to retain risk more effectively.

The government's interest in parametric risk-transfer solutions also led to a number of technical notes to evaluate a potential catastrophe swap. The analysis, produced with the Colombia Geological Survey and the Ministry of Finance, was developed in 2014, with supporting documents and databases that can be run using the Comprehensive Approach to Probabilistic Risk Assessment (CAPRA) tool. Colombia decided not to proceed with a catastrophe swap at the time, but the analysis

CHAPTER

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is now being used to evaluate the feasibility of a joint catastrophe bond among the countries of the Pacific Alliance.²

As of December 2015, 26 reports have been prepared and 195 officials have been trained through 10 workshops. In coordination with the parallel SECO-financed project on fiscal and debt risk management, for example, four regional workshops were organized on international good practices on insurance of PPPs, training 83 public officers from 27 territorial entities.

Colombia's national DRF strategy has informed efforts by several countries, including Costa Rica, El Salvador, Peru, Panama, the Philippines, and Vietnam.

Colombia's improved management of insurance data is being replicated in Panama, the Philippines, and Vietnam, in collaboration with the insurance supervisory authorities, local insurance companies, and national insurance associations. Knowledge and peer learning with Peru, Panama, and Mexico have in turn contributed to Colombia's expertise.

Lessons Learned

Strong government ownership and engaged partners are critical to DRF reforms. The engagement of selected high-level decision makers has been key to progress. In Colombia, having a dedicated risk department in the Ministry of Finance to manage contingent liabilities has provided a strong institutional counterpart, established the leadership of the Ministry of Finance, and supported coordination with other government entities.

Understand the country's needs first, then provide quick and customized solutions. At the beginning, the Program invested time to develop a strong relationship with government counterparts and to deliver quick, demand-driven products. Those steps built trust and

credibility with the client and demonstrated the technical skills and knowledge that officials could draw on. The success of those smaller products led to development of more sophisticated products, and the Program's broader engagement on the DRF agenda. The resulting products have also been used by other countries (both as part of the Program as well as beyond) to advance their DRF strategies.

Global commitments can provide incentives for quick and timely action. Colombia currently is working towards OECD membership, and its commitments as part of that process have helped to accelerate some aspects of the Program. Commitments made at global or regional policy summits can also spur domestic policy reforms.

A change of government can slow progress. In 2014, although the President of the country was re-elected, personnel changes at the Ministry of Finance slowed work for several months. The Program was able to leverage the good relationship with the government's procurement office (Colombia Compra Eficiente) to re-engage. That experience illustrates the importance of forming relationships across the government, in addition to the main counterparts in the Ministry of Finance.

Next Steps

The Program will support the continued implementation of the national strategy as well as expanding the scope of risk-transfer and risk-retention solutions. The Program will continue to support the government's priorities to: (i) develop a cost-benefit analysis of current financial instruments for financing losses from earthquakes; (ii) improve quality and coverage of property insurance by standardizing terms for buying property insurance policies, develop web-based software for managing buildings and property insurance, and create guidelines for property insurance; (iii) develop the bylaw

for establishing a National DRM fund; and (iv) evaluate the potential for issuing a regional catastrophe bond for the Pacific Alliance.

Peru

Context

Peru is vulnerable to a large number of risks and hazards. Between 1970 and 2010, Peru was impacted by 109 disasters, 72 percent of which were related to climate (droughts, floods, frosts, and mudslides) and 28 percent were geophysical events (seismic activity, volcanic eruptions, and landslides). These disasters caused over 74,000 deaths and affected 18 million people.³ During that period, Peru had the highest number of deaths and the second-highest number of victims in Latin America.⁴ Peru's northern coast is especially vulnerable to El Niño oscillations, typically characterized by prolonged torrential rains. The 1982-83 and 1997-98 El Niño events resulted in losses totaling US\$2.3 billion and \$3.6 billion respectively, destroying and damaging homes, infrastructure, production equipment, cropland, and transportation stock, among others.⁵

Overview of Progress

Developing a national strategy on DRF is a priority of Peru's government. In June 2012, at the inception of the Program's engagement in Peru, the government decided to develop a sovereign DRF strategy along "strategic lines of action." In 2013, the Ministry of Finance developed an internal DRF strategy with inputs from the World Bank, which was adopted by the Risk Committee of the Ministry of Finance as is currently being implemented. Over the course of 2015, the strategy was formalized in a draft national DRF strategic policy framework that is expected to be released by mid 2016.

Peru has developed a national seismic risk profile and conducted a cost-benefit analysis on emergency and reconstruction

losses. Technical products have helped the government to better understand and manage the financial costs of disasters. The government requested support in developing a catastrophe risk profile of Peru, with an initial focus on the priority sectors of health, education, water, and sanitation in Lima-Callao. In 2014, the Ministry of Finance developed a national seismic risk profile, with the Program providing technical inputs and quality control that will be instrumental in informing Peru's national earthquake risk profile. In 2015, the Program prepared a comprehensive cost-benefit analysis for the government, including emergency and reconstruction losses, to provide a complete picture of current financial instruments for managing its natural disaster risk—the first time such an analysis has been developed.

The Program also provides technical support to Peru's Insurance Supervisory Authority (SBS). An update to the country's regulations on allocations for catastrophe reserves will help grow and strengthen local insurance companies.

Peru has made progress toward strengthening public asset insurance, and started early discussions on the development of a catastrophe reinsurance pool for homeowners. In 2012, the Program carried out a first diagnosis of the insurance of Peru's public assets and concessions and prepared new database templates. Guidelines were developed to strengthen the insurance of public assets and concessions, some of which were integrated into the legal system. Additionally, with the Program's support, discussions are ongoing among the Ministry of Finance, the SBS, and members of the Peruvian insurance industry to create a household reinsurance catastrophe pool. A feasibility study is planned, contingent on commitment letters by insurance companies.

Peru has engaged in the development of domestic and international mechanisms for

coordinating DRM solutions. In 2015, the government established a permanent working group for the coordination and use of funds in the aftermath of disasters through well-developed protocols and processes. In addition, members of the Pacific Alliance proposed the creation of a Catastrophic Risk Management Working Group to strengthen the cooperation and sharing of information and experiences in disaster risk management. The Pacific Alliance countries are also exploring the issuance of a joint catastrophe bond, with technical advice from the World Bank.

A regional workshop and three internal workshops have reached a total of 131 public officials. In 2012, the World Bank facilitated a regional peer exchange workshop for directors of relevant divisions from ministries of finance in Colombia, Peru, and Mexico and organized a workshop for Peru's Ministry of Finance General Directorate of Debt and Treasury (DGETP). In 2013 a training was held for government officials on insurance of public assets. In 2014, the Program team facilitated a workshop on insurance of public assets and concessions to support implementation of insurance guidelines prepared for the government. 21 technical notes, including three larger reports, have been developed. The government showcased its progress to an international audience at the 2015 DRF forum in Malaysia and made DRF a key topic of its 2016 APEC presidency.

Lessons Learned

Political will and legislation are critical in advancing action on disaster risk financing. It can be a challenge to get government officials to focus on disaster risk financing; in the case of Peru strong interest from decision makers has been essential to achieving DRF objectives. Another important factor has been an enabling legal environment that mandates action to build fiscal resilience to disasters.

The active presence of the Program team builds trust and credibility and supports the capacity of the government. The World Bank team spent considerable time with government officials to develop strong working relationships with them and to understand their needs. A local consultant in Peru was instrumental in keeping counterparts engaged and aware of related activities and the progress of implementation, while helping boost officials' capacity.

Knowledge and experience exchange has been essential. Peru has benefited greatly from knowledge and lessons shared by other countries, an example of the strong positive spillover effect from the Program's broad reach. Other countries have benefited from Peru's progress, too; for example, knowledge of how technical assistance has enhanced Peru's insurance market and insurance supervision has been shared with other countries, including Colombia, Panama, the Philippines, and Vietnam.

Next Steps

The Program will continue to support Peru's implementation of a comprehensive approach that addresses the different layers of risk. Peru's National DRF Strategy is an important achievement of the Program. The government is now working toward full implementation of the strategy through the development of targeted financial solutions. The next steps include, for example, exploring the development of a reinsurance pool for catastrophe risk; the program will support that effort through a feasibility study and facilitation of a working group comprising the SBS, the Ministry of Finance, the Peruvian Association of Insurance Companies (APESEG), and insurance companies. The program will also continue to support trainings.

Vietnam

Context

An estimated 59 percent of Vietnam's land area and 71 percent of its population are vulnerable to cyclones and floods. In the past 20 years, natural disasters have resulted in the loss of over 13,000 lives. Disaster losses in the country have been equivalent to at least one percent of GDP per year due to natural disasters from 1989 to 2008, according to an estimate by a 2007 World Bank study on the fiscal impact of natural disasters.⁶ Following this report and as mandated by the country's Law on Natural Disasters Prevention and Control and its National Strategy for Natural Disaster Prevention, Response, and Mitigation, the government of Vietnam's Insurance Supervisory Authorities in 2013 asked for World Bank assistance in developing insurance solutions for natural catastrophes.

Overview of Progress

The Ministry of Finance has developed a detailed work plan on DRF. Based on the government's priorities, the World Bank and the Ministry of Finance have agreed on a work plan that prioritizes (i) natural disaster risk assessment for financial solutions; (ii) protecting the state budget against natural disasters; (iii) advancing the development of insurance markets for the protection of property against catastrophe risk; and (iv) building the nation's capacity and knowledge exchange on disaster risk.

A catastrophe risk model and a web-based platform for a standardized loss database in Vietnam are currently under development. In mid-2014, Impact Forecasting, an international catastrophe-risk modeling firm was selected to develop a catastrophe risk model for financial applications; the model is expected to be

finalized by late 2016. The Program team has conducted actuarial analysis of historical perils and damages and preliminary analysis of historical losses to public assets. The Program also prepared new templates for an insurance policy and incurred loss database to help the Insurance Supervisory Authority (ISA) better understand the market. Seven domestic insurance companies, representing over 70 percent of the non-life insurance market share in Vietnam, provided input, including information on the availability of required data. The Program will support ISA and the companies to develop a plan to standardize the database template across the market and ultimately to collect data through a web-based platform.

The government is exploring risk-retention and risk-transfer solutions to lower the costs of disasters to the budget. For instance, a diagnosis was prepared to identify challenges in coordination, sequencing, and prioritization of available budgetary and non-budgetary funds for immediate disaster response. The Ministry of Agriculture and Rural Development (MARD) and the Ministry of Finance are holding discussions on addressing legal constraints, possibly through lessons from international experiences on how to fully operationalize the new Funds for Natural Disaster Prevention and Control established at the provincial level through the 2014 Law on Natural Disaster Prevention and Control. The Ministry of Finance is also reviewing possible changes to the current regulation for catastrophe risk insurance market development. Insurance of public assets has been incorporated into the draft revised law on public assets management and passed the initial round of consultation. The Program has also developed a note proposing a national DRF strategy to advise the Ministry of Finance on the development of a comprehensive approach to financial protection.

The Program has introduced the government to international best practices on risk-transfer solutions. The government of Vietnam has gained information on other country's experiences with catastrophe risk insurance regulations, catastrophe risk insurance policy and loss databases, and insurance of public assets from SECO-funded countries, such as Peru and Colombia, as well as other countries, notably Mexico and Costa Rica. The ISA has also established a working group of representatives from the insurance and reinsurance industry that is dedicated to support implementation of this project. To date, six technical notes have been developed and 150 people have taken part in workshops and training sessions.

Lessons Learned

A policy mandating DRM can facilitate dialogue on DRF, but institutional challenges can slow progress. Higher laws passed by the National Assembly, specifically the Law on Natural Disasters Prevention and Control, have been a significant driver of the government's engagement with the Program. However, institutional challenges, such as fragmentation, lack of coordination, and limited technical expertise across various government agencies dealing with disaster risk finance, have slowed progress in Vietnam.

Early identification of priorities and challenges can help engage the right stakeholders from the beginning. For example, the Program team first established a good dialogue with ISA on catastrophe risk insurance, which was within its mandate and interest. The team also developed contacts with the State Budget Department, the Department for Public Assets Management, the insurance and reinsurance industry, and other technical agencies on their respective areas of work. A local consultant has been crucial

to maintaining close engagement and help build technical understanding of government officials.

Anchoring DRF in a broader development dialogue creates a strong foundation. Building fiscal resilience to disasters is important to the World Bank's engagement with Vietnam on macro fiscal management, disaster risk management, urban development, governance and public financial management, and financial sector development. The Program has been able to leverage these different avenues of the World Bank's policy dialogue and lending operations; this includes policy and lending operations with MARD and the Ministry of Finance, discussions on potential lending for contingent liability management with the Ministry of Finance, and advisory services by the World Bank's governance department on revising the nation's law on public assets management.

Next Steps

Work will continue based on priorities in the work plan defined jointly by the Ministry of Finance and the Program. Ongoing projects include the development of an exposure database and a catastrophe risk model to inform natural disaster risk assessment, support for market development of property catastrophe risk insurance by producing analyses based on the catastrophe risk models, and adoption of international good practices for insuring public and private assets. A template for a web-based application for insurance databases (linked to work in Colombia and Peru) will be finalized. Support will also be provided for revising legislation for property catastrophe risk insurance. A new dialogue with additional departments in the Ministry of Finance aims to deepen efforts on state budget protection. Trainings and peer exchange will continue to strengthen the capacity of government officials.

Azerbaijan

Context

Azerbaijan faces high seismic activity with frequent earthquakes that often cause severe social and economic losses, as well as a high exposure to flooding.⁷ Between 1990 and 2014, Azerbaijan experienced average annual losses of US\$282 million from earthquakes and \$44 million from floods.⁸ Unusually large rainfalls in Southern Azerbaijan in May 2010 caused the Kura River to rise to its highest level in over a century, bursting dams and inundating nearby villages. Over 24,000 people were affected with thousands of homes flooded or destroyed and 50,000 hectares of farmland under water.

Overview of Progress

A key priority for Azerbaijan has been to explore the development of sovereign risk-transfer solutions. Engagement with the government began in early 2013 but was not agreed to formally until 2014. Despite the slow start, the process continued to move with strong government support. The primary focus of engagement in Azerbaijan has been on catastrophe risk modeling for supporting the catastrophe risk insurance market and on sovereign-level risk-transfer instruments. The government had expressed interest in parametric catastrophe risk-transfer instruments to help manage the budgetary impact of disasters and to protect homeowners through the potential development of insurance pools with reinsurance arrangements.

A catastrophe risk-modeling report was completed on the potential risk of loss from floods and earthquakes. The parameters for risk modeling will be especially useful for the insurance regulator in the Ministry of Finance

for future supervision of the insurance sector. The information on potential seismic and flood losses will inform public agencies responsible for financial planning before disasters. A second report discusses the potential design and implementation of financial mechanisms for risk transfers. These knowledge products have helped the government evaluate catastrophe bonds, parametric insurance contracts, and instruments for building fiscal resilience at the national and local level.

Lessons Learned

A strong technical counterpart contributes to progress. Technical teams have been critical to driving engagement in Azerbaijan. The Ministry of Finance, in particular, has been keenly involved, and the insurance regulator's office has added technical expertise.

Support from more partners could broaden engagement in risk-transfer solutions. Efforts in Azerbaijan to develop risk-transfer instruments would benefit from having an additional champion. The Ministry of Emergency has expressed interest in improving planning for emergency recovery but is less engaged on developing risk-transfer instruments. And yet physical, risk-informed planning and development remain a key priority that draws on the risk modeling analysis and could contribute to ongoing efforts to develop insurance solutions.

Next Steps

Disaster risk finance will be a lower priority for the government in the short term due to the current economic context. Amid a sharp drop in oil and gas prices and following two successive currency devaluations, the government has placed many priorities on hold. The current highly strained budget environment has delayed any possibility that the government

will contribute to the development of risk-transfer instruments in the short term. With the delivery of the risk assessment and associated reports, the Program will finalize its engagement in Azerbaijan but will be available to resume support to the government once the economic conditions stabilize.

Morocco

Context

Morocco is vulnerable to shocks from natural hazards that have affected communities throughout the country in recent years. Morocco's natural disaster risk is both chronic and often acute. Flooding is a chronic recurrent problem that causes deaths, major economic losses, and destruction of assets. Between 2000 and 2013, Morocco experienced 13 major floods that together killed 263 persons and caused over US\$427 million in direct property damage. The most recent flood in Guelim, in 2014, caused 47 deaths and overall economic losses of \$600 million. Morocco moreover has the potential for massive, acute events, as demonstrated by the 1960 Agadir earthquake, which killed 12,000 and injured 25,000 people. The Al Hoceima earthquake in 2004 caused direct economic losses of \$400 million. Potential exists for much larger earthquakes, such as in Fes and Tangiers, which are situated on or near the Eurasian/African tectonic plate boundary.

Overview of Progress

The government has developed a holistic approach to managing risk, with an initial focus on natural hazards. The Program began planning to expand into Morocco in 2013, when political turmoil in Egypt and Tunisia made engagement in those countries impossible. The objective of expansion was for Morocco to serve as a basis for regional DRF engagement in the Middle East and North Africa. Recognizing

vulnerabilities and potential social tensions that could be aggravated by a disaster, the Moroccan government started to ramp up its overall approach to managing risk, placing its initial priority on risks from natural hazards.

A revised catastrophe risk insurance law has been drafted to support Morocco's integrated DRM approach. Following a request for technical assistance submitted by the Minister of Finance to the World Bank in April 2015, the team has engaged with the Insurance Commission, Autorite de Controle des Assurances et de la Prevoyance Sociale (ACAPS) to help prepare and implement a catastrophe risk insurance law. The implementation of the draft law on catastrophe risk insurance is one of the three components of a World Bank \$200 million loan on integrated disaster risk management and resilience (approved by the World Bank Board on April 20, 2016). The team reviewed the draft law ACAPS and developed preliminary actuarial analysis of the fiscal impact of the catastrophe risk insurance law. The revision of the catastrophe risk insurance law clarifies the role of (i) the private insurance industry in bearing catastrophe risk losses and introduces aggregate limits on insured losses; and (ii) the role of the Solidarity Fund to compensate uninsured victims. The late start of the Program's engagement in Morocco is balanced by the government's strong commitment, as demonstrated by the inclusion of the draft law as a disbursement-linked indicator in the World Bank loan.

Lessons Learned

Links to financial products helps institutionalize the works Program. The linkage of the Program's advisory work to a US\$200 million World Bank loan ensures that disaster risk finance remains a priority on the government's agenda. The implementation of the draft law on catastrophe risk insurance, revised with the Program's support, is one of

the three components of the World Bank loan to support integrated risk management.

The capacity of the private insurance sector to carry additional catastrophe risk must be considered. The domestic market has limited expertise with catastrophe risk insurance products and will require close supervision to ensure the sustainability of the government's scheme. The Program is working with ACAPS and the association of Moroccan insurers to identify specific needs for technical assistance.

Next Steps

Fiscal analysis of the catastrophe risk insurance law is being conducted. The law proposes new risk-sharing rules for the state and the insurance industry related to natural disasters. An actuarial model currently under development aims to help the government estimate the economic and fiscal costs among various stakeholders as a result of the draft law on catastrophe risk insurance.

Work is ongoing to create the Solidarity Fund for uninsured households. The law establishes the Solidarity Fund as a mechanism to compensate uninsured households. The compensation scheme creates explicit contingent liabilities for the government and directs that they be carefully estimated. The actuarial model under development will help the government assess those liabilities and devise an appropriate financial strategy.

Indonesia

Context

Located along major tectonic subduction zones, Indonesia frequently experiences devastating earthquakes and volcanic eruptions. The country also experiences severe floods at regular intervals, including in urban centers

such as its capital, Jakarta. Due to its high concentration of population and its political and economic significance, disasters in Jakarta have heavy impact on the affected people and the country as a whole. A particular tragedy for the country was the 2004 Indian Ocean tsunami that killed an estimated 230,000 people, almost 170,000 of which in Indonesia. In the tsunami's aftermath, the country revised its disaster management system to focus on preventing disasters and reducing risks. The revised Disaster Management Law emphasizes the integration of disaster management planning with development policies to improve the resilience of the country.⁹

Overview of Progress

Indonesia has taken strides to build its capacity for disaster risk management through a series of reports and workshops.

The Program's engagement in Indonesia began in 2011 with meetings with Ministry of Finance officials to identify potential priorities for disaster risk financing and insurance. The first meeting determined that significant capacity in this area was needed before a comprehensive financial protection strategy should be undertaken. To build that capacity, a DRF workshop in February 2012 trained 23 representatives from the Fiscal Risk Management (BFK) office. A technical workshop later that year trained officials from eight departments in the Ministry of Finance, as well as from private-sector organizations. In total four workshops were held, including a regional workshop, reaching 126 participants. In addition, four reports were developed.

Technical analysis helped the government evaluate parametric sovereign risk transfer to provide protection against severe earthquakes. A decree on natural disaster insurance transactions drafted in 2013 allows the government to purchase sovereign

catastrophe risk insurance. That measure was followed in 2014 with a complete package to inform government officials of costs and benefits of potential parametric financial instruments to protect against earthquakes. The package included development of a risk model and an advanced DRF analytical tool to help evaluate different financial structures. The Program also supported initial consideration of how to integrate such a risk-transfer product into a comprehensive financial protection strategy and to explore the establishment of a national DRM fund.

A change in government has brought challenges for the engagement. Following elections in 2014, work on DRF was put on hold, as key officials moved and the new government focused on clarifying its priorities. It eventually decided not to pursue parametric risk insurance or the reserve fund for sovereign risk transfer. Although the new government has requested technical assistance for developing a catastrophe risk insurance program for public assets and for integrating DRF more strongly into overall planning for DRM, the engagement and ownership in DRF efforts has been limited, and not much progress has been achieved in 2015.

Lessons Learned

Providing support to help the government take informed decision is a key outcome of the Program, independent of financial instruments. Following the elections, the new government decided against a couple of long-pending initiatives, including the purchase of parametric insurance and the development of a multi-year disaster reserve fund. Notwithstanding those decisions, the Program's engagement has been positive. Government counterparts were engaged and gained the right information and tools to make informed decisions in two important areas about which

they were uncertain. The government regularly receives proposals from the private sector on sovereign risk transfer and related topics, and the tools developed under the Program helped counterparts to work through some of those proposals and to better understand the costs and benefits.

Next Steps

The program will attempt to resume the dialogue with the government through their ongoing work on fiscal risk management. Opportunities for a fresh start may arise from ongoing engagement with the World Bank-SECO program on fiscal risk management of PPPs or as a follow-up to DRF policy commitments through APEC discussions.

Serbia

Context

The floods, earthquakes, and droughts that periodically afflict Serbia can take a large toll. Most recently, floods in 2014 caused damages and losses amounting to EUR 1.7 billion, equivalent to 4.8 percent of the country's GDP, and affected an estimated 1.6 million people. As a result of the floods, the Serbian economy contracted by 1.8 percent in 2014, instead of growing by 0.5 percent as had been previously projected. Preliminary results from a risk assessment under way indicate that future losses could exceed those numbers for both floods and earthquakes. Serbia experiences frequent earthquakes, such as the moderate 4.6 magnitude tremor of January 2016.

Catastrophic droughts have also struck the country three times in the last 20 years. Damages in 1990, mainly to agricultural production, amounted to US\$873 million; in 1993 to \$500 million; and in 2000 to \$750

million. Wildfires are frequent and widespread during the summer; from 1998 to 2008, 853 forest fires burned 16,357 hectares of land.

Following the destructive 2014 floods, the government of Serbia began an ambitious transformation of its disaster management system from response to prevention and mitigation. Even with a robust approach to disaster risk management, however, the country will remain exposed to budget shocks caused by major natural disasters.

Overview of Progress

Serbia is developing a national disaster risk finance strategy. Following a request from the government of Serbia and discussion with SECO, the Program began an engagement with the country in 2015; the effort is one pillar of a broader National DRM Program, which is supported by the World Bank. The Program began technical cooperation by supporting the government in developing a comprehensive financial protection strategy and establishing a fiscal risk unit in the Ministry of Finance. To help develop that strategy, the Program assisted the government in a diagnostic study that included taking stock of existing instruments for risk financing; a review of institutional, legal, and policy frameworks governing disaster risk financing and insurance; an analysis of the budgetary impact of past disasters, as well as the possible future impacts; an assessment of the government's contingent liabilities from disasters; and policy options for the government to reduce funding gaps and to improve post-disaster budget allocations and execution. That study will provide the government with information to help set policy priorities and develop a financial protection strategy.

Work to establish a fiscal risk management unit is ongoing. The Program is reviewing

current fiscal risk management practices in Serbia in light of international best practices and is developing a gap analysis to assist the FRMU in establishing policy and administrative structures and functions. This effort parallels a fiscal risk assessment to inform the unit's operational processes and priorities. The Program also prepared an overview of experiences and lessons learned from its work with risk management units in ministries of finance in Colombia, Mexico, Panama, and Peru, including engagements supported through SECO. That work is closely aligned with the International Monetary Fund (IMF) and other units in the World Bank working on similar topics. The Program supports local staff in the Ministry of Finance to help establish the fiscal risk unit; providing that capacity within the Ministry of Finance ensures that management of fiscal risks—including risks from disasters—stays on the ministry's agenda while work proceeds to institutionalize it for the long term.

Lessons Learned

An effective way to start a dialogue on DRF is to link it to broader policy and economic reforms. Although the 2014 floods significantly affected the economy and the government's fiscal position, that impact is quickly fading from memory. The government currently is engaged in wide-ranging public-sector reforms under an active IMF program, as well as painful economic reforms. Because the IMF has recommended establishment of a fiscal risk unit, the Program is coordinating with an IMF-appointed advisor to ensure that DRF is integrated in that work.

Supporting local capacity to implement the agenda can be a critical starting point. By supporting dedicated staff in the Ministry of Finance, the Program has been able to ensure that planning for future reforms considers the risks of natural disasters and does not push the

issue aside for more immediate concerns, such as public enterprise reform.

Integrating DRF into institutional structures for long-term sustainability is a challenge.

Frequent turnover of personnel is a significant risk to progress on DRF in Serbia. The government's technical experts often work as consultants, financed by international organizations. While that arrangement enables the recruitment of experienced counterparts, the work becomes very dependent on individuals who may leave on very short notice. The Program is trying to institutionalize the work by helping to integrate DRF functions into key organizational plans and government functions.

Disaster risk finance should be linked to the broader DRM program. While it is essential for DRF to be part of the government's overall approach to fiscal risk management, the Ministry of Finance often is overwhelmed and unable to prioritize DRF. The inclusion of DRF as a pillar of Serbia's National Disaster Risk Management Program, however, has ensured that a strong institutional champion continues to advance the work.

Next Steps

Serbia will continue its efforts to develop and implement a national DRF plan. The Program team will support the government in building on the DRF stock-taking report to develop a comprehensive financial-protection strategy, jointly between the Ministry of Finance and the Public Investment Management Office, which has subsumed the DRM functions. The Program will also continue to support the institutional mandate for establishing a fiscal risk unit, by coordinating with and linking to a larger World Bank functional review of the organizational structure of the Ministry of Finance. All those efforts will integrate financial protection into

the government's overall National DRM Plan as well as into its broader agenda for managing fiscal risks.

South Africa

Context

South Africa faces a wide-range of natural and human-induced hazards that could potentially lead to disaster events. These include droughts, floods and dam failures, urban and rural fires, mining-induced earthquakes and sinkholes, epidemics, large-scale transportation accidents, and hazardous waste spills. Between 1980 and 2010, a total of 77 disasters killed 1,869 people and affected more than 18 million people.¹⁰

Overview of Progress

Despite significant efforts to engage the government, progress has been limited.

The Program started a dialogue with the government of South Africa in 2012, followed by the 2012 Understanding Risk conference held in Cape Town. The government expressed a lack of familiarity with the subject, partly because South Africa has been fortunate to be spared from catastrophes in recent years. In 2013, the Program's initial engagement stalled because of personnel changes at the National Treasury. The following year, the National Treasury submitted a formal letter of request to the World Bank expressing interest in support for integrating agricultural insurance and risk management into fiscal risk management. Despite the Program team's technical efforts to develop a study that draws on international experiences in agricultural insurance, the government's lack of engagement led to a decision to close the dialogue in 2015. The government has expressed renewed interest in disaster risk finance in 2016; however, as its interest is focused primarily on agricultural

insurance, support will be drawn from a different funding source.

Lessons Learned

Strong demand and country ownership is crucial to advance DRF work. Without a day-to-day counterpart committed to embrace and advance the DRF agenda, it can be impossible to gain sufficient traction for substantive work, even if the client proclaims interest on a general level.

Ghana, Egypt, Tunisia

Ghana, Egypt, and Tunisia were considered as potential countries for engagement in the initial phase of the Program. Despite efforts to engage the governments of these countries, little or no progress has been made. In Ghana, DRF was not a priority for the government. Engagements in Egypt and Tunisia were not pursued following events of the Arab Spring.

ENDNOTES

- 1 <https://www.gfdr.org/sites/gfdr/files/region/CO.pdf>
- 2 The Pacific Alliance is an initiative of regional integration comprised by Chile, Colombia, Mexico, and Peru officially established on April 28, 2011.
- 3 EM-DAT, 2010.
- 4 <http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=36305169>
- 5 <http://www.gfdr.org/sites/gfdr/files/documents/Peru-2010.pdf>
- 6 http://siteresources.worldbank.org/EXTDISASTER/Resources/Vietnam-Fiscal-Impact-Study_Final.pdf
- 7 http://www.adrc.asia/countryreport/AZE/2014/AZE_CR2014B.pdf
- 8 <http://www.preventionweb.net/countries/aze/data/>
- 9 http://siteresources.worldbank.org/INTEAPREGTOPURBDEV/Resources/573631-1233613121646/jakarta_extop.pdf
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