

An Executive Education Program on  
Disaster Risk Finance for Bangladesh

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**DAY 2: DRF INSTRUMENTS – DEEP DIVE**

# Overview Session: Types of DRF Instruments

**Sumati Rajput**  
World Bank

**Disaster Risk Financing  
& Insurance Program**



**Global Shield**  
Financing Facility



# What to expect from today's sessions

**Overview of key financing instruments** – *why do we need DRF instruments, how are they different, and how do they fit together.*



**Real world examples** from regional and global applications.

**Interactive discussions** to share experiences and lessons learned.

# The cards in front of you

- Opportunity to win a gift!
- ... Or make a new friend.



# Why do we need DRF instruments



So that governments can decide **how they want to pay for disasters** and how much they want to pay themselves.



So that governments **can better plan and target assistance** to various groups/sectors affected by disasters.



So that funds are not reallocated from existing programs, **decision-making is quick**, and different ministries/ departments can better plan for disasters.



So that there is **reduced reliance on international assistance** but more ownership and response for protection a country's economy and people.

# Why do we need different instruments



Each instrument is designed differently and serves a different need - usually in terms of: **Speed** (*how quickly funds from can become available*) and **Size** (*the amount of funds that can be made available*)



Governments need **different tools for different situations** as no single instrument can solve every financial problem.



Given a country's geography and context, disasters have **different frequency and different costs**. To address these, different instruments are needed.

# Broad categories of DRF Instruments

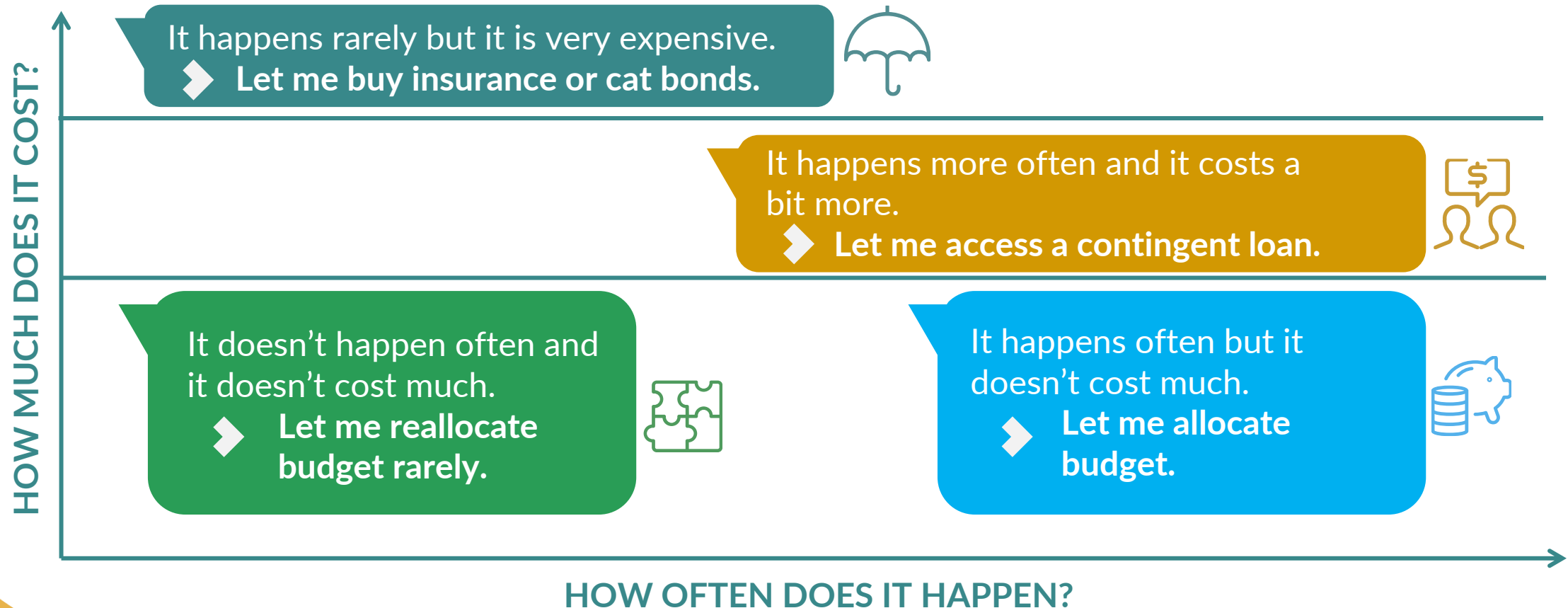
Risk Retention	Risk Transfer
<p>Covering the cost using a country’s own funds (e.g., budget or provided by a development partner)</p>	<p>Paying another party a small amount upfront in exchange for that party paying for a <i>potential</i> larger expense in future.</p>
<p>Often works best for smaller or frequent events that are easier to absorb.</p>	<p>Often works best for larger or rare events that could represent a large financial burden.</p>
<p>Common analogy in day-to-day life: Paying out-of-pocket for a doctor visit to treat a common cold (smaller, expected cost).</p>	<p>Common analogy in day-to-day life: Using health insurance when you need to go to the hospital (larger, unexpected cost).</p>

Choosing whether to retain or transfer financial risk depends on level of financial loss one is willing and able to absorb before needing outside support - known as your *risk appetite*.

**There is no “right” risk appetite.** Everyone make different choices depending on what they can afford and what they cannot comfortably afford.

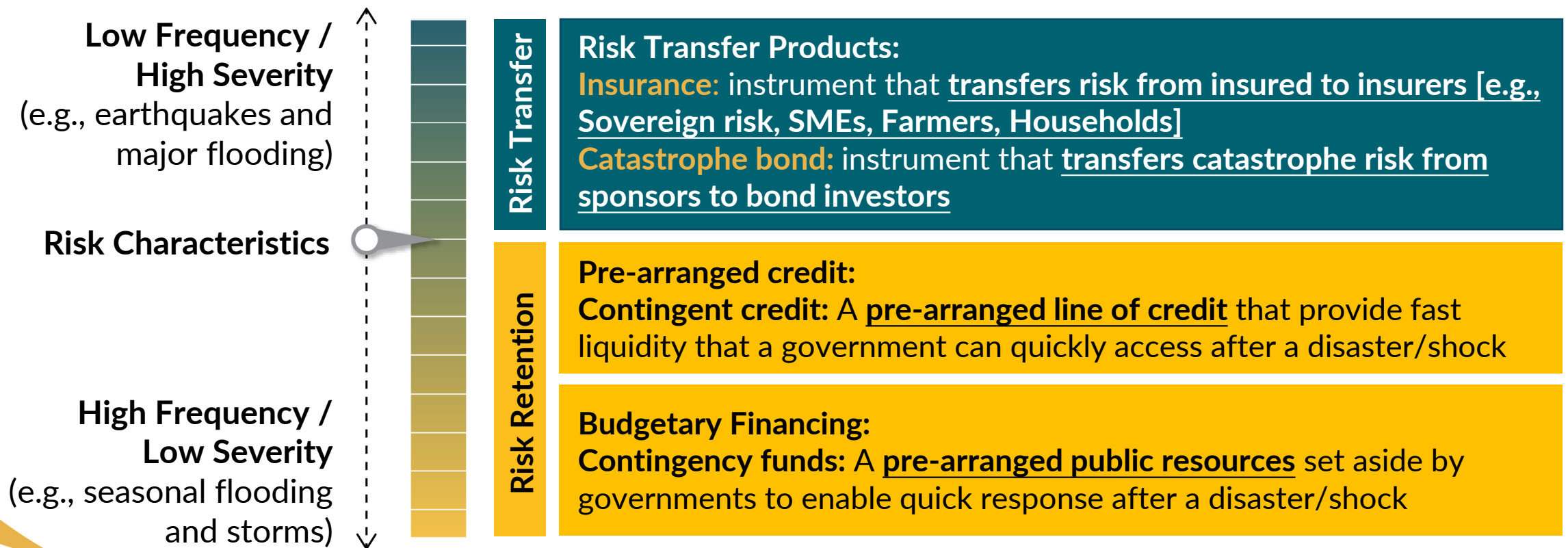
# What is risk layering? Yesterday's slide..

- Different types of disasters are better financed through different types of instruments -> cost effective approach and risk appetite



# What is risk layering?




A framework that layers financial solutions such as contingency reserves, risk transfer instruments for rapid response to disaster relief recovery and reconstruction efforts. It ensures that cheaper sources of money are used first and that the most expensive instruments are used only in exceptional circumstances.



# Data that help us estimate disaster loss

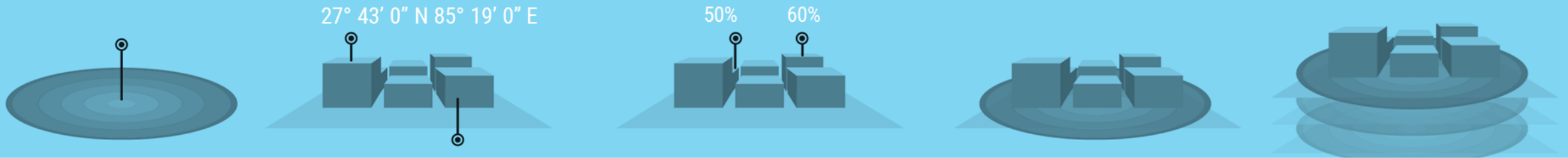
To make decisions about **WHAT** you want to do, you need Data.

*What data do you need?*

Date Type	General Description	Example
 <b>Hazard</b>	Data kind of disasters are you prone to? Where do they happen? How frequently do they happen? How much do they cost?	Floods, Cyclones, Storm surges, Riverbank erosion, Droughts, Landslides, Earthquakes, Heatwaves, Lightning strikes, Hailstorms etc.
 <b>Vulnerability</b>	In the areas where they happen, who lives there? What is their income level and how are they impacted? What would it cost for them to recover?	Is a person on the flood plain or on a hill? Is a structure built with wood or cement?
 <b>Exposure</b>	In the areas where they happen, what infrastructure is there? If affected how much would it cost to repair or reconstruct them?	If a building is damaged, how much does it cost to replace? If a person is affected, how much do they need to fully recover?

# Approach that helps us quantify disaster loss

Catastrophe risk modeling aims to quantify the potential financial impact and the likelihood of losses associated with disaster to inform DRF decisions.



## HAZARD

The likelihood of a damaging natural event (e.g. flood, cyclone) is to occur.

## EXPOSURE

Location of important assets and their characteristics (e.g. building materials, height etc.)

## VULNERABILITY

The likelihood that assets will be damaged if a hazard occurs.

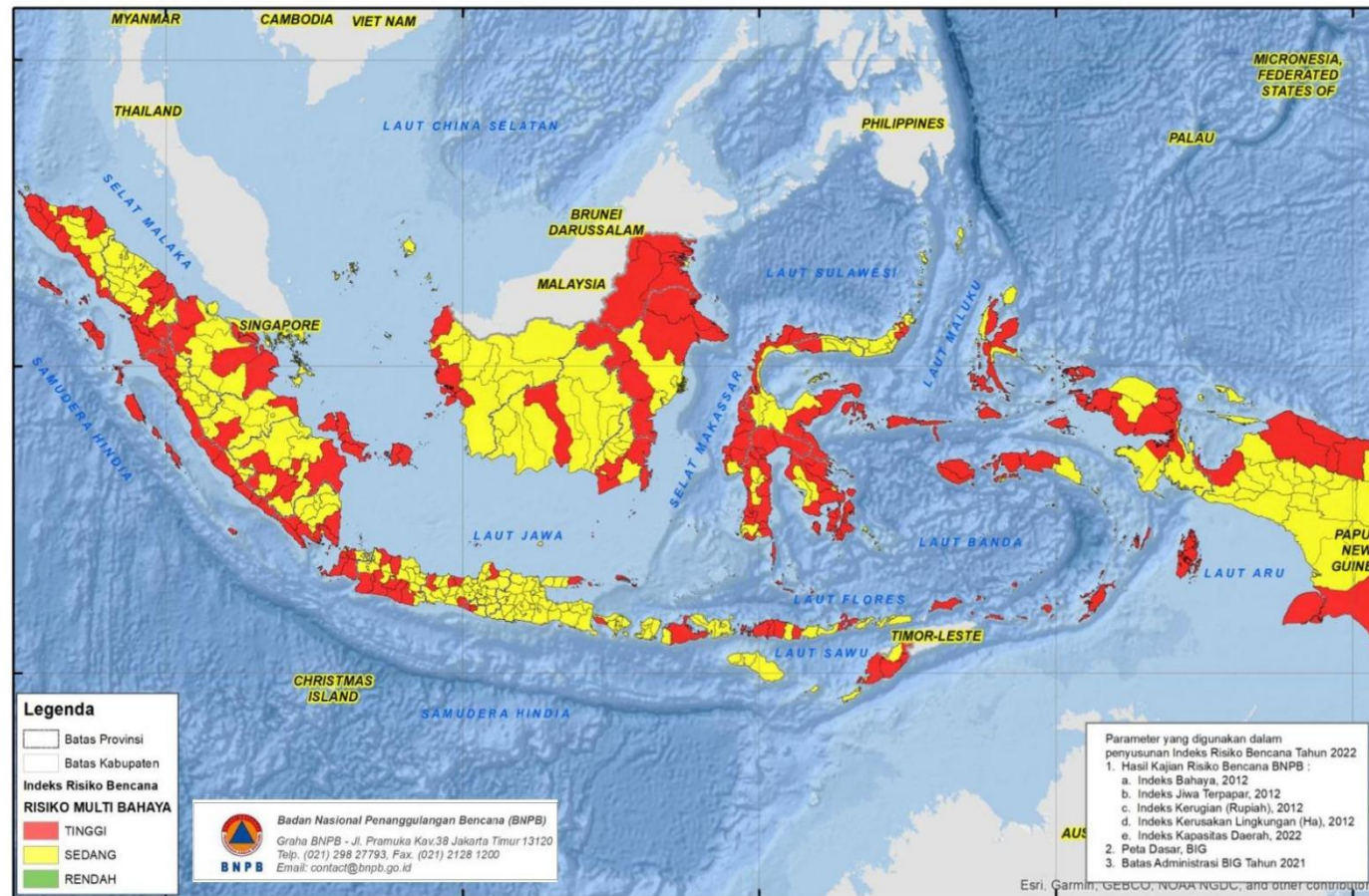
## IMPACT

The potential consequences for people and assets from a single hazard event.

## RISK

The overall potential for loss and damage, combining the likelihood and impacts of all potential events

# What risk modelling looks like in practice – Indonesia



Indonesian Disaster Risk Map 2022: 13 provinces (38%) classified as **high** disaster risk, 21 **moderate**, and none in low-risk category.



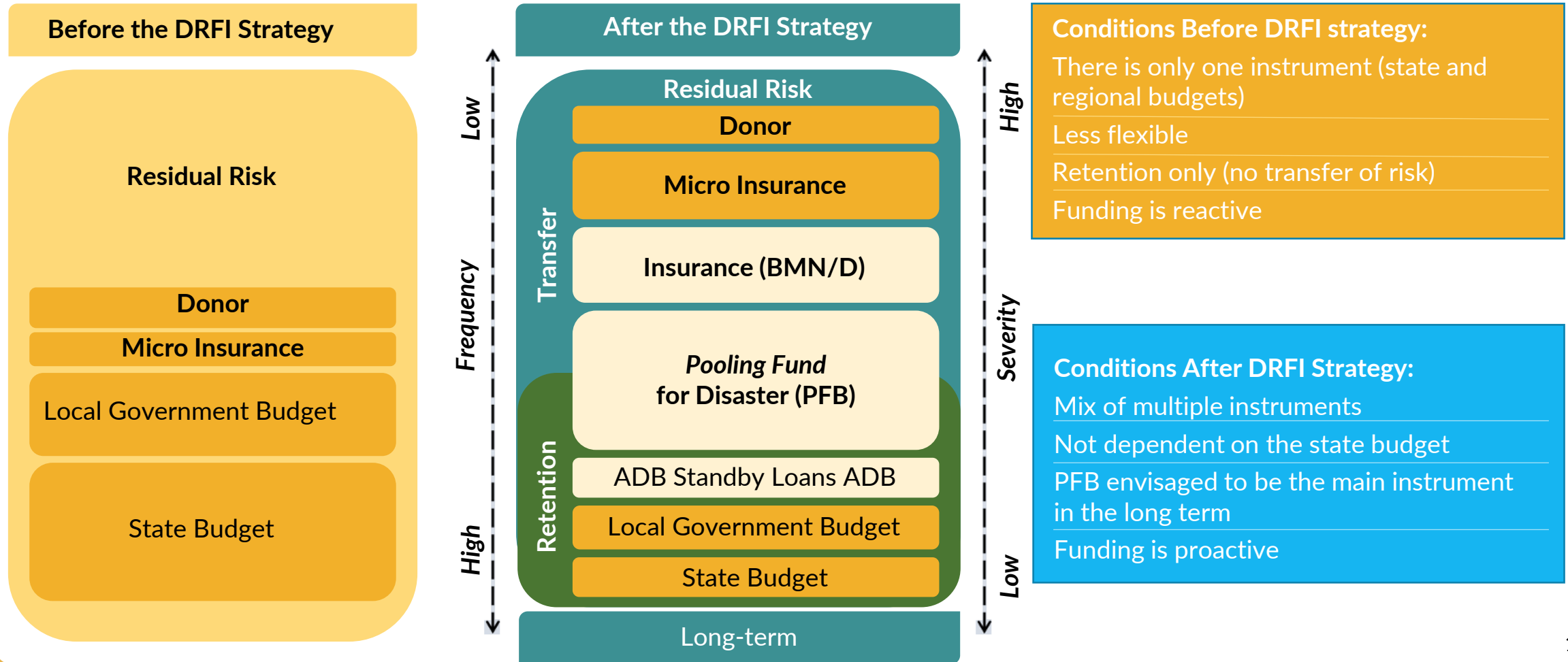
The second-highest disaster risk in the world, after the Philippines (World Risk Report 2023).



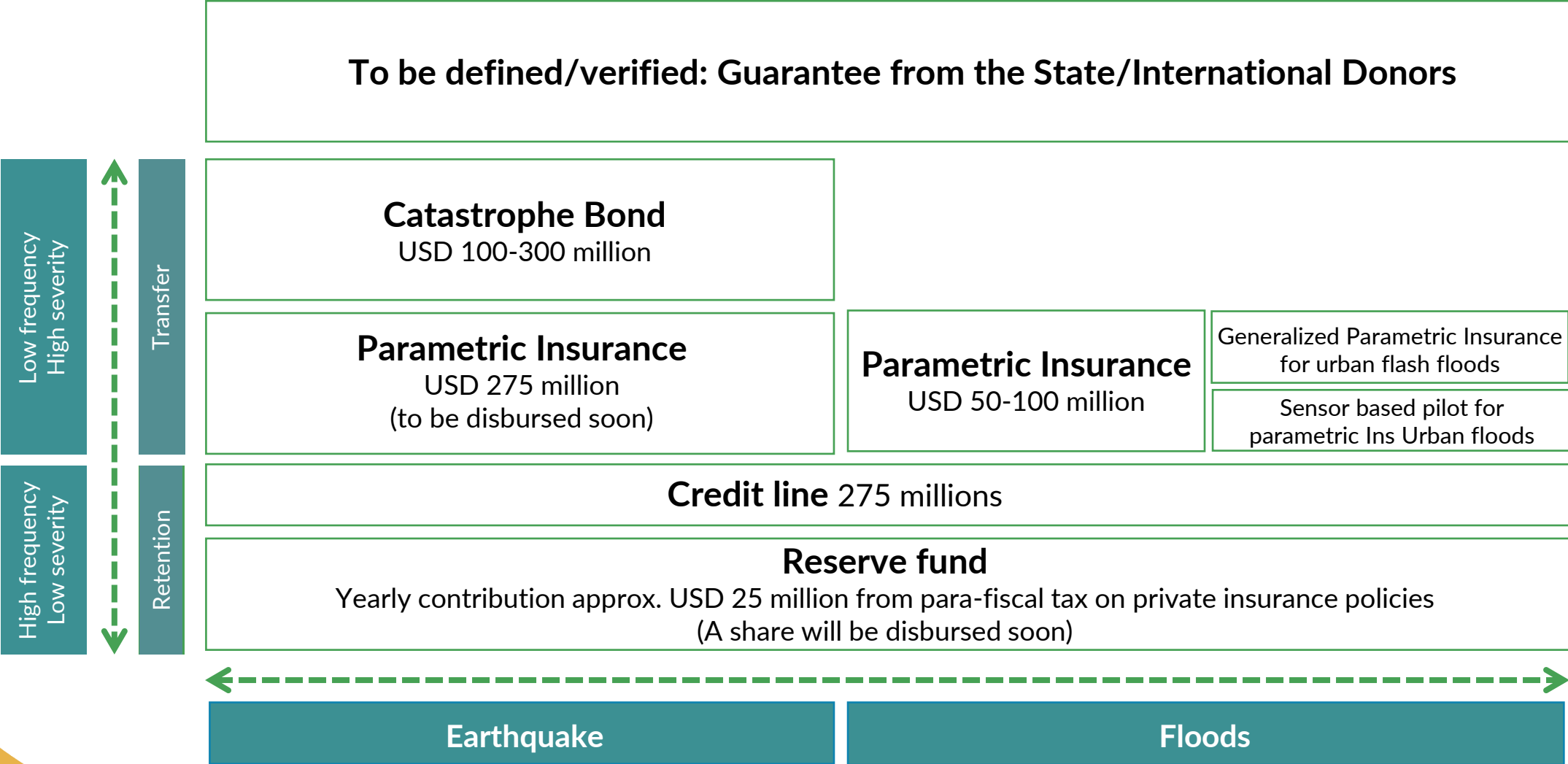
Annual direct disaster losses of IDR 20–50 trillion (≈ BDT 144–360 billion)

# What risk layering looks like in practice – Indonesia

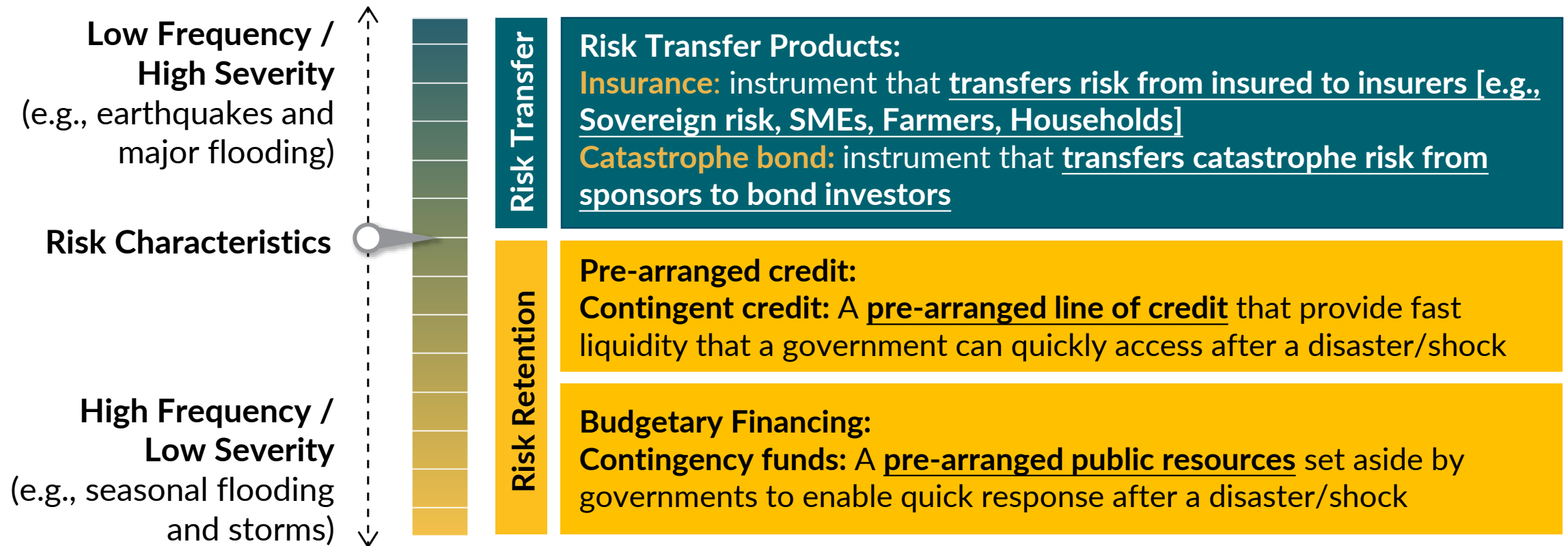
## TRANSFORMATION IN DISASTER FINANCE



# Morocco's financial solutions



# Financing instruments covered in today's sessions



# Thank You

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Global Shield  
Financing  
Facility Website



Community  
of Practice



LinkedIn  
Group



Interactive activity:  
Quiz time!