Disaster Risk Financing & Insurance Program

SUPPORTED BY WORLD BANK GROUP

Financial Protection Rapid-Response Financing

Strengthening the capacity of governments to respond quickly and effectively to disasters, climate shocks, and other crises

Why is financial protection important to reduce poverty and increase shared prosperity?

Financial losses from natural disasters continue to rise. Developing countries and their low-income populations experience the greatest impacts.

The Disaster Risk Financing and Insurance Program (DRFIP) leads the dialogue on financial resilience as part of the World Bank Group's effort to support vulnerable countries in better managing disasters and climate shocks.

Why is it important for governments to access rapid-response financing after a disaster strikes?

Following a disaster shock, governments require immediate liquidity for emergency response and to maintain basic public services that safeguard the livelihoods of the most vulnerable. However, access to short-term liquidity is often a challenge. Because countries generally have limited budget reserves, governments are forced to reallocate resources away from national development priorities. Without sufficient access to rapid funds and robust budget response systems, the humanitarian impact and financial costs of natural disasters can increase rapidly.

How we support governments

The Disaster Risk Financing and Insurance Program helps governments develop financial protection strategies that increase access to rapid-response financing instruments that permit more efficient management of climate and disaster shocks. Rapid-response financing strategies are not intended to cover all damage and losses, but rather are uniquely designed to meet the immediate funding gap created when a disaster strikes—providing governments with a quick injection of liquidity to cover disaster-related expenditures.

In collaboration with ministries of finance and disaster management agencies, DRFIP supports governments to:

1. **Obtain funds** quickly and efficiently in the event of a disaster shock
2. **Disburse funds** efficiently and effectively to ensure services reach the affected populations without delay
3. **Become proactive risk managers** to increase fiscal resilience to climate and disaster shocks

What we do

Our engagement on rapid-response financing focuses on **three core areas:**

Assess Fiscal Liabilities from Disaster Risks

Disaster risk assessments help governments quantify the impacts of disasters, including potential losses, based on historical and simulated data. Such analyses allow governments to assess the fiscal responsibilities, or expected costs, for disaster response and recovery.

Identify Optimal Financial Solutions

Effective disaster response and recovery relies on access to a combination of financial instruments that provide access to timely and efficient funding for shocks of different frequency and severity. Using a risk-layering approach, governments identify optimal financial solutions that minimize the cost of response while increasing the availability of funds.

Improve Budget Execution & Contingency Plans

Governments need to be able to quickly and effectively spend resources following a disaster shock. Pre-agreed contingency plans, effective budget execution processes, and clear decision-making processes ensure funds reach the intended beneficiaries at the right time.

Impact

Mexico: Natural Disaster Fund - FONDEN

The 1985 Mexico City earthquake, which caused over 10,000 deaths, spurred a national dialogue on disaster risk management that eventually led the government to establish the Natural Disaster Fund (FONDEN) to support post-disaster reconstruction of damaged public infrastructure. Since its launch in 1996, FONDEN has evolved into a rapid-response financing mechanism that plays a central role in all stages of the disaster risk management cycle. The faster reconstruction of infrastructure made possible through FONDEN increases local post-disaster economic activity by 2–4 percent, on average.

Serbia: Contingency Financing

In recent years, Serbia has faced substantial fiscal costs, especially from catastrophic floods in 2014. In 2017, as part of its national disaster risk finance strategy, Serbia received a contingent line of credit (Catastrophe Deferred Drawdown Option, or Cat DDO) from the World Bank, which provides immediate access to as much as US$70 million in rapid financing in case of a disaster. This funding serves as bridge financing until the government can mobilize additional resources. Ongoing efforts to promote rapid-response financing support the Ministry of Finance in establishing a dedicated fiscal risk management unit and improving the efficiency of budget mechanisms to manage disasters.

Pacific Island Countries: Parametric Insurance - PCRIC

Pacific Island Countries are among the most vulnerable in the world to natural hazards, and often face fiscal shocks and require funds to cover immediate costs for disaster response. As part of the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), a regional pilot insurance program ran from 2013 to 2015. This program laid the foundation for a catastrophe risk pool and a phased approach to sustainable parametric insurance—a rapid-response financing instrument that quickly disburses a payout based on a predetermined trigger. During the first phase, catastrophe insurance policies were issued to six participating countries, covering tropical cyclone and earthquake/tsunami. In 2014 and 2015, two payouts were made, one to Tonga and another to Vanuatu, which provided the governments with an immediate injection of liquidity for emergency relief. In June 2016, under the second phase, the Pacific Catastrophe Risk Insurance Company (PCRIC) was launched. PCRIC is the first regional insurance platform for Pacific Island countries and offers parametric insurance policies that pay out within 10 days of a triggered event.

Corrugated iron litters the streets of Lifuka Island, Tonga Photo: CC-by/Scott McLennan / DFAT

The Philippines: National and Subnational Financial Protection Strategy

Following the devastating impacts of Typhoon Yolanda in 2013, the Philippine Department of Finance developed a comprehensive financial protection strategy. The government combines disaster risk management funds at both the local and national levels and US$500 million contingent credit, which provide the national government with rapid access to financing in case of a disaster shock. To complement these mechanisms, the government in 2017 and 2018 placed a parametric catastrophe insurance program providing 25 provinces in the country with US $390 million in insurance cover against major typhoon and earthquake events. This was the first pooled transfer of subnational sovereign risk to international markets.

Partnership

The DRFIP's work on rapid-response financing is generously supported by the Africa Caribbean Pacific (ACP)–European Union (EU) Natural Disaster Risk Reduction (NDRR) Program, and by the governments of Japan, Germany, Switzerland (State Secretariat of Economic Affairs–SECO), the United States, and the United Kingdom (UK Aid).

The World Bank Group's Disaster Risk Financing and Insurance Program is within the World Bank's Finance, Competitiveness and Innovation Global Practice. As a leading partner of developing countries, it helps governments, businesses, and households manage the financial impacts of disaster and climate risk without compromising sustainable development, fiscal stability, and well-being.

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GFDRR Global Facility for Disaster Reduction and Recovery