Fundamentals of Disaster Risk Finance

DRF workshop for Agriculture and Climate Resilient Livelihoods

Session 1 – March 5th, 2024

Master the Disaster Game and the fundamental principles of DRF

Disaster Risk Financing & Insurance Program
SUPPORTED BY WORLD BANK GROUP

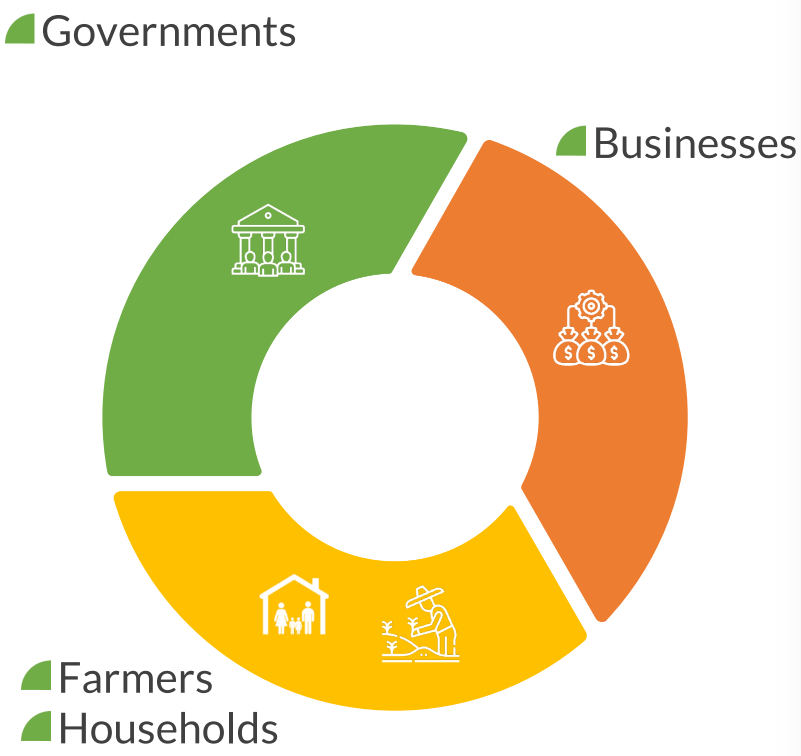
Why Disaster Risk Finance?

TO PROTECT LIVELIHOODS AND DEVELOPMENT

WHAT?

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

WHO?



HOW?

- ✓ Ensuring money reaches people who need it the most when they need it the most
- ✓ Planning on how to meet the cost of disasters before they happen
- ✓ Increasing the speed, predictability, and transparency of disaster response
- ✗ Raising funds from International partners after a disaster

Disaster Risk Finance is one component of a comprehensive DRM framework

Pillar 1: Risk Identification	Improved Identification and understanding of disaster risks through building capacity for assessments and analysis
Pillar 2: Risk Reduction	Avoided creation of new risks and reduced risks in society through greater disaster risk consideration in policy and investment
Pillar 3: Preparedness	Improved capacity to manage crisis through developing forecasting and disaster management capacities
Pillar 4: Disaster Risk Finance	Increased Financial resilience of governments, private sector and households through financial protection strategies
Pillar 5: Resilient Recovery	Quicker, more resilient recovery through support for reconstruction planning

Complements, but does not replace, risk reduction and resilience

Effective risk financing and insurance programs

COORDINATED PLAN For post-disaster action agreed in advance

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

PRE-PLANNED FINANCING to ensure the plan can be implemented

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

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

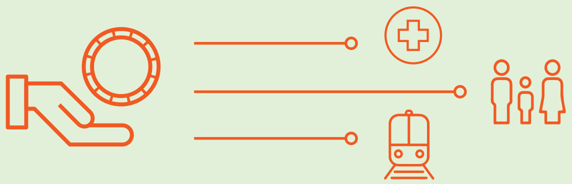
Adoption of the 4 core principles helps ensure predictable and timely access to financial resources when needed

Timeliness of Funding

Speed matters but not all resources are needed at once

Disbursement of Funds

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

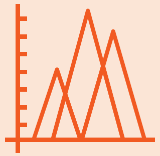


Disaster Risk Layering

No single financial instrument can address all risk

Data & Analytics

Sound financial decisions require the right financial information and data.



Risk layering: combining different instruments to balance risk retention and risk transfer for efficacy

SHOCK IMPACT

RISK PROFILE

SEVERITY

FREQUENCY

High/catastrophic

Moderate

Low

Humanitarian Assistance (uncertain)

RISK LAYERING STRATEGY

FINANCING INSTRUMENT

Market-Based Instruments
Insurance. Derivatives. Cat Bonds

Contingent financing
Credit. Grants. Reserve Funds. Grain reserves

Budgetary instruments
Contingency Budget. Reallocation. Emergency Tax

Disaster Risk Layering in Practice

Donor assistance

Sovereign Risk Transfer
(Catastrophe bond 2019-2022)

Public asset insurance
(*National Indemnity Insurance Program;* under preparation)

Insurance for households, farmers (Philippine Crop Insurance Corporation)
Parametric insurance program
25 LGUs, DepEd (2017-2019)

Philippines Catastrophe Insurance Facility
(reinsurance)

Contingent Financing
Such as from the World Bank (Cat DDO) and other development partners

Unprogrammed and Contingency Funds; Budget Reallocations

National / Local Disaster Risk Reduction and Management Funds
Quick Response Funds

Low Frequency/ High Severity

High Frequency/ Low Severity

Emergency Funding

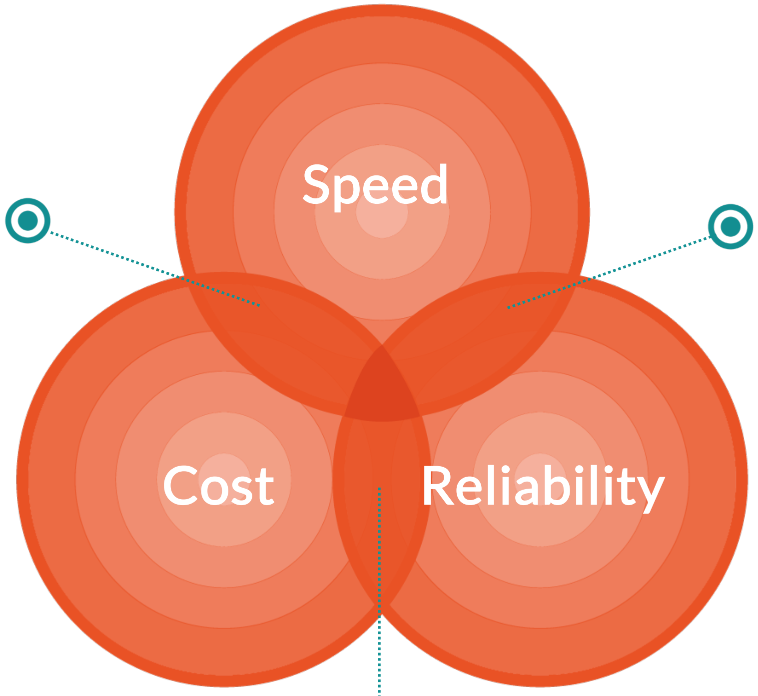
Rehabilitation and Reconstruction

Asset Data and Risk Data
National Asset Registry System (NARS); GeoRiskPh; Philippines Cat Risk Model

Core Principle 1

Timeliness of funding - Tradeoffs

Most programs that use parametric triggers for finance or action, e.g. Kenya's Hunger Safety Net Programme, Caribbean, Pacific and African sovereign risk pools.



Humanitarian systems?

Loans for Reconstruction

Core Principle 4

To Make Sound Financial Decisions you need to have the right information

- Loss Data (Historical Data/CAT Risk Model
- Microeconomic Data
- Financial and other Data

DRFI ANALYTICS

Quantitative Analytics

Financial Decision Making Tools

Financial Impact Analysis

Cost Benefit Analysis

- Understanding Financial Impact of Disasters
- Make evidence based financial decisions
- Leverage private financial markets using quantitative outputs
- Monitor and evaluate DFRI strategies

DRF for Agriculture and Climate Resilient Livelihoods

Thank You

Disaster Risk Financing & Insurance Program

SUPPORTED BY WORLD BANK GROUP

- Eswatini
- Ethiopia
- Kenya
- Lesotho
- Namibia
- Rwanda
- Somalia
- South Africa
- Uganda
- Zambia
- Zimbabwe