

WORLD BANK GROUP DEVELOPMENT SOLUTIONS *for* DISASTER RISK FINANCE



Sustainable Solutions for Financial Protection
Against Disaster and Climate Risks



WORLD BANK GROUP



GFDRR
Global Facility for Disaster Reduction and Recovery

The financial impact of disasters caused by natural hazards is growing.

Financial losses from natural disasters continue to rise, with developing countries and their low-income populations feeling the greatest effects. Direct financial loss reached an average of US\$165 billion per year during the last 10 years. This compares to about US\$135 billion of official development assistance in 2013.

Natural disasters are increasingly recognized by governments as an important source of contingent liability and budget volatility. They can generate fiscal risk that results in deviations of fiscal outcome. Those risks create direct contingent liabilities (such as the costs of restoring public buildings and infrastructures affected by a disaster) and indirect contingent liabilities (such as ad hoc financial support to the affected population). When they materialize, natural disasters can create major budget volatility, especially in the short term, as governments need to finance emergency assistance and early recovery activities.

Effective disaster risk finance instruments contribute to the achievement of the World Bank Group's twin goals. The 2014 *World Development Report: Managing Risk for Development* included disaster risk financing and insurance as an important instrument for the international development agenda. Effective financial protection helps safeguard gains from poverty reduction and inclusive growth against shocks from natural disasters.

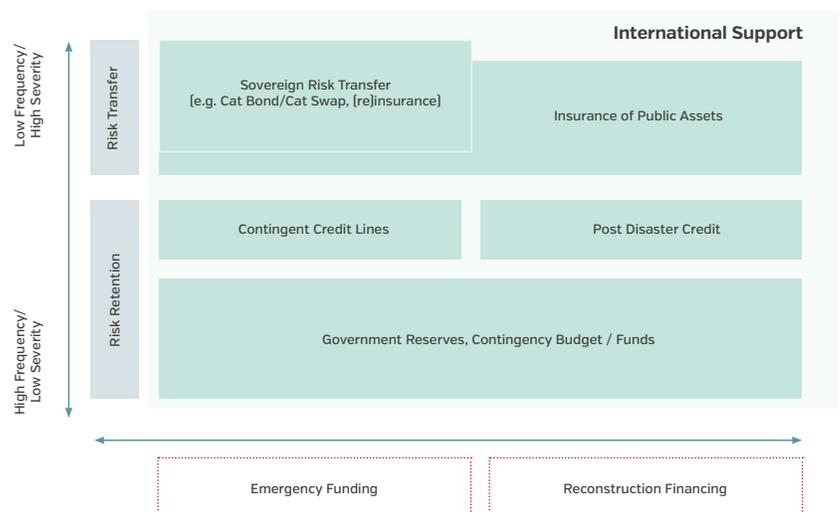
Disaster Risk Finance tools/instruments help countries improve their financial resilience against climate and disaster risks, as part of the broader disaster risk management and climate change agenda. It implements sustainable and cost-effective financial protection policies and operations against natural disasters.

Sovereign Disaster Risk Finance helps increase the capacity of sovereign, sub-sovereign and SOE entities to better plan, prepare for, and manage the financial impacts of natural disasters. Activities include:

- Quantify disaster-related contingent liabilities;
- Build disaster risk layering strategy to match post-disaster short- and long-term financing needs, that combines financial tools including reserves/savings, contingent loans, and sovereign market-based risk transfer solutions;
- Strengthen public financial management for mobilizing, allocating, and disbursing funds following disasters;
- Enhance disaster risk insurance programs of public buildings and infrastructure;
- Develop tools/approaches for crisis response including support to scalable social protection.

Disaster Risk Insurance Market Development helps governments develop efficient disaster risk markets, and leverage private sector capital and expertise through public private partnerships. It reduces the disaster-related contingent liabilities of governments by promoting the transfer of natural disaster risks to the private insurance market for homeowners, small and medium enterprises, and farmers and herders. Activities include:

- Develop and enhance risk market infrastructure, including data collection and management, to support competitive and sustainable domestic disaster risk insurance markets;
- Enhance legal and regulatory framework for disaster risk insurance;
- Develop domestic insurance pools to efficiently aggregate and transfer catastrophe risks.



Disaster Risk Finance brings together the Analytical & Advisory, Financial, and Convening services of the World Bank Group.

| | DRF Products | Project Description | Example |
|--------------------------------|--|--|--|
| ANALYTICAL & ADVISORY SERVICES | Catastrophe risk modeling for financial solutions | Collect and manage risk and loss data; analyze historical loss data with actuarial tools; develop catastrophe risk models to assess potential extreme losses. | The Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) includes a database of over 3.5 million geo-referenced buildings and infrastructure in 15 Pacific island countries. It was used to develop the PCRAFI insurance program. |
| | Financial protection: diagnosis, strategy and action plan | Define policy priorities; clarify and assess the state's contingent liabilities to disasters and potential post-disaster funding gaps; identify short-term actions for implementation. | In 2014, the National Treasury of the Philippines finalized a national financial protection strategy and the Government of Panama adopted a National Strategic Framework for the Financial Management of Disaster Risk through presidential decree in 2014. |
| | Analytical tools for financial decision-making | Actuarial analysis to support informed decisions on disaster risk insurance; tools for cost-benefit analysis of DRF strategies; tools for evaluating and structuring risk transfer mechanisms. | Working with the government of Mexico to more efficiently combine risk transfer and retention instruments; helping the government of Indonesia select coverage for each region for a national parametric risk transfer product. |
| | Public financial management of natural disasters | Establish transparent, timely, and effective post-disaster budget execution and acquittal mechanisms. | Development of a manual on post disaster budget execution for the Government of Tonga and other Pacific Island Countries. |
| | Catastrophe risk insurance supervision | Improvements to legal and regulatory frameworks to foster private catastrophe risk insurance solutions. | Strengthening reporting requirements and reserving in Peru, Vietnam and the Philippines. |
| FINANCIAL SERVICES | Reserves/Contingency Funds | National disaster funds Budget reserves and contingent budget lines | Operations manual for State Reserve Fund in Lao PDR. |
| | Contingent Grants/Loans | World Bank Development Policy Loan with Catastrophe Deferred Draw Down Option [Cat DDO] IDA contingent components and Crisis Response Window Contingent investment projects | World Bank Development Policy Loan with Catastrophe Deferred Draw Down Option [Cat DDO] IDA contingent components and Crisis Response Window Contingent investment projects |
| | Insurance and Capital Market Solutions | Catastrophe Bonds and Capital-At-Risk Notes Intermediation for catastrophe swaps and weather derivatives | US\$450 million weather derivative against risk of drought and high oil prices in Uruguay. |
| | (Sub) national catastrophe insurance pools | Advisory and intermediation services to establish regional sovereign or sub-sovereign insurance pools | WBG supported sovereign disaster risk insurance pools in the Caribbean and Pacific include 21 countries and provide total coverage of over US\$645 million annually. |
| | National property catastrophe insurance pools | Establish sustainable property catastrophe risk insurance programs based on public private partnerships. | The South East Europe and Caucasus Catastrophe Risk Insurance Facility builds market infrastructure for insurance. |
| | Insurance of public assets | Increase/improve insurance of public assets through advisory services, good practice templates | In Colombia, the government uses standardized terms and conditions to insure PPP worth US\$38 billion based on international best practice |
| | Agricultural insurance | Establish sustainable agricultural insurance programs and agricultural insurance pools through PPPs. | India's weather-based crop insurance covered 11.6 million farmers in 2014. In Africa, 270,000 farmers were covered under a weather-based crop insurance in 2014. |
| | Financing of scalable social protection | Integrate scalable contingent component in social protection programs and secure funding | Kenya's Hunger Safety Net Program reached an additional 1 million people in a 2015 drought. |
| CONVENING SERVICES | Convening power | Facilitate cooperation among countries, private sector and development partners | Convening of Caribbean and Central American states to enable the expansion of the Caribbean Catastrophe Risk Insurance Facility |
| | High-level Policy Dialogue | Inform international policy dialogues on DRF with country experiences. Platform for policy dialogue and establishment of good practices. | G20 Initiative on Disaster Risk Management / Disaster Risk Financing and Insurance in 2012, including joint publication between the Government of Mexico and the World Bank. Inputs to G7 Initiative on Climate Risk Insurance Contribution on DRF to regional organizations such as APEC and ASEAN |
| | Publications | Share country experiences, lessons learned, and research. Materials for capacity building and development of good practice standards in DRF. Support for the development of high level policy on strategy Disaster Risk and Insurance | 2014 publication "Financial Protection Against Natural Disasters" bringing together World Bank expertise in an operational framework to guide countries in developing and implementing comprehensive financial protection policies. Colombia: Policy Strategy for Public Financial management of natural Disaster Risk Panama: Strategic Framework for the Financial Management of Disaster Risk |

Disaster Risk Finance as One World Bank Group.

Disaster Risk Finance builds on close collaboration between Global Practices (GP) and Cross-Cutting Solution Areas (CCSA) to provide World Bank clients with One World Bank Group Solutions against natural disasters.

- *Disaster Risk Financing and Insurance Program* (DRFIP) in Finance and Markets GP leads the disaster risk finance dialogue with clients regarding the financial impact of natural disaster risks and helps countries design and implement comprehensive disaster risk financing strategies;
- *Disaster Risk Management* (DRM) in Social, Urban, Rural and Resilience GP leads disaster risk management dialogue with clients in collaboration with sector colleagues and specialists to define vulnerabilities and programs for disaster risk management, including prevention and risk reduction.
- *Treasury* (TRE) leads the dialogue with the capital and reinsurance markets, structures and executes the financial transactions for the clients;
- *Global Facility for Disaster Reduction and Recovery* (GFDRR) hosted by the World Bank within the Climate Change CCSA convenes development partners, provides grants and seed financing to enable the engagement with clients and the technical studies and knowledge solutions to help define the disaster risk management framework.

Disaster Risk Finance interacts closely with other Global Practices such as Social Protection and Labor; Agriculture; Macroeconomics and Fiscal Management; Water; Energy and Extractives. Disaster Risk Finance also interacts with IFC on catastrophe risk insurance solutions with the private sector.



World Bank Group added value to clients

- A trusted partner with global reach and country experience
- Unique ability to bring together the full spectrum of analytical, advisory, financial, and convening services
- Experience supporting innovative solutions at macro (country) and micro (household, SME, farmer) levels
- Technical expertise and knowledge across disciplines and sectors
- Market knowledge, structuring experience, relationships with major financial institutions
- Ability to leverage AAA credit rating to achieve larger volumes, longer maturities, and lower costs
- Global convening platform to establish guidelines, document good practices and share knowledge

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Further information

DRFIP website:

<http://www.worldbank.org/drfi>

GFDRR website:

<http://www.gfdr.org>

DRM website:

<http://www.worldbank.org/en/topic/disasterriskmanagement>

TRE website:

<http://treasury.worldbank.org>