GFDRR on Financial Protection

The Global Facility for Disaster Reduction and Recovery (GFDRR) has worked with more than 60 developing countries to improve their financial resilience to natural disasters. It has enhanced countries’ post-disaster financial response capacity and developed stronger domestic catastrophe insurance markets.

Why Financial Protection Matters

A country with an otherwise robust disaster risk management approach can still be highly exposed to budget shocks caused by major disasters, which could erode its economic and fiscal position. Disaster risk financing strategies can help ensure that governments, businesses, and the public can access financial protection, such as adequate budget reserves, and risk transfer solutions, such as insurance. GFDRR’s approach to developing these strategies helps bring together ministries of finance and other government agencies, such as public works and civil protection, in an effort to improve countries’ overall financial resilience to disaster.

What We Do

GFDRR, in part through the Disaster Risk Financing and Insurance (DRFI) Program, a partnership between the Facility and the World Bank’s Finance and Markets Global Practice, supports countries to increase the financial resilience of governments, businesses, agricultural producers, and households from the economic burden of disasters. GFDRR helps enable:

- The development and implementation of tailor-made sovereign disaster risk financing strategies that increase governments’ ability to respond quickly and sufficiently to a disaster while protecting their long-term fiscal balance; and
- The development of competitive catastrophic risk insurance, including:
  1. General catastrophe insurance for homeowners and small and medium-sized enterprises;
  2. Agricultural insurance programs for farmers, herders, and agricultural finance institutions like banks and credit unions; and
  3. Applying insurance principles and tools to social protection programs to develop disaster linked safety nets that protect the poorest and most vulnerable.

Additionally, the DRFI Program works in collaboration with the public sector, private sector, and civil society to provide technical assistance and other support to strengthen the financial resilience of governments, businesses, and households against the budgetary and economic shocks of disasters caused by natural hazards.
While working with many partners, GFDRR support most frequently connects to ministries of finance to show the development benefits of various financial protection strategies against disasters. This presents a crucial entry point to elevate risk management within the ministries that control public investments.

Additionally, GFDRR often offers support and guidance for developing public-private partnerships to improve the supply and demand of financial protection and insurance solutions.

More than 34 million farmers have benefited from increased insurance coverage and faster claims payments from India’s National Agricultural Insurance Scheme and its successor schemes.
Where GFDRR Works

In FY2015, GFDRR provided 34 grants to 15 countries to improve the financial resilience of governments, businesses, farmers, and households to the effects of natural disaster and climate change. In total, GFDRR has supported financial protection strategies in more than 60 countries.³

How GFDRR Leverages Impact

To improve financial protection, GFDRR leverages:

- Experience and technical expertise, applying financial protection solutions in developing country contexts; and
- Engagement with private insurers, financial markets, and development partners to support countries seeking risk pooling, transfer, and other tools as part of their financial protection solutions.

Snapshot: Leveraging in Practice

GFDRR’s work with its strategic partners leads to large-scale improvements in financial protection for governments, businesses, and individuals.

» Contingent Financing Solutions: GFDRR has helped leverage $1.8 billion in contingent financing from the World Bank for Colombia, Costa Rica, El Salvador, Guatemala, Panama, Peru, the Philippines, Seychelles, and Sri Lanka in case of disaster.

» Agriculture Insurance in India: GFDRR has provided technical support to the Indian government to improve agricultural insurance provision to farmers. In total, India’s programs offer coverage of over $12 billion to 34 million farmers.

» Strategies for Middle-Income Countries: The DRFI Program and the State Secretariat for Economic Affairs of Switzerland are helping middle-income countries tailor appropriate sovereign disaster risk financing strategies through a $7 million initiative.

» Disaster Risk Finance for Agricultural Insurance: Through the DRFI program and building on experience in Mongolia and India, the Ministry of Foreign Affairs of the Netherlands and the U.S. Agency for International Development are supporting the development of public-private partnerships to increase the financial resilience of rural households with $3.2 and $4 million respectively.

Mongolia

Project: Index-Based Livestock Insurance Pilot

Partners: Government of Mongolia, insurance industry partners, and the Swiss Agency for Development and Cooperation (SDC)

Description: Project tested the viability of an index based livestock insurance to help protect herders’ livelihoods. This insurance is now available in all 21 provinces, with a key success in 2009-10, when a payment was made in excess of $1.3 million to support herders during a particularly harsh winter season (nearly 9.7 million or 22% of the country’s livestock perished).

Philippines

Project: Implementation of National Financial Protection Strategy

Partners: Government of the Philippines, the United Kingdom’s Department for International Development (DFID), Asian Development Bank, international reinsurance markets actors

Description: Project will enhance the government’s capacity to finance post-disaster response, recovery, and reconstruction through the implementation of a national financial protection strategy, as well as market-mediated catastrophe risk insurance solutions at the national and subnational levels, based on an improved understanding of its disaster risk.
Highlights

GFDRR provides funding and expertise to help governments manage and reduce the financial risks posed by disasters.

Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI)

PCRAFI—a joint program of the Secretariat of the Pacific Community, the World Bank Group, and the Asian Development Bank, with financial support from the government of Japan, GFDRR, and the ACP-EU Natural Disaster Risk Reduction Program—estimates Pacific Island countries suffer $284 million, or 1.7% of the region’s GDP, in average annual damages from disasters. The Pacific Catastrophic Risk Insurance Pilot, now in its third season, has allowed its five participating members—the Cook Islands, Marshall Islands, Samoa, Tonga, and Vanuatu—to access market-based catastrophic risk insurance solutions for the first time. Risk pooling under the pilot costs 50% less compared to countries buying individual policies. On March 30, 2015, the World Bank Group provided the government of Vanuatu with a $1.9 million payout—just two weeks after Tropical Cyclone Pam, a Category 5 storm, tore through the small island nation—ensuring the country would have ready cash to handle immediate crisis-response needs. Vanuatu was the second country to receive a payout from the pilot, following Tonga who received $1.27 million in 2014 after Cyclone Ian hit.

The Caribbean Catastrophe Risk Insurance Facility (CCRIF) SPC

Central America countries are highly vulnerable to the adverse economic and financial effects associated with earthquakes, tropical cyclones, and excess rainfall. Since 1980, several countries in the region have experienced a disaster event with an economic impact above 50 percent of their annual GDP. Given these realities, the Council of Ministers of Finance of Central America, Panama, and the Dominican Republic (COSEFIN) determined it was imperative to implement a solution to strengthen their financial resilience to natural disasters. GFDRR financial resources supported the phase leading to the memorandum of understanding (MOU), allowing technical support and

The Caribbean Catastrophe Risk Insurance Facility has made $38 million in payments to member countries affected by earthquakes and hurricanes—and always within 14 days of the event. The Facility’s pricing for hurricane coverage is up to 59% less than the cost if countries went directly to the reinsurance market.
Advancing Knowledge on Financial Protection

GFDRR supports knowledge sharing and development on financial protection:

- **Operational Framework for Disaster Risk Financing and Insurance**: Drawing on years of sustained dialogue and working with governments and the private sector—in particular insurance and reinsurance companies—in FY15 GFDRR developed an operational framework to serve as a practical guide supporting decision makers looking to disaster risk financing and insurance.  

- **Advancing Disaster Risk Financing & Insurance in the Pacific: Regional Summary Note & Options for Consideration (2015)**: In a 2015 report, GFDRR examined the public financial management of natural disasters in seven Pacific Island Countries - the Cook Islands, Fiji, the Marshall Islands, Samoa, the Solomon Islands, Tonga, and Vanuatu - to better understand of the existing tools in use in the Pacific and identify gaps where engagement could further develop financial resilience. It features country reports and risk profiles for all seven countries.

- **Improving Evidence for Risk Financing**: Disaster risk financing is an emerging field with huge potential for applied research that informs better policy. The UK Department for International Development (DFID) is partnering with GFDRR and the World Bank on a $3.2 million project to develop monitoring and appraisal tools for sovereign disaster risk finance and insurance projects, as well as a $2 million project in Pakistan to better link disaster risk assessments and financing strategies. As a first result, the project has defined five characteristics of financial resilience, which capture the broader benefits of disaster risk financing and insurance.

Lessons Learned

To develop financial protection strategies, the first step is reliable and appropriate data. Policymakers need robust risk information for financial decision making. Technical risk information helps, but policymakers need access to financially relevant analysis that helps them choose—for example—how much to budget in reserves, how much insurance coverage to purchase, and whether to seek additional risk instruments.

The starting point for PCRAFI was the development of the Pacific Risk Information System, the region’s most comprehensive collection of risk information, including a database of geo-referenced assets, such as buildings and roads. The availability of these data in easily used formats made it possible for member countries to analyze their risk in relevant economic terms and gain access to international insurance markets.

Working with the DRFI Program, the government of Colombia is implementing international best practices as it insures $38 billion of new road infrastructure built through public-private partnerships.

capacity building to COSEFIN countries to enhance their understanding of CCRIF products.

In 2015, the CCRIF and Council of Ministers of Finance of Central America, Panama, and the Dominican Republic (COSEFIN) signed a memorandum of understanding to enable Central American countries to join the facility and access cost-effective and fast-disbursing liquidity in the immediate aftermath of a disaster. The Government of Nicaragua also signed an agreement to become the first Central American country to formally join the CCRIF SPC, with the World Bank having provided $20 million in funding for premium support, and other COSEFIN countries are expected to join in 2015 and 2016.
Looking Ahead

Over the next three years, GFDRR will support over a dozen partner countries in gaining better access to comprehensive information on their financial exposure to disaster risk and help equip these countries with improved means to assess and manage this risk.

- **Impact Appraisal of Disaster Risk Financing and Insurance Approaches:** GFDRR’s partnership with DFID and the World Bank is addressing the need for better evidence to determine which sovereign disaster risk financing and insurance programs are most effective. When completed, this project will help national governments, donors, and development partners maximize the impact of their support for these strategies.

- **Financial Risk Analytics and Innovative Product Development:** GFDRR is supporting the development of financial risk analytics and other new tools based on lessons learned from previous projects. This will help policymakers better understand the financial impact of natural disasters and implement sustainable cost-effective strategies. This more systematic and efficient approach will allow GFDRR to offer better support to more countries.

- **Expanding Financial Protection Support Through New Initiatives:** A grant by the EU-ACP is enabling the design and roll out of a large-scale program across Africa to support the development of comprehensive risk financing strategies that help African countries make informed decisions in mitigating the socio-economic, fiscal, and financial impacts of disasters.

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**Mobilizing funds helps, but efficient post-disaster budget allocation and execution is crucial.**

For an effective risk financing system to work well in a disaster, governments should have a strategy in place to mobilize resources but they also need to be able to use the money they have allocated when and where it is needed during the recovery process. If budget and financial tools are not well designed and executed, governments will see costly delays in recovery and reconstruction.

For instance, a critical component of Mexico’s effort to strengthen its disaster risk financial management was the creation of the Natural Disaster Fund (FONDEN). When the government makes an official declaration of disaster, affected states and communities can access payments from the Fund quickly and transparently, reducing time-consuming coordination problems.

**Risk transfer and retention instruments can help support discipline in public financial management.**

The use of private sector risk transfer tools—such as insurance, reinsurance, catastrophe swaps, and catastrophe bonds—can instill and support discipline in public financial management. To access insurance that puts limits on their total possible losses from disasters, governments need a robust damage assessment methodology and transparent handling of payouts. Through adopting terms and conditions based on international standards for the insurance contracts themselves, governments can also bring international best practice to domestic insurance markets.

In Colombia, the government uses standardized terms and conditions from international insurance market best practices to purchase catastrophe insurance for its public buildings. This helps the government more explicitly recognize the costs of disaster risk, while protecting its assets efficiently.
Strategic Partners

GFDRR works with a wide variety of partners, including:

NOTES

1 Munich Re, Geo Risks Research, and NatCatSERVICE.
2 All monetary amounts are in US dollars unless otherwise indicated.
3 Denotes countries where GFDRR grant or team engagement has supported financial protection.

“When a disaster strikes, we are often confronted with the urgent need to provide emergency assistance to victims and to rebuild roads, hospitals, schools, irrigation systems, electric power and water supply, and other important infrastructure. [Contingent credit] provides us with immediate relief, recovery, and reconstruction, thus lessening social and economic dislocation, especially [for] the poor who are the most vulnerable.”

–Cesar V. Purisima, Secretary of Finance, Philippines
Contact

Olivier Mahul

Program Manager, Disaster Risk Financing and Insurance (DRFI) Program
omahul@worldbank.org

GFDRR PILLAR: Financial Protection

Vulnerable countries will have improved financial resilience to the impact of natural disasters, with improved post-disaster financial response capacity and stronger domestic catastrophe insurance markets.