Disaster Risk Financing Learning Series

Supporting Pacific Island Countries towards strengthened financial protection against disasters.

Virtual Learning Episode 1: The Basics of Disaster Risk Financing

Date: 26 April 2022

Summary

Background

Pacific Island countries face a range of different risks and differing severity, scale and coverage. It is increasingly important to identify finance instruments that help to protect and prepare when a disaster strikes in the region. With the evolving landscape of DRF, it is critical for PICs to understand how to effectively leverage these emerging DRF instruments.

This Virtual Learning Episode (VLE) is part of the broader regional effort spearheaded by the PRP DRF Technical Working Group to conduct a series of learning events on DRF across a broad cross section of society. The objective of the DRF Learning Series is to increase appreciation, understanding and emphasise the importance of strengthening the financial resilience of countries against disasters amongst relevant government stakeholders, development partners, CSOs, private sector and community members. The VLEs are part of a suite of platforms that will be adopted as a mean of achieving this broader aim. The DRF Learning Series and the associated delivery modalities which include the VLE, are ultimately linked to the overarching objectives of the Framework for Resilient Development in the Pacific (FRDP), one of which is the emphasis on the importance of strengthened financial resilience against disasters.

The first of a series of virtual learning episodes on Disaster Risk Financing (DRF), was held on 26 April 2022 and helped create understanding on the concept of DRF – *what it entails and what it doesn't? How different groups can benefit? What is it comprised of?* These concepts were supported with practical examples reflecting DRF efforts at the national level by the government of Tonga; private sector by Sun Insurance in Fiji; and ADRA with a Non-Governmental Organisation (NGO) perspective.

PACIFIC RESILIENCE PARTNERSHIP

STRONGER TOGETHER

Summary of Discussions and Interventions from Panelists

Samantha Magick, Managing Editor at Islands Business Magazine moderated VLE 1 and highlighted that DRF is complex and sometimes can be difficult to understand. VLE 1 would provide greater understanding of DRF, using regional and national experiences and perspectives.

Mosese Sikivou, Regional Coordinator, **Pacific Resilience Program (PREP) at** Pacific Islands Forum Secretariat (PIFS) set the scene for VLE 1 by providing an overview of the DRF in the context of the broader Disaster Risk Management (DRM) cycle and resilient development continuum. He clarified what DRF did and did not entail. He emphasized that planning, design, and implementation of DRF and related financing is critical in order to have an effective pathway to resilience. He also provided an overview of the types of DRF Instruments including: 1) Specialized instruments to support preparedness e.g., forecast-based or anticipatory finance; 2) Risk Retention – help to absorb the cost of disasters e.g. dedicated disaster funds; 3) Risk Transfer – deigned to share or transfer risk to a wider pool of investors or stakeholders e.g, insurance; 4) International emergency financing that can be accessed following disasters subject to meeting donor criteria e.g. UN Central Emergency Response Fund via Rapid Response Window.

Saane Lolo, Deputy Chief Executive Officer (DCEO), Ministry of Finance, Tonga emphasised the importance of DRF for Tonga considering its vulnerability to impacts of climate change and geological hazards. She shared experiences with the recent development of Tonga's DRF Strategy to provide guidance and direction for the government to minimize the economic and physical effects of disasters, through a combination of instrument that address various identified risk. With the implications of disasters on people's livelihood and its expensive price tag, Ms Lolo emphasised the need to advocate for preparedness and to have access to various DRF modalities?, reflecting on the different instruments that Tonga benefited from apart from their national emergency fund. Some of these DRF instruments include the World Bank's Catastrophe Deferred Drawdown Option (Cat DDO); Asian Development Bank through their contingency disaster financing facility and parametric insurance from the Pacific Catastrophe Risk Insurance Company (PCRIC). Despite having access to such instruments, funds are often inadequate to address the full impact of damage and loss related to disasters. The volcanic eruption in Tonga in January 2022 is an example of where the cost of disaster response significantly exceeded the available resources. She indicated that some of the priorities that the Government is working on to improve DRF include collecting exposure data by working with the Pacific Community (SPC); reviewing the risk financing instrument portfolio, to ensure that the Government meets its objectives cost-effectively; reviewing the national emergency fund; considering other products that could be offered under the parametric insurance cover implemented by the PCRIC. Ms. Lolo stated that the Government is looking into other options for transferring risk to the private sector and thus strengthen Tonga's domestic insurance market; and strengthen the public finance management system. Ms. Lolo stated that while there are different instruments available, there is need for a better understanding of the instruments, tools and their application to ensure that they are not competing but complement each other.

Ana Alburqueque, South Pacific Regional Technical Advisor, ADRA; Christine Lemau, Fiji Program Director, ADRA shared experiences on how communities are benefiting from disaster financing with specific reference to Cash-based intervention with communities in Fiji. ADRA works directly with community based-disaster risk management committees and uses village development planning to assist community understanding on how communities can be informed on the intentions of cash and voucher systems. The presentation highlighted the importance of partnerships with financial service providers, government, stakeholders, and the targeted community. Based on experience in Fiji, ADRA had to adapt to and accommodate all the modalities of financing assistance, including Bank transfers, *MPAISA, My Cash, Telegraphic Money Order (TMO)* and *cash-on-hand* to determine which ones best meet the need on the ground in terms of both rapid response and early recovery. Different delivery mechanisms or modalities take a lot of resources and investment, but it enables target beneficiaries to receive them when they need it most. Some of lessons learned from the work of the Cash Programming in Fiji includes the importance of having Standard Operating Procedures in place; capacity building as a continuous process; coordination at the field level; feedback and complaint mechanics, and monitoring in place. They also highlighted the importance of active participation in the National Cluster and Cash Working Group for stronger coordination at National level and Subnational Level. Equally important is to focus on the most vulnerable and include them when implementing Cash-based interventions.

Avikash Ram, Manager Underwriting Broker, SUN Insurance Company Limited, Fiji stated that every year, farmers are forced into poverty due to disasters such cyclones and flooding. Insurance is designed to provide rapid funding in the aftermath of a disaster for response**.** He reiterated that payouts normally happen in the event of a disaster but typically low-income earners do not benefit because they cannot afford insurance policies. With help of the UN Capital Development Fund - Pacific Insurance and Climate Adaptation Programme (PICAP) and supporting donors, a first Pacific parametric insurance product tailored for farmers was developed and Sun Insurance was a part of that effort. This insurance product has enabled local farmers to get immediate assistance, mostly following cyclones. Mr. Ram highlighted that the major benefit is that Sun Insurance now has ability to provide much needed insurance for farmers which is affordable and easy to access. Sun Insurance continues with its partnership with PICAP and is hoping to provide further opportunities to the greater public with more products. With Sun Insurance’s experience, he mentioned that some of the areas for improvement include the proper design of the system for financing; need for pre-arranged response plans to access DRF; need for predefined triggers to activate financial flows against the response plans, and; the opportunity for early funding in advance of a disaster based on forecasts. He further added that requirements for pre-arranged response plans and triggers would create strong initiatives for better planning and preparedness and make DRF more effective.

Key Messages

- Need for a stronger multi-stakeholder approach for DRF at the national and regional level.
- DRF is intended to provide a buffer to enable governments, households, farmers, businesses, etc, to deal effectively with the immediate impact of a disaster. It helps address immediate humanitarian needs and provides a footing that can subsequently be built upon.
- Effectiveness of DRF depends on investments that are made in risk reduction before disaster takes place and also supported through other types of financing during the recovery and reconstruction period.
- **DRF is:** 1) Ensuring money reaches people who need it the most, when they need it the most; 2) Planning to help meet the cost of disasters before they happen; 3) Increasing the speed, predictability, and transparency of disaster response.
- **DRF is not:** 1) Raising Funds from International partners after a disaster; 2) Adapting to long-term climate change and trends; 3) financing risk reduction and development
- Those that are most impacted by disasters are: government, home/business owners, farmers and the poorest.
- **Core Principles of DRF**: 1) Ensuring the timeliness of funding (speed matters but not all resources are needed at once); 2) There are different layers of risk (high, medium, low) and so different instruments/products are needed for different layers. No single financial instrument can address all risks; 3) DRF solutions need to be tailor-made for context and ensure that money reaches beneficiaries in the most efficient and effective way possible; 4) To make sound financial decisions you need to have the right information (loss data, macroeconomic data, financial and other data to help understand financial impact and also inform cost benefit analysis of potential options).
- Need to advocate for preparedness and capacity to be able to effectively address immediate response relief in early recovery needs to save lives, minimize displacement, restore key infrastructures, and ensure private sectors are back on their feet.
- DRF instruments to be tailor-made, fit-for purpose and affordable for local people.
- Timely ex-ante cash transfers can be more cost-effective rather than relying on ex-post disaster relief, but only when leveraged by a credible plan, pre-agreed triggers for action, and pre-arranged financing and infrastructure to support cash transfer initiatives. To ensure adequate financial action one needs to have the right information to guide fast and evidence-based decision-making.

To learn more, you can access the recorded Session on VLE 1 here.