



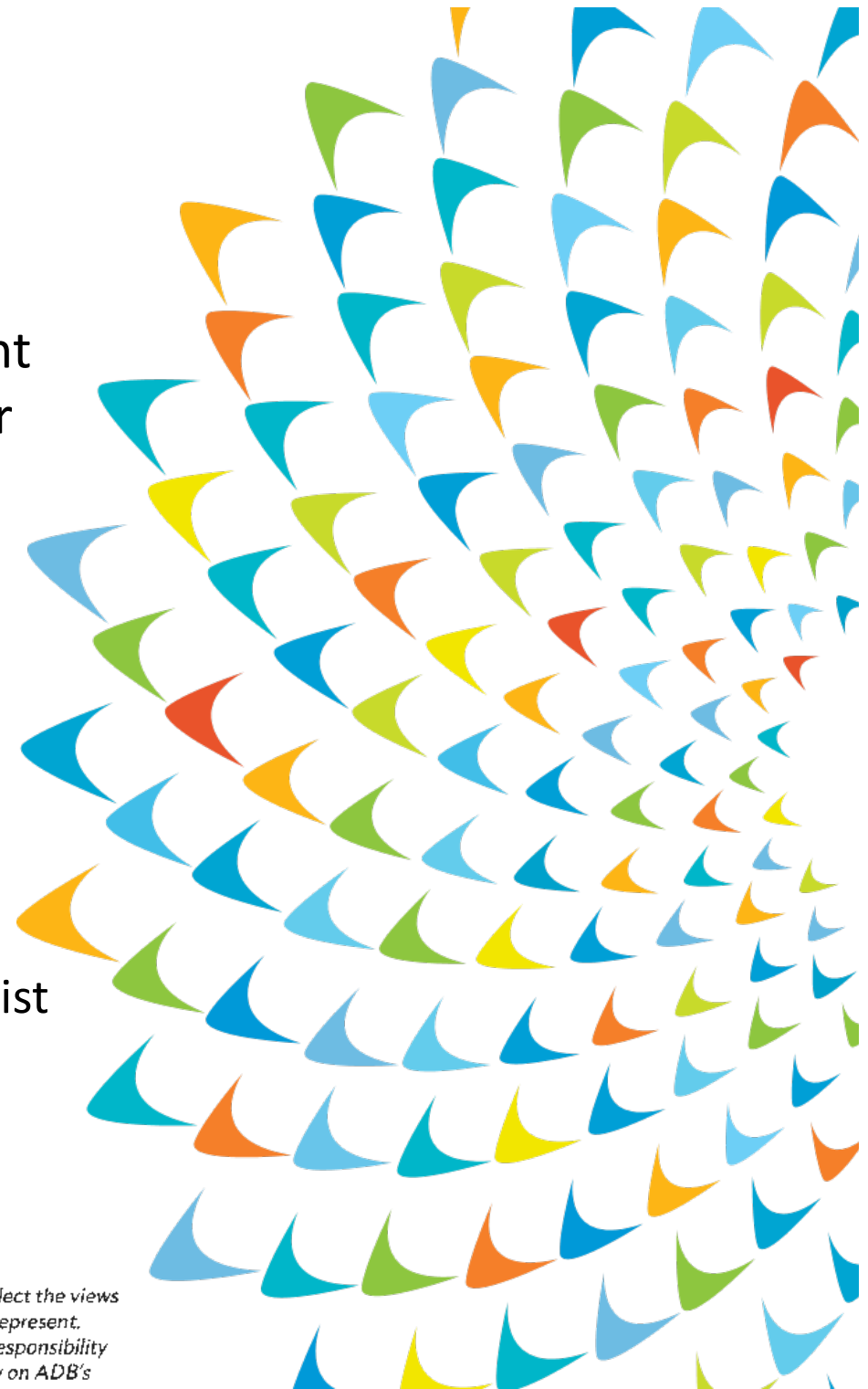
Regional Forum on  
Strengthening the Enabling Environment  
for Disaster Risk Financing: Options for  
Enhancing Financial Resilience

**Introduction to disaster risk  
financing and ADB's initiative to  
enhance disaster resilience**

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Manila

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# ADB's developing member countries suffer significant disaster loss

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## 2007-2016:

321,907 lives lost

1.7 billion people affected

\$ 487 billion direct physical losses

\$133 million loss/day

Disaster losses are increasing in line with economic growth

Average annual loss totals \$78 billion over the long term according to available models





# ADB STRATEGY 2030

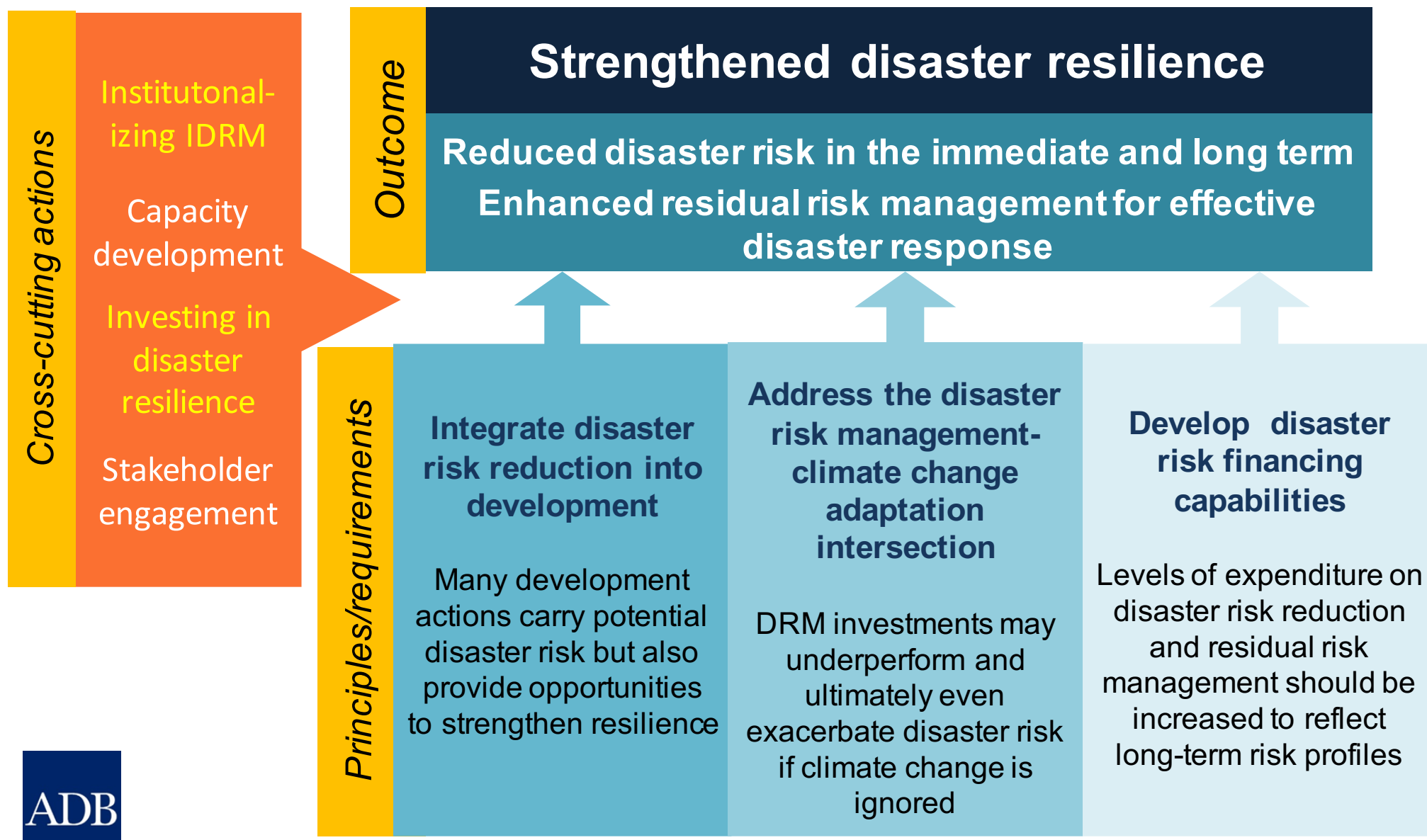


## Operational Priority 3:

Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability



# ADB's Disaster Risk Management Approach





# ADB's disaster risk financing goal

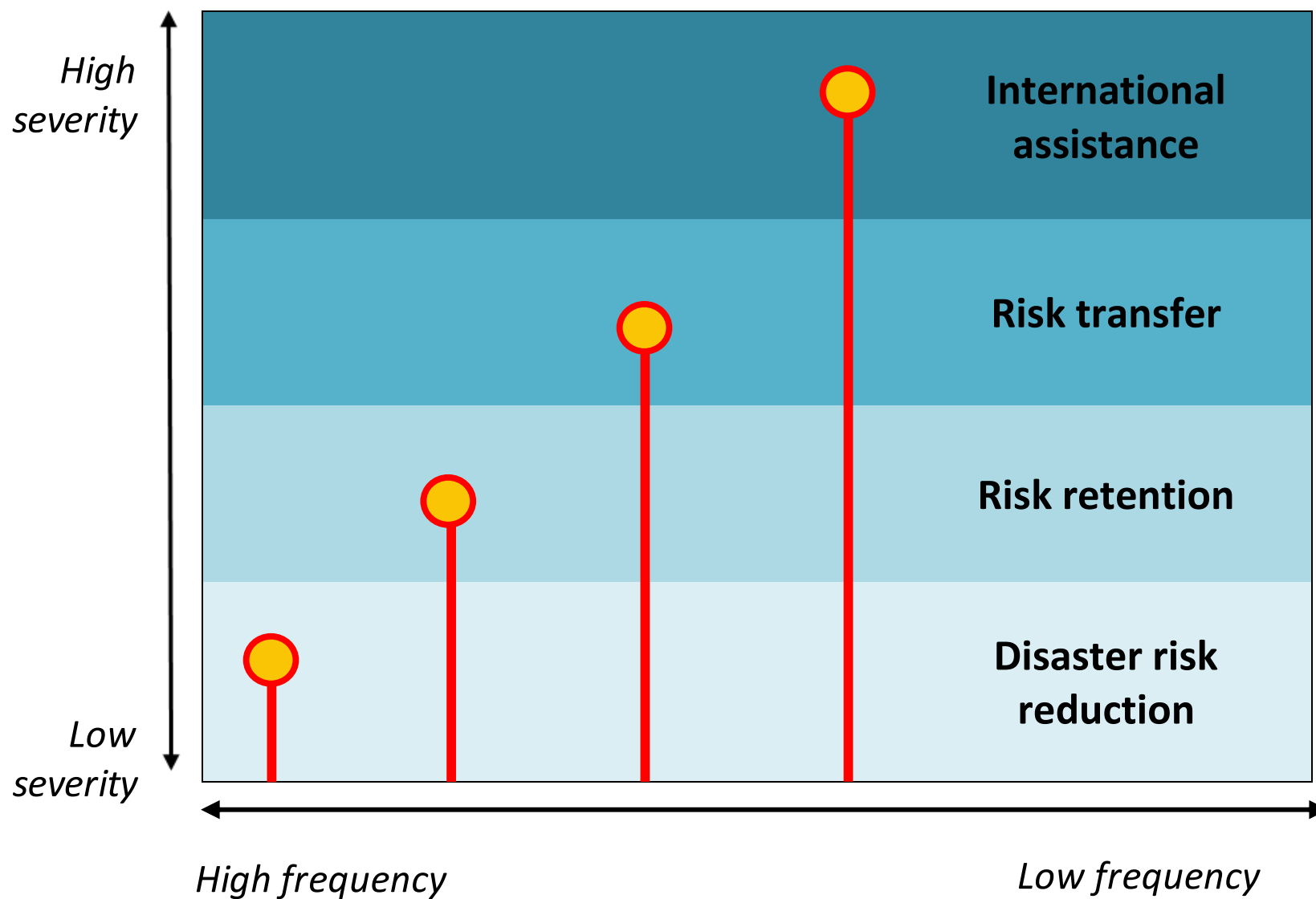
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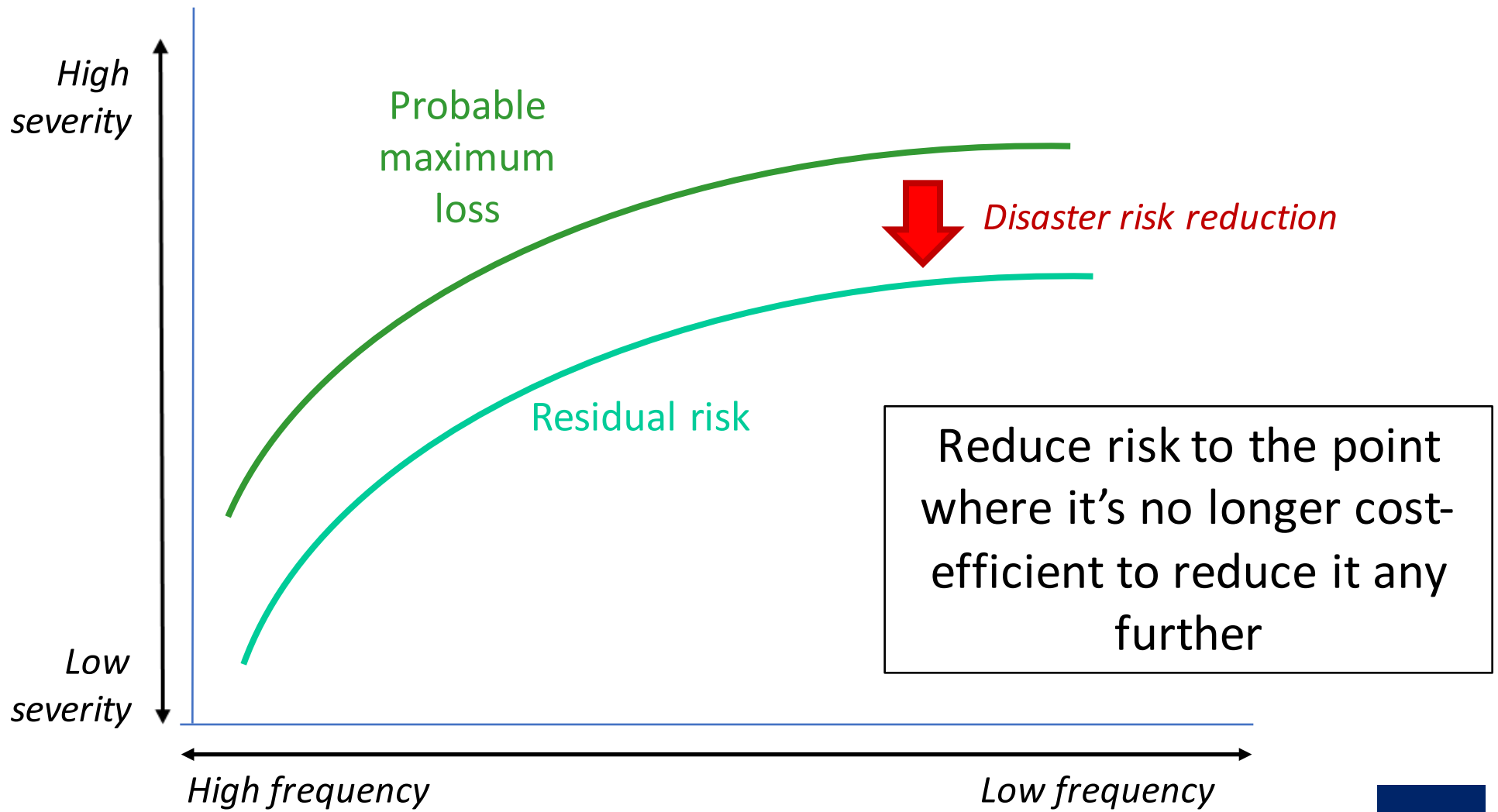
To enhance financial preparedness for disasters as an integrated part of a broader program of work to enhance disaster resilience:

- Ensuring timely, adequate and assured flows of post-disaster funding
- Applying the most cost-effective bundle of instruments via a risk layered approach
- Smoothing recovery and reconstruction expenditure over time
- Enabling building back better
- Embedding incentives for risk reduction
- Stimulating the development of commercial risk transfer markets

# Disaster risk financing: a layered approach

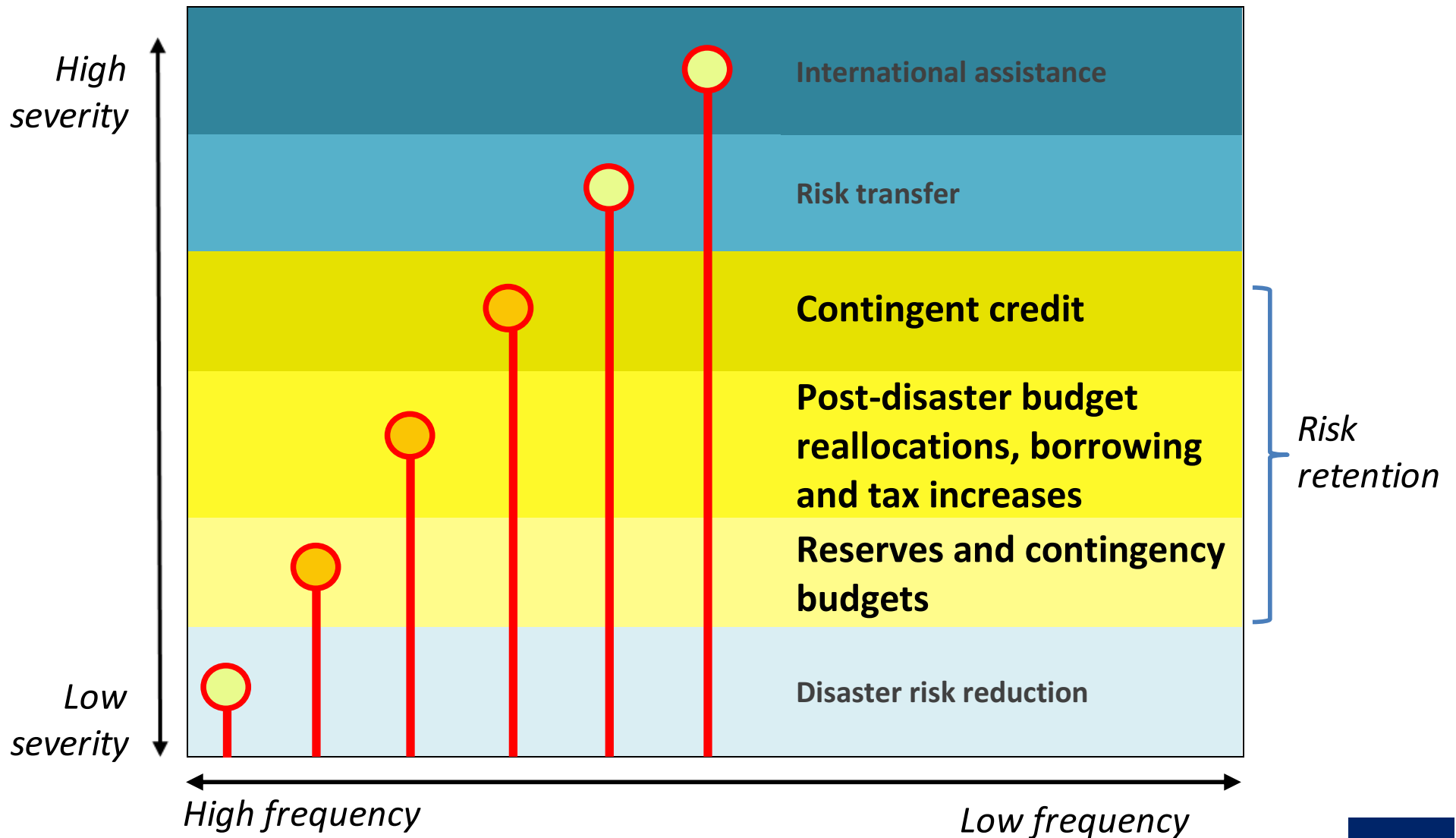


## Begin with risk reduction

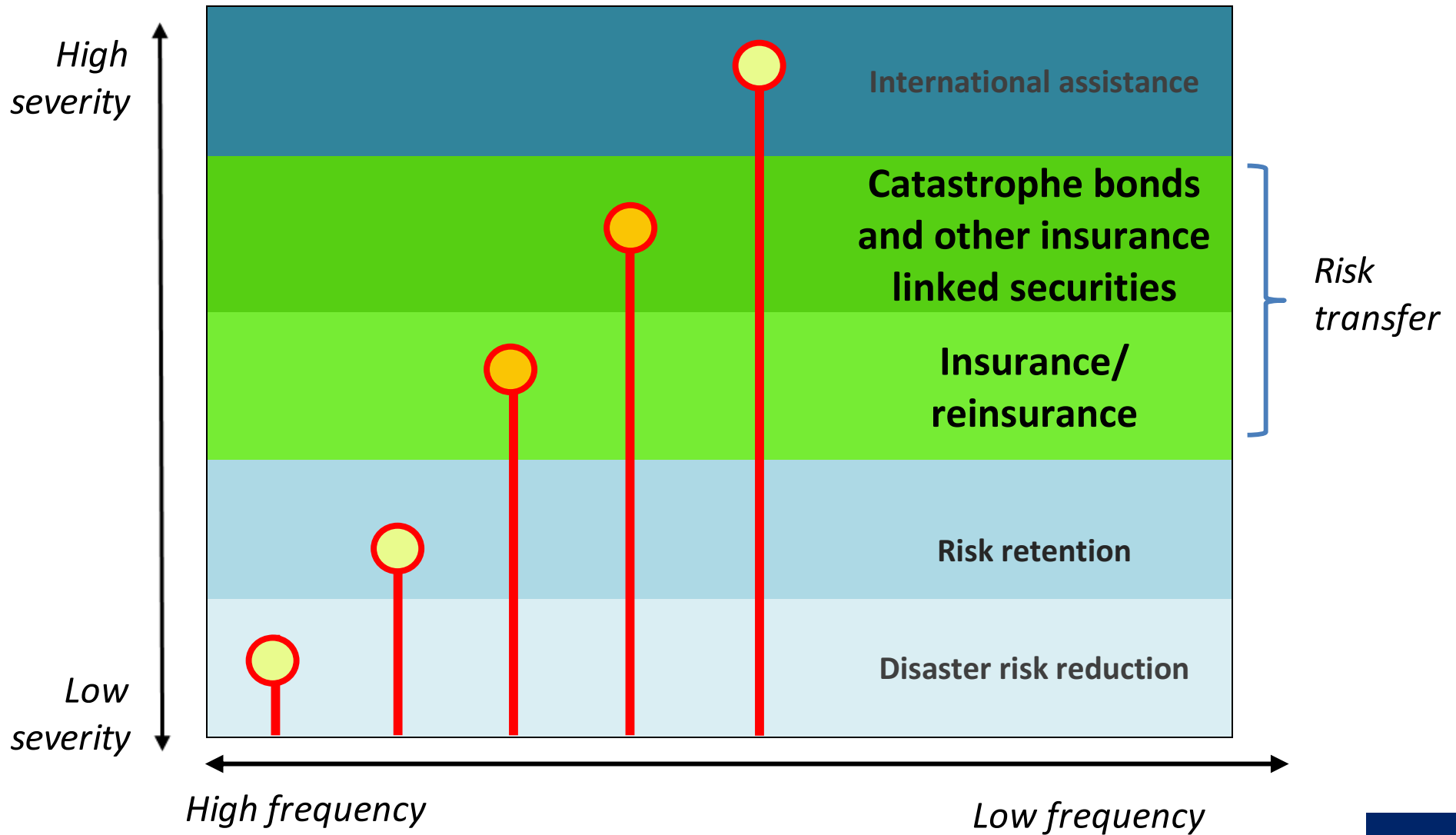




# Disaster risk financing: a layered approach



# Disaster risk financing: a layered approach



# Disaster risk financing tools

## Households

### Ex ante

Savings in cash and kind  
Insurance (property, lives,  
crops, SMEs)

### Ex post

Public assistance/social  
safety nets  
Support from relatives and  
friends  
Borrowing

## Businesses

### Ex ante

Contingency reserves  
Insurance (property,  
business interruption)  
Capital market transactions

### Ex post

Public assistance  
Tax breaks  
Borrowing

## Governments

### Ex ante

Annual calamity funds  
Contingency reserves  
Contingent financing  
Insurance (public property,  
wider contingent liability)  
Capital market transactions

### Ex post

Budget reallocations  
Tax increases  
Public borrowing  
International assistance



# Selecting instruments

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A balance needs to be struck between various considerations including

- Goals and priorities
- The scale of funding required to meet each layer of risk
- The speed with which financing is required
- The relative cost-effectiveness of different financing instruments for particular layers of loss
- (Likely) prevailing economic circumstances at the time of a disaster
- Incentives and disincentives to address underlying risk and accept shares in residual risk

# Disaster risk financing realities

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- All governments have some form of annual contingency budget allocations for unforeseen events but they often cover humanitarian relief needs at most and cannot accumulate over time
- Contingent disaster grants/loans are only currently in place in a handful of developing countries in Asia and the Pacific
- Insurance penetration is extremely low
- International aid is typically confined to major events
- In consequence, a considerable share of disaster response falls by default on post-disaster budget reallocations both within the year of the disaster and subsequent years

# Consequences of current disaster risk financing arrangements

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- Substantial post-disaster budget allocations can take significant time to approve and knock prior spending priorities off track
- Ad hoc DRF arrangements inhibit government planning and prioritizing with certainty
- Opportunities to 'build back better' may be foregone
- Liquidity constraints delay early recovery and reconstruction, thereby exacerbating adverse economic and social impacts

Source: nickyloh.com





# ADB disaster risk financing activities

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## Strengthening the enabling environment

- Disaster risk financing enabling environment analysis

### *Potential obstacles to growth in disaster insurance cover*

Supply constraints	Demand constraints
Data constraints	
Legal and regulatory gaps Availability of reinsurance Reserve adequacy Unfair competition	Affordability Exclusions Trust Financial literacy Auditing concerns

# ADB disaster risk financing activities

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## Strengthening the enabling environment

- Assessments of disaster risk, associated fiscal burden and funding gaps
- Development of comprehensive national disaster risk financing strategies
- Strengthening technical knowledge and understanding
- Leveraging funding
- More general support for strengthening insurance supervision



## ADB disaster risk financing activities

### Development of individual products

- Contingent disaster financing
- Establishing risk pools
- Piloting weather-index crop insurance
- Microfinance-linked products



May 2017

# Assessing Financial Protection against Disasters: A Guidance Note on Conducting a Disaster Risk Finance Diagnostic



Disaster Risk Financing  
& Insurance Program



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,  
Education and Research, FDER  
State Secretariat for Economic Affairs, SEKO



GFDRR  
Global Facility for Disaster Reduction and Recovery

# Thank you

