

# Disaster Risk Finance in Developing Countries (Re-)Defining the Role of the Private Sector

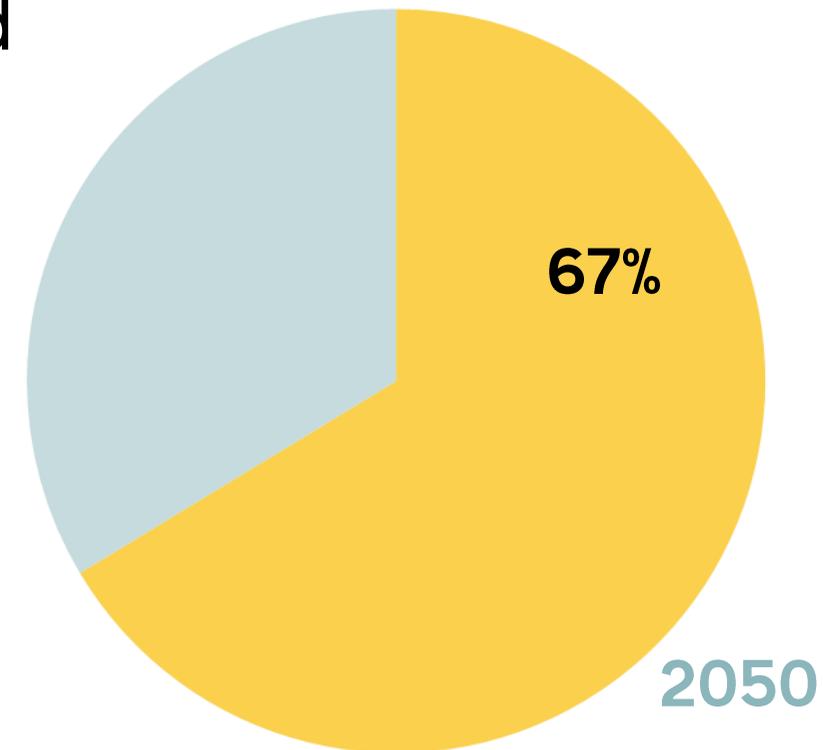
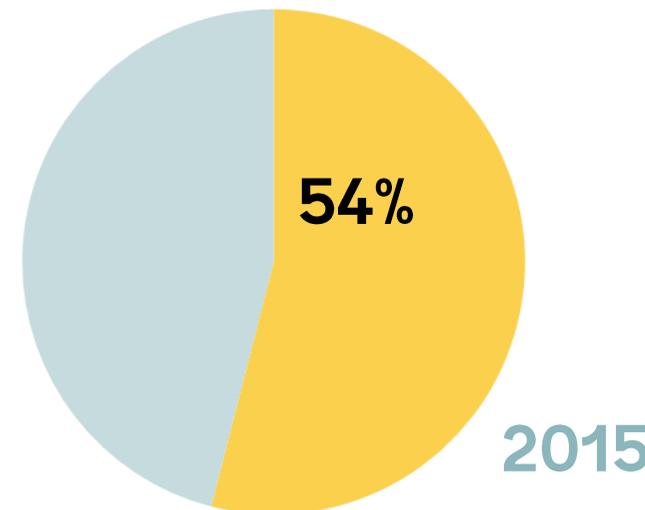
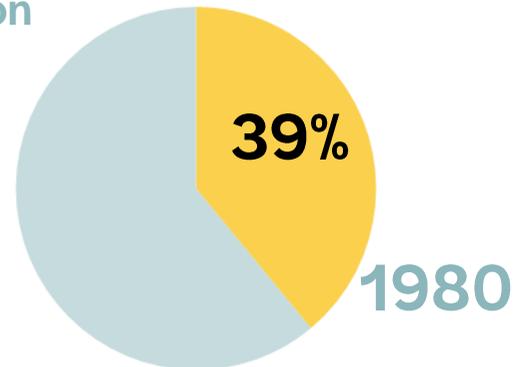
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# Drivers of climate and disaster risk – increasing exposure

- **Economic growth, demographic trends, and rapid urbanization** are among main drivers of disaster losses

Urban population as a % of total world population



- **Climate change** will make things worse
- Countries face **complex threats** that can exacerbate disaster and climate impacts

**93%**  
of extreme poor live in  
**fragile** or  
**environmentally**  
**vulnerable** countries

# Impact of disasters on poverty reduction

- When accounting for impacts on well-being (drop in consumption) natural disasters cost the global economy **\$520 billion** (or 60 percent more than usually reported) and **force about 26 million people into poverty** every year.
- Through their impacts on human capital (in particular, nutrition, education, and health), **disasters can severely affect household's earning potential.**

## THE POOR ARE TWICE AS LIKELY TO:



Work in sectors highly susceptible to extreme weather events, like agriculture.

Live in fragile housing in vulnerable areas.

## THEY ALSO HAVE MUCH LESS SUPPORT TO RECOVER AND REBUILD.

When drought struck Ethiopia in the 1980s, it took a decade before poor farmers could fully recover.



After Tropical Storm Agatha hit Guatemala in 2010, **poverty skyrocketed 14 percent.**

# Managing climate and disaster risk

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- A **comprehensive approach to disaster risk management** can prevent losses and reduce impacts
- From traditional *ex-post* humanitarian support, to **preparedness** based on **national response systems**

## AVOIDING DISASTERS

Reduce risk and prevent  
disasters through mitigation  
and adaptation



## MANAGING the UNAVOIDABLE

Improve preparedness and  
response capacity

# Financial protection

**Moving from *ex post* emergency borrower to *ex ante* risk manager**

Helps proactively **manage residual risk** by planning ahead and setting resources aside to finance disaster response activities before disasters happen

## POST-DISASTER FINANCING

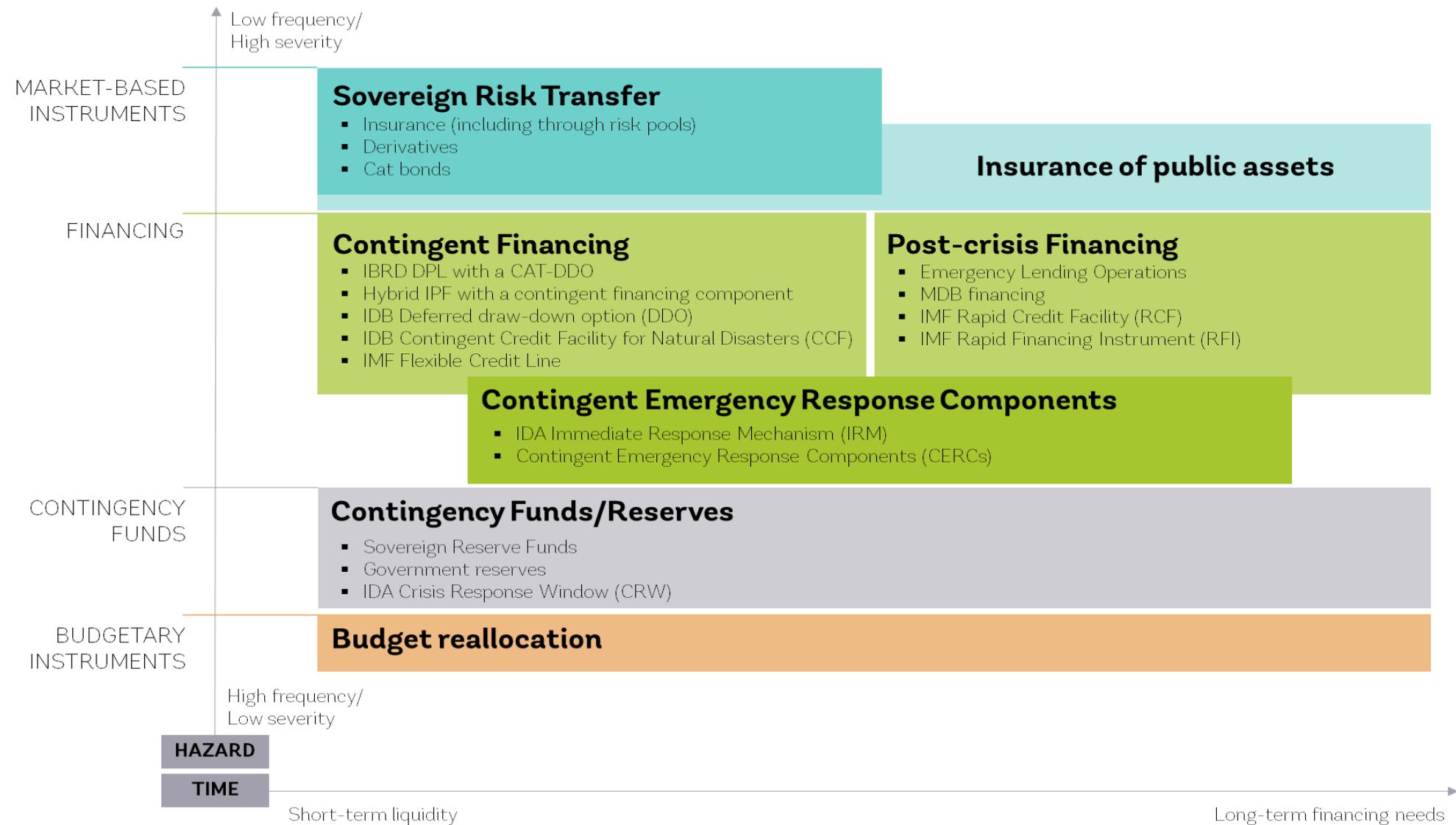
- International assistance
- Budget reallocations
- Debt issuance
- Post-disaster financing

## PRE-PLANNED FINANCING

- Contingency/reserve funds
- Contingent financing
- Market-based risk transfer solutions
- Catastrophe risk pools

# Financial protection

## Disaster risk layering



**Note: IBRD = International Bank for Reconstruction and Development; DPF = Development Policy Financing; IMF = International Monetary Fund; MDB = Multilateral Development Bank; IDA= International Development Association.**

# World Bank Sovereign DRF Instruments

<b>Insurance-linked Securities</b>	World Bank CAT Bonds	World Bank direct issuance of CAT Bonds	<b>Risk Transfer</b>
	CAT/Weather Derivative	Insures against weather- and geological-related losses, based on an index	
<b>Insurance Pools</b>	CCRIF / PCRAFI/ SEADIF	Establishment of regional facilities to pool risks and reduce costs to cover against natural disasters in different countries	
<b>Contingent Loans</b>	Investment DDO	Provides immediate liquidity following a pre-defined weather trend/event	<b>Risk Retention</b>
	CAT DDO	Provides immediate liquidity following a natural disaster	

# Disaster Risk Financing and Insurance Program

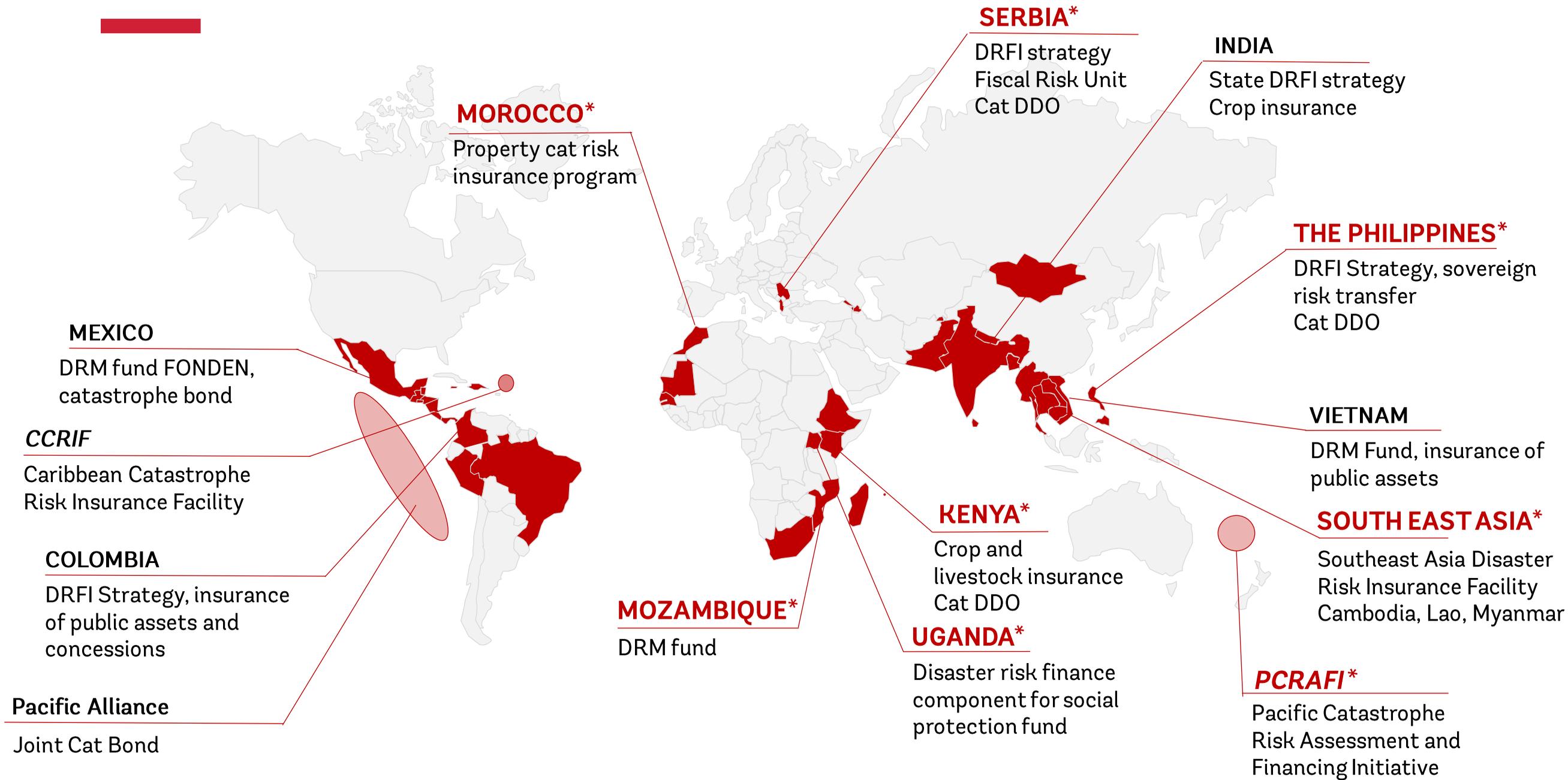
## A WBG Program to strengthen financial resilience

DRFIP development objective to **increase financial resilience** of the countries through **minimizing the cost and optimizing the timing of meeting post-disaster funding**.



# DRFIP – operational engagements worldwide

## DRFIP active in more than 50 countries

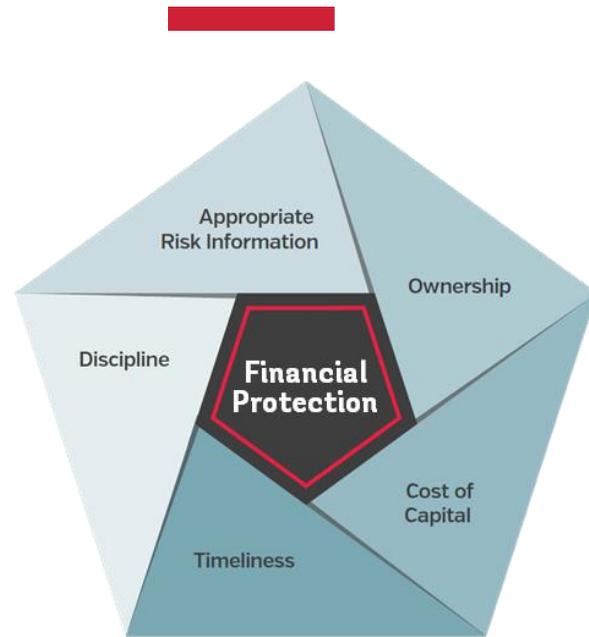


Note: (\*) TA linked to lending

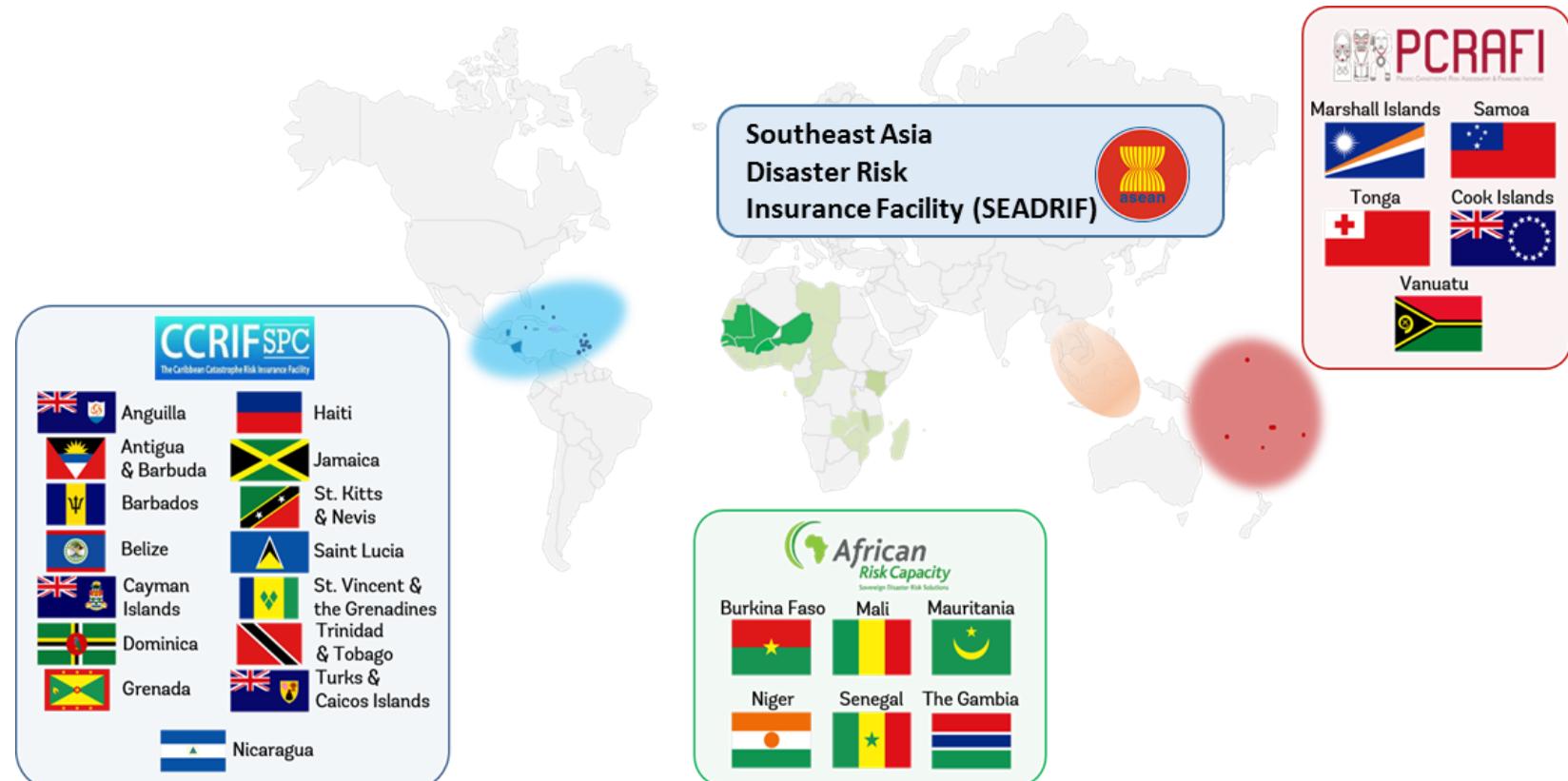
Disaster Risk Financing & Insurance Program



# Sovereign catastrophe risk pools

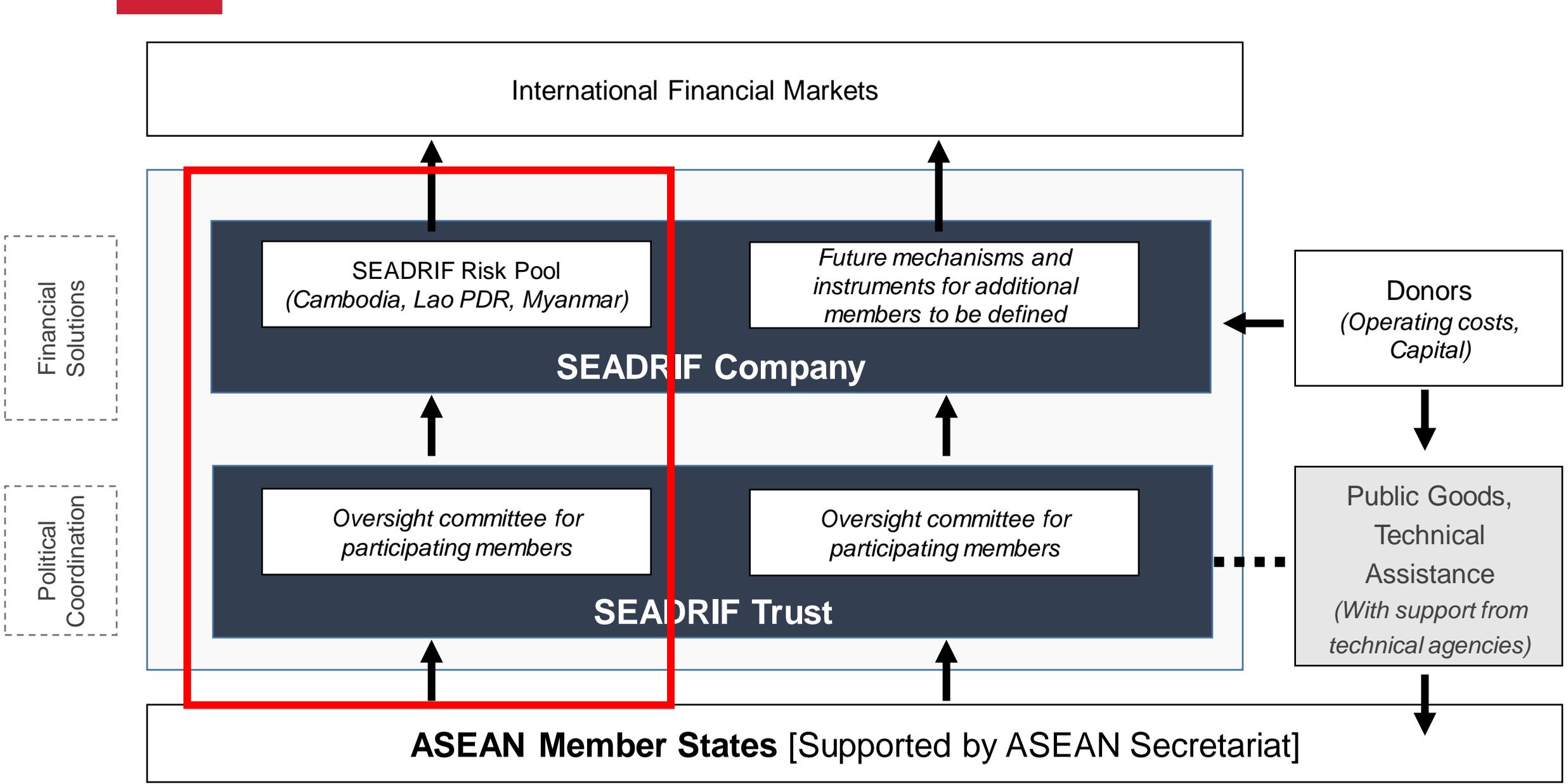


- **Ownership** - Strengthen regional/sub-regional cooperation and policy dialogue
- **Cost of capital** - Lower premium by pooling diverse exposures, retaining some risk and transferring excess risks to capital and reinsurance markets
- **Timeliness** – rapid payout (with parametric triggers)
- **Discipline** – risk based premium and clear payout rules
- **Appropriate risk information** - Take a collective and standard approach to quantitative catastrophe risk analysis and modelling

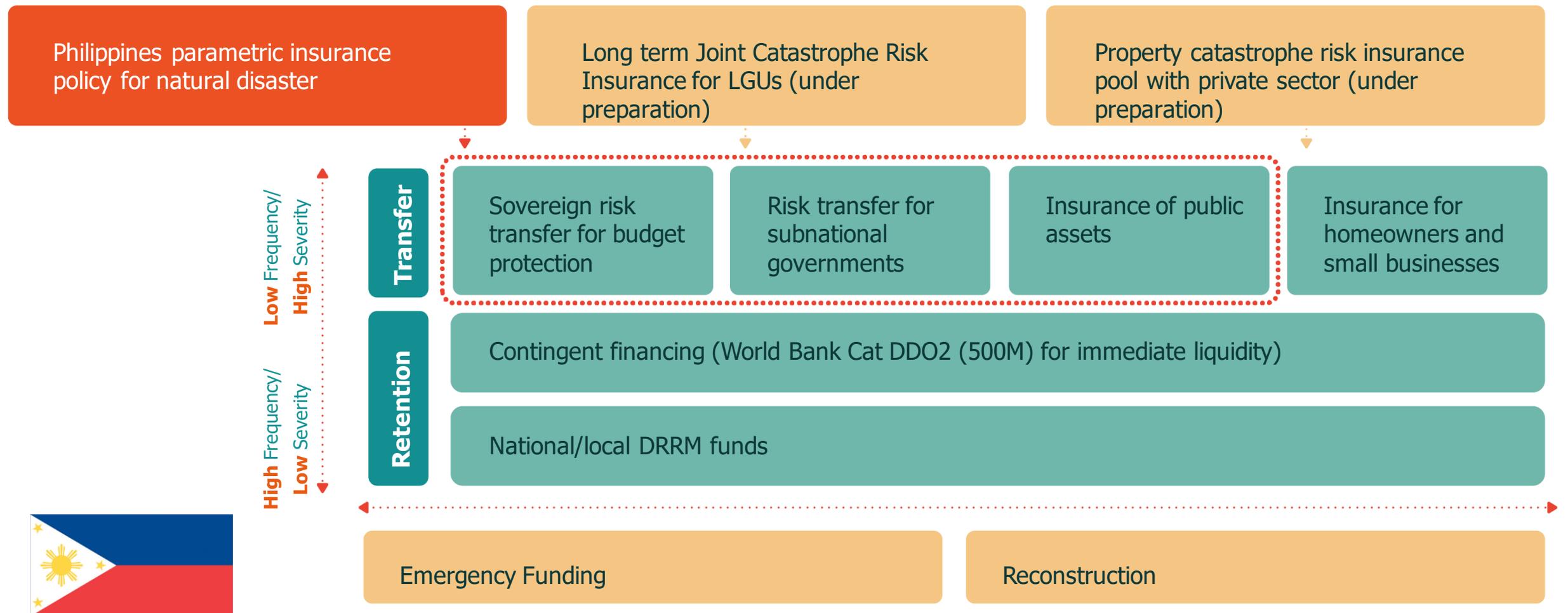


# Southeast Asia Disaster Risk Insurance Facility (SEADRIF)

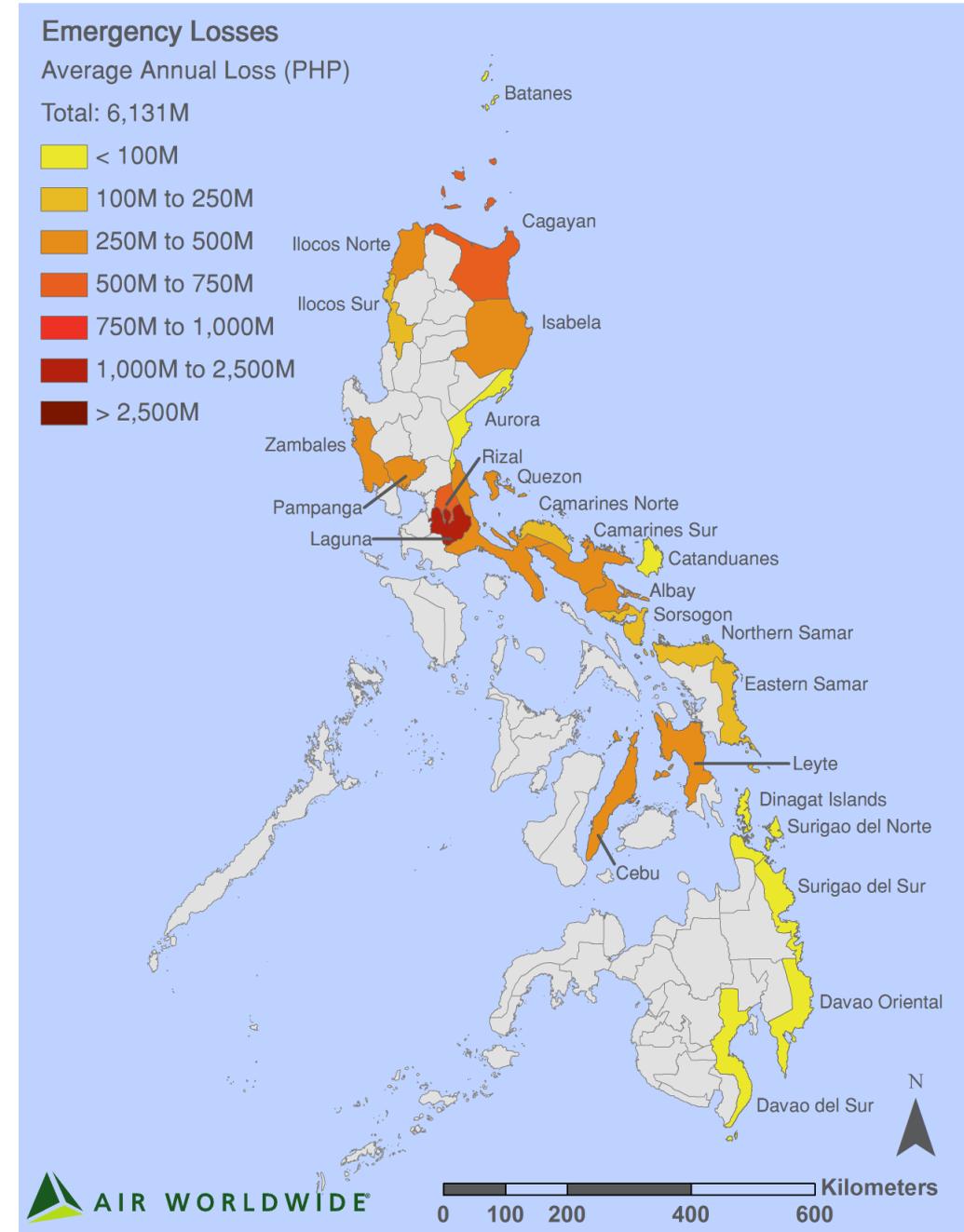
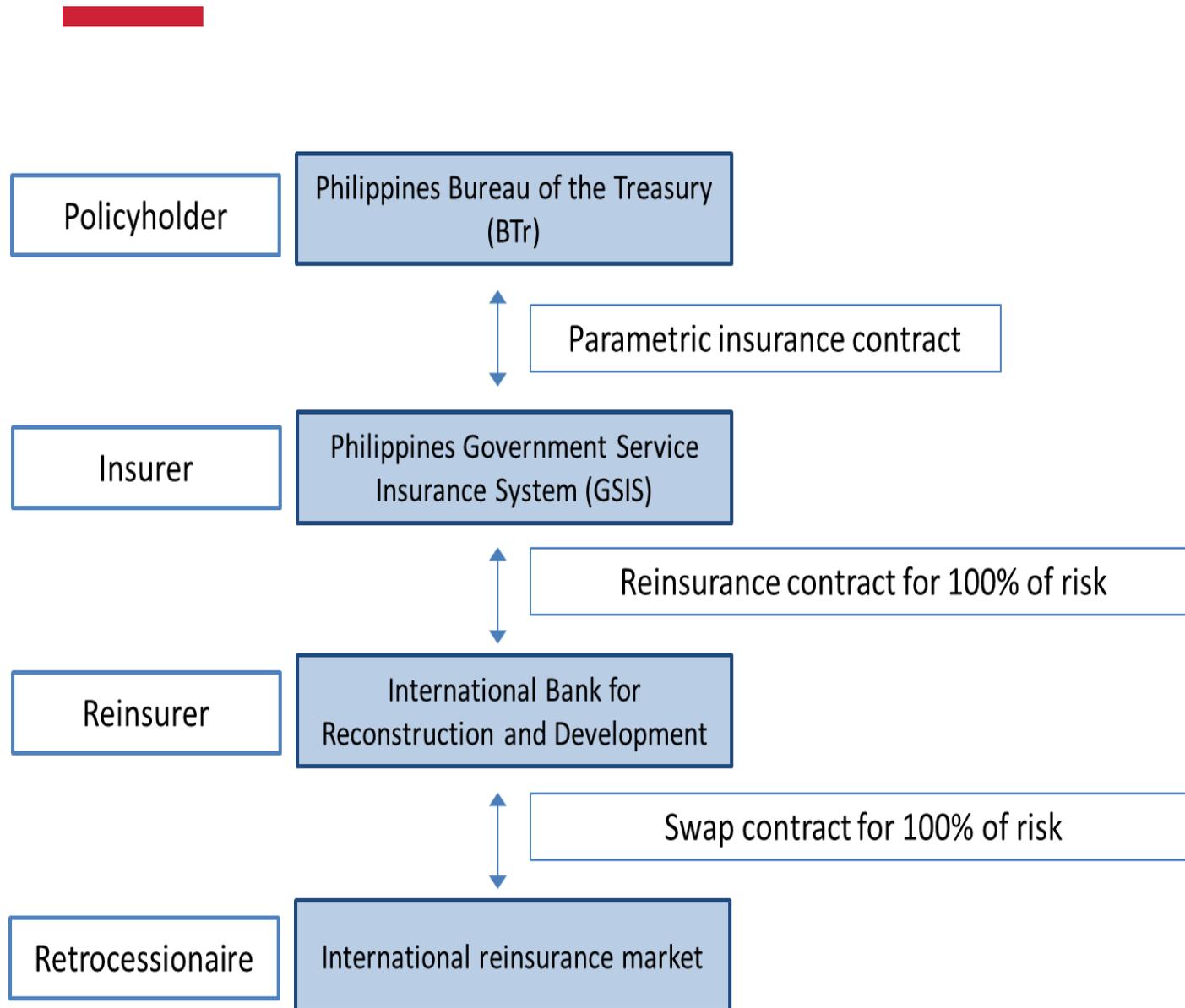
Climate and disaster risk management and insurance solutions for ASEAN countries



# Philippines: Risk layering to build fiscal buffer



# Philippines Cat Risk Insurance Program for Local Governments



# Recommendations to the G20 – Set of key principles

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The G20 could adopt **Key Principles** for innovative climate and disaster risk finance, insurance and pooling

- Ownership
- Mutual commitment
- Financial planning
- Comprehensive strategy
- Financial sustainability
- Accountability and transparency
- Disaster risk reduction



# Contact

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