Disaster Risk Finance
Rachel Haldane
Contents

• Start Network
• Introduction to disaster risk finance
• Sovereign risk pools & ARC
• Disaster risk finance outside of risk pools
The Network
LEADING FOR CHANGE IN HUMANITARIAN AID

START NETWORK
Start Network Three Pillars

**PROBLEMS**

- **CENTRALISED**
  Too much power is held by a handful of international institutions

- **REACTIVE**
  Humanitarian action is often reactive and slow to reach people in need

- **UNABLE TO CHANGE**
  Too many rules make it hard for aid agencies to be flexible

**SOLUTIONS**

- **LOCALISATION**
  We enable local decision-making and more direct access to funding

- **NEW FINANCING**
  Our funds enable fast & early action to tackle many crises that often go overlooked

- **COLLECTIVE INNOVATION**
  We enable innovation and the sharing of learning and expertise

**OUTCOMES**

- Shifting power closer to the crises means more appropriate responses
- Communities have the means to become better prepared and more resilient
- New ideas allow the system to adapt to the needs of those affected by crises
A FAMINE IS AVERTED BY ACTING EARLY
Start Fund

• A multi-donor pooled fund launched on April 1st 2014
• Designed to fill gaps in funding for ‘under-served’ emergencies
• Provides early and rapid funding within the first 72 hours of an emergency
• Small-medium scale rapid-onset crisis/under the radar/ forgotten crises
• Collectively owned and operated by the Start Network Members on behalf of wider civil society
THE START FUND NICHE

CRISIS

Other grants in rapid onset crises take on average 17 DAYS to reach an NGO.

Start Fund projects begin implementing in 7 DAYS and are completed in 45 DAYS.

Other grants in slow onset crises take on average 80 DAYS to reach an NGO.

DAY 1

DAY 10

DAY 20

DAY 30

DAY 40

DAY 50

DAY 60

70 DAYS +

The Start Fund disburses funds within 72 HOURS of being alerted.

National emergency response funds take on average 45-70 DAYS to disburse.

Central emergency response funds (via UN agencies) take an average of 90 DAYS to reach an NGO.

FOCUSING ON 3 TYPES OF HUMANITARIAN NEED

Underfunded small to medium scale crises

Forecasts of impending crises

Spikes in chronic humanitarian crises
We realised that we can't solve all of the humanitarian funding challenges with just one funding instrument (Start Fund).

Drought was a particular issue...

- Slow onset
- No clear trigger/early action moments
- Large scale (generally Start Fund amounts wouldn’t make an impact)
- 45 day intervention not enough
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Context

• Human Development Index

- Long and healthy life
  - Life expectancy at birth
  - Life expectancy index

- Knowledge
  - Expected years of schooling
  - Mean years of schooling
  - Education index

- A decent standard of living
  - GNI per capita (PPP $)
  - GNI index

• Sendai Framework

• Grand Bargain
The analysis suggests that, post shock, these households could survive without external assistance, but would not be able to maintain basic livelihoods expenditures, such as school, clothes, agricultural inputs, etc.
Disaster Risk Finance is an approach that includes three key components:

• Understanding and quantifying risk (and setting triggers)
• Pre-planning activity
• Pre-positioning financing

The aim is to move from responding to disasters after an event, to managing disasters before an event.
**NO SINGLE FINANCIAL INSTRUMENT CAN ADDRESS ALL RISKS**

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### THREE TIERED RISK LAYERING STRATEGY

#### DISASTER RISK LAYERS

<table>
<thead>
<tr>
<th>HIGH SEVERITY/PROBABILITY</th>
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<tbody>
<tr>
<td><strong>LARGE EARTHQUAKES</strong></td>
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<tr>
<td><strong>TSUNAMIS</strong></td>
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<tr>
<td><strong>MAJOR (CAT 5) STORMS</strong></td>
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<table>
<thead>
<tr>
<th>MEDIUM SEVERITY/PROBABILITY</th>
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<tbody>
<tr>
<td><strong>FLOODS</strong></td>
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<tr>
<td><strong>MINOR EARTHQUAKES</strong></td>
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<tr>
<td><strong>TROPICAL STORMS</strong></td>
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<table>
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<tr>
<th>LOW SEVERITY/PROBABILITY</th>
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<tbody>
<tr>
<td><strong>LOCAL FLOODS</strong></td>
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<tr>
<td><strong>LANDSLIDES</strong></td>
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#### RISK FINANCING INSTRUMENTS

<table>
<thead>
<tr>
<th>MARKET BASED RISK TRANSFER</th>
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<tbody>
<tr>
<td>Risk transfer for assets such as property insurance or agricultural insurance and risk transfer for budget management like parametric insurance, cat bonds/swaps</td>
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<tr>
<th>CONTINGENT FINANCING CONTINGENT CREDIT</th>
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<tr>
<td>Financial instruments that provide liquidity immediately after a shock</td>
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<tr>
<th>PROJECT OR LOCAL FUNDS</th>
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<tr>
<td>Reserve funds specifically designated for financing disaster related expenditures, general contingency budgets, or diverted spending from other programs</td>
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START NETWORK
IMPLEMENTATION

01 Quantifying the risks and finding service providers
  Finding the experts and service providers in risk analytics and financial services
  Finding the experts and service providers in risk analytics and financial services

02 Setting up the operational delivery system
  Contingency planning
  Operational planning and governance - who will do what when and where - MOUs and agreements
  Preparedness needed

03 Financial instrument alignment and fundraising
  What financial instruments and funds to attach to the system
  Fundraising
  Contracting and legal
  Money flow arrangements

04 Meal and learning and improvement frameworks
  What is the impact objective of the systems - how will this be monitored and evaluated
  What are the objectives of the different components and how will those be monitored (science, planning financing)

05 Piloting and scaling
  Testing and evaluating
  Looking to scale geographically and financially
  Learning and moving to build systems for other risk identified through the strategy

The steps needed to build the system after the risk financing strategy is identified.
Further support is available for members to go through these design and build steps.

START NETWORK
Purpose of Disaster Risk Financing

It is not....

• Raising funds from donors after a disaster
• Financing risk reduction and development

It is....

• Ensuring money reaches people who need it the most, when they need it the most
• Using Financial Planning to protect investments in human development and resilience building
• Planning on how to meet the cost of disasters before they happen
• Increasing the speed, predictability and transparency of disaster response
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Sovereign Risk Pools

- Caribbean Catastrophe Risk Insurance Facility (CCRIF)
- Pacific Catastrophe Risk Insurance Company (PCRIC)
- Africa Risk Capacity (ARC)
Senegal

- HDI = 164
- Crops
- Rainfall
ARC Replica

- 2018
- 2019 Start Network policy
- Payout
- Implementation
Modelling in ARV

- NOAA data
- Rainfall
- WRSI model
- Cropping calendar
- Population data
- Cost of aid
Basis Risk

The difference between expectation and outcome

• False alarm vs shortfall

• Comparative monitor
• Network
• Village Committees
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Madagascar

- HDI = 161
- Crops
- Rainfall
Designing a DRF system

- Data?
- Skill?
- WRSI model
- Cropping calendar
- Population data
- Cost of aid
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