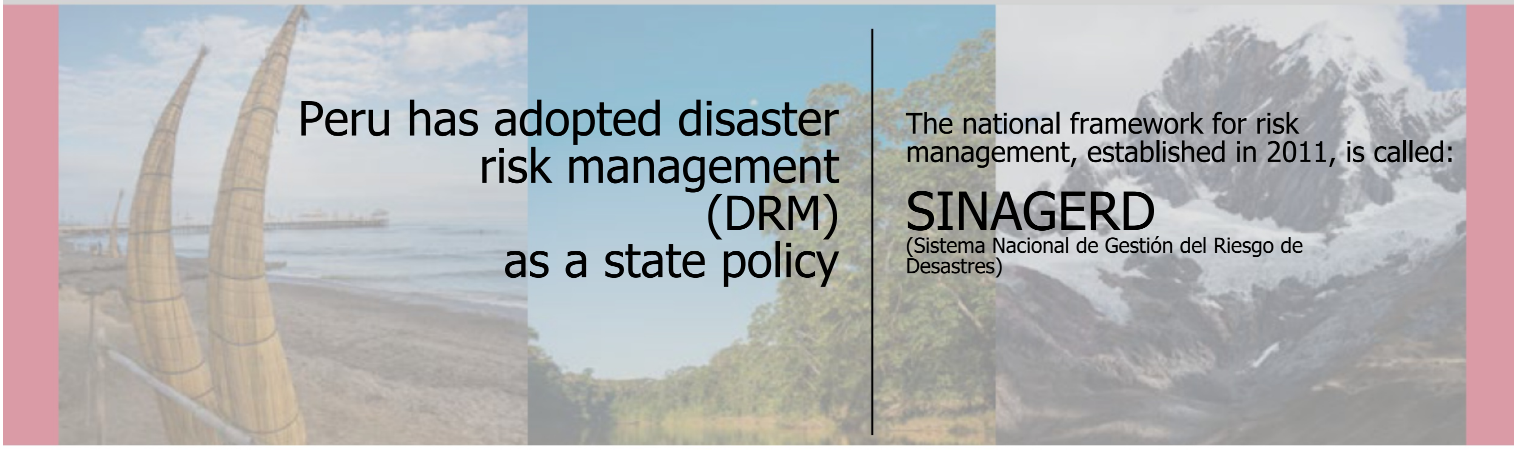
PERU: A COMPREHENSIVE STRATEGY FOR FINANCIAL PROTECTION AGAINST NATURAL DISASTERS



Peru has adopted disaster risk management (DRM) as a state policy

The national framework for risk management, established in 2011, is called:

SINAGERD

(Sistema Nacional de Gestión del Riesgo de Desastres)

One of the SINAGERD instruments is a financial management strategy

Under the SINAGERD Law, the MEF (Ministry of Economy and Finance) is responsible for identifying and evaluating appropriate cost effective mechanisms that will ensure that Peru has the financial capacity to manage major disasters and the subsequent reconstruction phase, as well as appropriate mechanisms for disaster risk financial management.

Six priority strategic lines of action for evaluating, reducing, and managing disaster-related fiscal risk

PLANAGERD (Plan Nacional de Gestión del Riesgo de Desastres) 2014–2021 has been introduced as a guide for DRM planning supports implementation of the six strategic lines of action.

1 Identify, quantify, and assess the fiscal risk of disasters associated with natural hazards

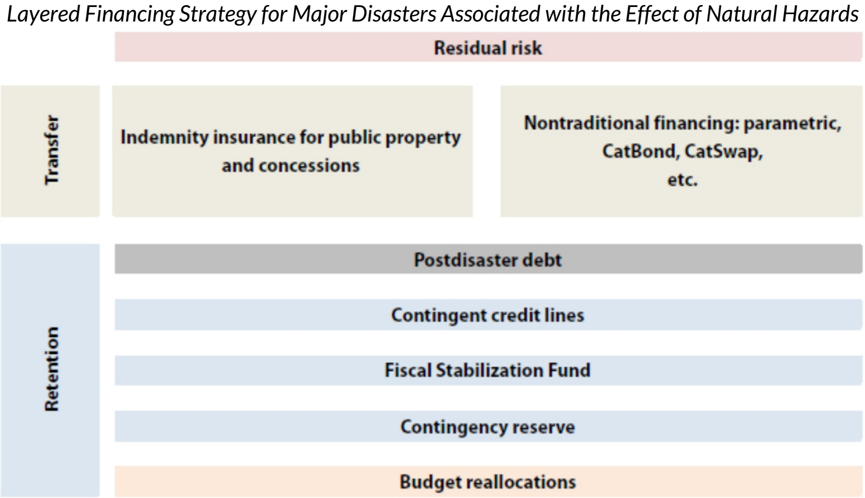
"First critical step in efficiently managing the potential fiscal impact of disasters"

Examples of the improvements being planned:

- Improving information on the exposure of buildings and infrastructure considered to be public assets and belonging to public–private partnerships.

- Promoting the use of financial analysis tools in making decisions and the development of a national risk profile, including such other hazards as flooding and heavy rains.

Layered Financing Strategy for Major Disasters Associated with the Effect of Natural Hazards



2 Formulate the components for developing and implementing tools for risk retention and transfer

"Timely access to sufficient financial resources to provide an effective response in each of the different stages"

3 Establish guidelines for the use of available funds to respond to major disasters

"Clear guidelines to optimize the use and mobilization of funds and to organize an effective rehabilitation and reconstruction process"

Working Group for Financial Coordination in the Aftermath of Major Disasters within the MEF was entrusted with organizing the various financial mechanisms available in the event of major disasters in order to ensure effective and efficient implementation of the response, rehabilitation, and reconstruction processes.

The Working Group coordinates with the Secretariat for Disaster Risk Management on all financial aspects related to the response, rehabilitation, and reconstruction processes.

4 Promote the assessment, prevention, and reduction of disaster risk, as well as emergency preparedness through financial mechanisms within the results-based budget framework, and incorporate disaster risk management into public investment

"Efficient allocation of risk reduction resources to avoid major Government expenditure on rehabilitation and reconstruction, which could have an unfavorable effect on public indebtedness"

Strategic Program Budget for Vulnerability Reduction and Response to Disaster Emergencies has been created to a serve as a connecting thread for DRM policy among the various sectors of National Government as well as regional and local governments.

DRM has been incorporated into the design, formulation, and execution of public investment projects (PIPs) within the framework of the National Public Investment System.

Law No. 30191, passed in 2014, specified measures for disaster prevention, mitigation, and preparedness, establish measures to assist national, regional, and local government entities in preventing and mitigating disaster risk factors and in preparing to respond to disasters at the national level.

5 Promote the development of a domestic catastrophe insurance market for responding to disasters associated with natural hazards

"Development of the domestic catastrophic insurance market to reduce the potential demand for public resources (implicit contingent liability) in the event of a disaster"

Work is progressing along the following lines:
- Strengthening of the catastrophic insurance market coverage.
- Expansion of the insurance market.
- Evaluation of household insurance instruments, including those for low income populations.
- Development of the microinsurance market.
- Development of the catastrophic insurance market for micro, small, and medium enterprises (MSMEs).
- Strengthening of agricultural insurance.

Progress has been made in developing the domestic catastrophe insurance market e.g. updating the Catastrophe Hazards and Uncertain Claims Reserve and the inclusion of objective 4.2 of PLANAGERD 2014-2021: "promote the transfer of risk" which demonstrates the commitment of the Government to development of the insurance market.

6 Coordinate and promote the operational continuity of the State, which is fundamental to implementing the financial strategy for disaster risk management

"Managing operational continuity as part of these entities' regular ongoing operation and organization"

To Guarantee operational continuity:

The SINAGERD Law recognizes that one of the subprocesses of the rehabilitation process is ensuring the continuity of indispensable public services.

PLANAGERD Specific Objective 5.2 is to "develop management of the operational continuity of the State," including the preparation of technical norms for this purpose and plans for the operational continuity of public entities.

Ministerial Resolution No. 028-2015-PCM approved a set of guidelines for the operational continuity of public entities at the three levels of Government.

The objective is to ensure that all public entities have up-to-date plans in place for operational continuity. Accordingly, the head of each agency or entity was required to present to the SDRM of the PCM a schedule for the implementation of the Norm.

MEF is working to strengthen financial disaster risk management and insurance with assistance from the World Bank's Disaster Risk Financing and Insurance Program (DRFIP), the State Secretariat for Economic Affairs (SECO) of Switzerland, and the Global Facility for Disaster Reduction and Recovery (GFDRR).

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