FACTSHEET 3

Managing Disaster Funds for Response and Recovery

Disaster Risk Financing & Insurance Program

SUPPORTED BY WORLD BANK GROUP

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Federal Department of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO

Topic 3: Disaster Reserve Funds

Component 2: Instruments for Financial Management of Disasters

Overview

DISASTER FUNDS AS A STRATEGY FOR MANAGING DISASTER-RELATED CONTINGENT LIABILITIES

Governments face a wide range of policy priorities, including protecting the national balance sheet, providing an economic stimulus as needed, reducing poverty, and dealing with disaster relief and recovery. As these competing priorities impact a country's ability to sufficiently respond to the financial impact of disasters, the Organisation for Economic Co-operation and Development (OECD) and the World Bank developed a framework to assist countries to better identify and manage their disaster-related contingent liabilities(Figure 1).

FIGURE 1: OECD AND WORLD BANK FRAMEWORK (2019).

Understanding the impacts of disaster risk on sovereign assets and liabilities plays a key part in governments being able to develop disaster risk financing strategies to reduce the costs of disasters through prearranged financing and insurance methods. Countries can then implement a suite of policies and financial instruments to arrange funding in advance of shocks, protect the fiscal balance and budget, ensure timely and sufficient access to funds, as well as the efficient execution of funds following disasters.

As no single financial instrument can meet the funding needs for all risks, employing a combination of financial instruments is necessary. The government's financial protection strategy should match the frequency and severity of expected disaster events along with associated funding needs. Figure 2 presents a framework for layering the risk and matching risk financing instruments. Other factors can include the strength of the government's legislative and fiscal frameworks, the current national balance sheet and debt levels, political and social (in)stability, and the maturity of national financial and insurance markets.

FIGURE 2: THE LAYERING APPROACH FOR RISK FINANCING

HAZARD TYPE	FINANCING INSTRUMENT		
Low Frequency/ **High** Severity	**Market-Based Instruments**	**Risk Transfer** Risk transfer to assets, such as property or agriculture insurance, and risk transfer for budget management, such as paramedic insurance, catastrophe bonds/swaps.	**International Assistance (uncertain)**
	Contingent Financing	**Contingent Credit** Financial instruments that provide liquidity immediately after a shock	
High Frequency/ **Low** Severity	**Budgetary Instruments**	**Budget Reserves/Reallocations** Reserve funds specifically designated for financing disaster-related expenditures, general contingency budgets, or spending diverted from other programs.	

Source: The World Bank Disaster Risk Finance and Insurance Program

Photo: Farhana Asnap / World Bank

Disaster reserve funds can help governments to better meet their post-disaster financing needs and improve the speed of disbursement to the intended beneficiaries while also strengthening overall fiscal stability. Establishing a disaster reserve fund as part of a holistic disaster risk finance strategy can lead to improved planning for natural disasters, facilitate greater discipline, efficiency, transparency and accountability in post-disaster spending, as well as strengthen fiscal stability after disasters. Setting aside limited amounts of cash to mitigate the effects of disaster shocks reduces the need for budget reallocations, which also lessens the negative impact of budget reallocations on economic development. In seeking to identify how much to hold in reserve, governments need to balance the opportunity costs of holding money in reserve against the need to use these funds for key development projects.

The balance struck by governments between ex-ante (those arranged before a disaster) and ex-post financial instruments (those used after a disaster) depends on factors, such as the costs and benefits of both types of activities, the incentives (and disincentives) generated by those instruments, and the nature of the hazards and risks to be protected. In this context, the webinar focuses on disaster funds as ex-ante instruments, firstly considering fund design and implementation issues and secondly, considering case studies from Australia, Indonesia, Morocco, and New Zealand.

Photo: Scott Wallace / World Bank

Part 1 - Designing and Implementing a Disaster Fund

DISASTER FUNDS – WHAT ARE THEY?

Government disaster funds take many forms, but generally involve governments creating contingency reserves/funds dedicated to expenditures to manage natural disasters with funding varying from allocated funds lapsing at year's end to multi-year disaster reserve funds allocated annually and built up over time.

Disaster funds around the world are established to achieve government policy objectives and priorities, which may vary from country to country. A recent World Bank blog identified three key reasons to establish disaster funds, including the need to be prepared, act early, and facilitate an effective response. Albania provides a recent example of how a disaster fund fulfills these needs. At the beginning of 2020, the government of Albania tapped into half of its reserves to support immediate containment and lockdown measures in response to the COVID-19 pandemic. It then doubled the size of the fund. Soon after, it increased the reserves by almost eight times the initial amount of the fund to address the increasing potential liabilities and economic measures required to respond to the pandemic (while still being prepared for other unexpected events).

Photo: © Curt Carnemark / World Bank

ADVANTAGES AND LIMITATIONS OF USING DISASTER FUNDS

TABLE 1: ADVANTAGES AND LIMITATIONS OF USING DISASTER FUNDS

Advantages	Limitations
• Funds immediately available for disbursement to minimize the impact of disasters. • Funds remain available even if no disaster occurs. • Improved transparency concerning the level of government that is responsible for various risks and disaster events. • Improved timeliness of response (allocating the funds) and fewer bureaucratic delays. • Improved transparency and accountability regarding public expenditures. • Lower costs relative to insurance, given lower payments (covering annual expected losses without any risk buffer or profit load) and lower opportunity costs, as funds set aside to meet future disaster costs earn returns. • Reduced dependency on debt financing following disasters (for example, for economies concerned about credit ratings). • Provision of a structure for inter-agency coordination, and facilitation of the earmarking of budget funds on a recurring basis. • It may be the only available ex-ante financial tool for markets lacking insurance and disaster risk financing, or where access to such markets is limited.	• Opportunity costs involved in maintaining a liquid reserve. • Time delays involved in the initial build-up of an appropriate level of funds to cover disaster risks and following any depletion of funds; less protection compared with insurance during the build-up of funds. • May prove more challenging as the level of severity and frequency of disaster-related events increases; also, it may be difficult to build up sufficient reserves. Furthermore, there may be a temptation to use the funds for other purposes. • May provide weak incentives for mitigation of specific hazards.

Source: The World Bank Disaster Risk Finance and Insurance Program

DESIGNING AND IMPLEMENTING A DISASTER FUND

Key design decisions governments need to make in relation to disaster funds include (i) policy choices – how the fund interacts with other government objectives; (ii) fund size and scope – accumulation and expenditure strategies; (iii) legal and regulatory frameworks – establishing the fund and rules of operation; (iv) fund location – within existing departments or as an independent agency; and, (v) management and oversight – including day-to-day governance.

1. Policy choices

As disaster funds are just one of several potential risk financing options for governments, designing and implementing a disaster fund requires careful consideration, specifically how the fund is intended to contribute toward a national risk financing strategy, as well as how it will complement broader government policy objectives. This requires decisions about the short-, medium- and longer-term goals for the fund and government policy priorities. At the same time, it also requires flexibility to enable governments to adapt to sudden/changing circumstances, such as global pandemics.

Photo: Scott Wallace / World Bank

2. Fund size and scope

Defining the funding strategies and financial parameters of the fund is also important, as they will collectively determine the size of the fund and its ability to respond to disaster events and meet policy objectives. Relevant issues include:

Funding sources: Will the government provide the most significant funding contributions to the fund? Will funding sources include contributions from other risk finance products? Will international organizations and donors contribute funds?

Contribution levels: How will contributions be determined? Will funding be ongoing in terms of continuity and amounts? Will it be enshrined in legislative mandates?

Accumulation levels: Governments need to decide about trade-offs, such as building accumulated financial resilience within the fund versus the opportunity costs associated with funds not being used for other government priorities, as well as the amount of risk to be transferred to reinsurers.

Ring-fencing: Will funds be formally separated from general government holdings? Will such funds be unavailable for non-fund purposes? Or will the government have greater flexibility to use those funds to deal with extraordinary circumstances?

Expenditure of funds: What will be the triggers for funds to be allocated? Types of disasters, size, and so on? Will funds be set aside for resilience as well as disaster relief and recovery? Will the focus be on certain areas, such as health and housing, or other areas such as infrastructure?

Delivery of funding: One of the key policy objectives of the fund should be to provide for the faster and more effective delivery of funds to where they are needed most. The rapid mobilization of funds through dedicated funding 'pipelines' is vital to ensure support for emergency relief efforts. Part of this challenge involves establishing budget execution systems to address specific post-disaster challenges, usually in collaboration between the fund and key government agencies, such as finance ministries or public infrastructure agencies.

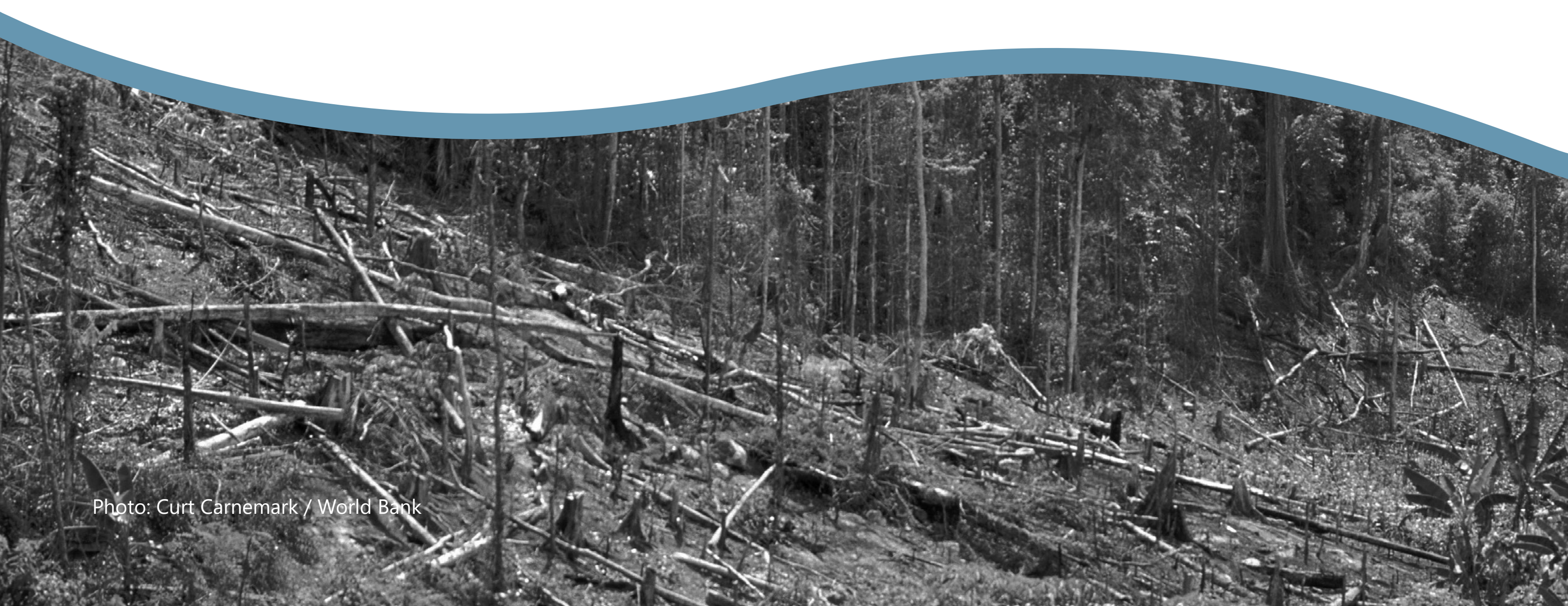


Photo: Curt Carnemark / World Bank

3. Legal and regulatory framework

Once key aspects of policy and funding design have been agreed upon, the next step is to consider how the fund can be activated and given legitimacy under existing government institutional frameworks, such as national constitutions and parliaments. Often, the basic elements of the fund have already been created through legislative processes, such as establishing the initial mandate for the fund. Once these choices have been determined, consideration then turns to choosing the right process to fully establish the fund.

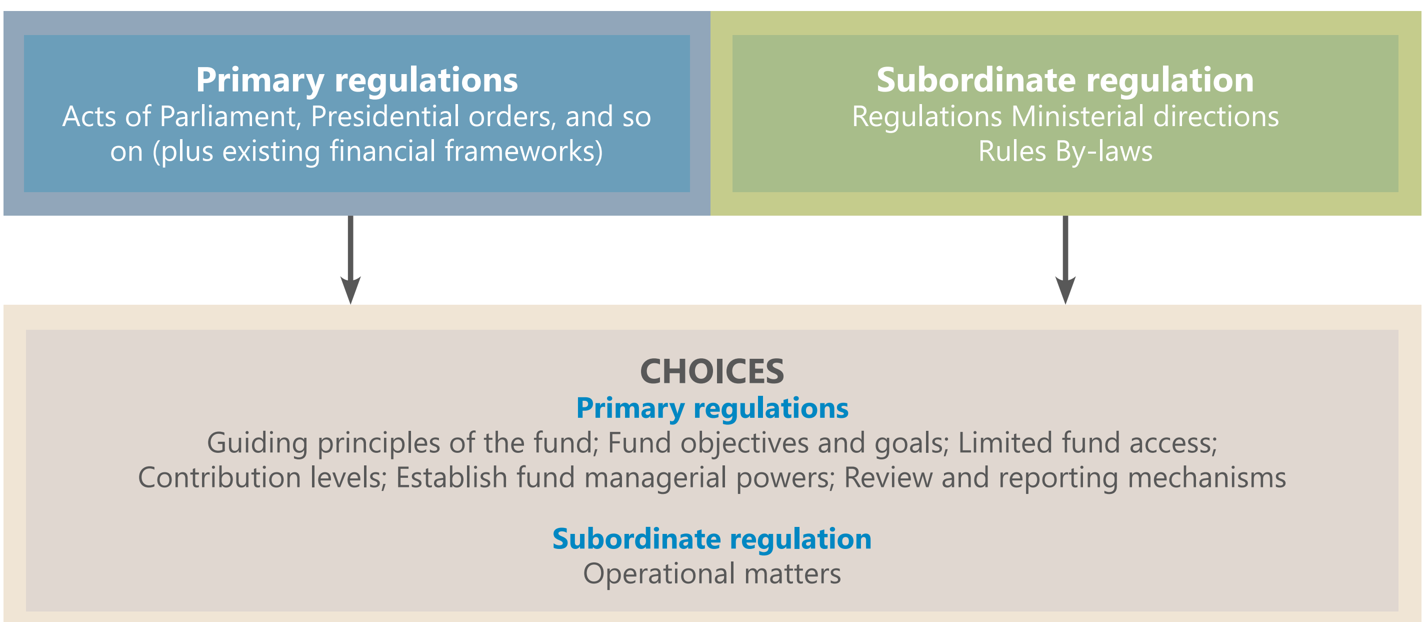
As noted in Figure 3:

- If the government expects the fund to have a longer-term focus, it is preferable to use frameworks that only allow for the fund's overarching policy parameters to be modified in a transparent manner. For example, if the fund is established through legislation or an act of Parliament, then the same legislative process should be used to change key aspects of the fund.

- By comparison, operational aspects of the fund - which are likely to require regular changes over the short-to-medium term - should not be 'hard wired' into legislation, as the relative inflexibility of amending/changing laws can lead to relatively minor fund changes being unnecessarily delayed, thereby impacting the efficacy of meeting day-to-day operational needs. Subordinate laws (regulations, ministerial directions, rules, and by-laws) tend to be more appropriate because they can be amended relatively easily, but still offer both transparency and accountability.

Ultimately, however, the approach taken in each country will depend on the regulatory institutions in place, as well as the existing laws, rules, and practices.

FIGURE 3: INSTITUTIONAL AND LEGAL FRAMEWORKS FOR ESTABLISHING FUNDS



Source:The World Bank Disaster Risk Finance and Insurance Program

4. Fund location

From an organizational perspective, governments also need to consider how and where the program will be established. Options could include:

Keeping the program within an existing government department, such as the Finance Ministry. This might be preferable if there is a strong desire to closely manage the funding and the time frames to establish the fund are tight.

Establishing a unit within an existing department with limited independence (that is, with separate bank accounts and increased decision-making capacity).

Establishing an independent government agency to manage the program. This may also improve the fund's ability to respond quickly and efficiently to disasters, as the agency may be less constrained by unnecessary bureaucratic processes.

5. Management and oversight

Effective governance is critical to the smooth operation of the fund. Strong governance mechanisms enhance accountability and responsibility, encourage trust between the fund and the government/community, improve reporting, and help realize potential policy benefits. Governance options can include:

Oversight by the Parliament.

If the fund has Parliamentary or Presidential authority, then there could also be regular parliamentary oversight through annual reports, attendance before parliamentary committees, or regular audits by the Auditor-General.

Regular meetings about the fund with the Minister responsible for the fund and their department, and/or regularly reporting to them.

Every 3-5 years, the government could commission an independent review of the fund and its performance to see if changes are required.

Photo: Simone D. McCourtie / World Bank

Conclusion

Disaster reserve funds can provide governments with significant opportunities to meet their post-disaster financing needs as part of a comprehensive disaster risk financing strategy. Importantly, disaster funds can significantly improve the efficiency and effectiveness of how funds are disbursed to those most affected by disasters, not only by lessening the impacts, but by quickening recovery and reconstruction.

However, achieving these potential benefits requires governments to make important choices about how the funds will form part of a disaster risk financing strategy, including the financial parameters of the fund (accumulation and expenditure policies) and fund governance (regulatory arrangements, location, and oversight).

As the case studies here show, there are a range of choices/options available that fall within the boundaries of policy clarity and strong and transparent governance. These also allow for tailor-made solutions that recognize local laws, customs, and cultures.

Photo: © Curt Carnemark / World Bank

Part 2 –Country Case studies

1. MOROCCO

Policy choices: How the fund interacts with other Government objectives

Morocco is exposed to geological - and climate-related hazards, suffering an annual average loss from natural catastrophes of over US$ 800 million, or 0.8 percent of Morocco's gross domestic product (GDP). In the last few years, with the support of the Program, Morocco has established the Solidarity Fund against Catastrophic Risks (Fonds de Solidarité contre les Evénements Catastrophiques, [FSEC]) and a private insurance scheme to provide financial protection to the entire population of Morocco, including all businesses and industries. The FSEC has been operational since January 2020. It provides partial financial compensation, including to the poorest and most vulnerable, in case of bodily injury or loss of principal residence caused by a catastrophic event.

Morocco has been actively working toward a more integrated disaster risk finance and management governance approach. In February 2021, the government adopted its first National Disaster Risk Management Strategy (2020-2030). The strategy is centered around five strategic axes[1] and fifteen programs. As such, it represents a major milestone in the strengthening of Morocco's institutional framework for disaster - and climate-related risk management. In addition to these strategies, the government is also implementing a risk management reform program.

Fund size and scope: Accumulation and expenditure strategies

The FSEC's financing is backed by a combination of financial instruments in accordance with its financial strategy, with a key contribution of regular revenues deriving from a parafiscal tax (of approximately US$ 22 million per year) to ensure that running costs and risk transfer premiums can be financed. Current estimates are that both public and private programs combined address about 25 percent of losses on assets covering mostly private property and casualty. The strategy provides about US$ 100 million in compensation every year, including rapid disbursement mechanisms within weeks after an event[2]. The overall risk financing strategy of the Ministry of the Economy and Finance (MEF)/Department of Treasury and External Finance (DTFE) is detailed in Figure 4.

Legal and regulatory frameworks

Morocco's public and private disaster schemes, effective since December31, 2019, are based on implementation decrees related to Law 110-14. The Law, which was passed in August 2016, established a dual mechanism of private insurance and public compensation to respond to natural and man-made disasters.

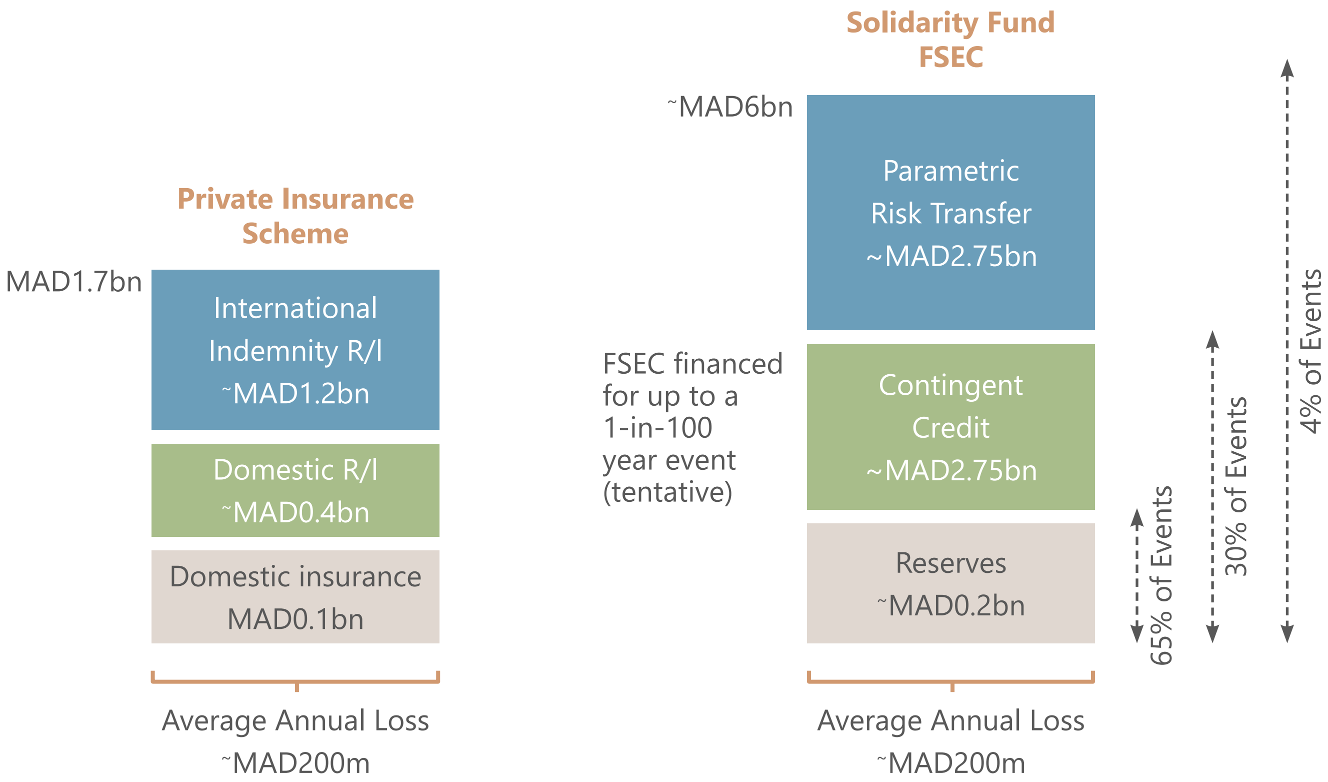
Fund location

The FSEC is a stand-alone, public solidarity fund under government supervision.

1- The five strategic axes include: (i) Strengthening Governance; (ii) Promoting Scientific Research, International Cooperation and Capacity Building; (iii) Improving the Understanding and Evaluation of Natural Risks; (iv) Preventing Natural Risks and Developing Resilience; and (v) Preparing for Natural Disasters for a Fast Recovery and Better Reconstruction.

2 - World Bank Group presentation: Morocco's National Catastrophe Risk Insurance Programme (X CAT actuarial model, v6.0), March 30, 2020.

FIGURE 4: MOROCCO: MEF/DTFE OVERALL RISK FINANCING STRATEGY



Source: Morocco Ministry of Economy and Finance and The World Bank Disaster Risk Finance and Insurance Program

Note: FSEC = Solidarity Fund against Catastrophic Risks; MAD = Moroccan Dinar.

2. NEW ZEALAND

Policy choices: How the fund interacts with other Government objectives

The Earthquake Commission (EQC) is a New Zealand Government entity whose key roles involve providing insurance to residential property owners and undertaking natural disaster research and education. The EQC covers the first loss for damage to homes caused by natural disasters, up to a specified cap (currently New Zealand dollar [NZD]$ 150,000), with private insurers topping up payments in accordance with people's insurance policies. In its Annual Report of 2018-19, the EQC reported that New Zealand's rate of house insurance was at 98 percent.

During 2010 and 2011, the Canterbury region experienced the most significant earthquake sequence in New Zealand's modern history. The EQC received more than 583,000 claims for damage to approximately 168,000 residential dwellings from this event sequence. A recent government review of the EQC's response to the 2010 and 2011 earthquakes[3] found that the EQC was unprepared for an event of this size. It also found that the provisions of the EQC Act of 1993 were outdated, thus hampering recovery efforts. The New Zealand Government is now in the process of significantly reviewing and revising New Zealand's emergency management system, which includes revising the EQC Act, as well as the EQC's roles and functions.

3 - Report of the Public Inquiry into the Earthquake Commission, Government of New Zealand, March 2020. https://eqcinquiry.govt.nz/

Fund size and scope: Accumulation and expenditure strategies

The EQC pays damage claims from a Natural Disaster Fund, which is funded from levies received from New Zealanders as part of their home and contents insurance policies, as well as investment returns from the Fund. In 2010, prior to the Canterbury and Kaikoura earthquakes, the Fund had over NZD$ 6.1 billion in accumulated funds. The EQC levy was increased from November 1, 2017 to allow the EQC to rebuild the Natural Disaster Fund to NZD $ 1.75 billion by 2030 - assuming there are no further large natural disasters.

Since 1988, the EQC has purchased reinsurance from world markets on an annual basis[4]. The EQC also pays NZD $ 10 million to the Crown annually from the Natural Disaster Fund for the Crown Guarantee. This provides a guarantee to the EQC that all of the claims made to the EQC will be met by the government if the Fund is fully spent. In November 2018, the EQC drew down the funds under the Crown Guarantee for the first time. To date, the EQC has received around NZD $ 200 million under the Crown Guarantee. Through the operation of the Crown Guarantee Deed, the EQC maintains a minimum balance of NZD $ 50 million in the Fund to ensure that it has sufficient resources on hand to meet its financial obligations as needed.

Legal and regulatory frameworks

The EQC was first established in 1945 (as The Earthquake and War Damages Commission) following the 1942 Wairarapa Earthquake. The EQC's roles, functions and operations are established under the Earthquake Commission Act of 1993 and the EQC Regulations.

Fund location

The EQC is an independent government entity, with a board and chief executive. It is accountable to the Minister overseeing the EQC.

Management and oversight

In addition to reporting to the Minister, the EQC Board is also required to provide annual reports to the Parliament. It is required to provide reports and Statements of Performance under the Crown Entities Act. The New Zealand Treasury also undertakes a quarterly monitoring of the EQC's performance.

4 - In 2019, the EQC paid NZD $ 120 million in reinsurance premiums for NZD $ 6.2 billion in reinsurance coverage.

Photo: © Curt Carnemark / World Bank

3. AUSTRALIA

Policy choices: How the fund interacts with other Government objectives

The Australian Government's liability insurance fund (Comcover) was established on July 1, 1998 in response to the recommendations of a 1997 government review. The review found that the Australian Government needed to consolidate the management and insurance of Australian Government assets, as each agency had been separately managing its own risks - without effective scrutiny by a central agency.

Comcover's primary policy goals are to promote best practices in risk management by Australian Government agencies. Specifically, it aims to improve policy and program/service delivery; deliver a net benefit to the budget over the long term; and provide a comprehensive insurance fund to protect against insurable losses to Australian Government assets.

Disaster funding in relation to subnational and community liabilities is dealt with through other policy mechanisms, in particular: a. The Disaster Recovery Funding Arrangements (DRFA)[5], which outlines the conditions for national funding of state (subnational) and individual natural disaster relief. b. A disaster recovery fund which provides up to US$ 150 million per year; and c. The National Recovery and Resilience Agency, which oversees US$ 750 million in funding over four years for mitigation, resilience and recovery activities.

Fund size and scope: Accumulation and expenditure strategies

When Comcover was first established in 1998, all risks above US$ 20 million were transferred to reinsurers. In 2003, the Government began self-insuring and stopped transferring risk to the financial markets, largely due to its ready access to internal funds and its ability to increase funds through taxes, if necessary. Comcover's current policy is that it should be fully self-funded (that is, with no external risk transfer). Budget funding would be obtained only if assets fall below zero; funds would be returned to the budget if assets exceed US$ 100 million. Comcover's funds, although administratively/notionally separate, are housed within the government's overall consolidated revenue fund.

Legal and regulatory frameworks

Comcover's institutional framework consists of a combination of the following: a. A governmental decision to establish the fund (rather than legislation). b. A ministerial determination from the Finance Minister (subordinate legislation) to establish a special account that administratively manages the Comcover fund, and c. Administrative arrangements within the Department of Finance to manage the fund.

By comparison, the Emergency Response Fund and the National Recovery and Resilience Agency were established under national laws passed by the Parliament.

5 - https://www.disasterassist.gov.au/disaster-arrangements/disaster-recovery-funding-arrangements

Fund location

Comcover is not an independent agency. Rather, it is a small sub-unit of 20+ people within the Department of Finance.

Management and oversight

Comcover regularly reports to a junior Finance Minister, and it reports biannually to the Parliament concerning its financial performance. Also, it is subject to audits by the Auditor-General. The Australian Government commissioned independent reviews of Comcover in 2007, 2011, and 2014, all of which supported continuing the fund in its present form.

Photo: Ray Witlin / World Bank

4. INDONESIA

Policy choices: How the fund interacts with other Government objectives

Between 2007 and 2018, disasters in Indonesia claimed 7,375 lives and displaced 55,000,000 people, with annual economic losses of approximately US$ 2.2 to US$ 3 billion (equivalent to 0.2-0.3% of the country's 2018 GDP). From 2014 to 2018, the central government spent between US$ 90 million and US$ 500 million annually on disaster response and recovery, and local governments spent an estimated additional US$ 250 million over the same period[6].

In October 2018, the Government of Indonesia issued a National Disaster Risk Finance and Insurance Strategy aimed at strengthening Indonesia's fiscal and financial resilience to natural disasters and health shocks. A key element of the strategy involved the establishment of a Pooling Fund for Disasters (Pooling Fund uUntuk Bencana, PFB). The PFB is a dedicated fiscal mechanism to ensure effective access to sufficient resources for disaster response, as well as to streamline the execution and transparency of spending.

Indonesia's PFB was established within the overarching policy objective of Indonesia's Disaster Risk Financing and Insurance (DRFI) Strategy, which is to *"Protect state finances and the population through sustainable and efficient risk financing mechanisms that meet disaster-related expenditures in a planned and timely manner and deliver well targeted and transparent assistance following shocks*."

Fund size and scope: Accumulation and expenditure strategies

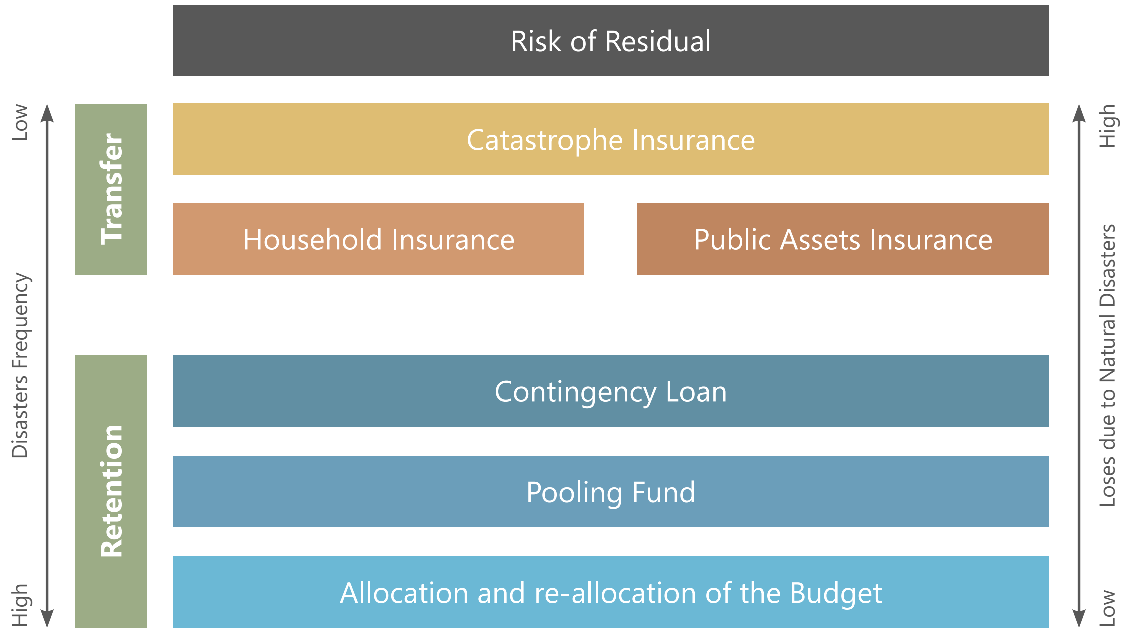
The Government intends for the PFB to become the central mechanism for managing its disaster-related contingent liabilities in a cost-efficient manner. As such, it has committed to providing regular budget funding to the PFB. Thus far, it has allocated US$ 71.5 million to each of the 2019 and 2020 budgets, with similar amounts also committed to the 2022 and 2023 national budgets.

In addition to direct budget contributions, the PFB will also allow for additional domestic contributions, funds from international partners, and/or insurance payouts. The World Bank approved a US$ 500 million loan in January 2021 to support implementation of the country's DRFI strategy through the establishment and operationalization of the PFB. Support to this effort has also been provided through various trust funded programs over the years by development partners, including Germany, Japan, Switzerland, and the United Kingdom.

The Indonesian Government has also indicated that the PFB is expected to play a role within the proposed risk layering arrangement depicted in Figure 5.

6 - https://www.worldbank.org/en/news/press-release/2021/01/21/strengthening-indonesias-fiscal-resilience-to-natural-disasters-and-health-related-shocks

FIGURE 5 – PROPOSED INDONESIAN RISK LAYERING ARRANGEMENT



Source: Government of Indonesia Disaster Risk Finance and Insurance Strategy

The PFB's funds are to be ring fenced from other government accounts. Work is ongoing to define the governance and technical requirements for the fund pool. The World Bank is supporting these steps through the sharing of international experience, technical analysis, and capacity building.

Legal and regulatory frameworks

The PFB was established pursuant toa range of national laws that govern government entities. Other key functions, including funding, will require additional regulation, including a presidential regulation and integration into the budget law, as well as the national medium-term development plan.

Fund location

The Indonesian Government considered several options in establishing the PFB, including as a separate state-owned enterprise or a public service agency. The preferred option is to manage the PFB through a new public service agency (Badan Layanan Umum or BLU) under the supervision of the Ministry of Finance. Advantages of this approach are likely to include an increased operating flexibility that is not usually available to government departments. This may also include the ability to design and implement its own governance structure, and procurement and recruitment practices. It would also be able to accumulate budget surpluses across multiple fiscal years.

About the Swiss State Secretariat for Economic Affairs (SECO) and the World Bank Program for Disaster Risk Finance and Insurance in Middle-income Countries.

Middle-income countries face fiscal challenges in effectively responding to disasters. Relief, recovery, and reconstruction efforts are often constrained by limited fiscal capacity and capability, with many governments often relying on short-term international support as their primary source of post-disaster funding. Establishing the appropriate risk financing strategies can help to address these challenges and build national resilience.

Since 2012, SECO and the World Bank's Disaster Risk Financing and Insurance Program (DRFIP) have developed a joint program to support middle-income countries (MICs) in building their financial resilience to withstand natural disasters. The Sovereign Disaster Risk Financing and Insurance Program for Middle-Income Countries (the Program) is one component of a broader World Bank-SECO partnership to address fiscal risk management in MICs. The Program provides tailored advisory services and institutional capacity building for public financial management of natural disasters.

The Program's outcomes over the last eight years have been significant. Participating countries have improved their understanding of the financial and other impacts of natural disasters and have made significant regulatory, institutional,and operational changes to improve financial planning for disasters. In addition, they have successfully adopted innovative risk financing instruments.

As part of the Program, this series of webinars aims to assist governments in building an understanding of and developing and implementing more effective and cost-efficient financial protection strategies. Such strategies are key to better managing governmental disaster-related contingent liabilities and risks. In the process, they are also becoming more effective risk managers. Thus, this series also aims to bring countries together to share knowledge, experiences, and good practices concerning disaster risk financing.

Photo: Scott Wallace / World Bank

FACT SHEET 3: MANAGING DISASTER FUNDS FOR RESPONSE AND RECOVERY

Test your understanding and record your insights through this easy, DIY worksheet!

Activity 1: Can you list any three objectives/key reasons - relevant to your country – to establish disaster funds?

	Objectives/Key Reasons to Establish Disaster Funds
Objective 1:	
Objective 2:	
Objective 3:	

Activity 2: Given below are some statements about setting up disaster funds. Identify whether the statements are advantages or disadvantages in setting up disaster funds.

#	Statement	Advantage	Disadvantage
1.	Funds immediately available for disbursement to minimise the impact of disasters.		
2.	Opportunity cost of maintaining a liquid reserve.		
3.	Funds are still available even if no disaster occurs.		
4.	May provide weak incentives for mitigation of specific hazards.		
5.	Reduces dependency on debt financing post disaster.		
6.	Improved transparency about which level of government is responsible for which risks and disaster events		
7.	Can lower costs relative to insurance given lower payments.		

Activity 3: Match the five key decision areas for governments in designing and implementing a disaster fund with their descriptions and actions.

#	Key Decision Areas			Descriptions and Actions
1.	Policy choices	Select One	Select One	Decisions about funding strategies and financial parameters such as funding sources, contribution levels, accumulation levels, delivery of funds, etc.
2.	Fund size and scope	Select One	Select One	Decisions about how the fund can be activated and given legitimacy under existing government institutional frameworks, such as national constitutions and parliaments.
3.	Legal and statutory framework	Select One	Select One	Decision on building strong governance mechanisms to enhance accountability and responsibility, encourage trust between the fund and the government/ community, improve reporting, and help realize potential policy benefits.
4.	Fund location	Select One	Select One	Decisions about short, medium and longer term goals for the fund and government policy priorities
5.	Management and oversight	Select One	Select One	Decisions on how and where the program is set up from an organizational perspective.

Activity 4: Reflections

[1] My Top 2 Takeaways from this Factsheet are:

[2] Two concepts/ideas I would like more information on are: