DISASTER RISK FINANCE COUNTY PROFILE

SERBIA

Disaster Risk Financing & Insurance Program

SUPPORTED BY WORLD BANK GROUP

30 percent of the country is at risk of landslides.

$500 million per year or 1.4 percent of current GDP is lost due to drought alone each year. Flooding is a recurring event across the country .

2014 FLOODS

€1.7 billion in total damage and losses was suffered. This equivalent to approximately 4.8 percent of Serbia's GDP

110,000 customers faced interruptions in their electricity supply and two-thirds of Serbia's coal production was lost when open-pit mines were flooded

51,800 people temporarily lost their jobs as a direct consequence of the floods, about because of the interruption in production activities

125,000 people fell below the poverty line after the 2014 floods. This was an increase of almost 7 percent compared with the level of the previous year.

€1,346 million was the estimated financial resources required for post-disaster needs after the floods. Of this **€403 million (30 percent of the total)** was needed for recovery activities and **€943 million (70 percent)** for reconstruction requirements

Following devastating floods in 2014, the Government of Serbia has taken important steps towards moving from emergency response to proactively managing and reducing the risk from disasters. The country is enhancing its legal and institutional Disaster Risk Management framework, focusing on actions to build resilience in the context of and the Sendai Framework for Disaster Risk Reduction.

Case Study: 2014 Floods

There exists limited information on overall resources spent on disaster response. The only reliable data exist for the floods of May 2014. While the government has contingent budgetary reserves and a number of other financial mechanisms, Serbia currently does not have an explicit strategy or policy in place to systematically manage the financial impact of natural disasters.

As a result of extraordinary rains in May 2014, Serbia was affected by the most severe flooding in 120 years. The disaster affected 1.6 million people approximately 22 percent of the total population,in more than two-thirds of the country's municipalities. The floodwaters destroyed and damaged property, crops, and national and local infrastructure including schools, hospitals, roads, bridges,and water management infrastructure.

According to a GFDRR-supported assessment, the total cost of the damages and economic losses from the disaster was estimated at €1.7 billion, which was equivalent to 4.8 percent of Serbia's gross domestic product. €1,346 million was the estimated financial resources required for post-disaster needs after the floods. Of this €403 million (30 percent of the total) was needed for recovery activities and €943 million (70 percent) for reconstruction requirements.

Building on the assessment's results, GFDRR and the EU partnered to assist Serbia in developing a national framework to institutionalize DRM, focusing on disaster risk identification, risk monitoring, and early warning systems. In December 2014, the government approved the National Disaster Risk Management Program, a comprehensive program for disaster resilience, intended to be used as an umbrella framework to coordinate, channel funds, and implement activities related to reducing and managing risks in Serbia

This program identified six components to be championed including institutional strengthening; risk identification and monitoring; structural and non-structural risk reduction measures; preparedness and early warning; disaster risk financing and insurance solutions; and resilient recovery planning. To further strengthen the program key gaps were identified within these components and a renewed focus was placed on coordination; capacities; financing; public awareness and political will.

The Lessons learned during the 2014 floods helped the government identify important gaps in its disaster risk management system, such as a need to design and pass a strategic and institutional framework for natural disaster risk management as soon as possible. In December 2015, the Government Office for Reconstruction and Flood Relief led the preparation of two new pieces of legislation: the Disaster Risk and Crisis Management Law and the Law on Reconstruction Following Natural and Other Hazards, with support from United Nations Development Programme (UNDP) and the World Bank.

Did you know? Serbia did not change its tax policy after the floods in 2014, despite the fact that many types of additional solidarity taxes were introduced in other countries (such as Republika Srpska within Bosnia and Hercegovina in 2014) to generate funds for post-disaster expenses.

Overview of existing mechanism to finance disaster response in Serbia

Disaster risk	Financing source available	Amount of funds available
High-risk layer (e.g., major floods, major earthquakes)	Donor assistance	Unpredictable and unreliable (e.g., in 2014 the total commitment was €235 million, often in kind)
	Emergency borrowing	Unpredictable (e.g., €227.5 million drawn from World Bank for 2014 floods emergency recovery)
	Insurance of public assets	Unclear but very low
Medium-risk layer (e.g., regional floods, minor earthquakes)	Contingent financing	Not currently available ($100 million CAT DDO is in early preparation)
Low-risk layer (e.g., localized floods, droughts, landslides)	Budget funds: Permanent Budgetary Reserve	€17,000 (originally budgeted, increased one-off by 2014 supplementary budget to almost €20 million)
	Budget funds: Compensation for Damage Caused by the Natural Disasters (account 484)	€700,000 (originally budgeted, increased one-off by 2014 supplementary budget to approximately €1.5 million)
	Budget reallocation	Unclear (10 percent of each appropriation available immediately; higher if supplementary budget is passed)

There are a limited number of disaster risk financing and insurance (DRFI) instruments] available in Serbia, but the government currently relies largely on ex post instruments such as budget reallocation, emergency borrowing, and donor financing.

The current financing available for disaster response is insufficient even to cover recurrent losses, representing a significant resource gap.

The government remains particularly exposed to more extreme events, relying heavily on international donor assistance for relief, recovery, and reconstruction. For the response to the May 2014 floods, only a fraction offinancing came from public funds; the majority were from donations and emergency loans.

As of October 2015, the funding gap for recovery and reconstruction efforts still amounted to over €830 million.

Our Work

To enhance Disaster Risk Management and flood prevention systems in Serbia, a dedicated trust fund was set up in 2015 with financing from the European Union, Switzerland, and the World Bank, and managed by GFDRR. The fund supports implementing the National DRM Program, and activities will aim at reducing existing flood risk and avoiding the creation of future flood riskin the country. The activities are being co-implemented by GFDRR, the World Bank, and national authorities, with GFDRR and the World Bank responsible for areas including developing flood risk maps and integrating them in the national water information system, strengthening capacity and institutional frameworks for risk assessment, early warning and preparedness, and coordination and management activities.

A country diagnostic report and a workshop in Belgrade in April 2016 identified a list of policy priorities around which the government could design a financial protection strategy to strengthen financial resilience.

Recommended next steps:

1: **Strengthen financial planning for disasters at all levels**. All local self-governments could prepare action plans for disaster risk finance, based on the national DRFI strategy.

Budget mobilization

2: Reconsider both the size and the use of contingency funds. The Ministry of Finance could re-evaluate the size of its contingency budgets and reserves for disaster response, with the goal of being able to meet annual expected disaster losses through these funds.

3: Utilize contingent credit to access rapid liquidity following disaster shocks. Serbia is eligible for a contingency credit from the World Bank (CAT DDO), through which it could access up to $100 million immediately after a disaster to serve as bridge financing until other domestic funds can be reallocated or international aid is received.

4: Explore innovative risk transfer to provide municipal governments with immediate liquidity. The government could explore innovative risk transfer mechanisms for strengthening the financial resilience of local self-governments by providing access to critical funds following disasters.

Budget execution

5: Create clear rules and guidelines for the financing of disaster response through budgetary means. The government could consider developing clear guidelines for post disaster budget reallocation to increase efficiency and transparency.

6: Explore the establishment of a national disaster fund. The government could explore the possibility of establishing a national disaster fund in order to channel funds for the full disaster risk management cycle through one budgetary tool. The fund resources could accrue over time, subject to budgetary system constraints and estimation of the opportunity costs and benefits of such an accrual. Such a fund could also finance prevention measures to reduce damage from future disasters.

Reducing the government's contingent liability

7: Strengthen insurance penetration. The government could consider promoting a culture of insurance and help develop private catastrophe risk insurance markets. The government could also consider developing a program for insuring public assets and critical infrastructure. This could also serve as an incentive to invest in better risk assessment and risk reduction activities (such as retrofitting) to reduce losses and lower the cost of insurance.

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