Disaster Risk Financing & Insurance Program

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Financial Protection in Southeast Asia

Supporting the preparation and implementation of the Southeast Asia Disaster Risk Insurance Facility (SEADRIF) Program

Federal Ministry for Economic Cooperation and Development

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Why is financial protection important to reduce poverty and increase shared prosperity?

Financial losses from natural disasters continue to rise. Developing countries and their low-income populations experience the greatest impacts.

Recurring floods and other natural disasters affecting the livelihoods of large populations are a major challenge in Southeast Asia and often leave governments with a critical need for short-term liquidity to finance response and recovery.

The Disaster Risk Financing and Insurance Program (DRFIP) leads the dialogue on financial resilience as part of the World Bank Group's effort to support more than 50 vulnerable countries in better managing disasters and climate shocks.

The Southeast Asia Disaster Risk Insurance Facility (SEARDIF) program aims to improve governments' capacity to rapidly finance response to climate- and hazard-related disasters.

How we support governments

Recurring floods and other natural disasters affecting the livelihoods of large populations are a major challenge in Southeast Asia and often leave governments with a critical need for short-term liquidity to finance response and recovery. **The Southeast Asia Disaster Risk Insurance Facility (SEADRIF) Program is a regional approach to disaster risk finance that aims to increase governments' fiscal capacity** to manage the financial impact of natural disasters, and improve access to rapid response financing for emergency response.

Regional Engagement:

Financial protection against disaster and climate shocks, especially regional solutions with a focus on Asia, have **received significant attention in policy dialogues such as ASEAN** (Association of Southeast Asian Nations), ASEAN+3, G7, and G20. The ASEAN+3 finance ministers highlighted SEADRIF as a key initiative to strengthen regional cooperation on financial resilience against climate and disaster risks. The Joint Statement of the ASEAN+3 Finance Ministers' Meeting in Japan on May 5, 2017, welcomed the efforts of the original SEADRIF members and invited additional countries to join.

Our Work in Cambodia, Lao PDR and Myanmar

Background

Since 2013, all three countries have experienced large floods, resulting in losses totaling billions of U.S. dollars. The most recent 2015 Myanmar floods alone displaced 1.6 million people and caused an estimated US$1.5 billion in total losses and damages. Preliminary analysis of historical data indicates that the governments face significant emergency response costs for floods. For example, it is estimated that on average every year, the government of Cambodia faces costs of US$54 million for emergency response. The estimated emergency response costs for the devastating 2000 flood were far higher than average at US$264 million.

Challenge

Significant short-term funding gap to meet emergency response costs: The three governments have allocated contingency budgets that can support emergency response. They remain exposed to catastrophic events, however, and are still relying on ad hoc international donor assistance. Consider the case of Lao PDR: every year the government faces a 10 percent probability (possibility of a 1-in-10 year event) that the annual cost of¬ emergency response could exceed US$36 million. But the total resources available to the government for disaster response are just US$22 million—a US$12 million contingency budget (not solely reserved f¬or disasters) plus a state reserve budget o¬f $10 million. When these resources are compared to the estimated US$46 million emergency response costs for the 2013 flood or the estimated emergency response cost of a 1 in 10 year flood event (US$36 million), a substantial funding gap exists. Myanmar and Cambodia also face funding shortfalls.

Intervention

SEADRIF Program is a regional approach to disaster risk finance that aims to increase governments' fiscal capacity to manage the financial impact of natural disasters, and improve access to rapid response financing for emergency humanitarian response.

What do we do

The SEADRIF Program supports ASEAN countries, initially focusing on Cambodia, Lao PDR, and Myanmar, to implement national- and regional-level financial protection solutions. SEADRIF also provides governments with advisory services on disaster risk finance and insurance to develop and implement national disaster risk finance strategies, complementing the regional financial solutions that reduce the financing gap. The SEADRIF Program is implemented at **two levels:**

At the national level, the SEADRIF Program helps countries take stock of existing disaster risk finance mechanisms, develop a national disaster risk finance strategy, and improve the public financial management of climate and disaster risks. The World Bank Group is providing a comprehensive set of financial and advisory services on DRF to Cambodia, Lao PDR, and Myanmar. This set of services is embedded in disaster risk management lending operations that also include resilient infrastructure and hydromet investments.

At the regional level, the SEADRIF Program supports the preparation and implementation of the proposed regional catastrophe risk pool. The risk pool will complement national mechanisms by providing access to additional immediate liquidity in case of severe disasters. SEADRIF is not designed to finance all disaster losses, but rather to provide rapid financing for response and early post-disaster recovery.

How does SEADRIF Work?

The Southeast Asia Disaster Risk Insurance Facility (SEADRIF) is a catastrophe risk pool is comparable to a reinsurance-based disaster liquidity facility, providing participating countries with immediate financing for response in the aftermath of a natural disaster. SEADRIF's **key functions** are to:

- **Build regional reserves** to finance losses from small and medium events;
- **Liaise with donors** to capitalize the fund;
- **Pool country-level disaster risks** into one diversified regional portfolio;
- **Access international reinsurance markets** on competitive terms.

Benefits of SEADRIF:

Indicative premium savings in excess of 25 percent compared to the cost if countries were to access the international reinsurance markets individually; savings arise from premium reductions due to catastrophe risk pooling and risk retention of first losses.

Reduced reliance on disruptive national budget reallocations or uncertain humanitarian assistance.

Established and owned by participating Southeast Asian countries.

International support from donors, who see SEADRIF and its innovative financial products promoting ownership, accountability, and transparency.

The initial SEADRIF members are Cambodia, Lao PDR, and Myanmar, but SEADRIF is expected to attract other ASEAN countries to join after its launch in 2019.

Partnerships

The World Bank Group's Disaster Risk Financing and Insurance Program (DRFIP) is a joint program of the Finance and Markets Global Practice and the Global Facility for Disaster Reduction and Recovery (GFDRR). As a leading partner of developing countries, it helps governments, businesses, and households manage the financial impacts of disaster and climate risk without compromising sustainable development, fiscal stability, and wellbeing.

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GFDRR
Global Facility for Disaster Reduction and Recovery