

# Disaster Risk Financing

**START**  
NETWORK

Nordic Innovative Finance Forum

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Anna Farina and Amadou Diallo

# Agenda

1. What is Disaster Risk Finance and why is it needed?
2. Examples from Start Network practice – ARC Replica

# **1: What is Disaster Risk Finance and why is it needed?**



## SLOW

**RISK-AVERSE**

Which increases  
**TRANSACTION COSTS**



## CENTRALISED

**TOP-DOWN**

**DECISION-MAKING** not based on  
local expertise and knowledge



## REACTIVE

**MEDIA ATTENTION**

And **POLITICAL WILL** drive responses  
instead of humanitarian need



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**WE BELIEVE THAT THE CURRENT HUMANITARIAN SYSTEM  
IS NO LONGER FIT FOR PURPOSE**

WHAT IF FUNDING  
COULD BE RELEASED  
EARLIER

ENABLING  
INTERVENTIONS AT  
A FRACTION OF THE COST

MITIGATING THE  
IMPACTS OF CRISES  
AND SAVING LIVES

## HOW DO WE GET FROM THIS



We receive a warning



We don't react



People suffer



It is expensive

## TO THIS



We receive a forecast



We act early



Lives are saved



We save costs

## What is Disaster Risk Finance?

**Disaster Risk Finance** is an **approach** that includes three key components:

- Understanding and quantifying risk (frequency and intensity) 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 happens

A number of instruments are available as part of disaster risk financing systems, including insurance-based (ARC Replica), trigger-based (DRF/FbF system), and local contingency funds - all with the aim of mitigating negative impact of disasters.

# WHAT COULD DISASTER RISK FINANCE OFFER

## IMPROVED FINANCIAL PREPAREDNESS



### QUALITY

Faster, better planned actions to manage risks and impacts



### LOCALISATION

More time to involve national and community actors and define roles in advance of any crisis occurring



### EFFICIENCY

Trigger-based allocation of resources opens up risk layering options in which different financing instruments can respond to different types of events, at different points of an emerging crisis

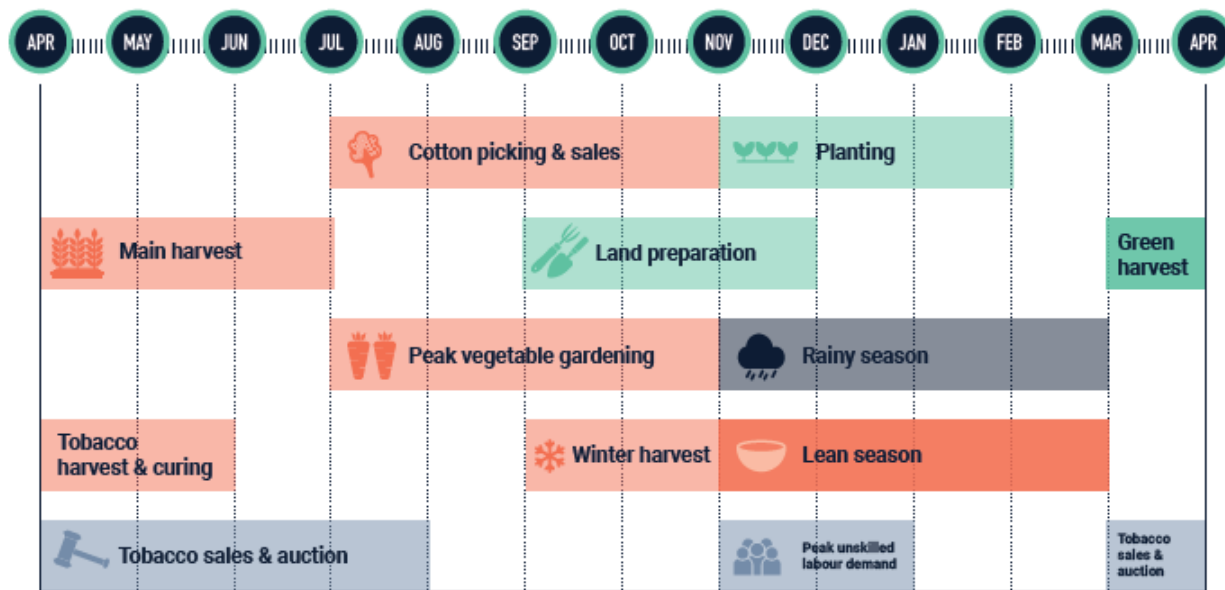
## PROTECTION OF LIVELIHOODS AND ASSETS

# IMPACT BEFORE INSTRUMENTS

WHO NEEDS TO BE PROTECTED, WHEN AND HOW?

WHAT WINDOWS OF OPPORTUNITY EXIST TO PROTECT ASSETS, LIVES AND LIVELIHOODS?

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EXAMPLE:  
NOVEMBER (PLANTING) AND MARCH (POST-HARVEST) EARLY ACTION WINDOWS IDENTIFIED AS PRIORITIES BY START NGOS IN ZIMBABWE



NO SINGLE  
FINANCIAL  
INSTRUMENT  
CAN ADDRESS  
ALL RISKS

## THREE TIERED RISK LAYERING STRATEGY

### DISASTER RISK LAYERS

#### HIGH SEVERITY/PROBABILITY

- LARGE EARTHQUAKES
- TSUNAMIS
- MAJOR (CAT 5) STORMS



#### MEDIUM SEVERITY/PROBABILITY

- FLOODS
- MINOR EARTHQUAKES
- TROPICAL STORMS



#### LOW SEVERITY/PROBABILITY

- LOCAL FLOODS
- LANDSLIDES



### RISK FINANCING INSTRUMENTS

#### MARKET BASED RISK TRANSFER

Risk transfer for assets such as property insurance or agricultural insurance and risk transfer for budget management like parametric insurance, cat bonds/swaps

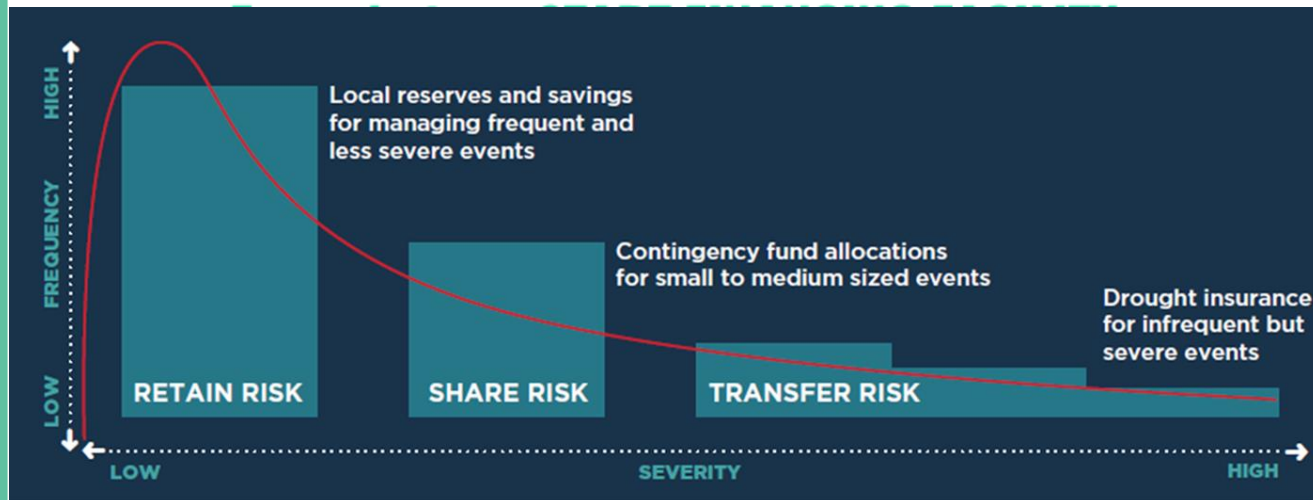
#### CONTINGENT FINANCING CONTINGENT CREDIT

Financial instruments that provide liquidity immediately after a shock

#### PROJECT OR LOCAL FUNDS

Reserve funds specifically designated for financing disaster related expenditures, general contingency budgets, or diverted spending from other programs

# NO SINGLE FINANCIAL INSTRUMENT CAN ADDRESS ALL RISKS



## **2: African Risk Capacity (ARC) Replica**

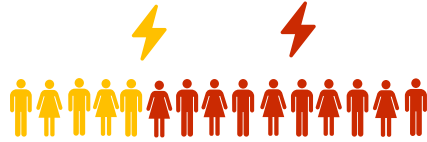
# African Risk Capacity (ARC) Replica



The **African Risk Capacity (ARC)** is a specialised institution of the African Union that provides financial tools and infrastructure to help African Union Member States manage disaster risks that affect their populations.

**ARC Replica Coverage** is an insurance product offered by ARC Ltd to WFP and Start Network to replicate the insurance policies purchased by ARC Member States. Under ARC's Replica Coverage, WFP and Start Network (**Replica Partners**) can match the ARC insurance coverage of eligible ARC Member States (**Replicated Countries**) by purchasing a 'Replica Policy': <https://www.africanriskcapacity.org/product/arc-replica/>

# ARC Replica Pay-Out - Senegal 2019

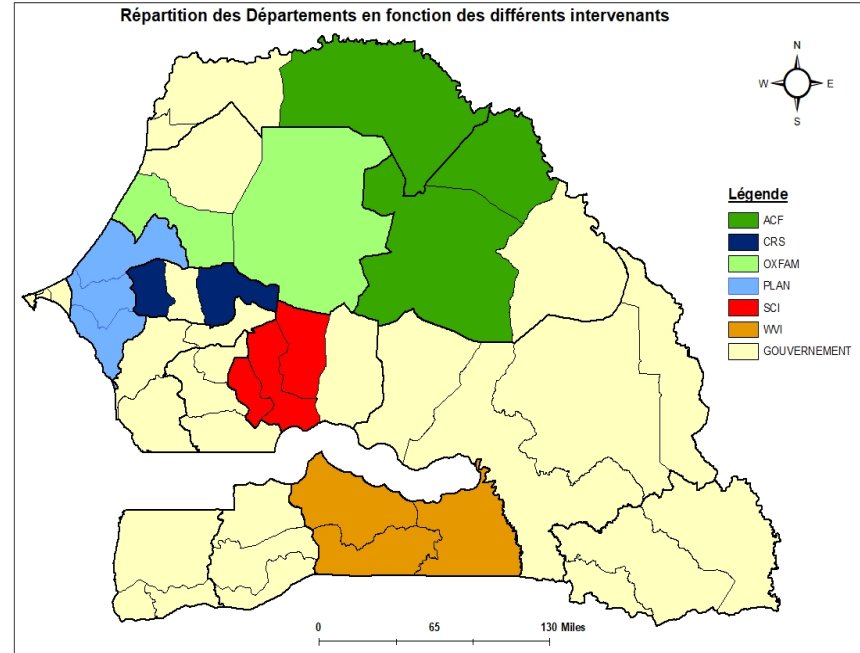


970,000 at risk in 2019



\$12.5m

\$10.6m



# ARC Replica Pay-Out – Senegal 2019

The \$10.6 million pay-out to Start Network represents the largest ever early action pay-out to civil society.

6 Start Network Members implemented the programme in collaboration with local Government and national NGO actors, across 7 regions of Senegal



# Results

20 087 Ménages



Food distribution kits

27 983 Ménages



Cash transfers



366 570 personnes



Animal feed distribution

17 000 Ménages



Activities linked to nutrition



360 000 personnes



COVID-19 related activities



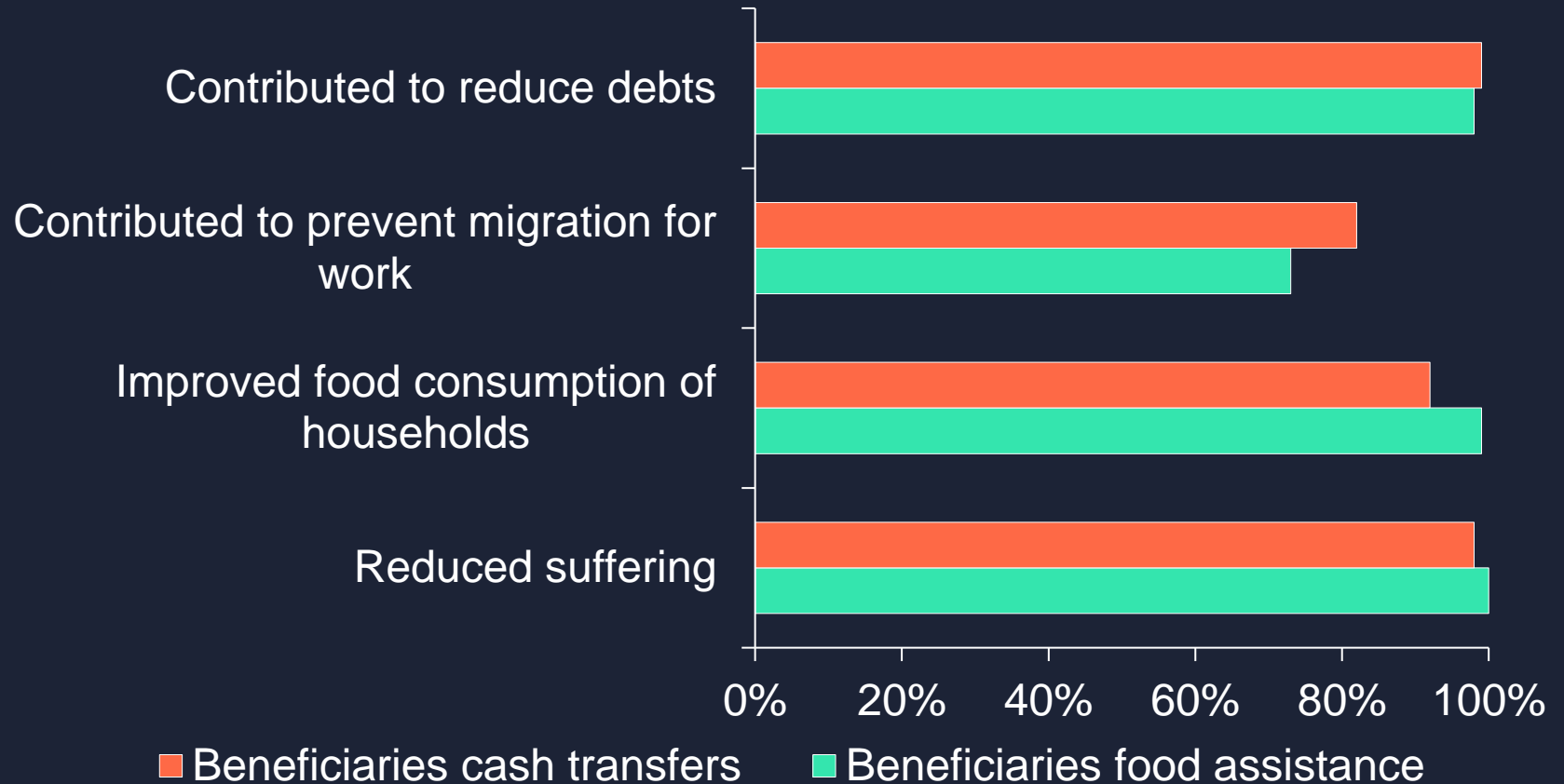


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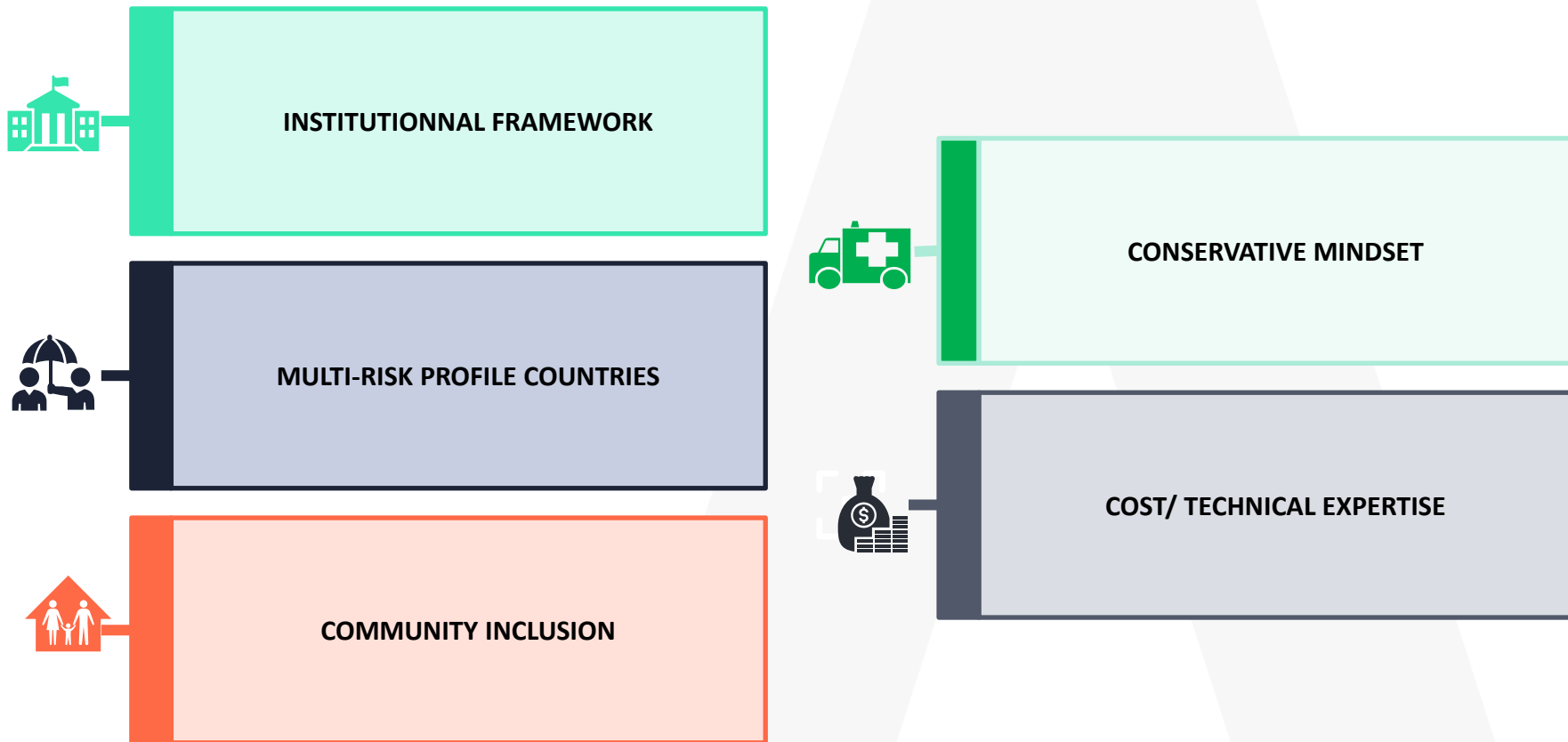




# Impact



# Key enablers/ Barriers



## Learning from ARC Replica in Senegal

- Video of ARC Replica Payout 2019-2020: [ARC REPLICA](#)



The infographic features a dark blue background. On the left is a stylized sun with rays above a cracked, brown rock. In the center, the text 'DROUGHT PREDICTED' is written in white, with four red double chevron arrows pointing downwards. Below this, '\$10.6 MILLION' is written in large white font, followed by 'alongside a \$12.5m ARC pay-out received by the Senegalese government' in smaller white text. At the bottom, a white box contains the text 'to avert a humanitarian catastrophe.' The START NETWORK logo is in the top right corner.

**DROUGHT PREDICTED**

**\$10.6 MILLION**  
alongside a \$12.5m ARC pay-out  
received by the Senegalese government

to avert a humanitarian catastrophe.

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**Thank you!**

**Anna Farina**

Operations Lead Crisis Anticipation and  
Risk Finance

[Anna.Farina@startprogrammes.org](mailto:Anna.Farina@startprogrammes.org)

**Amadou Diallo**

Disaster Risk Finance  
Regional Coordinator

[Amadou.Diallo@startnetwork.org](mailto:Amadou.Diallo@startnetwork.org)

