PACIFIC ISLANDS FORUM SECRETARIAT

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FORUM ECONOMIC OFFICIALS MEETING

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AGENDA ITEM 6B: DISASTER RISK FINANCE

Purpose and Recommendations

Purpose

This paper aims to elevate discussions on ways to address Forum Island Countries (FICs) disaster risks and unique vulnerabilities in light of the latest World Risk rankings that have the three most vulnerable countries to disaster risks being Pacific nations with six in the top twenty. The paper also provides a progress update on the work carried out by the Disaster Risk Finance Technical Working Group (DRF-TWG) following the Forum Economic Ministers endorsement in 2021 for the DRF-TWG to be an advisory body to FEMM on matters pertaining to Disaster Risk Finance in the region.

Summary

The 2021 World Risk report has listed six[1] Forum Island Countries among the top twenty most at-risk countries globally. These rankings are derived from taking a country's level of exposure to natural hazards overlayed with its vulnerabilities taken as a combination of susceptibility, coping capacity and long-term adaptation capabilities.

While there is very little countries can do to control the natural hazards they are exposed to, i.e. frequency and severity of cyclones, earthquakes and droughts, countries can determine their level of response and resilience through targeted policies, such as for Disaster Risk Financing (DRF) strategies and related modalities. The paper will discuss the need for developing DRF Strategies as part of Disaster Risk Reduction (DRR) and Management plans, linked to the National Development Plans and Strategies.

Since FEMM 2021, the DRF-TWG has carried out the following activities:

i. Commenced the implementation of a workplan in line with the DRF-TWG Operating Framework approved by FEMM in 2021;

ii. Commenced a DRF Learning Series comprising a regional media DRF briefing, virtual learning episodes and an essay, poetry, video and art competition for youths;

iii. Convened the inaugural Pacific Regional DRF symposium. The symposium focused on enhancing Member countries' understanding of the enabling environment necessary for formulating "fit for purpose" DRF Strategies and set the platform for developing relevant integrated DRF policies;

iv. Commenced consultations on establishing a Regional Information Hub on DRF;

v. Continued close collaboration with the DRF-TWG partners and country members on regional and countries initiatives;

[1] Vanuatu, Tonga, Solomon Islands, PNG, Fiji and Kiribati

vi.	Appointment of a Regional Coordinator under PCRIC, based at PIFS to support strengthened coordination of the DRF-TWG; and
vii.	Conducted a joint country mission with members of the DRF-TWG to Tonga and conducted an in-country DRF workshop.

A. Problem/Opportunity Identification

Pacific Island countries continue to suffer extreme economic setbacks whenever disasters hit. While the physical vulnerabilities are well documented and for the most part unavoidable, the impacts of climate change have further exacerbated these vulnerabilities. The impacts combine physical damage and the related economic and social losses. Statistics like 30 percent to 60 percent of GDP[2] impacts are now commonly reflected in the post-disaster assessments of Pacific countries hit by disasters but what is not commonly reflected is the even more devastating development setbacks and the number of years it takes to get back to pre-disaster levels of wellbeing.

2. The 2021 World Risk report reflects these harsh realities with the top three most at risk countries being from the Region with six Pacific countries listed in the top twenty most at risk countries. While exposure to natural hazards cannot be avoided, countries can help reduce the impacts and post disaster costs through targeted Risk Reduction and Resilient Development policies. With competing priorities, the issue then becomes adequacy of financing. Pacific Island countries are already starting from a position of disadvantage given our small economic bases, so putting in place ex-ante financing arrangements is vital. Research has shown that anticipatory action and early response greatly help reduce recovery costs following a disaster.[3] A comprehensive DRF Strategy can help address this gap and help countries build up disaster resilience including the ability to respond more effectively to disasters.

3. While DRF mainly focuses on covering immediate disaster response, it should also be seen as part of a comprehensive approach to disaster risk management (DRM). Such a comprehensive framework requires an allocation of sufficient and timely financing throughout the entire process. The financing gap usually experienced following a disaster and the full cost of restoring services, cost of redevelopment and economic losses is referred to as the “protection gap”. Alternatively stated as the difference between the economic losses inflicted by a disaster and the amount of those losses covered by insurance or other types of risk financing instruments.

4. The recent example of the Hunga Tonga – Hunga Ha’apai volcanic eruption and resulting tsunami in Tonga highlighted the need to carefully assess and consider relevant DRF modalities as well as managing expectations when disasters happen. While beyond the scope of DRF, the “protection gap” is an important consideration when weighing up DRF options. The Tonga event estimated damages at US$90.4 million whereas approximately only US$18.9 million of direct disaster response funding assistance has been received by the country to date, valuing the protection funding gap at US$71.5 million or 14% of Tonga’s GDP (2019 figures).[4]

5. Some have called for greater access to Climate Finance as one option of filling the funding gap. While Climate Risk Financing and Disaster Risk Financing have been discussed inter-changeably, the two are different. Climate Risk Finance helps fund interventions that aim

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[2] World Bank Post Disaster Assessment reports:
https://www.worldbank.org/content/dam/Worldbank/document/EAP/Pacific%20Islands/climate-change-pacific.pdf

[3] FAO. 2021. *Anticipatory action: Changing the way we manage disasters*. Rome.
https://reliefweb.int/report/world/anticipatory-action-changing-way-we-manage-disaster

[4] https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=TO

to reduce vulnerability to climate change impacts, (economic, environmental or social), as in adaptation activities and/or climate mitigation activities. Disaster Risk Finance on the other hand refers to financial instruments that help an individual, community, private sector or Government fund and mobilise a response to a pending or experienced threat or event. DRF instruments are designed to reduce or limit the financial burden of a disruptive event such as a tropical cyclone or a tsunami and help a society respond more effectively to such disruptive events. An important feature of the various disaster risk financing mechanisms is that no one instrument can cover all eventualities, but a layered approach is preferred given the varying severity, intensity and frequency of certain events linked to a specific location or country's risk profile.

B. Background

6. Recent disasters in the Pacific have highlighted the enormous disruptions to the region's development efforts both in the short and long term. Short term impacts sometimes result from the need to quickly mobilise resources in response to major events necessitating the re-allocation of budgets or short-term borrowing. These kinds of measures sometimes impact government services and have flow on economic and social effects. Also noting the disruptions to production sectors like agriculture and fisheries, disasters often result in development setbacks and long-term economic recovery timelines to ensure Pacific economies return to positive GDP growth trajectories. Recent examples include TC Pam in 2015 causing damages equivalent to 63% of Vanuatu's GDP, TC Winston costing 33% of Fiji's GDP[5] and the recent volcano and tsunami in Tonga causing damage equivalent to 18.5% of Tonga's GDP[6]. These cases highlight the importance of preparedness actions such as robust disaster risk financing responses.

7. An important point of discussion at the inaugural Regional DRF Symposium[7] is that Disaster Risk Financing should be part of an overall comprehensive Disaster Risk Management framework and that it should not be thought of as an annex to national plans but rather be an integral part of such plans. DRF instruments should also be pre-arranged with applications relevant for both pre-disaster preparedness (ex-ante) and for post disaster responses (ex-post). Key amongst the discussions was that despite having DRF instruments in place, it should not be at the expense of investing in risk reduction and disaster preparedness pre-disasters. These are necessary conditions for reducing the ad-hoc nature of disaster responses that continue to characterise responses in the Pacific thus far.

C. Progress on Work undertaken by the Forum Secretariat and Partners on Disaster Risk Finance

Implementation of the Operating Framework for the DRF-TWG

8. Following the Forum Economic Ministers' endorsement of the DRF-WG as an advisory body, including approval of the proposed Operating Framework, aligned to the Framework for Resilient Development in the Pacific (FRDP), the DRF-TWG formulated a Workplan to guide the Operating Framework's implementation as alluded to above. The approach taken was to leverage partners' existing programs and identify elements that could be jointly implemented by the DRF-TWG partners or by highlighting individual agency's programs that align with some of the strategic goals of the Operating Framework. The four strategic goals of the Operating Framework include:

i. Strengthening Regional coordination: ensuring that there is an improved

[5] An Overview of Climate and Disaster Risk Financing Options for Pacific Island Countries, PIFS, May 2021

[6] World Bank Rapid Assessment estimates, 2022

[7] Organised and facilitated by the DRF-TWG and funded by the World Bank through the Pacific Resilience Program at PIFS

coordination of capacity building support for DRF at the regional level whether sourced through bilateral or multi-lateral opportunities.

ii. Knowledge Brokering: ensures that FICs are provided with the relevant data and information and knowledge products to support decision-making in relation to DRF.

iii. Promoting Private Sector engagement: The DRFWG is well positioned to act as a regional conduit for enabling and promoting engagement with the private sector to address the financial protection needs of the various segments of the population and sectors/interests in the economy.

iv. Strengthening the enabling environment for risk financing at the national level: Given the multiple hazards faced by FICs including the lingering impacts of Covid-19 requires that each country revisit their existing financial protection arrangements and consider a longer-term and more comprehensive, strategic and inclusive approaches to the way they manage increasingly multi-scalar and interrelated financial risks.

9. Key to bringing the various DRF elements together for a concerted and coordinated approach is the need for comprehensive National DRF Strategies that involve all relevant stakeholders in their formulations. This was the focus of an inaugural DRF symposium organised by the DRF-TWG in May 2022. The symposium's participants acknowledged the need for practical guidance for countries to develop their National DRF Strategies. The DRF-TWG partners are able to assist in developing such a guideline and have done so with certain member countries, for example, the World Bank assisting Tonga and Samoa with their National DRF Strategies *(see Annex I for the Symposium's report).*

10. Further, the DRF-TWG has invested resources, supported by the PREP[8] project in PIFS, in ensuring that there is increased awareness and understanding of the difference between climate risk finance and disaster risk financing; an understanding of the available DRF modalities; and ensuring that each country's approach to Disaster Risk Financing suits their own risk profiles. These activities include the DRF Learning Series (DRFLS) that uses an online medium to engage with a wider audience around the importance of strengthened financial protection against disasters. A special Media Briefing was also held noting that news and media organisations are important stakeholders in disseminating the right information to key stakeholders, broadening understanding of the kinds of Disaster Risk Financing instruments available and utilised during disaster responses. Another important aspect of sharing information on DRF instruments, availability and utilization is that it helps manage stakeholders' expectations, especially for the most vulnerable and severely impacted during disasters *(see Annex II for further information on Activities carried out by some DRF-TWG Partners).*

11. Up to June 2022, the DRF-TWG has also undertaken the following activities through its member partners:

a. Recruitment of a regional DRFI coordinator supported by PCRIC and based at PIFS;
b. Commissioned a Disaster Risk Finance Learning Series to strengthen awareness and understanding of DRF and develop a regional DRF 'community of practice';
c. Delivered the inaugural Regional DRF symposium, led by PIFS and supported by the DRF-TWG partners and member countries;

[8] The Pacific Resilience Program (PREP) is a series of projects funded by the World Bank that aim to strengthen early warning and preparedness, resilient investments and the financial protection of beneficiary countries viz RMI, Samoa, Tonga and Vanuatu. Two regional organisations, the Pacific Community (SPC) and Pacific Islands Forum Secretariat (PIFS) are part of the PREP.

d. Carried out consultations with member countries on the Regional DRF Information Hub;
e. A trial website for the DRF-TWG is currently under development, supported by DFAT's APCP and ADB; and
f. Consultant recruited, with funding provided by the World Bank through the Pacific Resilience Program at PIFS to support the development of a DRF knowledge product based on the experience of the Ministry of Finance in Tonga.

D. Call to Action

12. As referred to earlier, the 2021 World Risk report lists the top three most at risks countries as Pacific Island countries with six Forum member countries listed in the top 20.[9] The report also highlights some of the countries that despite their exposure to high-risk hazards, have managed to reduce their exposure with distinctive capacity development, strengthening social protection capacities and investments in Disaster risk reduction and preparedness[10].

13. The Pacific region already has high-level policy guidance for resilient development in the FRDP, but it needs to be further elaborated on to specifically address Disaster Risk Financing and its vital role in building resilience. This will require the development of a 'companion' guide or roadmap to provide specific guidance on DRF. The roadmap would drill down from the high-level frameworks, (including National Development Strategies) to identify specific tangible actions that the region can address to strengthen the financial protection of countries against disasters.

14. The recommendation from the DRF Symposium to develop a DRF strategies guideline can be integrated as part of a regional DRF roadmap. This will allow for a more coherent approach where the DRF strategies are linked to specific long-term DRR goals that should, in turn, lead to long term disaster resilience and sustainable development.

15. Through the DRF Learning Series, the DRF-TWG has tried to expand members understanding of DRF and encouraged participants to engage. This culminated in the convening of a face-to-face Resilience Learning Event in Fiji where representatives from member countries had the opportunity to engage in peer-to-peer learning, share their own country experiences in various aspects of resilience building and also identify DRF gaps with support from members of the DRF-TWG.

Pacific Islands Forum Secretariat
7 July 2022

[9] The WRI lists Vanuatu (1), Solomon Islands (2), Tonga (3), Papua New Guinea (9), Fiji (14) and Kiribati (19). https://www.preventionweb.net/publication/worldriskreport-2021-focus-social-protection
[10] ibid

Annex I. DRF Symposium Summary Report

Introduction

The inaugural Pacific Regional Symposium on Disaster Risk Financing convened on the 3rd and 4th of May 2022, in hybrid mode, with those present in Suva, Fiji able to attend in person at the Grand Pacific Hotel Matua 1 conference room while the rest of the participants joined online.

The symposium was organized through the Disaster Risk Financing Technical Working Group, mandated under the Pacific Resilience Partnership. The convening of the DRF symposium is one of the major Knowledge brokering initiatives and activities listed in the DRF TWG workplan for 2022. Partners that contributed directly to organising this event included the PIF-PREP Project, UNDRR Pacific office, UNCDF-PICAP project, PCRIC and the APCP. PIFS Resilience team coordinated the event. Presenters representing a range of stakeholders and varying regional settings were invited to present, including those from the Caribbean, the South-East Asian region, the Pacific and Multilateral Development Banks as well as international agencies operating in the disaster risk finance space.

The symposium aimed to generate discussions amongst DRF actors in the region on the pre-existing requirements necessary for developing effective DRF Strategies for member countries. It was also anticipated that by involving different stakeholders that the discussions can lead to better integration of DRF at the National and Regional levels. Participants were expected to walk away better equipped with the knowledge and understanding of why having a DRF strategy is an important pre-requisite to the actual decision of selecting "fit-for-purpose" Disaster Risk Financing modalities.

Opening Session

The Acting Secretary for the Pacific Islands Forum Secretariat, Dr Filimon Manoni and Dr Gabriele Emery, Director for UNDRR Pacific provided the opening remarks whereby they shared thoughts and insights on the Disaster landscape in the Pacific and the gaps in Disaster Risk Financing. Dr Manoni highlighted the huge cost of disasters in the Pacific and the setbacks on development when resources are redirected to response and recovery efforts post disasters. Given the limited resources and small economic bases of Pacific Island economies, the need for ex-ante disaster risk financing mechanisms is even more important. While there are existing DRF products that member countries already access, the Acting Secretary General cautioned on the need for these products to be accessible, affordable and 'fit for purpose'. He further emphasized the need to invest in disaster risk reduction and resilience development, highlighting the fact that research has shown that a dollar spend in resilience development saves up to seven dollars in disaster recovery and rehabilitation expenditure.

The Regional Director for UNDRR, Ms. Gabriele Emery echoed the same sentiments while highlighting the increasing cost of disasters further exacerbated by the increasing frequency and severity of disasters in the region. She further highlighted that while the symposium will delve deeper into DRF Strategies, the best strategy in her view remains investing in risk reduction and disaster preparedness and not response. Investing in resilience building also contribute to the achievement of sustainable development and the attainment of SDGs.

Session One: Overview of the DRF landscape in the Pacific and recent developments including the importance of risk layering.

(Objective: To equip participants with an understanding of DRF modalities currently employed across the Pacific and how these can be contextualized to local contexts).

Mr. Daniel Lund, Special Climate Action Adviser with the Ministry of Economy, Government of Fiji provided an overview of the DRF landscape in the Pacific, leveraging off a publication he compiled in 2019 on the same topic.

An important distinction needs to be made between Climate Risk Finance and Disaster Risk Finance. While they are very specific in how they apply to resilience development, they can both be applied across all sectors. He pointed out that the way different financing modalities are established may be different, they need to be considered as complimentary in relation to risk reduction measures. Activities to build resilience need to be complemented by additional dedicated financing instruments that help to offset those shocks caused by climate change. Disaster Risk financing strategies are needed to manage the immediate and potential impacts of climate change and disaster events. The 'Protection gap' in the Pacific is widening – in most cases the increase in risk and experienced losses have not been met by a proportional increase in risk finance, with the Pacific incurring US$3billion in estimated damages and losses since late 1990s caused by TCs and earthquakes.

Some member counties have responded by establishing National reserve funds but the timeliness of topping these up is not always possible. Inadequate climate financing compounds the need for DRF – amplifying loop i.e. a disaster hits before you have had the opportunity to recover from one disaster eroding development gains and raises the costs of development.

DRF trends in the Pacific include risk pooling and parametric insurance products but penetration remains low across PICs with a high dependence on 'reactive' financial support organized post disaster. Contingent financing arrangements pre-agreed with ADB & the World Bank are the most common type of pre-emptive financing secured and used in the Pacific.

The underlying message is that no single instrument can address all risks and there is a need to combine *Prevention, Retention and transfer* financing instruments. DRF strategies should bear in mind timeliness of funding, cost and affordability, disbursal mechanisms, analytics and data to back up the selection of specific instruments. Awareness is a big challenge; more data is needed to understand risks in a way that instills confidence in different sectors to take out insurance on a particular risk/scenario; finance options need to be affordable, well-focused and defined so they provide a specific service within the broader picture of risk reduction; leverage the geographical spread of Pacific peoples to support the economies of scale to pool risk effectively (emphasis on social protection; <u>incentivizing risk reduction remains a priority</u>**.**

<u>Session 2:</u> The Enabling Environment for Disaster Risk Financing

(*Objective: To Understand the relationship between cross-sectoral collaborations, Fiscal Management and Regulatory Frameworks).*

Dr. Charlotte Benson, Head of Disaster Risk Management with the Asian Development Bank (ADB), and a contributing author to a publication on Assessing the Enabling Environment for Disaster Risk Financing shared her perspectives and views based on select countries assessments.

Emphasis was on the need to take a layered approach starting with an understanding of residual risk, i.e. risk remaining after efforts have been taken to reduce all known risks to the extent that is economically feasible. The approach breaks down the residual risk according to the frequency of events and associated levels of loss and identifies the most suitable instruments for these layers.

ADB's DRF work centers on enhancing financial preparedness for disasters as an integrated part of a broader program of works to enhance disaster resilience. There also needs to be a changing of mindsets to understand that Governments are not the only ones responsible for disaster risk. Sectors within the community, primary producers/farmers, SMEs, households and CSOs all have a part to play in disaster risk reduction. It is in the interest of governments to encourage and promote strong financial resilience to reduce their contingent liabilities and limit economic disruption and downturn caused by disasters.

In practice, the financial management of disasters remains less than optimal, particularly in developing countries. Only around 5% of disaster losses are insured. Insurance of public assets, other than vehicles are sometimes non-existent. A good DRF strategy should cover both sovereign and non-sovereign instruments and should include measures to strengthen the enabling environment, including perhaps most importantly the right integrated national policy frameworks backed up by political commitment. Without those measures, the ambitions of that strategy i.e. to enhance financial resilience may fall flat and prevent it from being achieved because of gaps and obstacles.

Session 3: DRF case studies in the DRM space - examples from the Asia-Pacific Region.
(*Objective: To Understand the relationship between cross-sectoral collaborations, Fiscal Management and Regulatory Frameworks)*

Looking for further examples of countries and regional approaches to DRF Strategies, the session started with a presentation from the Asia region. Dr Kamal Ahmed from the Asian Disaster Preparedness Centre, (ADPC), provided an overview of the approaches taken in their region with specific examples from the Philippines and Pakistan. His perspective is that a good and effective DRF strategy should have a focus on poverty reduction, based on the risk profiles of their region where flooding is the main cause of disasters affecting agricultural and food production.

He echoed the views expressed by the ADB expert that there is currently an over reliance on Government related DRF modalities leaving the marginalised vulnerable in times of disasters.

DRF strategies should provide communities and national financial resilience through optimising scarce resources. Financial resilience in times of disasters should focus primary on obtaining funds quickly and spending those funds effectively in response and recovery efforts, helping minimise human, economic and fiscal costs. DRF strategies should also factor the need of reinstating affected government services quickly and providing emergency assistance.

He went further to state that any DRF strategy should be subject to review and reassessment after it has been tested through real events noting that the orientation of a country's DRF Strategy would usually also reflect Government's policies and countries context. It is therefore very important that post disaster documentation and data sets are collected and analysed including post disaster assessments of the country's PFM systems, disaster procurements and coordination of external assistance.

Finally, Dr Ahmed emphasised a key consideration in developing national DRF Strategies is the management of stakeholders' expectations. This is important to ensure that, especially vulnerable communities, do not have unrealistic expectations and are left disappointed following disasters. In addition, an effective DRF Strategy requires co-existence with a good DRM system. He also shared case study examples of the Philippines and Pakistan where the layering of risks was appropriately matched with relevant DRF modalities, noting that no one DRF instrument can provide cover for all risk layers.

Session 4: Overview of the Caribbean DRF Landscape and applicable lessons for PICs.
Objective: To gain insights and learn from what is being implemented in other regions (The Caribbean Experience)

Continuing with the theme of learning the different approaches to DRF from other regions with similar risk and geospatial characteristics to the Pacific, the symposium heard from Ms. Elizabeth Emanuel, a senior executive with the Caribbean Catastrophe Risk Insurance Facility (CCRIF), similar to the Pacific Catastrophe Risk Insurance Facility (PCRIC).

CCRIF currently offers insurance policies for earthquakes, tropical cyclones, excess rainfall, fisheries and asset cover for a utility company. An important point made by CCRIF is that their products are not designed to cover all losses resulting from a disaster but offers liquidity to allow governments to respond to disasters while cushioning any major volatility to the national budgets. Payouts are usually made within 14 days once a policy trigger is reached. Since its inception in 2007, CCRIF has made 54 payouts totaling US$245 million to 16 of its members with the largest single payout of US$40 million to Haiti for the 2021 earthquake. In addition, the company is constantly evaluating its products and the data collected from disaster events allow it to design appropriate products for the member countries.

Session 5: Pacific country examples of DRF strategies or policies:
(Objective: To learn from practical examples of formulating country DRF Strategies).

1. Samoa Disaster Risk Policy.
   Samoa with the assistance of the World Bank, developed its National DRF policy to help provide an integrated framework to protect the people and the economy from the adverse impacts of disasters through a set of ex-ante and ex-post financing modalities given Samoa's high vulnerability to climate and disaster risk. But it is more than just a list of DRF modalities; it helps the country understand, assess, and plan for any disaster event.

   The policy document contains Samoa's Disaster Risk profile, explains the institutional and legal framework, the framework for Disaster Risk Financing selection criteria including the Disaster Risk Financing Instruments. The policy also identifies Samoa's Strategic Priorities related to disaster preparedness and the Implementation framework.

   Core principles guiding the DRF policy include:
   - Timeliness of Funding: speed matters but not all resources are needed at once.
   - Disbursement of Funds: how money reaches beneficiaries is as important as where it comes from.
   - Risk Layering: no single financial instrument can address all risks.
   - Data & Analytics: sound financial decisions require the right financial information and data.

2. Tonga's Disaster Risk Financing Strategy
   Given Tonga's history with disasters, it was important that the DRF Strategy was developed as part of the overall Disaster Risk Management (DRM) and Disaster Risk Reduction (DRR) frameworks. Tonga also acknowledged the importance of working together with development partners, some of whom also provide some of the financing mechanisms, either directly or indirectly. For example, the World Bank with the CAT-DDO facility as well as subsidising part of the insurance premiums for the PCRIC products.

Special features of Tonga's DRF Strategy include linking it to the social protection development, increased transparency of assistance, and improving procurement in times of disasters. Tonga has taken the lessons learnt from her history of disasters and used that to construct a well layered risk financing approach that includes a National Contingency Fund, participation in the CAT-DDO and the Pacific Resilience program offered by the World Bank and the ADB respectively as well as risk transfers through catastrophe insurance.

3. World Bank Support in developing DRF Strategies

Samoa and Tonga both acknowledged the World Bank's in-country programs assisting with the development of their DRF Strategies and policy documents. Mr Luis Alton, Senior Financial Sector Specialist at the World Bank's Disaster Risk Financing and Insurance Program provided insights into the development of DRF Strategies, noting that every Government has some ways of financing responses to disasters, however, in the absence of a well formulated strategy, these responses are usually ad hoc and not systematic.

Avoiding fiscal distress in times of disasters is an important consideration and one that can be avoided with having a DRF strategy in place including pre-arrange financing mechanisms that also clearly sets out the triggers and flows of finances should disasters happen. It is also important that DRF Strategies are not only seen as something that sits with Ministries of Finances but that it has cross-sectoral input and ownership that should also be linked to legal and institutional frameworks across whole of governments.

Session 6: Group discussions - What do you consider to be the critical elements and considerations in developing a DRF strategy based on what you have learned over the last 2 days?

(Objective: To capture what participants consider as critical components that should be embedded/ considered in the DRF Strategy and or in the process of developing a DRF Strategy).

Participants were grouped into those online and those physically present in the room to discuss the above question. Based on the group feedbacks, the following were noted as important consideration in developing national DRF Strategies:

- The need for coordination, recognizing that disasters go beyond individuals, thus it needs to be a collective effort.
- The process of developing the DRF strategy needs to be inclusive, needs to adopt the multi stakeholder approach in terms of determining the key elements, the scope, as well as how to implement a particular strategy.
- Having a monitoring framework is critical to ensure that mechanisms put in place are working. There is a need for ownership of the initiatives to ensure that it is sustainable and appropriate in terms the needs being addressed.
- The notion of data is quite critical, not only in terms of understanding the risk profiles but building the relevant evidence that is needed. Thus, elevating the relevancy of the DRF will also require building a strong evidence base.
- Resourcing is critical in terms of ensuring that the strategy does not end up on the shelve somewhere. Governments need to ensure that sufficient resources have been allocated for implementing a strategy so that the intended benefits flow to those that need it most.

- Recognizing the importance of involving the Private sector – there is a need to engage the private sector in the conversation, and not only in the development of the strategy, but as well as the continuous engagement as the process goes along.
- An important issue is around capacity. This can be both in terms of capacity in data sources, procurement processes, assistance disbursements and of the PFM systems.
- Another important element is the actual utilisation of finances. In terms of access to finance there are two elements that important but somehow contradictory to each other.

- One is that finances should be reaching the people who need it the most and at the right time. On the other hand, Governments often receive huge inflows of assistance at very short periods causing systems overloads that can undermine the PFM systems capacity for normal operations creating circumstances of ineffective use of financing.
- Discussions also centred around policy framework and who should take responsibility for disaster preparedness; is it the sole responsibility of Government or should the responsibility be shared across society from households, communities at the sub-national level, NGOs, and private sector? Generally, there was acceptance that everyone at every level should take some responsibility commensurate with their capabilities and available resources. Governments will however continue to take the leading role and help establish the enabling environment necessary for everyone to be able to contribute to collective preparedness.
- Participants also emphasised that all sectors involved in disaster preparedness should try to bring individuals and households into the conversation together with the private sector, NGO's, marginalised community groups and development partners to help frame and influence DRR and DRF policies.

Key takeaways

1. There are already several DRF modalities available to member countries but not all of them are fit for purpose for a country's particular risk profile.
2. No one DRF instrument can cover for all risks so a layering approach is advisable.
3. Having a DRF Strategy is important and should be part of a country's overall DRM approach.
4. DRF discussions should not be confined to just the Ministries of Finance and NDMOs but should take a cross-sectorial approach with whole of Government's ministries, stakeholders outside of government and most importantly the communities that will be affected the most.
5. DRF strategies should be aligned to countries' National Strategic Development Plans and not be after thoughts.
6. Providing a set of guidelines for developing DRF strategies, covering both process and key considerations will be helpful.

Annex II. Update on Activities carried out by DRF TWG Partners

Pacific Catastrophe Risk Insurance Company Updates

1. Since FEMM 2021, PCRIC has continued to offer parametric insurance in the form of cyclones, earthquakes and tsunami covers as a form of disaster risk financing mechanism for member countries. While not all FICs are participating members at this stage, PCRIC is stepping up efforts to reach out and increase awareness and understanding of its product to all members. In addition, the company has also formalised its relationship with the Pacific Islands Forum through the signing of an MOU establishing the role of the Regional Coordinator to be based at the Secretariat. A clear outcome of this partnership has seen PCRIC formulated new knowledge products in the form of two publications titled;

i. "A Glimpse of Accessible DRF Instruments in the Pacific"; and
ii. "Understanding the Relevance of PCRIC's Parametric Insurance After a Disaster"

2. Further, PCRIC is developing new products that will focus on hydrological events, mainly related to excess rainfall and droughts. The development of these products is in response to the different hazards and risks faced by the different Member countries where some countries are more prone to tropical cyclones while others may not be. In particular, the more central and northern Pacific countries have an increased risk of droughts compared to the more southern countries with higher risk of experiencing tropical cyclones. The rainfall product will cover for loss resulting from excessive rainfall (resulting in severe flooding) arising from both tropical storms and non-tropical storm events, whilst the drought product will cover for losses incurred as a result of a severe drought. The company hopes to start offering the rainfall product in October 2022, in readiness for the next cyclone season which starts from November 1, while the drought product is targeted for release sometime in 2023.

3. In an effort to diversify and increase its reach by having more stakeholders benefit from Insurance as a Disaster Risk Financing instrument, the Act establishing the company as a captive insurance company only offering sovereign parametric insurance was amended to allow the company to offer non-sovereign products that will include the participation of the private sector through a segregated cell structure.

Pacific Insurance and Climate Adaptation Programme (PICAP) Updates

4. The Pacific Insurance and Climate Adaptation Programme is jointly implemented by the United Nations Capital Development Fund (UNCDF), the United Nations Institute for Environment and Human Security (UNU-EHS) and the United Nations Development Programme (UNDP). Designed as a multi-year (2021-2025) initiative, the Programme was officially launched on 2nd December 2020 with the inception phase covering Fiji, Tonga and Vanuatu in the first two years and progressively expanding to include other Pacific countries. The initiatives are designed under four workstreams: (i) Enabling Policy and Regulation, (ii) Open Digital Payment Ecosystems, (iii) Inclusive Innovation, and (iv) Empowered Customers.

5. Numerous challenges were faced during the year including the highly transmissible Omicron variant and tropical cyclones bringing in significant rain and affecting whole of Fiji in early 2022. Despite these constraints, PICAP exceeding most of its KPIs, confirming the strategic management and leadership, teamwork and coordination and exemplary support from all Programme partners. Key highlights of some major initiatives launched in 2021 and priorities for 2022 are as follows:

- The development and pilot launch of Fiji's and the Pacific's first parametric microinsurance product for extreme weather events (heavy rain/high windspeed) on 25th August 2021. The online virtual launch event was viewed by over 140 participants globally and was attended by senior officials from regional governments, implementation partners, donors and the media. Through the event, the Pacific's first digital onboarding platform, the iOnboard, was also launched. Since launch, the parametric microinsurance cover has been extended to over 1,388 individuals in Fiji; 32 % of the beneficiaries are women.
- The Reserve Bank of Fiji (RBF) approved and admitted the parametric insurance to the testing stage of the FinTech Regulatory Sandbox (Sandbox). The parametric insurance product was the first solution to be admitted for live controlled testing and was fully supported by the RBF. The testing phase is for a period of 12 months commencing December 2021 during which the PICAP team, private sector partners and aggregators will work closely with the RBF to fulfil the conditions stipulated under the approval for Sandbox testing.

- A partnership between UNCDF and the UN World Food Programme (WFP) along with the Department of Social welfare (DSW) under the Fijian Ministry of Women, Children and Poverty Alleviation (MWCPA) piloted the region's first ever social protection climate disaster risk insurance product for welfare beneficiaries in Fiji, 274 beneficiaries have been covered to establish proof of concept. UNCDF and WFP are working jointly with DSW to scale the project and aim to reach 2000 to 3000 social welfare beneficiaries to be covered by the climate disaster risk microinsurance.

- At the policy level, a milestone achievement for the Programme has been the provision of VAT exemption for the parametric microinsurance premium by the Fijian Government through the 2021/2022 National Budget (July 2021) – this has been the first time such a provision was allowed even before the product was launched. There were no changes made to the policy during the revised budget announcement in March 2022 where VAT on several products and services were revised upwards. This is an indication of the commitment and confidence of the Fiji government towards the PICAP's climate disaster risk finance initiatives.

- A draft Disaster Risk Finance (DRF) Strategy for Fiji was finalized and submitted to the Fijian Ministry of Economy (MoE). The report was developed following a series of in-depth meetings and discussions with MoE and the PICAP team. The MoE is currently in discussions with key stakeholders including the World Bank on developing a roadmap for integrating the recommendations into the national DFR Strategy.

- The Programme developed a Climate and Disaster Risk Financing and Insurance (CDRFI) Regulatory Practice Guidelines for regional regulators to enhance the enabling regulatory environment for CDRFI products across the Pacific, this was in partnership with the global Access to Insurance Initiative (a2ii). The CDRFI Guidelines have been finalized and work is underway to get the publication version ready. The Guidelines are expected to be launched during a joint virtual event in Quarter 3, 2022.

- A Gender Equality and Social Inclusion (GESI) was developed and launched in early May 2022 by key donors (MFAT/DFAT) and partners. The strategy is designed to better integrate gender and social inclusion in its programme delivery, to ensure 'leaving no one behind'.

- A first-of-its-kind, climate disaster risk insurance product exclusively for micro, small and medium enterprises (MSME) is envisaged, with an ambition to deploy products before onset of the next cyclone season. While this pilot is planned in Fiji, PICAP being a regional program, will replicate in other Pacific countries in a phased manner.

- The Programme has also used digital tools and instruments to ensure last mile reach for delivering affordable and appropriate climate risk insurance products to vulnerable communities in the Pacific. PICAP Small Island Developing States (SIDS) engagement model will be further refined during 2022 to ensure sustainable scaling up and replication throughout the region.

- Based on the solid results of 2021, PICAP is poised to regionally expand to other Pacific countries during 2022 and beyond, establishing new partnerships and leveraging, unlocking private and public sector potential for developing sustainable climate disaster risk insurance for beneficiaries at micro and meso levels.