



Central Asia and Caucasus PROPOSED DISASTER RISK MANAGEMENT INITIATIVE

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Agenda

■ Introduction

- Importance of DRM Agenda
- Vulnerability of Region to Natural and Man-made disasters

■ Examples

- South Eastern Europe Regional DRM Initiative, Turkey
Catastrophe Insurance Pool

■ Proposed CAC Initiative

- Background (Hyogo Framework, CAREC Action Plan)
- Partnerships
- Key Areas/Components of Initiative

■ Proposed Next Steps and Timetable

Importance of Disaster Management Agenda

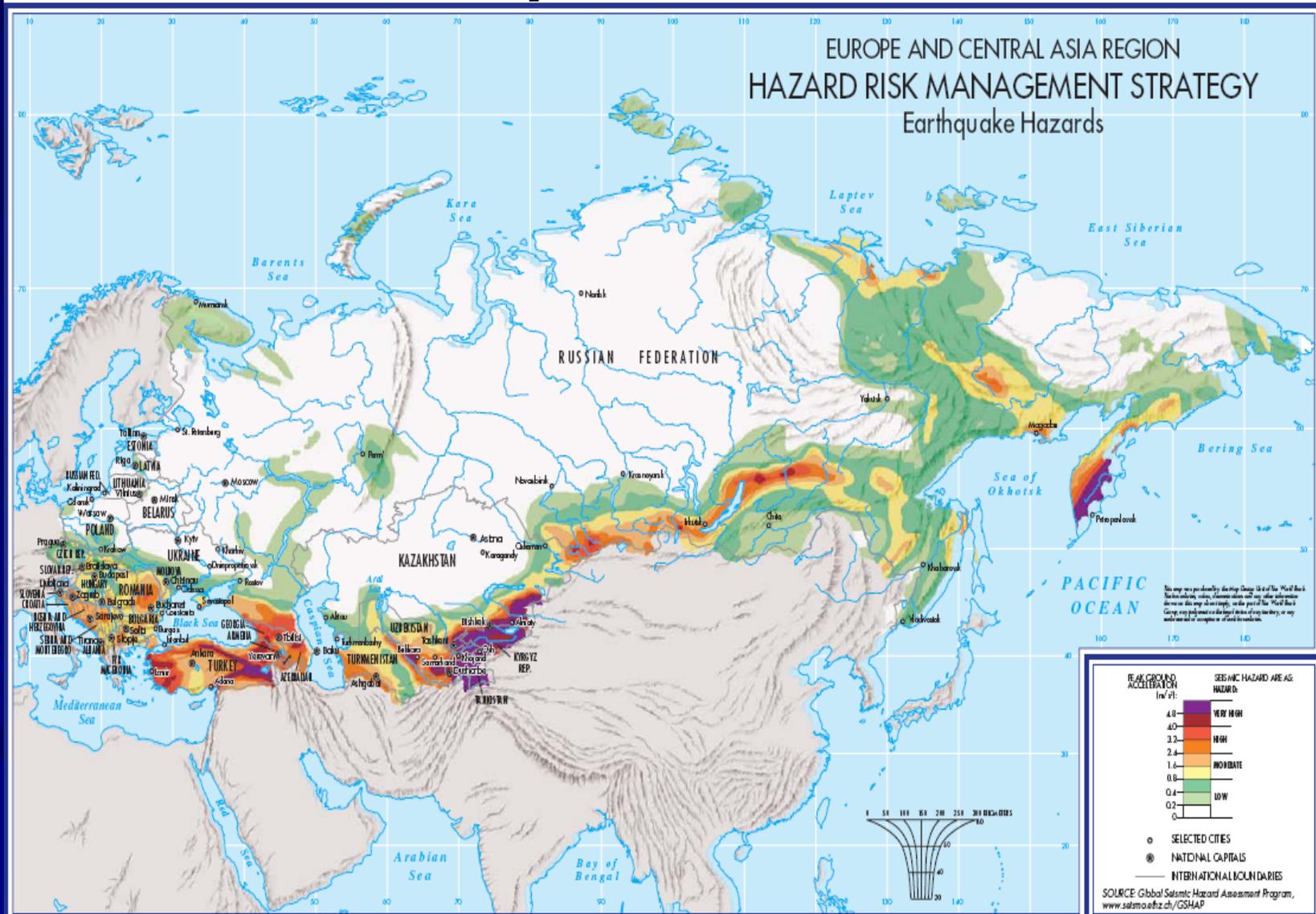
- **CAC countries' exposure to natural disaster risk is increasing:**
 - Pressure on land: people settle in disaster prone areas
 - Climate change: increased severity and frequency of storms, glacial melt, floods, droughts and heat-waves.
 - Transition: relaxation in the application of building codes and land use plans
- **Global recognition for the need to prepare for disasters**
- **New tools available to assist countries to prepare themselves for disasters**
 - Country-specific, regional and global insurance facilities
 - Catastrophe Deferred Drawdown Option (CAT DDO)

Vulnerability of the Region to Disasters

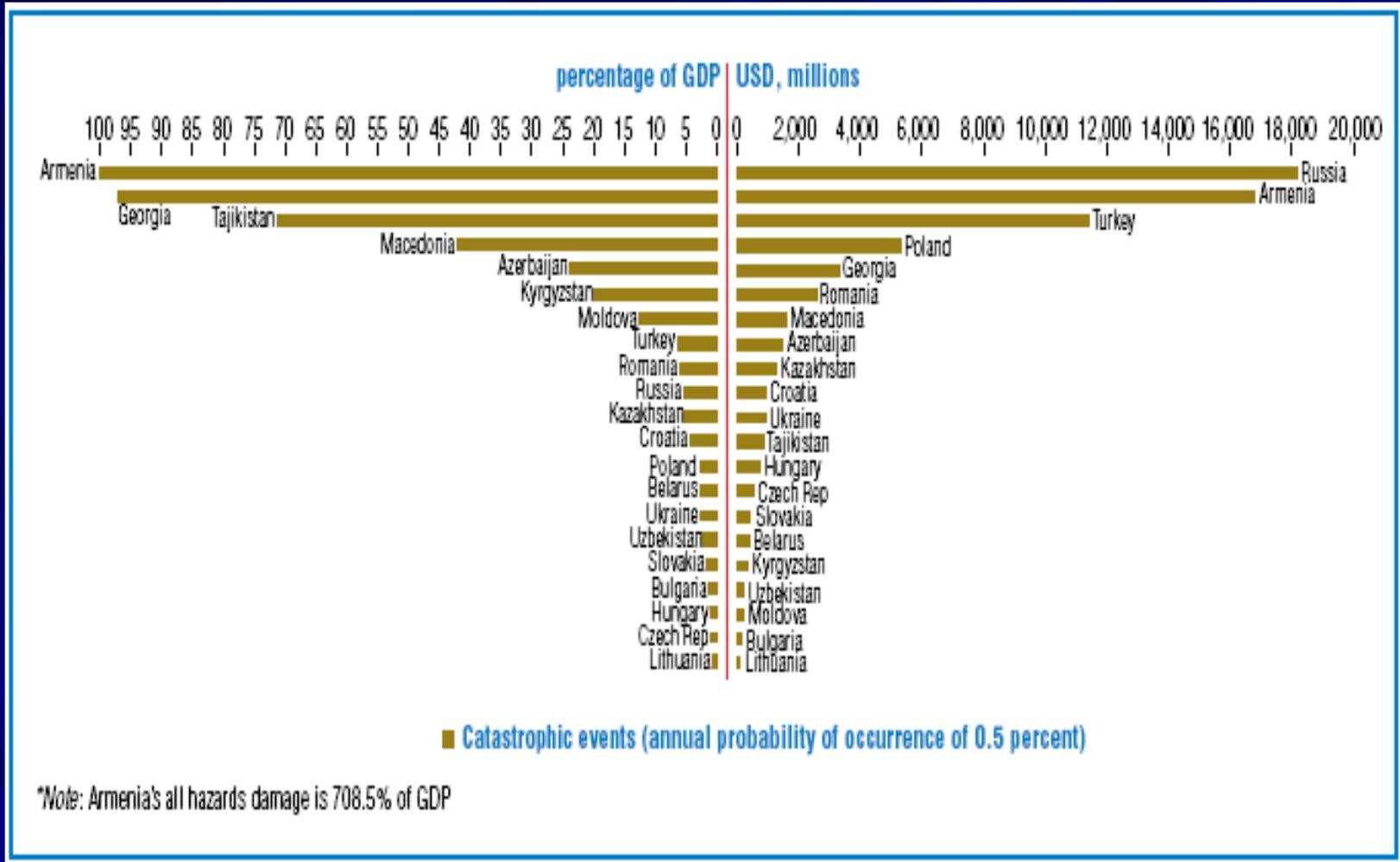
- **Central Asia and Caucasus are prone to a variety of hazards, such as:**
 - Earthquakes
 - Floods
 - Landslides
 - Droughts
 - Storms
 - Man-made/technological (e.g. related to water reservoir management)
 - Communicable Diseases (e.g. HIV-AIDS on transit corridors)

- **Central Asia and Caucasus governments are fiscally unprepared to deal with catastrophic losses**

Earthquake Hazards



Economic Loss Potential



Example: South Eastern Europe Regional DRM Initiative



■ Main components:

- Disaster Preparedness
- Disaster Risk Reduction and Adaptation
- Financial Engineering
 - Contingency funding
 - Regional Disaster Insurance Pool

■ **Components/activities will be tailored to country-specific needs.**

■ **Some activities will be done at the regional level, others at the country level**

Example: Turkey Catastrophe Insurance Pool (TCIP)

- Established after 1999 earthquake
- Government backed insurance facility
- Managed by a private insurance firm
- Issued around 3 million earthquake insurance policies
- Affordable to most households (Around 30 Euro per year for an insured limit of 40,000 Euro)
- Distribution is done through local insurance companies
- Re-insured with the global re-insurance market

Proposed Central Asia and Caucasus Disaster Risk Management Initiative

- To reduce vulnerability by building capacity and promoting a coordinated approach in disaster risk mitigation, transfer, preparedness and response.
- In line with the Hyogo Framework for Action
- To support CAREC's Special Initiatives under the 2006 CAREC Comprehensive Action Plan
- To form the foundation for regional and country specific investment priorities/projects in the area of early warning, disaster risk reduction and financing
 - While initial focus is on non-structural measures, structural investments could be supported later to protect assets, lives and livelihoods
 - Funds could also be provided for adaptation to climate change and streamlining adaptation activities into development programs.

Partnerships

The CACDRM Initiative would be:

- Coordinated by World Bank, the UN International Strategy for Disaster Reduction (UN/ISDR) secretariat, and (for hydromet) the World Meteorological Organisation (WMO), under the CAREC umbrella
- Financed by the Global Facility for Disaster Reduction and Recovery (GFDRR) and other donors
- Building upon and amplifying the many initiatives that already exist in the region by multilateral and bilateral agencies, and countries
- Carried out in close cooperation and partnership with ADB, the EU, the Economic Cooperation Organization (ECO), bilateral partners such as SDC and JICA, UN agencies and several other partners.

Key Areas of Initiative

1. Develop capacities and promote a coordinated approach to disaster preparedness and response to a range of disasters such as earthquakes, floods (natural and man-made), industrial accidents, droughts and other emergencies.
2. Develop disaster financing and risk transfer mechanisms
3. Strengthen hydromet services, data sharing and early warning systems

These initial components are to be updated based on a desk review risk assessment that will cover the main risks faced by the countries of the region.



Component I: Disaster Mitigation, Preparedness and Response

- Objective is to strengthen the capacity and promote a coordinated approach to disaster preparedness and response in CAC countries
- Carried out through existing initiatives and partnerships to identify the opportunities and any gaps, and work together towards filling these gaps.
- Would include initially a risk assessment (desk review) and identification of:
 - Risks in each CAC state and common vulnerabilities;
 - Existing capacities;
 - Needs, means of cooperation (including at the regional level), and investment priorities to promote preparedness and to upgrade emergency response capabilities.

Component II: Disaster Financing and Risk Transfer

- Objective is to assist CAC countries in developing disaster risk financing and risk transfer mechanisms such as catastrophe insurance, risk financing and weather derivatives, to reduce the burden on government budgets and on the population's assets, especially in rural areas.
- Would include initial identification and assessment of:
 - Disaster risks for each country in terms of financial losses.
 - Current practices to finance damages resulting from disasters and the adequacy of these practices in terms of government financial capacity.
 - The state of the current private insurance market in providing catastrophe insurance.
 - The viability of creating a regional disaster insurance mechanism through risk pooling that will result in diversification of risks and reduced insurance premiums.

Component III: Hydromet

- Objective is to strengthen hydromet services to enable the establishment of modern, sustainable and coordinated weather forecasting and early warning system for the CAC region
- Initially would include:
 - Feasibility assessment of the existing capacity and data sharing procedures by
 - Identifying the economic benefits that could be achieved by an enhancement in weather forecasting, particularly of severe events;
 - Identifying the capacity of the agencies to undertake forecasting required to achieve these benefits, considering the current level of data available from other countries in the sub-region and aiming to identify key gaps in data gathering/sharing.
 - Identification of needs, both in capacity terms as well as equipment and facilities.

Proposed Timetable

- November 2008: CAREC Ministerial Conference (MC)
 - Endorsement of CACDRMI in the CAREC Program
- April 2009: Completion of Initial Studies
 - Risk Assessment Desk Review:
 - Disaster Risk Financing Options Study
 - Hydromet Assessment (date to be confirmed)
- April/May 2009: Regional meeting in connection with CAREC SOM to agree on priorities and next steps for implementation, including:
 - Role of CAREC Institute in capacity building and research for disaster risk management
 - Design of investment priorities
 - Financing arrangements

Proposed Immediate Next Steps

- Sept. 30 – Official letter sent jointly by UNISDR, WB and CAREC to governments of the region providing them details about the initiative, the initial studies, and seeking their cooperation
- Sept. 30 – Risk Assessment Consultant (RMSI) starts collection of materials
- Oct. 15 – Develop list of contacts (national, regional, international -- government and private sector)
- Oct. 15 – Develop list of key regional meetings
- Oct. 31 - Develop calendar for visit in the countries part of the initiative, including any visits to other institutions outside the region
- January 2009 – Country visits by Risk Financing/Insurance consultant

Backup Slides

- Allocation of sovereign catastrophe risk by sources of risk financing and available World Bank instruments
 - New financial product in 2008: Catastrophe Deferred Drawdown Option (CAT DDO)
- Example: South Eastern Europe DRM Initiative
 - Risk transfer solutions for homeowners and SMEs
 - Hedging weather exposure of businesses

Schematic allocation of sovereign catastrophe risk by sources of risk financing and available World Bank instruments



Deferred Drawdown Option (DDO)

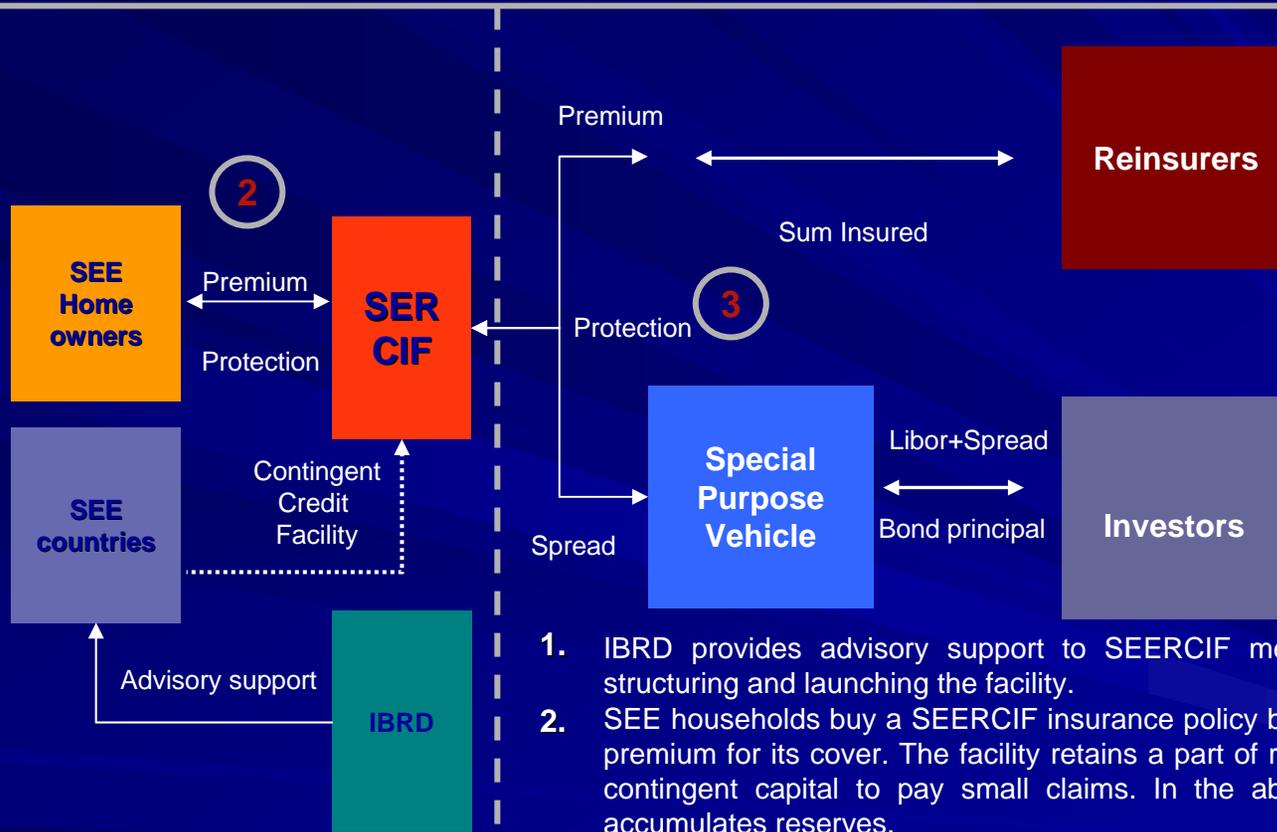
- New financial product of the World Bank – approved on March 4th, 2008.
- Will provide immediate liquidity to fill the budget gap in the aftermath of natural disasters – up to USD 500 million.
- Disburses under pre-defined conditions such as declaration of national emergency by government.
- Certainty of disbursement.
- Highly affordable pricing
- Could be used to support government recovery programs or government backed insurance.
- Countries signing up for the facility must have a hazard risk management program in place that is monitored by the World Bank.



Risk transfer solutions for homeowners and SMEs

South Eastern Europe Regional Catastrophe Insurance Facility

Catastrophe insurance coverage against the risks of flood and quake for homeowners and SMEs



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1. IBRD provides advisory support to SEERCIF member countries in structuring and launching the facility.
2. SEE households buy a SEERCIF insurance policy by paying an annual premium for its cover. The facility retains a part of risk relying on IBRD contingent capital to pay small claims. In the absence of claims it accumulates reserves.
3. The facility transfers most of risk to reinsurance and capital markets either through a reinsurance contract or by issuing a cat bond.

Hedging weather exposure of businesses

Buyers of weather risk protection

Sellers of weather risk protection

SEE metervices



Electronic portal



Weather reference indices
(temperature, precipitation, wind)



Risk management advisor to SMEs

