



Financial Strategies for Managing the Economic Impacts of Natural Disasters

Session 1 - The Economic Impacts of Natural Disasters on Developing Countries

This introductory presentation examines the economic losses from natural disasters to households, businesses, and public infrastructure. It provides an overview of the human and economic losses at the global scale and presents the uneven distribution of these losses in developing and developed countries. The session reviews the typical pattern of disaster risk as it relates to economic development. It also examines the question of how disaster losses are financed in different national political contexts. Finally, important implications for the management of disaster risks for households, businesses and the public sector are discussed.

Session 2 - Financing Mechanisms for Pro-active Disaster Risk Management for the Public Sector

This session presents tools for developing and evaluating national strategies to ensure that governments have sufficient resources for financing disaster relief and recovery. It examines options available for national governments to finance losses to critical public infrastructure, including traditional measures, such as post-disaster borrowing, and new tools, such as insurance or contingent credit. It introduces the concept of “financing gap” and demonstrates that governments should only insure public assets if they can not raise sufficient capital for reconstruction from traditional, post-disaster financing instruments. Using specific country examples the session demonstrates how models can be useful for estimating the financial gap.

Session 3 - Government’s Role in Financing Disaster Risks to Households and Businesses

This session reviews ex-ante and ex-post risk-financing arrangements in developed and developing countries. A dilemma facing many governments is how much to spend for assisting households and businesses after a disaster. Generous post-disaster support wreaks havoc with national budgets and does not provide incentives for ex-ante risk reduction measures. Yet equity considerations arise since poor households and small businesses – especially in developing countries - cannot afford extensive pre-disaster risk reduction and insurance. This session will present policy options for combining public responsibility with that of private individuals, and will give additional policy options for countries that do not have an affordable insurance infrastructure.

Case Study 1 - [Disaster Risks in Honduras: Estimating the Financing Gap](#)

This case study presents a tool for examining the question of whether a government should insure its public infrastructure assets and other properties for which it bears post-disaster liabilities. With the help of this methodology, it is possible to assess a government’s *needs* for additional funding after a disaster occurs in order for it to meet its financial obligations. In assessing this need or financing gap, it is important to consider the government’s exposure to catastrophic risks, the government’s liabilities if a disaster occurs, and the availability of post-disaster financing. The case study illustrates the application of the methodology by assessing the financial gap for Honduras.

Case Study 2 - [Strategies for Closing Honduras’ Financing Gap](#)

Using data and figures for Honduras, this case study presents the methodology and illustrates the computer software for evaluating a government’s financial options for closing its financial gap. The decision of whether the government invests in pre-disaster instruments or relies on traditional risk financing options depends on the tradeoff between economic growth and stability. The

tradeoff and options are illustrated in this case study by presenting the costs and benefits of ex ante financial management.

Case Study 3 - Public-Private National Insurance System in Turkey

This case study describes the development, organization and operation of the Turkish Catastrophe Insurance Pool (TCIP). As the first public-private insurance pool operating in a disaster-prone, developing country and supported by the international donor community, the Turkish experience is of special interest. In reading this case, you should consider whether the Turkish case raises issues relevant to your country. Are the conditions in your country similar to Turkey? If not, what changes might be needed for the design of a viable system? If such a system is not relevant to your country, what might be the low-cost alternatives for reducing the financial vulnerability of urban and rural dwellers to catastrophic natural events? Since any public-private insurance pool raises difficult issues of equity and efficiency, should citizens and stakeholders be involved in the decision process for reducing and sharing the losses from disasters?

Readings