

# National Disaster Risk Financing Strategy, 2020

## 1. Background

Nepal is at high risk of natural and non-natural disasters. It continues to face the brunt of hazards resulting from rugged topographical conditions, hydro-meteorological activities and climate change as well as disasters attributable to virus, insect pests, epidemics and wildlife. There is a need for appropriate instruments and technologies to forecast the nature and magnitude of hazards and disaster impacts, and estimate the damages accordingly. Disaster risk and loss of life and property arising from residual risks can be minimized through preventive, mitigation and control measures by making the hazards predictable through the use of such instruments and technologies.

Financing of disaster risk reduction is more effective than the financing of post-disaster search, rescue, relief, rehabilitation, reconstruction and recovery. Despite the fact that disaster events cannot be fully prevented, the extent of damage can be minimized by adopting disaster risk reduction measures. Therefore, economic recovery from the damage can be achieved through measures of liability transfer including insurance.

An analysis shows that disasters resulted in a huge loss of life and property, with an economic loss of billions of rupees over a period of last five years in Nepal. The recurring disaster events mainly include earthquake, flood, landslide, fire, windstorm, lightning and cold wave, among others. During that period, a total of 11,209 persons were killed and 29,663 others injured, and the estimated economic loss stood at Rs. 15.43 billion (Including the loss of 2015 Gorkha Earthquake). In order to manage financial resources necessary for minimization of disaster damage, enhancement of post-disaster resilience of persons, society and nation and realization of the concept of “Build Back Better and Stronger”, this **National Disaster Risk Financing Strategy** has been formulated with the support, suggestions and coordination of stakeholder agencies.

## 2. Policy Provisions

The Constitution of Nepal has included disaster management in the list of exclusive power of the Local Level, and in the list of concurrent powers of the Federal, Provincial and Local Levels. The Disaster Risk Reduction and Management Act and Rules make a provision for determination and implementation of instruments and procedures of disaster risk transfer including insurance and social security. There has been a provision of establishment and operation of Disaster Management Funds in a level-wise manner for effective relief and recovery of loss or damage resulted from disasters. The National Policy for Disaster Risk Reduction, 2018 states that insurance of agriculture and livestock and business for risk sharing and risk transfer of vulnerable communities will be promoted and made it easily accessible. In addition, disaster affected community will be provided soft loan and encouragement will be given to bring public, private, and community buildings, educational and health related infrastructure and other physical infrastructures including water supply under compulsory insurance cover for the compensation of losses and damages due to disasters.

Similarly, Disaster Risk Reduction National Strategic Plan of Action envisions increasing risk information based private and public financing to enhance entrepreneurship and promoting disaster resilience through risk sharing, insurance and other instruments amongst its various priorities. The 15<sup>th</sup> Plan (2019/20-2023/24) says that safer and resilient Nepal will be built by increasing public, private and community financing in the area of disaster management. Likewise, The Local Government Operation Act, 2017 has tasked the Local Level with the responsibility of implementing National Building Code and Standards and operating the activities related to Safe Settlement Development Program. The Agriculture Development Strategy (2015-2035) has prioritized the establishment of Farmers' Welfare Fund and Disaster Response Fund, and promotion of agriculture insurance. The Industrial Policy, 2011 stipulates a provision of deducting the amount of expenses made for safety of physical property of the industry, natural disaster and insurance cover from the taxable income. The National Urban Development Strategy, 2017 has emphasized integration of resilience into urban system and preparation of community plan for building disaster resilient city and community. It regards resilience as one of the guiding principles for achieving balanced and prosperous urban future.

The Sendai Framework for Disaster Risk Reduction and the Paris Agreement on Climate Change have mentioned about building disaster resilient society by adopting financial mechanisms and increasing investment for disaster management.

### 3. Efforts Made So Far By Nepal

**Crops and livestock insurance** program was introduced in Nepal after Insurance Board formally issued the Crops and Livestock Directives, 2013 under crops and livestock insurance program on 14 January, 2013. Government of Nepal, Council of Ministers decided to approve the Crops and Livestock Insurance Subsidy Directive, 2013 on 3 July, 2013 in a manner to provide a subsidy on insurance policy with effect from July 16, 2013. Initially, Government of Nepal granted a 50 percent subsidy on original insurance premiums paid by farmers in proportion to loss or damage caused to livestock, fishery, horticulture, fruit farming and crops by fire, lightning, earthquake, flood, inundation, drought, insect pests and other reasons, and the maximum sum insured per person for this subsidy was Rs. 10 million. Later, Government of Nepal decided to increase the subsidy on insurance premium to 75 percent, grant exemption on Value Added Tax (VAT) and scrap the Rs. 10 million limit of insurance amount with effect from 17 July, 2014. The sum assured under insurance policies for livestock and fishery stands at Rs. 12,741,828,831, while crop insurance amounts to Rs. 869,008,340, totaling Rs. 13,610,837,171 in agriculture insurance program so far.

Farmers have been affected by such natural disasters every year. Government of Nepal brought into effect the **Relief Program Implementation and Monitoring Procedure, 2014** with the objective of encouraging the farmers to keep themselves engaged in agricultural works without being frustrated by providing relief, albeit little, to the disaster affected farmers.

There is a provision of providing relief, as prescribed, for damages to oilseeds, cash crops, forage crops, vegetable and fruit seeds and seedlings, food crops, fruit farming, horticulture and fish ponds if the total area of cultivable land is shrunk due to landslide or turned into riverbed. Farmers are also entitled to enjoy relief for any loss or damage of livestock due to disaster.

The Disaster Victim Rescue and Relief Standards, 2007 (Sixth Amendment 2017) provides for provision of emergency rescue and relief distribution. As per the Standards, the grieving family of each victim killed in the disaster gets Rs. 100,000 in relief. In case a household is not in position to maintain its daily livelihood due to damage of housing and food supplies following a disaster, such a household will get an immediate relief of Rs. 10,000. Where a family is displaced owing to complete damage of house, it is entitled to Rs. 50,000 and has to make an application to the Central Disaster Management Committee for additional relief as may be required. Similarly, the persons injured in disasters will be treated free of cost in government hospitals.

As for the health insurance program, Section 3 the Health Insurance Act, 2017 requires every Nepali citizen to get his or her health insured. This program has been

implemented in 544 Local Levels and 56 districts so far. Approximately 2.7 million people of around 795,000 households are registered with the insurance program. Around 675,000 highly disadvantaged persons and 282,000 senior citizens have been covered hereunder. Nearly 9 percent of total population and 19 percent population of districts, where the scheme is in effect, are covered by this program, and around 36 percent of insured citizens have been enjoying the service. Insurance premium of Rs. 3,500 per year has been fixed for a family having up to five members, who will be entitled to health facilities worth not exceeding Rs. 100,000. If the family consists of more than five members, each member exceeding five shall pay additional premium of Rs. 700 and the benefit package increases to Rs. 20,000 per person, thereby making each family eligible to enjoy the service worth Rs. 200,000. Whole family of a senior citizen person aged 70 or above, highly disadvantaged person, completely disabled, severely disabled, patient suffering from Multi Drug Resistant-Tuberculosis (MDR-TB), HIV/AIDS, Leprosy etc. are insured free of charge under this program and full amount of contribution of such persons is borne by the government.

Provision of Prime Minister's Disaster Relief Fund, Central Disaster Management Fund, Provincial Disaster Management Fund and Local Disaster Management Fund has been made to recover the damage caused by disasters as soon as possible. Insurance companies have introduced Integrated Property Insurance Program and Micro-insurance Program in line with the legal basis determined by Insurance Board, the regulatory body. Government of Karnali Province has launched Natural Disaster Risk Group Insurance Program in that Province. The limit of its insurance amount is Rs. 200,000 and around 1.7 million people have been covered under this program. Infrastructure Security Insurance Program has been initiated for the area of large physical infrastructures and hydropower projects to get them insured during the construction phase.

Despite introduction of aforementioned programs, there is no provision of pre-arranged funds and bonds for their effective mobilization at the onset of a disaster and hence the devastating earthquake of 2015 caused an economic loss of around Rs. 7 billion and claimed at least 9,000 lives. Nepal has no other options than to mobilize a significant amount of foreign loans and internal resources to enhance resilience by recovering the damage so caused. As large infrastructures are being constructed by public and private sectors in Nepal and there is a possibility of damage to be inflicted to such infrastructures by the brutality of disasters from time to time, financial resources should be made available for immediate reconstruction of the damaged infrastructures so as to help to smoothly continue with the service without delay. This Strategy is needed to manage financial resources through transfer of risk burden in collaboration with public and private sectors to provide loss-based social security by taking the disaster loss or damage caused to the target groups as the base for effective response and recovery in a timely manner, in addition to the aforesaid matters.

#### **4. Guiding Principles**

- To pay special attention to groups and communities especially children, senior citizens and persons with disabilities as well as those who are at high risk of disaster due to geographical and socioeconomic factors, in line with the concept of “Prosperous Nepal, Happy Nepali” and Sustainable Development Goals.
- To make transfer of financial risk, while protecting Private, Community Based, Intuitional and Public sector Assets and Life, and livelihood.

#### **5. Vision, Goal and Objective**

##### **Vision:**

The vision of this Strategy is to build Disaster Resilient Nepal, while safeguarding the achievements made in development by adopting the measures to minimization of loss or damage from disaster every year and risk transfer instruments through effective financing in disaster risk reduction and management.

##### **Goal:**

The goal of this Strategy is to ensure Pre-arranged Financial Mechanisms for providing adequate financial resources immediately at the onset of a disaster by maintaining financial risk sharing of stakeholders, while reducing financial, physical, social and human losses from disasters.

### **Objective:**

- To develop appropriate instruments and technologies to forecast the nature and magnitude of hazards and disaster impacts, and estimate the damages to be caused by them.
- To minimize the damage of individual, private and public assets from disaster, and identify and implement appropriate mechanisms and instruments for risk transfer.

## **6. Scope of Strategy**

This Strategy will incorporate disaster risk management and transfer instruments at public, private and individual levels with regard to financial risk management. This Strategy will serve as a guiding strategy for Province and Local Level.

## **7. Risk Analytics**

There is a tradition of preparing risk analysis report by various agencies only on the basis of risk analysis of disasters of small periphery and limited nature in a disaggregated manner as part of disaster risk assessment so far. Even risk analysis contained in such reports could not have been implemented effectively due to the lack of adequate data, appropriate instruments and tools, contrary to the need to keep updating the conditions of risk as per the vulnerability and capacity. Therefore, it is necessary to carry out disaster risk analysis by employing scientific methodologies, taking the recurring disaster events and loss or damage resulting from them in Nepal as the base. There is also a need to gradually update the conditions of risk and analysis thereof, with the changes to be occurred in the components of disaster risk analysis.

Multi-hazard risk analysis could not have been conducted in a scientific manner so far. Nevertheless, if the data provided by National Emergency Operation Center (NEOC) are taken as the base, on an average, 500 persons are killed and 5,000 others injured in disasters other than Road Traffic Accidents every year. Similarly, economic loss including private and public property (Excluding the loss or damage resulted from the 2015 Gorkha Earthquake) is worth approximately Rs. 12 billion. Sunsari, Morang, Bara, Parsa, Rautahat, Nawalparasi, Kapilvastu, Banke and Bardiya districts of the Terai Region are badly hit by flood and inundation every year, while earthquake most affected 14 districts are at risk of landslides. Similarly, the districts more affected by lightning include Makwanpur, Achham, Jhapa, Udayapur, Lamjung Rukum West, Darchula, Morang and Sankhuwasabha, among others.

In addition, the Terai districts are severely impacted by cold wave every year, whereas high mountainous districts are at risk of snowfall. Fires are taking the highest toll of human and economic losses.

Considering the huge loss of life and property, it is highly urgent to boost investment by integrating appropriate instruments that help increase risk based financing for recovery of damage from private and public sectors through proper risk analysis and assessment in a scientific way.

## **8. Strategic Activities**

- 8.1 Conduct natural and non-natural hazard mapping at National, Provincial, District, Sub-national and Community levels; estimate disaster risks; and maintain updated details of risk-prone places, communities, physical structures, natural resources, basic services etc. by entering them in National Disaster Risk Information System.
  - 8.1.1 Implement necessary financial planning according to determination of the volume of contingent liabilities by employing Financial and Actuarial Analytics to provide information about potential financial and economic losses and impacts from disasters.
- 8.2 Conduct investigation, study, research and analysis on nature of hazards and potential situations arising therefrom, and enter them in Disaster Information System of Federal, Provincial and Local Levels.
- 8.3 Make timely amendments in the National Disaster Risk Assessment and Management Information System- NDRA-MIS and enhance capacity thereof, enabling it to perform data collection and processing, and manage information about adverse impacts of climate change as well as all communities which are at risk of disasters. In addition, expand the Data System to the Provincial and Local Levels.
- 8.4 Implement disaster risk reduction measures and risk transfer instruments by making appropriate provisions of necessary standards/norms, conditional grants, reward, punishment, fine etc. in the implementation process of development plans and socioeconomic activities of Federal, Provincial and Local Levels.
- 8.5 Develop and expand the capacity of Hazard Monitoring and Disaster Early Warning Information Systems. In addition, develop and implement laws, guidelines and Common Alerting System (CAP) that are necessary for

establishment and effective operation of Hazard Monitoring and Disaster Early Warning Systems.

- 8.6 Adopt the measures to economic recovery of Private, Public, and Sovereign Assets from disaster damage through life and non-life insurance products by pursuing necessary policy, structural and practical reforms.
- 8.7 Make a provision of Catastrophe Fund to cover the catastrophic loss in excess to first loss cover transferred to insurance disaster of public service infrastructures; especially historical, religious and cultural heritages; and sovereign liabilities.
  - 8.7.1 Create an enabling environment necessary to involve the private sector and capital market in disaster risk reduction and management.
  - 8.7.2 Make arrangements of public and private financing for risk reduction and risk transfer through identification and measurement of economic and financial risk of public and private sectors related with disaster.
  - 8.7.3 Make arrangements of liquid financial resources, such as Reserves, Catastrophe Bond, Contingent Credit, Insurance Linked Securities and other available disaster management financing instruments at the onset of catastrophe.
- 8.8 Make provision of adopting pre-arranged and well-planned protection measures like insurance and reinsurance to maintain financial stability of banks, insurance and financial service provider organizations and cooperatives for managing their financial risks during a disaster.
- 8.9 Encourage to prepare Business Continuity Plan to minimize the damage and immediately run the services smoothly during a disaster, by making legal provisions of risk reduction and safety measures required to be adopted while operating services of public service provider government agencies and firms, enterprises, businesses etc. of private sector.
- 8.10 Make the disaster preparedness and response more effective by ensuring proper management of Federal, Provincial and Local Disaster Management Funds to enhance financial capacity for response actions according to nature, magnitude and impact of various types of disasters.
- 8.11 Make provision of providing insurance security to persons engaging in various professions and occupations as a livelihood source, poor people, marginalized and vulnerable groups immediately for restoration of their livelihood after a disaster, in accordance with the law.
- 8.12 Establish and operate Pre-arranged Financing Mechanism.

- 8.13 Ensure Early Warning Information based pre-financing by making weather forecast dependable.
- 8.14 Conduct pilot test of, develop and implement the concepts and practices of promotion of new financing to be available for disaster risk reduction, economic resilience, institutional resilience and management.
- 8.15 Conduct pilot test of, develop and implement the concepts and practices of promotion of new financing to be available for regional and cross border (Regional and Cross Border e.g. SAARC, BIMISTEC, Nepal-India, Nepal-China) disaster risk reduction and management.

## **9. Implementation Provisions**

This Strategy will be implemented in coordination and collaboration with public and private sectors after Ministry of Home Affairs prepares a Sectoral Action Plan by consultation with all the stakeholders. The stakeholder agencies will, as per necessity, frame and implement sectoral policies for the implementation of this Strategy.

## **10. Resource Management**

Government of Nepal will manage or cause to be managed necessary human resources, technology and financial resource for the implementation of this Strategy. The Federal, Provincial and Local Level mechanisms will manage resources from the contribution of the governments, risk-carriers and beneficiaries. External resources may be mobilized in accordance with the decision of Government of Nepal.

## **11. Monitoring and Evaluation**

Monitoring of the implementation of this Strategy will be carried out by the concerned agencies on a regular basis. Mid-term evaluation of implementation will be conducted in every three years. Final impact evaluation will be conducted after five years.

## **12. Expected Outcomes**

Disaster resilience will be enhanced from the increase in risk information based private and public financing and risk sharing, and through insurance and other instruments. Information along with necessary instruments and technologies will be received to forecast disaster risk. There will be immediate financial arrangements in

place for disaster risk reduction and post-disaster recovery through various financing mechanisms. Financial risk investment will be ensured in construction of critical infrastructures according to the concept of disaster risk sensitive development. There will be adequate development of infrastructure insurance, social security allowance, property insurance and life insurance programs, considering the disaster risk. Foundation of Safer and Resilient Nepal to disaster risk will be developed.