

## Strategic Priorities of the Government of Nepal in Managing Climate and Disaster Risk

The Government of Nepal has identified four overarching goals for its disaster risk financing strategy. These are aligned to the 15th Development Plan which articulates a clear goal of a “safe and resilient Nepal from disaster risk”. Based on this overarching goal, as well as initial consultations and analysis and lessons from countries with similar risks, the following policy goals have been established to manage the finance impacts faced from climate and disaster risk in Nepal:

- **Maintain a sound fiscal balance at the national level**, to necessitate rapid recovery when disasters occur and to safeguard development progress.
- **Reduce the impact of disasters on critical public services, economic activity and livelihoods**, enabling resilient economic growth and development.
- **To ensure pre-arranged financing mechanisms are in place at national, provincial and local levels**, necessary to provide immediate liquidity at the onset of a disaster; and
- **To Protect the poorest and vulnerable people** from falling into a cycle of poverty due to disasters and shield the near-poor from slipping back into poverty.

To help achieve these policy goals four priority areas have been identified that aim to build financial resilience throughout the country and support market development of the financial sector in Nepal:

- **National level:** Enhanced financing of post-disaster emergency response, recovery and reconstruction through the use of pre-arranged financing instruments by implementing plans and systems to release finance rapidly to where it is needed.
- **Sub-National level:** establish pre-arranged financing to support local and provincial-level response activities, as well as plans and systems to protect public assets and ensure finance flows quickly to provide assistance to affected communities.
- **Individual level:** Empower poor and vulnerable households and owners of small and medium-sized firms to quickly restore their livelihoods after a disaster.
- **Risk analytics:** the use of risk data to support decision making about financial protection demonstrating the advantage of implementing different financial instruments to cover events of different levels of severity.

### Strategic Priority 1: National Level

**Enhanced financing of post-disaster emergency response, recovery and reconstruction through the use of pre-arranged financing instruments by implementing plans and systems to release finance rapidly to where it is needed.**

**To improve the financial management of disasters, it is important to understand the timing of post-disaster funding needs and the longer-term costs of different sources of financing.** Access to immediate liquidity is crucial to support relief and early recovery operations, while the financing of post-disaster

reconstruction usually starts several months later. Optimizing the amount of finance and the time it takes to disburse is key to implementing a cost effective risk financing solution.

**The government of Nepal has already implemented several financial instruments to manage its disaster risk** e.g. the Catastrophe Deferred Drawdown Option (CAT DDO) from the World Bank and dedicated disaster reserve funds at the federal, provincial and local government levels. Any new instruments should complement these existing instruments. The following activities will help the Government of Nepal to enhance its financial response capacity:

- **Quantify and clarify the contingent liabilities** faced by government from disasters
- **Build up multi-year reserves** through annual contributions to the Disaster Funds, with allocations informed by disaster risk information
- **Assess gaps in the financing strategy** with current instruments and options and identify solutions
- **Risk transfer of catastrophe risks** (e.g. earthquake) to international reinsurance and capital markets

### Strategic Priority 2: Sub-National Level

*Establish pre-arranged financing to support local and provincial-level response activities, as well as plans and systems to protect public assets and ensure finance flows quickly to provide assistance to affected communities.*

**Local governments absorb a significant share of the public cost of disaster recovery and reconstruction.** Yet often they find themselves unable to finance this share and the national government has to step in. This represents an implicit contingent liability on the national government, making budget management and fiscal planning difficult to manage budgets and plan ahead. Moreover, this can create a disincentive for local governments to invest in risk reduction and preparedness measures.

**Build the capacity of local governments to financially plan for disasters by increasing their access to immediate liquidity following a disaster.** For example, aggregating catastrophe risks across local government units, could be cost-efficient and ensure efficient, predictable and fast allocation of resources in an emergency.

**Insurance of public assets helps transfer risk to specialized risk carriers.** Reconstruction of public assets and restoration of critical public services, including education and health, puts a significant contingent liability on the government. The following activities will help the Government of Nepal to identify and implement pre-arranged financial solutions:

- **Consider the introduction of financial protection for Disaster Funds** at provincial and local levels.
- **Develop a program for the insurance of critical public assets**, including schools and public buildings.

### Strategic Priority 3: Individual Level

*Empower poor and vulnerable households and owners of small and medium-sized firms to quickly restore their livelihoods after a disaster.*

The poorest suffer the most from disasters while the private sector often bears the brunt of the financial impact in absolute terms. Damage to homes and commercial property were a major proportion of overall losses in 2015, and the government bore a significant portion of these losses to reduce the impacts on households and firms and speed recovery.

**To protect households and firms from future disasters the development of private property catastrophe risk insurance markets is key.** The development of property requires public-private partnerships and policy and regulatory decisions in order to encourage and incentivize the uptake of insurance. It will also require technical and financial support for the development of risk market infrastructure and potentially a catastrophe insurance facility for homeowners, farmers, and small businesses.

**Adaptive social protection systems, backed by pre-arranged financing, provide essential support to poorer and more vulnerable households impacted by disasters.** The Government of Nepal is already investing in strengthening social protection systems, including through enhanced social registries, and recently committed to explore shock-responsive social protection. As such, the government priorities to restore livelihoods and protect individuals and firms are:

- **Broaden private property insurance** to include catastrophe risk
- Strengthen enabling environment to **increase uptake of agricultural insurance**
- **Implement shock-responsive social protection** based by pre-arranged finance

#### Strategic Priority 4: Risk Analytics

##### *Use risk data to support decision making about financial protection.*

In order to take informed decisions on disaster risk financing, a sound quantitative risk profile identifying the hazards, exposure and risk needs to be built to understand future economic loss. Risk information provides the necessary foundation for a national disaster risk financing and insurance strategy and allows the government to analyze the costs and benefits of various risk financing instruments as well as their optimal combination. However, action does not need to wait for new risk information, some risk information already exists for Nepal that can provide a sufficient basis to begin work on designing and implementing a disaster risk financing strategy, particularly at the national scale.

To assist with the development and implementation of the priority areas listed the following activities will ensure that a risk informed approach is selected and leads to the implementation of cost-effective solutions by:

- **Conduct a mapping exercise to synthesis of existing risk information for Nepal** to identify areas to be strengthened including any necessary enhancements to the asset exposure database
- **Develop catastrophe risk model for Nepal** guided by the mapping exercise to expand the existing analysis to fill any identified gaps.
- **Develop financial and actuarial tools to inform future decisions** related to disaster risk finance and insurance e.g. which financial instruments to invest in.

Summary Table:

Policy Objective	Potential Options
<p><b><i>National level: e.g. Enhance financing of post-disaster emergency response, recovery and reconstruction through the use of pre-arranged instruments and putting in place contingency plans and systems to deploy finance rapidly to where it is needed.</i></b></p>	<ol style="list-style-type: none"> <li>1. Quantify and clarify the contingent liabilities faced by government from disasters</li> <li>2. Build up multi-year reserves through annual contributions to the Disaster Funds, with allocations informed by disaster risk information</li> <li>3. Assess gaps in financing strategy with current instruments and options and identify solutions</li> <li>4. Risk transfer of catastrophe risks (e.g. earthquake) to international reinsurance and capital markets</li> </ol>
<p><b><i>Sub-national level: e.g. Put in place pre-arranged financing to support local and provincial-level response activities, as well as plans and systems to protect public assets and ensure finance flows quickly to provide assistance to affected communities.</i></b></p>	<ol style="list-style-type: none"> <li>5. Financial protection for Disaster Funds at provincial and local levels</li> <li>6. Insurance of critical public assets and services, including schools and public buildings</li> <li>7. Implement shock-responsive social protection based by pre-arranged finance</li> </ol>
<p><b><i>Individual level: E.g. Empower poor and vulnerable households and owners of small and medium-sized firms to quickly restore their livelihoods after a disaster.</i></b></p>	<ol style="list-style-type: none"> <li>8. Broaden private property insurance to include catastrophe risk</li> <li>9. Strengthen enabling environment to increase uptake of agricultural insurance</li> </ol>
<p><b><i>Risk Data: increase the use of risk data to support decision making about financial protection by the public and private sector.</i></b></p>	<ol style="list-style-type: none"> <li>10. Synthesis of existing risk information for Nepal to identify areas to be strengthened including any necessary enhancements to the asset exposure database</li> <li>11. Develop catastrophe risk model for Nepal</li> <li>12. Develop financial and actuarial tools to inform future decisions related to disaster risk finance and insurance</li> </ol>