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Training on Financing for Disaster Risk Management

***Session 1.2: Risk Financing Instruments in
the Context of Government of Republic of
Tajikistan***

Session Objectives

At the end of this session, participants should be able to:

- Identify risk financing instruments relevant to GoRT

Outline

- Classification of disasters
- List of ex-ante financial instruments (before disaster)
- Legal framework for post disaster financing
- Post-disaster damage assessment
- General post-disaster financing procedures
- List of ex-post financial instruments (after disaster)

Let us brainstorm

Guiding questions

Q1. What is your experience of risk financing instruments in Tajikistan?

Q2. What are the strengths and weaknesses of risk financing instruments? (e.g., accessibility, familiarity, awareness)

Q3. What will be your recommendations for improving risk financing instruments?

Activities: i) One group works on ex-ante risk financing while another group works on ex-post ii) They can identify any risk financing instrument iii) Discuss Q1, Q2, and Q3, iv) Prepare your answer on a flip chart provided.

- Classification of disasters
- List of Ex Ante Financial Instruments (Before disaster)
- Legal Framework for Post Disaster Financing
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Classification of Disasters

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Scale of disaster

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Defining
characteristics

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Entity
responsible for
financing response
and rehabilitation

Classification of disasters

Scale of disaster	Defining characteristics (people and livelihoods affected, economic damages, area affected)	Entity responsible for financing response and rehabilitation
Localized	<ul style="list-style-type: none">• No more than 10 people affected• No more than 100 livelihoods affected• Damages: No more than 1,000 x minimum wage (at the time of the disaster)• Area affected: Single industry/organization	Industry, organization
Local	<ul style="list-style-type: none">• 10–50 people affected• 100–300 livelihoods affected• Damages: More than 1,000 to 5,000 x minimum wage (at the time of the disaster)• Area affected: Single village	Local executive authorities

Classification of disasters

Scale of disaster	Defining characteristics (people and livelihoods affected, economic damages, area affected)	Entity responsible for financing response and rehabilitation
Territorial	<ul style="list-style-type: none">• 50–500 people affected• 300–500 livelihoods affected• Damages: More than 5,000 to 0.5 million x minimum wage (at the time of the disaster)• Area affected: City/district	Local executive authorities
Regional	<ul style="list-style-type: none">• 50–500 people affected• 500–1,000 livelihoods affected• Damages: More than 0.5 million to 1 million x minimum wage (at the time of the disaster)• Area affected: Single oblast	Oblast executive authorities

Classification of disasters

Scale of disaster	Defining characteristics (people and livelihoods affected, economic damages, area affected)	Entity responsible for financing response and rehabilitation
Republican	<ul style="list-style-type: none">• More than 500 people affected• More than 1,000 livelihoods affected• Damages: More than 1 million x minimum wage (at the time of the disaster)• Area affected: More than 3 oblasts or more than 3 districts of republican significance	National authorities Contingent Fund is used according to the GoRT's order
Transboundary	<ul style="list-style-type: none">• A disaster that crosses country borders	Actions are taken by decision of the GoRT according to international regulations

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Contingent Fund of the Government of Tajikistan



- Contingent Fund of GoRT is used for **disaster response** and **rehabilitation**, but it also can be used for other purposes
- Included in the **budget** every fiscal year, lapses at year-end, and cannot exceed **0.5 per cent** of the budget revenues
- Managed by the **GoRT**, which takes decisions on allocating fund resources after a contingency arises
- Any Tajik government organization or agency can request support from this Fund
- **Resources** of this fund **are limited**

Contingent Fund of the Government of Tajikistan



Purposes

- Disaster **response**
- Procurement of **machinery** needed for disaster response
- Population **evacuation** and **resettlement**
- Support for **people** and **organizations** affected by disasters
- **Compensation** for disaster loss and damage
- **Subsidies** to private banks for low-interest loans to population resettled from risk-prone areas
- **Emergency** prevention and **embankment** strengthening
- **Finding** and **disposing** of explosives and **toxic materials**
- **Rapid delivery** of **aid** to the affected areas and relief of emergencies in other countries

Local Reserve Funds

- GBAO, Dushanbe, and other oblasts and districts can establish reserve funds, which must not exceed **0.5 per cent** of local budget revenues
- Decision on how to use the funds lies with the respective **local authority**
- It covers only **small share** of annual average damage from natural disasters. For example, 1.4 per cent (in 2016) to 4.3 per cent (in 2015)

Material Reserves

- Governed by the Law on State Material Reserves and a decree on the Agency for State Material Reserves under the GoRT (2007)
- **GoRT** decides on the **allocation** of the resources and is responsible for **financing maintenance, procurement, delivery**, and **storage** of the material reserve
- Use of the reserve for various purposes, including **disaster response** and **recovery**

Material Reserves

- Allocations from the reserve in case of a disaster are requested by an **executive authority** responsible for disaster response
- Provide substantial support to disaster response and first recovery, but this support is limited to **basic resources**, such as fuel, construction materials, and food
- For example, in 2014 the material reserves allocated a total of 45,600 L of diesel fuel, 60 pieces of tents, 300 kg of flour, 150 kg of rice, 150 kg of sugar, 90 kg of pasta, and 60 L of oil.

Budget Allocation

- To cover **compensation** to people affected by natural disasters, budget classification 06108, “**Other support to the population**” was created during the budget execution in 2009 and 2010
- This budget item included expenses financed through two sources: **social insurance** and **government budget**
- In 2009 such payments accounted for TJS 3.8 million (US\$900,000); in 2010 they accounted for TJS 6.29 million (almost US\$1.5 million)

Budget Allocation

- **Social insurance** and **social protection** budget item includes all other social transfers, such as pensions, subsidies, help to low-income households, and financing of other related programs.
- **Local budgets** also include a budget item on social insurance and social protection
- In 2009, a total of TJS 6.7 million (US\$1.6 million) was allocated from the local budgets as transfers to population affected by disasters; this amount represents almost 30 per cent of all compensation payments made

Disaster Insurance

For private property

- As per the AXCO (2019) report, disaster insurance in Tajikistan is provided as a **multi-peril product** bundled with fire insurance and is rated as part of the overall cover (World Bank, 2019)
- Most property is **uninsured** against disasters, and that a large low-income population specifically **limits demand** for this type of insurance
- MUIN, a private insurance company covers **households** and **corporations** with **risk-based pricing**; and Orient Insurance covers private property. They both offer coverage against disasters
- Tojiksughurta, a state-owned insurance company established by the GoRT also provides **disaster insurance**

Disaster Insurance

For private property

- As of now, there are **no provisions on disaster insurance** in the Law on Insurance, nor are there sector-specific decrees on disaster insurance. But the Decree on Rules of Post-Disaster Financing states that **all people and property must be insured against disasters**
- Disaster insurance in the country requires **reforming**. For instance, **compensation** from the insurance companies to the population is rather **small**, and the **current mechanism** may **not provide** recipients with significant support for **recovery**

Disaster Insurance

Agriculture Insurance

- Natural hazards, such as hail, flood, or drought are a significant **threat to rural areas** of Tajikistan and its agriculture, and their impact is expected to increase with **climate change**
- As per the AXCO (2019) reports as cited in (World Bank, 2019), **insurance coverage is mandatory** for property used for **agricultural enterprises**. But such insurance is offered to **state-owned farms**
- **No clear information** if any insurance protection exists for **small subsistence farmers**. The situation of subsistence farmers need more financial support due low income, for example, over the half of the smallholder farms produce income below the national poverty line

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- Classification of disasters
- List of Ex Ante Financial Instruments (Before disaster)
- **Legal framework for post disaster financing**
- Post-disaster Damage Assessment
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Legal framework for post disaster financing

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Laws

National Finances of the Republic of Tajikistan (2011 with amendments)

Public and Publicly Guaranteed Lending and Debt (1999)

Protection of Population and Territories from Natural and Man-Made Disasters (2004)

Insurance (2014)

Annual Government Budget

State Material Reserves (2009)

Tax Code (2012)

The National Bank of Tajikistan (1996)

Legal framework for post disaster financing

Regulations



*Decree on Classification of
Emergency Situations (2006)*

*Decree on Rules of Post-Disaster
Financing (2009)*

*Decree on Questions of State
Committee of the GoRT on
Emergency Situations (2015)*

Post-disaster decrees

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Post-disaster damage assessment

Context

To finance needs after a disaster occurs, a post-disaster damage (and cost) assessment is required. The assessment goes through several steps before ultimately reaching the State Committee on Emergency Situations under the GoRT



Source: 2015 Murgab Earthquake: In Depth Assessment Report.
https://reliefweb.int/sites/reliefweb.int/files/resources/Murgab_Earthquake_In_Depth_Assessment_Report_July_2016.pdf

Disaster

Individual person or legal entity requests damage assessment



Executive body of the affected territory performs damage assessment or summons a committee on emergency situations

Results are provided to local CoESCD branch

2 days

Local CoESCD reviews the results and the affected assets

Prepares a conclusion and justification for financial (or other) support

3 days

Local executive body prepares estimation of costs (at market price)

Prepares relevant documents

3 days

Local CoESCD reviews the documents on costs

Prepares its decision on what support to provide

2 days

Within 10 days after disaster (or more in case of major disaster), the documents with cost estimates are sent to higher-level CoESCD

There is a faster procedure for urgent financing (for response or reconstruction), which is considered by CoESCD together the MoF and other stakeholders in 3 days' time

Higher-level CoESCD reviews the decision

Prepares its decision

3 days

CoESCD under GoT considers the documents

Prepares a proposal on provision of support

10 days

State Committee on Emergency Situations under the GoT makes a decision and submits it to the GoT

Post-disaster needs assessment process

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Borrowing

- For **disaster reconstruction**, Tajikistan could borrow from **multilateral financial institutions** on concessional terms. For example, World Bank supported reconstruction after the flood of 1998-1999 and Asian Development Bank supported reconstruction after floods in 1999
- **Disaster-related loans** are available and provided on highly concessional terms. However, these funds can take a **long time to materialize**, and they will typically **cover only a fraction** of the resources needed for reconstruction after a disaster
- Borrowing still creates a significant **debt burden**. Tajikistan's public and publicly guaranteed **debt currently exceeds** the domestic threshold

Budget reallocation

- Approved **budget expenditures** of ministries, agencies, and other budget organizations could be **changed or reallocated** by a decision of the GoT [As stated in the Law on National Finances (Article 55)]
- In practice funds that could be reallocated are **scattered** around different agencies and ministries
- **Reallocating funds** that are already scarce can create a **deficit** in financing of existing projects
- **Ministries and public agencies** often **reallocate funds** from within their own budgets for natural disaster response. For example, the Ministry of Transport reported that it often uses the budget line on road maintenance to address disaster damage

State special-purpose programs

- State special-purpose programs can be used for **response** and **rehabilitation**, as well as **prevention** and **preparedness** (as per the Law on Protection of Population and Territories from Natural and Human-Made Disasters)
- State special-purpose programs are **general budget programs** created for a specific purpose
- The funds are implemented by the relevant authority within the GoRT and the MoF controls the implementation

International assistance

- State Committee on Investment and State Property Management of Tajikistan is responsible for **mobilizing assistance** from international donors
- International assistance has been provided to Tajikistan regularly in the past. But this assistance has **covered only a fraction of damage** from the internationally reported disasters (on average 3 per cent)
- There are some other disadvantages of International assistance:
 - **Uncertain**, both in its amount and in the speed with which it will be provided
 - May be targeted to projects that are **poorly aligned** with government priorities
- **Explicit and clear rules** governing donor aid could help improve the coordination and efficiency of post-disaster spending

International assistance

International Funding Agencies

- World Bank
- Swiss Agency for Development and Cooperation
- Asian Development Bank
- European Union
- KfW - *Kreditanstalt für Wiederaufbau*
- European Bank for Reconstruction and Development

Summary of financing instruments for post-disaster budget allocation

Layers	Instrument	Use
All-risks layer	Donor assistance	From 1999 to 2016, donors contributed about US\$91.9 million for response and rehabilitation
High-risk layer	External borrowing	Lenders include development partners
Medium- risk layer	State special- purpose programs	Rehabilitation/reconstruction activities can be implemented as state special-purpose programs.
	Budget reallocation	Funds can be reallocated with decision of the GoRT, except from protected budget lines
	Contingent Fund	Multipurpose fund (less than 0.5 per cent of revenues) held US\$10 million in 2015 and US\$8.5 million in 2016.

Summary of financing instruments for post-disaster budget allocation

Layers	Instrument	Use
Low-risk layer	Disaster insurance	Insurance covers households
	Budget allocation	Special budget line may be used to compensate people affected by a disaster
	Material reserves	Funds are available and can provide in-kind support (fuel, food, construction materials)
	Local reserve funds	Local reserve funds (< 0.5 percent of revenues) between 2014 and 2017, funds ranged from a total of US\$1 million (2016) to US\$3.2 million (2015) .

Source: World Bank, 2019

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General post-disaster financing procedures

Steps

Step 1. Response and recovery financing from local budgets and budgets of organizations

Step 2. If local budgets are exhausted, a request for additional funding is sent with information on damages, people affected, and funds spent and left

Step 4. Resources for response and recovery from the Contingent Fund or other sources go directly to ministry, governmental agency, and executive authority accounts through government savings bank (as per the order of the State Committee)

Step 3. The government decides on use of the Contingent Fund or other sources



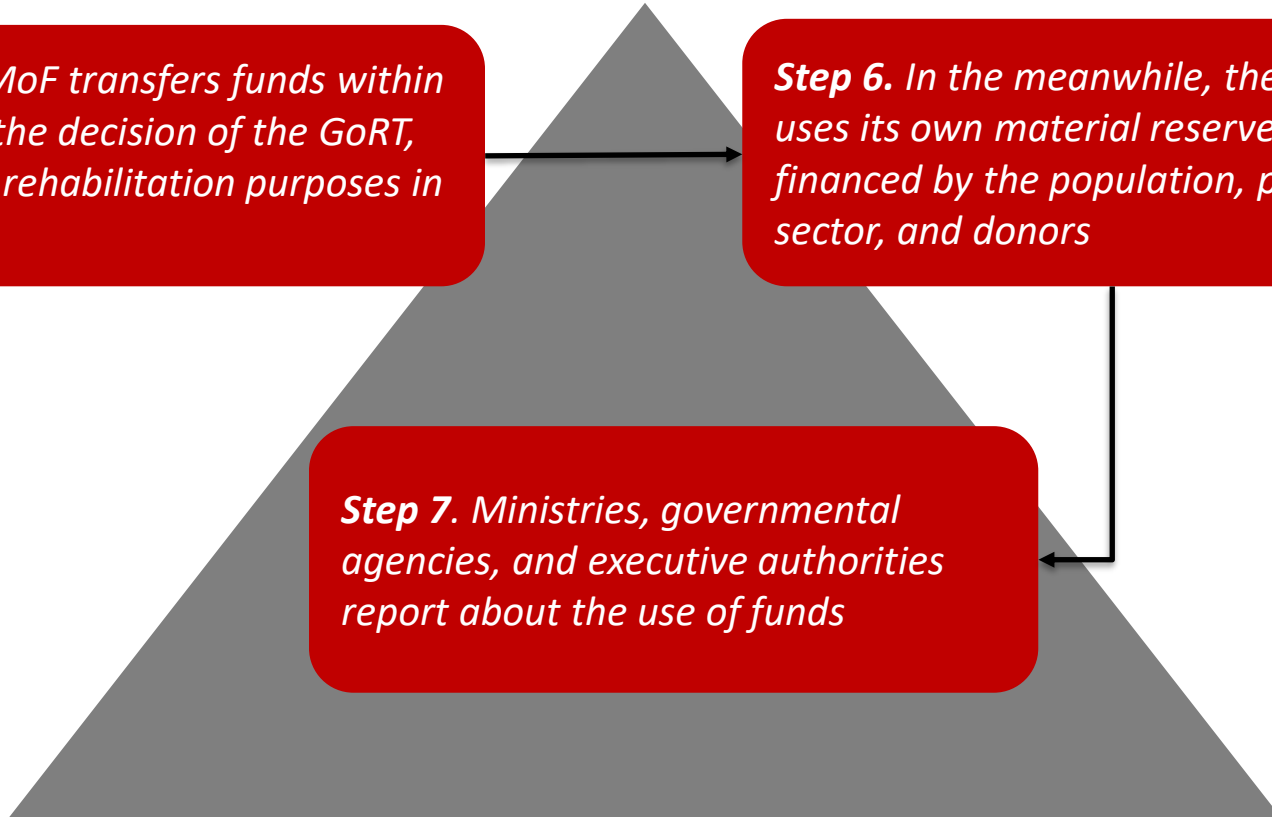
General post-disaster financing procedures

Steps

Step 5. The MoF transfers funds within 5 days after the decision of the GoRT, or for longer rehabilitation purposes in 1 month.

Step 6. In the meanwhile, the CESC D uses its own material reserves, financed by the population, private sector, and donors

Step 7. Ministries, governmental agencies, and executive authorities report about the use of funds



General post-disaster financing procedures

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Needs

Urgent needs** for disaster response are considered by CESCDC with MoF and other ministries in **3 days

***Long-term needs.** If there are resources, local governments finance further rehabilitation; **state programs** are introduced using the republican budget if support is needed*

Let us brainstorm

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References

- World Bank. (2019). *Disaster Risk Finance Country Note: Tajikistan*. Retrieved from <https://documents1.worldbank.org/curated/en/407701574229572325/pdf/Disaster-Risk-Finance-Country-Note-Tajikistan.pdf>
- Section from Nine Year Investment Plan



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