



Indonesia's Pooling Fund Bencana

Knowledge Exchange Visit on Disaster Risk Financing and Insurance (DRFI) in Switzerland

October 30 – November 3, 2023

Between October 30 and November 3, 2023, the World Bank's Finance, Competitiveness, and Innovation (FCI) team organized a knowledge exchange trip for Indonesian government officials to Switzerland to enhance their comprehension of the Swiss Disaster Risk Finance (DRF) and Disaster Risk Management (DRM) systems. The objective was to facilitate a technical knowledge exchange to help the Government of Indonesia implement its Pooling Fund for Disasters (Pooling Fund Bencana, PFB) and the state asset insurance (ABMN) program. Both these programs are anchored under the country's disaster risk finance strategy that was financed with support from the Swiss State Secretariat for Economic Affairs (SECO). This unlocked further funding from the governments of Germany, the U.K., and Japan for implementation of the two programs.

Background

An archipelago of tens of thousands of islands spanning 5,100 km from one end to the other, Indonesia has a long history of earthquakes, tsunamis, volcanic eruptions, widespread flooding, and landslides. Situated in the Pacific "Ring of Fire," the country has 76 active volcanoes, marking it as one of the most disaster-prone spots globally. Besides the toll on human lives and property, Indonesia has faced a significant financial burden in dealing with natural disasters.

In response, Indonesia has systematically developed its disaster risk finance approach, introducing a comprehensive strategy in 2018. This multifaceted approach encompasses, among other components, the establishment of a Pooling Fund that acts as a central mechanism for allocating funds toward preparing for and responding to disasters and developing a state asset insurance program (ABMN) placed in 2019 that covers over 7,000 buildings. In the fiscal year 2023, Indonesia's Ministry of Finance initiated the drafting of regulations to operationalize the Pooling Fund, and also set up a new team to manage and implement it. The World Bank has contributed \$500 million to support Indonesia's efforts in this regard.



Switzerland stands as an exemplary model for global knowledge transfer in Disaster Risk Financing and Insurance (DRFI), showcasing advanced and interconnected disaster risk management and financial systems, which have been refined over more than 200 years. Indonesia seeks to integrate these global insights into the design of the Pooling Fund Bencana (PFB), where Switzerland's systematic budgeting for disaster-related expenses becomes especially beneficial. Furthermore, Switzerland's effective usage of insurance to protect real estate closely aligns with the growth objectives of Indonesia's state asset insurance program (ABMN). The country also aspires to draw from Switzerland's decentralized approach, marked by substantial involvement of subnational government in disaster risk management strategies, as it endeavours to build more ownership at the subnational level for investment in managing the economic and financial impacts of disasters.

The 15-member delegation that travelled to Switzerland included key stakeholders from the Indonesian line ministries and agencies involved in DRF and DRM, including: BKF (Fiscal Policy Unit of the Ministry of Finance), DJKN (Directorate General of State Assets of the Ministry of Finance), DJPb (Directorate General of Treasury of the Ministry of Finance), DJPK (Directorate General of Fiscal Balance of the Ministry of Finance), BPD LH (the Indonesia Environment Fund of the Ministry of Finance), and BNPB (Disaster Management Agency). The knowledge exchange initiative was financed by the Global Shield Financing Facility (formerly the Global Risk Financing Facility [GRiF]) as part of the Indonesia Disaster Risk Insurance and Finance (DRFI) investment project financing (IPF)-performance-based condition (PBC) operation.

The objectives of the knowledge exchange were



To inform the development of Ministry of Finance Regulation for operationalizing the Pooling Fund.



To learn how financial planning and response works in decentralized governance systems.



To showcase the formulation and implementation of Swiss Laws pertinent to Disaster Risk Finance and Disaster Risk Management (DRF/DRM).



To illustrate leading methods for the collection, preservation, and utilization of disaster-related data.



To learn from the Swiss asset protection program and apply that to the expansion of Indonesia's state assets insurance program.

Key Operational Learning and Take-aways



Legislative Framework: The Swiss model demonstrates a commitment to risk governance, embedding programs within legal frameworks for stronger compliance. Indonesia could consider enacting similar legislation to institutionalize DRM and DRF systems.



Decentralization and Local Empowerment: Switzerland's decentralized structure empowers subnational governments with funding and legislative autonomy, enhancing local disaster response and financial management. Indonesia might evaluate how granting greater authority to local provinces could similarly benefit its own systems.



Risk Management Integration: Switzerland's holistic approach to risk management includes comprehensive risk evaluation, mitigation, and financial shielding for remaining risks. This integrated strategy could provide a template for Indonesia in optimizing its disaster risk handling.



Strategic Prioritization: Swiss risk strategies focus on frequently encountered hazards, like floods, guiding fund allocation and priority setting. This approach could aid Indonesia in fine-tuning its Pooling Fund's focus and resource distribution.



Risk Analysis and Modelling: Central to Switzerland's risk management and finance practices is the use of risk analysis and modelling. By adopting these methods, Indonesia could refine its risk finance strategy for its Pooling Fund.

The program ended with a session dedicated to consolidating the week's insights and understanding their practical application to DRFI initiatives in Indonesia. This allowed participants to synthesize learnings and collectively decide on actionable and operational steps forward.



Next Steps



Knowledge Sharing and Partnership Building: Delegates showed interest in sharing their learnings from the program with relevant government entities in Indonesia, fostering collaboration with various stakeholders to enhance DRFI efforts.



Strengthening Understanding on Developing Quality Standards for Assets: The program highlighted the need for developing resilience standards to reduce prevalent risk, and plan financing for residual risk.



Knowledge Exchange on Economic Tool for Enhanced Financial Decision-Making: Participants agreed to engage with their counterparts from other units to gain insights into utilizing tools like Econome for effective financial decision-making. This tool is valuable for disaster risk assessment and financial planning.



Learning from International Experience: Deliberations were held on examining global models like the Moroccan Solidarity Fund, Turkish Catastrophe Insurance Pool, and the California Earthquake Authority to enrich DRFI knowledge with varied international practices and insights.

