

Core Principle 4: To make sound financial decisions you need to have the right information

Risk information and risk analytics for evidence-based decision making: Even when governments are aware that they face a significant, often open-ended, contingent liability from disasters, they mostly lack the information, expertise, and tools to understand and quantify financial and fiscal disaster risk. The government may not know what kind of data is needed, such as historical records of how disasters affected public finances in the past and information for probabilistic financial and actuarial analysis such as modelled disaster losses. It may also lack the expertise needed to quantify its contingent liability to disasters, which often requires heavy statistical and financial lifting as well as analytical tools that are only recently becoming available to governments as they are being developed for the public sector through institutions such as the World Bank. The private sector and international institutions have a critical role to play in training governments to use financial risk data and analytical tools.

Ability to comprehensively manage fiscal risk: The ability of ministries of finance in developing countries to manage fiscal risk is often limited, if it exists at all. Without a

proactive approach to managing fiscal risk in general, ministries may also lack the mindset, knowledge, and institutional support to integrate fiscal risks from natural disasters. Such a shift often requires technical and financial support from international organizations and donors. By building on ongoing government work in areas such as debt or commodity risk management that are already better known to most ministries of finance, disaster risk financing can leverage existing capacity while contributing towards bringing together these different sources of risk for comprehensive fiscal risk management.

Increasing the evidence: In recent years, the number of developing country governments adopting pre-disaster financial protection measures has increased rapidly along with the number of available tools. Yet actual evidence on impact, effectiveness, and efficiency is still limited. Initiatives such as the World Bank's Impact Appraisal Program are tackling this need for improved evidence. But monitoring and evaluation must be included as an essential component in all disaster risk financing and insurance programs to build the evidence base and to establish meaningful indicators.