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# Integrating adaptive social protection financing into disaster risk financing strategy

*The scope of the Disaster Pooling Fund in financing emergency social protection and considerations for the fund's regulation*

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[1] 'a' is for Resilience Development Initiative [RDI], and 'b' UNICEF.

# Summary

This brief talks about how to combine adaptive social protection (ASP) financing, especially emergency ASP financing, with disaster risk financing and insurance (DRFI). It also gives policymakers some evidence to think about as they work on the Regulation of the Pooling Fund for the Minister of Finance. This brief focuses on the importance of either increasing the Pooling Fund's financing capacity to address the emergency social protection financing gap or positioning the on-call fund to provide adequate financing for emergency social protection.

## Policy recommendations:

- Integrating ASP financing into the DRFI strategy, especially for emergency social protection financing, through the renewal of the DRFI strategy.
- Increasing fiscal space for sectoral budgets to address the financing gap in ASP programmes, those supporting children with poverty, vulnerabilities, and disabilities.
- Adjusting the pooling fund's accumulation targets and spending percentages to increase its financing capacity and meet emergency social protection financing needs.
- Supplementing emergency social protection financing by the on-call fund, if the pooling fund's capacity is not increased, by adding more funds and emphasizing the on-call fund's function to finance emergency social protection through regulation changes.
- Adopting the considerations of the Minister of Finance Regulation to ensure data-driven, collaborative, and criteria-led decision-making in proposal selection, including the use of considerations for fund accumulation, monitoring, and evaluation.

# The context

Indonesia is the second-most-at-risk country for disasters and climate impacts, with high vulnerability and exposure (Bündnis Entwicklung Hilft, 2023). A recent assessment identified Indonesia's notable vulnerabilities to populations' difficulties in fulfilling basic needs, accessing basic services, protecting agricultural assets and livestock, and developing preparedness capacities (Sett et al., 2022). Given such vulnerabilities and exposure, the estimated impacts of covariate shocks become increasingly concerning.

Throughout the COVID-19 pandemic, the government rolled out significant expenditures for social protection measures (Ministry of Finance, 2022) and has highlighted the importance of strengthening the social protection system to be able to respond to covariate shocks and build resilience in the long term (ILO, 2023). Following this, the government, led by the Ministry of National Development Planning (MoNDP) is currently developing Adaptive Social Protection (ASP) through development plans and a social protection reform initiative (Bappenas, 2021) and plans to fully implement the ASP within the 2030-2034 development period.[2] ASP is an approach that integrates social protection, disaster risk reduction, and climate change adaptation to make existing social protection more adaptive and effective in building resilience [the capacity to prepare, cope, and adapt] in poor and vulnerable communities to covariate shocks (Bowen et al., 2020; Davies et al., 2009). We hope that the effective implementation of ASP will address vulnerabilities and build resilience.

ASP is developed and implemented through its four building blocks: institutional arrangements and partnerships, programs, data and information, and finance (Bowen et al., 2020), of which the financing building block is currently not as widely discussed as other building blocks. Developing an adequate ASP financing strategy is crucial to protecting Indonesia's population during emergencies. The financing of ASP refers to the financing of social protection programmes in development and emergencies to build resilience in poor and

2 Based on interviews with the Ministry of National Development Planning, early plans to the long-term development planning draft are to fully implement ASP within 2030-2034.

vulnerable populations. It ensures the timely and adequate disbursement of funds for social protection. However, several challenges hamper the financing aspects of ASP, especially in emergency social protection financing. This brief entails the current challenges and suggests possible solutions, indicating the impact of actions and inactions.

# Challenges

## Financing adaptive social protection financing, especially emergency social protection, is hardly explicitly linked with disaster risk financing and insurance

Although social protection measures in Indonesia have played a role in emergency response, there are challenges to making the response more efficient and effective. UNICEF's report noted delays in the "living support programme" during the disasters in 2018 (UNICEF, 2023). Delays in social assistance programmes were also noted in the recent 2021 Seroja Cyclone (Jahang, 2022, 2023). Studies examining these problems have noted that the delays occurred due to bureaucratic processes within funding disbursements (Takeda & Helms, 2006; UNICEF, 2023).

Ensuring that social assistance benefits arrive on time is important, as they function as a buffer that prevents negative coping strategies (Bowen et al., 2020; Fitrinitia & Matsuyuki, 2022). A delay in emergency food or cash assistance compels affected individuals and households to resort to cutting consumption, withdrawing children from school, distress selling assets, and other things (Bowen et al., 2020; Davies et al., 2008). However, with adequate and timely disbursement of emergency social protection benefits, affected disaster victims can better fulfil their consumption of basic needs (i.e., food, clothing, etc.) without sacrificing productive assets or other activities (i.e., school, small business, etc.), allowing them to recover quicker.
Delayed emergency social protection disbursements are less prevalent with a pre-defined (ex-ante) financing strategy through the DRFI framework. Scholars frequently mention DRFI in conjunction with ASP financing (Bowen et al.,

2020; UNICEF, 2023; WFP, 2023). It ensures that governments have sufficient resources to finance disaster management and the responsive disbursement of funds in disaster response (OECD, 2015). By leveraging risk transfers and increasing financial resources (Clarke et al., 2015), DRFI can be a timely, adequate, and sustainable financing strategy for ASP.

Indonesia formulated its national DRFI strategy in 2018 (Ministry of Finance, 2018); however, it has not been comprehensively linked with emergency social protection programmes. Although all the instruments outlined in the DRFI strategy (i.e., state and local budgets, the Disaster Pooling Fund, contingency credit lines, insurance, and aid/grants) can finance social protection programmes, the strategy does not specifically mandate or outline any funding towards emergency social protection programmes. Therefore, sectoral budgets (state or local budgets) still finance emergency social protection, posing challenges in planning and requiring time to reallocate if emergency needs surpass financing capacity (CNN Indonesia, 2021).

## There is a notable gap in financing adaptive social protection, especially emergency social protection

Issues with limited social protection financing are also prevalent. TNP2K noted a low investment rate (TNP2K, 2018),[3] due to fiscal constraints that relate to low tax returns in Indonesia and limited fiscal space for social protection (OECD, 2019).[4] In 2020, TNP2K also noted that, due to limitations in data quality and beneficiary targeting schemes, approximately one-third of households in the bottom 40% income group have not received any regular government assistance (TNP2K, 2020). Furthermore, due to the current financing schemes for emergency social protection, there is a challenge in upscaling coverage quickly (CNN Indonesia, 2021).

3 The TNP2K study noted Indonesia's 0.35%-1% GDP investment rate, which was low compared to other developing countries investing an average of 2% GDP.

4 The OECD report noted, that Indonesia is amon the lowest in the region and OECD countries on tax revenues, thus significantly limiting fiscal capacity for social protection.

**Box 1. Regular social assistance programmes:** Family Hope Programme, Village Fund Cash Transfers, Non-cash Food Assistance, Health Insurance Payment Assistance, Social Entrepreneurship Programme, Relaxation of Disaster Affected Business Credit, Social Rehabilitation Assistance Programmes (3 programmes), Public Works Programmes, Village Fund Public Works Programmes, Alert Village, Disaster Prepared Village, Resilient Coastal Village, Resilient Village, Climate Village Programme, Disaster Prepared Adolescents, and Subsidized Climate Insurance (4 programmes).

**Box 2. Emergency social assistance programmes:** Family Hope Programme*, Cash Assistance for Food in Disaster Response, Food Assistance*, Social Rehabilitation for Disaster-Affected Victims, Social Food Banks, Subsidized Climate Insurance, Provision of Basic Needs During Disasters, Disaster Affected Business Assistance, Psychosocial Support Services, Stimulant Fund for Repairing Disaster Affected Houses, and Death Compensation for Heirs.

*Note * = used for both regular and emergency social assistance programmes*

To determine the financing gap the current and required financing of regular ASP programmes (see **Box 1**), and emergency ASP programmes (see **Box 2**) was estimated. The required financing was determined based on the ideal coverage[5] of each social protection programme. The current coverage of the Family Hope Programme, for example, is 10 million beneficiaries, but the ideal coverage is 14 million[6] (the first 10% are extremely poor and the second 10% at the lowest income deciles). So, the coverage gap of the Family Hope Programme is 4 million beneficiaries. Emergency social protection needs are determined based on the average number of affected victims, deaths, and damages based on Indonesia's historic database, which amounted to an average of 2.77 million victims annually.[7] However, for emergencies, it has to be noted that shocks are difficult to predict and that this number is an average number, which may materialize as a higher or lower disaster victim count in the event of a disaster.

5 Ideal coverage of the programmes refers to the number of the population eligible for respective programmes. The coverage gap denotes the difference between the ideal coverage and the current coverage. Based on the Ministry of Social Affairs 2022 performance report, for example, Social Rehabilitation Assistance for Children and Social Rehabilitation Assistance for Vulnerable Persons and Persons with Disabilities covered 31,327 and 38,134 beneficiaries respectively. However, a 2021 Disability Review by MoNDP noted that out of the 22.97 million disabled persons, 11.42% or (2.62 million) of them are poor and vulnerable. The coverage gaps for these two programmes were calculated using this information.

6 Coordinating Ministry for Human Development and Cultural Affairs. (2022). Layanan Data P3KE [Socio-Economic Decile Data]. https://p3ke.kemenkopmk.go.id/sebaran. The decile data was the most comparative dataset to the planned Social Economic Registry, using deciles to solve problems with the current database which relies on voluntary reporting, which often includes beneficiaries that are non-poor while excluding eligible beneficiaries.

7 An average of 2,772,179 people is estimated to be affected by disasters each year, this was a calculation of the "Menderita" or "suffering/affected" category within the BNPB DIBI Database within 2002-2022. Source: BNPB. (2023). Data Informasi Bencana Indonesia. DIBI BNPB. https://dibi.bnpb.go.id/home/index2

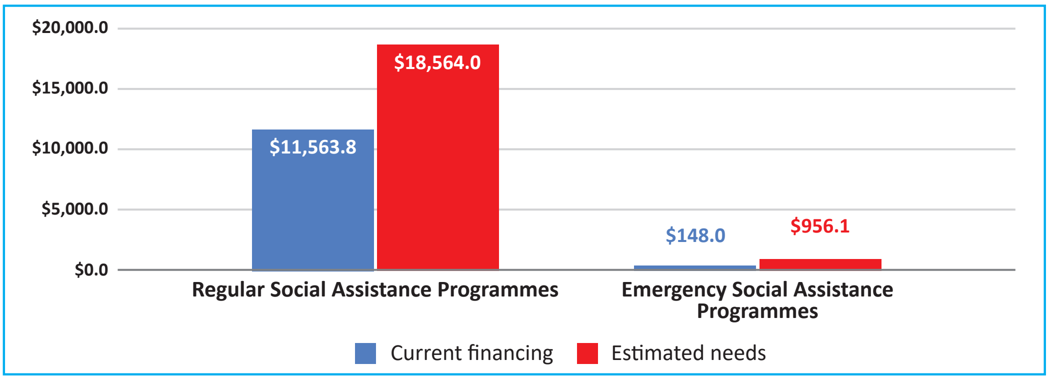


**Figure 1.** Financing gap of regular and emergency social protection programmes (US$ millions)

As per the estimation, the extent of budgets required for ideal coverage of the regular social protection programmes in Box 1 is US$ 18.56 billion against the current budget of 11.45 billion. This indicates an overall financing gap of US$ 7.11 billion (at a conversion rate of IDR 15,000) in regular social assistance programmes. The extent of budgets required to finance the emergency[8] social protection programmes in Box 2 was over US$ 956.11 million against the current budget of US$ 148.03 million, indicating a financing gap of over US$ 808.08 million. These financing gaps underscore the critical need for concerted efforts and strategic interventions to increase financing capacity and ensure these programmes reach their ideal coverage.

When the financing gap is zoomed to individual regular programmes, the highest level of financing gap, US$ 590 million, was found in the social rehabilitation assistance programme for poor children followed by the same programme for disabled or vulnerable persons, US$ 372 million under regular programmes (Figure 2).

[8] Emergency social protection needs are determined based on the average number of affected victims, deaths, and damages based on Indonesia's historic database, which amounted to an average of 2.77 million victims annually. However, when it comes to emergencies, it's important to remember that shocks are unpredictable, and this figure represents an average, which could potentially lead to a higher or lower number of disaster victims. We estimate that disasters affect 2,772,179 people on average each year. This was a calculation of the "Menderita" or "suffering/affected" category within the BNPB DIBI Database from 2002–2022. Source: BNPB. (2023). Data Informasi Bencana Indonesia. DIBI BNPB. https://dibi.bnpb.go.id/home/index2

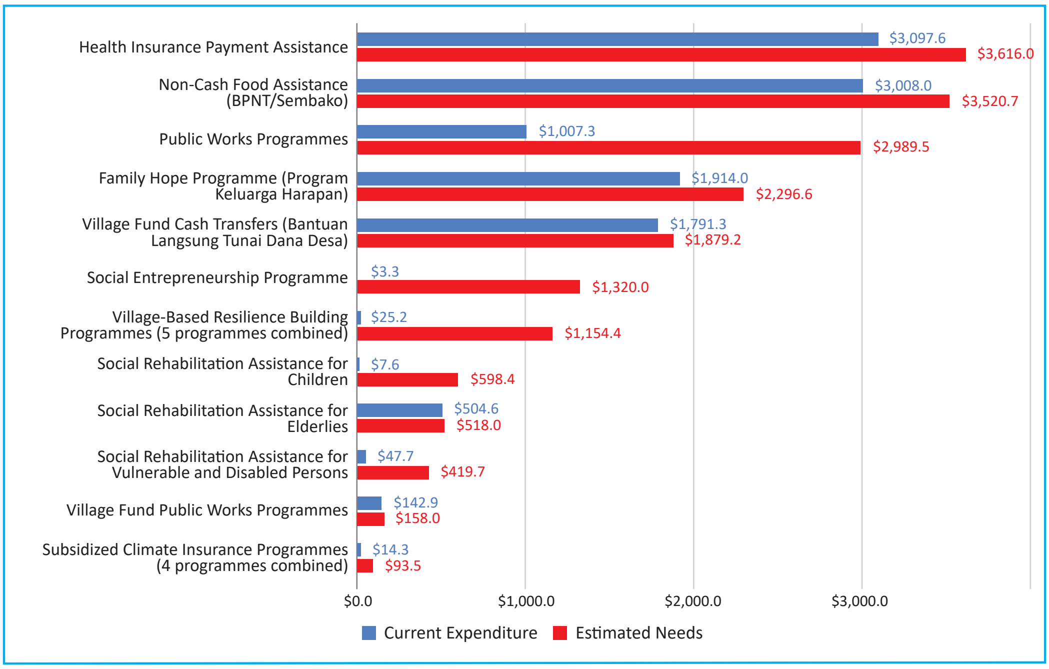


**Figure 2.** Financing gap (US$ millions) of regular individual social protection programmes

Regarding the individual emergency social protection programmes, the highest level of financing gap, US$ 344.7 million, was found for the Family Hope programme followed by the financing gap of over US$260 million for various emergency assistance programmes. These programmes encompass food assistance, social food banks, basic needs, and cash assistance and function as a buffer (relief) for disaster victims to cope and transition to recovery.

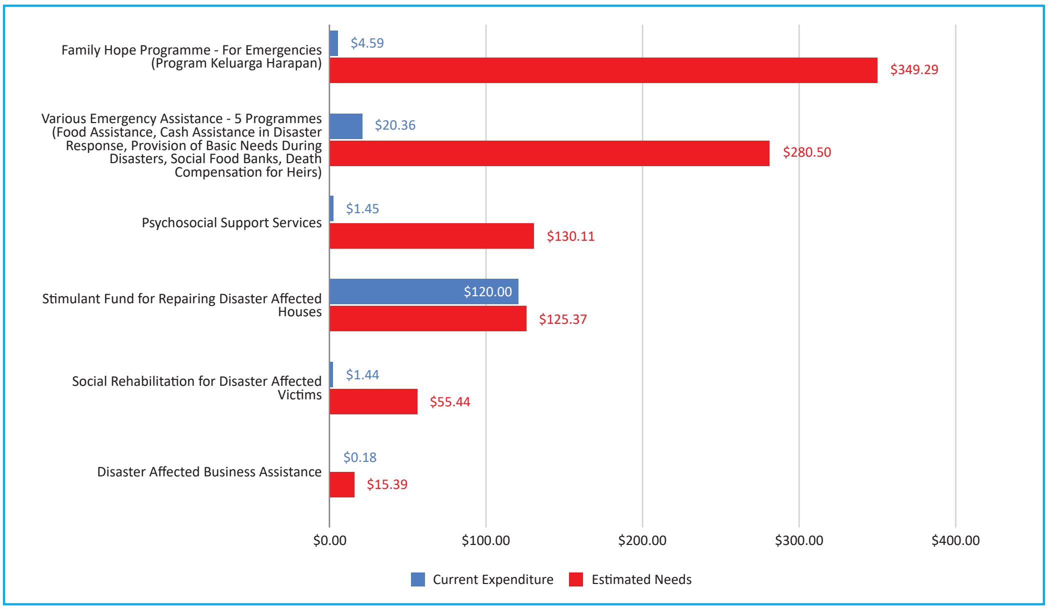


**Figure 3.** Financing gap (us$ millions) of individual emergency social protection programmes

These financing gaps may undermine efforts to reduce the vulnerabilities of all individuals and households, especially the national target of reducing extreme poverty to 0% by 2024.[9] Regarding emergency social protection financing needs, while estimates for emergency social protection are based on average needs, a big disaster could still overwhelm available resources. In this case, a financing shortfall may push affected victims further into poverty and reduce their capabilities for recovery, as only a limited number of disaster victims are adequately covered by social assistance.

[9] Indonesian President Joko Widodo is targeting extreme poverty to reach 0 percent by 2024 and has issued the foundation of Presidential Instruction (Inpres) No. 4 of 2022 on Accelerating the Elimination of Extreme Poverty

## Although the Disaster Pooling Fund is an innovative approach to buffering the emergency social protection financing gap, its financing capacity is highly limited to cover emergency social protection financing needs

Dana Siap Pakai, Indonesia's "on-call fund" for disaster management, has IDR 4.5–5 trillion (US$ 300–333 million) readily available to address the immediate financing needs of disasters. This can be replenished. However, qualitative data (interviews) revealed that the on-call fund is typically focused on physical and logistical emergency response rather than social protection measures. To finance emergency social protection, the Ministry of Social Affairs would have to utilize its budgets, conduct budget reallocation, request additional budgets from the General State Treasurer (*Bendahara Umum Negara*), and utilize other non-public sources.

Presidential Regulation No. 75 of 2021 regulates the Disaster Pooling Fund (or Pooling Fund), one of the most promising DRFI instruments. The Indonesian Environmental Fund (IEF) manages the fund. Although it mainly aims to finance disaster management needs, it has the scope to finance ASP programs (World Bank, 2020).[10] The regulation provides a broad definition of disaster management, allowing financing for ASP programmes.

Currently, the Pooling Fund holds IDR 7.3 trillion (Saputra, 2021). The plan is for the fund to accumulate 0.02% of the annual GDP from the state budget or other sources. However, the fund can only use a portion of the investment returns to finance disaster management needs. Currently, the fund plans to spend 20% of the annual return on disaster-related spending.[11]

[10] The World Bank strongly supported the development of the Disaster Pooling Fund, outlining several "performance-based conditions," including PBC No. 8, which calls for the fund to finance social assistance through adaptive social protection.

[11] This was explained by the Head of the Center for Regional and Bilateral Policy (PKRB) at the ASEAN Side Event, and the validation workshop conducted for this study.

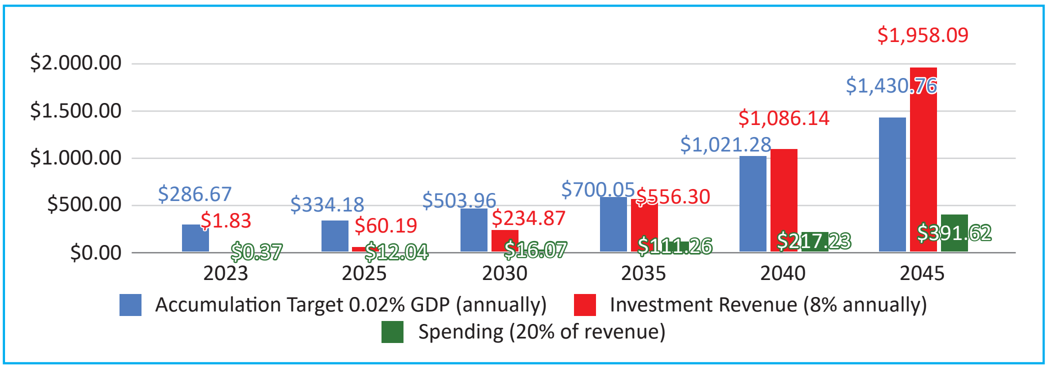


**Figure 4.** Estimated target of the pooling fund (in us$ millions)

Retaining the current utilization decision of the pooling fund will result in a spending capacity of US$ 392 million in 2045, beginning with approximately US$ 47 million in 2030 (Figure 4). If we dedicate all the funds to emergency social protection financing, the Pooling Fund can cover the 5.8%–11.7% funding gap for emergency social protection through 2030–2034. However, the Pooling Fund aims to finance not only emergency social protection but also other programmes in all phases of disaster management. This means that the Pooling Fund, with its current utilization decision will not be able to address the emergency social protection funding gap but can act as an innovative buffer to provide support during emergencies.

## The pooling fund does not explicitly specify the activities to be financed or the process of screening, prioritizing, and selecting proposals for funding

Presidential Regulation No. 75 of 2021, which regulates the Pooling Fund, only offers general guidance. The Ministry of Finance [MOF] is still drafting the regulation about PFB operationalization. Therefore, the operationalization of PFB remains incomplete. According to the regulation, various ministries, agencies, local governments, vendors, and communities can utilize the fund, provided they receive approval through funding requests from the National Disaster Management Agency (NDMA), the MoF, the Coordinating Ministry of Culture and Human Development (CMoCHD), and the Ministry of Home Affairs (MoHA). However, the role of those involved in the approval process to screen, prioritize, and select the proposals for the Pooling Fund remains unclear, as do the specific activities that should receive financing.[12]

The unclear monitoring and evaluation of activities financed by pooling funds raises questions about the effectiveness and clarity of the fund's leadership. The absence of a clear framework for monitoring and evaluation with a specified leadership role may undermine not only transparency and accountability but also the intended results of the fund.

The Pooling Fund, as per the regulation, can receive and accumulate investments from the state, local, and other funding sources. However, there is no further specific guidance on the other funding sources to utilize. This indicates the need to define the criteria or considerations for the Ministry of Finance and the fund managers of the pooling fund to accumulate the fund.

The current regulations of the disaster risk finance strategy have yet to directly integrate the Pooling Fund, a new financing instrument, and the emergency social protection financing, primarily financed through sectoral budgets. Additionally, the relevant disaster risk finance regulations, such as Law No. 24 of 2007, Government Regulation Number 21 of 2008, Government Regulation Number 22 of 2008, Minister of Finance Regulation No. 105 of 2013, etc., do not reference the Pooling Fund as a viable financing option. It indicates the need for the pooling fund to be included in the main law and key regulations to ensure its effectiveness.

[12] Oly pre-disaster, emergency response, post-disaster, and risk transfer activities can use the fund, according to Presidential Regulation No. 75 of 2021.

# Actions required

## Incorporating emergency social protection financing into the DRFI strategy

The Ministry of Finance should integrate emergency social protection financing into the DRFI strategy. In Indonesia, there are regular social protection programmes, standby social protection programmes for emergency, and regular programmes that are also used to address risks and vulnerabilities during emergencies [Box 1 and Box 2]. These programmes need to be officially declared as adaptive social protection interventions to implement for emergency responses and integrated into the disaster risk financing strategies or instruments [the on-call fund, insurance, the Pooling Fund, contingency credits, and grants/aid].

Most of the ministries and agencies that are administering social protection programmes believe that regular social protection should be financed by regular sectoral budgets. They acknowledged that the Pooling Fund, although it has limited capacity to support the expansion of programmes during emergencies, has the potential to a certain extent to address specific financing shortfalls at the national level and finance ASP programmes of local governments with limited fiscal capacity.[13] The implementers of social insurance have noted that, based on indicators of solvency rates and loss ratios, their financial structure remains healthy, allowing them to finance expansions if established.[14]

[13] Based on discussions with various ministries and agencies that administer social assistance programmes.

[14] Ibid

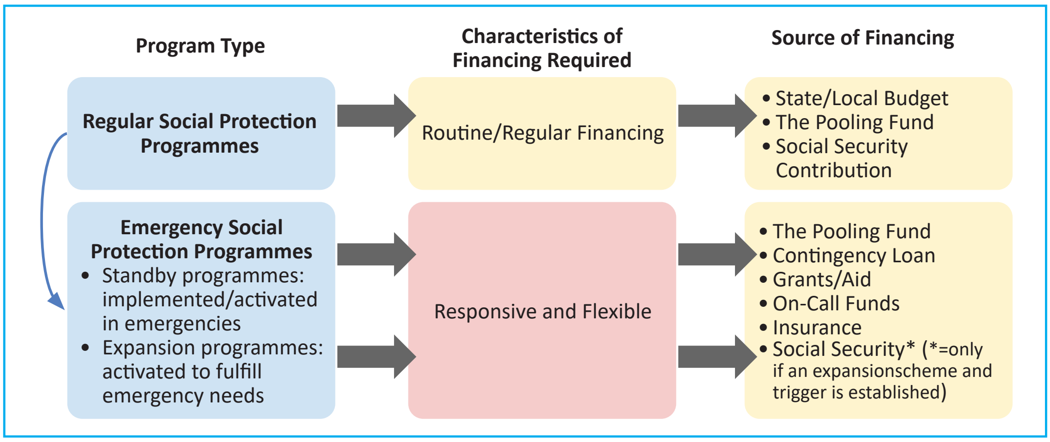


**Figure 5.** Suggested integration between ASP financing and DRFI

Figure 5 illustrates an emergency social protection financing strategy that the government may consider implementing. Sectoral budgets, social security contributions, and the Pooling Fund, if available and necessary, should continue to finance regular ASP programs. Emergency social protection programmes can be financed by the Pooling Fund, the on-call fund, contingency loans (if necessary), insurance, and aid. In emergencies, we can also use social insurance, and we don't need to develop regulations to govern expansion measures and triggers (Sengupta et al., 2023).

## Exploring different ways to address the financing gaps of regular social protection and emergency social protection programmes to provide affected populations with life-saving support

Exploring different ways to address the financing gaps of regular social protection and emergency social protection programmes to provide affected populations with life-saving support.

Fiscal space for regular ASP programmes should be increased progressively by prioritizing the programmes implemented for the most vulnerable, as addressing the overall US$ 7.11 billion gap for regular social protection programmes will require a 62% budget increase of the current expenditure. The funding gaps for the programmes that support poor children and disabled people can be prioritized first. We can also consider using the budget surplus to close the funding gap. In 2021 and 2022, the amount of budget surplus or unused state budgets was IDR 478.9 trillion, or US$ 31.9 billion (Silfia, 2023).

The financing capacity of the Pooling Fund is highly limited to fully address the financing gap for emergency social protection programmes. If the government plans to use 100 percent of the Pooling Fund to finance emergency social protection programmes by 2030–2034, it can address a small financing gap for emergency social protection interventions. Therefore, we suggest adjusting the accumulation target and expenditure percentage to ensure sufficient financing capacity. The MoF should consider adjustments to fund accumulation targets as well as spending rates. Initial estimates suggest that if the spending percentage stays at 20% of revenue or investment earnings at the expected 8 percent rate of return, by increasing the accumulation target to 0.5% and 0.2% of GDP, the spending capacity of pooling funds, respectively, will be US$ 942 million by 2030 and US$ 839 million by 2034. By increasing the spending rate to 50% of the revenue or investment return, the spending capacity will be US$ 955 million by 2031 at the 0.2% GDP accumulation target and US$ 832 million (US$ 955 million) by 2034 at the 0.1% GDP accumulation target. This can help to close the funding gap.

Alternatively, if the MoF decides to maintain the current rate of accumulation and use of the investment return, an alternative DRFI instrument should be selected to finance emergency social protection financing. Currently, the on-call fund is the most promising instrument for reducing the financing gap. Ministries and local disaster management agencies can use the on-call fund upon request and approval through the National Disaster Management Agency, according to MoF Regulation No. 105 of 2013 on the Mechanism of Disaster Management Budget Implementation. This allows the MoSA and other ministries that are administering emergency social protection to finance their programmes through the on-call funds. However, this requires adding additional emphasis to MoF Regulation No. 105 of 2013 and NDMA Regulation No. 4 of 2020.

## Defining considerations or criteria for the Finance Minister's regulations on pooling funds to ensure an informed, collaborative, accountable, and effective use of the fund.

In defining activities to be financed through DRFI, a detailed list of eligible activities or programmes should be prepared under four phases that include eligible pre-disaster activities, eligible risk transfer activities, eligible emergency response activities, and eligible post-disaster activities [a specific activity list is available in Annex I] [15],[16].

When defining the prioritization criteria, we recommend prioritizing low- to medium-risk, non-routine activities in areas with limited financing capacity and high vulnerability. Emergency social protection programmes and activities with limited or no access to on-call funds should receive priority in emergencies to ensure the efficient and effective use of pooling funds in addressing the financing gap. Establishing a shared web-based system for cross-ministry utilization will facilitate a data-driven and collaborative selection and prioritization process.

Presidential Regulation No. 75 of 2021 mentions the Pooling Fund's generic business process and the ministries involved but does not provide a detailed process or specification of the roles of these ministries. Therefore, the lead ministry can consider the general business process of the pooling fund, as depicted in Figure 6, and the roles and responsibilities in Annex II, which align with the primary obligations and authority of each institution.

[15] The National Plan for Disaster Management 2020-2024, the National Medium-Term Development Plan 2020-2024, Minister of Home Affairs Regulation on Disaster Management Minimum Service Standards, various NDMA regulations, the Sendai Framework for Disaster Risk Reduction, and other documents, as well as results from interviews and the validation workshop.

[16] Based on interviews with the Ministry of Finance and National Disaster Management Agency

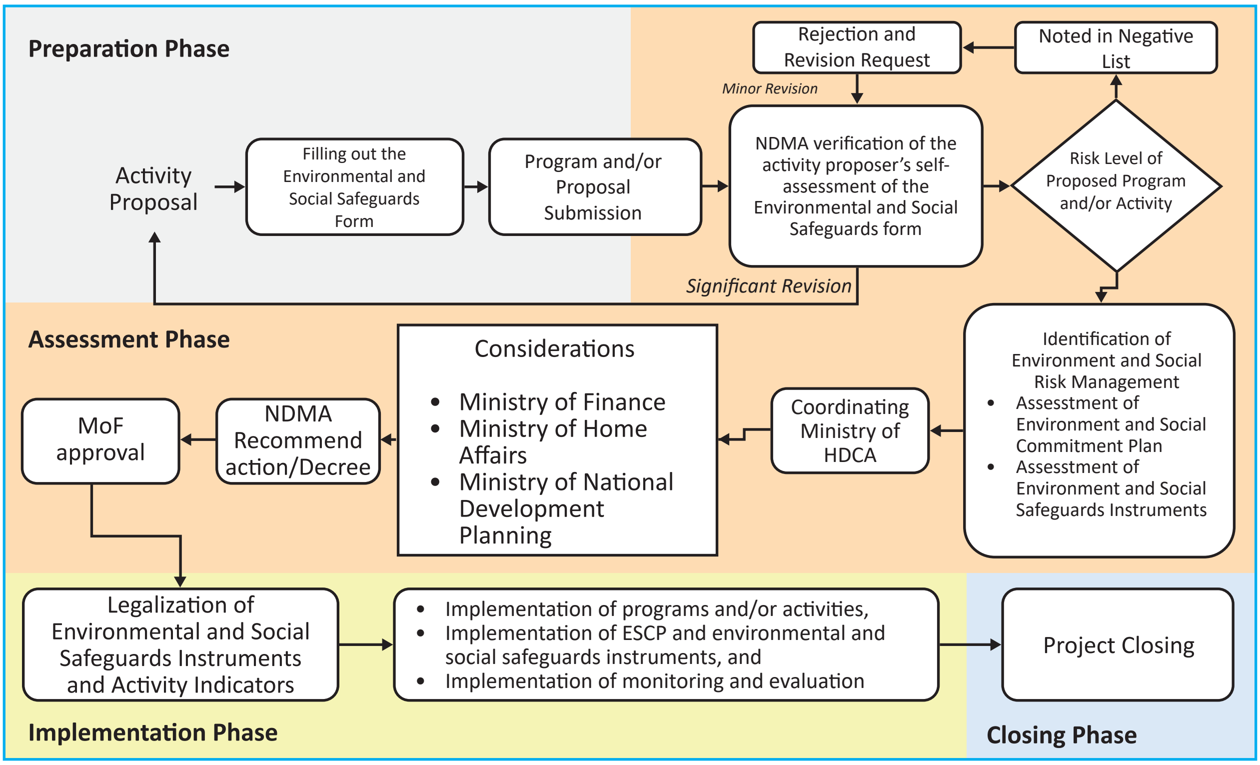


**Figure 6.** General business process of the pooling fund

The Pooling Fund should consider diversifying its funding sources by seeking contributions from philanthropic institutions and the private sector, in addition to government budgets, given its ability to pool funds from other sources. The fund-raising responsibility should primarily remain with the Indonesian Environment Fund (IEF) as the fund manager.

Philanthropic and private funds are potential sources for pooling fund. Philanthropic funds require an alignment of goals between the philanthropic institutions' aims and the funded activities (Abdulwahab et al., 2015). Therefore, the IEF should aim to foster partnerships with humanitarian or disaster relief philanthropies. Meanwhile, Indonesia's private sector, with 873 public companies (IDX, 2023), provides significant funding opportunities from CSR or direct investment. The IEF should consider developing a framework to engage the private sector in contributing to the fund. Profit-sharing schemes can be explored.

## Strengthening the monitoring and evaluation process with clear organizational accountability

The NDMA (BNPB) should strengthen and lead the monitoring and evaluation process. We advise establishing a web-based reporting system that engages relevant stakeholders (ministries and agencies) and enables fund users to provide periodical reporting to facilitate a streamlined monitoring and evaluation process. We suggest mandating periodic reporting of activity achievement and compliance with Environment and Social Management Safeguards (ESMS) (Figure 7). We also recommend involving certified experts for thorough report assessment and incorporating surveyors for on-site verification of funded activities. Overall, we should design the proposed mechanism to ensure transparency, accountability, and effective project execution within the Pooling Fund.

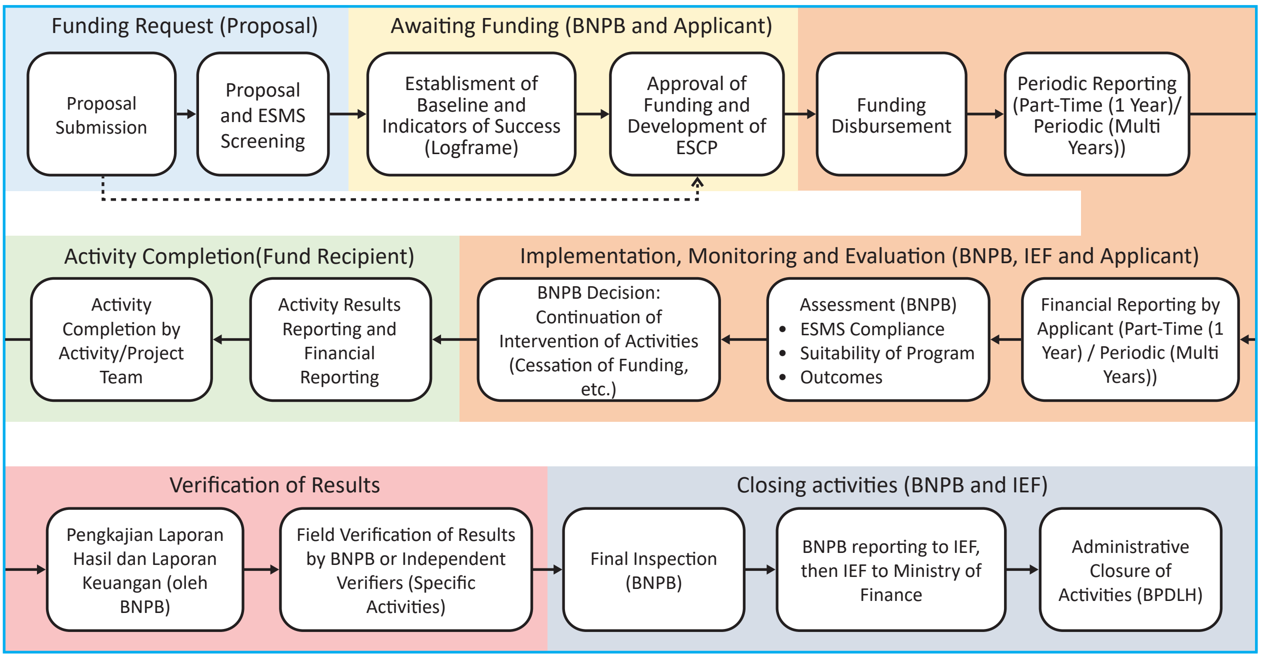


**Figure 7.** Suggested monitoring and evaluation process of the pooling fund

**Ensuring an effective regulatory environment for the Pooling Fund is a crucial undertaking, necessitating the evaluation and revision of potentially related regulations.**

The main disaster management law and key disaster risk financing have not referred to the Pooling Fund as a viable instrument. The absence of explicit recognition and inclusion of the Pooling Fund in these regulations can obstruct its efficient utilization, as ministries and local governments as users will be subject to the aforementioned law and regulations. Amendments are necessary to formally incorporate the instrument as a recognized financial source. Annex III lists the relevant laws or regulations that require updating or revision.

# Impact of actions and in-action

First, linking ASP financing with DRFI will help Indonesia systematically address the financing gap for ASP. This integration will empower the government to cushion emergency social protection financing, thereby preventing disaster-affected communities from resorting to negative coping strategies. Furthermore, by enhancing the Pooling Fund's financing capacity, Indonesia can reduce the current financing gap in emergency social protection. The Finance Minister's regulation on pooling funds, which incorporates relevant policymakers' considerations and operationalization based on evidence, will improve the efficient and effective use of the funds. Data and criteria-led screening, coupled with a collaborative monitoring and evaluation mechanism, will ensure the effectiveness of funded activities. Furthermore, the revisions of relevant regulations to include the pooling fund will broaden the scope of the fund's use for emergency social protection by relevant ministries and local governments.

Due to a lack of ex-ante financing strategies, the government may fail to address emergency social protection needs if it maintains the current financing gap.

Without adequate financing, more people will fall into poverty, as climate hazards, income reduction, and poverty are interlinked and intertwined (Sett et al., 2022). In this case, it would be difficult for Indonesia to achieve the development goals of 0% extreme poverty and 7% poverty rate by 2024, as well as the target of ending poverty of all forms by 2030. Failure to uptake considerations to operationalize the Pooling Fund may cause overlaps, blind spots, and ineffectiveness in the fund's utilization. Furthermore, failing to revise regulations related to disaster financing will hinder the fund's implementation.

# Conclusion

An analytical report on integrating the ASP into DRFI and developing considerations for the Finance Minister's regulation on pooling funds forms the basis of this brief. The objective of the brief is to inform the policymakers with the key challenges of financing the ASP, particularly the emergency social protection, to what extent the pooling fund as an innovative financing mechanism can address the emergency social protection financing gap, and the criteria or considerations that need to take into attention for the preparation of the Finance Minister's regulation on pooling fund.

The brief underscores the key challenges. Firstly, the financing of adaptive social protection, particularly emergency social protection, lacks explicit linkage with disaster risk financing and insurance, potentially restricting the use of pooled funds for emergency social protection. Second, the financing gap for regular social protection programmes remains high at over US$ 7 billion and for emergency social protection at over US$ 808 billion. Third, the Disaster Pooling Fund, although an innovative approach to buffering the emergency social protection financing gap, has a highly limited financing capacity to cover emergency social protection financing needs. The fund, with its current utilization and accumulation rate, will have a spending capacity of US$ 392 million in 2045, starting with about US$ 47 million in 2030. If we dedicate all the funds to emergency social protection financing, the Pooling Fund can cover the 5.8%–11.7% funding gap for emergency social protection through 2030–2034.

Fourth, while the pooling fund can be considered a buffer financing approach for emergency social protection financing, it does not yet explicitly specify the activities to be funded, the process of screening, prioritizing, and selecting proposals, or the roles of different ministries.

The brief highlighted several actions to undertake to address the challenges. First, the integration of emergency social protection financing into the DRFI strategy is highly important, as recommended in the brief. Regular ASP programs continue to be financed by sectoral budgets, social security contributions, and the Pooling Fund if affordable, and emergency social protection programmes can be financed by the Pooling Fund, on-call fund, contingency loan insurance, and aid. Second, explore different financing sources to address the financing gaps of regular and emergency social protection programs. One of the ways is to adjust the fund accumulation and spending rates. By increasing the accumulation rate to 0.5% and 0.2%, the pooling fund, respectively, can address the gap of US$ 942 million by 2030 and US$ 839 million by 2034. By raising the spending rate to 50% of the investment return, it can close the financing gap of US$ 955 million by 2031 at the 0.2% GDP accumulation target and US$ 832 million by 2034 at the 0.1% GDP accumulation target. If it is not feasible, an on-call fund is the best option, in addition to using unutilized regular budgets. Third, defining the considerations or criteria for the Finance Minister's regulations on pooling funds to ensure an informed, collaborative, accountable, and effective use of the fund. Fourth, strengthen the monitoring and evaluation process with clear organizational accountability. Fifth, ensuring an effective regulatory environment for the Pooling Fund is a critical undertaking, necessitating the evaluation and revision of potentially relevant regulations.

To implement the actions, different ministries should work collaboratively under the leadership of the Ministry of Finance, and the Finance Minister's Regulation should focus on all considerations. The NDMA should request the Indonesian House of Representatives to revise the disaster management law, and the relevant ministry should request the revision of the ministerial regulations.

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# Annexes

**Annex I: Suggested Eligible Activities to Finance**

**Suggested Eligible Pre-disaster Activities:**

- Facilitation of disaster management plan preparation (Participatory disaster management planning),
- Disaster risk reduction programme,
- Disaster prevention programme,
- Disaster management technical standards developments
- Implementation of disaster management education and training (introduction and monitoring of disaster risks, organizing, counselling, training; and rehearsals on emergency response mechanisms),
- Community-based disaster risk management programmes.

**Suggested Eligible Risk Transfer Activities:**

- Assistance/subsidization of insurance premiums for state and regional property,
- Assistance/subsidization of agricultural insurance premiums (agriculture, livestock, and fisheries),
- Assistance/subsidization of residential insurance premiums (regular or microinsurance)
- Aid/subsidies for social insurance

**Suggested Eligible Emergency Response Activities:**

- Assessment of loss and damage, and resource needs,
- Emergency health services,
- Search, rescue, and evacuation activities for disaster victims,
- Procurement of goods and fulfilment of basic needs of disaster victims (food, clothing, warehousing, distribution, and others)
- Implementation of protection for vulnerable groups,
- Education services (formal/informal learning, emergency schools, etc.)
- Distribution of social assistance.

**Suggested Eligible Post-Disaster Activities:**

- Post-disaster needs assessment,
- Monitoring and evaluation and reporting of achievements.
- Social psychological recovery,
- Restoration of health services,
- Socio-economic and cultural recovery,
- Restoration of public service functions.
- Rebuilding and strengthening infrastructure and facilities,
- Rebuilding and strengthening community social facilities,
- Provision of assistance or construction of community houses.

**ANNEX II: Role Divisions of Related Ministries and Agencies in Screening and Selecting Eligible Proposals**

a. The **National Disaster Management Agency** is proposed to screen and assess potential proposals to be funded. Including review if the proposed activity is able to meet the standards set by the environment and social management safeguards. Potentially eligible proposals should be coordinated with the Coordinating Ministry, MoNDP, MoHA, and MoF **(Figure 5)**. Eligible proposals are then recommended to the MoF to receive funding.

b. The **Coordinating Ministry for Human Development and Culture (CMoHDC)** is proposed to be responsible for reviewing the design of activities related to disaster management to ensure coordination, prevent overlaps, and address blind spots. The coordination ministry is also suggested to review funding applications submitted by NDMA to the Pooling Fund

c. The **Ministry of National Development Planning (MoNDP)** is proposed to be responsible for reviewing proposed activities to align them with national development priorities in the field of disaster management. MoNDP can leverage its authority to monitor and evaluate national development plans and access programs in other ministries to avoid duplication.

d. The **Ministry of Home Affairs (MoHA)**, specifically through the Directorate of Local Budget Planning within the Directorate General of Regional Finance Development, is proposed to review proposals from local governments. They prioritize proposals based on regional fiscal capacity, revenue, and historical data related to disaster expenditures.
e. The **Ministry of Finance (MoF)** is proposed to be tasked with reviewing three key aspects: (1) the proposed funding amount for activities, (2) the financial capacity of the Pooling Fund, and (3) the appropriateness of using the Pooling Fund for financing. This includes assessing the realism of proposed costs, ensuring the Pooling Fund has sufficient funds, and determining whether alternative funding sources might be more suitable.

**ANNEX III: Relevant Law and Regulation to Update or Revise**

a. **Law No. 24 of 2007 on Disaster Management**, is the highest law in disaster management. It outlines sources of financing and should be revised to add the Pooling Fund as an option.
b. **Government Regulation No. 21 of 2008 on Disaster Management Implementation**. It outlines sources of financing and should be revised to add the Pooling Fund as an option.
c. **Government Regulation No. 22 of 2008 on Funding and Management of Disaster Assistance**. It more specifically outlines options for disaster financing and what activities to finance. Thus, it should be revised to explicitly include the Pooling Fund and inform on its intended uses.
d. **Government Regulation No. 12 of 2019 on Local Financial Management**. It specifically outlines sources of finance for local governments and how each financing source can be requested and used. Thus, it should be revised to include the Pooling Fund and inform of how local governments can request its funding.
e. **Minister of Home Affairs Regulation No. 77 of 2020 on Technical Guidelines for Local Financial Management**, outlines sources of finance for local governments, how each financing source can be requested, and technical roles related local government units involved in financial

management. Thus, it should be revised to include the Pooling Fund and inform of how local governments can request its funding, with specific details requirements needed.

f. **Minister of Finance Regulation No. 173 of 2019 on The Implementation Mechanism of the Disaster Management Budget**. It outlines mechanism to propose disaster financing through sectoral budgets and the on-call fund. Thus, should be revised to include the Pooling Fund as an option and include the fund's role in supporting the on-call fund if required.
g. As a guide to understanding eligible activities to fund, screening-selection processes, and criteria, as well as monitoring and evaluation mechanisms which are led by the NDMA. It is advised to develop a **Head of NDMA Regulation** to mandate the processes.
h. In terms of **regulations related to social assistance programmes**, there were no prohibitions in utilizing funding from the Pooling Fund. As all the regulations similarly state that funding can be source from sectoral budgets and other legal and eligible sources.

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