

START READY

**RISK
POOL 02**

STRUCTURING REPORT | MAY 2023 - APRIL 2024

START
NETWORK



WHAT IS START READY?

Start Ready is Start Network's newest financing mechanism that prepositions financing for climatic risks that happen with a pattern of recurrence and predictability. Start Ready offers protection to people at-risk of climatic crises. It pre-positions financing so that Start Network members can implement anticipatory action and early response actions should a pre-agreed threshold be met. It distributes financing to disaster risk financing systems which have been set-up in different countries by Start Network members.

THE SECOND START READY RISK POOL WENT LIVE IN MAY 2023 AND WILL REMAIN LIVE FOR 12 MONTHS.



BY POOLING RISKS, START READY WAS ABLE TO **STRETCH FUNDS 1.6 TIMES** HOLDING FUNDS SEPARATELY.

This report summarises the structuring of funding of the second Start Ready risk pool, outlining how the financing mechanism is allocating and prepositioning funding for the various risks. It provides an overview of the governance and decision-making process of the pool, the level of coverage and protection offered, and what is new in this risk pool.



DECISION-MAKING AND APPLICATION PROCESS FOR START READY RISK POOL 2



START READY GOVERNANCE

The **Start Ready Governance Committee** comprises of **nine individuals** from the membership (with equal representation between national and international NGOs), Start Network Hubs, and industry specialists, who are responsible for making key decisions around the structuring of the financing and strategic direction of the mechanism. Their role is to make financial and risk management decisions for how to allocate funds in each risk pool. To do this, they are assisted with technical advice from capital modelling¹ and technical experts. For the first time, the multi-lingual governance committee convened in person for a **two-day workshop** to discuss the strategic direction of Start Ready and decide on the structuring of the second risk pool.

Start Ready Governance Committee in 2023 and Start Network team members



¹ The Start Ready capital model (ReMetrica) takes the risk inputs for each country-peril, along with the coverage structures and quantifies the risk to each country and the portfolio. The capital model relies on loss profiles for each country peril risk – derived from historical exposure and disaster data – as its primary input. Losses are simulated from the original risk inputs and coverage structures were applied. Stochastic simulation was performed to model losses by countries and the whole portfolio. All financial modelling was undertaken via a well-established financial modelling software.

APPLICATIONS

Start Ready structures and prepositions funds on an annual basis, with a mid-point review period, creating a risk pool which is live for 12 months. Start Network members in countries who have built disaster risk financing systems are eligible to apply for financing coverage under Start Ready. At the national level, Start Network members outline the system that has been developed, how the financing would be used to provide protection, key risks and needs and the financial coverage needed. In total, 7 countries applied for coverage for 11 risks.

WITH A LIMIT INTRODUCED ON THE AMOUNT REQUESTED, MORE THAN **£14 MILLION WAS REQUESTED FOR PREPOSITIONED FINANCING** AND A FURTHER **£2.5 MILLION REQUESTED FOR NATIONAL RESERVES**. OUR MEMBERS REPORTED THAT IF THERE WAS NO LIMIT, **THEY HAVE THE CAPACITY AND THE NEEDS EXIST TO ABSORB ALMOST £100 MILLION**.

CAPITAL IN START READY RISK POOL 2

THANKS TO THE GENEROSITY OF SEVEN DONORS², THE TOTAL AVAILABLE POOLED CAPITAL FOR THIS RISK POOL IS **JUST UNDER £5.5M**. THIS REPRESENTS **MORE THAN DOUBLE** THE AMOUNT OF CAPITAL AVAILABLE AT THE LAUNCH OF THE FIRST RISK POOL.

KEY STATS

7 COUNTRIES



TOTAL CAPITAL **£5,491,511**

1.6  EFFICIENCY RATIO

TOTAL PEOPLE COVERED

TOTAL GLOBAL RISK POOL **£4,530,497**

PROBABILITY OF INSOLVENCY*

610,099



11 RISKS



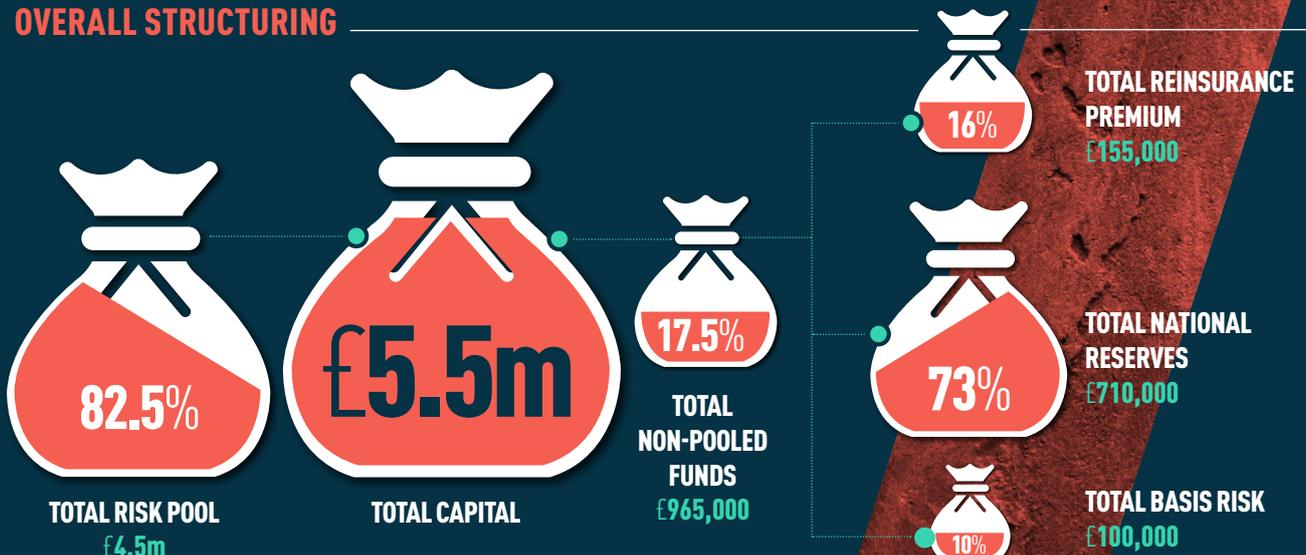
TOTAL COVERAGE OFFERED **£7,260,000**




1.6%



OVERALL STRUCTURING



* Running out of funds and unable to pay further activations

² UK Foreign, Commonwealth and Development Office, Margaret A. Cargill Philanthropies, Irish Aid, , Netherlands Ministry of Foreign Affairs, Swiss Re Foundation, Howden Group Foundation and German Federal Foreign Office.

STRUCTURING OF RISK POOL 2

COUNTRY	RISK	PREPOSITIONED AMOUNT	# OF ACTIVATIONS POSSIBLE	RETURN PERIOD OF ATTACHMENT
PAKISTAN	 FLOODS	£750,000	1	1 in 3.5 (national)
PAKISTAN	 DROUGHT	£600,000	1	1 in 5 (subnational)
PAKISTAN	 HEATWAVES	£360,000 <small>(£60,000 per activation up to 6 times)</small>	6	1 in 2 (subnational)
DRC	 FLOODS	£750,000	1	1 in 5 (national)
BANGLADESH	 FLOODS	£750,000	1	1 in 5 (national)
BANGLADESH	 CYCLONES	£600,000	1	1 in 2 (subnational)
PHILIPPINES	 CYCLONES	£600,000	1	1 in 3 (subnational)
SENEGAL	 DROUGHT	£750,000	1	1 in 2 (national)
MADAGASCAR	 CYCLONES	£750,000	1	1 in 2.3 (national)
MADAGASCAR	 DROUGHT	£600,000	1	1 in 3-15.5 (subnational)
SOMALIA	 DROUGHT	£750,000 <small>(total for both crop & pastoral models)</small>	1	1 in 3.5 (national)

NATIONAL RESERVE ALLOCATIONS



Purpose: flexible funds allocated to countries with active DRF systems for the purpose of pre-season operational readiness and preparedness for implementing anticipatory actions.



PAKISTAN
£130,000



DRC
£100,000



BANGLADESH
£200,000



PHILIPPINES
£100,000



SENEGAL
£20,000



MADAGASCAR
£120,000



SOMALIA
£40,000

REINSURANCE

Purpose: for the first time, Start Ready was able to purchase a reinsurance policy. This provides a layer of protection to the global risk pool funds from going insolvent. The payout provides further capital to ensure that continued activations are possible and therefore further protection to at-risk communities.

REINSURANCE:



PREMIUM

£155k

LIMIT

£1m

PROBABILITY OF:



ATTACHMENT

14%

EXHAUSTION

1.6%

BASIS RISK

Purpose: The difference between what a scientific model predicts and what actually occurs. Because of basis risk, the DRF model may not always activate financing when it is needed. If this happens, the Start Ready Basis Risk funding is available to provide some level of assistance.

TOTAL BASIS RISK:

£100,000



WHAT'S NEW



01 REINSURANCE

A key aspect of Start Ready is its ability to stretch funds based on the principles of risk pooling and modelling probabilities of paying out. This enables us to assess the likelihood of running insolvent (running out of funds and unable to pay further activations) based on scenarios of what potential Start Ready activations could occur within a given year. Risk information, provided by internal and external technical experts, is provided to the Start Ready Governance Committee to help them assess the riskiness of the portfolio and decide on the acceptability of the mechanism's risk appetite. However, with stretching funds to maximise efficiencies and potential impact, there remains risk of the pool running insolvent before the end of the risk pool year. This means that a severe year could occur whereby much more of the crises materialise than would be expected in a 'normal' year. In this scenario, a reinsurance payout would occur, releasing up to £1m of capital into the risk pool. It also enables us more confidently to increase the amount we are disbursing for each Start Ready activation, whilst reducing the pool's 'risk of insolvency', meaning the likelihood that we'll run out of funds. Reinsurance is another way we can maximise the potential impact of donor funds amidst growing humanitarian needs.

02 NEW RISKS

Two new Disaster Risk Financing systems have attached to Start Ready. These are:

MADAGASCAR DROUGHT

Madagascar experiences chronic drought in the South/South East of the country. As 83.2% of households are engaged in subsistence agriculture, communities are particularly vulnerable to drought. Utilising a system developed by WHH, a Start Network member, the DRF system draws on a forecast-based financing system using FAO's WRSI geomodel.

BANGLADESH CYCLONES

Bangladesh experiences frequent cyclones along its long coastlines and has high population density with insufficient coastal defences. Members in Bangladesh identified cyclones as a suitable hazard for DRF, and begun building a system utilising Bangladesh University of Engineering and Technology Cyclone Classifier Model from the Institute of Flood and Water Management. This provides a impact-based forecast of the location and number of affected households of a cyclone on a five and three day lead time.

03 UPDATES TO DISASTER RISK FINANCING SYSTEMS ATTACHING TO START READY

Every Disaster Risk Financing system goes through a period of annual post-season learning and review, with action plans developed of how to improve the system from a technical and/or operational perspective. This helps to strengthen the system with the goal of providing the most effective protection to at-risk communities. A few examples of this within this Risk Pool are:



ADAPTING

the threshold design and severity level of the Pakistan flood system to better align with the financing mechanism and needs of communities.



IMPROVING

the governance structure and working to increase the accessibility of funding by national and local NGOs in Senegal to improve the system's accountability and leadership by national civil society.



DEVELOPING

a beneficiary database and conducting activation simulations in Bangladesh to improve the speediness of targetting and operational processes for activations with short lead times.

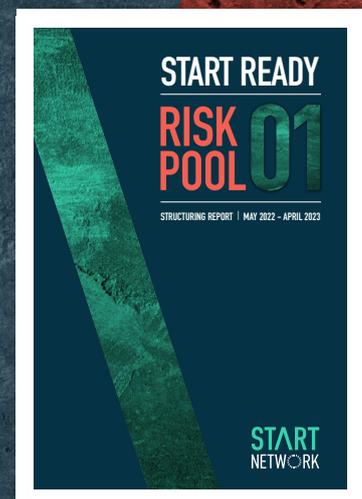


INCREASING

the operational area of coverage in the Philippines to ensure that more people can be protected by the cyclone DRF system.

ANNEXES

- ['WHAT IS START READY'](#)
- [START READY HANDBOOK](#)
- [START READY COMMITTEE TERMS OF REFERENCE](#)
- [START READY DECISION-MAKING PRINCIPLES](#)
- [START READY RISK POOL 1 STRUCTURING REPORT](#)



START READY POOL 2B UPDATE

OVERVIEW

IN NOVEMBER 2023, THE START READY COMMITTEE CONVENED TO STRUCTURE NEW FUNDS THAT WERE ADDED TO START READY.

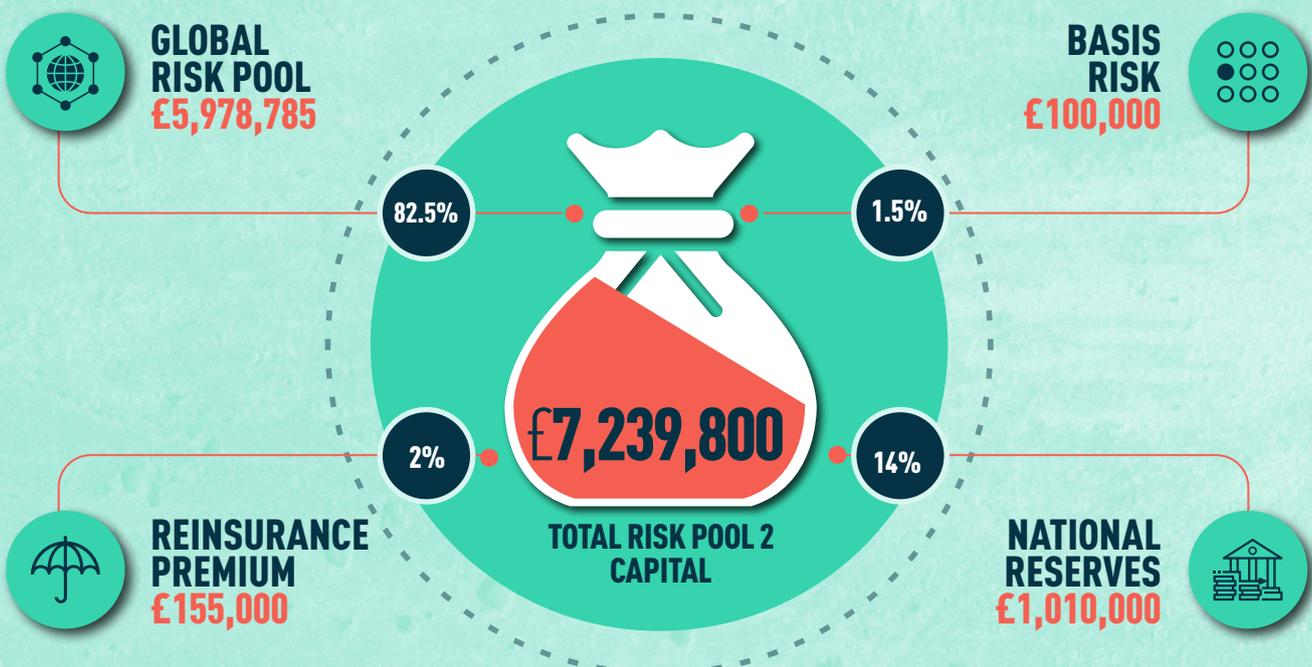
New funds were committed from two existing donors (UK Foreign, Commonwealth & Development Office and Irish Aid), two donors who had previously contributed to Risk Pool 1 (IKEA Foundation and The French Ministry for Europe and Foreign Affairs), and two new Start Ready donors (EU Humanitarian Aid and L’Oréal Climate Emergency Fund). Thanks to their generosity, a total of **£2,895,354** was raised.

40% of the peak risk seasons had already finished for risks being covered by Start Ready, so it was decided that 60% of the new funds would enter the risk pool at this top-up period. The remaining 40% would be added to Start Ready Risk Pool 3. Decision-makers therefore had **£1,750,000** new capital to allocate to provide further protection to at-risk communities.

ALLOCATION AND STRUCTURING OF START READY RISK POOL 2B

The Start Ready Committee decided to increase the national reserve allocations for countries which fulfilled certain criteria such as proven utilisation and the need for further readiness funding in order to ensure that Start Ready activations were as anticipatory as possible. Therefore, £100k additional national reserves funds were added to Madagascar, Philippines, Bangladesh. Remaining capital was added to the global risk pool which would be used for Start Ready activations.

OVERVIEW OF POOL 2 STRUCTURING INCLUDING TOP-UP



The Start Ready Committee decided to increase prepositioned funds for the risks remaining on the basis of: seasonal forecasts showing a higher likelihood of risks to occur, requested coverage amount, capacity to absorb additional funds, and increasing risk appetite to maximise the impact of Start Ready funds.

THE UPDATED PREPOTIONED AMOUNTS FOR THE REMAINING RISK POOL ARE:

COUNTRY RISKS	ORIGINAL LIMIT (ACTIVATIONS) (GBP)	NEW LIMIT (ACTIVATIONS) (GBP)	# OF PEOPLE PROTECTED	
			ORIGINAL	NEW
DRC FLOOD	750,000	1,125,000	22,985	34,477
BANGLADESH CYCLONE	600,000	1,000,000	20,000	33,333
PHILIPPINES CYCLONE	241,026*	1,100,000	10,480	25,484
SENEGAL DROUGHT	750,000	832,500	18,387	20,409
MADAGASCAR CYCLONE	750,000	1,130,000	23,445	35,324
MADAGASCAR DROUGHT	600,000	1,800,000	8,000	24,000
SOMALIA DROUGHT (DER CROP)	243,750	487,500	3,900	7,800
SOMALIA DROUGHT (DER PAS)	131,250	249,375	2,100	3,990
PAKISTAN DROUGHT	600,000	600,000	105,634	105,634

* Note: this is after Egay activation

KEY STATISTICS FOR POOL 2

TOP-UP ONLY:

 19%

PROBABILITY
OF INSOLVENCY

STRETCH ACHIEVED

 1.44

PROTECTION 284,182



ORIGINAL AND TOP-UP:

TOTAL PROTECTION

685,620
PEOPLE

 +75,521
PEOPLE

 £7.2M
TOTAL CAPITAL

DONORS

11

TOTAL STRETCH

 1.83

WITH THANKS TO:



[German Federal Foreign Office](#)

[UK Foreign, Commonwealth & Development Office](#)

[The Netherlands Ministry of Foreign Affairs](#)

[Irish Aid](#)

[Swiss Re Foundation](#)

[Margaret A. Cargill Philanthropies](#)

[Howden Group Foundation](#)

[EU Humanitarian Aid](#)

[IKEA Foundation](#)

[The French Ministry for Europe and Foreign Affairs](#)

[L'Oréal Climate Emergency Fund](#)

CONTACT US AT

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ACTED ACTION AGAINST HUNGER UK ACTIONAID APPUI AUX FEMMES DÉMUNIES ET ENFANTS MARGINALISÉS (AFEDM) ASSOCIATION FOR GENDER AWARENESS & HUMAN EMPOWERMENT (AGAHE) ASSOCIATION DES FEMMES POUR LA PROMOTION ET LE DÉVELOPPEMENT ENDOGÈNE (AFPDE) AGE INTERNATIONAL AGRICULTURAL DEVELOPMENT ASSOCIATION (PARC) ALIANCE FOR INTERNATIONAL MEDICAL ACTION (ALIMA) ARAB RENAISSANCE FOR DEMOCRACY AND DEVELOPMENT (ARDD) ASOCIACIÓN DE SERVICIOS COMUNITARIOS DE SALUD (ASECSA) AZAT FOUNDATION BRAC INTERNATIONAL BRIGHT STAR DEVELOPMENT SOCIETY BALOCHISTAN (BSDSB) CADENA CATHOLIC AGENCY FOR OVERSEAS DEVELOPMENT (CAFOD) CARE INTERNATIONAL UK CARITAS BANGLADESH CARITAS GOMA CARITAS INDIA CARITAS SRI LANKA CATHOLIC RELIEF SERVICES CHRISTIAN AID COMMUNITY DEVELOPMENT FOUNDATION (CDF) CESVI COMMUNITY WORLD SERVICE-ASIA CONCERN WORLDWIDE CORDAID DEVELOPMENT ORGANIZATION FOR COMMUNITY DOCTORS OF THE WORLD DOABA FOUNDATION DORCAS RELIEF & DEVELOPMENT EHSAR FOUNDATION ENCOURAGE THE HUMAN DEVELOPMENT (EHD) ENVIRONMENTAL PROTECTION SOCIETY (EPS) FARMERS DEVELOPMENT ORGANIZATION GOAL HEALTH AND NUTRITION DEVELOPMENT SOCIETY (HANDS) HELPAGE INTERNATIONAL UK HELP FOUNDATION HUMANITY & INCLUSION UK INITIATIVE FOR DEVELOPMENT AND EMPOWERMENT AXIS (IDEA) ISLAMIC RELIEF LASOONA LAAR HUMANITARIAN DEVELOPMENT PROGRAMME (LHDP) MANZIL ORGANIZATION BALOCHISTAN MECHANISM FOR RATIONAL CHANGE (MRC) MEDAIR MERCY CORPS MIDEFEHOPS ASBL MUSLIM AID MUZAFFARABAD POVERTY ALLEVIATION PROGRAMME NARI DEVELOPMENT ORGANIZATION (NDO) NATIONAL INTEGRATED DEVELOPMENT ASSOCIATION (NIDA)-PAKISTAN NORTH-EAST AFFECTED AREA DEVELOPMENT SOCIETY (NEADS) OXFAM GB PEOPLE IN NEED PACIFIC ISLANDS ASSOCIATION OF NON GOVERNMENTAL ORGANISATIONS (PIANGO) PLAN INTERNATIONAL PARTICIPATORY RURAL DEVELOPMENT SOCIETY (PRDS) PRO-VIDA QATAR CHARITY RURAL COMMUNITY DEVELOPMENT SOCIETY (RCDS) RELIEF INTERNATIONAL RURAL EMPOWERMENT AND INSTITUTIONAL DEVELOPMENT (REPID) RURAL DEVELOPMENT ORGANIZATION (RDO) BUNER SAMI FOUNDATION SAVE THE CHILDREN UK SOCIETY FOR MOBILIZATION ADVOCACY AND JUSTICE (SMAAJ) SOLIDARITÉS INTERNATIONALE SUKAAR FOUNDATION THARPARKAR SUSTAINABLE ENVIRONMENT AND ECOLOGICAL DEVELOPMENT SOCIETY (SEEDS) - INDIA SANGTANI WOMEN RURAL DEVELOPMENT ORGANIZATION (SWRDO) TEARFUND TROCAIRE VEER DEVELOPMENT ORGANIZATION WAR CHILD WELFARE ASSOCIATION JARED WELTHUNGERHILFE (DEUTSCHE E.V.) WORLD JEWISH RELIEF WORLD VISION YOUTH ORGANIZATION - PAKISTAN YUGANTER