INTRODUCTION

Start Ready enables frontline humanitarians to access funding at scale, before predictable climate disasters occur. The concept for Start Ready was launched in November 2021 at COP26. The unique financing enables national and local institutions and NGOs to collectively analyse and quantify crisis risks, in anticipation of expected shocks. Using scientific modelling of data and best practice from insurance, financial, and humanitarian sectors – Start Ready pools risks across countries and allows financing to stretch up to three times further than traditional humanitarian funding.

Following a number of years of investment in building disaster risk financing systems in various countries, Start Ready’s first pool went live in May 2022 with £2.68m in capital from six donors: the UK Foreign, Commonwealth & Development Office, Margaret A. Cargill Philanthropies, IKEA Foundation, Irish Aid, the French Ministry for Europe and Foreign Affairs and the Netherlands Ministry of Foreign Affairs. In the first quarter of 2022, the Start Ready Governance Committee was formed. Its nine members reflect the diversity of the Start Network and the wide range of skills needed to structure and manage funding in accordance with the Start Ready principles. Supported by a technical advisory unit the committee pre-arranges funding to support the pool of risk financing layer. This report outlines how Start Ready funds were structured across the portfolio of risks in the first pool. Pool 1A refers to the first 6 months of this pool (May 1st - November 29th 2022). Halfway through the first pool, in November 2022, we received additional funds from existing donors as well as one new (Swiss Re Foundation) donor, which allowed us to add two further countries/risks to the pool. The second half of the pool is referred to as 1B in this report, and runs from November 30 - April 30.

Start Ready is the first scaled, multi hazard risk financing system for locally led networks of civil society organisations to act in anticipation and response to crisis. Action planning is locally led and relevant but connected into a globally risk pooled funding mechanism. Innovation around early and anticipatory action for crisis is now more urgent than ever, to protect the increasing number of vulnerable people at risk of climate shocks.”

Clare Harris Head of Crisis Anticipation & Risk Financing, Start Network

POOL 1A

This report contains an overview of the risk pool and how the total Start Ready capital has been pre-positioned across the portfolio of risks. The following graphic gives an overview of Pool 1A.

DECISION-MAKING

Both cycles of decision-making the Start Ready Committee convened to review applications and explore different options for structuring the pool. To assist their decision making, the Committee were supported by technical members of Start Network’s Crisis Anticipation and Risk Financing team, expert capital modellers, actuarial consultants, and members of the UK Government Actuary’s Department. The committee reviewed modelled outputs for the consequence that these options are likely to have, assessing the amount of people that could be protected, the ratio of support offered to applicants, and key risk statistics, such as the probability of exhausting all funds.

Capital model: The Start Ready capital model (Rimetrica) 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.

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1. The exact stretch or efficiency depends on the make up of each pool.
2. UK Foreign, Commonwealth & Development Office, Margaret A. Cargill Philanthropies, IKEA Foundation, Irish Aid, the French Ministry for Europe and Foreign Affairs and the Netherlands Ministry of Foreign Affairs.
3. Selected from 20 applying candidates by a panel consisting of a Governance Design Group who formed to develop and agree the governance structure, principles, processes, and guidelines that would steer this new fund.
4. Start Network CARF technical team, external capital modellers and actuarial consultant and members of the UK Government Actuary’s Department.

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*This involves building a predictive hazard model, agreeing thresholds for the release of funds and the agreement of contingency plans in advance of a predicted disaster. Building such a system can take up to 2 years and requires investment on the part of Start Network, our members, partners and donors.
APPLICATIONS

From the 6 aforementioned donors, a total of £2,682,412 was dedicated to Start Ready capital in April 2022. Applications to receive coverage from Start Ready were limited to members from countries that have been building Disaster Risk Financing systems. Networks of members in 6 countries applied requesting coverage which exceeded £20 million. The large gap (£17.4m) between what was requested versus what capital was held for the 6 countries that now form Start Ready’s first pool demonstrates a number of things:

01 the very real and significant risk that climate change poses to these countries, and this is likely to worsen and grow over time;

02 the level to which many of these risks are uncovered or not transferred by countries facing them; and

03 the demand for innovative funding mechanisms like Start Ready, and the likelihood that they will need to scale in the coming years, to stretch dwindling funds across growing risks.

SUMMARY OF COVERAGE OFFERED IN POOL 1A

<table>
<thead>
<tr>
<th>PROBABILITY OF INSOLVENCY</th>
<th>STRETCH ACHIEVED</th>
<th>TOTAL # PEOPLE COVERED</th>
<th>AVERAGE ANNUAL LOSS</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2% (1 in 46)</td>
<td>1.65x (from £1.98m&gt;£3.4m)</td>
<td>228,803</td>
<td>£965,802</td>
</tr>
</tbody>
</table>

STRUCTURING OF POOL 1A

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>ZIMBABWE</th>
<th>PAKISTAN</th>
<th>PAKISTAN</th>
<th>BANGLADESH</th>
<th>PHILIPPINES</th>
<th>DRC</th>
<th>SENEGAL</th>
<th>PAKISTAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk</td>
<td>Drought</td>
<td>Heatwave</td>
<td>Fluvial flood</td>
<td>Fluvial flood</td>
<td>Tropical Cyclone</td>
<td>Fluvial flood</td>
<td>Drought</td>
<td>Drought</td>
</tr>
<tr>
<td>Amount prepositioned</td>
<td>£471,270.91</td>
<td>£191,807.45</td>
<td>£498,699.38</td>
<td>£453,816.43</td>
<td>£498,699.38</td>
<td>£460,798.38</td>
<td>£332,466.25</td>
<td>£523,634.35</td>
</tr>
<tr>
<td>Number of people protected</td>
<td>11,760</td>
<td>96,923</td>
<td>42,000</td>
<td>11,760</td>
<td>10,080</td>
<td>11,760/6,720</td>
<td>37,800</td>
<td></td>
</tr>
</tbody>
</table>

LAYERS OF POOL 1A

<table>
<thead>
<tr>
<th>AMOUNT ALLOCATED</th>
<th>% OF TOTAL CAPITAL</th>
<th>PURPOSE OF FUNDS</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>£200,180</td>
<td>7%</td>
<td>Basis risk funding</td>
<td>A ringfenced allocation from the total available capital for the purpose of providing funding for basis risk events. This is for the scenario of an event materialising yet the DRF model thresholds used have not been breached.</td>
</tr>
<tr>
<td>£413,395</td>
<td>15%</td>
<td>National Reserves</td>
<td>Individual allocations made to members in-country with an established governance structure to support seasonal readiness activities.</td>
</tr>
<tr>
<td>£2,068,837</td>
<td>77%</td>
<td>Global Risk Pool</td>
<td>Pre-positioned financing for disbursing when the pre-defined thresholds for the DRF model have been breached. Given the specific portfolio of risks in Pool 1A, we were able to pool and stretch the capital 1.65 times to £3.4m.</td>
</tr>
</tbody>
</table>

5 Average annual loss: shown by a financial amount giving the average amount that would be paid out in a given year. If the same risks were included every year with the same amount allocated, on average, this is the amount that would be disbursed each year on each risk (for example, if flooding occurs once every five years causing $500,000 damage, the AAL would be $100,000).
THE SEASONAL CALENDAR BELOW OUTLINES THE RISKS OF POOL 1A

<table>
<thead>
<tr>
<th>MAY</th>
<th>JUNE</th>
<th>JULY</th>
<th>AUGUST</th>
<th>SEPT.</th>
<th>OCT.</th>
<th>NOV.</th>
<th>DEC.</th>
<th>JAN.23</th>
<th>FEB.</th>
<th>MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAKISTAN</td>
<td><strong>HEATWAVES</strong></td>
<td><strong>FLOODS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>DROUGHT</strong>*</td>
</tr>
<tr>
<td>ZIMBABWE</td>
<td><strong>DROUGHT</strong>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BANGLADESH</td>
<td></td>
<td><strong>FLOODS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DRC</td>
<td></td>
<td><strong>FLOODS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PHILIPPINES</td>
<td></td>
<td></td>
<td><strong>CYCLONES</strong></td>
<td><strong>CYCLONES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SENEGAL</td>
<td></td>
<td></td>
<td></td>
<td><strong>DROUGHT</strong>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*End of monitoring period
The total capital for Pool 1A (£2.6m) was segmented as follows:

- **Global Risk Pool**: £2,068,837
  - 77% of the capital is allocated to global risk pooling.
  - The global risk pooled funds are the main mechanism of Start Ready, providing pre-positioned financing to predictable crises with funding disbursed to disaster risk financing systems. This is the core of Start Ready and is intended to cover moderate severity scenarios. Pooling makes the available funds stretch further, since they are spread across multiple risks. This means that less funding will be needed overall because countries will mutually share their risks. The risk pool offers efficiency gains over funds being held separately, since fewer pre-positioned crisis funds will sit around unused. This means that by pooling funds members may have access to more if and when disbursements are made in-country.

- **Basis Risk**: £200,180
  - 7% of the capital is allocated to basis risk.
  - The difference between what a scientific model predicts and what actually occurs. A model is a simplification of reality. Predictive models attempt to replicate the world and predict what might happen in the future and so a degree of uncertainty will always be inherent in their outputs. Because of basis risk, the DRF model may not always activate financing when it is needed – for instance, the model underestimates the real impacts, due to inaccurate parameters or additional factors which have not been captured in forecasts. If this happens, the Start Ready Basis Risk funding is available to provide some level of assistance.

**Reinsurance**
- 0%, Delayed*

This document will be updated as such in due course. These delays will be mitigated in Pool 2 by starting the process earlier and in the fact that the reinsurers will only need to analyse the new incoming risks and review any changes made to existing risks – rather than evaluate the whole risk portfolio.

**National Reserves**
- £413,395

National reserves are funds separated out from the Start Ready pooled fund and allocated to each country for seasonal readiness activities. These activities improve the capacity of organisations to pre-empt, act in advance of, manage and respond to crises. The amounts allocated to each national reserve is decided by the Start Ready Governance Committee depending on the applications made to Start Ready and status & strength of the in-country governance structures. It is expected that national reserves are spent within each risk pool. How these funds are best utilised to achieve this goal will be dependent on the context and hazard, and this should be decided in-country. The decision of how to spend these funds should be signed off by the relevant in-country governance.

**Structuring of the National Reserve Allocations**

- **Pakistan**: £129,247
- **Bangladesh**: £121,719
- **Philippines**: £57,086
- **DRC**: £105,343

The national reserve amounts were based on the requests each country made. Their total ask from Start Ready was broken down by % into the proportion they wanted to manage locally (national reserves) and what proportion they wanted to pool globally and stretch. To ensure efficiencies we suggested a 20/80% split, to ensure efficiencies whilst retaining local decision-making power and control.

*There have been delays in securing reinsurance in pool 1. This document will be updated as such in due course. These delays will be mitigated in Pool 2 by starting the process earlier and in the fact that the reinsurers will only need to analyse the new incoming risks and review any changes made to existing risks – rather than evaluate the whole risk portfolio.*
At the half way point of pool 1, further funds were committed from existing donors and one additional donor joined the existing 6, Swiss Re Foundation. The incoming funding looked as follows:

**THE TOTAL NEW INCOMING CAPITAL WAS:**

<table>
<thead>
<tr>
<th>SOURCE</th>
<th>YEAR 1 POOL 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swiss Re Foundation (new contribution)</td>
<td>£82,300</td>
</tr>
<tr>
<td>UK Foreign, Commonwealth &amp; Development Office (new contribution)</td>
<td>£1,200,000</td>
</tr>
<tr>
<td>Savings made in Start Network budgets that were moved to the Start Ready pooled capital</td>
<td>£127,000</td>
</tr>
<tr>
<td>Total:</td>
<td>£1,409,300</td>
</tr>
</tbody>
</table>

**TWO APPLICATIONS WERE RECEIVED FROM TWO COUNTRIES WHOSE SYSTEMS WERE NOW READY TO APPLY TO START READY.**

01 Members in Madagascar requested just under £1m to be able to act in advance of a moderate cyclone, up to two times in the coming season. They also requested a national reserve of £170,000, to enable them to mobilise and pre-position ahead of the season, given the rapid onset nature of the cyclone hazard.

02 Members in Somalia face unprecedented drought conditions this year (2022) after 4 consecutive failed harvests. This is reflected in their application request totalling over £15m. Other risk mitigation and risk transfer mechanisms (such as ARC Replica, see further in this report for more on this complementary of programming) are expected to be in place for the coming season for larger, more severe drought-induced food insecurity.

The Governance Committee were given the option to a) allocate the additional funds to the new incoming risks only, or b) to restructure the pool with the to date unspent pooled funds (£1.14m) and the incoming new funds across the new and remaining risks (£1.4m). They went for the latter as this was more financially efficient and allowed for the pre-positioned amounts per country to be increased in a year of record-breaking global humanitarian need.

As such, pool 1b incorporates the three remaining risks of the pool at the point of top up (29th November 2022) + the two new risks applying for coverage:
THE STRUCTURING DECISIONS MADE BY THE GOVERNANCE COMMITTEE FOR POOL 1B WERE AS FOLLOWS:

OVERVIEW

- **Total Capital**: £2.5M
- **Madagascar National Reserves**: £170K
- **Risk Pool Capital**: £2.37M
- **Total Coverage Offered**: £3.09M
- **Total People Covered**: 172K
- **Average Annual Loss on this Option**: £1.39M P.A
- **Efficiency Ratio (or Stretch Achieved)**: 1.3X
- **Probability of Insolvency**: 8.9% / 11.2%

COUNTRY BY COUNTRY DISBURSEMENTS

- **Pakistan Drought***: £597,424
- **DRC Flood**: £525,734
- **Philippines Cyclones***: £568,976
- **Madagascar Cyclones**: £700,000 (up to 2X)
- **Somalia Drought**: £455,000
- **Crop Model**: £245,000
- **Pastoralist Model**: £700,000

GLOBAL RISK POOL

- **Capital**: £2.37M
- **Basis Risk**: £200,180
- **Reinsurance**: £2.5m
- **Madagascar National Reserve Only**: £170,000

* These were existing risks from pool 1A which had seasonality in the second half of the pool. After the mid point top up, the allocations for these 3 existing countries/risks increased slightly in pool 1B as compared to their allocations in pool 1A.

** allocated as part of Pool 1A

6 This is the £1.4m of new funding outlined in the table on page 6 + the unspent funds from Pool 1A.
EXISTING MECHANISMS THAT COMPLEMENT START READY

Start Network has a rich experience of risk financing programmes, including macro-insurance mechanisms that pre-date Start Ready. Our involvement in the ARC Replica programme is ongoing and complements the protection offered through Start Ready – which is still relatively limited given the size of Pool 1 (and the likely size for the next pools of Start Ready).

In future, it may be possible to purchase insurance with Start Ready capital. However, for Pool 1, insurance policies will not be purchased with Start Ready funding but will be purchased by Start Network, in separate programmes such as ARC Replica. Despite not forming part of the Start Ready programme, these policies might complement Start Ready coverage. For example, Start Ready applications may mention existing insurance policies, to show how Start Ready coverage might cover other gaps in the risks a country faces. Groups of members might decide that Start Ready coverage can be for under-attachment (or smaller, less severe) events, knowing their insurance payouts will come in in rarer more severe events. This layering of existing programmes, insurance and Start Ready - and maximising the use of each of these - will be explored in the first pool and learnings from this will be taken into pool 2.

CONCLUSION

THE FOLLOWING KEY MILESTONES LIE AHEAD:

01
Once the pool has closed, a pool performance report will be published and shared – and ultimately will be used by the Committee to make informed decisions for pool 2’s structuring.

02
Start Ready pool 2 is expected to go live on May 1st 2023. We expect further risks (e.g.: cyclones in Bangladesh, droughts in Madagascar) to join Start Ready then. Future pools could see the inclusion of new countries such as Kenya, Guatemala and Nepal.

03
The expansion planned for pool 2 will necessitate further funding to be committed. This will enable us to increase the efficiencies of Start Ready and ultimately protect more people at risk of climate shocks across more than 10 risks worldwide.
ANNEXES

- START READY HANDBOOK
- START READY – RISK PORTFOLIO INFORMATION PACK
- START READY FAQS
- START READY COMMITTEE TERMS OF REFERENCE
- START READY DECISION-MAKING PRINCIPLES
- CAPITAL MODEL OUTPUTS: THE THREE STRUCTURING OPTIONS PRESENTING TO THE GOVERNANCE COMMITTEE
- START READY PROCESS CYCLE
- START READY TECHNICAL REPORT
- BASIS RISK ALERT NOTE
THANKS TO:

UK Foreign, Commonwealth & Development Office
Margaret A. Cargill Philanthropies
IKEA Foundation
Irish Aid
The French Ministry for Europe and Foreign Affairs
The Netherlands Ministry of Foreign Affairs
Swiss Re Foundation

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