Flood Resilience Financing for Semarang, Indonesia

Work Proposal for the Next Phase: Feasibility Mapping
Background

Semarang flood exposure

- Semarang is situated near the Central Java coast in the Garang River Basin - serves a strong example for climate risk exposure to many other coastal cities around the world
- The city’s flat topography makes it particularly susceptible to the impact of coastal hazards like storm surge and land subsidence
- Land conversion and deforestation is a key concern contributing to increased flooding risk

Work by MercyCorps on the ground

- In 2018, MercyCorps in collaboration with the Zurich Flood Resilience Alliance (ZFRA) commissioned a landscape study exploring innovative financing options to address flood resilience in Semarang
- The study explained multiple types of financing structures relevant to resilience financing, presented existing interventions in flood resilience, and proposed potential applications in Semarang
- End of 2018, Mercy Corps hosted a brainstorming workshop with key advisory partners (LSE, Willis Towers Watson, Munich Re, Zurich, InsuResilience Global Partnership, etc.); an impact financing structure was identified as the most appropriate

The InsuResilience Secretariat is supporting MercyCorps to explore feasibility of a Flood Resilience Impact Bond (FRIB) in Semarang
Impact Bond Overview

An impact bond is a “bond” only in name and can be better understood from its alternative names like “outcomes-based financing” and “pay-for-success” model.

Often, even though desired outcomes and actors (NGOs, etc.) may be known, the financer (e.g. the municipality) wants to ensure having to pay for operations only when the results are achieved.

The financing model allows not only for the financial risk to be transferred to an external investor / insurer, but it also transfers the operational risk of outcomes not being achieved away from the outcomes financer.

1. Establish intervention and desired outcomes
2. Working Capital
3. Funding for operating costs
4. Performance-based payments
5. Repayment and RoI
Project objectives and process

- Tangible proof of concept for raising future forms of financing for climate change adaptation through innovative financing structures
- **Three key workstreams:** This phase of work will work with local actors to gather data and investigate potential stakeholders, so that an implementation structure for the FRIB may be subsequently developed.

**Workstream A: Identifying the appropriate Intervention and Partners**
- Which interventions will be most effective in reducing flooding?
- Are there local actors who can serve as service providers?
- What are the costs and investment volume required for the identified interventions?

**Workstream B: Defining the Appropriate Metrics**
- Can the resilience impact of the optional interventions be modeled accurately, and by whom?
- What could be the key metric(s) upon which the FRIB’s outcomes payments could be based?

**Workstream C: Understanding the Local Regulatory Ecosystem**
- Mapping of relevant regulatory actors that will need to be engaged
- Legislation and regulation relevant to the structure
- Challenges and opportunities related to issuing financial instruments locally
Thank you!