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CASE STUDY | Disaster Risk Financing

INDONESIA

A Global Champion in Advancing the Disaster Risk Finance Agenda

Tsunami victims in front of damaged houses hit by a tsunami in Banten province, Indonesia. Credit: Fajrul Islam | iStock

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With tens of thousands of islands spanning more than 1,500 kilometers, Indonesia has a long history of earthquakes, tsunamis, volcanic eruptions, widespread flooding, and landslides. Situated along the "Pacific Ring of Fire," the archipelago is one of the most disaster-prone areas in the world. Indonesia experiences more than 3,000 natural disasters across the country each year. While over 90% are hydrometeorological—such as storms, tornadoes, and floods—events like earthquakes and tsunamis, though less frequent, tend to be more deadly and destructive. In any given decade, major disasters can result in thousands of deaths, displace tens of thousands of people, and cause economic losses of up to US$3 billion annually.

Beyond the toll on lives and property, these disasters impose a significant financial burden on the government for disaster response and recovery. A recent analysis of central government expenditures found that between 2019 and 2023, Indonesia allocated between US$ 1.7 trillion and US$6.9 trillion annually to disaster risk management (DRM). Spending surged during the COVID-19 pandemic (2020–2022), peaking at US$6.9 trillion (or 9.3% of total government spending) in 2021. In contrast, spending in non-pandemic years (2019 and 2023) was significantly lower, at US$1.7 trillion and US$1.9 trillion respectively, representing around 2.6–3.1% of total expenditures. A deeper analysis revealed that during the pandemic period, more than half of DRM spending went toward disaster response and recovery, while in non-pandemic years, mitigation and preparedness activities dominated spending.

With strong government engagement and commitment, Indonesia has emerged as a global leader in disaster risk financing over the years. Technical collaboration and financial support from development partners led to the development

of a national disaster risk finance and insurance (DRFI) strategy, which was adopted in 2018 by the Ministry of Finance (MoF). The country has since worked to implement the three core objectives outlined in the strategy: i) protecting the state budget and public assets; ii) restoring business and livelihoods; and iii) protecting lives.

Program

Indonesia has made significant strides in strengthening its DRFI system through a series of policies and programs aimed at safeguarding the state budget, protecting public assets, and addressing the needs of vulnerable populations. Central to this effort are two flagship government-led initiatives:

1. **Pooling Fund Bencana (PFB):** To protect the state budget from disaster-related shocks, the Government of Indonesia established the PFB, supported by a US$500 million World Bank investment with performance-based conditions. The fund receives matched allocations from the state budget and is expected to continue receiving annual contributions beyond the project's duration. In 2021, a presidential regulation formally established the PFB, followed by additional regulations that defined its business processes. Within the MoF, the Indonesia Environment Fund acts as the fund operator, while the Fiscal Policy Agency serves as the strategic policy unit to ensure smooth operation. The PFB serves as a centralized mechanism to channel financial resources for disaster preparedness and response. In the initial phase, it will support preparedness initiatives, such as emergency training and premium subsidies for insurance products, but over time, it aims to leverage domestic and international insurance and capital markets to expand its financial capacity to provide large-scale post-disaster relief. Operationalization of the fund is currently in progress.
2. **State Assets Insurance Program (ABMN):** Within a year of adopting the DRFI strategy, the MoF launched the ABMN, a voluntary, all-risk indemnity insurance program that enables line ministries to insure assets such as schools, hospitals, and government offices. Since its inception in 2019, the program has insured over 10,000 buildings across more than 70 line ministries. The Directorate General of State Assets has been instrumental in championing its rollout and expansion. ABMN has proven effective on several occasions, providing payouts after the 2020 Jakarta floods and the 2021 Mamuju earthquake. In both instances, line ministries that incurred damage received funds that enabled repairs and minimized public service disruption.

To reinforce and operationalize its DRFI agenda, the Government of Indonesia has benefited from long-standing technical and financial support. Between 2011–13 and again from 2018, the World Bank supported Indonesia in developing diagnostics, strategy formulation, and regulatory design to help operationalize the country's DRFI agenda. The Bank's financing and technical support helped establish the PFB and embed its legal framework with the broader financial sector. It also enabled the implementation and expansion of ABMN and supported the design of potential earthquake and flood parametric solutions to be financed through the PFB. The government envisions the PFB as a central mechanism to coordinate and finance all DRFI solutions in the country.

To address remaining gaps in DRFI coverage, the government is looking to expand existing programs and develop new products. Key areas include protection for sub-national governments (e.g., through flood and earthquake products), private assets (e.g., homeowners), livelihoods (particularly for small and medium-sized enterprises, or SMEs), and vulnerable populations (through emergency cash or job programs). Indonesia is also a member of the Southeast Asia Disaster Risk Insurance Facility (SEADRIF)—a World Bank–supported ASEAN+3 initiative.

Technical support to Indonesia has been made possible through various World Bank trust funds. Contributions from the Global Shield Financing Facility (GSFF), the Risk Finance Umbrella (RFU), and the World Bank–hosted Multi-Donor Trust Fund (MDTF) for SEADRIF countries have enabled access to technical expertise, regulatory support, and capacity-building activities. These include:

- **Institutional alignment**: Support for PFB design and operations, ABMN expansion, and integration between the two mechanisms.
- **Regulatory development**: Technical inputs to ministerial-level regulations and operational guidance for project management units
- **Capacity building**: Executive education program in collaboration with the Bandung Institute of Technology and international knowledge exchanges.

The GSFF is supporting the development of strategic and budget plans, legal and regulatory frameworks, environmental and social safeguards, and a risk finance strategy. The World Bank and government counterparts are now exploring how PFB resources can finance ABMN expenditures as part of a key priority within Indonesia's disaster risk finance strategy. Figure 1 provides an overview of Indonesia's current DRFI architecture, including key institutions, instruments, and areas of government focus.

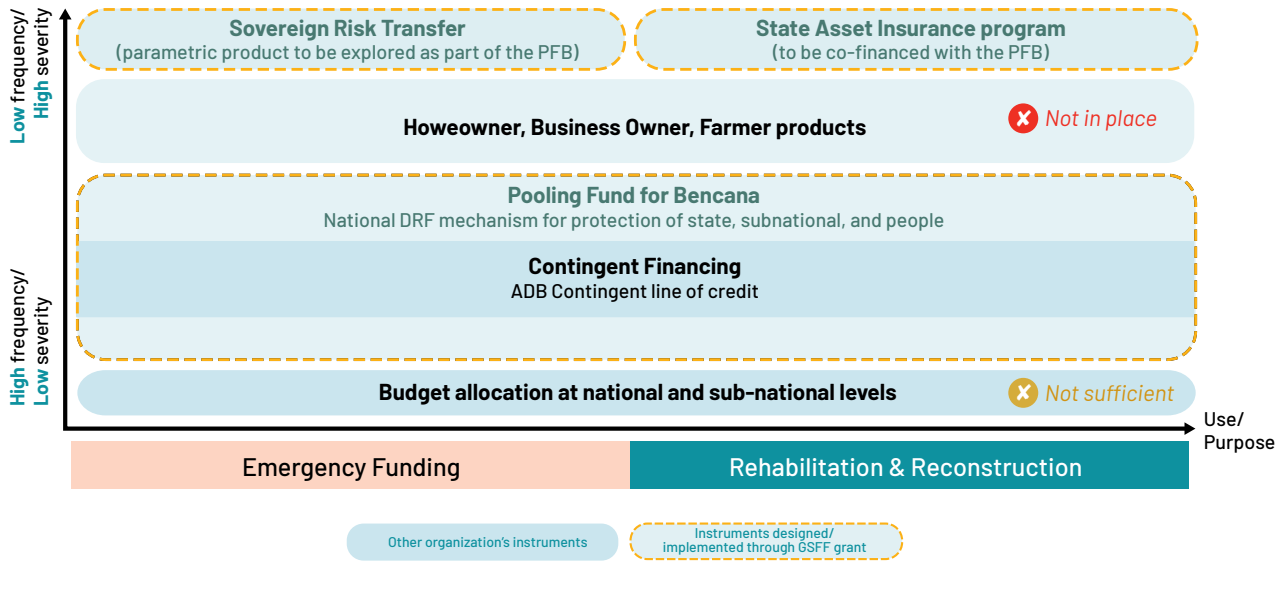
Results

Indonesia has taken meaningful steps to operationalize its DRFI strategy, with notable progress in the design, establishment, and partial implementation of its core financial instruments:

- **ABMN (State Assets Insurance Program)** is fully functional and has delivered tangible benefits. Since 2019, the program has insured over 10,000 buildings across more than 70 participating line ministries, with payouts totaling US$5.45 million. These funds supported reconstruction efforts after events such as the 2020 Jakarta floods and the 2021 Mamuju earthquake, helping line ministries restore operations with minimal disruption to public services. The program leverages over US$2 billion in reinsurance capital. While participation remains voluntary, the government is working to expand coverage to more buildings and include infrastructure assets, and is also exploring how to co-finance ABMN premiums through the PFB.
- **PFB (Pooling Fund Bencana)** has been legally established as Indonesia's central mechanism for channeling financing for disaster preparedness and response. As of April 2025, it is fully operational, with initial expenditures allocated to preparedness activities across four line ministries. The fund's balance has been invested in line with the Indonesia Environment Fund's investment strategy, and the resulting returns will finance pre-disaster activities—such as training and insurance premium subsidies—as well as post-disaster relief. The government envisions PFB as the backbone of Indonesia's coordinated DRFI system, with ongoing efforts to integrate it with ABMN.

Indonesia has also advanced coordination across these instruments, with the PFB designed to play a broader DRFI coordination role. Capacity building has been critical to this effort: more than 50% of the PFB implementation team is women, and targeted technical training has helped bolster institutional readiness.

FIGURE 1. INDONESIA'S DRFI LANDSCAPE



Key Takeaways

Indonesia's experience offers several lessons for countries seeking to establish a robust and sustainable DRFI system. Its progress highlights the importance of political leadership, long-term financing, and institutional integration:

1. **Sustained political leadership drives system-wide progress.** Designing and implementing a national DRFI strategy requires consistent high-level support. In Indonesia, the Minister of Finance has played a critical role in championing the establishment of the PFB, securing buy-in from other senior officials and enabling coordinated implementation of financial solutions. A clearly defined strategy with actionable priorities has been instrumental in guiding these efforts. As the Bank continues to support Indonesia's DRFI agenda, maintaining strong government commitment to implement the PFB will be crucial, especially through any transition of a new administration.

2. **Long-term financing, including private capital, unlocks scale and sustainability.** Successful DRFI systems depend on predictable, sustained investment. Indonesia's DRFI implementation is backed by annual budget allocations for ABMN insurance premiums and PFB capitalization. The ABMN program alone leverages over US$2 billion in reinsurance capital. Several development partners—including the Swiss State Secretariat, Germany, the United Kingdom, Canada, Luxembourg, Japan, and the GSFF—have also played an important role in financing and supporting DRFI reforms.

3. **Institutionalizing DRFI takes time, resources, and strong coordination.** Establishing a functioning DRFI system requires more than designing financial instruments – it demands embedding them within broader government structures. This involves engaging stakeholders across ministries and levels of government, enacting new or revised regulations to clarify institutional roles, building capacity and awareness across agencies and communities, and equipping implementing institutions to deploy funds rapidly and effectively during disasters. In Indonesia, this integration has been gradual but deliberate—with capacity building and stakeholder coordination serving as cornerstones of implementation.

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