Boosting Financial Resilience to Disaster Shocks

SMALL STATES
2019 FORUM

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WORLD BANK GROUP
INTERNATIONAL MONETARY FUND

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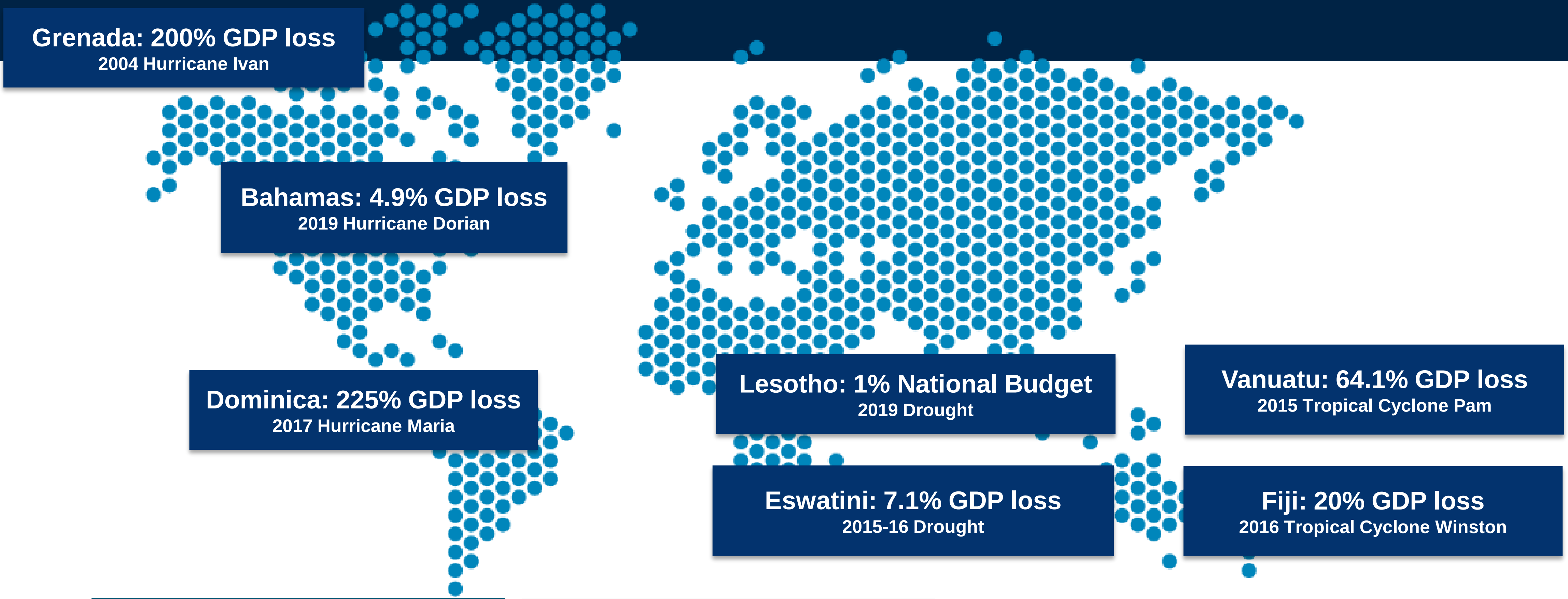
Disasters have a disproportionate effect on Small States



Average annual cost of disasters to small states is 2% of Gross Domestic Product with 9% of events having damage in excess of 30% of GDP.

High exposure in small states has macroeconomic consequences: lower investment, lower GDP per capita, higher poverty, and a volatile revenue base.

Well designed macro-fiscal policies can help mitigate these impacts by the provision of funds when needed most, at the sovereign and sector levels.

…Which requires a comprehensive approach to resilience – Combining 3 Pillars

Reduce risk and prevent disasters
e.g., quality infrastructure

Help households and society cope with shocks
e.g., shock-responsive social safety nets

Core Mandate of Finance Ministers

Pre-arranged predictable funding when disasters strike to protect the fiscal balance, subnational governments, households, and businesses

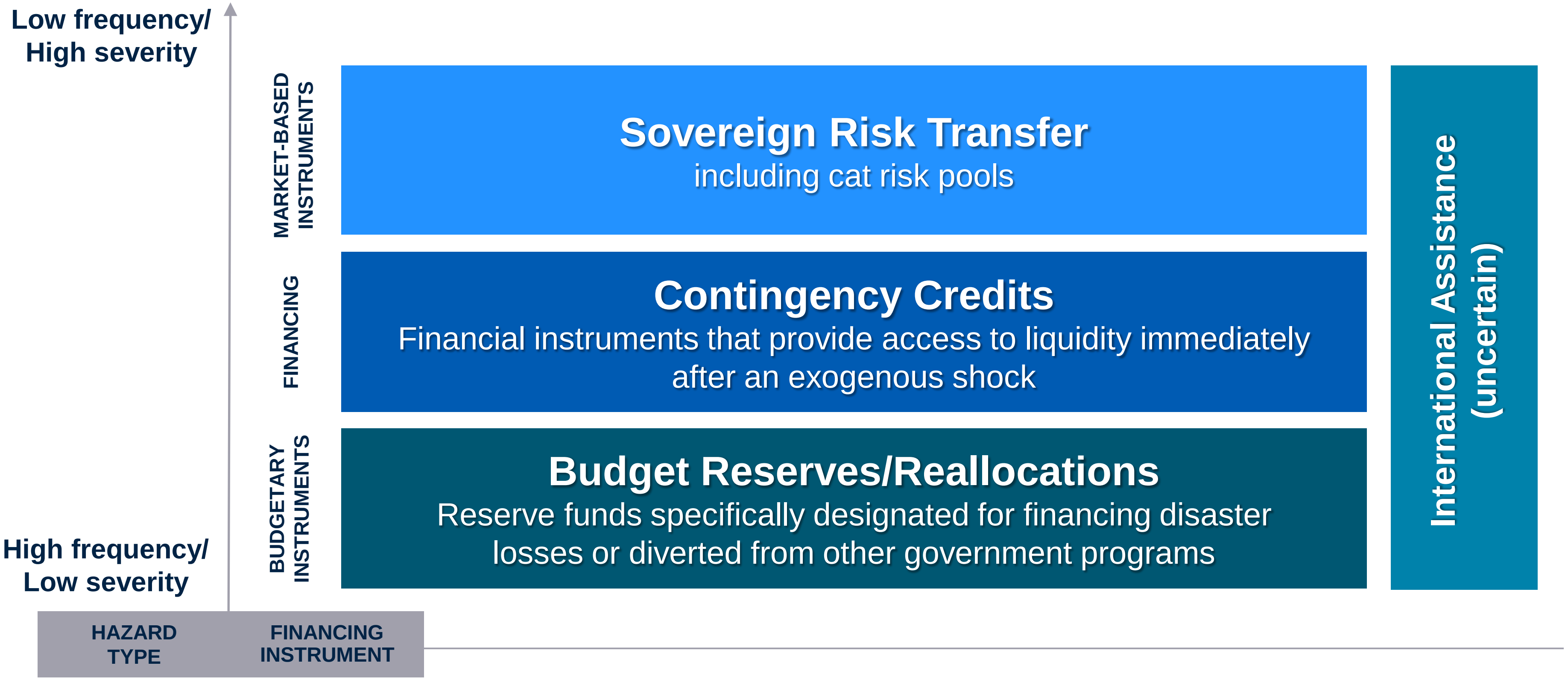
In a context where there exist significant obstacles to build Financial Resilience…

- **Budgetary constraints** – limited financial resources and borrowing constraints
- **Under-developed domestic markets** – with limited access to international markets
- **Limited data** – resulting in adverse pricing as international markets cannot price the risk accurately
- **Governance** – weak policy and regulatory environment

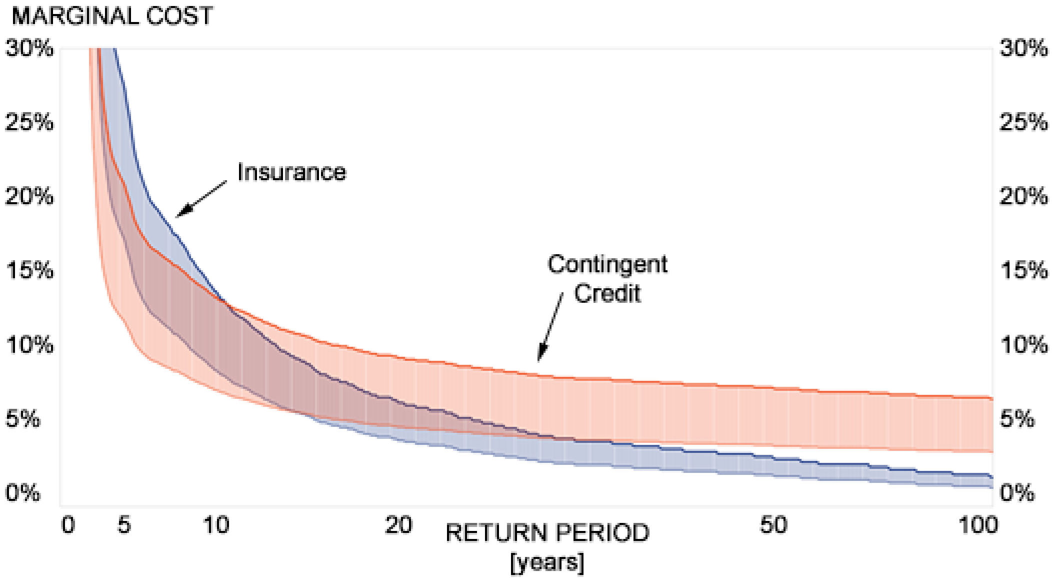
...More action is needed...

- To build **financial resilience** to disasters and climate shocks;
- To move from budget support to **sector-specific support** (Social Protection, Infrastructure, Households and Businesses)
- To maximize finance for development and **crowd in private sector**
- To create **comprehensive packages** that leverage the expertise of the international re/insurance sector to bolster domestic policies that embed financial resilience in a sound policy and regulatory environment

Disaster Risk Layering - No single financial instrument can address all risk



Cost Benefit Analysis - Identifying optimal mix of instruments

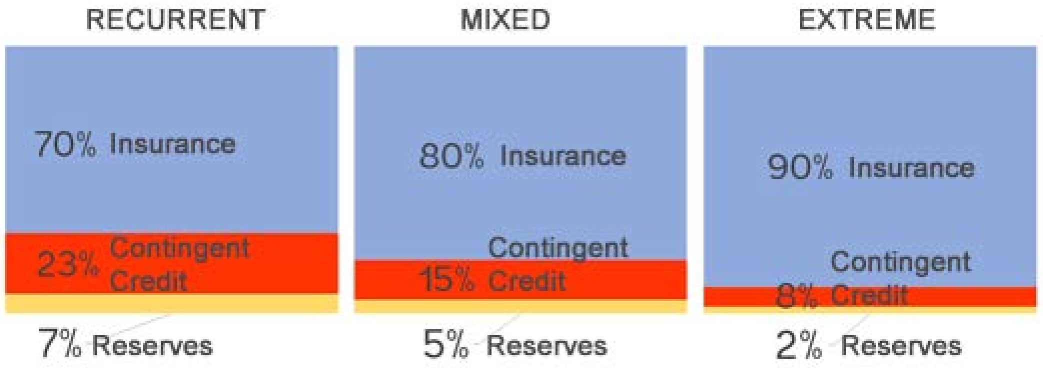


Optimal mix of reserves, contingent credit, and insurance for a 1 in 100yr event

- Higher the cost of insurance - buy less
- Higher social discount rate – buy more credit
- High opportunity cost of reserves – hold less cash

Optimal financial protection determined by a country's risk profile

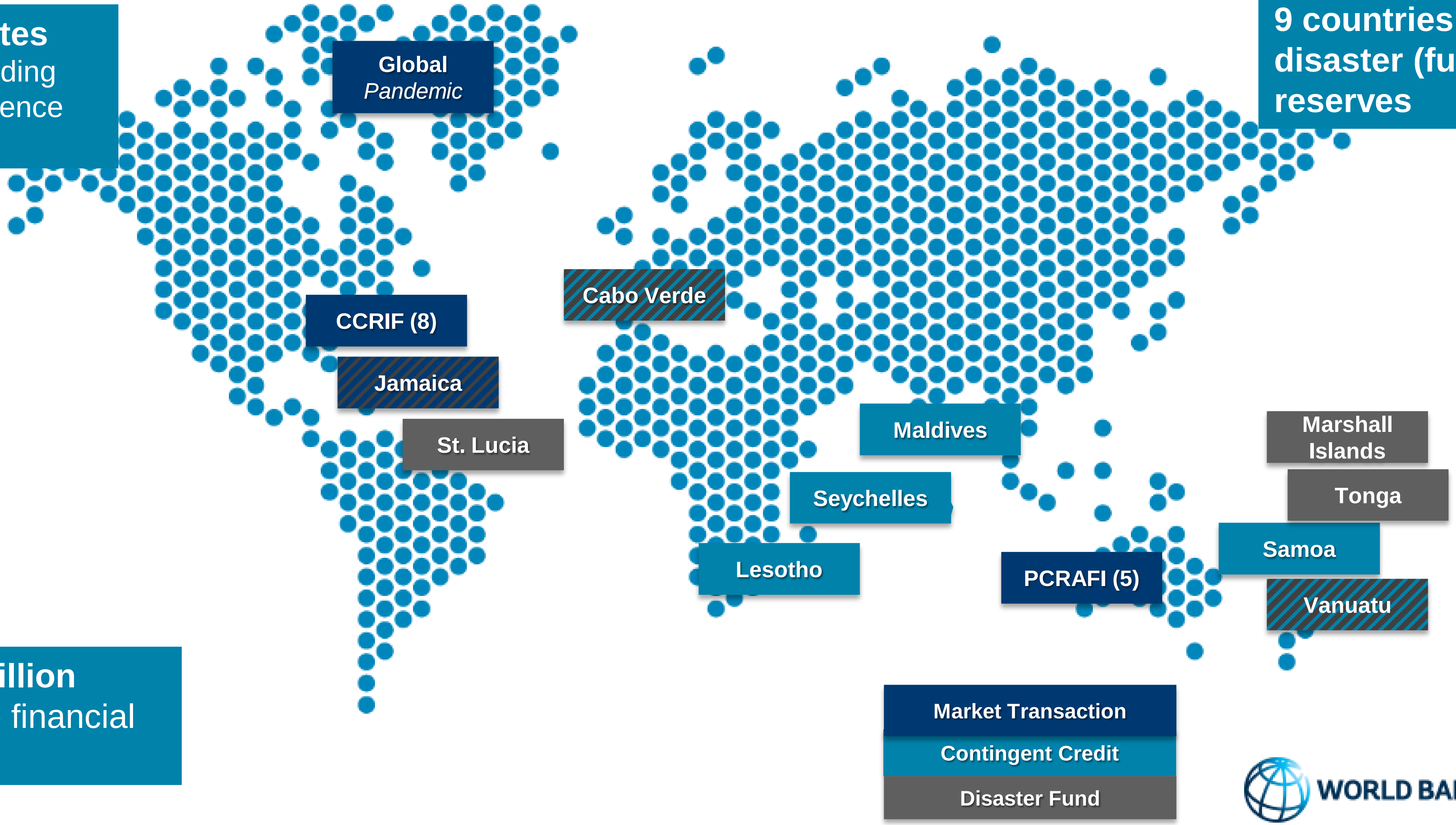
- Combination of risk transfer and contingent credit more cost effective saving up to 20% compared to purchasing a single instrument



Some countries are already taking important actions – Disaster Risk Finance (DRF) mapping

28 Small States engaged in building Financial Resilience via DRF

9 countries with disaster (fund) reserves



Over **$780 million** transferred to financial markets

E.g.,: National DRF strategies – Jamaica

Leadership of Finance Ministries

Integrate risk finance into macro-fiscal planning

Protecting society across three layers

Risk Transfer Caribbean Catastrophe Risk Insurance Facility (CCRIF): US$285 million in aggregate cover against Hurricanes, Earthquake and Excess Rainfall
Additional Risk Transfer instrument under development *seeking c. US$200m in additional cover tbd.*

Contingent Credit Inter American Development Bank
US$285 million
Line of credit which can be drawn upon when parametric triggers are met.

Contingencies Fund for Natural Disasters *$17.7 million*
National Disaster Reserve Fund: *US$2 million*
Discussion on merging these two and providing US$4 million per year going forward

E.g., From diagnostic to implementation: Lesotho

Background:

- With high poverty rates of over 53% and a reliance on rain-fed agriculture, its population is extremely vulnerable to climatic hazards
- This year around **500,000 people estimated in need of assistance** due to drought
- **Approximately US$ 14.3 million required for food** aid. Equivalent to 1% of the 2019-20 national budget

At the request of Ministry of Finance World Bank conducted a diagnostic study to provide recommendations to improve the disaster risk financing landscape in Lesotho.

Outcomes:

- Developing a **disaster risk financing strategy**;
- Considering the establishment of a **disaster related contingency fund**;
- Conducting a feasibility study to establish a **scalable social safety net**; and
- WB received a request for a **Catastrophe Deferred Draw Down Option (CAT-DDO)** to provide immediate liquidity for natural or health related disasters.

Annex:

WBG solutions leveraging private sector participants

Risk Transfer: Private Sector drives innovation

PCRAFI—Private Sector Window
helping domestic insurers access international reinsurance markets and **utilizing InsurTech to develop a new claims management app in Fiji.**

CCRIF—New Insurance Products
excess rainfall insurance, **fisheries insurance,** aggregate deductible cover.

SIF – MSMEs climate risk insurance
Fiji and the Marshall Islands are to be among the first to test the SIF.

Regional risk pools crowd in additional support from the private sector via international reinsurance markets and their expertise in product development

Insurance as a catalyst for economic development:
Caribbean Oceans and Aquaculture Sustainability Facility (COAST)

IMPORTANCE OF FISHERIES

- Livelihoods of 10-12% of the world's population
- 4.3% of the workforce in the Caribbean
- Fisheries and aquaculture sector – US$460 million annually in the Caribbean
- Fish products important for food security and tourism (blue economy)

CLIMATE THREATS

- Degradation of supporting habitats
- Tropical storms and climate change disproportionate impact on sector

COAST: The Caribbean Ocean and Aquaculture Sustainability Facility

- Launched July 1, 2019
- For fisher communities to promote: food security, livelihoods, resilient fisheries, and DRM.
- **Quick payouts** to vulnerable fishers impacted by extreme weather, providing them with immediate economic relief.
- Coverage for:
  - a) "bad weather" events (measured by wave height and excess rainfall) on fisherfolk,
  - b) tropical cyclones (wind and storm surge) to fishing vessels, fishing equipment and fishing infrastructure

Partners: WBG, CCRIF-SPC, US State Dept. and CRFM

COAST Innovation

- **First climate risk parametric insurance for fisheries sector** spearheaded by the Caribbean
- A catalyst for, leading to a stronger blue economy in the region.
- Rapid transfer of payouts to fishers
- First time insurance coverage of "bad weather" events, in addition to covering tropical cyclones
- Encourages inclusiveness and participation of women
- First time tracking of parametric insurance payouts at the scale of individual beneficiaries

Pilot Countries 2019/20: Grenada and St. Lucia **(identifying additional countries for expansion)**

Global Risk Financing Facility

Supporting Early Action to Climate Shocks, Disasters, and Crises

Enabling early action after climate shocks, disasters, and crises by **setting up financing ahead of time** and connecting this to pre-agreed interventions.

Launched at the 2018 World Bank-IMF Annual Meetings. Received **donor contributions of over US$145M** to invest in establishing and scaling up pre-arranged crisis risk financing instruments, including market-based instruments, and the systems that enable better response.

Over time the GRiF **will test and scale up new financial solutions** to cover a wider range of crises, including in support of the World Bank's Global Crisis Risk Platform.

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