Regional Approaches to Disaster Risk Financing in the Pacific

Pacific Update Conference | 18 July 2016

Johannes Wolff
Economist (Public Finance)
Pacific Department
Disasters already cost the Pacific US$300m on average – every year

- 10 of the 25 most vulnerable countries are in the Pacific
- Cyclone Pam: damage and losses of $450m in a single event equal to 65% of Vanuatu’s GDP
- Cyclone Winston: damage and loss of $1.4 billion – over 30% of Fiji’s annual GDP
- Intensity of cyclones likely to increase with climate change
Motivation

- Elevated & increasing exposure to natural hazards and climate change in the Pacific
- Disasters cause high losses and damages that push down growth trajectories and, ultimately, development outcomes
- Disasters divert substantial capacity of countries and partners away from development activities

→ Effective & efficient DRR/DRM & response critical
Gaps in disaster risk financing & potential ADB role

• Quick disbursing finance for transition between humanitarian and longer-term reconstruction efforts
  – Some instruments available but limited in amount, e.g.:
    • ADB's Asia-Pacific disaster response facility
    • PCRAFI insurance but not for slow onset events like droughts; also likely too costly for higher frequency, low pay-out events as currently used
• Increasing resources throughout the response phases could help in restoring original development paths faster

→ Recent assessments suggest contingent credit arrangements (PCRAFI study, ADB report forthcoming)
→ Major focus on concessional assistance (ADF/IDA) countries
→ Complementing, building upon and/or using existing mechanisms & structures
Objectives of contingent financing mechanism—linking DRR & DRF

**Pre-disaster preparedness phase**
- Increase resilience to reduce losses and damages from future disasters

**Disaster**
- Incentivize disaster risk reduction policies and technical measures
- Leverage additional resources for disaster preparedness
- Better coordination and economies of scale in DRM activities

**Post-disaster emergency & reconstruction phase**
- Increase effectiveness and efficiency of response

- Predictable post-disaster financing for adequate response
- Leverage additional resources for disaster response
- Minimize impact on implementation of planned development activities
Contingent credit versus contingent savings approach

• Similar principle but contingent savings arrangement may have advantages:
  – Pacific countries:
    • Deposited amounts earn interest, highly likely above concessional loan interest, and could theoretically be used for principle repayments if not used within grace period
    • Countries could deposit additional resources from government budget (e.g., contingency funds)
      – Shields them from political pressures
      – Ensures efficient funds management arrangement
  
  – ADB:
    • Existing policy-based lending instrument can be used
    • Avoids ring-fencing of ADF funds in ADB, as would be necessary under a contingent credit arrangement
Contingent savings facility—
the basic concept

1. Applies for policy-based loan (budget support) and completes agreed policy actions.

2. Provides concessional financing into government budget.

3. Deposits equivalent amount of ‘counterpart’ funds.

4. Pays out (share of) deposited funds plus interest post-disaster.

Country A

ADB

Trust Fund
Regional versus country-specific approach

• Regional facility would need to have advantages over ‘standard’, country-specific budget support to be attractive
  
  – Financial resources:
    • Higher returns
    • Regional ADF (requires regional elements, e.g., some risk pooling; pooling of TA and country-specific resources for DRM & disaster response)
    • Bilateral and other sources (e.g., from bilateral donors, GCF, WIM)
  
  – Technical assistance:
    • Potential to attract additional TA resources and better use existing resources by reducing fragmentation and achieving scale effects
Contingent savings facility—possible elements

Countries’ contributions (including from concessional ADB financing) +

Additional grant contributions from bilateral and other sources +

Technical assistance resources for DRM and post-disaster response +

REGIONAL CONTINGENT SAVINGS FACILITY
Regional contingent savings mechanism—issue of continued compliance

• Issue:
  • Policy triggers to achieve a certain DRR/DRM level but:
  • Incentives and available support resources reduced following ADB budget support funds disbursement

• Potential solution:
  – Linking future support to ongoing compliance
  – Additional financial and TA support to incentivize compliance (e.g., ADB TA, bilateral grants and other resources, e.g., matching grants)

• Monitoring: Idea of seal of compliance/approval
  – No post-disaster checks needed
  – Mapping and prioritization of DRR/DRM measures
  – Positive externalities: Insurance markets, fiscal policy, PFM, etc.
Contingent savings facility—a ‘seal of compliance’?

Different components (examples)

- Early warning systems
- Asset management & insurance
- Planning and building codes
- Post-disaster PFM systems
- Fiscal buffers

Different levels

- Regular assessments (e.g., annual)
- Improvement reports to maintain seal
- TA to support countries’ compliance
- Linked to additional resources from other sources
Regional contingent savings facility—looking ahead

• Points to be clarified going forward:
  – Country interest and scope of demand
  – Complementarity to, advancing of, or use of existing mechanisms and structures
  – Requirements to access regional ADF and leverage ratio
  – Governance arrangements, withdrawal rules/triggers, and allocations by country (potentially different for countries’ own resources and additional grant resources)—flexibility in response vs. moral hazard issues
  – Continued compliance to DRR/DRM frameworks
  – Post-disaster implementation capacity
  – Etc.
Thank you