Regional Approaches to Disaster Risk Financing in the Pacific

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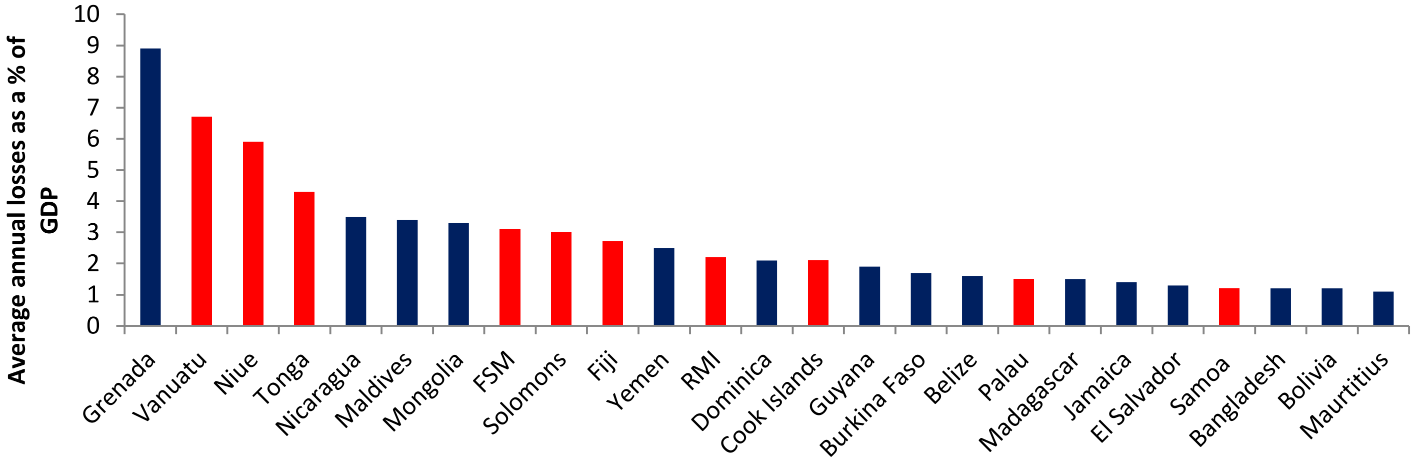
Disasters already cost the Pacific US$300m on average – every year



- 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

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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

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Objectives of contingent financing mechanism—linking DRR & DRF

Pre-disaster preparedness phase

Increase resilience to reduce losses and damages from future disasters

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

Disaster

Link

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

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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

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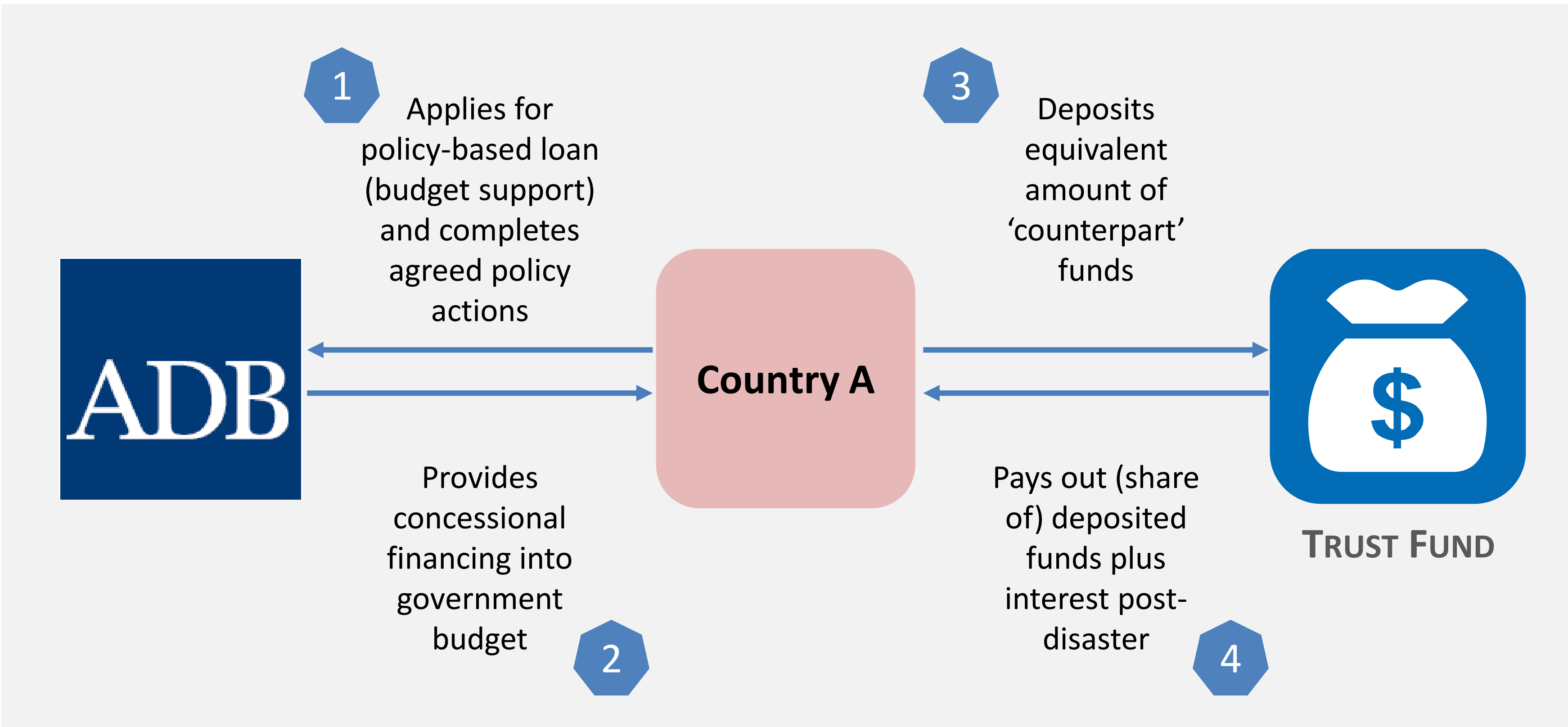
Contingent savings facility—the basic concept



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

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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 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.

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Contingent savings facility— a 'seal of compliance'?

Different components (examples)

Different levels

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

- Regular assessments (e.g., annual)
- Improvement reports to maintain seal
- TA to support countries' compliance
- Linked to additional resources from other sources

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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.

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Thank you