IDB Disaster Risk Financing Instruments

Disaster Risk Financing Conference
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HOLISTIC APPROACH TO DISASTER RISK AND CLIMATE RESILIENCE

• **IDB risk layering approach** to support Caribbean countries build financial resilience to climate and disaster shocks.

• The approach involves a **mix of financial instruments** tailored to each country's risk profile and financial needs.
  
  – Budgetary resources and reserve funds for prevention, mitigation, and recurrent low-impact events.
  – Contingent debt instruments and risk transfer instruments for events with lower probability but high-impact.

• This approach aims to strike a **balance between risk reduction and risk financing** through different instruments.
IDB INNOVATIVE CLIMATE AND DISASTER RISK FINANCE INSTRUMENTS

RISK RETENTION
Contingent Credit Facility (CCF)
Climate Resilient Debt Clause

RISK TRANSFER
Promote risk transfer to the capital and insurance markets.

RISK REDUCTION & INVESTMENT IN RESILIENCE
Investment Loans
Technical Assistance
CONTINGENT CREDIT FACILITY

1 OBJECTIVE
Provide countries with significant, liquid resources following a natural disaster or a public health event of severe to catastrophic proportions to help them provide humanitarian relief, restore basic services to the population, and other response measures.

2 EX ANTE INSTRUMENT
The CCF is an ex-ante financing instrument because contingent loans must be prepared and approved by the Bank before an eligible event occurs.

3 RISK COVERAGE
- Natural disaster risks
  Examples: hurricane, earthquake, flood, wildfire, and drought.
- Public health risks
  Examples: future pandemics and epidemics

4 SCOPE OF FINANCING
Resources from CCF contingent loans are used exclusively to cover extraordinary public expenses incurred after an eligible event and only during the emergency phase (6-9 months).
01 Parametric coverage
Parametric coverages that allow fast eligibility verification of events.

02 Rapid Disbursement
Usually within 15-30 days after an eligibility verification request.

03 Cost-Effectiveness
Cost-effective risk retention instrument to finance emergency response.

04 Extended Coverage Period
Coverage drawdown period is 5 years, renewable for another 5 years.

05 Replenishment of Resources
Option to request replenishments of disbursed resources for up to its original approved total coverage.

06 Ex-ante financial approach
Promote ex ante financial management of risks and contingent fiscal liabilities.

07 Disaster Risk Management
Comprehensive Natural Disaster Risk Management Program (CDRMP)
2009
Creation of CCF
Dominican Republic

2009
1st CCF contingent loan
Dominican Republic

2012
Jul 2012
Increase amount limit of CCF coverage
US$300M o 2% of GDP

2012
Feb 2012
1st parametric coverages for earthquakes and hurricanes
Dominican Republic

2012
Jul 2012
1st coverage for floods due to excess rainfall
Panama

2014
2nd MODALITY for non-parametric perils
Droughts, tsunamis

2014
Feb 2012
1st coverage for floods due to excess rainfall
Dominican Republic

2019
Apr 2020
CCF COVID-19 coverage
US$90M o 0.6% of GDP

2014
Apr 2020
1st Coverage for lahars (land slide)
Ecuador

2019
May 2020
CCF expansion to include public health risks
Future pandemics and epidemics

2020
Nov 2020
1st Coverage for WILDFIRES
Paraguay
### How Do CCF Parametric Coverages Work?

**Parametric Coverage**
- Parametric coverage means that the coverage is activated when parameters reach a threshold:
  - A. Event intensity
  - B. Population affected

**Parameters to Measure the Impact**
- A. Affected population
- Amount of resources for disbursement

**Use of Satellite Imagery & Geospatial Data**
- 1. USGS, NOAA: event information
- 2. NASA/ESA: satellite imageries
- 3. US LandScan: population distribution

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**How is the coverage activated?**

**What determines the amount of resources that can be accessed?**

**What information is used?**
HOW DO CCF PARAMETRIC COVERAGES WORK?

**National Oceanic and Atmospheric Administration (NOAA)** through the National Hurricane Center publishes information on the track, intensity and wind swath of tropical cyclones.

**NASA** publishes satellite data on precipitation levels through a tool called Giovanni.

The **Copernicus Sentinel-2 mission** comprises a constellation of two polar-orbiting satellites that monitor Earth’s surface changes.

**LandScan** provides global population distribution data at approximately 1 km (30" X 30") spatial resolution.

**USGS** operates the National Earthquake Information Center, which is responsible for detecting the location and magnitude of earthquakes around the world.

**NASA’s Fire Information for Resource Management System (FIRMS)** distributes Near Real-Time (NRT) active fire data within 3 hours of satellite observation.
CATASTROPHIC RISK COVERAGE IN THE LAC REGION BY CCF CONTINGENT LOANS

KEY MILESTONES

3.96 billion
Ex ante financial coverage to improve resilience

17
Member borrowing countries with active coverage

3.26 billion
Of coverage for small and vulnerable member countries (IDB C & D countries)
Crisis Response

Earthquake

$160M
Ecuador 2016

Hurricanes

$155M
Dom. R. 2017 ($16m)
Bahamas 2019 ($76m)
Nicaragua 2020, 2022 ($35m, $10m)
El Salvador 2022 ($18m)

COVID-19

$202M
Ecuador 2020 ($90m)
Dom. R. 2020 ($90m)
Guyana 2020 ($22m)

Manabí Earthquake in Ecuador 2016

Hurricanes Eta & Iota in Nicaragua 2020

COVID-19 2020
The timeliness of response is crucial

**THE BAHAMAS**
Hurricane Dorian 2019 (US$76M)
Disbursement 9 days after the event

**NICARAGUA**
Hurricanes Eta & Iota 2020 (US$35M)
Disbursement 5 days after the country’s request

Hurricane Julia 2022 (US$10M)
Disbursement 4 days after the country’s request
BAHAMAS
HURRICANE DORIAN 2019

CAT5 Hurricane
US $76 million
22 Public Entities

Humanitarian response:
- Search and rescue
- Medical assistance
- Food and water distribution
- Shelters and housing
- Emergency allowances

Debris removal and environmental cleanup

Rehabilitation of:
- Electricity services
- Water and sewage infrastructure
- Educational centers and other public facilities
NICARAGUA
HURRICANES ETA & IOTA 2020, JULIA 2022
US $45 million

Rehabilitation of road Infrastructure – MTI

- Eta & Iota
  - 17 bridges
  - 250K inhabitants of Caribe Norte Coast

- Julia
  - 232 km of electrical distribution networks

Rehabilitation of electrical networks – ENATREL

- Eta & Iota
  - 270 km of electrical distribution networks

- Julia
  - 232 km of electrical distribution networks

Humanitarian Assistance - WFP

- Eta & Iota
  - 402K beneficiaries

- Julia
  - 238K beneficiaries
The IDB was the first MDB to offer the Climate Resilient Debt Clause (CRDC). Option to defer principal repayments of eligible IDB loans for 2 years following an eligible natural disaster and repay those amounts in future amortization installments.

IDB’s CRDC is designed to support debt sustainability efforts. It provides vital financial relief in a time of distress as the deferred payments allow the country to cover public expenses at its discretion.

Scalability: Countries can activate CRDC in several IDB loans to achieve their desired level of coverage.

Innovation: IDB’s climate-resilient debt clause uses the same state-of-the-art parametric coverage that was designed for CCF.
CLIMATE RESILIENT DEBT CLAUSE PORTFOLIO

IDB's Climate Resilient Debt Clause Portfolio

Honduras
- Earthquake, hurricane, excess rainfall

Bahamas
- Hurricane

Barbados
- Hurricane, excess rainfall

El Salvador
- Earthquake, flood

Ecuador
- Earthquake, flood

US$1.4 BILLION
The amount of FFF loans with IDB's innovative climate resilient debt clause (PPO).

Key Milestones

Barbados
From 2021 all eligible loans have been activated the PPO in every loan contract signature. Currently, the PPO has been activated on loans for an approved total of USD 474 million.

The Bahamas
From the 4th. quarter of 2022 Bahamas has activated PPO clauses on all eligible loans in its portfolio with the Bank, and every time a loan is signed, Bahamas requests activation of the PPO. Currently, the PPO has been activated on loans for an approved total of USD 379 million.

Honduras
During the 2nd. quarter of 2023, Honduras activated the PPO for the first time in a loan of USD 32.5 million. Currently, the PPO has been activated on loans for an approved total of USD 231 million.

Ecuador
During the 4th. quarter of 2023, Ecuador activated the PPO for the first time in a loan of USD 106 million.

El Salvador
During the 4th. quarter of 2023, El Salvador activated the PPO for the first time in the two loans for USD 184 million.
Final Remarks

1. It is key to advance DRFI strategies that effectively promote risk financing instruments with solutions that encourage investment in resilience and risk reduction.

2. To strengthen disaster resilience in the region, it is imperative to further improve and broaden our Disaster Risk Financing and Insurance (DRFI) instruments.

3. It is crucial to continue building institutional capacity in our countries to enhance their ability to deploy the liquidity provided through financial instruments promptly, facilitating timely responses to the post-disaster recovery process.
Risk Finance and Insurance Group

CMF - Connectivity, Markets and Finance Division