Strengthening Financial Resilience

Inter-American Development Bank – World Bank
CARIBBEAN RESILIENCE
Joint Event

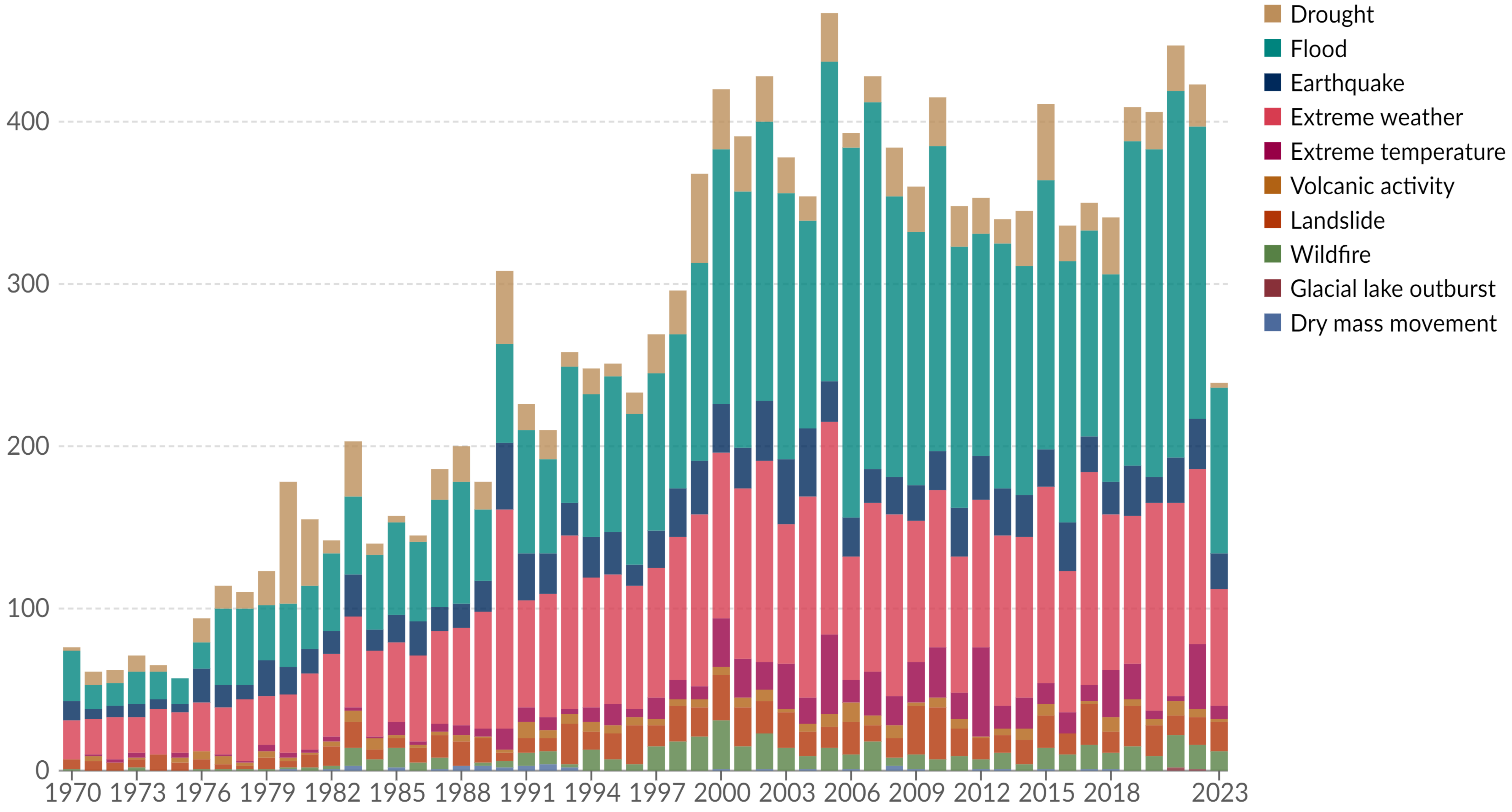
IDB
WORLD BANK GROUP

Agenda

- Welcome and Opening Remarks
- Towards a common understanding of Disaster Risk Financing
- Overview of Disaster Risk Financing Instruments
- Learning From Regional Experience
- Towards Designing and Implementing Risk Finance Programs
- Closing Remarks

Global reported disasters 1970 – 2023

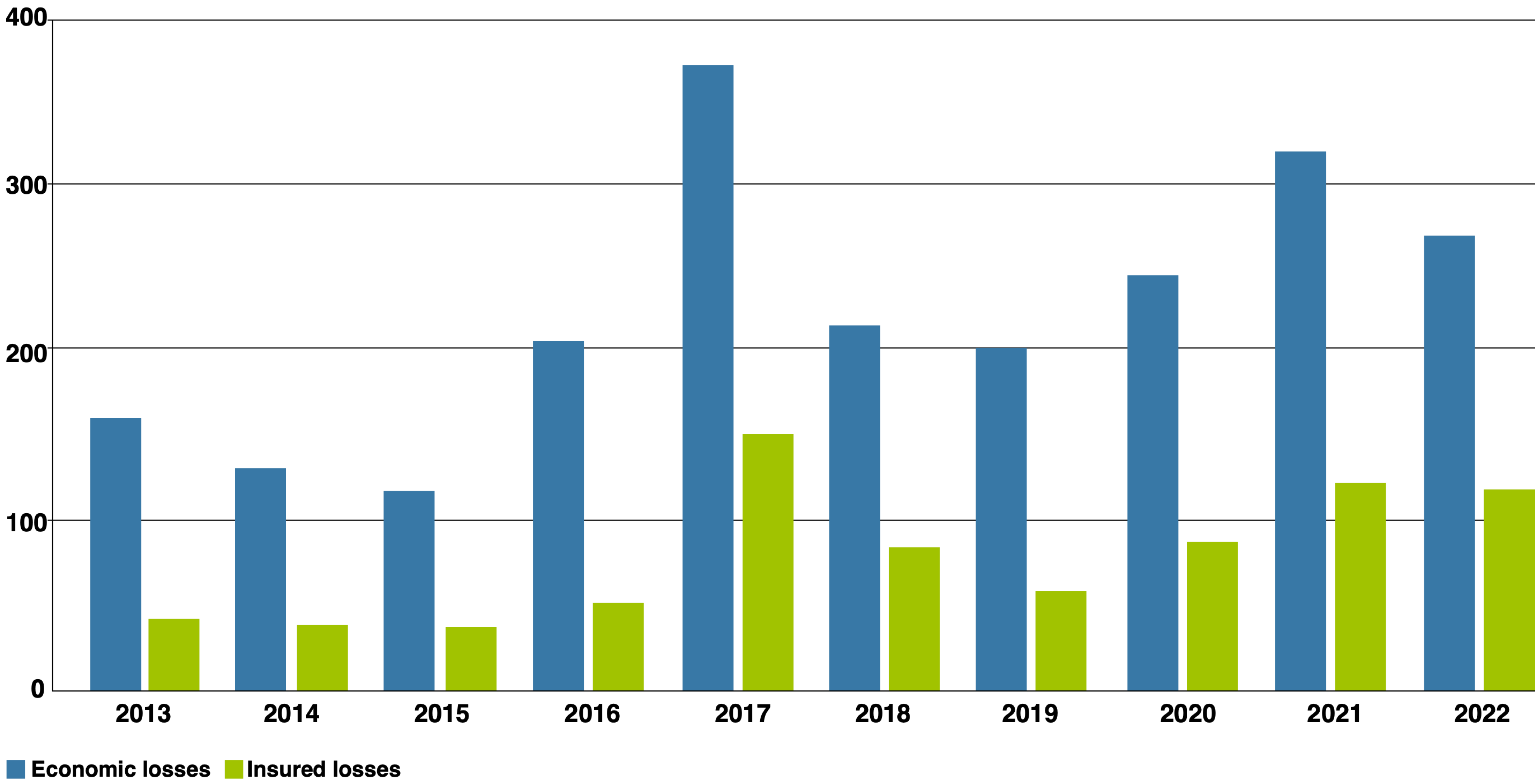
Our World in Data



Data source: EM-DAT, CRED / UCLouvain (2023)

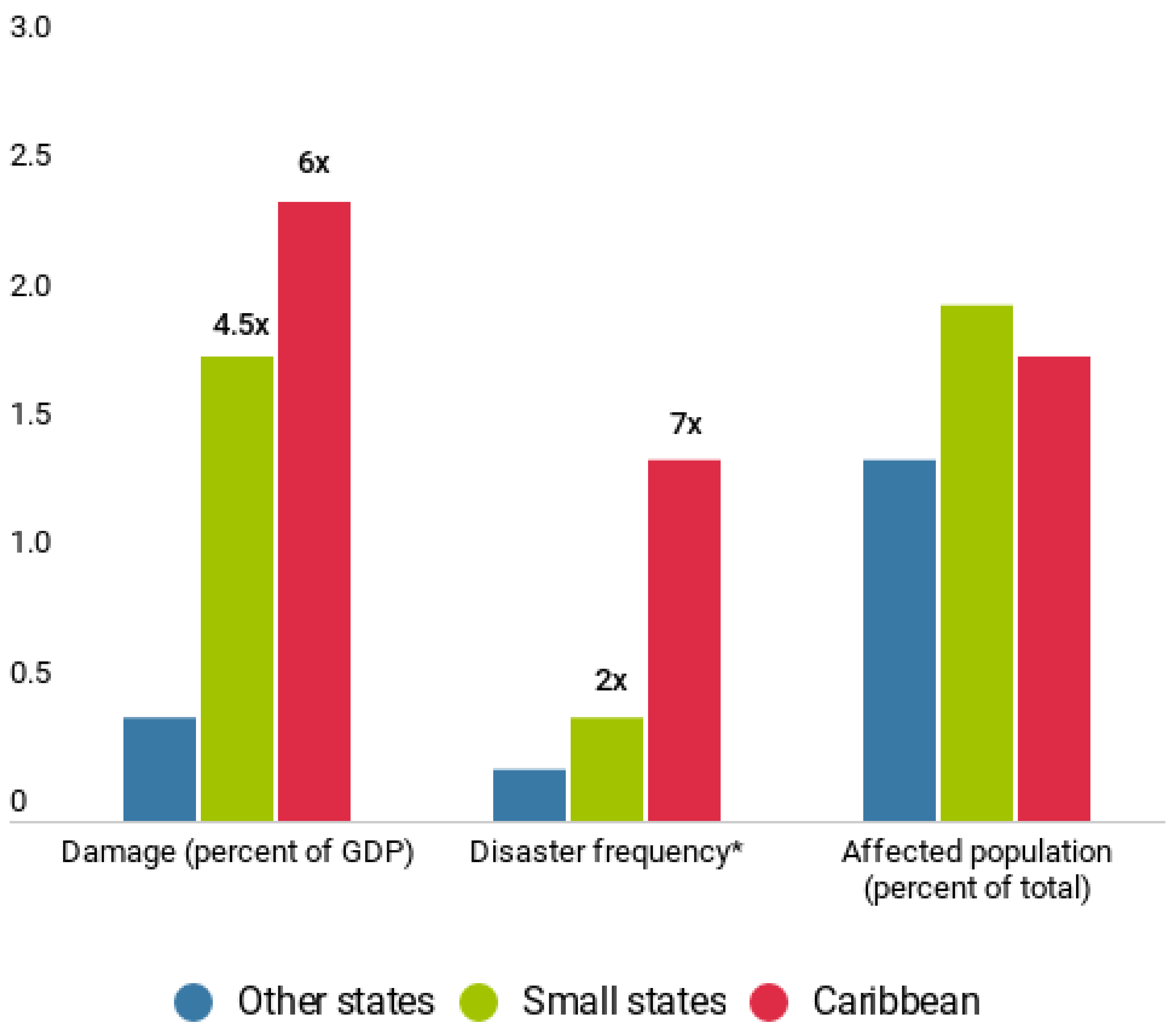
Note: Data includes disasters recorded up to September 2023.

Global losses from disasters 2013-2022



Source: Munich Re NatCatService

Caribbean countries experience frequent disasters with high human and economic costs



Source: IMF staff calculations.

So, what do we do?

Disaster Risk Financing

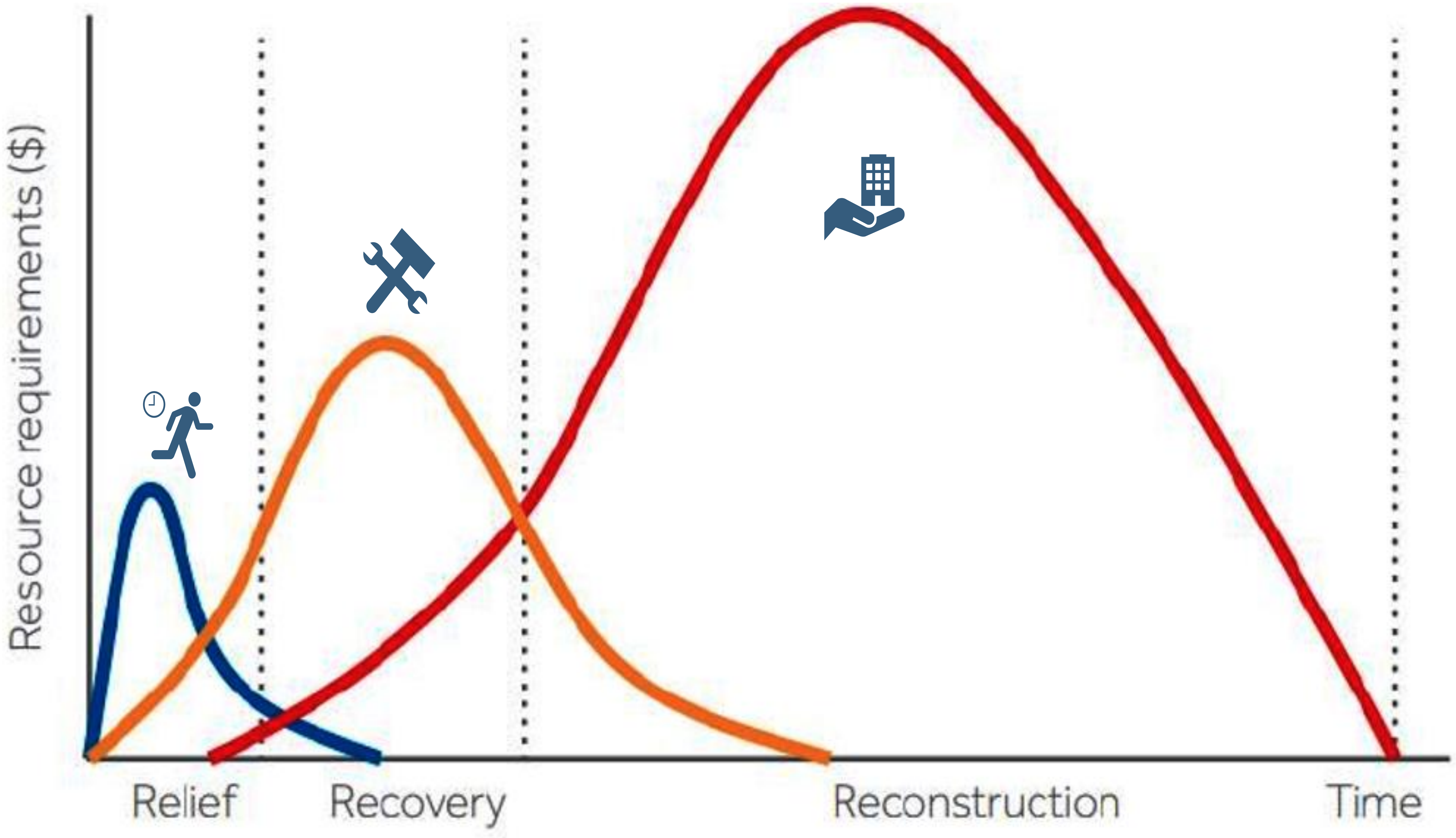
It is a discipline that addresses the **fiscal impacts and economic losses** caused by natural hazards (e.g. cyclones, droughts, earthquakes, floods) and supports countries to increase their financial resilience to disasters.

What is my risk?

What is private and what is public?

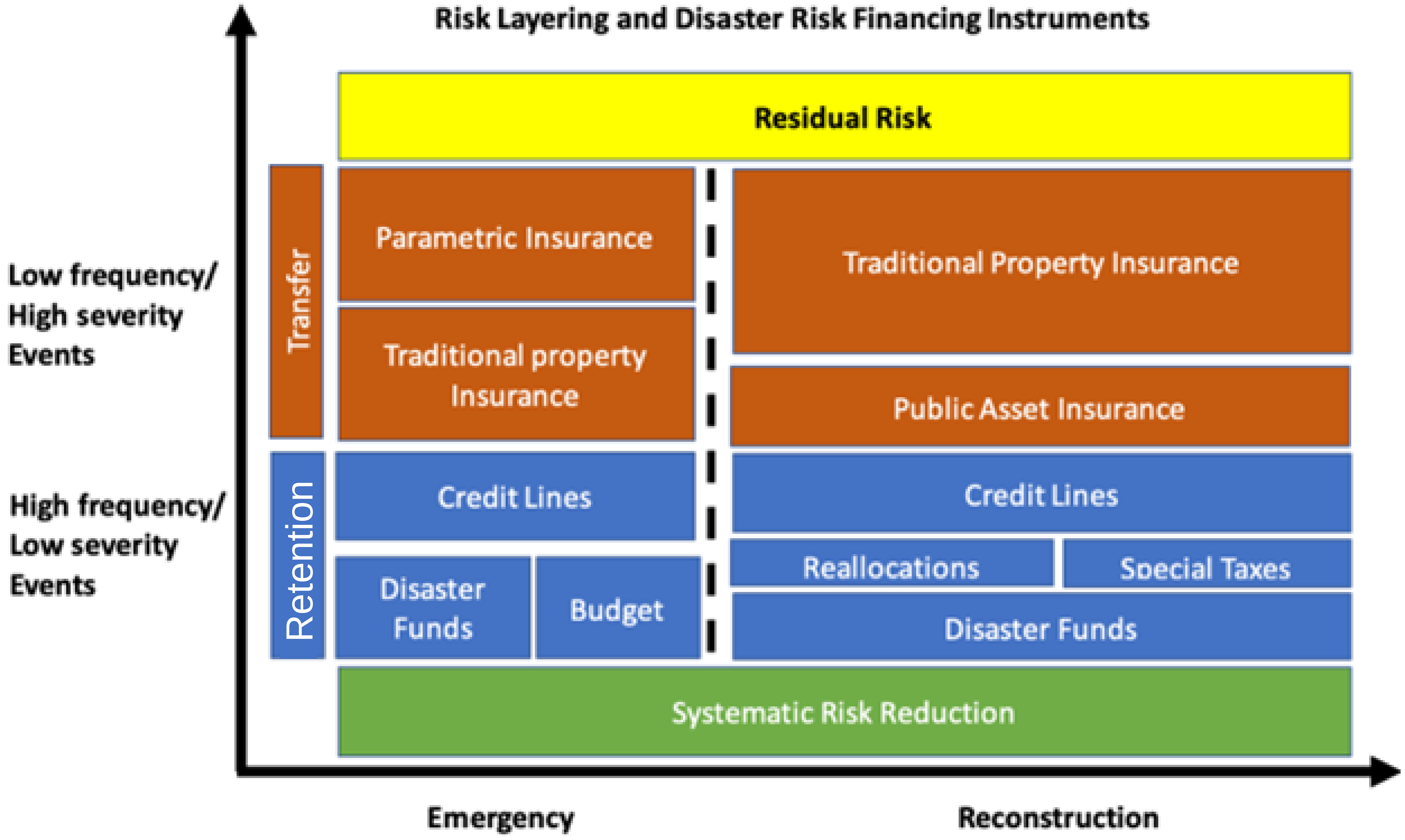
How much do I need?

When do I need it?



What is my strategy?

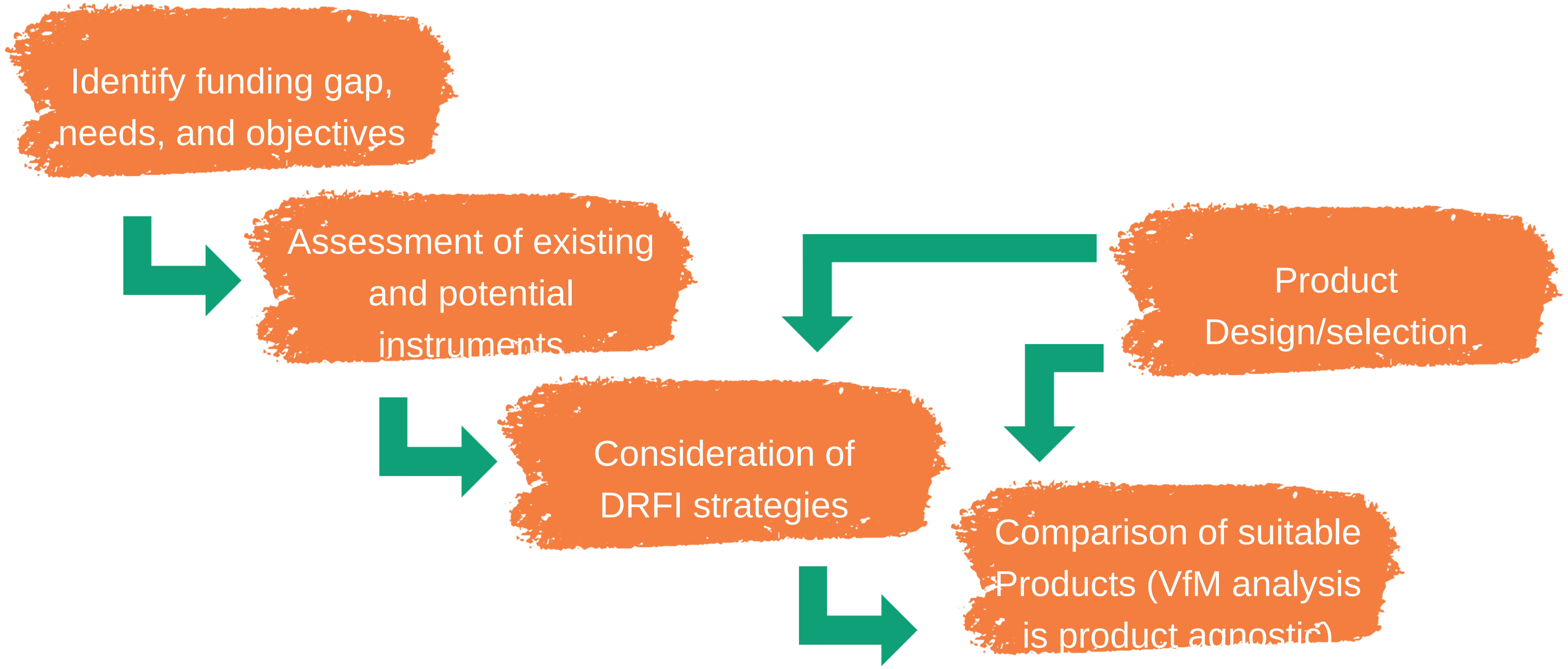
Where do I find the resources?



How to enhance the **Value for Money** (VfM) of DRFI – assessing the right balance of instruments

VfM analysis is an integral part of World Bank's support to governments on policy as well as World Bank project preparation and implementation

- VfM analysis is based on objective setting, quantitative and qualitative analysis, and frequent dialogue to inform decision making

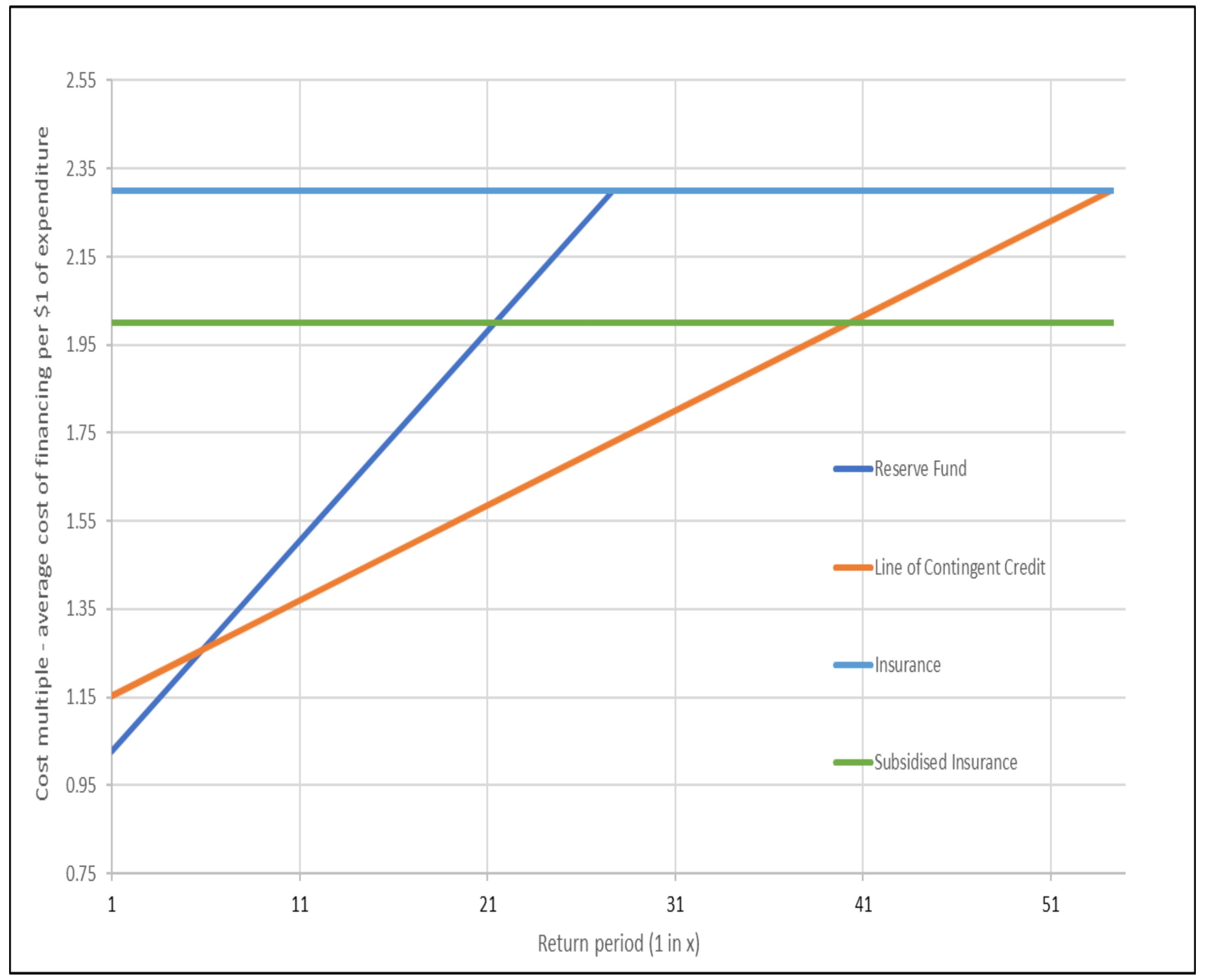


- The World Bank FCI team is working through this process with 6 Caribbean countries – starting with risk analytics and funding gap analysis

The World Bank VfM approach has been tried, tested, and refined in projects **over a decade in every region of the World**

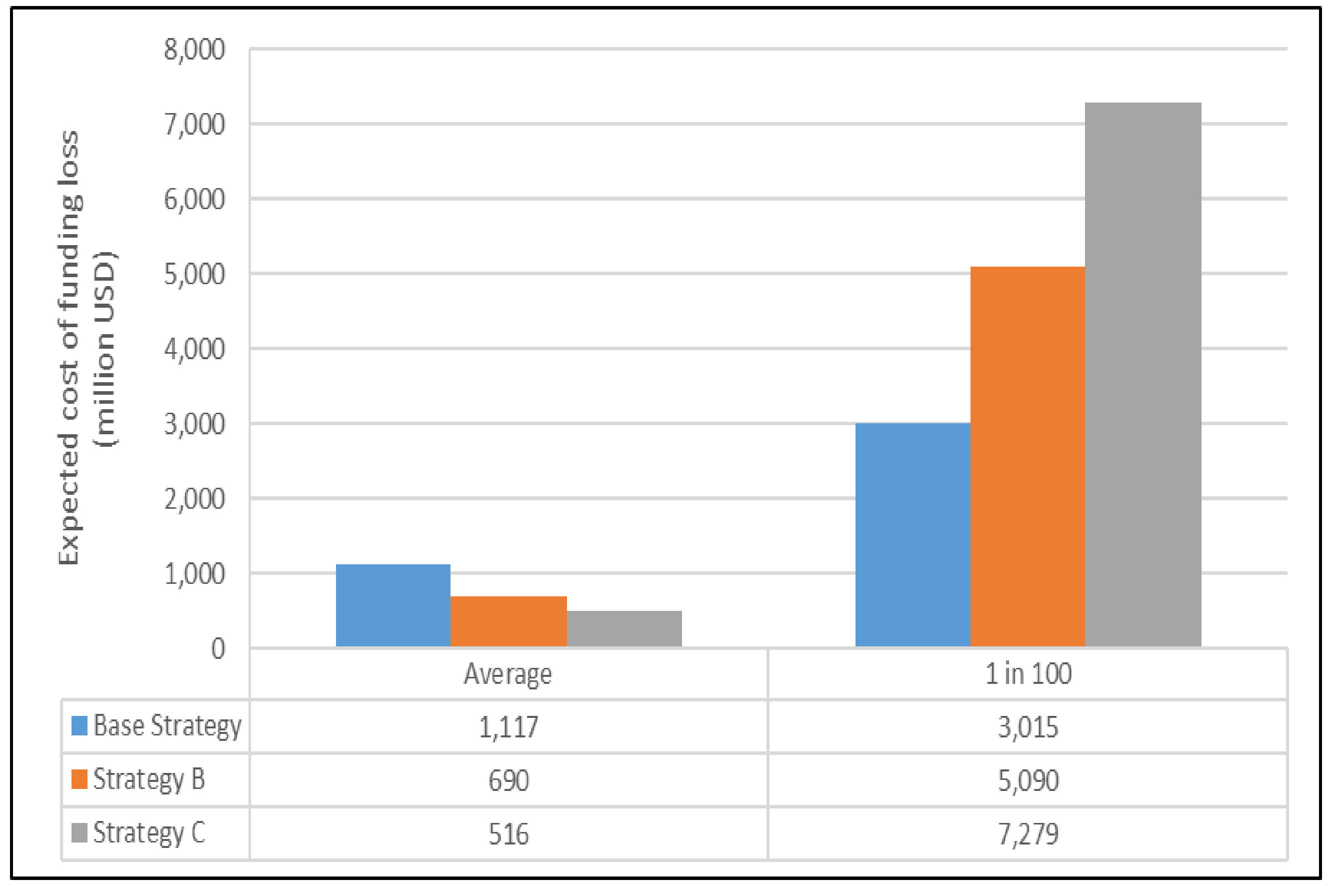
Compare different product mixes

- Actuarial and economic analysis to assess relative cost-effectiveness of financial instruments to respond to events of different frequencies
- The World Bank uses a suite of analytical tools and methodologies, as part of continuous stakeholder dialogue
- From the perspective of the government, not the World Bank or donors



Economic analysis complemented with assessment of broader considerations.

- Basis risk and quality of products
- Additional benefits (e.g. risk signaling or incentives and links with risk management)
- Political economy and practical considerations



What instruments do we need?

Overview of the World Bank’s Risk Retention & Risk Transfer Instruments

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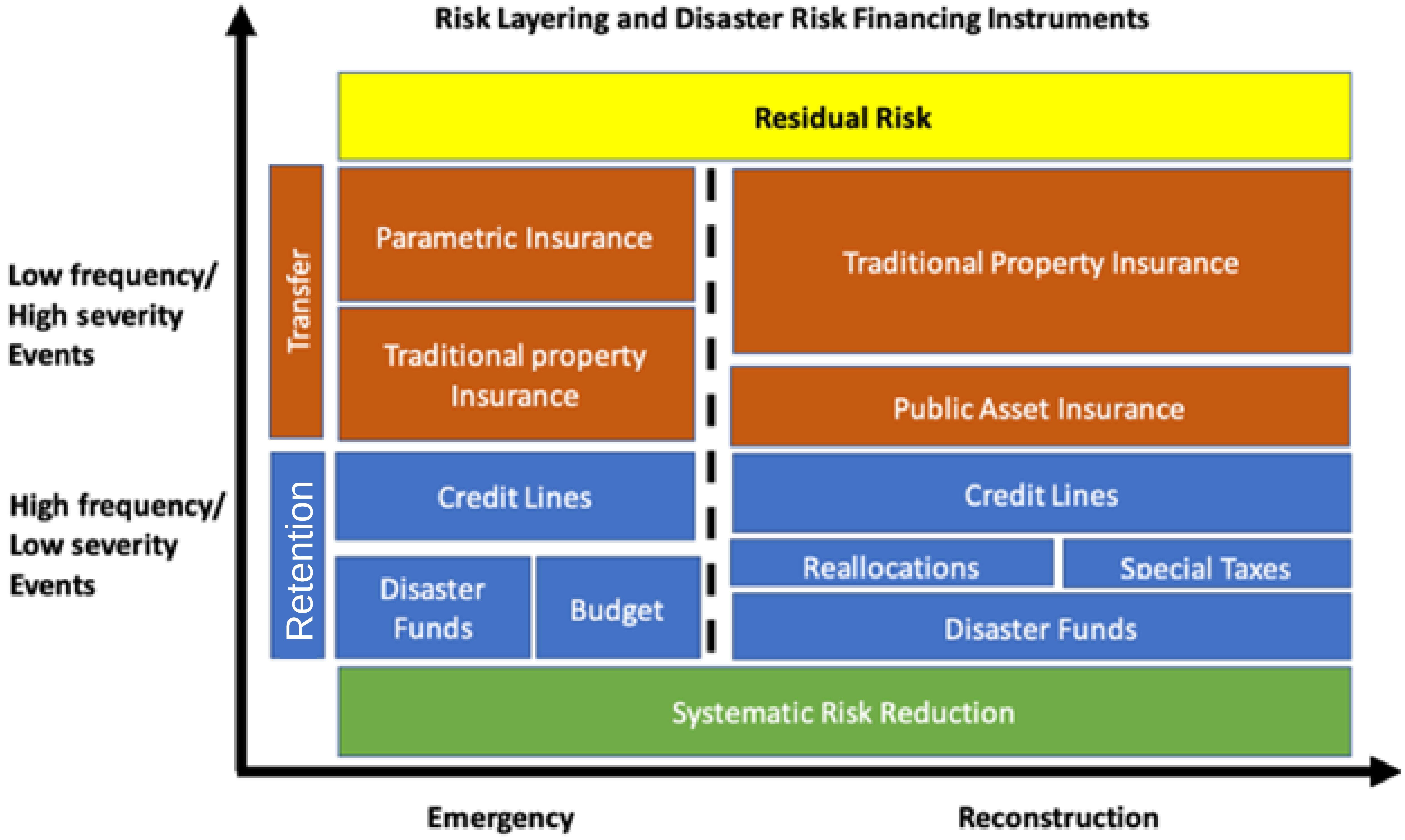
Strengthening Financial Resilience to Disasters 2024

What is my strategy?

Where do I find the resources?



Enhanced Preparedness and Crisis Response Toolkit

Expanding rapid response options

Public sector contingent financing	Market transfer instruments	Debt deferral mechanisms	Public sector emergency response financing	Private sector crisis response financing
Cat DDOs; DPF DDOs; IPF CERCs	Catastrophe bonds, insurance, and derivative products	Climate Resilient Debt Clause (CRDC)	Emergency IPF and Supplemental and Special DPF	Debt and equity instruments, covering short- and long-term needs (IFC)
Cat DDO size increase, scaleup; IPF DDO; Rapid Response Option	Option to embed in loan or financing operation	Limited to 45 IBRD/ IDA small states and small island economies	Multiphase Programmatic Approach (MPA) for crisis response	Guarantee instruments, including for working capital and trade finance purposes (IFC, MIGA)

The Cat DDO

Catastrophe Deferred Drawdown Option

Development Policy Financing for IDA and IBRD Members

- Strengthens the Disaster Risk Management Framework

Catastrophe-linked Deferred-Drawdown Option

- Linked to the implementation of DRM reform program
- Contingent credit approved for initial 3 years with options to renew
- Funds can be withdrawn when a disaster occurs (natural or health related), triggered typically the country's declaration of a state of emergency
- Approved disbursements are usually made within 48 hours of request and provide budget support liquidity

Financing Opportunities with Enhanced Toolkit

- New Cat DDO: Maximum volume doubled to US$1 billion or 0.5 percent of GDP (whichever is lower) for IBRD and US$500 million or 1 percent of GDP (whichever is lower) for IDA. **Small states may be able to access up to US$40 million**

- Existing Cat DDO (in good standing): Can be scaled up to as much as 100 percent of original amount

World Bank Risk-Transfer Solutions:

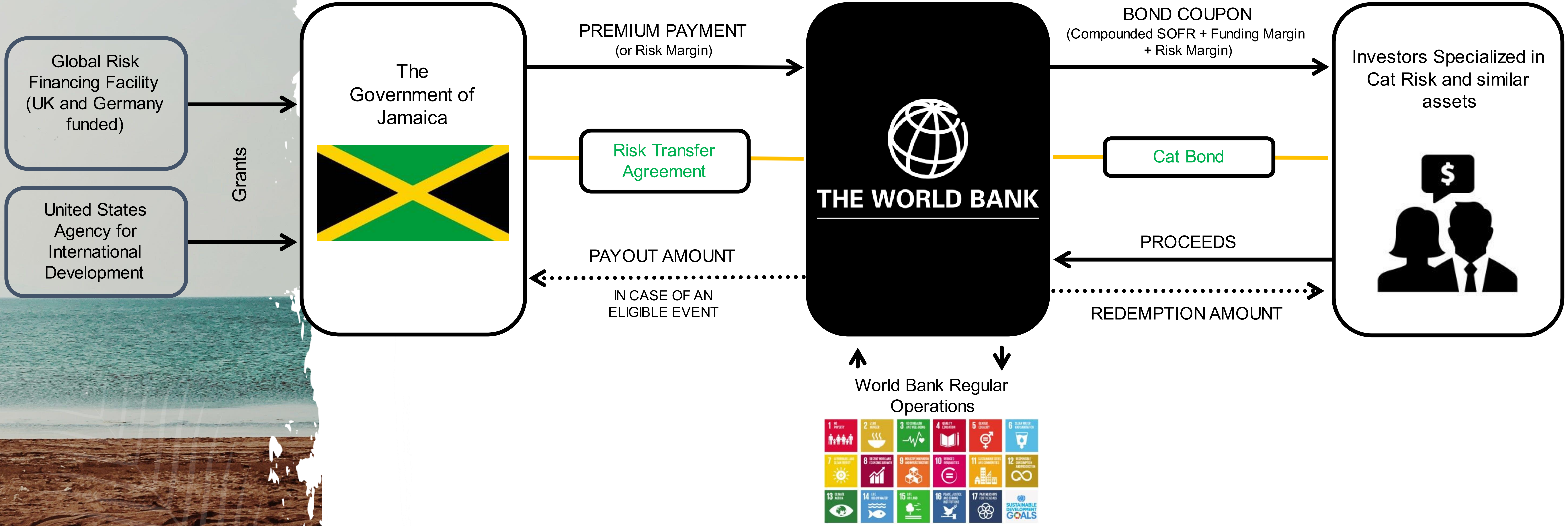
Cat bonds and cat swaps

- Cat bonds and swaps transfer cat risk to international markets
- The World Bank enables client access to cat bond markets
- The World Bank hires lead managers/structuring agents, modeling firm, etc.
- First transaction: 2014 CCRIF cat bond
- $6B of risk transfer of which $4B in cat bond form
- Complements loans and contingent financing (does not use lending envelope)
- Now more accessible with the enhanced crisis toolkit

Client	Peril	Amount/ million USD
CCRIF	Earthquake & Tropical Cyclone	204
Malawi	Drought & Maize Prices	19
Mexico	Earthquake & Hurricane	1,450
PCRFI	Earthquake, Tsunami & Tropical Cyclone	232
Uruguay	Drought & Oil Prices	450
Global	Pandemic	425
The Philippines	Earthquake & Tropical Cyclone	595
Pacific Alliance	Earthquake	1,360
The Philippines	Earthquake & Tropical Cyclone	225
Jamaica	Tropical Cyclone	185
Chile	Earthquake	630
Total		**5,775**

How it works:

Jamaica example



Analytics are at the Heart of the World Bank Disaster Risk Financing Program in the Caribbean 2014-2024

26
Countries
territories

Technical Support Since 2014

(13/15 Caribbean countries)
(13/13 OCTs)

~US$67M

Donor Financed DRF work

(~US$54 RE)
(~US$13 BE)

Results

- 9 Countries, plus all OCTs, have **DRF Diagnostics/Analytics**
- 6 Countries, plus Monserrat and SXM, have **DRF Strategies**
- 8 Countries and 5 OCTs received support towards resilient PFM, Budget **Stress testing, Risk-Based Asset Management**, & **other policy measures to strengthen fiscal resilience**
- 6 Countries and 1 OCT acquired **new DRF instruments** (Cat DDOs, Cat Bond, CCRIF, CCRIF COAST fisheries)
- 12 ODA countries in the Caribbean acquired a 30% **increase in climate risk coverage** (XSR and TC) from CCRIF during the EU program period (2020-2023)

Final messages

- Governments need to understand their risk to better manage contingent liabilities
- No single instrument can address the financing gaps, a portfolio approach can optimize complementary coverages and features
- Tailored DRF strategies for each country are dynamic and should be updated regularly

Strengthening Financial Resilience to Disasters

2024