Disaster Risk Financing : Why Its Needed

Build Back Better

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Presentation Outline

A.	**THE CHALLENGE**	
i	• Global Impact of Natural Disasters	
ii	• Natural Disasters – The Jamaica Experience	
B.	**OUR RESPONSE**	
i	• Comprehensive DRM Strategy Pursued	
ii	• Jamaica's Choice of Financing Instruments	
C.	**GOING FORWARD**	
i	• Disaster Risk Financing- Why	
ii	• Role of International Partners	
D.	**CONCLUSION**	

THE CHALLENGE

Global Impact of Natural Disasters

- According to the 2020 Ecological Threat Register (ETR), globally there has been a tenfold increase in the number of natural disasters since the 1960s.

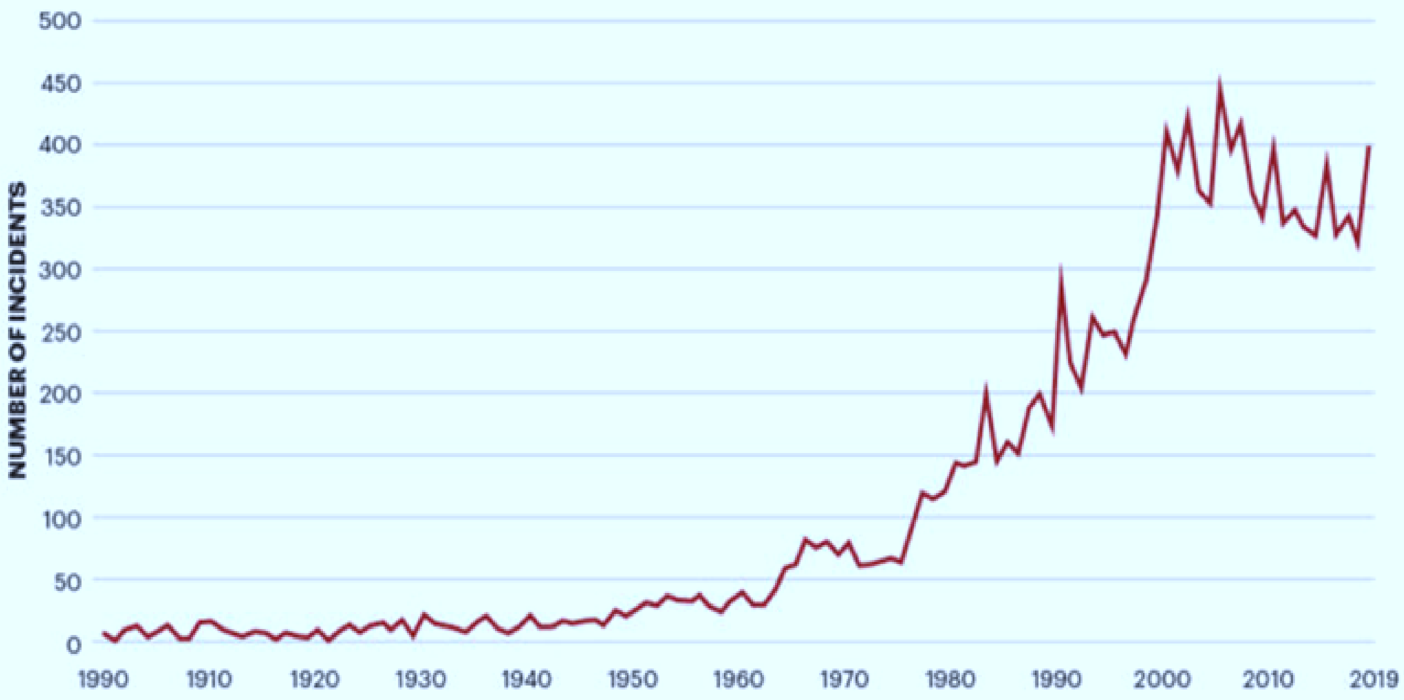
- Annually, natural disasters cause hundreds of billions of dollars in losses – and the cost is rising – as climate change creates a more volatile weather system in which hurricanes and other climate-related disasters are becoming more frequent and intense.

- Urbanization is also contributing to the increase in losses, as the concentration of people and assets in unplanned developments increases exposure to natural disasters.

- Average total losses from natural disasters are increasing faster than insured losses globally, resulting in a growing protection gap.

- The increasing frequency of natural disasters and the losses associated with them are graphically highlighted in the next slide.

Increasing Trend in Frequency of Occurrence of Natural Disasters



Source: EM-DAT

Note: Includes Drought, Earthquakes, Volcanic activity, Mass movement (dry), Storms, Floods, Landslides, Wildfire and Extreme temperature.

Natural Disasters - The Jamaica Experience

- Like most Caribbean territories, Jamaica is highly exposed to natural hazards, such as earthquakes and hurricanes. As a result of its location in the Atlantic Hurricane Belt, the country is frequently under threat from Tropical Cyclones.

- Over the last three decades, Jamaica has been affected by more than thirty tropical cyclones, including hurricane Ivan in 2004 which accounted for losses of US$580 million, equivalent to 8% of GDP[1].

- The losses caused by hurricane Gilbert, which struck Jamaica in 1988, were far greater. It is estimated that this destructive hurricane accounted for losses equivalent to 65% of GDP[2]. It essentially flattened Jamaica, moving right through the middle of the island.

- The World Bank in 2018 estimated that Jamaica faces probable maximum loss from hurricanes of US3.5 billion or 23.5% of GDP, while the annual average loss from hurricanes is assessed to be US$67.3 million, equivalent to 0.4% of GDP[3].

- Despite improvements in protection from natural disasters, total coverage of US$555.8 million in the first quarter of FY 2021/22 from the portfolio of financial instruments (IDB Contingent Credit, CCRIF, Contingencies Fund, and National Disaster Fund) remained inadequate, resulting in a significant financing gap.

[1,2] PIOJ Report on Hurricane Ivan, 2004

[3] Advancing Disaster Risk Finance in Jamaica, World Bank 2018

OUR RESPONSE

Comprehensive DRM Strategy Pursued

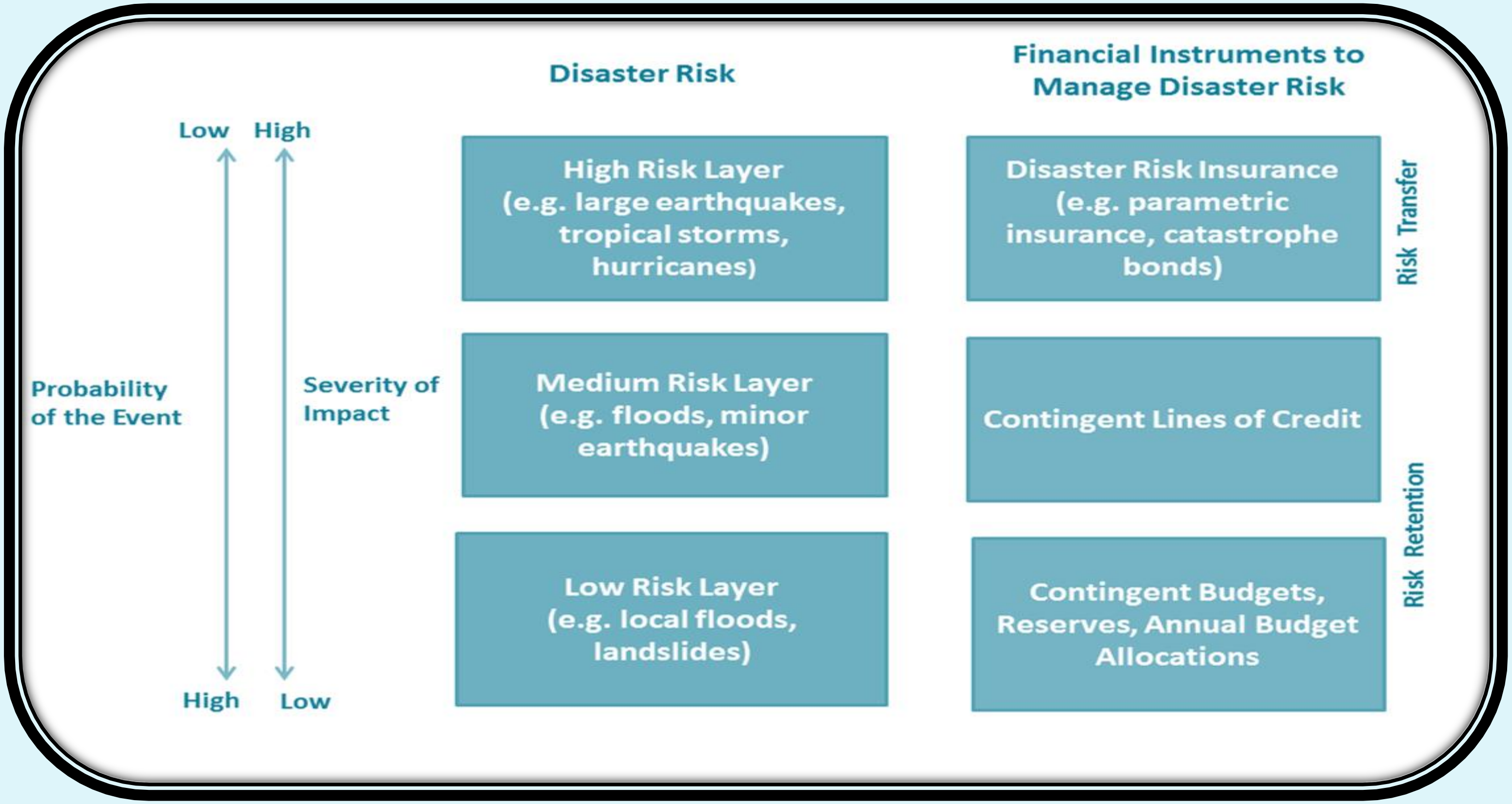
- Recognizing the need for a disaster management response, in light of the significant macroeconomic, fiscal and development risks that natural disasters present, the Government of Jamaica (GOJ), with support from the World Bank, embarked on a comprehensive strategy aimed at enhancing resilience to natural disasters and climate shocks. This came out of a Disaster Risk Reduction Project (DRRP) which proposed a number of actions over the short, medium and long term.

- A critical component of the strategy was the development of a National Natural Disaster Risk Financing Policy (NNDRFP) {which was tabled in Parliament during June of this fiscal year}, the primary objective of which is to enhance Jamaica's fiscal resilience to natural disasters.

- The NNDRFP promotes a multi-layered approach to disaster risk financing that combines risk retention and risk transfer instruments.

- Consistent with the policy, the GOJ is adopting a risk layering approach to financing natural disaster risks. This involves establishing adequate funds and reserves to retain those costs associated with high frequency, low severity events such as floods or heavy rainfall, and transferring risks related to low frequency, high severity events such as major hurricanes and earthquakes through the purchase of insurance instruments.

Multi-Layer Risk Approach to Financing Disaster Risk



Source: World Bank. February 2018. Advancing Disaster Risk Finance in Jamaica. World Bank: Washington, DC

Jamaica's DRF Instruments

- The Government of Jamaica (GOJ), supported by the World Bank and other international development partners, has put in place a menu of disaster risk financing (DRF) instruments over the last few years prior to COVID- 19 pandemic.
- Everything started with CCRIF SPC where Jamaica was a founding member back in 2007. However, DRF took on a greater sense of urgency (recall slide 5) because of the advent of climate change and the increasing frequency of these disaster events.
- Now, outside of the National Disaster Fund and CCRIF, prior to 2018, Jamaica had no other DRF instruments in place. Jamaica, as you know, had made significant strides in turning around its macro fiscal and debt trajectories with successive IMF programs.
- So, armed with the knowledge, that all those gains could be wiped out and the country set back, years or a decade, with just one major disaster, this incentivized the government to seek other DRF instruments to shore-up protection of the national budget and economy.

Jamaica’s DRF Instruments- cont’d

- National Disaster Fund managed by ODPEM/Ministry of Local Government
- Contingencies Fund currently has some $4.5bn for major natural disasters and is to be superseded by a new NNDRF.
- CCRIF SPC, offers insurance protection for major natural disasters (hurricanes and earthquakes) and also flooding from the risk of excessive rainfall. Coverage is US$201.2mn
- Contingent Credit Facility (CCF) which Jamaica has with the IDB, offers protection for major natural disasters (hurricanes and earthquakes). Coverage under this facility is approximately US$385.0mn
- Cat Bond which was launched in July 2021, offers protection from “wind damage” resulting from a hurricane of certain magnitude passing through “grids” or “boxes” with projected values. Coverage is US$185.0mn

GOING FORWARD

Disaster Risk Financing – Why?

- Now Climate Change has exacerbated the disaster risk reduction and development challenge, particularly for small developing states, as the frequency and intensity of extreme weather events has grown, making it harder to limit exposure and reduce vulnerability.

- Although rising financial losses from disasters continue to impact small developing states disproportionately, they remain constrained in their ability to implement ex ante risk transfer disaster financing.

- Nevertheless, it is absolutely critical that every country, particularly SIDS, examine its own vulnerabilities and begin to assess the implications for and impact on their budgets and economy.

- What are the likely implications if Jamaica had no DRF instruments in place and another "Gilbert" or "Ivan" came visiting?

Disaster Risk Financing – Why?

- First, the fiscal budget would be upended, meaning transformed from surpluses to deficits. More spending, less revenues.
- Second, the country’s debt profile would skyrocket, as the need to borrow would be significant.
- Third, the economy would be wiped out, creating a massive demand for imports as the BOP comes under pressure.
- Fourth, the increased debt will take a few decades to pay off, implying an increased tax burden on the present and future generations, so its inter-generational.
- It is therefore very important to have DRF in place, at least to dampen the shock on the budget and economy.

CONCLUSION

Conclusion

- Climate change and rapid urbanization have precipitated numerous disaster-related challenges that continue to undermine efforts to achieve sustainable development, locally and globally.
- International agreements, chiefly the Sendai Framework and the Paris Agreement, meticulously documented these challenges and, together, promulgated a broad framework of strategic responses.
- Jamaica embarked on its comprehensive disaster risk management strategy, covering financial, physical, and social resilience. The National Natural Disaster Risk Financing Policy is a critical component of this strategy. The policy promotes a multi-layered approach to disaster risk financing and is aimed at building fiscal resilience to natural disasters, which is an imperative to safeguard the hard earned gains achieved over recent years and entrench the country on a path to sustainable development.
- The Catastrophe Bond successfully launched by Jamaica, supported by international partners, complements the suite of disaster risk financing instruments and narrows the country's disaster risk financing gap.
- Jamaica has indeed come a far way, but there is much more work to be done. We cannot get complacent as we are now in the era of " climate boiling" which means more dangerous natural disasters are around the corner.

End of Presentation

THANK YOU!