Webinar Series on the Framework for Resilient Development in the Pacific (FRDP) and the Pacific Resilience Partnership (PRP).

Webinar 3: Expect the Unexpected: The Rainy-Day-Saving Approach

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Summary

Introduction

Disasters are exacting an increasingly heavy cost particularly in terms of fiscal pressures and economic losses to the Pacific countries and territories. The COVID-19 pandemic is compounding such pressures and as governments move to alleviate the impact of such compound crises, the squeeze on their finances intensifies. The theme of the webinar: *'Expect the Unexpected: Saving for a Rainy Day'* put a strong emphasis on sound disaster risk financing and the need for countries to invest in fit for purpose/context financial protection measures to help ensure that development in the future is more resilient and can adequately address the various shocks and stresses ushered in by natural and other hazard events.

The webinar was co-organised by the Pacific Catastrophe Risk Insurance Company (PCRIC), Pacific Community and Pacific Islands Forum Secretariat under the auspices of the Pacific Resilience Partnership (PRP) through its Risk Finance Technical Working Group (TWG). It aimed to pave the way for future exchanges and learning, particularly for Pacific island countries and territories, on different aspects of financial resilience building.

Background

Moderator and Pacific Community (SPC) Deputy Director General, Dr. Audrey Aumua as part of her opening remarks emphasized the need for enhancing awareness and understanding of the importance of building financial resilience to respond effectively to disasters, thus saving lives, reducing socio-economic loss and achieving sustainable development at all levels. The webinar was a means to trigger continued discussion and interaction particularly during these times where Pacific countries and territories are being faced with multiple hazards that are putting pressure on already strained government resources and finances.

Summary of Discussions and Interventions from Panelists

John Plevin, a Financial Sector Specialist working with Crisis and Disaster Risk Finance global team at the World Bank shared that the impact of disaster risk around the world is being magnified by COVID-19 with governments and households having less money due to reduced economic activities, and thereby reducing their ability to respond in a timely and effective manner when disasters do happen. John likened the COVID-19 to dealing with an

'unknown-unknown'. Financial resilience to 'unknown-unknowns' would require strong public financial management (PFM), transparency and planning backed with finance to enable fast and focused responses that would mean lower economic and human costs and inspire greater confidence for increased investments and economic activity. It also calls for layered financial strategies as no single financing instrument is going to be sufficient for all risks. For more frequent disasters, a budget line would be sufficient. For less and less frequent disasters, putting aside some money in a disaster fund might be more appropriate. For huge and not so frequent disasters, a contingent line of credit might be more useful or insurance. Equally important is the mutual support with the private sector including developing insurance markets that allow households or businesses to become financially resilient. However, while there are these technical approaches around financing, there is also a political dimension: what are the priorities; who pays and for what? Do we have the will to provide the financing to address the technical solutions? Advancing technology is making it easier to address the challenges of associated with disaster risk financing. In the Pacific the World Bank is working with PCRIC[1] to develop a better understanding of rainfall and drought.

One area that is receiving increased demand and growth globally with huge support from donor countries is *risk pooling*. PCRAFI[2] is an example. Other examples include the African Risk Capacity, which has been insuring governments but is now also insuring civil society organisations. SEADRIF[3] will soon be launching insurance for flood risk for south Asian countries and working to improve the understanding of risk financing. There's also the CCRIF[4] which is developing new products to meet different needs such as fisheries insurance.

In concluding John spoke to a challenge facing the Pacific. He questioned: what can we learn from experience locally and from around the world? There are support and facilities in place. How can Ministries of Finance get the most from these supporting organizations? What do countries need? Is there coverage of new risks from insurance, new products entirely or is it just greater technical support and information?

Litea Biukoto, the Disaster Risk Team Leader for the Disaster and Community Resilience Program in the Geoscience, Energy and Maritime Division at the Pacific Community (SPC) highlighted that the Pacific is one of the most at-risk regions globally with Vanuatu topping this list for at least the past six years according to the World Risk Index. Litea pointed out that the World Risk Index, takes into account: *exposure*, in terms of exposure of population, assets and infrastructure and also *the ability of countries to cope or adapt* to disasters. The initial risk profiles developed under PCRAFI also considered the same parameters. A massive investment was made to produce information and the tools that could help inform risk reduction measures.

This included an asset inventory to quantify and value the building and infrastructure stock in the region which is also critical to inform any financing strategy that needs to be taken. SPC is currently working with various partners including the Pacific Regional Infrastructure Facility and Pacific Financial Technical Assistance Centre to develop data standards in order to maximize the use of asset inventories by the national ministries of finance and infrastructure. Under PCRAFI, a range of country scale hazard maps were produced and used to model tropical cyclone, earthquake and tsunami risk. These hazard maps along with exposure and risk

[1] Pacific Catastrophe Risk Insurance Company
[2] Pacific Catastrophe Risk Assessment & Financing Initiative
[3] Southeast Asia Disaster Risk Insurance Facility
[4] Caribbean Catastrophe Risk Insurance Facility

maps are open datasets and available online for people to access. Litea stressed that the narrative around risk-informed development or evidence-based decisions making is based on risk information. There is a need to understand what those risks are in order to minimize or treat them.

Daniel Lund, Special Advisor on Climate Change with the Ministry of Economy in Fiji highlighted that there is still a high level of dependency of Pacific island countries on international financing in the form of discretionary aid or aid via established crisis windows offered by international organizations. This is not a sustainable or reliable way to finance response or recovery especially as countries all around the world all face the increasing impacts and costs of disasters and the Pacific must ultimately compete for funds and support. As a result, Pacific island countries have been moving as much as possible towards ex-ante financing arrangements. For instance, various Pacific island countries have set up some form of national reserve fund. These reserve funds have had different challenges. In some cases, funds are setup but not necessarily topped up consistently, meaning that there's not necessarily enough liquidity for national reserve funds to offer a legitimate way to respond to disaster events. There has been some recent diversification to the way that countries approach disaster risk financing in recent years. In addition to national reserve funds and discretionary aid Pacific island countries have set up contingent financing agreements with international finance institutions such as the World Bank and the Asian Development Bank. Daniel emphasized the importance of ensuring that efforts to increase the uptake and use of disaster risk finance and climate risk financing instruments are focused on creating credible social benefits and that social protection indicators and objectives should be built into risk financing strategies and products. One example would be micro-insurance that looks at ways of improving the social services and safety nets that are available to people. We should promote approaches to risk finance that capitalize on the agency of people and communities and entrust them to make decisions over the use of resources so that they can action to support themselves when disasters strike. Due to constrained resources and isolation of communities it's important that we establish methods to use communications and financial technology to make payouts directly to people, so there is option to deploy funds instantly to communities when required. To strategize arrangements, it is important to promote a strategic mix of micro insurance and sovereign-level cover.

Aholotu Palu, the CEO of the Pacific Catastrophe Risk Insurance Company (PCRIC) shared what PCRIC had to offer as a regional risk pool company. PCRIC was established in 2016 as a captive insurance company which operates a parametric insurance product that provides short term liquidity to countries in the immediate aftermath of disasters caused by cyclones, earthquakes and tsunami. By doing so, the insurance coverage alleviates pressure on national governments to meet post disaster funding requirements, in particular, to meet immediate relief needs.

PCRIC, first, offers additional financial capacity to countries. Through the sovereign risk pool that it manages, PCRIC is able to help countries address immediate financial needs following a disaster. As a captive insurance company PCRIC forms the nexus between risk retention and risk transfer, allowing members to efficiently transfer excess risk to international markets. For example, Tonga received USD4.5 million from PCRIC following Tropical Cyclone Harold in 2020PCRIC can also assist countries in terms of integrating considerations around disaster risk into their national systems with significant opportunities for the company to support market

development, institutional and capacity building in the area of disaster risk finance and public finance management. The reality is that insurance does not solve all the disaster risk management finance needs and is only sensible financially for low frequency, high impact events. Further emphasizing what the other panellists have said, Aholotu stated that disaster risk finance requires a layered and coordinated approach starting with a country's contingency savings, the use of concessional loan facilities such as those offered by the World Bank and ADB (where it makes sense to borrow) and also national disaster insurance where it makes economic sense in terms of low frequency, high impact disasters. Thirdly, PCRIC also assists countries with product development.

Aholotu highlighted that for countries to be more financially resilient they will need to develop an inclusive and comprehensive disaster risk finance strategy. Secondly, investing in data and making it readily available to stakeholders is also important to enable such stakeholders to support countries for more targeted risk finance instruments. Thirdly, countries need to ensure that their disaster risk financing strategies are an integral part of their national sustainable development agendas.

Lilomaiava Samuel Ieremia the Assistant CEO Economic Policy and Planning at the Ministry of Finance, Samoa highlighted that Samoa is now developing a Samoa Disaster Risk Financing Strategy building on existing strategies and consolidating the financial instruments that Samoa has accessed. The lessons learnt from the response to the measles epidemic and more recently with the COVID-19 pandemic has emphasized the need for rapid mobilization of resources and for government to be able to reach and respond to people in need. COVID-19 has provided the opportunity to really look at existing financial instruments and the responsiveness of national systems. One of the changes made is mandating, in the Procurement Operating Manual, that once a State of Emergency (SOE) has been declared, there is an opportunity to relax most of the procurement processes, 'Procurement may be conducted through direct invitation (for goods, works and general services) or single source (for consultancy services) so long it is for the purposes or within the scope of the SOE'. Samuel further reiterated the importance of having robust Public Financial Management (PFM) systems, a reform that Samoa undertook two or three decades ago and is continuing to learn and build on. Samoa has incorporated climate and disaster risk resilience as part of its national development strategy. The Disaster Risk Finance Strategy will guide the effective and efficient use of resources. The approach undertaken to formulate the strategy has been inclusive of the private sector and communities. One of the important areas that needs further work is to discuss suitable insurance products with insurance companies nationally or regionally. The government of Samoa is also working through the sector-wide approach to mainstream disaster risk which is really critical in building resilience in the respective fourteen (14) identified sectors in its economy.

Question and Answer Session

The panel was queried on the kinds of *micro insurance products* that were available. In response, Daniel Lund highlighted that social protection is a broader issue s. Social protection various between countries, but generally in the Pacific most countries are investing between 1 to 2 % of GDP into social protection, excluding healthcare. Looking at healthcare in general, on average PICs are spending around USD500 per person/year which is about 50% of the global average. So, when thinking about disasters events, there is some rationale stemming

from the COVID19 experience, and other reasons, to broaden that discussion to include the gaps that drive the vulnerability of people. It is also important to look at the role that government can play in specific social protection actions on disasters, given many communities that are directly vulnerable to disaster events and in a lot of cases are in remote locations. So, the need to provide agency to people to be able to respond to disaster events is important. In the Pacific there are some initiatives on micro insurance but in general, there is very low level of insurance penetration across the Pacific. All these things add burden to the government when disasters strike because people don't have those additional safety nets to help them respond or basically make them safer. Some key questions that need to be asked include: *What are the barriers to Insurance? Why can't we access the right types of reinsurance? Can we start looking at larger insurance pools across similar communities? Can we start highlighting specific demographics that should have subsidized insurance where the government puts in a portion*?

In response to a question on *the ideal financing options the region should be exploring to avoid adding to their debt burden and how PICs will get funds to save up for a rainy day in the midst of competing priorities at the national level,* John Plevin highlighted that the distinct stages of traditional disaster response logic – shock followed by response followed by recovery – are harder to delineate in the Pacific. Some are hit by a disaster whilst still in the stages of recovery from a previous disaster and creates a conundrum on how public funds are used. A suggested approach is to start from what you want to protect and work backwards from there. It is also important to understand that financial instruments are effective only if they support plans and rapid action and ensure that the economic impact of the short, medium and long term of natural disasters will be lower and economic activity will be higher.

Wrap-up

The webinar has provided an opportunity to hear and learn of what is happening in the region and globally. The discussion has highlighted that 'Saving for a rainy day' is much more than just making a financial investment. It also highlighted the need to keep a track of developments and opportunities. It is also about building a deep understanding of risk and its implications. Strategic planning to minimize risk and to invest accordingly are equally as important. Building on existing mechanisms such as PCRIC and the PRP are also an important consideration. It has also highlighted the importance of national Ministries of Finance taking an active lead in the disaster risk financing space with their DRF strategy development work. There is also so much more to learn from the reality of how our countries in this region are reacting and building tools. The PRP TWG on Risk Finance provides a means to come together to discuss further on these issues.

Meet the Panelist

Webinar 3

Expect the Unexpected: The Rainy-Day-Saving Approach

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