



## Session II. Working Together Toward A Disaster Resilience Strategy

The recent IMF Policy Paper “Building Resilience on Developing Countries Vulnerable to Natural Disaster” views disaster risk management through the lens of a coherent three-pillar strategy for building structural, financial, and post-disaster resilience in a fiscally sustainable way. Multilateral, bilateral and other development partners offer various forms of support to disaster-vulnerable countries, but many countries have limited capacity to take full advantage of this support; some available financing can also be difficult to secure. A comprehensive and nationally-owned Disaster Resilience Strategy (DRS) could anchor targeted and coordinated international support which would be needed to define, develop, and implement the DRS. The panel will include an update from the countries where a DRS is being piloted (Grenada and Dominica). The update will touch on what works and challenges in developing the DRS, including capacity issues, and steps to move forward.

Moderator: Krishna Srinivasan, Deputy Director, IMF

Panelist 1: Simon Stiell, Minister for Climate Resilience, the Environment, Forestry, Disaster Management, and Information, Grenada

Panelist 2: Rosamund Edwards, Financial Secretary, Dominica

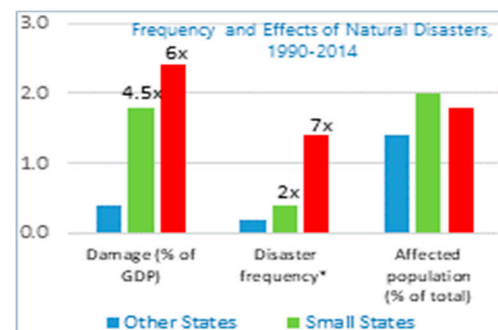
Panelist 3: Justin Ram, Chief Economist, CDB

Panelist 4: Joy Grant, Governor, Central Bank of Belize

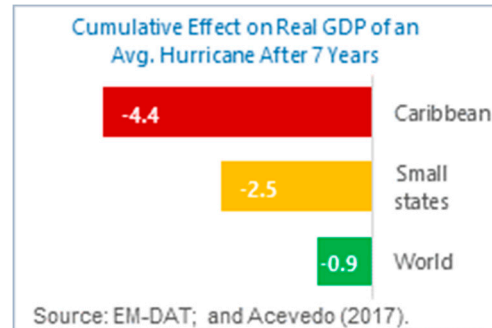
Panelist 5: Robert R. Taliercio, Regional Director, Equitable Growth, Finance and Institutions, Latin America and the Caribbean, The World Bank

### I. The Problem

**The Caribbean region is highly vulnerable to frequent and costly natural disasters.** The region was 7 times more likely than large states to be hit by natural disasters, compared to 2 times for small states, and the average estimated disaster damage was 6 times higher than for large states. For some countries, the damage well exceeded the size of the economy (e.g., more than 200 percent of GDP for Dominica and 150 percent of GDP for Grenada following the 2017 and 2004 hurricanes). With large shares of the region’s population living in high-risk areas with weak infrastructure and their heavy dependence on a few weather-sensitive sectors, climate change is expected to exacerbate these vulnerabilities.



**Natural disasters are macro-critical.** In addition to human life, major disasters take a toll on growth prospects, erode fiscal buffers, and perpetuate the vicious cycle of high debt-low growth in which many Caribbean economies are trapped. Massive reconstruction costs also take away scarce resources from development/social spending.



**Caribbean countries currently rely more on ex-post external assistance to recover from disasters.** Important steps have been taken to build capacity to respond rapidly to disasters, including by establishing regional agency for coordination of emergency response, strengthening national agencies, and setting up contingency funds in several countries. However, reducing the human and economic cost of natural disasters and climate risks requires a shift in policy focus toward ex ante resilience building and a comprehensive disaster risk management strategy.

**Despite the substantial payoffs, resilient investment gaps are large and less coordinated across countries in the Caribbean.** Recent IMF work on ECCU countries shows that resilient public capital would increase potential output by 3–11 percent, with a growth dividend of 0.1–0.4 percent per year. However, the joint World Bank-IMF Climate Change Policy Assessments (CCPA)—a diagnostic tool to analyze and develop a policy response to expected economic impact of climate change—for [Belize](#), [Seychelles](#) and [St. Lucia](#) estimated that investments of about 2 to 3 percent of GDP per year for at least 10 years would be needed to close the resilience investment gap. Limited investment in physical resilience reflects, in general, lack of fiscal space and/or private financing as well as insufficient international funding. Weak incentives also play a role, with both donors and recipients finding it difficult to pre-commit to a long-term resilience strategy that involves up-front costs, with benefits that are visible only in the long-term.

## II. A Possible Solution

**In a recent IMF [policy paper](#), we make the case for vulnerable countries to develop nationally-owned Disaster Resilience Strategies (DRS).** The DRS is a comprehensive framework to build resilience against natural disasters, fitting it within a medium-term macroeconomic policy framework that is consistent with maintaining fiscal sustainability. In particular:

- A holistic DRS rests on three complementary pillars: (i) *structural resilience* (investments in physical infrastructure to limit the impact of disasters), (ii) *financial resilience* (fiscal buffers and pre-arranged financial risk-transfer instruments and credit lines to protect fiscal sustainability), and (iii) *ex-post/social resilience* (contingency planning and related investments to ensure an efficient disaster response with minimal disruption to public services).

- Drawing on support from IFIs and other stakeholders, and grounded on clear diagnostics (such as the CCPA), a DRS would provide a roadmap for policy design, costing, sequencing, and anchoring the support from development partners. In addition to countries' own efforts to create fiscal space (e.g., improving revenue mobilization and/or prioritizing expenditures), a credible DRS could help catalyze higher levels of financial support from bilateral donors, climate funds, and other sources.

### III. DRS Pilots in Dominica and Grenada

In collaboration with the governments, IMF, and the World Bank, as well as other stakeholders, the DRS is being piloted in Dominica and Grenada. Lessons from the experiences from these two pilots will help fine-tune the product and processes as we move forward.

**Dominica: The government is making progress and developing a DRS that is integrated into the broader natural disaster resilience strategy.** The DRS initiative was discussed and agreed with Prime Minister Skerrit during the IMF's DMD Zhang visit to Dominica in February 2019. The government has been making progress on its resilience and preparedness policies, including resilient infrastructure investments. It has also been working on a plan to identify policies and cost of "making Dominica the first disaster resilient state", a national objective set forth by the Prime Minister and in the National Development Strategy. A key enhancement has been the establishment of the Climate Resilience Agency of Dominica (CREAD) in 2018. It is a DFID-funded technical agency tasked with identification, planning, costing, and execution of large investment projects and policies for resilience. Its plan is organized in ten priority areas with itemized costs and targeted timelines.

**Fund staff has collaborated with the authorities with macro-fiscal analysis of the government plans to build resilience and is supporting production of a DRS draft.** The DRS incorporates government estimated costs in a comprehensive macroeconomic framework, including physical, financial and social resiliency—the three DRS pillars. This effort is part of ongoing collaboration, policy dialogue, and technical support, building on previous analysis and policy advice in the 2019 Article IV Consultation, 2018 ECCU Regional Consultation, and several analytical pieces on cost-benefit analysis of public investment in resilient infrastructure, and estimates of the economic impact of climate change. Staff has also produced analysis on catastrophe insurance level and composition, within the World Bank insurance layering framework. The Government's preliminary estimates indicate that the total cost of resilience is in the range of US\$2.3-2.7 billion (about 4-5 times GDP). Staff assessment indicates that administrative, execution and financial constraints imply the plan would require over 2 decades for implementation, even with high public investment rates of over 15 percent of GDP per year. In addition, it would require donor support of around US\$50 million per year (10 percent of GDP) to ensure Dominica remains fiscally sustainable, about 5 times larger than observed in recent years.

**Grenada: The DRS is being prepared based on the CCPA, which was completed in June.**

The accompanying 2019 Article IV Consultation report contained macroeconomic scenarios that accommodated its resilience-building recommendations, including scaling-up capital spending projects by 3 percent of GDP annually over the next decade. The CCPA also recommends building insurance layering protection of up to 10 percent of GDP, which appears feasible if Grenada's robust CBI inflows continue. In parallel, IMF technical assistance reviewed Grenada's fiscal rules with a view to facilitating resilience-building in a responsible way. More recently, a draft DRS document has been prepared to map the CCPA takeaways into the three DRS pillars and corresponding operational steps. The key element that remains to be assessed is capacity building needs: staff is currently collaborating with the Ministry of Infrastructure Development and Implementation in assessing the capacity requirements for implementing the scale-up in spending. Staff has also been collaborating with the World Bank to align the draft DRS with its current operations in the areas of the blue economy, disaster risk financing strategy, and insurance layering, including the forthcoming US\$20 million CAT DDO and operationalization of a National Transformation Fund's contingency fund.

**Operationalizing the DRS would require an intensification of engagement with and within Grenada's government.** In the absence of a single agency dedicated to all aspects of resilience-related measures, the DRS would be a focal point of interagency collaboration, primarily between (i) the Ministry of Finance; (ii) Ministry of Climate Resilience; and (iii) Ministry of Infrastructure Development and Implementation. In addition, Grenada's new 2020-35 Development Plan, which would be implemented through successive 3-year Medium-term Action Plans would include the key components of the DRS and be consistent with the relevant budget documents. Such coordination should aim to avoid duplication and establish an effective platform for approaching donors for the needed inflows of concessional financing and closing capacity gaps.

#### IV. Capacity Building

**Capacity constraints are a uniform hurdle that most small disaster-vulnerable countries face as they endeavor to become more resilient to natural disasters.** In addition to technical skills, domestic capacity and resources are stretched thin to manage their engagement with multiple development partners (often with diverse agendas) and financial markets. This is compounded by the high turnover in government positions, which creates inconsistency in leadership, technical skills and ownership.

**Thus, significant capacity development is likely needed to develop and implement the components of a DRS.** The World Bank has already been playing a key role in providing policy and technical assistance across the three pillars of the DRS. The IMF has been helping countries integrate resilience-building plans into their macro-fiscal frameworks and assess fiscal sustainability in the context where costs are upfront while benefits accrue in the medium/longer term; specific areas where capacity development can be supported are noted

in the IMF's [policy paper](#). In addition, CARTAC's work program now embraces capacity building for climate resilience, including developing policy frameworks that internalize the cost of natural disasters in macroeconomic frameworks and debt sustainability analysis, and strengthen capacity to access insurance and financial markets to manage disaster risks. Under the DRS, close cooperation and coordination will be essential across multilateral and development partners to provide consistent advice and enhance the absorptive capacity of the country.

## V. Issues for Discussion

1. Does the 3-pillar approach of the DRS provide the necessary framework to think through building resilience systematically and holistically?
2. Pilot countries: What is your experience so far with developing a DRS? What are the pluses and minuses based on your experience so far?
3. How does one integrate the private sector, particularly insurers for households, into the DRS? How does one integrate regional stakeholders?
4. Relatedly, how to increase the level of insurance cover of countries, be it in CCRIF or other forms of insurance?
5. How does one juxtapose the DRS against a country's Fiscal Responsibility Law, and abide by FRL targets? What mechanisms are needed for consistency?
6. How does spending for resilience get ramped up in the context of capacity, absorptive and administrative constraints?
7. Which agency in government is responsible for the construction and implementation of the DRS? What coordination mechanisms are needed for timely and streamlined implementation?
8. What considerations should drive prioritization and sequencing of resilience projects? Completing small/low-hanging fruits is typically the first to pursue; but they won't bear the necessary results. But larger projects take more time and money. How does one prioritize spending on specific projects?
9. Is there scope for a regional approach for development partners to have standard PFM requirements across all countries to accelerate disbursement of resources?