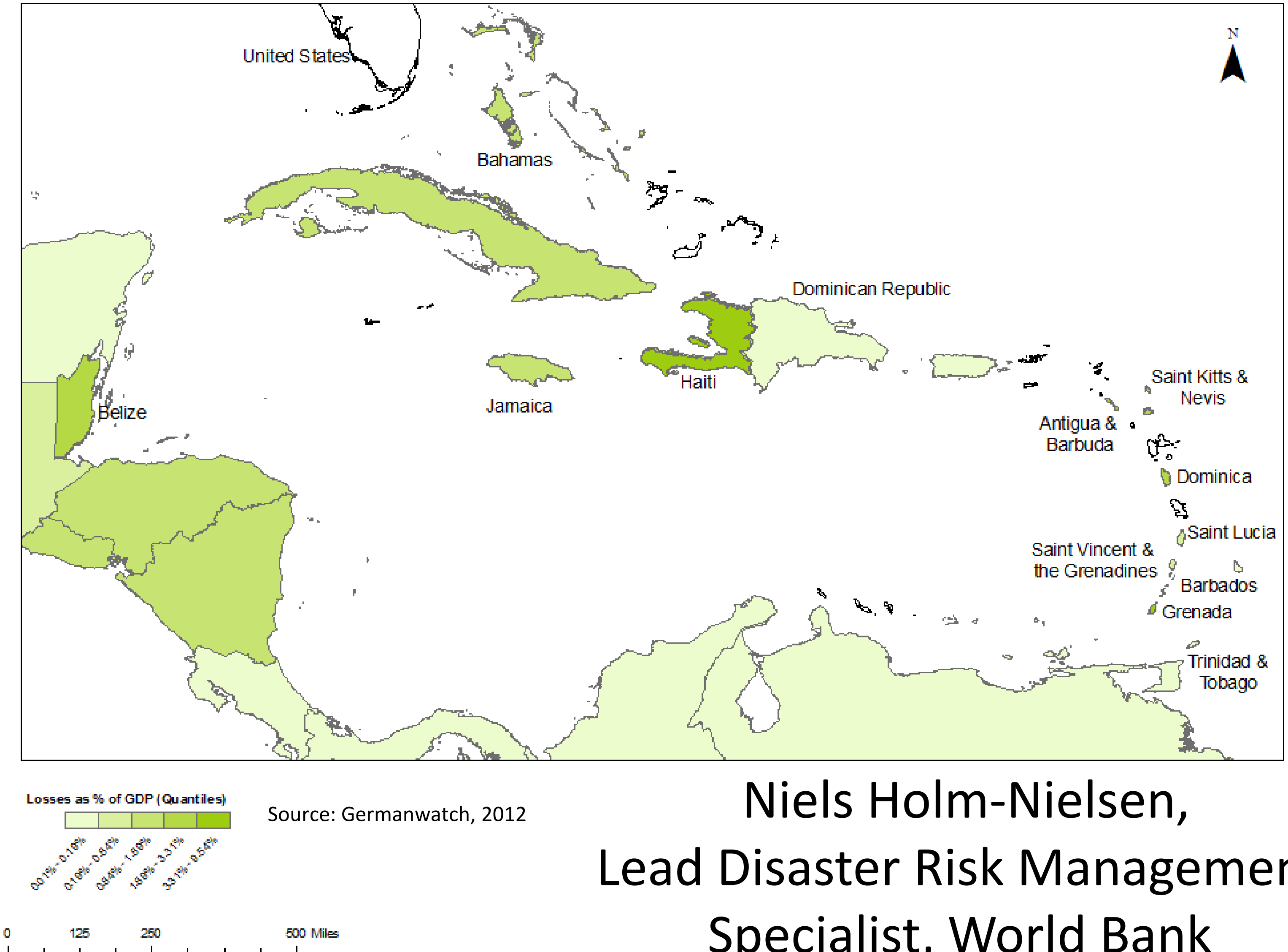
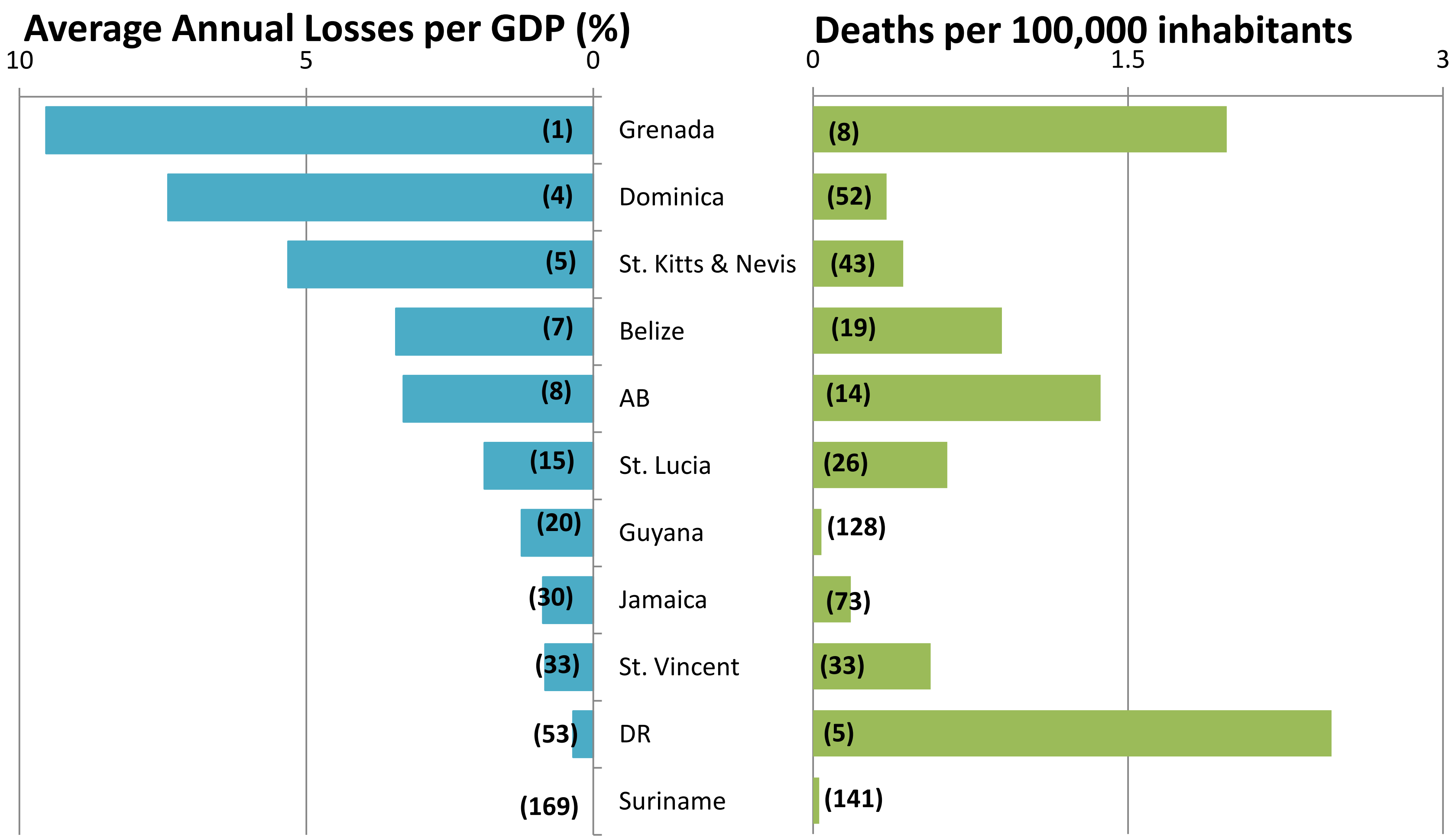
Fiscal Risks Related to Catastrophes in the Caribbean



Source: Germanwatch, 2012

Niels Holm-Nielsen,
Lead Disaster Risk Management Specialist, World Bank

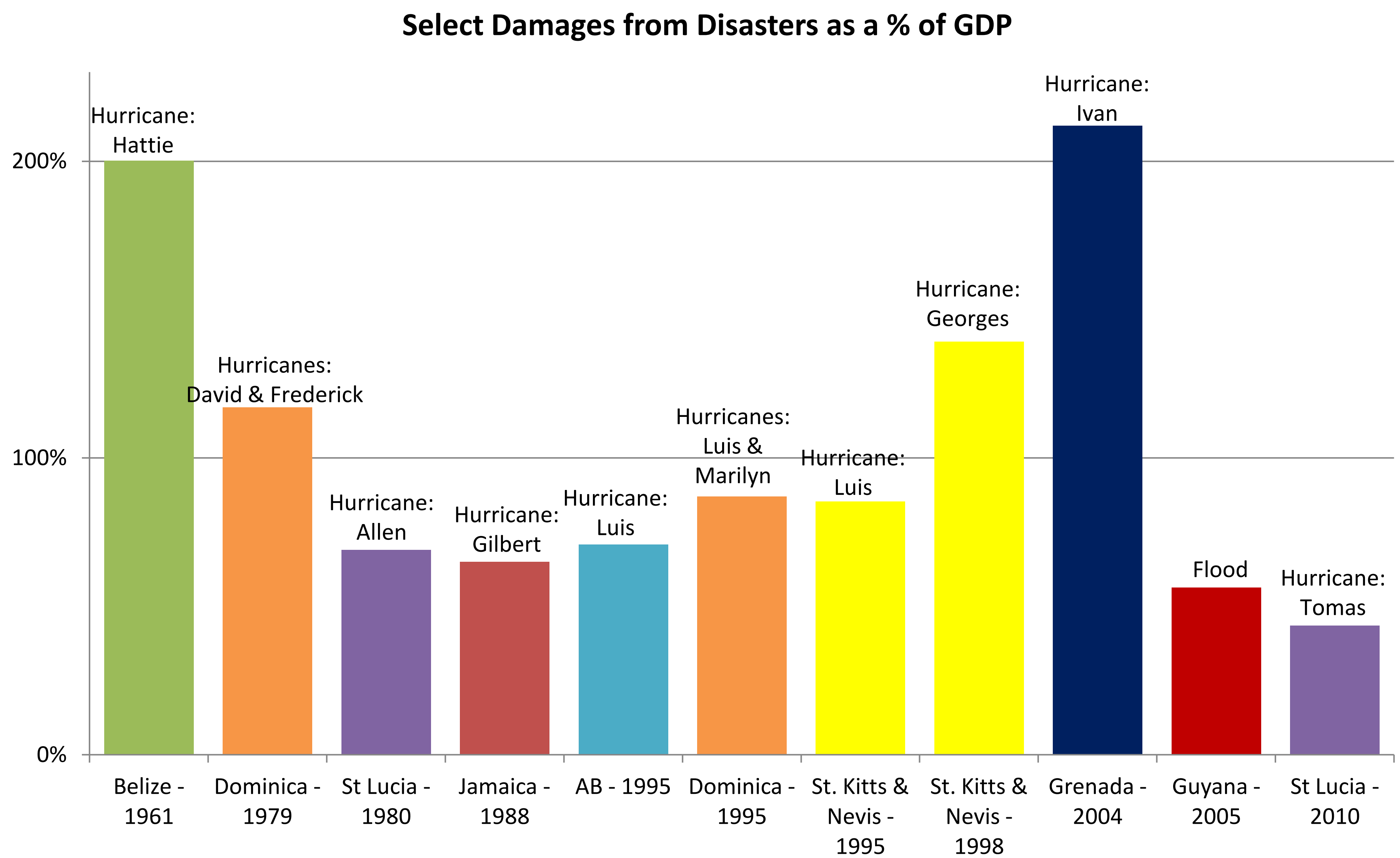
Average losses due to extreme weather events for Selected Caribbean countries from 1992-2011



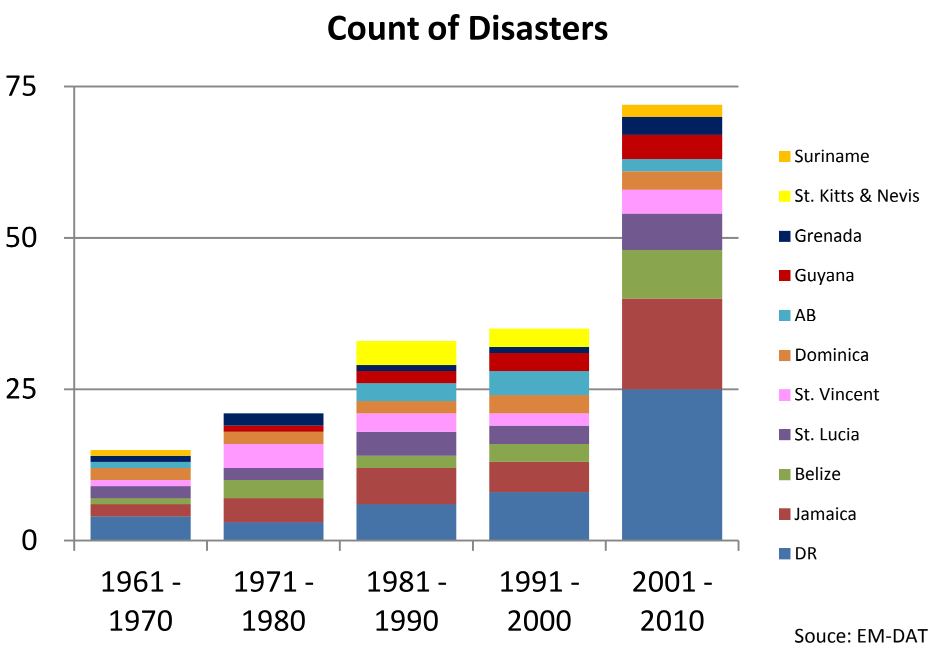
- **()** indicate Global Rank of 183 countries or territories evaluated.
- Sorted by Losses per GDP (%)

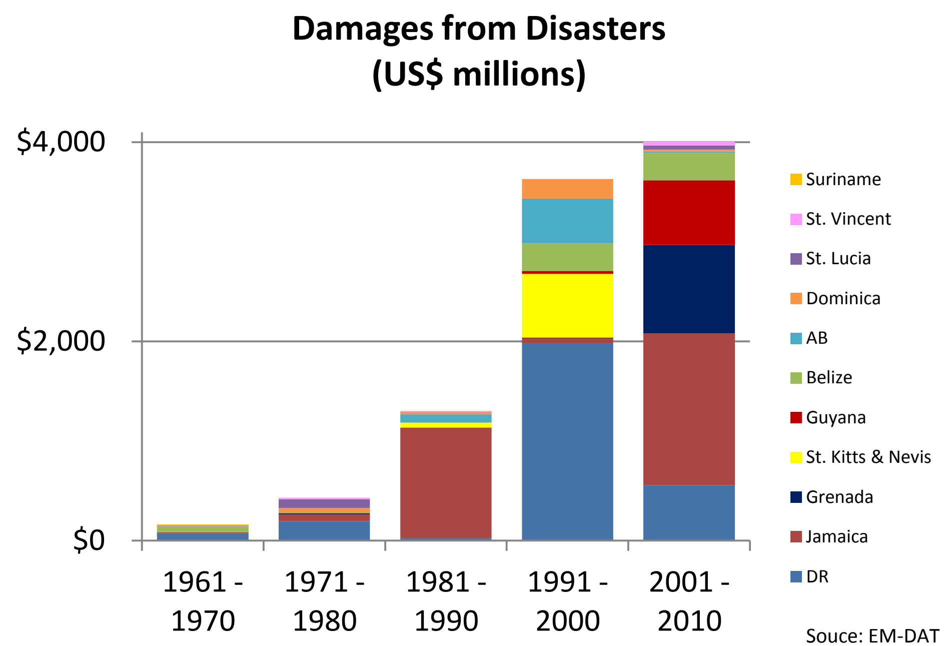
Source: Harmeling, S. and Eckstein D. "Global Climate Risk Index 2013". Germanwatch, November 2012. http://germanwatch.org/fr/download/7170.pdf

Losses from disasters are fiscal shocks, which often result in budgetary deficits & increased debt



Disaster events are increasing as are disaster losses





The Financial Markets Are Watching

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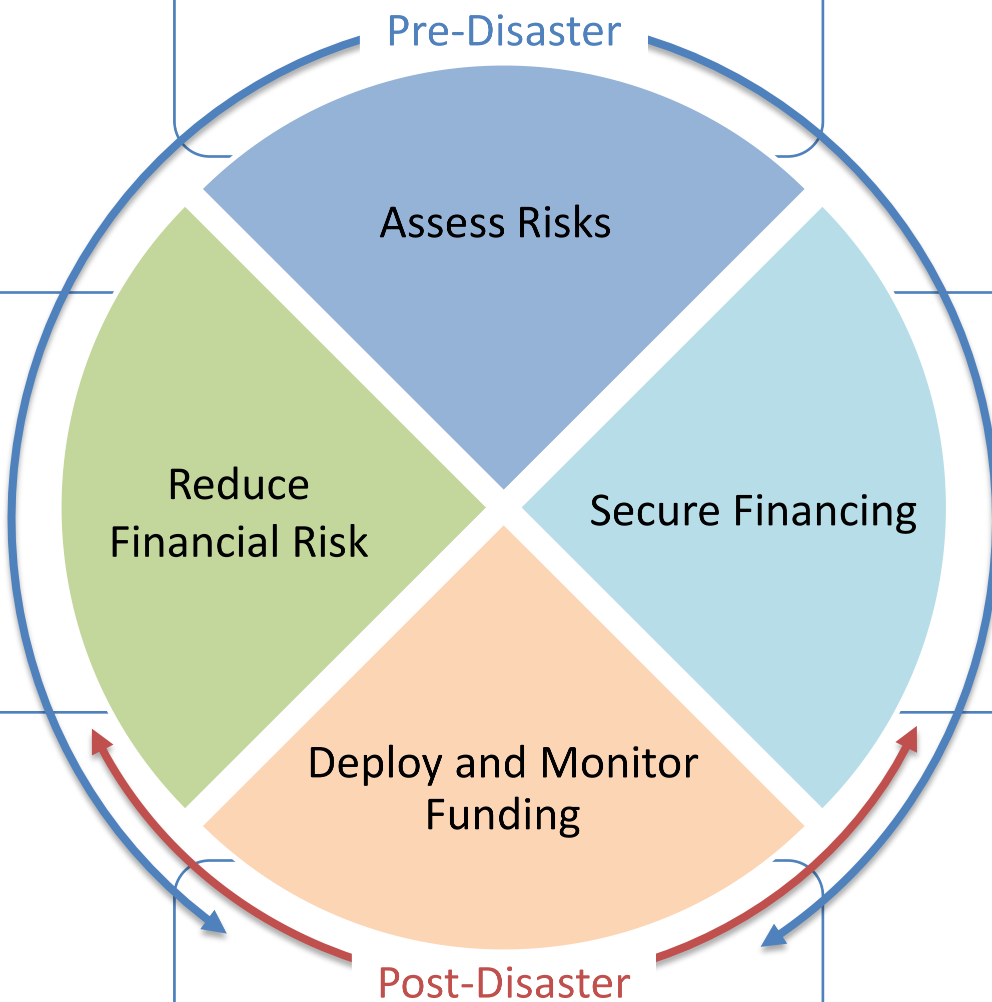
June 14, 2010

Assessing The Impact Of Natural Disasters On Sovereign Credit Ratings

Financial Policy Options for Disaster Risk Management

Assess and quantify risks

Define and measure contingent liabilities



Reduce contingent liability

Reduce disaster impact through integrating risk information in public investments

Reduce economic impact by creating incentives for private sector resilience

Integrate disaster risk in fiscal risk and public debt management

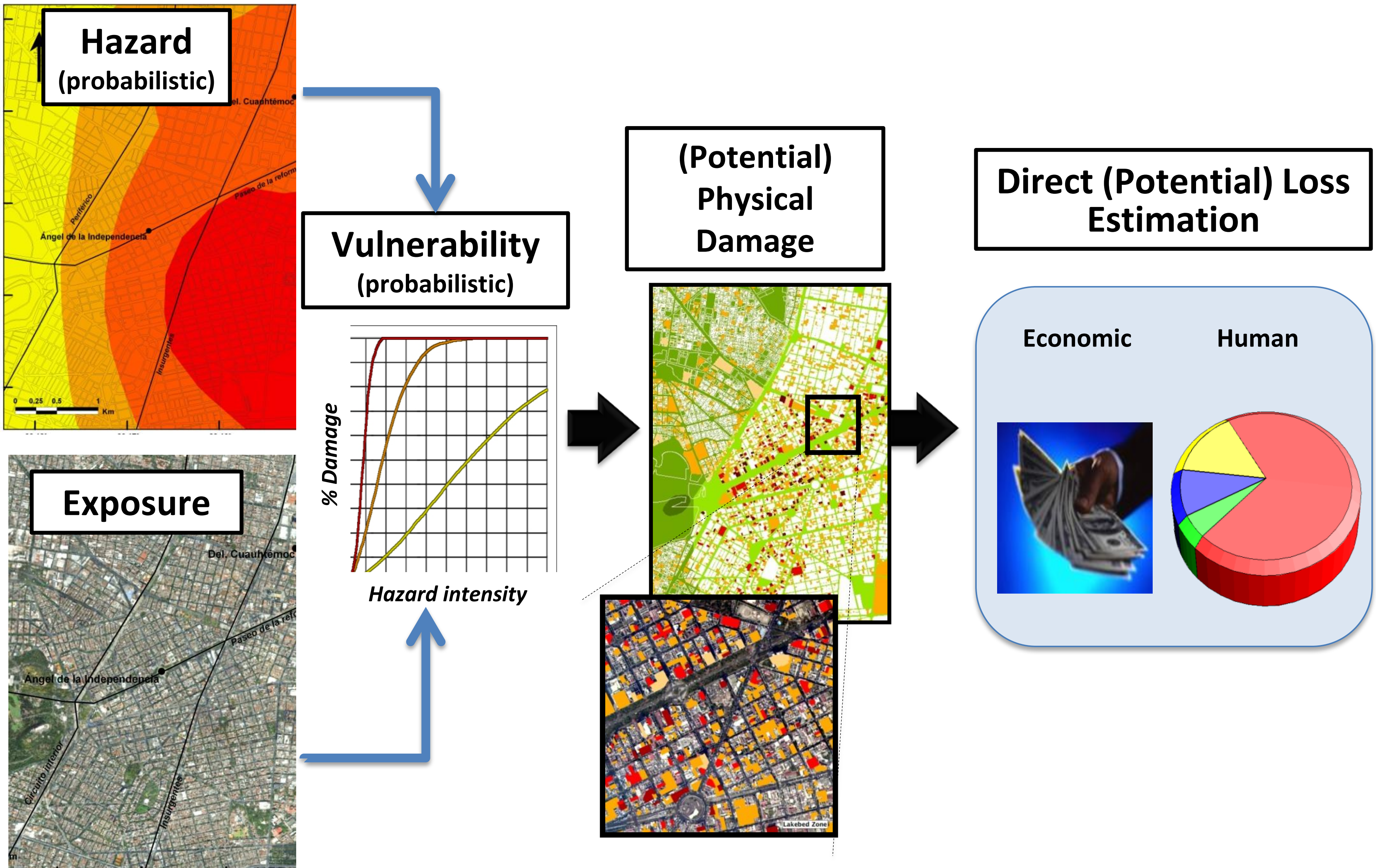
Improve post-disaster budget response capacity

Clarify post-disaster financial assistance

Establish effective administrative systems for post-disaster approval, transfer and monitoring of funds

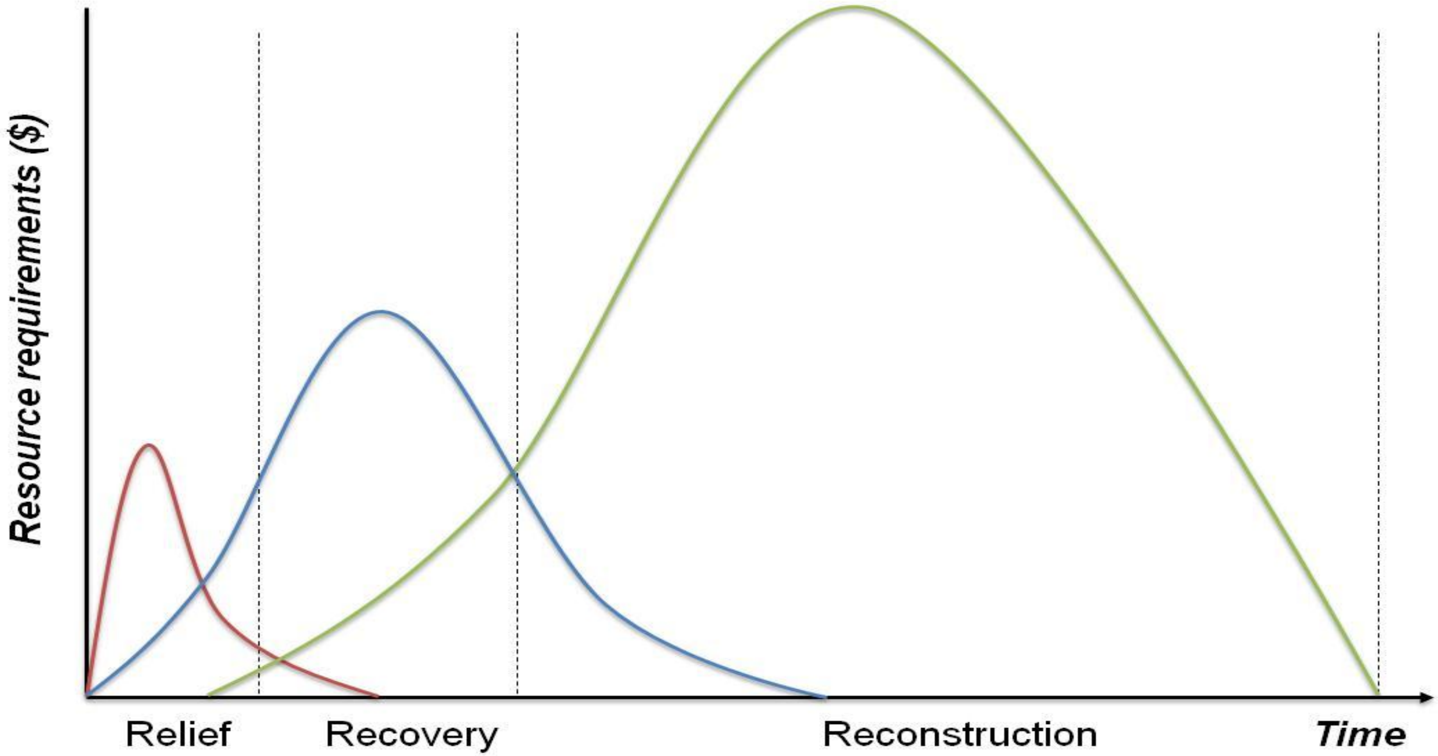
GFDRR
Global Facility for Disaster Reduction and Recovery

Quantifying your Contingent liability



Funding Needs

Quick liquidity vs. long term financing



Risk-layering approach

Frequency of Event: Low ↔ High

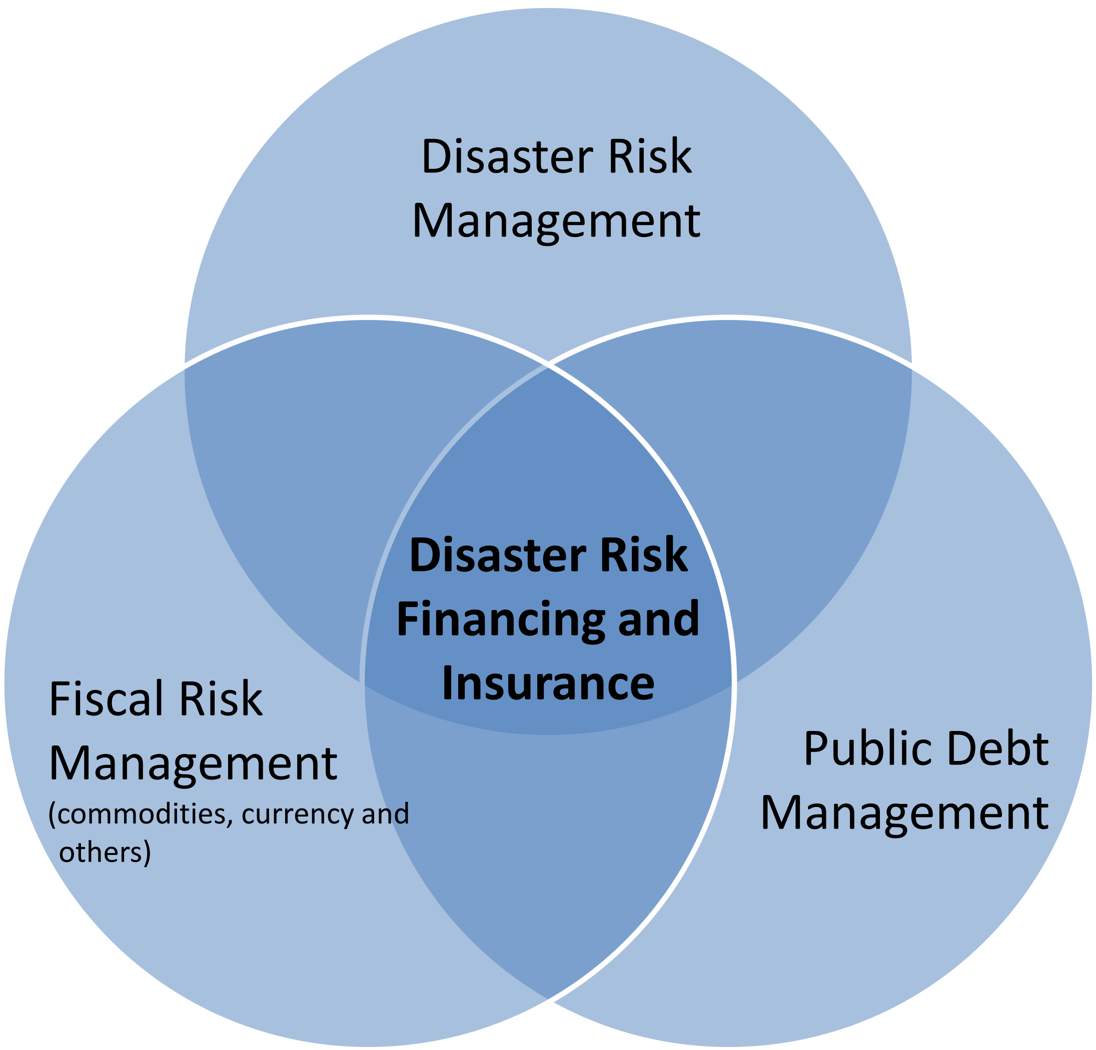
Severity of Impact: Major ↔ Minor

Disaster Risks	Disaster Risk Financing Instruments
High Risk Layer (e.g., major earthquake, major tropical cyclone)	Disaster Risk Insurance (e.g., Parametric insurance, cat bonds)
Medium Risk Layer (e.g., floods, small earthquake)	Contingent credit
Low Risk Layer (e.g., Localized floods, landslides)	Contingency budget, reserves, annual budget allocation

Three things to remember

- For most Caribbean countries, natural disasters represent a significant contingent liability.
- Disaster losses in most Caribbean countries have increased faster than economic growth in the past three decades.
- Ministries of Finance should quantify, analyze and manage this contingent liability.

Including disaster risk within an comprehensive risk management framework



Actionable ideas

- Ask your technical line ministries and/or development partners to help you quantify your catastrophe contingent liabilities.
- Create a disaster risk financing strategy
- Strengthen your emergency budget appropriation systems to ensure appropriate targeting, accountability, speed, and transparency in budget execution in the aftermath of a disaster.

Possible World Bank Support to Caribbean Countries

- Technical assistance and strategic advice to Ministries of Finance for Catastrophe Risk Financing (grant financed)
- Climate and disaster vulnerability reduction (IDA, IBRD, and Climate Investment Fund)
- Support for creation of insurance solutions for risk transfer (like the CCRIF)
- Contingent line of Credit for rapid disbursement following a catastrophe (IBRD)
- Contingent Components imbedded in Investment operations to finance possible disaster recovery (IDA)
- Emergency recovery financing (IBRD or IDA)