Financing Strategies for Disaster Risk Management in the Caribbean

BY

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Content

- Examine the **Link** between Financing Strategies for DRM and the Preliminary Findings of the C.E.L.P. Project
- **Identify** specific Financing Strategies for DRM
- **Distinguish** between Ex ante and Ex post Financing Strategies
- Appraise **Ex post** Financing Strategies
- Appraise **Ex ante** Financing Strategies
- **Grenada Case Study** using Ex ante Financing Strategies

Financing Elements of this Project

Project Challenges *(See Draft Background Note)***:**

- Either no or limited funds are directly allocated for disasters and disaster prevention; and
- The absence of national building codes.

Financing Elements of this Project

Project Lessons *(See Draft Background Note)***:**

- Caribbean Governments need to establish a substantial and separate national fund for disaster management and emergency response; and
- These disaster funds should be supported by procedures and guideline that ensures impartiality, accountability, efficiency and discourage waste.

Financing Strategies

EX ANTE

1. **Catastrophe Funds**
2. Insurance
3. **Investments in Mitigation**
4. **Catastrophe Bonds**
5. Contingent Credit
6. Weather Derivatives
7. Catastrophe Surplus Notes
8. Catastrophe Swaps
9. Catastrophe Equity Puts
10. Exchange Trade Catastrophe Options

EX POST

1. Loan Diversions
2. Central Bank Loans
3. Budget Re-allocation
4. Taxation
5. International Aid
6. External Debt

Financing Strategies

EX ANTE	EX POST
▪ Could be used to reduce the economic losses caused disasters; ▪ Requires a sacrifice today for protection in the future.	▪ Slow release of funds (**Aid:** Negotiate, **Loans:** Lack HR/Institutional Capacity); ▪ Misuse of Funds (Politics); ▪ Diversion of Funds for other major disasters; ▪ Existing Fiscal and Balance of Payments Problems.

Hurricane Ivan and Grenada 2004

1

- **INVESTMENT IN STRUCTURAL MITIGATION**
- FEMA $1:$2; US$1m/YEAR = US$13m; St. Marks Secondary School

2

- **CATASTROPHE FUND**
- US$4m/YEAR + interest = US$76m; 2006/2007 Budget Speech

3

- **CATASTROPHE BOND**
- 2001; Premium of US$5m/year to US$16m/year could have provided coverage for US$200m

Conclusions from the Grenada Case Study

- **Aid:** US$63.75 m
- **Total Damage Cost + Loans:** US$952 m
- **Resources Gap:** US$885 m
- Ex ante Financing Strategies could have reduced the Resource Gap further in the aftermath of Hurricane Ivan (2004)

Conclusions from the Grenada Case Study

- International/Regional Organisations, Donor Agencies, Development Organisations should provide **more funds in the pre-disaster period** vs post-disaster period;
- International/Regional Organisations, Donor Agencies, Development Organisations could **assist** Caribbean Governments with the costs and expertise required to **issue catastrophe bonds** even though they have high transaction costs; and
- **Innovative Fiscal Incentives** should be provided by Caribbean Governments to **all economic actors** so that they can invest in Structural Mitigation.

Conclusion

- No discourse, dialogue or policy on Financing Strategies for Disaster Risk Management could **begin** without addressing ex ante financing strategies; and

- Caribbean Countries need to identify specific Ex ante Financing Strategies that would **target** both the poor and marginalised, poor communities, other individuals, households and businesses.

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