# Some thoughts on trans-boundary approaches for risk management

## Catastrophe Risk financing for development

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# Since some years ago, there is a dialogue within AOSIS looking for schemes for its own risk management

- In 2008 a team of experts developed a risk management strategy for small island developing states.
- There is enough evidence and experience in many other projects developed around the world that supports the feasibility of this proposal.
- AOSIS members altogether implies a strong asset itself, they could be a natural “mutuality”, i.e., similar risks, similar hazards, similar assets, similar economies, among others similarities.
- The proposal of 2008 suggested to develop a facility (e.g., captive) for risk assessment, transfer of technology, mitigation and adaptation strategies, as well as its financing through insurance products.
  - ✓ The proposal considered lessons learned and experiences and good practices from others projects developed around the world.
  - ✓ This facility could be a cornerstone in the financial economy of AOSIS Member States providing certain financial support against extreme events particularly those from climate change.
  - ✓ The development of the scheme would be created in a long term strategy, however could provide results in the short and medium term.

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# International experience shows it is necessary to make some key definitions

| Target Beneficiary | Assets or Cash Flows Expose | Main Hazards |
|---|---|---|

- **Target Beneficiary:**
  - ✓ Government (Sovereign Disaster Risk Financing)
  - ✓ Priority economic sectors (hotels, fisheries, agriculture producers, etc)
  - ✓ Private assets (Catastrophe Risk Market Development)
  - ✓ Poor people
- **Asset or Cash Flows Expose:**
  - ✓ Infrastructure
  - ✓ Housing
  - ✓ Taxes and tariffs
  - ✓ Losses in revenues for small business
- **Hazards:**
  - ✓ See level rise
  - ✓ Increasing temperature
  - ✓ Ocean acidification

# Domain of Risk Financing for Extreme Climate Risk in Developing Economies

| Who is Vulnerable? | Sample Instruments | Sample of Innovative Projects |
|---|---|---|
| **Governments**<br>National<br>Regional<br>Communities | Reserve Funds<br>CAT Bonds<br>Weather Derivatives<br>Index Insurance | Mexican FONDEN<br>Caribbean Cat Risk Insurance Facility (CCRIF – World Bank)<br>Pacific / Africa Food Security<br>El Niño Insurance (GIZ) |
| **Households**<br>Especially the Poor | Traditional Insurance<br>Index Insurance | Malawi / Haiti Fonkoze / Ethiopia HARITA/ Mongolia IBLIP / Kenya / Indonesia |
| **Private Companies**<br>Agriculture, Energy, Transport | Traditional Insurance<br>Index Insurance | Peru Extreme El Niño Insurance<br>Private weather derivatives (BMGF, GIZ) |
| **Financial Institutions**<br>MFIs, Banks, Insurance Companies | Traditional Insurance<br>Index Insurance<br>Reinsurance | Peru Extreme El Niño Insurance<br>Philippines Tropical Storm (GIZ)<br>Ghana Index Insurance (GIZ) |

# Key requirements for the strategy implementation

- Define target beneficiaries, assets or cash flow exposes and main hazards.
- Define a risk assessment strategy, considering aggregate to detailed approaches.
  - ✓ Keeping in mind "*a comprehensive risk assessment strategy allows to develop a comprehensive risk management strategy*".
  - ✓ "*Understanding Risk for Better Decision Making*"
- Considering the available plethora of facilities forms (captives, trust funds, insurance schemes, etc), decide for the optimal in terms of a cost-benefits analysis.
- Given the type of developing economy in AOSIS members, donors community would be part of this effort during the stage of development, however donors support is driven by "*…teaching to fish rather giving a fish…*".
  - Recently they are reluctant to providing financing for premiums.
  - As well its support is been refocused to try to be a single shot support.

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