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Disaster Risk Finance Learning Series

Supporting Pacific Island Countries towards strengthened financial protection against disasters.

Virtual Learning Episode 3: Absorbing the cost of disasters: risk retention instruments in the Pacific

Date: 8 September 2022

Summary

Speakers:

- Ms Pepetua Latasi is the Director Climate Change Department, Ministry of Finance, Tuvalu.
- Ms. Litiara Taulealo, PRP Focal Point in Samoa, Ministry of Finance, Samoa.
- Mr Karlos Lee Moresi, Programme Adviser – Resilient Development Finance, PIFS, Fiji.

Moderated by Mr Krishnan Narasimhan, UNCDF, Fiji.

Background

Many Pacific governments must manage the cost of disasters using available public funds, especially in the aftermath of recurrent low-severity events. Pacific Island Countries (PICs) such as Tonga, Tuvalu and Kiribati have established long-term dedicated national funds to help improve national financial capacity to absorb the financial costs of disaster-related losses. The benefit of dedicated national funds is the ability to closely align the management of these funds with national objectives and national disaster legislation. Such funds usually have low operational fees and can help ensure liquidity is readily available following a disaster event. This can help reduce the need for emergency budget reallocations which can have a negative effect on existing budgets and plans.

However sometimes it is challenging for PICs to ensure that these national funds are adequately and timely resourced. It is not uncommon that a disaster hits a PIC before recovering from a previous one, which already reduced development gains and raised the costs of development. The third virtual learning episode explored the different risk retention instruments available in the Pacific and how they complements other types of development and disaster risk financing instruments that PICs have access to. Representatives from three PICs shared their experiences with establishing risk retention funds and discussed their importance and the challenges in setting up and maintaining contingency funds as well as reserve funds.

Summary of Discussions and Interventions from Panelists

The episode started with a short recap of the key messages from previous Virtual Learning Episodes by Mr Karlos Lee Moresi. He highlighted how risk retention complements risk transfer and other DRF instruments and emphasized that risk retention is critical to the functioning of Government post-disaster and the importance of other DRF instruments covering other areas of needs.

This was followed by presentations from the speakers from Tuvalu and Samoa respectively, sharing their experiences in setting up and utilizing risk retention instruments.

Ms Pepetua Latasi explained how the Tuvalu government has established a Climate and Disaster Survival Fund Act. She elaborated on the process of setting up this fund and how Tuvalu had to take a more long-term approach investing in resilience building resulting in the necessary to revise the fund. Ms. Litiara Taulealo shared the experience of Samoa in using policy-based contingent disaster financing agreement to support response and early recovery activities. The episode concluded with targeted questions to the panelist, discussing the usefulness of risk retention instruments for different disaster scenarios and country contexts, discussing some of the gaps and what needs to happen to strengthen risk retention in their respective countries.

Key Messages

- **Karlos L. Moresi** stressed how Disaster Risk Financing plays an important role in the overall development of countries and particularly in Pacific Island Countries, which are frequently facing devastation caused by disasters. Mr Moresi highlighted that no single financial instrument can address all risks and the importance of identifying the risks a country is exposed to and combining the different Preparedness, Retention, Transfer and other instruments available in the DRF space.

- **Ms Pepetua Latasi** explained that the Tuvalu Climate Change and Disaster Survival Fund is a Risk Retention Instrument that was established 2015 by the Government of Tuvalu to address needs and priorities following Tropical Cyclone Pam. The objective of the fund is to assist in recovery, rehabilitation and climate change adaptation. The fund is governed by an act and invested offshore with an operation account established at a local bank. The Fund is intended to provide immediate financial support to assist the community to rehabilitate destroyed houses through the purchase of building materials. The extent of assistance is determined by the government assessment. Bilateral Financing Instruments (e.g. ADB, World Bank) are channeled through the fund. Any payment/ assistance through the fund needs to be approved by the Board set up for the Fund. She noted that Tuvalu has no insurance mechanisms in country.

  The fund is triggered by the declaration of a State of Emergency. Given recent experiences, the Government of Tuvalu have realized that other trigger points will need to be put in place given that not all events result in the declaration of stet of emergency.

  The Fund sits currently at AUD 9 million and is solely financed by the Government of Tuvalu. Donors are encouraged to support the fund and channel any assistance through it. So far AUD 1.6 million of the fund has been expended for people who had their houses destroyed following the last 2 events the government has responded to. The average payout lies at AUD 3,000 with a maximum of AUD16,000 being paid out based on the damage assessments. Government needs to improve the set-up of the fund so that it provides an environment for donors to invest in. In 2016 the payout took about 6 months given the geographical distance between islands and the prolonged assessments. This has been improved in last years and government has been able to provide support within 3 months. But the geographical context of Tuvalu makes assessments and immediate support challenging.

Tuvalu would like to revise the triggers for smaller events, such as storm surge. It is envisaged that the Government will establish an envelope within the fund that covers events that do not require the declaration of a State of Emergency but require immediate contingency financing to the citizens.

Government has started a scoping study to best reflect budget support for DRR but also Climate Change inclusively. Participation of most vulnerable is crucial. The Government is also looking at how the Survival fund can further support building adaptive resilience of citizens.

- **Ms. Litiara Taulealo** discussed the policy-based ADB contingency fund, which is one of Samoa's key disaster risk finance instruments. Samoa has had policy-based operations or budget support over 10 years for its Public Finance Management Reforms. A Climate and Disaster Pillar of the fund was included in the last 5 years given the exposure and impact of disasters on the smaller economies. Samoa was able to be included in the ADB policy-based support when it was first set up in 2017. The fund is for the quick disbursing of financing based on pre-agreed conditions. Withdrawals from the fund are only eligible when the government declares a disaster or emergency. The Government can withdraw all or parts following the initial damage assessment. In 2020, when Samoa was affected by COVID 19, the government was able to include a Health Policy action. As a result, funds to support the COVID 19 response were received within a week of a request being submitted. The Fund falls under the Public Finance Management Act. Governments need to have all documentation in place to allow a quick withdrawal and disbursing of funds by the ADB. So far Samoa has utilized the funds twice, in 2020 and 2022.

  She further explained that Samoa also has a reserve fund in the national budget which is 3% of the annual expenditures, which can be used for smaller and more frequent events. But in this financial year, the government was able to allocate a specific allocation for the key response agencies to use in the event of a disaster.

  Communities also have disaster response plans. In the new financial year, the government is supporting the community to implement these plans.

  In her closing remarks, Ms. Litiara Taulealo emphasized that different DRF instruments have corresponding costs associated with them and that governments need to assess these and identify the most cost-effective ones. Not all DRF instruments are needed at the same time hence risk exposure and risk layering is crucial.

To learn more, you can access the recorded Session on VLE 3 here.