

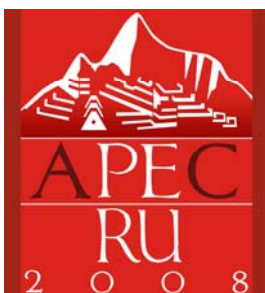


**Asia-Pacific
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Deepening Regional Cooperation for Disaster Recovery and Reconstruction: A Proposal for Proactive Approach to Risk Financing

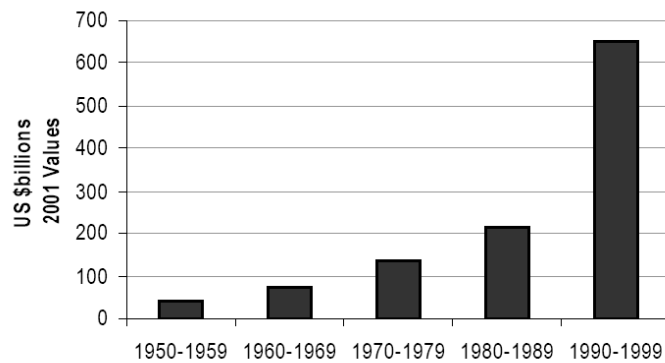
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Deepening Regional Cooperation for Disaster Recovery and Reconstruction: A Proposal for Proactive Approach to Risk Financing

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Note: Data are for "great" disasters, in which the ability of the region to help itself is distinctly overtaxed, making interregional or international assistance necessary. Source: IMF 2003

Aggregate Costs of Major Disasters, 1950 – 1999, in US\$ billions

of recorded disasters – fewer than 100 in 1975 to more than 400 in 2005

People affected -- from 1.6 billion in the previous decade to 2.6 billion in the last ten years (World Bank)

Global Impact of Natural Disasters

- In a period where economies are gearing up for higher growth, disasters could seriously hamper the efforts being undertaken by individual economies.
- The poor also suffer the most, as many of them are located in unsafe urban settlements and unprotected rural areas, exposing their lives and properties to bigger risks.
- Moreover, while the nominal magnitude of damages and losses are recorded in the developed economies, the relative impact is more felt by the emerging economies.
- In developing countries natural disasters have, on average, affected over 2 percent of the population each year and caused more than one half of 1 percent of GDP in damage. (Tobias, 2004)

There is a need to improve the current system for disaster risk management

Some Basic Considerations

- The importance of various measures for disaster preparedness and adaptation (*e.g.*, adoption of better building codes, construction of protective infrastructures such as sea walls, *etc.*), could not be underplayed.
- Nonetheless, damages cannot be totally avoided.
- On top of immediate human and physical costs, there are other associated (economic) costs arising from the disaster. Damages caused by natural disasters have significant implications on the macroeconomic and developmental conditions of an economy, both in the short and the long-term horizons.

Some Basic Considerations

- Timely and effective response -- key objective
- Addressing long-term recovery, reconstruction, and rehabilitation – as crucial
- Financing problem
 - In more developed economies, there are more financial instruments available, and the private sector could substantially complement public resources.
 - For developing economies, residual funding would be severely lacking and governments in many cases tend to adopt a reactive approach and rely heavily on foreign aid relief.

Some Basic Considerations

- Disaster risk management: three-pronged approach
 - Measures for disaster preparedness and adaptation (e.g., adoption of better building codes, construction of protective infrastructures such as sea walls, etc.)
 - need to strengthen regional cooperation to promote resilience and preparedness of communities for emergencies and natural disasters
 - the adoption of institutional reforms to enable disaster damages losses to be passed on to the markets through the use of more optimally structured risk sharing arrangements
- Need to strengthen the regional platform.
 - Natural calamities will increasingly be a threat to global development and security, The need to integrate disaster risk management in the development agenda is well recognized

Current initiatives to curb the impact of disasters

- In 1994, the Yokohama Strategy and Plan of Action
- In 2000, the International Strategy for Disaster Reduction (ISDR)
- In 2005, 168 governments adopted the Hyogo Framework for Action (2005-2015)
- Within the APEC system, a Task Force for Emergency Preparedness was constituted to facilitate the exchange of information and expertise among the member economies.

New paradigm for financing disasters

- Traditional measures
 - use of fiscal resources, in the form of existing budgets, taxes, and borrowings, have been the more traditional means
 - Many governments also earmark a portion of the budget in a form of contingency fund that can be tapped whenever disaster strikes
- For developing economies, funding the residual requirements tends to be adhoc and expost. Governments, in many cases, adopt a reactive approach, wherein resources are mobilized or generated only after the catastrophe.
- There is a need, therefore, to shift the paradigm into a more proactive approach that links with the private resources at the international level and that promotes appropriate incentives.

New paradigm for financing disasters

- Experiences on risk transfer are growing: there have been efforts to develop new instruments which better manage risks.
- There are emerging models and experiences in many economies of the world that utilize the more pro-active and innovative financing instruments, which include, among others, weather derivatives, catastrophe bonds, index insurance, contingent credit, *etc.*

Two examples

- the Caribbean Catastrophe Risk Insurance Facility
- the Turkish Catastrophic Insurance Pool
- The former is a regional example and the latter is an individual effort which is now becoming more and more attractive to many developing economies.

The Caribbean Catastrophe Risk Insurance Facility

- This innovative scheme allows the smaller economies to access a more affordable insurance by pooling their risks and creating economies of scale.
- The members and international donors provide risk capital to the captive, that helps reduce the cost of premium. Apart from this, the operational costs of running the captive are shared among the members.
- The scheme offers a multi-year and multi-hazard coverage at a specified premium, which enables the governments to be liquid at a time of disaster.

The Turkish Catastrophic Insurance Pool (TCIP)

- The TCIP was developed through the partnership among the Turkish government, domestic private insurance sector, international reinsurers, and multilateral development banks.
- The Turkish government legally required urban homeowners to avail of earthquake insurance cover under the TCIP and, at the same time, it abolished all forms of assistance that it used to provide to homeowners affected by earthquakes.

Using regional platform

- The need to mainstream/incorporate disaster risk management on the development agenda, processes, and plans and programs has long been accepted.
- The financial burden of response, mitigation, rehabilitation and long-term recovery can be massive to be singly assumed by governments, hence, calls for an effort to share such risks internationally.
- The role of regional institutions and organizations can be expanded from the current set-up that facilitates sharing of information, knowledge and capacities towards disaster preparedness and mitigation.
- The technical cooperation of building up and sharing of information, experiences, and technology as a cross-cutting effort that informs governments of the risks is an initial step that should be complemented by other forms of partnerships, including exploring better options for financing disaster risks.

Using regional platform

- There is need for adoption of relevant policies which will better utilize market mechanisms. Complementary policies at the regional level can be instituted to provide better incentives to individual economies to set appropriate policies at the national level.
- Within APEC, this effort can be contextualized in the overall attempt to improve economic environment, especially the financial intermediaries and the capital market– that would widen the range of market-based instruments available at the international/regional level.
- Natural disasters also open up opportunities to rebuild safer and more resilient communities – build back better. Arranging funds in an ex-ante manner would help facilitate this process by adding up to the available funds that each economy has for reconstruction and rehabilitation.