



TA 9878-REG: Developing a Disaster Risk Transfer Facility in the Central Asia Regional Economic Cooperation Region

VIRTUAL INCEPTION MEETING
8 September 2020, 3:30-5:15pm (Manila time)

SUMMARY OF DISCUSSIONS

I. Introduction

1. An inception meeting of the regional technical assistance (TA) project on “Developing a Disaster Risk Transfer Facility in the Central Asia Regional Economic Cooperation (CAREC) region” was held virtually on 8 September 2020. Officials from the eleven CAREC countries¹ and representatives from World Bank attended the meeting. Dr. Junkyu Lee, Chief of Finance Sector Group, Sustainable Development and Climate Change Department, ADB welcomed the participants and provided introductory remarks.

2. The objectives of the inception meeting were to (i) introduce the project team; (ii) present the context, scope and outputs of the regional TA and work program for 2020-2022; and (iii) gather CAREC countries’ feedback and insights on the inception report, their expectations from the regional TA and their risk financing priorities and challenges going forward. The agenda and list of participants are in Appendix 1 and 2.

II. Highlights of the Inception Meeting

3. Mr. Thomas Kessler Principal Finance Specialist (Disaster Insurance), SDCC and Ms. Carmen Garcia Perez, Regional Cooperation Specialist, CWRC presented the rationale and scope of the TA project. The TA was formulated as a response to the interest shown by CAREC countries at the National Focal Points’ meeting held in 2018 in Ashgabat, Turkmenistan, in which the proposed concept of developing a regional disaster risk financing (DRF) mechanism in the CAREC region was presented. The TA aims at developing comprehensive regional DRF solutions to assist CAREC countries in reducing their physical and financial vulnerability to natural hazards. The TA initially had three outputs: (i) development of high-level disaster risk profiles for earthquakes and floods in all CAREC countries and creation of a modeling tool to help countries understand their risk profile and make informed risk management decisions; (ii) design and feasibility assessment of a regional disaster risk transfer solution, leveraging the international reinsurance and/or capital markets (e.g. via catastrophe bonds); and (iii) capacity building activities to sensitize key stakeholders about the benefits of a layered approach to DRF combining national and regional solutions.

4. Given the recent global health developments and in support of CAREC countries’ efforts to respond to the COVID-19 pandemic and strengthen their preparedness for any future potential outbreaks going forward, an additional output has been added to the project. The fourth output aims at developing infectious disease risk models to help countries better understand the financial implications of such outbreaks both on a standalone basis and in

¹ CAREC countries include Afghanistan, Azerbaijan, People’s Republic of China, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan.



tandem with other natural hazards, and also identifying potential epidemic and pandemic risk financing solutions.

5. The consultant team, led by Willis Towers Watson (WTW), presented the highlights of the inception report including project approach and data collection methodology for the disaster risk profiling (flood, earthquake and infectious disease risks), development of the client engagement tool to help countries understand their risk profiles and provide information for informed risk management, and the design of a pilot regional risk transfer facility that will complement countries' national risk financing strategies. The consultant team explained that there are benefits derived from a regional solution. A regional facility allows for broader risk diversification across countries with different risk profiles, leading to lower premiums and operational costs. It creates a platform for a coordinated approach to disaster risk analysis and improving risk information sharing, since disasters often know no boundaries. It may also enable more flexibility and offer a path towards more appropriate coverage as data quality improves, new hazard models become available, and/or risk management improvements can be demonstrated.

6. A regional facility pools the risk of all members, requiring the review of respective risk profiles. With risk financing linked to these risk profiles, there is a fiscal incentive to invest in risk reduction. A collective effort to reduce overall risk would further contribute to increasing affordability of coverage, bringing significant and direct benefits to the participating countries. Lastly, regional facilities can also be a powerful tool to foster innovation and to promote stability and solidarity among countries.

7. Participants expressed their full support to the project and noted that this regional initiative is well aligned with international commitments such as the Sendai Framework for Disaster Risk Reduction 2015-2030 and the Sustainable Development Goals, to which all CAREC countries are signatories. It was unanimously recognized that currently CAREC countries do not have sufficient resources to access liquidity after a disaster event and mostly rely on ex-post measures to cover the financing gap such as budget reallocations, increase in taxes, debt issuance, and/or external assistance. Kyrgyz Republic shared that, in addition to the impact of the COVID-19 pandemic, the country has recently experienced severe frost and flooding in rural areas which has led to additional damage of rural infrastructure and has exacerbated the impact on vulnerable populations, food security and rural livelihoods. Other countries also expressed their increasing concerns about a potential clash of further disaster events in the current COVID-19 scenario. Thus, participants welcomed the inclusion of the additional component on infectious disease modeling and financing solutions.

8. Participants agreed that data, analytics, and modeling are key to quantifying risk and estimating potential socioeconomic losses derived from natural hazards and infectious disease outbreaks. Understanding the potential risks can help countries develop improved disaster risk management and financing strategies. CAREC countries are at different levels of development in terms of their capacity to gather and analyze data. For example, participants from Afghanistan noted that they have limited capacity to evaluate losses and damage, and most data gathering exercises are initiated by international agencies. The impact of such initiatives is sometimes restricted as these are not well integrated in the country's development planning processes. On the other hand, other countries such as Georgia, Kazakhstan and Mongolia are at a more advanced stage and have national hazard assessments. In addition, there is currently no common methodology across CAREC countries for collecting data and assessing damages



and losses due to disaster events. In particular, Kyrgyz Republic and Mongolia expressed their interest in understanding the scope of risks and assessing damages in agriculture, given that it is one of the main economic sectors in the region.

9. At the same time, it was noted that availability and/or accessibility of data may be limited in some CAREC countries. Thus, it is key that the existing project builds on previous assessments and coordinates with ongoing initiatives in the region to optimize resources and avoid duplication of efforts. Some of these initiatives were mentioned during the inception meeting, including ADB's projects in Pakistan, Tajikistan and Mongolia;² previous work carried out by World Bank in Afghanistan to develop a country risk profile covering landslides, avalanches, earthquakes and floods; JICA's work in Turkmenistan on seismic assessment and in Pakistan on multi-hazard assessments at macro level; and the upcoming EU-funded project on "Strengthening financial resilience and accelerating risk reduction in Central Asia".³ Mr. Ko Takeuchi, Senior Disaster Risk Management Specialist, World Bank, highlighted the relevance of the proposed project and confirmed WB team's preparedness to further coordinate with ADB and other development partners to ensure complementarity of the initiatives.

10. In addition to improved risk data and models, participants expressed their interest in gaining a better understanding of the impact of climate change on natural hazards, as well as increasing their capacity to adopt a layered approach to DRF and make effective use of the wide range of DRF instruments both at national and regional level. In this regard, some countries shared information about their ongoing efforts in the DRF area. For instance, Pakistan has recently established its National Disaster Risk Management Fund with over \$200 million to support disaster risk reduction initiatives and develop risk financing mechanisms; and the country is also currently developing a national DRF strategy. Kazakhstan noted that some steps are being taken to strengthen financial preparedness for disasters events, and risk insurance in some areas of activity is carried out on a voluntary basis. Mongolia is also currently working on the development of a disaster risk insurance law. Linked to this, participants highlighted the need to assess the legal gaps and work on the regulatory and legislative framework for the development and implementation of a regional DRF solution.

11. Overall, participants agreed that CAREC is well placed to serve as a platform for sharing knowledge among member countries and initiate discussions on the development of a regional DRF mechanism that complements national initiatives for interested countries in the CAREC region. They reiterated their willingness to support the implementation of the project and regularly engage with the project team to successfully achieve the project outputs.

III. Next Steps

12. The project team will (i) continue working on the risk profiles for earthquakes, floods and infectious diseases; (ii) continue working on the development of the modelling tool, specifically focusing on delivering initial COVID-19 modeling results, (iii) arrange bilateral meetings with each of the countries in Q4 2020 to present the preliminary findings and gather additional inputs for the abovementioned outputs, and (iv) initiate internal discussions on a potential structure for ADB issuance of disaster relief (cat) bonds.

² National disaster risk management projects by ADB in Pakistan (Grant 0519, Grant 0639, Loan 3473, Loan 3474, and TA 9246); Tajikistan (Grant 0614); and Mongolia (TA 9880).

³ https://ec.europa.eu/international-partnerships/system/files/aap-financing-central-asia-annex4-c-2018-7651_en.pdf