

# Summary Report from the 2<sup>nd</sup> Central Asia Regional Economic Cooperation (CAREC) Disaster Risk Engagement Workshop

18–19 July 2023, Islamabad, Pakistan

## 1 Context

The first in-person engagement event, held in Istanbul (Turkey) in November 2022, demonstrated a keen interest of many CAREC members in the results, methods and tools developed during the technical assistance (TA) project and in potential disaster risk finance and disaster risk reduction tools and products, including Disaster Relief Bonds (DRBs).

## 2 Purpose and Objectives

The aim of the second engagement workshop is to present the final deliverables of the TA project which will be closed in October 2023. The project team will outline the roadmap for a CAREC Disaster Risk Transfer Facility and a proposal for an ADB-sponsored DR B based on the tools and methodologies developed during the project. The workshop will also provide further capacity building on the use of the Disaster Risk Modelling Interface (DRMI), which has been further revised based on the feedback received during the training seminars and engagement events in 2022 and which can support CAREC countries to develop and implement an integrated disaster risk reduction and financing programme. A draft joint statement for endorsement at the CAREC Ministerial Conference in November 2023 will be discussed.

## 3 Event Summary

The event was the second physical meeting to be convened under this TA. Over 2 days, the final deliverables of the TA were presented and the roadmap for a CAREC Disaster Risk Transfer Facility and a proposal for an ADB-sponsored DRB discussed.

The first day presented a detailed overview of the TA progress to date, including all deliverables and modelling results, as well as sessions dedicated to discussing the opportunities, options, and considerations for developing a risk transfer facility for the CAREC countries and an interactive demonstration of the Disaster Risk Management Interface (DRMI):

- Session 1 provided a recap of the first engagement event held in November 2022 in Istanbul and outlined the objectives and agenda for this engagement workshop.
- Session 2 presented TA progress to date, including all deliverables and modelling results. It also set the scene for the proposed long-term and short-term disaster risk financing (DRF) solutions.
- Session 3 discussed the opportunities, options, and considerations for developing a risk transfer facility for CAREC countries, including the facility’s potential core functions and ancillary services – based on CAREC countries’ needs– and the required steps for the facility creation.
- Session 4 was an interactive group discussion where workshop participants exchanged views on the progress, deliverables and results, and the presented draft roadmap and next steps for developing a risk transfer facility for CAREC countries.
- Session 5 (initially planned for day 1) was moved to the second day to allow more time for the interactive group discussion.
- Session 6 presented the modelling work that has been done, which has been consolidated and made accessible to countries through the DRMI, and how it can be improved and used at regional and national level.

- Session 7 was an interactive demonstration of the DRMI that built upon session 6. There was a particular focus on the appraisal of climate and disaster adaptation investments and the disaster risk finance tool.

The second day presented the proposal for an ADB-sponsored DRB, and the Infectious Disease Risk Financing Framework, and focused on gathering feedback and inputs from delegates on the proposed disaster risk financing solutions, including the elaboration of a draft joint statement.

- Based on the request from Kazakhstan’s delegates on day 1, a short presentation was included at the beginning of day 2 outlining the steps involved in developing a regional insurance scheme and illustrating the idea with concrete case studies.
- Session 5 (moved from day 1) outlined the proposal for an Infectious Disease Risk Financing Framework.
- Session 8 detailed the proposal for a Disaster Relief Bond in the context of an integrated climate and disaster risk management framework and its prerequisites for CAREC member countries.
- In Sessions 9 and 10, workshop participants exchanged views on the proposed long-term and short-term DRF solutions for the CAREC region. A draft joint statement for endorsement at the 22<sup>nd</sup> CAREC Ministerial Conference in November 2023 on “Developing a Disaster Risk Transfer Facility in the CAREC Region” was developed.
- Finally, Session 11 evaluated and summarised the TA results, key takeaways, lessons learned and next steps.

ADB staff and WTW experts were available at the end of each day for Q&A.

Overall outcomes from the engagement workshop include:

- Broad interest from all countries to cooperate on disaster risk financing and the potential development of regional facility, as well as a consensus that ADB’s continued support with this process is desired, in cooperation with other development partners.
- An understanding that, with the support of ADB, many stakeholders within each country need to be informed and engaged in the decision-making processes to build ownership and make sure that the proposed solutions are well contextualized and tailored to each country’s needs. Some concrete proposals for setting up an inter-agency working group were received from Kazakhstan and the Kyrgyz Republic.
- A consensus that the work conducted so far as part of this TA is useful but can be enhanced. Further support from the ADB is required for capacity building at the national and regional level, including guidance on how countries can integrate the modelling and financing tools into their national disaster risk management strategies and programs.

As a next step, workshop participants agreed that the CAREC Secretariat will circulate the draft joint statement to member countries for their further review and initial concurrence prior to its final endorsement at the 22<sup>nd</sup> CAREC Ministerial Conference in November 2023.



#### 4 Session Write-Up

This section details each session, including the purpose, discussion points, and key outcomes.

##### Day 1: 18 July 2023, Tuesday

###### Session 1: Introduction of Participants and Program

Thomas Kessler, Principal Finance Specialist (Disaster Insurance), Finance Sector Office (SG-FIN), Asian Development Bank (ADB)

Carmen Garcia Perez, Regional Cooperation Specialist, Regional Cooperation and Integration Unit, Central and West Asia Department (CWRC), ADB

**Purpose:** To recap the first engagement event held in November 2022 in Istanbul and outline the objectives and agenda for this engagement workshop.

**Description:** This short, introductory session covered the objectives under the TA and the project timeline, including a recap of the first engagement event held in November 2022 in Istanbul. The key project milestones were highlighted, including (i) the disaster risk profiles for each CAREC country on flood, earthquake and infectious disease risk; (ii) a protection gap assessment quantifying the difference between the estimated losses from earthquake and flood risk and the existing ex-ante financing tools in CAREC countries; (iii) a report on recommendations for the development of infectious disease risk financing mechanisms; (iv) an analysis of compound risk between natural hazards and infectious disease outbreaks; and (v) the DRMI. Focus then moved to the final TA deliverables and proposed next steps: (i) the proposed draft roadmap for the development of a CAREC disaster risk transfer facility in the long term; (ii) the proposal for a pilot DRB for CAREC countries to bridge the protection gap in the shorter to medium-term; and (iii) the hand-over and/or further refinement of the DRMI. The session closed by confirming the objectives and expected results of the workshop, which is to establish consensus among CAREC countries on further actions to advance the design and implementation of the proposed DRF solutions.

**Key outcome(s):** The session set the context for subsequent sessions and the expected results for the 2-day workshop, as well as built a common understanding among delegates of current project progress and plans for advancing the development of the proposed regional risk financing solutions.

###### Session 2: Technical Assistance Progress, Deliverables and Results

David Simmons, Disaster Risk Financing Specialist, WTW  
Keziah Baskerville-Muscutt, Disaster Risk Financing Specialist, WTW

**Purpose:** Present TA progress to date, including all deliverables and modelling results, and setting the scene for the proposed long-term and short-term DRF solutions.

**Description:** The session presented the TA progress to date, including all deliverables and modelling results. The risk profiling had previously been presented to delegates virtually and in the engagement event in November 2022, so this session focused on the methodology and the interpretation of the results. The session presented the Average Annual Losses (AALs) for earthquake and flood events and the estimated size of the disaster risk protection gap—the difference between modelled losses and ex-ante financing mechanisms held by governments for these losses—for all members. This helped define the financing deficit the TA seeks to reduce through regional risk transfer solutions. The session concluded by outlining the proposed long-term and short-term disaster risk financing solutions for CAREC, including a disaster

### Day 1: 18 July 2023, Tuesday

risk insurance facility (long-term) and a pilot DRB (both presented and discussed in more detail in later sessions).

**Key outcome(s):** Delegates were re-familiarised with key outputs and findings of the analytical work conducted under this TA and asked questions about the protection gap, modelling methodology and underlying data. The stage was set for subsequent sessions that explore in depth the development of a regional facility, the DRMI and a DRB.

### Session 3: Roadmap for a CAREC Disaster Risk Transfer Facility

David Simmons, Disaster Risk Financing Specialist, WTW

**Purpose:** To present and discuss for a draft roadmap developing a disaster risk transfer facility for CAREC countries, including the facility's potential core functions and ancillary services –based on CAREC countries' needs– and the required steps for the facility creation.

**Description:** This session began with an overview of the main functions of a regional disaster risk facility: collaboration (sharing of best practice, of data, and of regional management to disaster risk), arranging risk transfer (facilitating risk coverage for participating countries, including insurance and ILS) and risk pooling (a licensed and regulated insurance company to which countries transfer risks in exchange for premiums). Delegates were then offered insights into how lessons learned from existing regional risk facilities in the Caribbean and Central America, in South America, in Africa, in the Pacific, and in Southeast Asia could be used to inform the design and development of a CAREC Risk Transfer Facility.

A potential structure for a CAREC Risk Transfer Facility was presented and key considerations at each stage of facility development highlighted. Discussion focused on the importance of the national context in facility design, as well as the need to inform and engage several stakeholders to build ownership in the proposed facility. The session concluded with a proposed timeline for the draft roadmap, which can serve as a guide to facilitate discussions among the facility's key actors, allowing countries to finalize decisions on important matters and eventually craft plans for execution.

**Key outcome(s):** There was broad interest from all countries to further cooperate on disaster risk financing and the potential development of regional facility, as well as recognition that many stakeholders need to be informed and engaged to build ownership throughout the process. This may include stakeholders at the provincial level for some countries such as Pakistan. There were with some concrete proposals from Kazakhstan and the Kyrgyz Republic for setting up an inter-agency working group at national level as well as a consensus that ADB's continued support with this process is desired.

### Session 4: Interactive Group Discussions

Moderated by:

Thomas Kessler, Principal Finance Specialist, SG-FIN, ADB

Carmen Garcia Perez, Regional Cooperation Specialist, CWRC, ADB

**Purpose:** To enable workshop participants to exchange views on the progress, deliverables and results, and the presented draft roadmap and next steps for developing a disaster risk transfer facility for CAREC countries.

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**Description:** ADB facilitated an interactive group discussion structured around several questions to allow delegates to respond to the initial presentations:

1. Do you see an added value for your country to participate in the CAREC Risk Transfer Facility (CRF)? What additional information would you require to report back to your government on the proposed initiative?
2. What are the main challenges that you foresee in the implementation of the proposed roadmap?
3. What do you see as the main opportunities that will emerge from this process?
4. To move forward with the implementation of the proposed roadmap, what are the key considerations and what approval processes would be required in your country?
5. Which stakeholders (ministries, departments) would need to be engaged to reach a decision? Who would most likely be assigned to represent your country in the CRF steering committee?
6. What role do you envisage for the ADB and the CAREC Program in facilitating this process?
7. What would you propose as the next steps to continue this discussion, within and between the countries in this room?

**Key outcome(s):** Overall, CAREC countries expressed their interest in further cooperating to create a CAREC disaster risk transfer facility. Countries detailed their national plans and stressed the need to make sure that any regional facility complements their national initiatives and is part of an integrated climate and disaster risk management approach. There is a need to reconcile and build synergies between the TA modelling results (e.g., expected modelled losses, protection gap, etc.) and the work being conducted in countries to ensure that government ministries remain on-side with the idea of a CRF. CAREC countries have different experiences of disaster events, with large differences in modelled losses. The CAREC disaster risk transfer facility needs to be designed in such a way that is appropriate for all countries and commensurate with each country's needs. Most countries noted that their ministry and/or department responsible for disaster and emergency management would be the lead agency to represent the country in the CRF Steering Committee. However, several government agencies at central and provincial levels need to be involved in this process to generate buy-in to the proposals.

Other specific comments and/or questions raised by country delegates included:

- There is a need for further capacity building as countries have currently limited technical capacity and understanding on disaster risk modelling and financing instruments.
- The region's regulatory environment is currently not conducive for insurance development.
- The proposed disaster risk transfer facility can be a catalyst for donor support (both financial and technical) and there is an opportunity to learn from other regions.
- Inter-agency working groups at country level can be set up (with support from ADB) to advance the discussions and decision-making processes on the facility creation.
- More consistency in terms of the country representatives attending the TA workshops is required to maintain momentum on the proposed initiatives.

**Session 6 and 7: Risk Modelling**

Jamie Pollard, Disaster Risk Financing Expert, WTW  
 Stuart Calam, Disaster Risk Financing Expert, WTW

**Purpose:** Present the modelling work that has completed to-date, which has been consolidated and made accessible to countries through the DRMI, and how it can be improved and used at regional and national level. Provide an interactive demonstration and workable case studies for delegates to use the DRMI with

### Day 1: 18 July 2023, Tuesday

a particular focus on the appraisal of climate and disaster adaptation investments and the disaster risk finance tool.

**Description:** The session started with an overview on the key functionalities of the DRMI. This was followed by an interactive session that allowed delegates to explore the tool and interact with their country information. Questions related to the Probabilistic Modelling allowed delegates to explore the risk profiles for their countries and understand the modelled losses associated with earthquake, flood and infectious disease events. The Exposure Risk Calculator was also presented, to allow delegates to explore how changing economic exposure could impact the expected average annual loss numbers. The core of the session was focused on the Disaster Risk Financing tool within the DRMI, to encourage delegates to understand possible premium payment structures from an event sum insured and annual premium perspective.

**Key outcome(s):** Delegates showed a good understanding of the basics of the tool. However, some questions were raised with regards to the figures being displayed in the tool (e.g., delegates noted some discrepancies vis-à-vis national data and noted that more up-to-date information could be available for some parameters). The technical note which details the methodology and the underlying data used in the risk modelling needs to be more widely disseminated across countries. The analytical tools developed under the TA are useful and provide a sound basis for the development of DRF solutions, but future work should be considered to strengthen the functionalities in the tool and obtain more granular and/or updated data through increased collaboration with national agencies.

### Day 2: 19 July 2023, Wednesday

#### Preamble to Day 2: Scheme Development

David Simmons, Disaster Risk Financing Specialist, WTW

**Purpose:** To build upon the discussions generated during day 1 and outline the steps for developing a regional insurance scheme as well as a parametric insurance product, using case studies to illustrate these ideas where relevant.

**Description:** The session began by explaining three key steps for developing a regional insurance scheme: (i) determining need with many competing priorities; (ii) determining coverage/placement, including the hazard(s) covered, insurance form (indemnity/parametric), pricing and potential role of a regional facility, and; (iii) considering context, including how it may fit with other initiatives, the capabilities/appetite of local insurers (market development) as well as the availability of credible, transparent modelling that is fit for purpose. Key stages in the development of a parametric insurance product were then discussed, ranging from the selection of input data, through data processing and the identification of triggers and calculation of pay-outs. Finally, the structure and design of an existing hybrid scheme, Fonden in Mexico, as well as lessons learned for CAREC was discussed.

**Key outcome(s):** Delegates gained a better understanding of the key steps involved in developing an insurance scheme, both theoretically and practically through the introduction of a case study. This understanding will help delegates consider what a potential CAREC disaster risk transfer facility could offer to their country.

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**Session 5: Infectious Disease Risk Financing (moved from Day 1)**

David Simmons, Disaster Risk Financing Specialist, WTW

**Purpose:** To outline a proposal for an Infectious Disease Risk Financing Framework for CAREC.

**Description:** This session explored how an Infectious Disease Risk Financing Framework could be used to (i) set up the health infrastructure and systems needed to be better prepared for the next pandemic; and (ii) activate a coordinated response via three proposed risk financing solutions (spark risk cover, containment financing, and SME business interruption). It built upon a similar session run during the first engagement event in November 2022, re-enforcing the context for and principles of risk financing mechanisms and illustrating concepts with two concrete examples of regional cooperation: the African Risk Capacity and the Pandemic Emergency Financing Facility (PEF). Pricing of an infectious disease risk financing was also discussed, with consideration given to structure and design, pricing approaches and investor confidence. A structure proposed by Munich Re has the private sector gaining comfort by public sector co-investment in a cat bond, which gives additional incentivisation for governments to respond early to reduce losses and also to participate in investment returns when there is no loss event. A follow-up program is proposed, subject to donor support and the support of CAREC member countries.

**Key outcome(s):** The importance of the wider health system environment was re-confirmed. Delegates gained an understanding of the importance of integrating risk financing with actions that strengthen the overall health system and improve response effectiveness. An appreciation of the coordination required to establish an Infectious Disease Financing Framework was established, as well as recognition of the risk profiling, containment planning, and implementation capabilities required to encourage the supply of affordable risk. Any further work with regards to the proposed infectious disease risk financing solutions require close collaboration and coordination with the CAREC health working group .

**Session 8: Disaster Relief Bond**

David Simmons, Disaster Risk Financing Specialist, WTW

**Purpose:** To outline an initial proposal for a pilot ADB-sponsored regional DRB in the context of an integrated climate and disaster risk management framework and its prerequisites for the CAREC member countries.

**Description:** The session began by building a common understanding on key definitions and purpose of catastrophe ('cat') bonds and DRBs.<sup>1</sup> Examples of sovereign catastrophe bond pay-outs in Mexico, Peru and the Philippines were then explored, and delegates were invited to consider how their country could use similar pay-outs in the immediate aftermath of a disaster event.

Opportunities and options for DRB issuance in the CAREC region were discussed, including the potential hazards that may be covered, DRB structure, types of triggers, and how to optimize the cost of such an instrument. Illustrative pricing options and potential benefits for countries to collaborate (based on an initial proposal of a pilot 3-Year bond for earthquake and flood covering 10 countries with the same coverage for each country) were presented. Delegates asked questions about how a DRB could complement existing DRR and DRF programs within their countries and how premiums and pay-outs would be distributed. The

<sup>1</sup> A disaster relief bond (DRB) is an innovative ex-ante disaster relief funding mechanism proposed by the ADB based upon a well-established product: catastrophe bond (commonly known as "cat bond"). A cat bond is an insurance instrument placed in the capital markets; it is not a debt obligation for the covered entity. A DRB is based on the same principles as a cat bond but seeks to further incentivize disaster risk reduction measures and is designed to integrate with other ADB modalities such as Policy-Based Loans (PBLs), Contingent Disaster Finance (CDF), and ex-post emergency assistance loans and grants.

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session concluded with an overview of how a DRB could help to integrate disaster risk management, reduction, financing and response planning for CAREC countries.

**Key outcome(s):** Delegates were re-introduced to the key concepts of a DRB and provided with an illustrative example of a pilot bond structure and price. Through a presentation and open Q&A, delegates were given the opportunity to revisit their understanding of how this instrument might be implemented by their country and the benefits of jointly purchasing a bond with other CAREC member countries. It was emphasized that the ADB may co-fund a pilot DRB for CAREC countries to demonstrate the benefits and mechanism. The session set the stage for the interactive group discussions to follow, where delegates discussed in more depth the proposed long-term and short-term DRF solutions for the CAREC region.

### Sessions 9 and 10: Interactive Group Discussions

Moderated by:

Thomas Kessler, Principal Finance Specialist, SG-FIN, ADB

Carmen Garcia Perez, Regional Cooperation Specialist, CWRC, ADB

**Purpose:** To allow workshop participants to exchange views on the proposed long-term and short-term DRF solutions for the CAREC region, and to deliberate on a draft joint statement for endorsement at the 22nd CAREC Ministerial Conference in November 2023.

**Description:** ADB facilitated an interactive group discussion structured around several questions related to the proposed pilot DRB:

1. How does the proposed DRB fit into your existing disaster risk financing strategies?
2. Which of the perils included in the DRB are you most concerned about? Is infectious disease also a concern?
3. A participation in an ADB-issued DRB would require countries to demonstrate their commitment to implement DRR measures. What DRR measures is your country investing in today? What additional DRR measures do you think are needed in your country to reduce disaster risk?
4. Which stakeholders would need to be engaged to build support for, and implement, an ADB-issued DRB in your country?
5. Is the cover proposed by the DRB appropriate given your disaster risk financing needs or would it be at least sufficient to demonstrate how a DRB works?
6. Does the pricing of the proposed DRB seem appropriate, and do you think it could be financed from your existing budget?
7. In the case of a disaster event, how would you spend pay-outs received from the DRB? What preparations would you need to put in place to ensure that funds can be spent appropriately?

Participants exchanged views and sought clarification on key aspects related to the structuring and functioning of DRBs such as premium and coverage per country, possible sources of financing for the premium, criteria to determine the triggers for pay-outs, etc.

In the second half of this session, a draft joint statement was discussed based on initial ideas that have been developed. This draft joint statement is intended to give the project further momentum to build on the initial work and pilot test the proposed solutions working towards the creation of a full-fledged CAREC disaster risk transfer facility.

**Key outcome(s):** Participants expressed their interest in further cooperating to create a regional disaster risk transfer facility –noting that this may take some time– and to work further on the proposal for a pilot DRB to help bridge the protection gap in the shorter to medium-term. The draft joint statement was walked



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through, and all delegates actively contributed to the rewording. Delegates agreed that the draft joint statement will be sent out to CAREC countries for their further review and initial concurrence prior to its final endorsement at the 22<sup>nd</sup> CAREC Ministerial Conference in November 2023.

**Session 11: Wrap-Up and Next Steps**

Thomas Kessler, Principal Finance Specialist, SG-FIN, ADB  
Carmen Garcia Perez, Regional Cooperation Specialist, CWRC, ADB

**Purpose:** To evaluate and summarise the TA results, key takeaways, lessons learned and next steps.

**Description and key outcome(s):** Main takeaways, lessons learned and next steps were summarized and agreed as follows:

1. There was broad interest from all countries to cooperate on disaster risk financing and the potential development of regional facility, as well as a consensus that ADB's continued support with this process is desired, in cooperation with other development partners.
2. There was an understanding that, with the support of ADB, many stakeholders within each country need to be informed and engaged in the decision-making processes to build ownership and make sure that the proposed solutions are well contextualized and tailored to each country's needs. Some concrete proposals for setting up an inter-agency working group were received from Kazakhstan and the Kyrgyz Republic.
3. There was a consensus that the work conducted so far as part of this TA is useful but can be enhanced. Further support from the ADB is required for capacity building at the national and regional level, including guidance on how countries can integrate the modelling and financing tools into their national disaster risk management strategies and programs.
4. ADB will follow-up with a letter to countries circulating all workshop material, including the final TA deliverables (draft roadmap and proposal on the pilot DRB) for any additional comments as well as the draft joint statement for further review and initial concurrence. It was emphasized that formal expressions of interest and demand from CAREC countries are needed to secure future financing.