

REPAIR: Regional Emergency Preparedness & Access to Inclusive Recovery MPA

Strengthening Financial Preparedness in Eastern and Southern Africa countries



WORLD BANK GROUP
Finance, Competitiveness & Innovation




March 4, 2024

The Eastern and Southern Africa region is highly vulnerable to climatic shocks



Geographical location of Eastern and Southern Africa countries **increases the likelihood of cross-country disasters** from recurrent river flooding, coastal flooding, seismic activity and climate effects such as El Niño and La Niña. Tropical cyclones have historically hit several Southern Africa countries at once (i.e. TC Freddy)

Climate disasters **can cause and / or exacerbate** public health crises, increased food insecurity, displacement of people, conflict / fragile political situation across the region.

-  ○ Cyclone Freddy – 500 killed, 300 health facilities destroyed in Malawi, Madagascar, Mozambique, ½ million people displaced in Malawi, 900k people affected by cholera and flooding in Mozambique
-  ○ Large epidemic outbreaks following Cyclone Idai, Kenneth, Eloise and Freddy, also worsening existing public health situations.
-  ○ The 2016 drought resulted in had a cereals deficit of between 6 and 10 million metric tons, and over 40 million people, 23 percent of the region's rural population, face severe food insecurity. El Nino is expected to be high for the 2023 season, which will impact Southern Africa regions significantly.

Large national financial protection gaps informed by climate risk analysis



Preliminary DRF analysis in **DRC** (CCDR); DRF Diagnostic finalized in **Zimbabwe and** ongoing in **Zambia**.

OUTPUTS

-  Angola -DRF Diagnostic
-  Namibia Agriculture Risk Finance and Insurance Diagnostic
-  Malawi TA on DRF
-  Mozambique DRF Diagnostic
-  Madagascar- DRF Diagnostic
-  South Africa DRF Diagnostic, Agriculture Risk Finance Diagnostic
-  Eswatini- DRF Diagnostic
-  Lesotho - DRF Diagnostic

RESULTS

Large protection gaps identified in terms of:

- Volume of pre-arranged financing
- Instruments available (sometimes reserves or insurance but few instruments in between)
- This leads to reliance on budget reallocation and humanitarian assistance
- Problem of speed of disaster response and taking money away from development priorities

The World Bank can build on extensive international experience to deliver effective regional risk finance solutions

- The WB has extensive experience in building regional mechanisms for financial preparedness for disasters, including through risk pooling.
- **Regional climate and disaster risk finance solutions** to protect against cross-border climate shocks
 - *De-risking, inclusion and value enhancement of pastoral economies in the Horn of Africa (P176517)*. Regional operation with Ethiopia, Kenya, Somalia and Djibouti to (i) protect pastoralists against drought with enhanced financial access and risk transfer; and (ii) better links to markets through trade facilitation and the mobilization of private capital in the livestock value chain.
- **Regional risk pools** to help vulnerable countries access international risk capital for recovery
 - Caribbean Catastrophe Risk Insurance Facility
 - Pacific Catastrophe Risk Insurance Company
 - Southeast Asia Disaster Risk Insurance Facility

PROPOSED REGIONAL OPERATION

Multiphase programmatic approach (MPA)

Proposed program: Regional Emergency Preparedness & Access to Inclusive Recovery (REPAIR MPA)

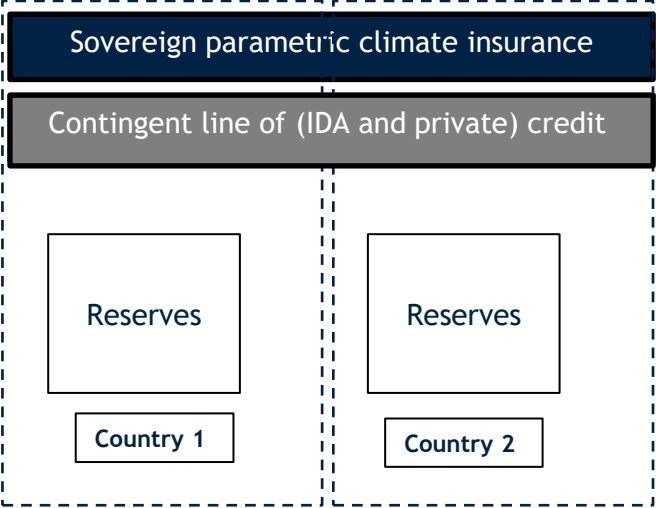
Program Development Objective:

To strengthen the financial preparedness of governments, vulnerable households and MSMEs against climate shocks in participating countries.

Overview (Phase 1 countries Comoros, Madagascar, Mozambique – DRC and Malawi have sent letters of request)

- REPAIR would take the form of a **regional program** seeking to **preserve jobs, and support livelihoods and SMEs** in the face of climate shocks and disasters.
- **Regional implementation** increases the likelihood of **mobilizing private capital** from international capital / insurance markets.
- **REPAIR will complement and strengthen** national risk financing mechanisms which is central to the design of this program.

Structure of REPAIR – Regional Climate Risk Fund linked to national distribution channels



Disbursements

Country
Ministry of Finance



Domestic distribution channels

FINANCIAL PREPAREDNESS

- Suite of financial instruments available to participating REPAIR countries
- Mobilizes private finance in the contingent credit and insurance layers
- Managed by a regional implementing agency (ARC)

OPERATIONAL PREPAREDNESS

- Builds on what already exists
- Adds a robust governance framework to link the Regional Climate Risk Fund to existing national distribution channels
- MoF in charge of coordinating the response and deciding through which channel funds flow

Additionality of REPAIR

- Mobilize **private capital**.
- **Link** the pre-arranged financing to country distribution channels.
- **Sustainability**, as an existing regional institution manages the fund which aims to raise additional capital and funding over time.
- **Holistic menu** of pre-arranged financing instruments, which are **coordinated with other donors** (e.g. AfDB, IMF for the RST) to make the disaster financing efficient for countries
- Strong **learning agenda** to help MoF better manage fiscal risks due to shocks

Advantages of a Regional Risk Financing and Pooling Approach

Through the project's Regional Climate Risk Fund



Addressing climate change and fragility as the rapid mobilization of funds via pre-identified delivery channels strengthens resilience and reduces drivers of displacement on vulnerable households



Securing additional pre-arranged funding for response and recovery against climate shocks through an integrated, risk-layered financial package managed at the regional level



Risk pooling enables MoF to achieve lower pricing and / or enhanced coverage of sovereign insurance as well as mobilize private capital from international capital / insurance markets



Building / enhancing the disbursement channels for resources to flow efficiently, effectively, and transparently to vulnerable, prioritized segments impacted by climate shocks



Specialist expertise can be sourced to successfully implement fund, bring multiple advantages including:

- Impactful, transparent *governance*
- Increased *resource mobilization* (returns, grant financing)
- *PCM* via risk pooling and leveraging national PCG schemes
- *Cost savings & higher investment returns* through economies of scale of managing one fund.
- Best practice *risk management* (liquidity, FOREX)



Knowledge agenda with the implementing agency acting as focal point for the provision of *regional public good*, enabling capacity development activities and sharing international best practice.

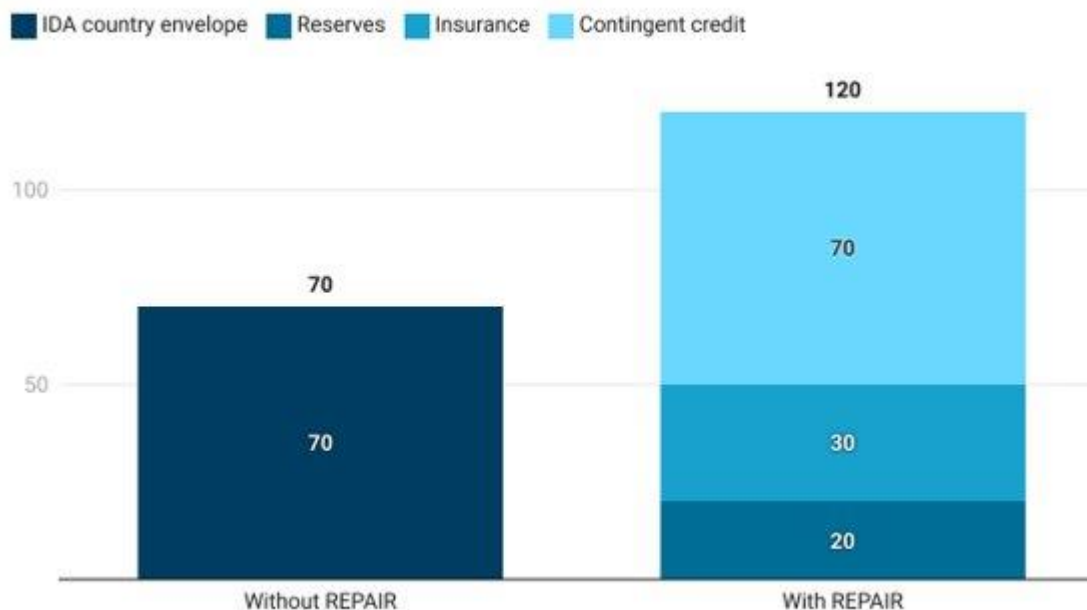
Leveraging IDA and Private Capital Mobilization: Malawi US\$70m

The design of REPAIR has a strong **leverage** effect

- On IDA through IPF DDO (50% against IDA PBA)
- By mobilizing private capital on the insurance (\$1 of insurance premium would leverage coverage of around \$10 of maximum cash payout)

Example for Malawi assuming US\$3 m per year used for insurance premium, and protection for 5 years in total

Malawi - Amount of protection available (\$m)

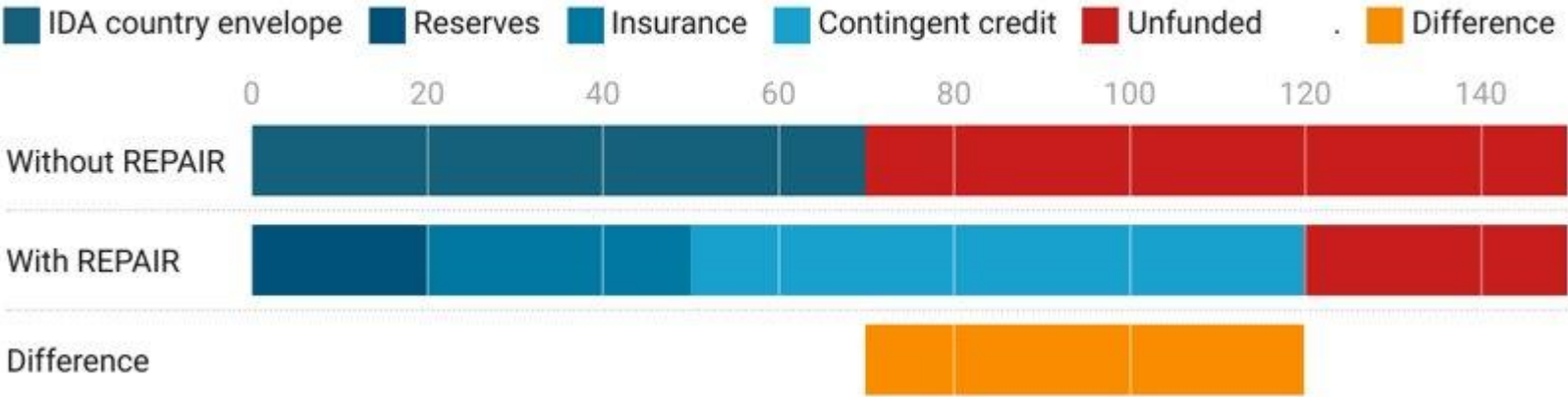


Cyclone Freddy in Malawi: Funding with and without REPAIR

Cyclone Freddy financial impact on Malawi was around US\$1bn. We have assumed that the cost of the immediate emergency response was around US\$150m.

- Without REPAIR there would have been a gap of US\$80m
- Had REPAIR been implemented, a combination of parametric insurance, reserves and contingent capital would have helped to lower this gap to US\$30m (assuming the first event from when the financing plan was in place)

Tropical cyclone Freddy: With and without REPAIR (\$m)



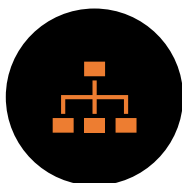
Global Shield Finance Facility supports with a US\$30m grant

The Global Shield Finance Facility (GSFF) has provided a US\$30 million grant to support the REPAIR program on:

- Design, placement and co-financing of financial instruments
- Technical assistance to countries on disaster risk finance and contingency planning
- Establishment and ongoing management of the regional climate risk fund

So that countries can use their IDA/IBRD envelopes to invest in financial instruments to cover themselves against shocks

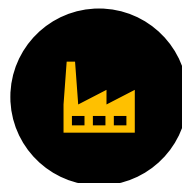
Technical assistance



SUPPORT THE SET-UP AND MANAGEMENT OF THE RCRF*



ADVISE PARTICIPATING COUNTRIES ON DRF INSTRUMENTS FOR FINANCIAL PREPAREDNESS, CONTINGENT LIABILITIES AND CONTINGENCY PLANNING



CAPACITY BUILDING FOR BOTH FINANCIAL (MOF) AND OPERATIONAL PREPAREDNESS (DISTRIBUTION CHANNELS)



ORGANISATION OF ANNUAL REGIONAL WORKSHOPS FOR CROSS-DISSEMINATION OF BEST PRACTICES



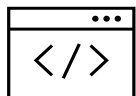
REGULAR ASSESSMENT OF ANNUAL CONTINGENCY PLANS AND CONDUCT OF SIMULATION EXERCISES

RCRF: Regional Climate Risk Fund

Program preparation milestones



ARC's role and responsibility as the Implementing Agency:



Contingent Lending Product Design and Management

Co-design between the WB and other lending partners based on countries' needs. Raise contingent finance from the private sector at rates affordable to the countries.



Reserve Fund Governance and Flow Management:

Sound management of reserves to ensure returns and liquidity.



Parametric Insurance

Product design; Distribution and awareness-building; Develop enabling environment; (Re)insurance.



Operational Preparedness

Ensure that the funds reach the intended beneficiaries, i.e., households or SMEs, including monitoring and tracking the ultimate beneficiaries; develop contingency plans.



Communication and Capacity Building

Manage program communication with all stakeholders and build country capacity on DRF through country and regional engagements.