

POLICY BRIEF

ENHANCING DISASTER RISK FINANCING FOR CARIBBEAN SIDS

WWW.DEBTHUB.CPDCNGO.ORG



CENTER
FOR
GLOBAL
DEVELOPMENT

EXECUTIVE SUMMARY

Caribbean Small Island Developing States (SIDS) face increasing frequency and severity of climate-related disasters, creating significant economic shocks that threaten development gains. Current disaster risk financing mechanisms have proven inadequate, as demonstrated by Hurricane Beryl's impact in 2024. This brief examines the performance of existing World Bank-supported financial instruments and proposes targeted reforms to enhance disaster risk financing for Caribbean SIDS. Improving these mechanisms is critical for regional resilience and sustainable development.

KEY CHALLENGES

1. Limited Effectiveness of Current Financial Instruments

The 2024 hurricane season exposed significant gaps in World Bank-supported disaster risk financing instruments:

- Catastrophe (CAT) Bonds: Jamaica received no payout from its \$185 million CAT bond despite suffering \$200 million in damages from Hurricane Beryl due to overly restrictive trigger conditions.
- Caribbean Catastrophe Risk Insurance Facility (CCRIF): While CCRIF disbursed a record \$85 million following Hurricane Beryl, this covered only a fraction of total damages. Grenada's \$44 million payout—the largest in CCRIF history—addressed only 20% of its disaster financing needs.
- Catastrophe Deferred Drawdown Options (CAT DDOs): St. Vincent and the Grenadines chose not to renew its CAT DDO after drawing down funds for the La Soufrière volcano eruption in 2021, leaving a gap in protection.

2. Debt Sustainability Concerns

Disaster financing challenges are compounded by the region's debt vulnerabilities:

- Caribbean SIDS' public debt has risen from 55% of GDP in 1993 to 72% in 2023.
- Six Caribbean countries now exceed 80% debt-to-GDP ratios.
- Post-disaster borrowing exacerbates already precarious fiscal positions.
- Debt servicing consumes nearly 40% of budget revenues, diverting resources from resilience investments.

3. Implementation Gaps

Evidence from recent disasters reveals implementation challenges:

- Climate Resilient Debt Clauses (CRDCs) provided timely relief for Grenada but are only available in limited debt instruments and for few Caribbean countries.
- Regional capacity constraints limit effective utilization of complex financial instruments.
- The World Bank's Crisis Preparedness and Response Toolkit remains underutilized across the region.





POLICY RECOMMENDATIONS

1. Enhance Parametric Insurance Programs

Short-term actions (0–12 months):

- Reform CAT bond trigger parameters to better align with actual disaster impacts rather than strict meteorological thresholds.
- Increase CCRIF coverage limits and reduce premium costs through enhanced World Bank subsidization.
- Introduce multi-hazard coverage options that address cascading and compounding disaster risks.

Medium-term actions (1–3 years):

- Develop a Caribbean Loss and Damage Data Hub to improve parametric trigger design and accuracy.
- Establish a regional technical assistance facility focused on disaster risk financing.
- Design complementary instruments that address CCRIF's coverage limitations.

2. Expand Climate Resilient Debt Mechanisms

Short-term actions (0–12 months):

- Extend Climate Resilient Debt Clauses to all World Bank lending instruments for Caribbean borrowers.
- Standardize CRDC triggers and terms for easier implementation.
- Provide technical assistance for sovereign debt negotiations that incorporate climate resilience elements.

Medium-term actions (1–3 years):

- Develop a comprehensive debt-for-resilience swap program tailored to middle-income Caribbean SIDS.
- Partner with the Global Shield against Climate Risks to develop innovative financing solutions.
- Create a dedicated Caribbean Climate Resilience Fund that can assume disaster-related debt.

3. Strengthen Regional Capacity and Coordination

Short-term actions (0–12 months):

- Establish a Caribbean Disaster Risk Financing Working Group with dedicated World Bank support.
- Develop standardized protocols for rapidly accessing and deploying post-disaster financing.
- Implement systematic monitoring of disaster risk financing performance against actual needs.

Medium-term actions (1–3 years):

- Create a comprehensive regional disaster risk financing strategy aligned with fiscal policies.
- Develop a Caribbean-specific disaster risk financing curriculum for finance officials.
- Establish formal coordination mechanisms between regional and international financial institutions.

IMPLEMENTATION CONSIDERATIONS

Fiscal Implications

- The recommendations acknowledge resource constraints within both the World Bank and Caribbean governments.
- Specific costs will vary by country context and implementation approach.
- Recommendations emphasize leveraging existing mechanisms where possible to maximize cost-effectiveness.
- Potential for significant long-term fiscal savings through more efficient disaster response and reduced recovery costs.

Institutional Arrangements

- Implementation requires coordinated action among multiple stakeholders: World Bank and other MDBs, Caribbean Development Bank, National ministries of finance and disaster management offices, Regional organizations including CARICOM and CDEMA
- Existing regional mechanisms should be strengthened rather than creating entirely new structures.

Political Economy Considerations

- Alignment with regional priorities outlined in the CARICOM Climate Change Strategic Plan.
- Opportunities for demonstrating regional leadership in innovative climate finance solutions.
- Consideration of varying debt profiles and fiscal capacities across the region.
- Need for a tailored approach respecting the diverse needs of individual Caribbean SIDS.

CONCLUSION

The evidence from recent disasters demonstrates that current disaster risk financing mechanisms require significant enhancement to meet Caribbean SIDS' needs. By implementing these recommended reforms, the World Bank can substantially improve the effectiveness of disaster risk financing in the region, contributing to debt sustainability and climate resilience. Timely action is essential as climate-related disasters continue to intensify.



Learn more: www.debthub.cpdcnngo.org

'How Can the World Bank Better Support Natural Disaster Risk Financing in Caribbean SIDS'

