Innovative Finance for Resilience
The economic and societal impacts of disasters are growing. The average annual cost of damages has increased almost 10 times since the 1970s (Swiss Re, 2018). This growth is driven primarily by development in high risk areas and, for some events, further exacerbated by the impacts of climate change. Looking forward, climate change is expected to increase the frequency and severity of severe weather events (IPCC, 2014; IPCC, 2012). Rising sea levels further amplify the risk in low-lying coastal areas. Small Island Developing States in the Caribbean and Pacific are particularly vulnerable to these changes.
The Risks

As more people and assets become rapidly concentrated in cities and as infrastructure struggles to keep up with rapid growth, the risk from natural disasters and climate change is rising.

collapsed buildings  broken bridges  brownouts  flooding  fires
Small Island Developing States are particularly vulnerable to these changes. More can be done to strengthen resilience and speed-up recovery from disasters. Poorly constructed & maintained infrastructure, including schools, hospitals, housing, roads and power infrastructure are particularly vulnerable to disasters.
Resilience Impact Bond

- A bond with outcome-based repayments that are focused on resilience and social goals
- The RIB concept would explicitly transfer the risk of providing resilient services to private investors. Investors would provide upfront financing to ensure that critical services requiring infrastructure (e.g. education, health, power) are more resilient. Returns would come through payments made by the donor (or ‘outcomes funder’), but with returns varying according to either the ongoing provision of resilient services, or other conditions stipulated by the funder that aim to proxy this.
Resilience Bond

- A catastrophe bond where bond coupon payments are reduced when resilience measures are implemented.
- A catastrophe bond (cat bond) which takes account of the impact of resilience measures. In the event of an eligible disaster, investors lose all or a portion of the capital value of the bond, which is transferred to the bond sponsors.
- Resilience Bonds also account for the impact of resilience measures through reducing bond interest payments once these measures are implemented.
Resilience Service Company

- An agent who pays for and implements resilience measures upfront in return for a share of future insurance premium savings.
- A ReSCO would pay for and implement resilience measures upfront, recouping its investment from the risk based insurance premiums by reducing volatility. Based on Energy Service Companies who design, finance and take the performance risk of energy efficiency investments, sharing the energy cost savings they generate between themselves and the asset owner.
- ReSCOs would overcome the unwillingness of asset owners to incur the upfront costs from resilience measures. In the first instance, proof of concept may need to be delivered by a development partner or a Public Private Partnership.
- Donor support would be required in scenarios where insurance uptake is very low.