Roadmap for a Disaster Risk Financing Strategy against Natural Disasters

Grenada

Challenge

Grenada is highly exposed to natural disasters of varying intensity and severity. Several types of disasters, such as hurricanes, tropical storms, earthquakes, droughts, floods, and landslides, frequently occur. Exposure and livelihoods are largely located in coastal areas due to a mountainous interior. The country’s main city and capital, St. George’s, with a high concentration of population and assets, is situated around a horseshoe-shaped harbor, making it highly prone to hydrometeorological hazards. In the last 40 years, four hurricanes have made landfall in Grenada causing significant physical and financial damages. In addition, rainfall has caused periods of intense flooding in several parts of the country. Grenada is also located near the Lesser Antilles subduction zone, making the country prone to earthquakes.

Natural disasters are one of the main risks to the country’s macro-economic outlook.¹

According to Grenada’s Country Disaster Risk Profile (CDRP)², developed by the World Bank, it is estimated that hurricane and earthquake damage to public and private building infrastructure will amount to USD 10 million on average each year in the long run; a loss equating to 1.1% of GDP each year. In addition to long-term impacts on economic and social development in Grenada, disasters also increase the country’s sovereign debt, as more loans are borrowed to finance unplanned post-disaster expenditures.

Disaster Risk Finance Roadmap

The World Bank’s Disaster Risk Financing Technical Assistance Program, financed by the Global Facility for Disaster Reduction and Recovery (GFDRR), presents recommendations for a cost-effective, disaster risk finance strategy in Grenada. These recommendations stem from preliminary fiscal risk analysis and review of Grenada’s current public financial management of disasters and domestic non-life insurance industry and seek to minimize the impact that natural disasters have on the fiscal and economic state of the country.

Utilizing a risk layering approach to account for events of varying frequency and severity, and based on existing instruments identified in the diagnostic analysis, the proposed recommendations would allow the Government of Grenada to finance its contingent liabilities from a flood or hurricane event with a 30-year return period. Summaries of these recommendations are shown in Figures 1 & 2.

¹ Grenada: 2014 Article IV Consultation and Request for an Extended Credit Facility Arrangement – Staff Report, July 14 2014.
Figure 2. Recommendations for a comprehensive, informed DRF Strategy

**IMPROVE DATA COORDINATION & MANAGEMENT**
- Develop an inventory of public assets.
- Institutionalize a damage and loss data collection and reporting system across ministries.

**IMPROVE PUBLIC FINANCIAL MANAGEMENT**
- Approve DRF strategy.
- Prepare a manual for post-disaster financing.
- Create legal institutional environment for Disaster Risk Financing.

**IMPROVE FINANCIAL PROTECTION STRATEGY**

**GOVERNMENT**
- Catastrophe risk insurance program for public assets and parastatals.
- Diaspora bond and catastrophe bond markets.
- Management of contingent liabilities related to social protection.
- Contingency reserves for public contingent liabilities associated with 5-year return period events.

**PRIVATE SECTOR**
- Data sharing on agricultural insurance and development of affordable products.
- Availability, penetration, and affordability of private and residential catastrophe insurance (potential public-private partnerships [PPPs]).

**Top Risk Layer**
- Contingency reserves for public contingent liabilities associated with 5-year return period events.

**Top & Middle Risk Layer**
- Diaspora bond and catastrophe bond markets.
- Management of contingent liabilities related to social protection.

**Middle Risk Layer**
- Contingency reserves for public contingent liabilities associated with 5-year return period events.

**Bottom Risk Layer**
- Approve DRF strategy.
- Prepare a manual for post-disaster financing.
- Create legal institutional environment for Disaster Risk Financing.

Priority levels:
- Short term
- Medium term
- Long term

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For detailed recommendations, view the full report, *Advancing Disaster Risk Finance in Grenada: Recommendations for Consideration*.