Terms of Reference

Climate Risk Options for Commonwealth Small States

Background

The Commonwealth defines small states as sovereign countries with a population of 1.5 million people or fewer. The Commonwealth also designates some of its larger member countries – Botswana, Jamaica, Lesotho, Namibia and Papua New Guinea – as small states as they share many of the characteristics of small states. Thirty-one of the fifty-three Commonwealth member countries are small states.

The incidence and severity of extreme weather events are increasing as a result of climate change. Disaster risk reduction and climate change adaptation are important, interrelated responses for all countries, but this is particularly important for small states. These countries face unique set of development challenges due to their small size, limited human resources and susceptibility to the impacts of climate change; many Caribbean and Pacific countries sit on tropical storm paths, while all are susceptible to drought, flood and other extreme events. These challenges threaten to erode developmental gains, so understanding, managing and then mitigating and transferring this climate risk is essential. This will both reduce economic loss and casualties caused by meteorological hazards, and help countries to bounce-back effectively after a disaster. Without such an approach, there can be considerable and long lasting negative impact on economic growth and national incomes.

Expansion in the provision of risk insurance for vulnerable countries is gaining increasing attention from the international community. At the 2015 Paris Climate Conference (COP21), a host of world leaders reiterated this view. The U.S for example pledged $30million to fund climate risk initiatives in the Africa, Caribbean and Pacific regions, to help increase climate risk insurance proliferation. This, and the actions of other G7 nations, is supportive of the pledge made by the G7 in July 2015 to raise the number of individuals insured for climate risk in the developing world to 400 million by 2020. The U.S. pledge will directly support the regional risk insurance initiatives operating in the ACP regions. The G7 led initiative will also seek to better understand how to incentivise and include the private sector – as a provider of insurance and also in an investment capacity. For example, Lloyds of London announced that a consortium of Lloyd's syndicates will mobilise $400 million to help developing economies tackle the issues of underinsurance and climate resilience.

Objectives of Research

This research paper aims to provide policy makers with an overview of the use of risk transfer and risk pooling options as a response to climate related shocks. There are regional risk transfer models that cover many Commonwealth small states and it is the intention of this work to highlight and compare the strengths, weaknesses, barriers, opportunities and incentives of these, as well as highlighting alternative approaches, key requirements and success stories.

A number of potential research questions are laid out below. These will guide the focus of this paper and the selection of questions will be elaborated upon in consultation with the Commonwealth Secretariat and the outputs determined when the contract is signed.

Potential Questions/Areas of Interest

1. General assessment of shortcomings, barriers, opportunities and incentives relating to the application of risk transfer mechanisms in Commonwealth small states, via regional platforms. Which countries are currently benefiting, which are not, why?

What is the scope for extending and enhancing cover in the current insurance landscape?

2. What different actors and incentives are in play at the regional level? What is best practice, e.g. PPP model? What is the role of the private sector and the relationship between public and private sector?
3. Compare and contrast the different products and mechanisms in use and in development, drawing out inferences for wider recommendations and synergies. What other financial instruments can address the underlying demand for insurance products? Which sectors of economies/administrations should be targeted with risk pooling/transfer? What should it try to mitigate: disaster recovery? Debt stability? Investment stimulus? Social protection? Poverty alleviation? Others?
4. To what extent can risk transfer, risk layering and risk pooling improve the resilience of Commonwealth small states to extreme weather event and climate change impacts? To what extent is this a disaster risk reduction (DRR) or a climate change adaptation (CCA) measure?
5. Can such an approach complement the loss and damage agenda as the Warsaw Mechanism is refined heading into COP22, particularly with reference to financial instruments under the mechanism. How can premiums be funded? Is the premium a barrier? What innovative means could be used to fund these?
6. Are countries required to enhance existing risk management and reduction in order to access coverage?

Outputs

1. In-depth summary of the climate risk insurance landscape for small states, including the coverage, effectiveness and challenges.
2. Comparison of three regional approaches to climate risk transfer/pooling: CCRIF, ARC, and PCRAFI.
3. Lessons learned and opportunities for small states to extend coverage of climate risk insurance.

Specification of the role

The Climate Finance and Small States team is looking for a climate risk expert with a track record in analytical work in a developing country context. The consultant should have strong connections with stakeholder groups involved in the design, implementation and research of climate change risk. In particular, expertise and experience of the Africa, Caribbean and Pacific regions in regards to risk transfer, pooling and management is expected.

The expert will:

- Conduct interviews with key informants to collect the requested information.
- Collect and analyse appropriate information, data, and statistics.
- Produce a publishable paper between 25-35 pages in length, including charts, graphs, and references, in collaboration with the Commonwealth Secretariat.

Deliverables

A publishable paper as outlined in the objectives and outputs of the terms of reference.

Timeline

The level of effort for the consultancy shall be a total of 14 working days between April and May 2016. The total cost of this consultancy will not exceed £3,000.

Tasks	Deadlines
First draft submitted	6th May 2016
Final draft submitted	31st May 2016

Reporting

The Consultant will report to the Interim Director of the Economic Policy Division or her nominee.