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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/33-2

9:55 a.m., May 1, 2019

2. Building Resilience in Developing Countries Vulnerable to Large Natural Disasters

Documents: SM/19/68 and Correction 1; and Supplement 1

Staff: Stuart, APD; Srinivasan, WHD; Nolan, SPR

Length: 1 hour, 49 minutes

Executive Board Attendance

C. Lagarde, Acting Chair

Executive Directors	**Alternate Executive Directors**
D. Mahlinza (AE)	
M. Raghani (AF)	
	J. Di Tata (AG)
	G. Johnston (AP)
A. Tombini (BR)	
	P. Sun (CC)
	A. Guerra (CE)
	A. McKiernan (CO)
R. Kaya (EC)	
	A. Castets (FF)
S. Meyer (GR)	
S. Gokarn (IN)	
D. Fanizza (IT)	
M. Kaizuka (JA)	
J. Mojarrad (MD)	
	S. Geadah (MI)
	V. Rashkovan (NE)
	J. Sigurgeirsson (NO)
	L. Palei (RU)
	B. Alhomaly (SA), Temporary
	K. Tan (ST)
	P. Trabinski (SZ)
S. Riach (UK)	
	P. Pollard (US), Temporary

H. Al-Atrash, Acting Secretary
H. Al-Atrash/K. Hviding, Summing Up Officers
M. Gislen, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Asia and Pacific Department: O. Brekk, K. Kang, D. Lee, C. Rhee, S. Roger, A. Stuart. Communications Department: W. Murray. Finance Department: C. Faircloth, H. Nguyen. Independent Evaluation Office: T. Gutner, M. Kell, C. Rustomjee. Legal Department: K. Kwak, G. Rosenberg. Middle East and Central Asia Department: P. Khandelwal. Secretary's Department: J. Lin. Strategy, Policy, and Review Department: S. Das,

E. Gemayel, M. Farid, N. Meads, S. Nolan. Statistics Department: P. Tumbarello. World Bank Group: A. Garcia Mora, S. Hader, P. Maisterra. Western Hemisphere Department: L. Bonato, A. Husain, I. Otker, U. Ramakrishnan, K. Srinivasan, A. Werner Wainfeld. Executive Director: P. Inderbinen (SZ), Z. Jin (CC), T. Ostros (NO), N. Ray (AP), L. Villar (CE). Alternate Executive Director: C. Just (EC), K. Merk (GR), K. Obiora (AE), M. Psalidopoulos (IT), H. Razafindramanana (AF), B. Saraiva (BR). Senior Advisors to Executive Directors: W. Abdelati (MI), Z. Abenoja (ST), K. Karjanlahti (NO), S. Keshava (SA), Z. Mohammed (BR), O. Odonye (AE), E. Rojas Ulo (AG), A. Tivane (AE), G. Vasishtha (CO), C. Williams (CO). Advisors to Executive Directors: M. Albert (FF), P. Al-Riffai (MI), A. Arevalo Arroyo (CE), K. Badsi (MD), S. Bah (AF), X. Cai (CC), D. Crane (US), J. Essuvi (AE), J. Hanson (NE), Z. Huang (CC), B. Jappah (AE), U. Latu (ST), V. Lucas (GR), M. Merhi (MI), H. Mori (JA), M. Mulas (CE), A. Nainda (AE), L. Nankunda (AF), E. Ondo Bile (AF), R. Pandit (ST), I. Skrivere (NO), A. Srisongkram (ST), A. Zaborovskiy (EC), K. Hennings (BR), K. Lok (CC), A. Tola (SZ).

2. BUILDING RESILIENCE IN DEVELOPING COUNTRIES VULNERABLE TO LARGE NATURAL DISASTERS

Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the informative paper, including a set of very useful annexes. We welcome the opportunity to discuss how the IMF can most effectively play its role in helping countries build resilience to natural disasters. We support the focus on ex ante resilience and agree that the Fund should better integrate disaster risks and investments into macro frameworks. Regarding the broader strategic approach and division of labor, we appreciate Fund staff's perspective on how changes might address gaps but would defer to the Bank and its Executive Board in this area. Can staff comment on whether a joint Bank-Fund paper on this topic was considered?

Disaster Resilience Strategy. We agree that donor coordination is a key imperative, particularly in small states with limited capacity. If small, disaster-vulnerable states and the World Bank believe that the Disaster Resilience Strategy would be a more coherent and less burdensome strategic approach, we would be supportive. We particularly appreciate that the paper notes this umbrella strategy would build on, rather than replace World Bank strategies on Disaster Risk Management and Disaster Risk Finance and Insurance. But, as noted above, we question whether the primary impetus for a change in the strategic approach should originate from the IMF. Does staff believe that each of the 66 countries in Table 1 would be good candidates for a Disaster Resilience Strategy? Why would a separate Disaster Resilience Strategy be a better approach than incorporating resilience objectives into a country's broader development strategy? How would this approach guard against "strategy overload" and provide sufficient flexibility to incorporate changes in circumstances?

Diagnostics. In terms of diagnostics, we encourage the IMF to work closely with the World Bank and others in a pragmatic manner to provide relevant diagnostics calibrated to country context, possibly through the CCPA. It will be important to ensure that these diagnostics are then well-integrated into the broader dialogue that the Bank, Fund and others have with country authorities.

Integrating Disaster Risks into Macro-Frameworks. We welcome the paper's ideas on how to strengthen the integration of disaster elements into macro-frameworks in both the surveillance and program contexts. Highlighting the risks of inaction, making sure that baselines (and government contingency planning) include likely disaster costs, and quantifying the returns to potential resilience-building investments are all important ways the IMF can strengthen macro-frameworks in vulnerable countries. Similarly, the IMF can help countries quantify the costs and benefits of securing insurance. Importantly, debt sustainability needs to fully incorporate the long-term benefits of resilience building.

Lending Toolkit. We agree that existing tools in the lending toolkit could be employed to support resilience building, particularly PCIs and precautionary arrangements.

Catalyzing Resources for Resilience. A more coherent approach to building ex ante disaster resilience, including identification of key vulnerabilities and stronger integration of disaster risks and investments into macro-frameworks, could better equip countries to seek finance for resilience-related projects. That said, we need to be careful not to raise expectations about potential streamlining of processes in Climate Funds. We see value in efforts to assist countries to identify their highest priority vulnerabilities, develop response strategies and a pipeline of resilience projects or project elements that are incorporated into larger development efforts. It is important, however, that such work is undertaken in accordance with each institution's comparative advantage, and that it build on, rather than replace, existing efforts in this space. We also concur with staff that the IMF could continue to advance understanding of hurricane clauses in debt instruments among market participants and vulnerable countries. Such instruments could increase predictability and reduce the need for recourse to ad hoc debt restructurings, to the benefit of all sides.

Mr. Alkhareif and Mr. Keshava submitted the following statement:

We thank staff for their comprehensive paper on building resilience in developing countries vulnerable to large natural disasters. This is an important work as large disasters can have immense human and economic costs. We will focus our remarks on issues for discussion.

We support Fund's role, within its mandate and in close collaboration with other institutions especially the World Bank, in helping disaster-vulnerable countries build resilience. At the same time, we consider that the preparation of a disaster resilience strategy (DRS), as envisaged in the paper, should be voluntary especially as the World Bank has been helping countries develop disaster risk management (DRM) and Disaster Risk Financing and Insurance Strategies (DRFI) for over a decade (paragraph 11). The Fund, on its part and in line with its mandate and in collaboration with other institutions, should deepen its advice on macro-critical issues related to ex-ante resilience building and support associated capacity development by drawing on the existing work by the World Bank and other organizations in case a DRS is not prepared.

An appropriate division of labor among various stakeholders is key for a successful engagement in disaster-vulnerable countries. The Fund has a comparative advantage in helping vulnerable countries integrate resilience-building into macro frameworks. In this context, we are pleased to note that the coverage of disaster risks and resilience-building in Fund surveillance has increased significantly in recent years and country teams have adopted various approaches. We consider that a more systematic approach of incorporating the impact of large natural disasters as well as the costs and benefits of ex-ante resilience-building in the macroeconomic framework and debt sustainability analyses would help the authorities in making informed choices. We therefore see a case for giving greater attention to resilience-building in Fund surveillance in disaster-vulnerable countries, but it should be done after consultation with the authorities to adequately reflect their priorities.

We agree that the current Fund lending toolkit is appropriate to support disaster-vulnerable countries. At the same time, it is important to underline that a disbursing Fund arrangement will be appropriate only where a country is facing BOP needs. In particular, a non-financial signaling instrument could play a greater role to signal commitment to reforms. A precautionary arrangement could also be helpful for countries with potential BOP needs. Overall, Fund endorsement of macroeconomic framework, with or without a financial arrangement, should play a strong catalytic role in mobilizing financial resources from other stakeholders in support of resilience-building.

On supporting capacity development, clear division of work and closer coordination among multilaterals and other stakeholders will be needed to avoid overburdening governments with limited absorptive capacity. The Fund should support capacity building in its area of expertise, including strengthening domestic revenue mobilization, enhancing public financial management, strengthening public investment management, and developing medium-term fiscal and budget frameworks. As regards using Fund’s convening powers to help coordinate various stakeholders for resolving existing hurdles to accessing market-based risk transfers such as private insurances, it is not clear whether the Fund has a comparative advantage to be at the center of such coordination. The World Bank has been active in this area and should take the lead. Staff comments would be appreciated.

Finally, the suggestion for a new diagnostic tool for a DRS in Box 4 is not clear. The CCPA is still operating in a pilot phase and we would welcome comments on whether any evaluation has been planned? We would also welcome staff's elaboration on a possible new diagnostic tool for a DRS and whether any consultation with the World Bank has taken place?

Mr. Di Tata and Mr. Rojas Ulo submitted the following statement:

We thank staff for this comprehensive report, which focuses on how best to support disaster-vulnerable countries in building resilience to disasters, taking proper account of fiscal and institutional capacity constraints.

We believe that the three-pillar strategy for building structural, financial, and post-disaster resilience described in the paper, which is informed by the Sendai initiative and the Bank's Disaster Risk Management (DRM) framework, constitutes a useful way to address the challenges faced by disaster-vulnerable countries. We also agree that a full-fledged national disaster resilience strategy (DRS), which would require actions on all the three pillars, could serve as a platform to catalyze higher levels of concessional assistance from bilateral donors, climate funds, and other sources. We recognize that the challenges of developing/implementing a DRS are bigger in small or poor states, given their limited domestic capacity and difficulties in engaging with multiple development partners.

We welcome the paper's emphasis on ex-ante interventions, which can reduce the costs of post-disaster recovery as well as related ex-post financial support from donors. In this regard, we find the estimates presented in Box 2 useful. We notice that although several vulnerable countries have made progress in building structural resilience, the costs of adaptation to climate change in developing economies are estimated at 2-3 times higher than currently available financing and are likely to rise significantly by 2030. Are there any realistic ways to finance these costs, including through domestic resource mobilization, increased donor support, and concessional borrowing? Could staff comment on examples of cases in which the private sector has played a useful role in supplementing public funding?

Regarding financial resilience, the World Bank's multilayer risk approach, which identifies instruments for different types of risks, provides useful guidance to address countries' expected funding needs. However, use of some of these instruments has been limited owing to cost and capacity constraints. We believe that the Fund, in collaboration with the World Bank, could play a valuable role in advising countries on state-contingent debt instruments and risk insurance products, including the trade-offs between the fiscal costs of insurance and its growth benefits. Could staff elaborate further on the characteristics of the Global Platform for Risk Insurance launched recently by the World Bank, Germany, and the UK?

Regarding post-disaster resilience, we agree on the need for early action to develop a detailed plan to guide the response of government agencies and the public in the wake of a disaster. As noted in footnote 8, an early assessment of existing social safety nets to determine their adequacy for disaster resilience can help identify gaps and prepare necessary reforms. We take positive note of countries' ongoing efforts to improve coordination focusing on regional expertise pooling.

We welcome the paper's emphasis on achieving a closer coordination among development partners to support resilience-building efforts in countries with insufficient institutional capacity. As noted in the report, the fragmented nature of current practices for provision of external support has been highlighted by Caribbean and Pacific Island authorities. In this regard, we support the framework outlined in the report for facilitating effective coordination, which envisages a country-owned DRS grounded on a comprehensive diagnostic as the key building block.

We concur with staff that substantial additional support and engagement from development partners would be needed to help disaster-vulnerable countries develop and implement a DRS. In this connection, the Climate Change Policy Assessment (CCPA) being piloted in several small island states by the Fund, with extensive support from the World Bank, constitutes a valuable tool. The Fund is well suited to play an important role in the DRS process by helping countries develop a consistent macro framework that could warrant support from development partners. It can also help identify fiscal actions, including in the areas of domestic resource mobilization and expenditure management, to support the policy framework, and can provide targeted capacity building assistance in its areas of expertise. Could staff elaborate further on the expected role of the CCPA beyond the pilot stage?

We agree on the need for Fund surveillance to give greater attention to resilience-building in disaster-vulnerable countries, including by preparing an alternative macroeconomic framework and a DSA incorporating the costs and benefits of the country's resilience-building strategy. We encourage staff to continue increasing the coverage of disaster risks and resilience-building in staff reports. Moreover, we support the work of some country teams in developing innovative methodologies to integrate the cost of natural disasters and financing alternatives.

We believe that the Fund's current lending toolkit provides an appropriate range of options for supporting disaster-vulnerable countries that are implementing a resilience-building strategy. At the same time, we agree with other Directors that consideration could be given to increasing access limits. Program design could be tailored toward supporting resilience building by integrating the short-term costs and longer-term benefits of resilience investment in the macroeconomic framework and by focusing structural conditionality on the resilience-building strategy, in close consultation with the World Bank and other development partners.

Regarding capacity development, significant technical support is likely to be needed to design and implement the main components of the DRS. In the context of a collaborative approach with other institutions, the Fund can support countries through capacity development on building structural and financial resilience, focusing on its areas of expertise. On ex-ante preparedness for disaster recovery, we agree with staff that possible areas of engagement include promoting the development of business continuity plans for central banks and commercial banks and assessing the resilience of banks' loan portfolios to disaster shocks. We notice that the Fund has held several regional workshops on medium-term fiscal frameworks and fiscal resilience to natural disasters in the Pacific. Are there plans to do something similar in the Caribbean?

Mr. Agung, Mr. de Villeroché, Mr. Fanizza, Mr. Gokarn, Ms. Levonian, Mr. Mahlinza, Mr. Mojarrad, Mr. Mozhin, Mr. Raghani, Ms. Riach, Mr. Tombini, Mr. Villar, Mr. Geadah, Mr. Johnston, Mr. Rashkovan and Mr. Sun submitted the following joint statement:

We thank staff for a considered and timely paper on assisting vulnerable developing countries -including most small states or low-income countries- to build resilience to natural disasters. We thank staff and management for their continued responsiveness to calls by the membership for help with tackling these challenges. The Fund has a clear role in helping vulnerable countries to build natural disaster impacts, preparedness and financing into their macroeconomic frameworks and development policies, and in using its convening power to focus attention on particular issues. Our institution has done good work in this area over the last few years. More broadly, many countries at high risk of natural disasters are also trying to meet their 2030 Sustainable Development Goals. The Fund, together with the World Bank and other key stakeholders, can help these countries find a proper balance between development needs, rising debt vulnerabilities and the benefits of ex-ante resilience building.

The Fund should ensure that its approach to natural disasters applies not just to sudden catastrophic events but also to slower-onset disasters, which can also have a detrimental impact on countries. Their adverse effect is further compounded by fragility, poverty, and income inequality, and these, in turn, reinforce low-level equilibrium traps. Could staff comment on how they are considering these issues in this workstream? In addition, climate trends (such as global warming resulting in for example rising sea levels) are themselves becoming macro-critical in many places and we see merit in work that seeks to integrate thinking across the spectrum of these phenomena.

The three-pillar strategy outlined in the paper is a useful way of thinking about natural disaster resilience building. In this context, we particularly welcome the focus on ex-ante preparedness and the importance of a better donor coordination. We also believe that the Fund and the Bank are well placed to assist countries address capacity gaps in the design, prioritization, and implementation of public investments aimed at strengthening structural resilience. Investing in resilience-building can result in lower than expected losses from disasters, and at the same time can produce net savings for bilateral donors that also provide significant support for post-disaster recovery efforts.

We think a diagnostic that looks at a country’s vulnerability to natural disasters and the adequacy of existing preparedness could be very useful to the membership and we support its development. As the paper acknowledges, many countries and regions already have natural disaster strategies, plans and frameworks, but these could benefit in many cases from a rigorous examination and review, especially in terms of quantifying costs, prioritizing investment needs, developing financing options and maintaining consistency with the countries’ macroeconomic and fiscal settings. As outlined in the paper, the proposed diagnostic would take the current CCPA and supplement it with other analysis and project costings. The CCPA is currently being piloted, with two more countries yet to have one, and one of its goals was to help facilitate access to donor and climate funds. In this regard, we encourage staff to consider more specific measures to facilitate access to financing. Is it staff's intention to evaluate the CCPA and learn from this experience before creating a new diagnostic tool?

The proposal to support countries developing a DRS is also promising. Staff acknowledges that there is more work to do in fleshing out the general principles of a DRS, including further discussions with other agencies, and we support this work. It would be good to get a better idea of how a DRS would be developed and coordinated, the sequencing for each step, and the responsibilities of different stakeholders within each of the three pillars. In addition, development of DRS can also benefit from peer-learning and experience-sharing among countries and agencies, and these good practices should be widely applied. Relatedly, it is also important to understand whether, and to what extent, the development and implementation of a DRS would result in more donor support and better donor coordination. Has the quality of countries' disaster strategies been a factor holding back donor support?

An adequate DRS should be grounded on strong country ownership. However, many countries prone to natural disasters, particularly small states, fragile states as well as low-income countries face capacity and fiscal constraints to adequately respond to these events. In this context, the Fund's involvement should be tailor-made and flexible enough to sufficiently adapt to country-specific elements, particularly political economy considerations. Collaboration with other institutions, particularly the World Bank, will also be a crucial element in the overall design and implementation of a DRS. Considering that the Fund does not have expertise in all the areas needed to develop such a strategy, it is essential to rely on the work and experience of other organizations. Can staff comment on other organizations' engagement in the DRS approach so far and how the proposed framework could improve coordination?

On financing instruments, we think that the current lending toolkit is broadly appropriate for countries hit by natural disasters but consider that there is room to increase access limits. In this regard, various parts of the toolkit could be used in non-traditional ways to support resilience-building, including to support the implementation of a DRS in the areas relevant to the Fund's expertise. It would also be useful to clearly identify and communicate to members all the financing instruments made available by various stakeholders, not just the Fund, that could be incorporated into a DRS.

On state-contingent debt instruments and risk insurance products, the Fund and Bank should continue to analyze the so far relatively limited use of these facilities and explore ways of making them more appealing to countries and investors. One of the options that could be further explored is better communication to countries and to markets and the avoidance of a one-size-fits-all approach. In parallel, the Fund and Bank could also play a catalytical role to further increase the countries' uptake to market instruments, climate funds and insurance products. Access to climate change financing by many LIDCs and Small States remains challenging due to complex and administratively cumbersome procedures. Could staff comment on how they envisage buttressing the Fund's CD strategy to address LIDCs and Small States' constraints regarding the above?

Finally, the FSAP review and the Comprehensive Surveillance Review should also pay special attention to countries prone to natural disasters. For example, FSAP missions and other specially focused financial sector assessments -where appropriate- can help the authorities identify critical risks to the financial system as well as assist in developing disaster risk management strategies for central banks. Could staff provide more information on how this workstream will feed into the two reviews?

Mr. Sigurgeirsson, Ms. Karjanlahti and Ms. Skrivere submitted the following statement:

We thank staff for their informative report and reiterate our support for Fund involvement in climate change related issues. They are macro- critical to member countries, especially in those vulnerable to natural disasters. Hence, we welcome the role of the Fund in supporting countries vulnerable to natural disasters through surveillance, policy advice, capacity development, and Fund-supported arrangements. We appreciate the increasing role the Fund has taken in incorporating disaster risk and resilience building into surveillance of the relevant countries, including through incorporating the impact of natural disaster into macroeconomic frameworks.

We support the three-pillar framework for building structural, financial, and post-disaster resilience, but the functioning of the proposed Disaster Resilience Strategy (DRS) is unclear. There are relevant arguments for a DRS, such as donor fragmentation, lack of macro-fiscal aspects of disaster resilience in current strategies, and the potential of a DRS to catalyse higher levels of concessional financing. We are fully convinced that the IMF can contribute to improving country strategies based on the relevant expertise of the Fund. However, we are not convinced that the Fund should take the lead in addressing coordination issues in this area and would therefore welcome clarification on the proposed role of the Fund. Does the proposal imply that the Fund would take the lead in "pushing for" a DRS to be developed? Would the IMF approach relevant countries to encourage them to develop a DRS? What other actors, including the World Bank, would be involved and which roles would they potentially take?

In general, we strongly emphasise the need to further enhance donor coordination, as to improve collaboration and avoid overlaps with other IFIs and stakeholders. A clear division of labour among organisations is crucial for effective support to countries. We agree that country circumstances and the prior engagement of various agencies in the country as well as each institution's appropriate mandates should guide their role. In general, the Fund could, as suggested, support countries in developing macroeconomic policy frameworks that adequately reflect both disaster costs and returns on investment in resilience enhancing projects.

We welcome the CCPA pilots and look forward to a comprehensive assessment, including a cost-benefit analysis, after the pilot projects have been concluded. If assessed as relevant to pursue further, we expect that a guidance note be developed to standardise the instrument and define the Fund's role and approach to these assessments. In addition, we suggest that the Fund engage in dialogue with the World Bank to define participation and possible sources of financing.

We see potential in climate-resilient debt instruments. While some work has already been undertaken for hurricane-prone countries in the Caribbean, debt instruments that address other types of disasters (e.g. droughts, floods) would warrant more thorough analysis. It is important that this work is carried out in collaboration with disaster-prone countries, the World Bank, the development assistance committee (DAC) of the OECD, other donors, the Paris Club and possibly also private insurance companies. We welcome the proposed role of the IMF to strengthen DSAs for disaster-prone countries and to provide guidance on trade-offs related to the difficult choice of disaster risk insurance strategies.

Mr. Trabinski and Mr. Tola submitted the following statement:

We thank staff for the insightful and comprehensive paper. This is an important step from ex-post support toward building ex-ante resilience, and we broadly endorse this direction. We see the proposed three-pillar strategy as a good basis for a better integration of surveillance, lending and capacity building. We underscore the significance of an integrated approach in exploring both resilience and vulnerability, which are interlinked.

Government ownership is crucial in building resilience to natural disasters. National strategies should facilitate a more systematic integration with fiscal and financial frameworks, debt sustainability analyses, and policy discussions. Government ownership, in conjunction with a clear delineation of IFI and other stakeholders' responsibilities, is also critical to lay the ground for strengthened donor coordination. Disaster Resilience Strategies, supported by key development partners, could catalyze higher levels of concessional financing.

The Fund's lending toolkit is broadly appropriate. We agree to tailor Fund-supported programs to support resilience, as suggested by staff. Fund-supported arrangements are important in mobilizing support from development partners. This depends on realistic program assumptions and good policy advice, specifically on how to integrate the financing of ax-ante resilience building into macroeconomic frameworks and in assessing the impact of this financing on fiscal and debt sustainability.

We support a greater focus of Fund surveillance on resilience-building. Significant risks should feature in Article IV reports, and the fiscal impact of potential climate events and the associated contingent liabilities should be integrated into DSAs. The Fund, via its PIMA tool and in cooperation with the World Bank, can provide good advice on how to strengthen physical resilience through increased public investment efficiency.

We see merit in further work on the role of state-contingent debt instruments. Catastrophe bonds could, in some instances, improve vulnerable countries' natural catastrophe insurance financing. An important aspect in this regard is determining the optimal mix of financial instruments, also in collaboration with the private sector.

CCPAs would seem to have the potential to support countries with relevant advice. The pilots for Seychelles, Saint Lucia and Belize provide an interesting framework to assess national risk management strategies and develop a comprehensive policy response to the expected impact of natural disasters. It would be interesting to learn staff's view on countries' capacity to make broader use of this tool, also considering that it involves significant human resources, especially for small states.

Mr. Kaizuka, Mr. Ozaki and Ms. Mori submitted the following statement:

We thank staff for the informative paper. We note that this paper focuses on disaster-vulnerable countries where natural disasters can have a large macroeconomic impact and building resilience is a macro-critical challenge. Given the large and long-lasting macroeconomic impact of natural disasters in vulnerable countries, we support the Fund's work to help build resilience to natural disasters within the Fund's mandate and expertise. Having said that, we would like to put emphasis on the importance of coordination and collaboration with the World Bank and other International Financial Institutions (IFIs) as they have more knowledge, experience and expertise in this area. We broadly support the staff's analysis and Fund's role described in the report, and would like to offer the following comments.

We appreciate the staff report which reflects informal board discussion last November. We especially welcome the reaffirmation of the importance of ex-ante resilience which is in line with the discussion at recent high-level conference on building resilience in the Caribbean and in the Pacific regions. In the face of an increasing number of large-scale natural disasters, Japanese authority make "resilience against natural disaster" as one of the G20 priority to promote disaster risk financing and insurance schemes from the perspective of strengthening countries' resilience against fiscal contingencies and enhancing climate adaptation.

We welcome the three-pillar strategy informed by the Sendai framework for Disaster Risk Reduction. The three-pillar strategy represents three complimentary components necessary to develop national Disaster Resilience Strategy (DRS). Since the three-pillar strategy provides an intuitive organizing framework for discussing disaster risk management with Finance Ministries in a surveillance context and better integrating the component parts into the budget process, we see merit on it. In the meantime, having common understanding among relevant institution is crucial to address the "fragmented and poorly coordinated" nature of current practice of external support. In this regard, we are wondering how other institutions incorporate the spirit of the three-pillar strategy into their own action principle? We welcome staff's comments.

The concept of DRS is crucial as it could act as diagnostic tool and the platform for coordinated support from development partners. Ensuring authorities' high-level ownership in developing DRS is important. In this relation, we agree with the view in the Joint Gray (GRAY/19/999) that it would be good to get a better idea of how a DRS would be developed and coordinated, the sequencing for each step, and the responsibilities of different stakeholders within each of the three pillars. We note that the current national strategies developed with support from IFIs generally do not fully integrate fiscal and debt sustainability aspects into the macroeconomic framework where the Fund can play its role. We acknowledge that the Climate Change Policy Assessment (CCPA) analyzes and develops a policy response to expected economic impact of climate change. In this context, could staff elaborate more on what need to be done to fully integrate fiscal and debt aspect into DRS, how CCPA could support it, and which elements cannot be covered by CCPA?

On the role of the Fund, we agree with staff that Fund can play a role in line with its mandate to analyze and advise on macro-critical issues and support associated capacity development (CD). We support the Fund to conduct an analysis of the macroeconomic impact of disasters and resilience-building where the impact is macro critical, especially from a viewpoint of fiscal and debt sustainability, in a context of surveillance. Also, we concur with staff that the existing Fund lending toolkit provides a range of options including a disbursing arrangement for balance of payments needs associated with resilience building and post-disaster financial assistance, and is broadly appropriate for support disaster-vulnerable countries. For CD, we expect the Fund to play an important role to support building capacities in areas where crucial for implementing DRS and the Fund has competitive advantages such as fiscal frameworks including domestic revenue mobilization, PFM, and PIMA, while avoiding duplications of support with other IFIs.

On a specific point, while we appreciate the work on the role of state-contingent debt instrument (SCDI), there are risks and challenges and we do not see broad consensus of the effectiveness of SCDI at least at this stage. Given a limited Fund's resource, we think that SCDI may not be an area for the Fund to work as priority.

Last but not least, we reaffirm our emphasis on the importance of coordination among IFIs and development partners. We encourage staff to further collaborate with others to support for developing and implementing DRS. We echo the Joint Gray's question on other organizations' engagement in the DRS approach so far and how the proposed framework could improve coordination. We acknowledge that the Global Facility for Disaster Reduction and Recovery (GFDRR) managed by the Bank play key role in this area and assume that encouraging other parties including the Fund to cooperate with GFDRR might be an option. At the same time, there was a suggestion of "possible Framework for Coordinated Action" at the last November informal board meeting. We would like to ask staff whether there is any practical progress on this framework and how the Fund engaged in this framework. We urge staff to provide their comments.

Mr. Kaya, Mr. Just and Mr. Harvan submitted the following statement:

We thank staff for the paper on assisting small vulnerable and poor countries to build resilience to natural disasters, which we see as an integral part of the Fund's work on climate change. We appreciate that staff clearly outlines the challenges policy-makers in small vulnerable and poor countries are confronted with and the trade-offs on whether and how to increase disaster resilience and improve disaster response capacities. We fully agree that substantial support from development partners is and will continue to be quintessential in this regard; this, in turn will require much greater coordination efforts among donors to be effective. It will also require a more systematic and coherent policy framework such as the proposed three-pillar-strategy. We agree that the Fund has an important role to play in line with its mandate. We welcome staff's overall realistic assessment of what the Fund can do to help policy makers build national resilience. However, we caution against the Fund assuming an overall lead role in this area.

We see the three-pillar strategy as a useful way of thinking about natural disaster resilience building and welcome that it builds on existing work by other institutions. We appreciate its integration with the Sendai Framework for Disaster Risk Reduction as well as the World Bank's DRM framework. Given the capacity constraints in most vulnerable countries, country authorities should carefully consider whether integrating the finding in existing overarching country development strategies might not be a more coherent and less burdensome strategic approach. Considering that the Fund does not have the relevant expertise in all the areas needed to develop such a strategy, it is essential to rely on the work and experience of other organizations. Like Ms. Pollard and Ms. Crane, we question whether the Fund should be in the overall lead in devising the umbrella strategy.

The Fund's role on climate change and natural disasters is largely covered by its traditional activities. We welcome that disaster risks are increasingly better integrated in surveillance and support further efforts on assessing the macroeconomic as well as financial sector impacts of disasters and resilience building. The three-pillar strategy may facilitate the further integration of the costs from natural disasters and in the benefits of investing in increasing resilience in our macro and financial sector surveillance as well as our debt sustainability analysis. The high benefit-cost ratio calculated by the World Bank argues in favor of incorporating resilience investments in

Fund surveillance and program conditionality. We are encouraged that staff has started to incorporate disaster costs in baseline projections as well as the DSA in some recent Article IV reports. Equally, we would think it useful for a better understanding of risks if staff reports were to assess and quantify the costs of resilience inaction.

The paper appropriately develops the scope for the Fund's role in supporting financial resilience. We believe that our lending toolkit is broadly appropriate for countries hit by natural disasters in terms of access, but we agree that program conditionality should increasingly incorporate resilience building. On state-contingent debt instruments and risk insurance products, the Fund and Bank should continue to analyze the so far relatively limited use of these facilities and how to address possible underlying market failure, given the higher rate of natural disaster losses insurance in the rest of the world compared to some of the more vulnerable regions, e.g. in the Caribbean. The Fund should also continue its work on hurricane and possibly other weather-related events clauses in debt instruments.

We stress that overall the close coordination of IFIs, MDBs, bilateral and other development partners in line with their respective comparative advantages is critical to develop first the disaster response capacities of vulnerable small and poor countries; and second, to shift increasingly the focus to proactive preparedness and resilience building, which requires the adequate provision of policy advice, financial support for resilience-related projects as well as capacity building as well as more urgency on climate change mitigation by advanced and some emerging market economies.

Mr. Meyer and Ms. Lucas submitted the following statement:

We thank staff for the insightful paper on Building Resilience in Developing Countries Vulnerable to Large Natural Disasters, as well as for their helpful outreach. We highly welcome the fund's work on strengthening resilience in developing countries being at risk of major natural disasters. We also agree with the focus on a comprehensive "disaster risk-management strategy" (DRS) for these countries.

We concur with the DRS which is based on a complementary three-pillar strategy consisting of structural, financial and post-disaster resilience. We emphasize the importance to involve all relevant actors, including the country's authorities, to ensure national ownership. Responsibilities and resulting tasks should be agreed ex ante between all stakeholders to allow for efficient coordination and effective action. Such a comprehensive strategy has the potential to facilitate the implementation of preventative measures and the handling in case of occurrence of natural disasters.

As also outlined in the paper, various options for building resilience by a wide range of stakeholders are already available for countries at risk. The main actors in this area are the UN, World Bank, IMF, regional and bilateral development banks as well as the Climate Fund and insurance companies. We strongly encourage staff to ensure that existing initiatives are adequately integrated into the DRS while further developing the DRS. Amongst others, resilience has been taken up as topic by the G7 and G20. Resilience against natural disasters as actions toward robust growth is one of priorities of the current G20 Japanese presidency in the finance track. In that context could staff elaborate in more detail which measures are planned to support both communication and coordination between the IMF, the MDB and other actors? We are also interested to learn more on staff's plan on how to work more with G7/G20 together on that topic, including the role that country platforms might play with regard to the implementation of DRS.

We strongly support staff's suggestion that the World Bank and other development banks, which can build on their previous work and experience, should take the lead in DRS. Could staff inform us in more detail, if the other stakeholders agree to build the overall approach around the DRS?

We agree with staff that the Fund can play an important role in supporting resilience building for macro-critical topics as part of its mandate on surveillance and capacity building. This contribution to the DRS needs to be integrated efficiently and effectively into the overall DRS process. At the same time, we want to highlight that the IMF's surveillance and capacity development activities should seek to strengthen macroeconomic resilience in a country irrespective of a DRS being conducted, thereby considering country-specific factors. We agree with the staff that policies for natural disaster preparedness must be financially sound and should contribute to macroeconomic stability. The analytical and advisory activities of the IMF could provide an important contribution in this regard.

We welcome the well-balanced discussion on the potential role of "state-contingent debt instruments in disaster-vulnerable countries" or "climate-resilient debt instruments" in the document. These instruments include a "risk transfer" as a "disaster risk insurance" and if adequately designed should be attractive for issuers and investors offering a quasi-automatic financial relief for the country hit by disaster. We encourage staff to further work in close cooperation with the World Bank on these instruments.

We take rather a skeptical stance on resilience building measures of the DRS in the context of Fund's financing programs (ex-ante financing arrangements). If the gap in the balance of payments results (only) from the measures proposed in the DRS to improve resilience, we see a potential conflict with the purpose of Fund program engagement, esp. in GRA-supported programs, and would rather see the MDB in charge of providing the financing and not the Fund. In that case, the financing seems to be more related to development assistance than to a temporary liquidity shortage in a foreign currency. Staff might want to comment on the scenario, in which a country with a balance of payment problem is requesting a program and, in that process, it is decided to further include resilience building measures into the program. Would these resilience building measures become part of the conditionality?

We agree that rapid access to financing in the face of an urgent BoP need is an important part of the post-disaster and social resilience pillar (Figure 4) of the DRS, implying the potential use of the RCF/RCI. However, we emphasize the catalytic role of these two instruments and repeat our reservations regarding the increase of access limits to these instruments.

The Chairman made the following statement:

Welcome to this morning's important discussion on building resilience to natural disasters in developing countries. I know that some Directors attended the meeting that we organized at the time of the Spring Meetings, but there was also a conference that took place in November with leaders and ministers of the Caribbean countries, and at the time they asked for greater support from the Fund and from the wider international community for their efforts to build resilience to natural disasters, which are recurring on a regular basis and which sometimes devastate their territories. At that time in November, I argued for a collective effort to not only focus on supporting recovery efforts ex post, but also on ex ante policies to build longer-term resilience to coping with disasters and preparing for them. I called for that new approach based on an alliance of all stakeholders to mobilize the needed resources to support credible strategies to build resilience to natural disasters, and that call was echoed by several participants at that meeting. The staff paper which is under discussion now looks at the issues involved in building resilience to natural disasters in vulnerable countries with a specific focus on small or poor countries that have significant capacity constraints. It could be extended in terms of strategy development to those countries that do not necessarily fall into that category, and there are examples in the paper that relate to some of the African countries that do not necessarily qualify as small and post-conflict but that are also extremely vulnerable, as we have seen recently in the case of Mozambique. The President of Mozambique was extremely grateful to the Fund for having moved fast, and he was also touched that under the giving pledge initiative, the staff raised funds and contributed to the country. It was quite striking to see him and to have that discussion when Cyclone Kenneth was on its way to hit Mozambique yet again, which will be followed by very heavy rain that will fall on houses that have been devastated, where roofs are gone and where people are exposed, so the recurrence of natural disasters is something that we are seeing more of and which requires countries to focus on the *ex-ante* and the *ex-post*, as seen in the three pillars paper.

The preparation of the paper has led to extensive consultation with all the entities that are involved, all the institutions that participate, and in particular with the World Bank on a cross-border basis, meaning departmental, so that all vice-presidents involved in the process are a part of our thinking, and that was very much on the mind of all those who participated in the preparation of this paper. It is in that vein and with that consultation under their belt that the authors of the paper suggested how coordination across all stakeholders can be improved to deliver a coherent package of support to countries, and it looks at the Fund's role in that collaborative effort. The goal is not to steal the thunder of any other institution, but to participate and to determine with our own respective competencies on what can be done best. I still have in my mind comments by the predecessor of Ms. Levonian, Ms. Horsman, who was suggesting that we do more in terms of better coordination, and the paper is trying to address that.

A central element of the paper was that coordination and that collective thinking with the World Bank. Clearly, the stage that we are going through now, which is the discussion and gathering views from across the membership, will be followed by more work undertaken with the World Bank.

The staff representative from the Strategy, Policy, and Review Department (Mr. Nolan) made the following statement:[1]

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

We will focus on three topics: the collaboration with other institutions, the Disaster Resilience Strategy (DRS), and the Climate Chance Policy Assessment (CCPA) and its role in the process.

This is a very simple paper. The core idea is that it is written from the perspective of countries that are capacity constrained, vulnerable to natural disasters, dealing with multiple development partners. The question is how can the international community, the Fund, Bank, and others respond best to their needs? The solution is also simple. It is a strong plan built on a diagnostic of different investment needs and activities identified, and within that framework, different stakeholders supporting the government's efforts.

On the issue of collaboration with the Bank, as the Chairman has just noted, this is an area in which the Bank has substantial expertise, has been active for a long time, and it is not an area we are seeking to supersede the wide range of activities that are already engaged in.

The work on the paper began about two years ago. It has operated at two different levels. One is at the country level where the Western Hemisphere Department (WHD) and the Asia and Pacific Department (APD) in particular have been engaged on a substantive basis on country-level issues with the Bank on how to coordinate in the field. Second, on the policy level, we have been engaged for at least two years, kicking off with a discussion with the Bank that was facilitated by the U.K. Executive Directors at the Fund and at the Bank. We have talked with the Bank. We have talked with nine different agencies within the Bank, global practices across five vice-presidencies, and we feel that we understand in some broad sense the various range of activities they undertake. They have also commented extensively on the paper itself and added substantially to its merits, and we look forward to a conversation with them in the wake of this Board meeting and we envision a dialogue at the management level and the staff level to take things forward.

I would say that both we and our Bank counterparts see this joint work, if it develops well, as a good area for a joint briefing of the Boards involved, such as was the case with financial inclusion and in some cases for the ongoing work on the multi-pronged approach to debt.

I should stress that we also engaged actively with other partners, with the private sector, with other multilateral development banks, with other interested stakeholders, development agencies, and received general positive reaction to the idea of the Fund participating in this process as part of a collaborative effort.

Lastly, there has been a significant amount of internal collaboration as well. In some ways the work began as a piece that was driven very much by the operational needs of WHD and the policies issues of the Strategy, Policy, and Review Department (SPR). The Asia and Pacific Department soon got involved, and the African Department (AFR) also got involved as well, so it has been SPR with three area departments taking on the wide range of issues.

The staff representative from the Western Hemisphere Department (Mr. Srinivasan) made the following statement:

There were a number of questions focused on the DRS. The questions were, what is the overarching purpose of the DRS; how could the DRS help coordination; would the Fund take the lead in pushing the DRS; and who at the Bank would be involved in designing a DRS?

As we see it, the DRS is just a document, a label. It has three key purposes. First, it helps view resilience building in a holistic way by bringing together three complementary pillars of structural, financial, and export resilience. Again, I would like to emphasize the word complementary because it is truly complementary.

Second, it provides an intuitive operationally useful framework for embedding resilience building in a macro-fiscal framework. That is very important.

The last is it helps coordinate and catalyze assistance from donors and other stakeholders.

It would be fair to say that despite a long-term advocacy with the World Bank and the Sendai framework for a holistic approach, what we see on the ground is a bit of a fragmented approach where countries focus on one or two pillars but not all three taken together, and that is a gap which needs to be filled. The fact that we do not have these three pillars coming together in a holistic way, also in some sense impedes donors and other stakeholders from providing adequate support.

At the presentation to the Board in November, we talked about a framework or a device by which we can get everybody together on the same page, and the DRS is exactly that. It helps coordinate countries in putting disaster resilience together in a framework, and it also will help catalyze financing from donors and stakeholders. Our belief is that once we integrate the micro and macro aspects of resilience building, that provides for a strong basis for everyone to comment on this together.

There was a question on who else have we consulted other than the World Bank. As part of preparing for the conference in November and since then, we have been talking much to the World Bank, but also the Inter-American Development Bank (IDB), the Caribbean Development Bank, and also the private sector, including climate funds, insurance companies, and so, so that we are all on the same page.

In terms of whether the Fund is pushing for the DRS, the answer is no. This is a voluntary effort. Countries will take the lead, will be asked whether they want to do this, and then they will take the lead in putting the DRS together. The authorities of Dominica and Grenada have expressed interest in this, and that is why we chose them as pilots for this exercise. Deputy Managing Director Zhang was there in Dominica and Grenada, and they expressed similar support for this approach, and that is why we decided that we would go with two pilot studies to see how it can be put together.

There was a question about operationalizing the DRS. How does one put it together? Here again, it is going to be learning by doing. What we are doing at this stage is to take stock of what is out there in these two countries, Dominica and Grenada, in terms of their own plans and policies for resilience building. The assessment will take care of what are the gaps, what are the modifications needed, which will provide the basis for the DRS. Once we have that, we will talk in terms of the macro framework.

Mr. Rashkovan made the following statement:

Sixteen chairs signed the joint gray statement, which represents one of the strongest expressions of support to a single topic, of course, excluding extraordinary cases. I believe it is the first joint gray statement signed in the last five years by Ukraine and Russia. Such support confirms two things. First, today’s topic is about all the countries which face high risk of natural disasters, including small and fragile states, as well as landlocked and other low-income countries. Second, we all come together to express strong support to countries that have the least capacity to address these challenges, particularly in small and fragile states.

It is clear that the Fund has intensified its focus and engagement with countries prone to natural disasters, which very often are small states. Considering the increasing frequency of natural disasters and the fact that many of these countries are not able to cope with the consequences on their own, it is clear that more needs to be done. We see today's paper as a good step forward. Allow me to now focus on four specific points.

First, on the three-pillar strategy, we welcome the paper's focus on the *ex-ante* resilience building and what role the Fund together with World Bank and other partners can play in enhancing ex ante resilience. It is also important to help countries work on the three pillars simultaneously, as well as to incorporate the resilience building way of thinking into the evaluation of all policy decisions in order to minimize the effects and costs of natural disasters. While doing so, we need to be mindful that many of these countries face institutional capacity constraints, and that more needs to be done on the availability of technical assistance (TA) and capacity development (CD) to them.

Second, on the DRS, as we stated in our gray statement, we strongly support the design and implementation of such strategies. It is also clear that the key element for them to be successful is to have full ownership by the authorities. In this context, the Fund's advice should fully be country-specific, discussed with the authorities, and not based on one-solution-fits-all system. The CCPA has proven to be a useful diagnostic tool in this area, and we are looking forward to its evaluation after the end of the pilot phrase. Going forward, it would be good to get a better idea of how a DRS would be developed and coordinated among different stakeholders. Also, the authorities would find it particularly useful to have a working paper and guidance note with the sequencing for each step.

Third, on the collaboration between the Fund and World Bank and other organizations, the common denominator for the three-pillar strategy is the collaboration between the World Bank and the Fund, as well as other organizations. However, it is not clear how the envisaged strategy will effectively improve the day-to-day cooperation, which sometimes is suboptimal. Like Mr. Kaizuka, we believe that having a common understanding among relevant institutions is crucial to address the fragmented and poorly coordinated nature of the current practice of external support. We heard the staff's comments about the good cooperation on the specific paper, and in this context, we encourage the staff to do further work on specific elements that could streamline the work and procedures where the collaboration is needed. We are also looking forward to the Independent

Evaluation Office's (IEO) short pilot evaluation of the collaboration between the World Bank and the Fund on the macro-criticality of climate change.

Fourth, on the financing needs in the Fund's toolkit. Given the already high debt levels in many countries vulnerable to natural disasters, in particular small states, a discussion is warranted about what is the best way to address financing gaps. However, we believe that the Fund's current toolkit is sufficiently versatile to address the various needs of the membership. We also believe the proposed changes within the upcoming review of facilities for low-income countries (LICs) will ensure further flexibility and availability of the existing toolkit to the countries in building resilience to natural disasters.

Lastly, our chair represents the three small states in the Caribbean, and I would like to thank the Managing Director and her team and the entire staff for continuously increasing support to small states, and this engagement is strongly valued and appreciated by our authorities.

Mr. Raghani made the following statement:

We welcome this Board discussion. We have issued a joint gray statement with other 15 chairs; therefore, I will limit my intervention to a few points.

First, we wish to stress the importance of supporting small states and LICs vulnerable to natural disasters in their preparedness efforts to mitigate the impacts of these shocks. In this regard, we support the three-pillar strategy. The international community, including the Fund, has a vital role to play in implementing the DRS to address the disasters ex ante and ex post.

Second, we appreciate the Fund's engagement with countries hit by natural disasters as it has a catalytic role to play in supporting the authorities' preparedness and recovery efforts by bringing in other external assistance. We encourage the Fund to expand its efforts in assisting those countries with limited fiscal space, including through greater adaptability of macroeconomic frameworks and better incorporation of the financing constraints in the DSA rating analysis.

Third, we believe that the Fund's and other international financial institutions' interventions that promote financial inclusion and social protection will be very effective at building resilience. Indeed, financial inclusion helps households diversify their portfolio assets and makes them less vulnerable to unforeseen shocks such as natural disasters. In addition, the international community can assist these countries through appropriate credit instruments in support of the recovery and reconstruction efforts following disaster.

Ms. McKiernan made the following statement:

First, this chair continues to value highly the Fund's increasing focus on building resilience to natural disasters and climate change, and with the Managing Director being at the forefront of these engagements and with Deputy Managing Director Zhang's recent visit to Dominica, that is a strong demonstration of the Fund's commitment to assist with these disaster-vulnerable members. The high and rising vulnerability of Caribbean countries to natural disaster and climate change underscores the need for these urgent and proactive responses.

Second, some members have already begun to mainstream disaster risk management into their public finance framework. However, they have limited fiscal space and capacity to undertake the requisite investment to strengthen resilience, so unlocking donor support is particularly crucial to assist their disaster resilience building plans. Within this context, this paper represents a useful incremental step in the process of the Fund seeking to assist them.

Third, with four CCPA pilots already undertaken and several forums held to discuss the issue and with Grenada and Dominica in our constituency serving as pilot cases for the development of a DRS strategy, most small states and Caribbean members in particular are eager for more meaningful support from the Fund and development partners. We believe this paper does a good job of helping from a diagnosis, collaboration, awareness, and planning perspective.

We would highlight one particular issue. It is very good at presenting each of the three pillars as mutually reinforcing parts of the whole, but some members are focusing on specific pillars based on their particular needs and constraints. It is a case of trading off structural versus financial resilience in some cases, so we would be interested in further elaboration from the staff on how to frame policy advice in such countries because this is the harsh reality of limited fiscal space.

Fourth, we believe that the DRS has the potential to catalyze donor support, and as Mr. Nolan highlighted, enhance cooperation among development partners and the World Bank and internally. It would be helpful to leverage each partners' expertise and to make a meaningful difference, and we appreciate that there has been an increased focus on this, and we would also like to see a focus on lessons learned from collaboration in the past, particularly in the CCPA.

Mr. Tan made the following statement:

We would like to join others in thanking the staff for the well-structured paper and the tremendous work that went into it; and speaking for a constituency that includes several countries from disaster-prone regions and are limited in terms of their fiscal and institutional capacity, we appreciate the Fund's continued endeavors to assist disaster-vulnerable states in building ex ante and ex post resilience.

As noted by Mr. Rashkovan, we joined 15 other Directors in issuing a gray statement. This is a clear signal about the importance of this work to the membership, particularly for developing and small states, so that they believe that something can be done and should be done to mitigate the cost of natural disasters and they can see that there is a consensus on the Fund's approach, such as the diagnostic of disaster vulnerability preparedness, country ownership, and donor coordination.

In addition to the joint gray statement, we would like to share three additional thoughts.

First, Directors have raised a fair number of technical questions, many of which sought further clarification around the modalities of the DRS, the division of labor among key stakeholders. This is evidence that the paper marks the end of the beginning and that the Fund's role is far from over. On one hand, the staff has articulated a strong case for a DRS that is country-owned and rightly centers on enhanced coordination across key stakeholders. On the other, there is still a long way to go in operationalizing the strategy and putting it into action. To achieve the intended outcomes, the Fund will have to work with key stakeholders to flesh out various aspects in greater detail. We see this as an interactive process, and as noted by the staff, the Fund will have to be agile and prepared to learn and unlearn along the way and be open to tailor to country needs and adjust when necessary.

Secondly, as mentioned in the Chairman's opening remarks, extensive consultation went into the paper. We take positive note that the paper draws from existing work within and outside the Fund to address the challenges of building resilience in disaster-vulnerable countries. That being said, Directors have noted in their gray statements the lack of full clarity on the collaboration between the Fund and other IFIs and development partners. The staff's introductory remarks to the question raised are appreciated, and as we look forward to the upcoming IEO evaluation findings on the Fund's collaboration with the World Bank on macro structural issues, we welcome the comments by Ms. Pollard and Mr. Kaya that the Fund's efforts should build upon existing efforts in a coherent and integrated manner. Given the scale of the challenges faced and initiatives that are in train, it will be important for the Fund's work to always be supportive of in-country efforts and offered in tandem with other stakeholders. This is with the view that synergies could be better utilized and result in a whole that will be greater than the sum of its part.

Lastly, there is a high degree of country focus in the three-pillar strategy, and the Fund's role in supporting resilience building is sensible and is in line with the concept of a country-owned DRS, and we do note the reference to the use of convening powers of the Fund and World Bank on building financial resilience. There was a call at the recent Spring Meetings for stronger joint action to confront broader challenges that no country alone can manage, such as climate-related risks, to which natural disasters are closely linked. We see scope for the Fund to further explore areas and creative ways in which the Fund can effectively and jointly with the wider international community promote the scaling up of countries' efforts at a global level for resilience building, especially for small and capacity-constrained countries.

Mr. Meyer made the following statement:

We highly welcome this work on strengthening resilience in developing countries at risk of major natural disasters, and we also agree with the focus on the DRS. We also agree—and that was stated again by Mr. Nolan—that probably the World Bank and other development banks have to take the lead in the DRS. That is supported by us. We agree the Fund has an important role to play in this, especially with regard to surveillance and capacity building. Having said that, on how to ensure that all the existing initiatives are integrated in this DRS—and I heard the staff's point that we are not pushing for that—we still have questions around how we would achieve that. If we do not achieve that, and others take the DRS as a basis to work from, then we might add another layer of complexity to all those initiatives. We need some more thinking about how we achieve that. We asked a question about how we would get others to rally around this approach, including initiatives in the G20, also under the leadership of Japan, and the G7.

Let me mention that we believe the potential role of state-contingent debt instruments and climate resilient debt instruments is very important. We strongly encourage our staff and management to do further work with the World Bank on these instruments.

We take a rather skeptical stance on resilience-building measures of the DRS in the context of Fund's financing programs, the *ex-ante* financing arrangement. Why is that? Basically what we would do there that would not be a balance of payments need, but in the strategy, this need would arise because we ask countries to do certain resilience-building measures. That might be acceptable in a Fund program in the context of the Poverty Reduction and Growth Trust (PRGT), where development aspects play a bigger role. We have our doubts on the General Resources Account (GRA). We would not usually disburse an instrument where an investment project or a tax cut creates the balance of payments need. We would be interested in staff's view, maybe even the Legal Department's (LEG) view, of whether this is really in line with our framework. What we would hope for is that we draft it very carefully in the summing up.

I understand we do not have a decision for this meeting, but the summing up would be very important for us in this regard.

Mr. Trabinski made the following statement:

Today's discussion deserves our attention as it remains not only part of Fund strategy but also an important element of the framework for addressing climate change, fragile and low-income countries' vulnerabilities, and international support in soliciting integrated response to natural disasters. We share the premises enclosed in the report and support the proposed framework and efforts aimed at introducing ex ante resilience. As many of the important points have been already raised by my colleagues, let me stress three additional points.

First, it is important to remember that the country ownership of the DRS based on a thorough assessment of members' capacity to respond to these shocks is absolutely critical not only for building ex ante policies, but also for mobilizing donor support. As countries will start developing their strategies, it will be important to help them to align the strategies with fiscal and financial frameworks. Moreover, as indicated by the joint gray statement of Mr. Agung, Mr. de Villeroché, Mr. Fanizza, Mr. Gokarn, Ms. Levonian, among others, the DRS will require adequate coordination, sequencing, and clear delineation of stakeholder roles in each of three pillars.

It would be also important to communicate clearly that each DRS could be adopted by countries on a voluntary basis, as indicated by Mr. Alkhareif in his gray statement.

Second, we share the staff's view that the CCPA could be a valuable tool to support the introduction of diagnostics at the country level. Yet in order to have a full picture, additional TA would be needed to build structural resilience through a variety of activities. This could include inter alia identifying additional costs stemming from introduced policies, managing disaster financing, or sharing experiences between the countries.

Last but not least, we see a scope for introducing the whole resilience-building concept to a broader public. We found particularly interesting some of the responses to technical questions in which the staff broadly describes initiatives surrounding resilience building. One initiative, namely the Caribbean Climate-Smart Accelerator, sparked our interest, and I would be keen to hear more about the origins, performance, and scope of work of this accelerator. It seems that this initiative could be a good example of how the public and private sector could work together to address those issues.

Ms. Riach made the following statement:

I would like to start by thanking the staff for the good and thoughtful paper which takes on comments from the informal Board meeting at the end of last year, and I also welcome that it is being developed fully in consultation with the World Bank. In the introductory remarks, I also welcomed the staff's commitment to continue working across Fund departments and with the other multilateral development banks (MDBs). If this work is going to be successful, it is crucial that the area departments are fully bought into the agenda, and I welcome the suggestion of future joint Board briefings. We signed a joint gray statement, so I will highlight just a few areas.

First, the frequency and severity of natural disasters has been increasing for large sections of the Fund's membership. The economic impact is amplified in small states that have fewer options to diversify their economies, LICs with underdeveloped financial and insurance markets, and fragile states where conflict contributes to low resilience and is fueled by the devastation that disaster brings.

The Fund has come a long way in understanding and accepting that we must look at some of the macroeconomic challenges facing our membership through the lens of vulnerability to natural disasters and the obstacles that can bring. The paper demonstrates that the Fund can play a valuable role within the broader international architecture to help its members become more resilient to climate events. This is an important step and one which we welcome, but we do see it as a first step on a much longer journey. We must continue to challenge ourselves to think innovatively about how best to support the membership, including by participating more systemically in the broader debates on resilience that are taking place. One important forthcoming forum for such debate will be the September UN Climate Action Summit, and I look forward to seeing the Fund contribute in a tangible way to the entire summit and the resilience workstream in particular.

Second, as set out in our gray statement, slow-onset natural disasters and broader climatic trends may be harder to measure and delineate, but often have an equal if not more detrimental impact. We must make sure that we acknowledge this and respond to them in the right way, particularly in regions and countries that we have perhaps conceptually not associated with hurricanes, earthquakes, and other types of quick shocks, including, importantly, in sub-Saharan Africa.

An important element of such an approach will be to use conversations with authorities to help complete the shift toward ex ante preparedness. We know from years of experience, billions of dollars in humanitarian aid, and the lasting footprint of disasters on productivity, fiscal balances, and potential growth, that the traditional approach of waiting until disaster strikes and then responding is simply no longer viable. Ethiopia is an excellent example where research has shown that every dollar spent in planning saved US$5 in financing needs. I would thus like to see more boxes in Article IV reports setting out the risks and responses by authorities across the membership. They do not always have to meet the DRS gold standard, but it would be a good step forward in promoting more systematic and innovative thinking on resilience across the institution.

Mr. Kaizuka made the following statement:

As one of the countries most frequently affected by natural disasters, including earthquakes, tsunami, or typhoons, building resilience against natural disasters is one of our top priorities in the national policy agenda.

Japan has also taken international initiative in this field, including the Sendai framework. We take up the issue as one of the priorities of the G20 under our presidency, although it is rather narrowly focusing on the possible financial mechanism and the insurance schemes. Here the working assumption of my authorities that the World Bank is playing a leading role in building greater resilience against natural disasters, and we believe that is still the case. Having said this, we reconfirm that the Fund has a role to play as the current national strategies developed with the support from IFIs do not fully integrate the fiscal and debt sustainability aspects into the macroeconomic framework. In this regard, the Fund's engagement in infrastructure governance with Public Investment Management Assessment (PIMA) and also debt-related work should be a valuable contribution to the work related to natural disasters.

On the DRS, I welcome this concept for three reasons. First, the DRS will ensure the ownership of the targeted countries. Second, the DRS provides a certain diagnostic assessment for the country. Third, and more importantly, it provides a platform for the collaboration or coordination among the donors, including the IFIs and the bilaterals, which is something like the Platform for Collaboration on Tax (PCT) in the tax field. We would like to see the actual operation of the DRS. The DRS is still in the evolutionary stage. In the coming weeks or months, maybe the staff can come up with some concrete cases for the DRS. By seeing that actual case, we can have a better understanding of how the DRS can operate on the expected functions.

Mr. Johnston made the following statement:

I thank the staff not just for this paper but for a whole program of work over several years that has been building disaster risks into the Fund's work with countries and into its policy advice. I know countries in our constituency who are no strangers to natural disasters are very grateful for that work.

The first thing I would say on this paper, and staff knows this already, is there is no shortage of natural disaster strategies, response plans, frameworks at the moment. I forgot to bring my folder of the Pacific strategies, but it is fair to say everyone has them, multiple ones actually. They are actually fine, but where they could benefit in common with many government strategies is in terms of quantification, putting numbers next to things, costing things, prioritizing, determining where the money comes from.

We like the idea of a diagnostic tool for disaster planning that pools the expertise of the Fund, the World Bank, and maybe others, looks at what is missing from a country's existing strategy and gets much more rigorous about putting numbers next to things. Whether in the end it leads to more funding, better planning is a good thing.

We already have the CCPA, which does much of this already, and that is still being piloted, and no specific country has had one yet, although there are a couple in the pipeline. We need to finish these CCPA pilots this year and do a proper evaluation before we potentially move on to something that is effectively a CCPA-plus.

On the DRS, we support the development of that, being clear that the DRS would be based on countries' existing plans, which would be good. We have many questions—as Mr. Srinivasan says, a lot of that is learning by doing—but questions like what in the end turns an existing plan from Vanuatu or Solomon Islands into a global community-endorsed DRS that has benefits that normal strategies do not. In terms of coordination, there are many players involved in developing the DRS in the paper. It seems it will take a village to raise a DRS, but how does the input of the various actors get coordinated? That is something to work through, which we support.

Importantly, how is this going to catalyze donor funding? The Fund should make sure it does not overpromise on this, but in the end, it is the hook that gets countries interested in doing this sort of work. I can see countries in our constituency that might well be attracted by the idea of a diagnostic. Like they might have a PIMA, a Tax Administration Diagnostic Assessment Tool (TADAT) or something like that. They are always interested in good advice and TA from the Fund. They might be a bit weary of having a full DRS experience given the constraints on their own capacity and partly because they are not sure at the end of it that they could get more money out of it, although if they could, that would be a major attraction.

It is important to make sure—and maybe the staff could comment on this—that the kind of TA and advice that in the paper gets wrapped around countries with a DRS is also available to other countries even if they do not want to go down the full DRS route.

Mr. Di Tata made the following statement:

We believe that the three-pillar strategy for building structural, financial, and post-disaster resilience constitutes a useful way to address the challenges faced by disaster-vulnerable countries. We also agree that a full-fledged natural disaster resilience strategy could serve as a platform to catalyze higher levels of concessional assistance from bilateral donors, climate funds, and other sources. We recognize that the challenges of developing and implementing a DRS are bigger in smaller, poorer states given their limited capacity.

We welcome the paper's emphasis on ex ante interventions which can reduce the cost of post-disaster recovery as well as related ex post financial support from donors. We notice that although several countries have made progress in building structural resilience, the cost of adaptation to climate change in developing economies is estimated to be two or three times higher than currently available financing, which illustrates the magnitude of the challenges faced by these countries. We believe that the Fund in close collaboration with the Bank can play a valuable role in advising countries on state contingent debt instruments and risk insurance products.

Regarding post-disaster resilience, we share the view that early action is needed to develop a detailed plan to guide the response in the wake of a disaster. We take positive note of countries' ongoing efforts to improve coordination focusing on regional expertise pooling.

We support the paper's emphasis on achieving a closer coordination among development partners to support resilience-building efforts in countries with insufficient institutional capacity. In this regard, we support the countries' own DRS grounded on a comprehensive diagnostic as a key building block for facilitating coordination. The Fund is well suited to play an important role in the DRS process by helping countries develop a consistent macro framework that could warrant support.

We also agree on the need for Fund surveillance to give greater attention to resilience building in disaster-vulnerable countries, including by preparing an alternative macroeconomic framework and a DSA incorporating the cost and benefits of countries' resilience-building strategy.

We believe that the Fund's current lending tool provides an appropriate range of options for supporting disaster-vulnerable countries that are implementing a resilience-building strategy. At the same time, we agree with other Directors that consideration could be given to increasing access limits. Program design could be tailored toward supporting resilience building by integrating the costs and benefits of resilient investment in the macroeconomic framework and by focusing the structural conditionality on the resilience-building strategy in close consultation with the World Bank and other development partners.

Lastly, in the context of a collaborative approach with other institutions, the Fund can support countries through capacity development on building structural and financial resilience, focusing on its areas of expertise. On ex ante preparedness for disaster recovery, we agree with the staff that possible areas of engagement include promoting the development of business continuity plans for the central bank and commercial banks and assessing the resilience of banks' loan portfolios to disaster shocks.

Mr. Sun made the following statement:

We have cosigned a joint gray statement with 15 other chairs, so I would like to add a few points for emphasis.

We see developing a national DRS as a useful step for enhancing countries' disaster preparedness and ensuring that adequate resources are devoted to ex ante resilience. We welcome the three-pillar framework and actions, and each pillar should be incorporated into a comprehensive macroeconomic policy framework. The DRS should also fully consider country-specific circumstances and build on existing efforts to ensure continuity and country ownership. We look forward to further work in this area through active engagement with authorities, the World Bank, and others.

The capacity and resources required in building resilience are often lacking in disaster-vulnerable countries. We see an important supportive role for the Fund to play bilaterally through analysis, policy advice, and the capacity development in the Fund's area of expertise, and multilaterally by playing a catalytic role in mobilizing resources.

Facing substantial financing needs, we believe it is also important to explore ways to take resources from the private sector. We see merit in conducting further work on climate-resilient debt instruments. At the same time, given the potential benefits of structural resilience to private investment, we wonder if there is a case for increasing engagement with private sector investors in supporting resilience-building efforts, such as in the case of Fiji's tourism sector, mentioned in staff's written responses to technical questions.

Mr. Castets made the following statement:

We cosigned a gray statement with 15 other Directors to express how much we support the stance taken by the staff to adopt a more ex ante strategy rather than simply react after the natural disaster. We strongly support this approach, but I would like to take a step back to recall that we see a sense of urgency around this issue given the fact that it is well assessed now that due to global warming, the frequency and the intensity of natural disasters will increase in the coming years. The Fund has definitely a clear role to play on that matter given that, as mentioned by Mr. Kaizuka, we still need to adapt our instruments, and we are pleased to see that it is ongoing work. For example, we still have to adapt our Debt Sustainability Framework (DSF). We still have to work more on stress tests on the financial sector and central bank, and we took a strong stance on that particular issue during the Spring Meetings. We are glad today is a step in that direction.

More globally, adapting the macrostructural framework and dealing with the difficult financial question in those countries where mitigation and adaptation efforts need to be supported by public investment, particularly where the fiscal space is constrained, is a key issue that we have to deal with in our everyday work for each program and each surveillance report.

I would like to address a few issues that are already mentioned by others. The first one is the point made by Mr. Meyer and Mr. Sun on debt contingent instruments. We also definitely see the need for more work on that side, and more specifically, there is the difficult question of the fair burden-sharing once the natural disaster is there, and also on the conditionality that will accompany the rescheduling of the reprogramming of the debt. The Paris Club is working intensively on this issue, and we appreciate the staff's contribution in the Paris Club discussions, as well as the joint work with the World Bank.

Second, on other financial instruments that could be mobilized, we want to mention the catastrophe bonds, because we also see an interesting avenue, and transferring risks to capital markets could be significant, but there too, the financial equation is difficult, so we still have to work on that.

One word on the coverage, I would like to strongly associate myself with what Ms. Riach mentioned, because we are glad to see this work done because we feel that it could benefit the whole membership. Not all small states are exposed to natural disasters, but now more small states are heavily exposed to natural disasters, and it is particularly the case in sub-Saharan African countries where often the fiscal space to mitigate and adapt is also limited. We would encourage the staff to dedicate more attention to sub-Saharan Africa, because in this report, we are very focused on other countries.

Finally, on the cooperation with the World Bank, we also look forward to the contribution of the IEO on how we could move forward. The twenty-second session of the Conference of the Parties (COP 22) is coming, and given the limited resources within the Fund, we see the necessity to leverage the knowledge within the World Bank.

Ms. Pollard made the following statement:

I thank the staff for this excellent paper and the opportunity to discuss this important topic, and I appreciate the Chairman's comments and those of the staff. In terms of best practices, giving the staff the opportunity to respond to questions that were not answered in written form before the Board has a chance to speak should be considered a best practice and hopefully sets the standard from here on.

One of our key takeaways from this paper is the need for stronger integration of the costs and benefits of ex ante resilience building into macroeconomic frameworks, and a point Ms. McKiernan made about how to frame the Fund's policy advice is important. It would be important to recognize the cost of inaction by including in baseline projections estimates of likely disaster costs. Also important are efforts to quantify the returns from resilience-building investments and helping countries understand the costs and benefits of potential insurance and risk transfer instruments. The idea of limited country capacity is also important and we must understand what is feasible and what is welcome by authorities both in the DRS and related diagnostics. I welcome the comments on the DRS by the Directors who represent developing countries and how they think about it and also the staff's remarks that this will be voluntary and that the Fund will not be pushing countries to do this.

What I would like to know, particularly with the two pilot countries, is who will be the key development partners assisting these countries in the pilot phase? Is this a case where the World Bank has bought into and embraced this idea of the DRS?

The comments about cooperation with the World Bank are also important and we would welcome a joint board meeting with the World Bank or a briefing to discuss the work that they are doing and we also support others in saying that the work that the IEO is currently undertaking, looking at cooperation between the two institutions, will be extremely important in this area.

Finally, I share Mr. Meyer’s concerns about the Fund financing programs that are addressing investment in disaster resilience. Traditional financing programs are meant to address balance of payments needs. We have noted in our gray that perhaps the Policy Support Instrument (PSI) or Policy Coordination Instrument (PCI) could be used to help support this type of investment or other types of precautionary arrangements.

Mr. Fanizza made the following statement:

We were part of the mass gray statement that was issued, so I will try to focus on things that were not in the gray statement. I have only two points.

First, like Ms. Riach and Mr. Castets, I would like to stress that there are large countries that are vulnerable to shocks. We saw it with Mozambique and Zimbabwe recently, so the focus on small countries is important, but let us not forget that. We would also like to stress the importance of economic diversification as a means of limiting vulnerability to shocks in large countries because the cost of the shocks is often related to the fact that countries, small countries particularly, rely too much on some kinds of activities of specialization.

Second, I found the discussion on innovative financing issues quite interesting, and I would like to signal an important initiative that has been taken by the Africa Risk Capacity Agency, which is sponsored by the African Union in collaboration with the African Development Bank in order to promote insurance against natural disasters. The important part of this initiative is that it is not ex post insurance. It is triggered by reaching a certain level of risk. Therefore it addresses a big problem that has been an obstacle to spreading insurances of this kind because the premium for ex post insurance is very high, so countries often cannot afford it. Now this instrument triggers before the disaster hits as a function of risk level which is measured somehow. That could be an important way to move forward. I would like to know whether the staff has considered this tool and whether it could be generalized.

With that, we reiterate our support to the work of the staff, and we would like to thank the staff for the outreach with us.

Mr. Kaya made the following statement:

We appreciate the thoughtful analysis by the staff. The proposed framework will allow for a more structured and systematic approach to help countries increase natural disaster resilience. This itself is a highly valuable contribution by the Fund, as the staff makes further clarification about the role of the Fund and the collaboration between the Fund and other institutions, especially the World Bank. Much of the actual work of supporting national authorities to craft a national DRS will be the task of others, with the Fund inputting its specific general macro, fiscal, and financial sector expertise.

We believe that our facilities are broadly fit for purpose and stress that a non-traditional financing role of the Fund is not warranted. We wonder about the suggestion to possibly increase the access limits for the Rapid Credit Facility (RCF) or the Rapid Financing Instrument (RFI), as poor and vulnerable countries that are hit by natural disasters need grants and not more debt.

Mr. Mahlinza made the following statement:

We have cosigned the joint gray statement and would like to highlight a few points.

First, I would like to underscore the plight of LICs and small states that are capacity constrained to build ex ante preparedness to natural disasters. They are constrained by a myriad of factors, including limited fiscal buffers, higher debt vulnerabilities, and limited access to financing instruments and risk insurance products. The example of Mozambique, which continues to cope with emergency and post-disaster recovery efforts brought by Cyclone Idai and most recently Kenneth, demonstrates the urgency of shifting focus to ex ante resilience building, especially given the increased intensity and frequency of climate-related shocks. This example also underlines the critical role of the Fund's emergency financing instruments, together with country-tailored surveillance and CD to assist countries hit by natural disasters.

Second, we welcome the three-pillar strategy laid out in the paper, which could help best coordinate efforts by various partner institutions to sustain resilience-building efforts in the membership. We encourage the Fund to continue leveraging the World Bank's expertise to improve the country's capacity in the design, prioritization, and sequencing of public investments aimed at strengthening structural resilience. In this respect, we support the call for increased collaboration amongst IFIs and strong donor collaboration.

Finally, although we believe the Fund's lending toolkit is sufficient and versatile to address the needs of countries hit by natural disasters, we are of the view that an increase in access limits could be considered in view of a country's capacity gaps and the impact of natural disasters.

On state-contingent debt instruments, climate funds, and risk insurance products, we believe the Fund and the Bank are well placed to spearhead efforts aimed at bridging the gap between optimality and affordability in the design of these instruments.

Lastly, I would like to echo a point raised by Mr. Castets, Ms. Riach, and Mr. Fanizza, about dedicating more work to sub-Saharan Africa and countries not normally associated with natural disasters. With those remarks I would like to again thank staff for a very good paper.

Mr. Gokarn made the following statement:

We signed on to the 16-member gray statement, so we would like to make a few points for emphasis. The first is about the issue of slow-onset environmental consequences. This is a point that has come up in other gray statements. Ms. Riach has emphasized this also in her interventions in the past. The country that I represent, Bhutan, is well aware of this. It is not in the classic natural disaster danger zone, but as a result of the effects of changing hydrology, changing forestation patterns, impact on agriculture productivity, all of these are long-term consequences which do have macroeconomic significance. We need to keep that in mind.

The second point is about funding, and a lot of emphasis in the paper is on financial arrangements. That is very welcome. I was particularly struck by Table 2, which lays out the various insurance schemes that exist. But it is also clear from the numbers presented that the payout ratios are small, and as we saw in 2017, a hurricane can do damage to several members of the same pool. The capacity of these insurance mechanisms is severely constrained. One role that the Fund needs to contribute to is determining how to globalize the risk pooling so the insurance mechanism allows, as Mr. Fanizza was saying, affordability to increase and pay out and also expand correspondingly. This is an important challenge and an important role that the Fund can play in helping design these more efficient insurance schemes.

I want to refer to the case study of Bangladesh and illustrate several points. One is that it is not only small countries, small states, that have macrocritical disaster issues. Bangladesh is a country that has both the immediate vulnerability to cyclones—and there is one hitting the Indian east coast in the next few days, it may actually impact Bangladesh as well—but also the longer-term consequences. The case study lays out clearly how these two can be managed. There is a budgetary dimension, a fiscal dimension, and I am glad to see that the climate fiscal framework was developed with assistance from the Fund. It is an important contribution that the Fund can make in this longer-term development of a strategy.

There is also the larger plan that the country authorities have put together, and when one looks at the Bangladesh Delta plan, it indicates both immediate consequences and longer-term issues relating to drinking water, for example, which is getting salinated because of the rising sea level. These are very important consequences.

It also points out several limitations, resources, coordination between different sources of funding, and fiscal capacity, as many Directors have indicated. How does the country enhance its capacity in terms of being able to build these longer-term institutions? There is no question these institutions are needed because this is not a one-off or a short-term situation that we are dealing with. There are long-term consequences for every country that we are talking about.

Mr. Tombini made the following statement:

I will try to be brief and start by thanking the Chairman for her personal involvement and the management team. This is not only important because we have the convening power, but also the leadership in helping to move this important agenda. The Chairman referred to the November summit here, which was very productive.

I was also part of the joint gray statement, so I will not repeat the arguments here. The DRS is very supportive of the idea and the emphasis on ex ante resilience building, and I wanted to associate myself to the oral intervention of Mr. Rashkovan. With regard to facilities, given the macrocriticality and the major impact on small economies and LICs, we should consider very seriously increasing the access limits when we discuss those facilities in the future.

I just wanted to emphasize one issue, which has been discussed here, about the financial resilience and the various instruments. I agree with other Directors that we need to continue to invest on state-contingent debt instruments. That is very promising, but more work needs to be done. On the other instruments, CAT bonds and insurance, during the summit in November, the Prime Minister from Barbados made a suggestion. Given this idea of concentration of risk that Mr. Gokarn and Mr. Fanizza alluded to, and also the scalability, the small scale of the operations especially in the Caribbean, she suggested that we could involve sub-regional governments in the United States, for instance, which are buffeted by natural disasters. Of course, we know that there is this massive federal intervention that dwarfs all the other effects; but there are municipalities and states that think it is a good idea to invest in this financial resilience. Perhaps Mr. Srinivasan could share with us what have we done to increase the payouts of those financial instruments in the future.

Mr. Alhomaly made the following statement:

We welcome the comments made by the staff that there was close consultation with the World Bank in the preparation of this paper. As mentioned by the staff and many Directors, the World Bank has substantial expertise in this area, and so there is a need for continued collaboration.

We also agree with the Chairman that there is a need to forecast ex ante resilience to natural disasters. To this end, the Fund, in line with its mandate, and in collaboration with relevant institutions, should deepen its advice on macrocritical issues in support of resilience building. Notably, the Fund should help disaster-vulnerable countries incorporate the costs and benefits of ex ante resilience building in the macroeconomic framework and Debt Sustainability Analysis (DSA). This will help authorities in making informed choices, as mentioned by some Directors.

On the DRS, we agree with the staff that the framework should be voluntary, and the country should take the lead in implementing the DRS. Like other Directors, we consider that the current Fund lending toolkit is appropriate to support disaster-vulnerable countries. Fund endorsement of a macroeconomic framework should play a strong catalytic role in mobilizing financial resources from other stakeholders in support of resilience building.

Finally, on supporting capacity development, clear division of work and close coordination with the World Bank and other institutions will be essential. In particular, Fund support should be targeted in areas where it has special expertise.

Mr. Sigurgeirsson made the following statement:

I think Ms. Pollard has a point. It is very helpful when the staff answers questions before the meeting starts, and I believe that in my previous life around this table, that this was usually the case.

This time we were all alone in issuing our gray statement. We agree that the staff should play an important role in helping countries vulnerable to natural disasters on issues that are considered macrocritical, and we fully support a collective shift of focus from the recovery phase of natural disasters to resilience building. Most Directors have agreed that the proposed three-pillar framework for the DRS will be a helpful way to approach resilience building, but nevertheless it has to be said that the strategy still leaves open questions regarding overlap with existing frameworks, and it would be helpful if that would be clarified.

The Fund has an important role regarding natural disasters and climate-related topics, and as mentioned by almost everyone, cooperation with other institutions will be critical to avoid overlaps and to ensure that the relevant expertise is combined. One issue is the interface. The interface will be important because we have to be mindful of resource implications for the representative disaster-ridden countries and their authorities if ownership is to be key and for any DRS success. In this area I can speak with some experience. I was in the center of the run-up and the resolution to a man-made systemic disaster in a very small country where too many advisors were stepping over each other, armed with the best solutions. This only added to our problems. This is something that we need to keep in mind.

Finally, the current CCPA appears to be a very valuable tool to help disaster-prone countries and implement DRSs, but we are only halfway through the pilot phase, as mentioned by Mr. Johnston. I would be interested to hear if the staff could provide an estimate on when the remaining CCPAs will be concluded and when an assessment of the process will be brought to the Board, and it would also be helpful if the staff could share some insights on how this product is valued at the World Bank. As Ms. Pollard mentioned, perhaps we should get the World Bank in the room to go over these areas that I mentioned.

Mr. Guerra made the following statement:

We were also part of this joint gray statement that shows our massive support for this topic. Let me highlight two topics. The staff requested our opinion on the Fund's surveillance and the attention that should be given to resilience building in Fund surveillance, and we fully support that. In our opinion, it would be convenient for surveillance to be dependent on the real vulnerability of the respective countries, the recurrence of the natural disasters that it has had, and the prominence of this issue related to others that are important.

A second point, which the Chairman mentioned, has to do with surveillance related to the risks to the financial system. This is not only relevant to small countries but also large countries, and we are seeing many risks from the transition to the production of green energy. As we have just seen in a report by this group of green, the financial system that some of our members constituencies are involved in, this is a big issue that should be part of the Fund's surveillance for financial stability purposes.

The other topic is risk management. We highlight the role that the Fund and other multilateral institutions, including primarily the World Bank, can play in facilitating vulnerable countries' access to insurance options. Many of them lack the capacity to conduct the analysis of how to improve their chance of accessing these insurance instruments.

The second one has to do with the role of the Fund's TA for countries so they can have better risk management in terms of the whole macro framework. Many of our countries are subject to risk not only from climate change and natural disasters, but also need insurance from falling commodity prices or increasing commodity prices. How can these countries address all these risks together in a more efficient manner? That is also one of the issues that the Fund could look upon.

Mr. Palei made the following statement:

I did not plan to intervene, but then I was listening to my colleagues and also to the story about the Belt and Road Initiative (BRI), and I thought how interconnected everything is in our times. A few years ago, at the BRI forum, there was talk about the so-called Polar Silk Road, and this is the Arctic shipping route which is discussed because of global warming and melting ice. Global warming is a challenge for many countries, and for some countries it opens economic possibilities, and the general story is probably that every cloud has a silver lining. But each side of the story poses economic challenges. Mr. Sigurgeirsson feels a bit lonely in issuing his gray statement alone as opposed to many of us being happy for issuing a joint gray statement by 16 Directors. I note the President of Iceland, President of Finland, Prime Minister of Norway, Prime Minister of Sweden participated in the recent Arctic Forum, so there is some background for us to issue a joint gray statement in the future on global warming issues. But for this discussion, we joined the larger group of Directors because we understand that the challenges of global warming are extremely difficult, and as an energy exporter, it is close to our economic challenges because energy prices are so volatile, so it makes sense to prepare for negative shocks in stable or good times, and the challenges of planning for the future well ahead are very close to our authorities' strategy and the approach to economic policy.

So I was a bit puzzled by what Mr. Meyer said about the Fund and maybe other donors creating or posing a balance of payments problems for the countries. I am not sure I quite understand this view because we have a potential balance of payments problem due to future likely natural disasters, so today we are calling on the countries and the authorities to prepare for these balance of payments challenges. As I understand it, we are trying to mitigate the risks to balance of payments, so it is a potential balance of payments problem being addressed today. We do need additional resources in the present to address a much more demanding situation in the future. I look forward to the staff's answers, but I was puzzled about this notion of contributing to balance of payments pressures in these countries instead of helping them to address the balance of payments pressures.

The staff representative from the Strategy, Policy, and Review Department (Mr. Nolan), in response to questions and comments from Executive Directors, made the following statement:

Let me first take up the issue of the CCPA and its status and its future. The CCPA is in a slightly ambiguous status currently. It is in the pilot stage of the Fund in the sense it is being produced within FAD's budget in the main, and four pilots have been taken. Two more are planned. The World Bank is heavily involved in the production of the CCPA but on an ad hoc basis. In other words, it is a coalition of the willing between World Bank staff in particular countries and the Fund's staff. We would see a need to reach agreement with the Bank on what we will call, for want of a better word, a diagnostic mechanism. The CCPA is part of it, but we are bringing that part to the table, but there are other parts that the Bank would likely want to bring to the table. We certainly need an understanding. CCPAs are not issued by the Bank. They are approved by country directors, so it is not a formal Bank paper. It is not on the Bank website. Sorting out that whole issue of the status of the CCPA and assessing its merits remains to be done. It has to be done in consultation with the Bank, and the core objective is to produce a good mechanism, a good diagnostic for natural disaster plans.

To reinforce a point I made earlier, the DRS comes with small letters. It is disaster resilience strategy as a concept. There are many such plans out there, as Mr. Johnston and others have noted. The Bank has disaster risk management strategies. We are not trying to replace any of these. All that is required is a strategy that covers the various elements and sticks together, and fits within a medium-term macro framework that does not imperil debt sustainability.

The question posed about rallying around the DRS is not saying do other agencies agree with a Fund proposal on a disaster resilience strategy. Other agencies agree with the principle of a strategy that meets the needs of the country in question.

On state-contingent debt instruments, it is an issue that has recently been taken up at the Paris Club, which has basically agreed on a term sheet for use in terms of lending to sovereigns, particularly in the Caribbean. A key point will be is that it will be very expensive if only a few countries do it, and it will not generate many benefits. So in some sense, there is a collective action problem here where we will need agreement across a wide range of lenders to engage with a similar term sheet, and then there will be significant benefits to the country. At the moment, the French Development Agency does this, finds it very expensive, and it generates little gain to the country, because France is a relatively minor creditor in most cases.

On the issue of financing programs raised by Ms. Pollard and Mr. Meyer and also raised by Mr. Palei, first, we see both PCIs and precautionary standby arrangements as natural vehicles for providing support. We also see a four-year Extended Fund Facility (EFF) as a mechanism, a tool that can be used. we can discuss the semantics of balance of payments needs for quite a long time, but I think the core point would be that if a country has a resilience-building strategy—and we are not in the game of financing projects, we know that very clearly— f there is a short-term balance of payments need within that four-year timeframe, then, it would be appropriate for the Fund in an upper credit tranche (UCT) program to provide assistance.

As regards the question of what would conditionality focus on, as always, conditionality focuses on the issues that are critical to program success, which in turn depends on program objectives. The answer is it depends on what the program looks like, what the conditionality should look like.

On the issue of the RCF and the RFI, we will be returning to this on May 24 at the LIC facilities review discussion, and the staff paper for that will be issued to Directors shortly.

Mr. Meyer made the following statement:

On this point, Mr. Nolan, I understand, and my concern is around the following. Assume what you describe, and the investment for the resilience building is purely financed in the own currency of our member, I would not see how a balance of payments problem could arise from that, building resilience. If there is an import content in a different currency, then I understand the concept, and I am coming closer to understanding. If that is not the case, it would be purely budgetary support, and we would come to the fringes of where the Fund's facilities would usually finance that, especially in the GRA. The PRGT is a slightly different case. I am not reading out the Articles of Agreement. We moved away from that concept over years, quite a bit with precautionary. I am just saying some seem to put it in there. Yes, of course, we finance; yes, it is a good thing, but we come to the conclusion in most cases that we play a catalytic role in this regard because with the whole framework, others would be willing to come in and give bilateral or multilateral support in that regard.

If we somehow capture that idea in the summing up, that goes a long way toward providing me with some comfort that we are not creating a new instrument that seems to be at the fringes of what we would usually do.

The staff representative from the Strategy, Policy, and Review Department (Mr. Nolan), in response to further questions and comments from Executive Directors, made the following additional statement:

I think we have something of a similar understanding. We do not see this as a tool for generating budget support, and we also see the Fund as a minor source of funding in this exercise, with the traditional catalytic objective.

We hear very clearly the message from Directors on the need for more focus on sub-Saharan Africa. In fact, we think the framework is generic in general. It reflects somewhat more the interests of small states because of the extensive intellectual input that WHD has put into the product, and that has in some ways not skewed it, but it has given more emphasis to the small states. We see this as a broad-based framework and, as important to countries in many parts of sub-Saharan Africa as elsewhere.

On the issue of promoting the development of insurance markets, such as Mr. Gokarn mentioned, he is acutely aware there are many limitations and market failures in this area, small scale, small volume, and so forth. We have done a fair amount of work on this, but I would say our primary conclusion is this is an area where the Bank has leading expertise, where the donors think the Bank has leading expertise in terms of financing mechanisms like the Global Risk Financing Facility and other projects. It is an area that, candidly, we are not going to invest resources, and we are going to borrow from whatever the Bank is doing, notwithstanding the importance of the issue. It is just based on our assessment of comparative advantage which we have acquired over the last two years, and also looking at the pattern of support that donors actually give.

The staff representative from the Western Hemisphere Department (Mr. Srinivasan), in response to further questions and comments from Executive Directors, made the following additional statement:

There was one question in terms of the pilots on Dominica and Grenada, who will be the development partners. The teams are there now in the Article IV consultation, so they are having some initial discussions, and they have touched base, or they are working quite closely with the World Bank, the Caribbean Development Bank, and some climate funds there. Those are the partners we think we will be working with, including with the authorities.

There was a question on the Caribbean Accelerator. This was launched in 2018. This is a public-private partnership. We know that the World Bank, the IDB, the International Finance Corporation (IFC) are involved, along with private sector partners like, Airbnb, the United Nations Development Program, and some other insurance partners. Fund staff have been involved, not in providing money but in terms of providing ideas and brainstorming over teleconferences, so we are there in that context.

There was a question on the DRS and no one-size-fits-all. We completely agree. Even though Dominica and Grenada are two countries in the Caribbean, they face different kinds of risks, so the DRS will have to be tailored to their own individual circumstances. It cannot be one-size-fits-all.

The last question I will answer is on policy advice. Clearly the whole idea of bringing these three pillars together confirms that we have to think of this in a holistic way. Countries will face tradeoffs in terms of costs and benefits, but the point we are trying to make is if one builds more structural resilience, spend over a period of time less time on financial resilience and on exports recovery, that point has been internalized, and that has been in context of the limited fiscal space we have, the costs and benefits, and when we bring everything together in the macro framework, that will show what the costs and benefits are and how the tradeoffs materialize. We are already doing that in the context of the Eastern Caribbean Currency Union (ECCU) Article IV consultation, and we will continue doing that irrespective of whether we have a DRS or not for individual countries.

The staff representative from the Asia and Pacific Department (Ms. Stuart), in response to further questions and comments from Executive Directors, made the following additional statement:

> On the DRS, as has been emphasized earlier, obviously it is voluntary based on ownership, no one-size-fits-all, so it might look quite different among the different Pacific islands. In terms of CD and surveillance, would we still focus on building resilience to natural disasters? Yes, absolutely. It is a key part of the work that the Pacific Financial Technical Assistance Center (PFTAC) is already doing, where it has a big focus on public financial management and revenue mobilization, and we would continue that. In fact, we have done workshops at the regional level looking at the issue of building resilience to natural disasters, which had very helpful support from the World Bank, the Asian Development Bank (ADB), and also the Japan International Cooperation Agency (JICA). Looking forward, I anticipate that we would do that in future.

The staff representative from the Strategy, Policy, and Review Department (Mr. Nolan), in response to further questions and comments from Executive Directors, made the following additional statement:

> In response to Ms. Riach's question about boxes in reports, the surveillance guidance note underscores the principle of selectivity in picking on topics for Article IV consultations, so in a sense it is a function of the country team as probed and discussed in the context of the policy consultation meetings and policy note preparation to see what the relevant issues are. In a sense, it is their call.
>
> On the other hand, a clear message both from experience in recent years and from this discussion is that we need to put more focus on the resilience part. There is some interesting work in different parts of sub-Saharan Africa, for example, Ethiopia being a case in point, and so there

> would be a lot of peer learning achieved also by containing such boxes. We cannot tell people to do it, but we will definitely say the Board thinks they should do it.

Mr. Tombini asked the staff to comment on the outreach to the sub-regionals and the United States.

The staff representative from the Western Hemisphere Department (Mr. Srinivasan), in response to further questions and comments from Executive Directors, made the following additional statement:

> Going beyond the narrow thinking of the Caribbean, we have had some outreach with the California resilience authority. They want to see what experience we have gained in resilience building from the Caribbean, the Pacific, and so on. We have had similar requests from other countries, sub-nationals, but we have not done much by way of outreach. They have come to us, and we have talked to them, but going forward, as we get more experience, we will do more outreach.

The following summing up was issued:

> Executive Directors welcomed the opportunity to take stock of ongoing staff work on building resilience to natural disasters in vulnerable countries, including the efforts being made to incorporate disaster risks into macroeconomic frameworks and into Fund surveillance more generally.
>
> Directors agreed that natural disasters can have significant and long-lasting effects on economic well-being in many developing countries, particularly small, fragile, and low-income states, and that the frequency and intensity of weather-related shocks are expected to further increase as climate change evolves. They underscored that the social and economic impact of natural disasters can be mitigated through policies to build resilience, including targeted investments in infrastructure and the effective use of available financial instruments.
>
> Directors agreed that incorporating disaster risk is an important component of sound macroeconomic management in countries where risks of large-scale natural disasters are significant. They agreed that the Fund, in collaboration with the World Bank and other development partners, can help vulnerable countries assess the trade-offs between development needs, rising debt vulnerabilities, and the benefits of ex ante resilience building. Most Directors agreed that the Fund's approach to resilience building should extend

to slower-onset disasters, which can also have a detrimental impact on countries.

Directors welcomed the suggested three-pillar approach to resilience-building as a useful framework for analyzing policy options in a systematic fashion and for identifying key priorities. They noted that the approach was informed by the Sendai Framework for Disaster Risk Reduction and the work of the World Bank on disaster risk management and insurance strategies. They agreed that many small, fragile, and low-income countries face significant capacity constraints in developing a full strategy for building resilience, which can severely impair the ability of governments to make effective use of external support, and noted that the Fund and the World Bank are well placed to assist countries in overcoming these capacity gaps. While noting the important role of development partners in supporting national efforts, Directors emphasized that government ownership is crucial in building resilience to natural disasters.

Directors saw merit in governments in vulnerable countries developing a national disaster resilience strategy (DRS), drawing on support from the international financial institutions. The Fund could take a lead role in helping countries develop a macroeconomic policy framework that adequately reflects both disaster costs and returns from resilient investment and that identifies the fiscal actions to support the policy framework. The World Bank and other development banks could take a lead role in helping countries identify and assess disaster vulnerabilities and in prioritizing investment needs. Directors highlighted the need for Fund staff to collaborate closely with the World Bank in supporting country efforts, with a few Directors underscoring the core expertise of the Bank in key areas where support would be needed.

Overall, a DRS would provide a roadmap for policy design and sequencing, and facilitate coordination of donor support for national plans. Directors remarked that the DRS would focus national attention on active preparation for disasters while providing an anchor for support from development partners. Directors noted scope for further clarifying the details of coordination, sequencing, and responsibilities of different stakeholders in developing an effective country-owned DRS. They also highlighted that the development of a DRS would benefit from peer learning and experience-sharing among countries and agencies. Directors agreed that a credible DRS could help catalyze higher levels of financial support from bilateral donors, climate funds, and other sources, and welcomed the interest expressed by some Caribbean authorities in developing such strategies.

Directors emphasized that the use of risk-transfer instruments should figure more prominently in government measures to improve financial resilience to disasters, while recognizing the challenges involved in developing insurance markets that provide reasonable premium levels relative to expected annual payouts. They welcomed the efforts of donor countries to support insurance market development and strengthen risk pooling. Directors broadly supported additional work by the Fund, in collaboration with the World Bank, to analyze the role and potential contribution of state-contingent debt instruments in helping countries build resilience to natural disasters.

Directors noted that the Fund has a valuable role to play in supporting country efforts to build resilience to natural disasters, as part of its surveillance and capacity building activities. A coherent resilience strategy should fit within a medium-term macroeconomic policy framework that is consistent with maintaining debt sustainability, including under adverse shocks—an area of core Fund expertise. Staff could also contribute through analysis of the economic impact of disasters and of trade-offs between public investment and debt accumulation. Directors agreed that the Fund’s lending toolkit was sufficiently flexible to provide support for disaster-vulnerable countries that face a BoP need, but most saw scope to increase access limits as well as to use the toolkit in non-traditional ways to support resilience-building. Directors encouraged giving special attention to countries prone to natural disasters in the upcoming FSAP Review and Comprehensive Surveillance Review.

Directors agreed that disaster resilience strategies need to be based on a robust diagnostic of risks and vulnerabilities and encouraged a pragmatic approach, in coordination with the World Bank. They asked for a full assessment of the Climate Change Policy Assessments being piloted in a handful of small countries, in collaboration with the World Bank, which could provide a valuable diagnostic for national authorities.

Directors noted that building resilience to natural disasters extends to areas in which the Fund does not have relevant in-house expertise. They underscored that providing effective support to governments would require close collaboration and coordination with other institutions that have the relevant expertise, including in developing disaster resilience strategies, and called for a clear division of labor, based on respective mandates, between the Fund, the multilateral development banks, and other agencies.

APPROVAL: October 5, 2021

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Collaboration/Coordination with the World Bank

1. ***Can staff comment on whether a joint Bank-Fund paper on this topic was considered*?**

- Staff will respond to this question during the Board meeting.

2. ***As regards using Fund's convening powers to help coordinate various stakeholders for resolving existing hurdles to accessing market-based risk transfers such as private insurances, it is not clear whether the Fund has a comparative advantage to be at the center of such coordination. The World Bank has been active in this area and should take the lead. Staff comments would be appreciated***

- Staff will respond to this question during the Board meeting.

3. We are not convinced that the Fund should take the lead in addressing coordination issues in this area and would therefore welcome clarification on the proposed role of the Fund.

- Staff will respond to this question during the Board meeting.

4. ***In that context could staff elaborate in more detail which measures are planned to support both communication and coordination between the IMF, the MDB and other actors? We are also interested to learn more on staff plans on how to work more with G7/G20 together on that topic, including the role that country platforms might play with regard to the implementation of DRS.***

- Staff will respond to this question during the Board meeting.

Disaster Resilience Strategy

***1. Has the quality of countries' disaster strategies been a factor holding back donor support*?**

- While it is hard to quantify the link between the quality of countries' disaster planning and the associated level of donor support, staff consultations with other agencies support the view that donor support for resilience-building is much more likely to be forthcoming when a country has a coherent strategy in place, including clarity on the necessary costing and financing needs, embedded in a credible macro-fiscal framework, and where key elements of this strategy are being supported by the relevant international financial institutions.

2. Does staff believe that each of the 66 countries in Table 1 would be good candidates for a Disaster Resilience Strategy? Why would a separate Disaster Resilience

Strategy be a better approach than incorporating resilience objectives into a country's broader development strategy? How would this approach guard against "strategy overload" and provide sufficient flexibility to incorporate changes in circumstances?

- Table 1 is intended to illustrate the range of countries vulnerable to major natural disasters. A coherent "whole-of-government" plan for building resilience/responding to such disasters is likely to yield substantial social and economic return in these countries. In several countries (particularly larger countries with higher levels of income and state capacity), key elements of such a plan are likely already in place; in smaller or poorer countries, this is much less likely to be the case.
- Staff see a disaster resilience strategy, founded on a strong diagnostic and the three- pillar approach, as a useful approach for examining the various possible elements of a country-customized DRS in a systematic manner. A finalized DRS would summarize the key actions that need to be done and provide a framework around which donor support can be organized. Integrating the DRS into a national development plan or a medium-term fiscal strategy is desirable—as, for example, would be the case with a national education strategy.

3. There was a suggestion of "possible Framework for Coordinated Action" at the last November informal board meeting. We would like to ask staff whether there is any practical progress on this framework and how the Fund engaged in this framework.

- Staff will respond to this question during the Board meeting.

4. Can staff comment on other organizations' engagement in the DRS approach so far and how the proposed framework could improve coordination?

- Staff will respond to this question during the Board meeting.

5. We encourage staff to further collaborate with others to support for developing and implementing DRS. We echo the Joint Gray's question on other organizations' engagement in the DRS approach so far and how the proposed framework could improve coordination.

- Staff will respond to this question during the Board meeting.

6. Having a common understanding among relevant institutions is crucial to address the "fragmented and poorly coordinated" nature of current practice of external support. In this regard, we are wondering how other institutions incorporate the spirit of the three-pillar strategy into their own action principle? We welcome staff's comments.

- Staff will respond to this question during the Board meeting.

7. ***Does the proposal imply that the Fund would take the lead in "pushing for" a DRS to be developed? Would the IMF approach relevant countries to encourage them to develop a DRS? What other actors, including the World Bank, would be involved and which roles would they potentially take?***

- Staff will respond to this question during the Board meeting.

8. ***It would be good to get a better idea of how a DRS would be developed and coordinated, the sequencing for each step, and the responsibilities of different stakeholders within each of the three pillars.***

- Staff will respond to this question during the Board meeting.

9. ***Staff might want to comment on the scenario, in which a country with a balance of payment problem is requesting a program and, in that process, it is decided to further include resilience building measures into the program. Would these resilience building measures become part of the conditionality?***

- Staff will respond to this question during the Board meeting.

10. ***Could staff inform us in more detail, if the other stakeholders agree to build the overall approach around the DRS?***

- Staff will respond to this question during the Board meeting.

CCPA and the Macro-Fiscal Framework

11. ***Could staff elaborate more on what need to be done to fully integrate fiscal and debt aspect into DRS, how CCPA could support it, and which elements cannot be covered by CCPA?***

- To develop a cost-effective resilience-building strategy, national authorities need a clear diagnostic on vulnerabilities and sensible prioritized policy responses, including costings of key investments. The CCPA, as currently constituted, provides a valuable diagnostic in many areas, albeit without the costing of investments. Engagement from development partners (notably the MDBs) with the relevant expertise in investment project design and costing will be needed to put price tags (and cost-benefit assessments) on individual projects.
- Once a diagnostic, with price tags and cost-benefit assessments, is available, staff can work to fits the proposed investment strategy within a financeable medium-term framework—with lower return projects being dropped if the financing strategy points to serious threats to debt sustainability.
- The medium-term framework needs to take account of the longer-term benefits from resilience-building investments, including through integrating these benefits into longer-term debt sustainability assessments.

12. ***It would be interesting to learn staff's view on countries' capacity to make broader use of the CCPA, also considering that it involves significant human resources, especially for small states*?**

- The focus of the paper is on disaster-vulnerable countries with limited capacity to develop a disaster risk management strategy to contain the adverse impact of shocks – and where significant work is needed to flesh out such a strategy.
- Developing a disaster resilience strategy requires a clear diagnostic as to the nature of vulnerabilities and the key investments needed to limit disaster damage. Much of this diagnostic will need to be undertaken by/supported by development partners.
- The CCPA has proven to be a valuable tool, in the handful of pilot cases where it has been undertaken, in providing key elements of this diagnostic—although significant additional work on costing of key investments is needed. But further work is needed, in collaboration with the World Bank, to assess the value (and costs) of the pilots and identify whether adjustments are needed to the CCPA template to enhance its value as a diagnostic for building disaster resilience.

13. ***Is it staff's intention to evaluate the CCPA and learn from this experience before creating a new diagnostic tool*?**

- The intent is indeed to garner lessons from the experiences with the CCPA so far. Preliminary indications from country authorities are that it has been a valuable diagnostic tool in assessing countries' plans and programs for handling disasters and climate change.
- Adjustments to the CCPA would likely build on the existing template, rather than revamp it completely. Importantly, formal agreement with the World Bank will be needed on the contents of a modified CCPA, on the respective roles of the two institutions in producing the document, and on identifying additional financing needs and sources, if needed.

14. ***Could staff elaborate further on the expected role of the CCPA beyond the pilot stage*?**

- See answers above.

15. ***The suggestion for a new diagnostic tool for a DRS in Box 4 is not clear. The CCPA is still operating in a pilot phase and we would welcome comments on whether any evaluation has been planned? We would also welcome staff's elaboration on a possible new diagnostic tool for a DRS and whether any consultation with the World Bank has taken place?***

- See discussion above. Staff will respond to questions regarding consultations with the World Bank during the Board meeting.

Capacity Building

16. ***We notice that the Fund has held several regional workshops on medium-term fiscal frameworks and fiscal resilience to natural disasters in the Pacific. Are there plans to do something similar in the Caribbean*?**

- The Fund has been engaging closely with the Caribbean authorities at an individual country basis. Several countries are receiving training from ICD and CARTAC on building macro-fiscal capacity, including to deal with natural disasters. For example, the DFID-financed CARTAC work on resilience building aims to strengthen national capacities around macroeconomic financing for disasters and climate change policy, including through assessments of fiscal resilience, stress testing, reserve funds, disaster clauses in fiscal rules, scope for carbon pricing and energy subsidies, debt sustainability, and macro-financial linkages.
- CARTAC is also organizing a series of workshops on resilience building: a workshop on fiscal risks and resilience took place in December 2018 in St. Kitts, and another workshop will take place later this year on disaster preparedness for the revenue authorities.
- PFTAC and CARTAC, together with FAD, are planning a joint workshop on public financial management and building resilience to natural disasters, to be held in Washington in December.

17. ***Access to climate change financing by many LIDCs and Small States remains challenging due to complex and administratively cumbersome procedures. Could staff comment on how they envisage buttressing the Fund's CD strategy to address LIDCs and Small States' constraints regarding the above*?**

- A fleshed-out DRS, with an accompanying viable medium-term macroeconomic framework, should help address Climate Fund concerns about the coherence and credibility of a country's approach.
- Regarding submission of project financing requests to the climate funds, expertise in this area lies primarily with the MDBs, not the Fund.
- Based on the experience obtained in prior engagement with the Climate Funds, staffs of the Fund, the Bank, and other MDBs, can advise country authorities on how best to engage with the climate funds. Peer-learning events can also be facilitated through entities such as CARTAC or in Washington.
- Encouragingly, the Green Climate Fund has already begun to streamline their processes for accreditation (fast-tracking to 3-months approval).

Other

18. ***Are there any realistic ways to finance the adaptation costs, including through domestic resource mobilization, increased donor support, and concessional***

borrowing? Could staff comment on examples of cases in which the private sector has played a useful role in supplementing public funding?

- The bulk of the disaster-vulnerable countries are smaller states, where the absolute amounts needed for priority resilience-building projects can conceivably be financed by additional domestic resource mobilization, climate funds, and concessional financing including from donors and other stakeholders.
- One recent initiative intended to bring together the public sector and private funds to support resilience-building is the Caribbean Climate-Smart Accelerator, which aims to help transform the region's economy through fast-tracking sound public and private investment opportunities for climate action. It has been joined by some of the largest global companies, financial institutions, and foundations.
- While there are several examples of private participation in mitigation projects in the Caribbean, adaptation finance remains the realm of multilaterals (mostly WB and CDB), climate funds, and donors. Private investment in adaptation is limited to projects where the benefits are internalized by the investors—such as conversion to climate resilient crops in agriculture or retrofitting of factories and homes.
- In Fiji, large private tourism sector investors have also invested in coastal protection, environmental conservation, and tourist education, with the objective of reducing disaster losses and making the tourism industry more sustainable.

***19. Could staff elaborate further on the characteristics of the Global Platform for Risk Insurance launched recently by the World Bank, Germany, and the UK*?**

- Global Risk Financing Facility (GRiF) was set up with the objective of strengthening financial resilience of vulnerable countries. It will help these countries establish and scale up pre-arranged risk financing instruments, such as insurance, for natural disasters and eventually other crises. GRiF will collaborate with the private sector to maximize financing for development, and with regional insurance pools, among other stakeholders. GRiF is currently being set up and operationalized.
- Activities that will be financed by GRiF include: insurance premium financing; contingent financing; risk financing investments; integrating risk transfer with loans to pilot new approaches to support debt sustainability in the face of extreme events; risk financing mechanisms that promote parallel improvements in country systems for crisis response and recovery; and technical assistance and capacity building where this is not yet covered by other programs.

***20. The adverse effect of slower-onset disasters is further compounded by fragility, poverty, and income inequality, and these, in turn, reinforce low-level equilibrium traps. Could staff comment on how they are considering these issues in this workstream*?**

- The paper seeks to include countries with slow-onset disasters within the general conceptual framework. For example, recurrent droughts in Africa and Middle East raise similar challenges as rapid onset disasters like cyclones and earthquakes in terms of ex-ante preparation, resilience building, and ex-post recovery. Annex II highlights the challenges posed by slow-moving disasters in Sub-Saharan Africa and the vulnerability of the populations there and Annex III underscores some policies to enhance resilience. Staff sees a disaster resilience strategy as being of equal relevance for slow-moving disasters, with the relevance of the various components of the three pillars depending on country circumstances.

21. Could staff provide more information on how this workstream will feed into the FSAP review and the Comprehensive Surveillance Review?

- The workstream on resilience building in developing countries to large natural disasters will inform both the Comprehensive Surveillance Review (CSR) and the 2020 Financial Sector Assessment Program (FSAP) Review.
- The CSR is looking into multiple trends and uncertainties relevant for surveillance, including those related to climate change. The workstream on building resilience to natural disasters in developing countries will shed light on a disaster risk management through a three-pillar strategy for building structural, financial and post-disaster resilience to cope with the macroeconomic and financial impacts of climate change. This work can help sharpen the surveillance priorities identified in the CSR scoping note presentation in March.
- The FSAP review will address two issues related to large natural disasters and climate change
  - *FSAP scoping*. A key question will be how the three pillars of financial stability assessments under the FSAP (risk analysis, financial sector policy framework, and financial safety nets) allows assessments to cover the evolving financial landscape, including the emergence of topics such as climate change (and the changing patterns of large natural disasters). What are the data, analytical, and resource/expertise limitations in these areas?
  - *FSAP's analytical foundations*. The FSAP review will be an opportunity to discuss the risk analysis techniques (such as stress test), through which FSAPs cover issues such as large natural disasters. FSAP stress tests have been capturing financial sector risks associated with large natural disasters—such as insurance losses and nonperforming loans associated with hurricanes and droughts—for many years. Staff have been working to broaden these tests and integrate them better with the rest of the financial stability assessment. The FSAP Review will examine the experience with those stress tests so far, and propose improvements going forward, likely covering not only stress tests for natural disasters, but also the analysis of low-carbon transition risks (see also "Stress-Testing for the Transition to a Low-Carbon Economy," Tobias Adrian, April 15, 2019, https://www.imf.org/en/News/Articles/2019/04/10/sp04102019-stress-testing-for-the-transition-to-a-low-carbon-economy).