

INTERNATIONAL DAY FOR DISASTER REDUCTION

REDUCING THE ECONOMIC LOSSES

Reducing Economic Losses caused by Disasters

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Excellences, delegates, Ladies and Gentlemen

Allow me to at the outset thank you for the opportunity to share my own reflections on the realities faced by the Caribbean due to natural disasters and the economic costs of these disasters. Given recent events focus on the Sendai Framework on Disaster Risk Reduction and in particular the ‘reduction of economic loss in relation to global gross domestic product’ is a particularly timely theme’.

Extreme weather events and disasters threaten the economic future of the Caribbean. In response to a series of catastrophic hurricanes, Caribbean Leaders continue to bring to the world’s attention the growing existential threat posed by climate change related disasters.

Appeals to the international community followed the devastation left behind by hurricanes Irma and Maria. These weather events, unprecedented in scale, intensity and timing should remove any lingering doubt that weather patterns are changing due, in part, to climate change. Catastrophic weather events and the resulting economic and humanitarian disasters, make the development model relied upon by Caribbean countries un-viable in the face of increasing climate related risks.

To illustrate this point, 2017 was the first year since record keeping began that the Atlantic Ocean hosted two category 5 hurricanes at the same time. For the Caribbean, the threat of catastrophic weather events is likely to become the new normal. This view is confirmed by the Commonwealth Marine Economics Programme which forecasts an increase in the frequency of high intensity category 4 and 5 storms over the next century. These findings are directly related to increased anthropogenic greenhouse gas emissions and the warming effect those emissions have on the earth's surface temperature.

What does this mean for the Caribbean and its future?

Should this new normal persist, the current model of development that relies on high public sector investment and FDI will not succeed. In larger economies, disaster relief funds are quickly channeled to affected areas, leading to a boom in post '*event*' reconstruction. For independent Caribbean microstates, such *largesse* is not available. In the case of Dominica, after picking up the pieces following Tropical Storm Erika in 2015, local authorities had to again start from scratch after Maria two years later; again at the mercy of international donors and financial institutions.

This vicious cycle of disaster followed by public sector borrowing makes effective, long-term development planning near impossible. This is to say nothing of the devastating effects that such disasters have on the private sector.

What are the economic costs?

All major economic sectors in the Caribbean are heavily impacted by disasters caused by floods, landslides, coastal inundation and

storms. Tourism and Agriculture, the main economic sectors in most Caribbean islands, are particularly vulnerable to natural disasters. Consequently the livelihoods of entire populations are vulnerable to related risks.

Allow me to share some reflections on these impacts.

Travel and Tourism is one of the most important economic sectors in the Caribbean and remains highly susceptible natural disasters and economic loss.

In 2016, 46.7 million international visitors came to the Caribbean and spent USD 31.4 billion which had a net contribution [multiplier] of USD 56.4 billion to GDP and supported 2.4 million jobs.

Overall, Travel and Tourism contributes 15.2 percent to the overall GDP of the Caribbean and account for 13.8 percent of employment.

In 11 of the 20 Caribbean countries analysed in a recent study, the sector accounts for over 25 percent of GDP – more than double the world average of 10.4 percent. Hence any disruption in the tourism sector can have immediate and far-reaching impacts on economic activity and employment.

In the case of the British Virgin Islands (BVI), an OECS Member State, the sector accounts for approximately 98.5 percent of GDP – the highest share of any country in the world.

In numbers what are the losses?

The 2017 hurricane season resulted in an estimated loss of 826,100 visitors to the Caribbean, compared to pre-hurricane forecasts.

These visitors would have generated USD 741 million in spending and supported 11,005 jobs.

An analysis by the World Travel and Tourism Council suggests that the recovery of the sector to pre-event levels could take up to four years, and if this were the case, the region would miss out on an additional USD 3 billion.

Importantly, damage to key resorts, beaches, attractions and infrastructure could mean negative economic results continuing into 2020. While impacted islands may experience ongoing challenges, on a regional basis, it is expected that the region [as a whole] will return to pre-event levels of output ONLY in 2021. This is based on the assumption that there are no further serious impacts from hurricanes in 2018, 2019 and beyond.

In the case of Dominica, GDP is projected to decline by 14.1 percent in 2018 before rebounding in 2019.

The total reported losses from the 2017 hurricane season – Harvey, Irma and Maria are upward of USD 245 Billion. Moreover, the total economic losses due to storms as a percentage of all climate related disasters reached 88 percent in 2017. Demonstrating the increasing impact of climate change related disasters in the Caribbean.

Forward-looking projections paint a particularly bleak picture for the Caribbean as it relates to infrastructure and capital stock. According to the recently released IPCC report, ‘In Jamaica and Saint Lucia, sea level rise and extreme sea levels threaten transport system infrastructure at 1.5 degrees, unless further adaptation is undertaken.’ Indeed the reports points to risks of impacts across

sectors at 1.5 degrees as compared to the present – these risks will further accelerate at 2 degrees.

Beyond the immediate economic costs that this will doubtlessly imply, such increases in temperature will likely lead to migration and displacement and substantial increase the risks to transport infrastructure from marine inundation. *[I would like to recognize the work undertaken by Regina and her team on this critical issue].*

Globally all of the top 10 worst affected countries in terms of percentage GDP were small Caribbean countries and territories.

While the figures vary from one study to another -

- Hurricane Irma cost Saint Martin the equivalent of 797 percent of GDP
- The French part of the same Island, 584 percent of GDP
- The BVI, 309 percent of GDP
- With Dominica recording losses of over 240 percent of GDP

The specter on increased climate related hazards threatens the development prospects of the region given the growing dependence on Travel and Tourism as a principal generator of economic activity and in light of the growing threat posed by such risks.

Debt sustainability

The long-term environmental challenges faced by Caribbean countries are compounded by high levels of public debt. Taken together, these factors combine to create a vicious economic cycle.

High levels of public sector debt have limited the fiscal space available to Caribbean countries to respond to disasters. This high debt overhang has in part been built-up by absorbing the impacts of past natural disasters.

Public sector borrowing, usually on non-concessional terms has been used as a shock absorber, to cushion the economic impacts of natural disasters on the broader economy. Consequently, higher levels of public debt constrain the capacity of the small island states to address climate related vulnerability and build resilience in preparation for future events.

Finally in this regard, many Caribbean countries register elevated income levels in terms of GNI per capita, *principally due to foreign exchange earnings*. Based on this measure, most Caribbean countries fall within the upper-middle income category, with GNI *per capita* over USD 4,000, the sole exception being Haiti. This categorisation makes many of the most vulnerable countries in the world ineligible for funding on concessional terms. This artificial distinction could further constrain the access of Caribbean countries to the funding required to build the economic resilience necessary to mitigate the impacts of future events.

Addressing the challenging and building resilience to economic loss

To address the catastrophic damage already caused, and to mitigate losses from future disasters, Small Island Developing States should pursue joint efforts through relevant multilateral fora such as the United Nations Framework Convention on Climate Change (UNFCCC); the World Trade Organisation (WTO), and the World Bank and International Monetary Fund (IMF). These efforts should

be directed as securing an *international settlement* that would meaningfully address the systemic risks that climate change and resultant disasters pose to small states.

Concretely: Small States should collectively seek the following:

(1) ensure that targets set under the Paris Climate change accord are met – including NDCs;

(2) the Caribbean Catastrophic Risk Insurance Facility (CCRIF) should be strengthened and scaled-up;

(3) concessionary finance should be made available through the IFIs to strengthen resilience and assist small states adapt to climate related threats,

(4) Multilateral agencies must support progress towards the implementation of the Sendai Framework and its respective 7 targets

(5) Small states at the WTO should leverage their numbers to secure duty free, quota free access to developed country markets; and finally -

Debt related vulnerability must be addressed to provide the policy space required for sustainable development policy.

A paradigm shift in global governance is now needed if Small Island and coastal states are to survive the new normal of more frequent and more intense disasters.

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