



# POVERTY & EQUITY NOTES

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## Risk and Vulnerability in the Pacific

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**Vulnerability significantly compounds hardship in the Pacific.** More than 20 percent of people in most Pacific Island Countries (PIC) live in hardship, meaning they are unable to meet their basic food and nonfood needs. The incidence of hardship is highest in Papua New Guinea, where 40 percent of the population lives in hardship. In addition, people in the Pacific are uniquely vulnerable to aggregate economic and natural shocks because of their countries' combination of small size, isolation, and other geographic features. The location and topography of PICs exposes them to a disproportionate number of natural shocks, and several are among the most vulnerable countries in the world in terms of relative natural disaster losses.

**Commonly occurring price shocks to commodity imports and exports also increase hardship substantially.** People in the small countries of the Pacific are highly exposed to high and volatile global commodity prices. Fuel and food imports, tourism, remittances, and international aid all contribute to the well-being of Pacific islanders and help countries overcome the limitations on development caused by geography. However, PIC economies are still small and undiversified, any negative shocks to these external flows can have very large impacts. Microsimulation analysis for Kiribati, Papua New Guinea, and Tonga finds that shocks to the prices of imported food and fuel, agricultural commodity exports, and remittances push many people into

hardship and deepen the severity of hardship for many others. The impacts of import price shocks are particularly severe in the small atoll nations that rely heavily on imports for staple foods and fuel. For example, in Kiribati, simultaneous spikes in the prices of rice, wheat, and oil are estimated to have the potential to push 6 percent of the country's entire population into hardship. This impact of a commonly occurring set of shocks (20 to 30 percent price increases, with a likelihood of about 33 percent in any given year) is close to the estimated impacts of the 2007 global food and fuel crisis on 20 of the worst affected countries in the world.



A young boy in Taremb, Malekula Island with one of his family's chickens. Photo: Tom Perry / World Bank

**The growing epidemic of non-communicable diseases (NCDs) is an aggregate health shock with significant consequences for the well-being of people in the Pacific.** NCDs reduce productivity and quality of life and are very expensive to treat. Increase in NCDs has already eroded life expectancy in Tonga. Most PICs are facing this epidemic while also dealing with continued threats from communicable diseases and maternal and child mortality. With limited fiscal resources, trying to manage this “double burden” of disease is a major challenge for Pacific governments.

**In addition to aggregate shocks, people in the Pacific face many idiosyncratic and local shocks, but little data is available to identify their frequency and impacts.** Crop failure, job loss, violence, and many other idiosyncratic or localized shocks are likely to occur in the Pacific, as they do around the world. Some striking evidence on the prevalence of domestic violence and unwanted pregnancy shows that these types of personal shocks are much more common in the Pacific than in neighboring East Asian countries. However, existing national household surveys are not designed to capture information on the full range of shocks that occur or their impacts. Much more could be learned if future surveys were specifically designed to elicit accurate information on shocks.

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## Challenges

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**While traditional systems are strong, they do not eliminate hardship and can provide only partial insurance.** Although traditional systems of resource sharing are important to the well-being of many Pacific islanders, hardship and vulnerability are still major challenges. Traditional systems do not reach everyone, and evidence from household surveys suggest that those in deepest hardship may be the least likely to be part of gift-sharing networks. In

addition, cultural and social pressures can require greater generosity than many households feel they can truly afford. At the same time, traditional systems cannot insure against the many aggregate shocks that are common in the Pacific. Governments therefore have a role to play in supplementing traditional systems in reducing and managing risks.

**Households have limited access to market instruments that can help them manage risks.** In particular, access to formal financial instruments is limited in most PICs. Evidence from household surveys shows that a minority of households hold savings accounts, loans, or insurance policies. Without access to these risk management tools, households are likely to resort to drawing down assets in the aftermath of shocks—for example, by drawing down on productive assets such as livestock or reducing investments in human capital. At the same time, growth in financial access without effective regulation and consumer education can potentially lead households into excessive debt, which is a concern in some countries including Fiji.

**Governments provide little social insurance, but some programs show promise within country constraints.** Across the Pacific, Fiji is the only country with a national hardship-targeted cash transfer program. However, many other countries provide transfers or subsidies to small groups of people identified as being in need. Broader measures to support those in hardship or experiencing shocks are generally not in place because of fiscal and capacity constraints, as well as lack of information on intervention tools, particularly in the smaller islands. Two types of programs that have been tried by some governments and development partners in the Pacific are funds for the elderly and cash for work schemes. These show promise in part because of their lower information requirements for targeting participants.

**Government funding for basic services is under fiscal pressure because of rapidly rising costs of coping with NCDs.** Health care expenditures in the Pacific largely go to coping with health shocks: curative, palliative, and rehabilitation care absorbs 80 to 90 percent of national health expenditures. This focus on coping is fiscally unsustainable because of NCDs, which are spreading quickly and are costly to treat. Greater emphasis is needed on knowledge and protection measures to slow their increase, and also on changing people's behavior.

**Managing aggregate economic shocks mainly through ex-post coping actions has limited effectiveness, and more protective measures hold promise.** Few ex-post responses to economic shocks in the Pacific have proven to be effective in reducing the negative impacts on households while also being fiscally sustainable. Ex-ante measures that provide protection or insurance against shocks need to be explored as shocks will continue to be part of the Pacific landscape. In this context, some of the most important actions governments can take are to pursue prudent macroeconomic policy, including building up savings in good times and actively mobilizing revenue in order to have resources to deploy during shocks.

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## Policy Implementation

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**Good government policy in all areas should factor in risks.** For example, urbanization in the Pacific is changing risk profiles and presenting new challenges, as well as opportunities. Active planning can help to address the challenges by identifying and

managing associated risks or urbanization. Strengthening ties and coordination between government bodies responsible for infrastructure provision and building codes and those responsible for disaster risk management and climate change adaptation is one important step in this area. In addition, given the importance of land in the social, cultural, and economic life of people in the Pacific, governments can aim to support good land management, including enabling communities to use it as a resource to manage the risks they face.

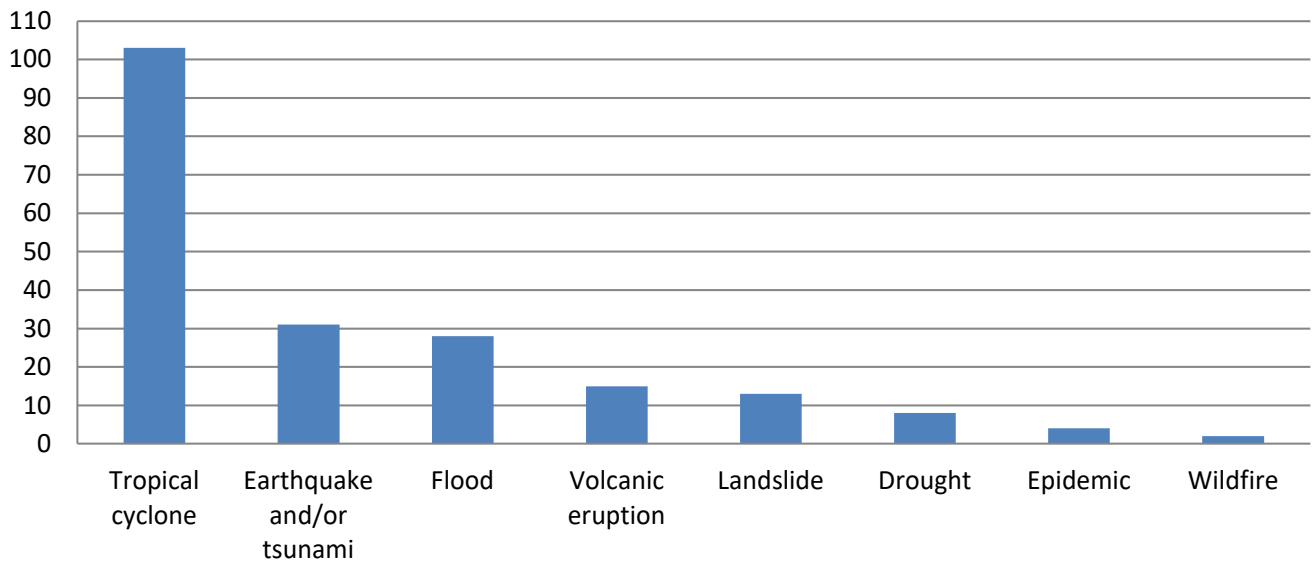
**Development partner activities should also factor in risks and seek to reduce rather than add to volatility.** Flexible funding arrangements that are responsive to changed expenditure priorities in the light of major shocks can help. PIC governments with stretched implementation capacity would also benefit from a focus on the practicalities of implementation support following natural disasters. In this context, the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), a joint initiative of SOPAC/SPC, World Bank, and the Asian Development Bank, provides Pacific Island Countries (PICs) with disaster risk modeling and assessment tools. PCRAFI also provides Pacific Island countries integrated financial solutions for the reduction of their financial vulnerability to natural disasters and to climate change. The initiative is part of the broader agenda on disaster risk management and climate change adaptation in the Pacific region.

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This note series is intended to summarize good practices and key policy findings on Poverty-related topics. The views expressed in the notes are those of the authors and do not necessarily reflect those of the World Bank, its board or its member countries. Copies of these notes series are available on [www.worldbank.org/poverty](http://www.worldbank.org/poverty)

**Number of disasters by type reported in the Pacific islands (1980-2009)**



**Annual average economic losses from cyclones, earthquakes, and tsunamis (as a % of GDP)**

