

The Potential for a Novel Bond to Safeguard Communities Against Future Locust Outbreaks

As part of ongoing efforts to expand resilience finance across Africa, we are proposing the creation of a novel catastrophe bond targeting locusts in the Greater Horn of Africa, which will allow a quick and effective response to any future outbreaks across the region.

Once established, the bond would deliver a fast response to a future locust outbreak as soon as it is detected and the triggers attached to the bond are met.

However, unlike traditional insurance, the bond would pay out to the affected areas as control operations to suppress the outbreak rather than in cash, with the bond capital used to fund these operations. These services would be procured in advance, and once needed would be coordinated by the FAO in line with recent effective practice and their guidelines.

This would solve two fundamental problems with the current response structure to locusts:

- As capital would be secured in advance, a pay-out could occur as soon as the threat from swarming locusts is detected, rather than after rounds of fundraising.
- As control operations would have been procured in advance a response can begin as soon as possible, rather than having to wait for bids to be processed and contracts agreed.

These two elements are particularly vital in the case of locusts, where swarms breed exponentially and delays of months or even weeks can mean a massive increase in the problem at hand. As a result, the locust bond would be expected to significantly reduce the overall cost of a future intervention, as well as the damage the next locust outbreak causes.

We would expect that the total bond capital would be around US\$33 million under our base assumptions, with an annual coupon of around US\$3.5 million. In return for these coupon payments, donors and the countries attached to the bond would get control operations covering around half a million hectares.

This would significantly reduce the risks associated with locusts, and also be expected to both reduce the costs of the next intervention. Finally, the bond would reduce the damage swarms cause to livelihoods across the region, potentially with a tenfold return of the value of food safeguarded versus the bond's cost based upon the effectiveness of recent control operations, even before the benefits of an earlier intervention are taken into account.