Sovereign Disaster Risk Financing

Sovereign disaster risk financing aims to increase the capacity of national and subnational governments to provide immediate emergency funding as well as long-term funding for reconstruction and development. This policy area also works with governments to account for other contingent liabilities, such as government supported agricultural insurance or social protection schemes that will require payouts following a disaster. Finally, it requires setting up systems for effectively allocating and disbursing the necessary funds.

Example: Contingent credit is a financial instrument that allows governments to secure funds in advance of a disaster to be available immediately in case of emergency. In 2008, the World Bank approved the first such loan, called a Catastrophe Deferred Drawdown Option (CAT-DDO). Contingent credit complements other instruments such as national reserves to finance high frequency, low severity events— for example Mexico’s natural disaster fund, called FONDEN—and catastrophe risk transfer solutions to finance low frequency, high severity events—such as sovereign insurance pools created by Caribbean and Pacific island states. To transfer risk to specialized risk carriers, the government of Colombia, for example, is building on international best practice in insuring public concessions for infrastructure worth $38 billion.