Providing Contingent Lines of Credit for Disaster Risk Financing

Contingent credit is one type of financial instrument to help governments secure funds in advance of a disaster. Starting with the World Bank's first approval of a loan with a Catastrophe Deferred Drawdown Option (CAT-DDO) to Costa Rica in 2008, other international organizations have started offering contingent credit as a disaster risk financing product that not only increases financial resilience but helps incentivize better disaster risk management polices overall. To date, the World Bank has approved Cat-DDOs in nine countries for a total value of $1.38 billion. These loans include: $7 million to the Seychelles in 2014; $102 million to Sri Lanka in 2014; $250 million to Colombia in 2011; $50 million to El Salvador in 2011; $66 million to Panama in 2011; $500 million to the Philippines in 2011; $100 million to Peru in 2010; $85 million to Guatemala in 2009; $150 million to Colombia in 2008; and $65 million to Costa Rica in 2008.

The Inter-American Development Bank (IDB) launched its Contingent Credit Line for Natural Disasters in 2012 to help countries cover urgent financing needs that arise immediately after a natural disaster. This complements the 2009 Contingent Credit Facility for Natural Disasters, a more restrictive facility created to help countries deal with catastrophic natural disasters. In 2013, the Japan International Cooperation Agency (JICA) established a program called the Stand-by Emergency Credit for Urgent Recovery (SECURE). Similar to the other contingent credit lines, SECURE provides post-disaster financing of up to JPY10 billion or 0.25 percent of GDP, whichever is less, immediately following a natural disaster, based on prior agreement with JICA. Contingent credit triggered by natural disasters has been successful in bringing about a dialogue on broader disaster risk management and has been instrumental in engaging the ministries of finance on the disaster risk management agenda. For example, in order to be eligible for a World Bank-provided contingent credit line, the borrowing country must implement a comprehensive disaster risk management program, which the Bank then monitors on a periodic basis. This is often the first time that finance ministry officials are brought to the table with other agencies dealing with disaster risk management. A contingent credit loan can also be the cornerstone of developing an integrated sovereign disaster risk financing and insurance strategy. As a concrete and fairly quick product to establish, a contingent line of credit can be an important deliverable for a government as it is building a comprehensive financial protection strategy.