

An Executive Education Program on
Disaster Risk Finance for Bangladesh

DAY 2: DRF INSTRUMENTS – DEEP DIVE

Risk Retention - Contingency Funds

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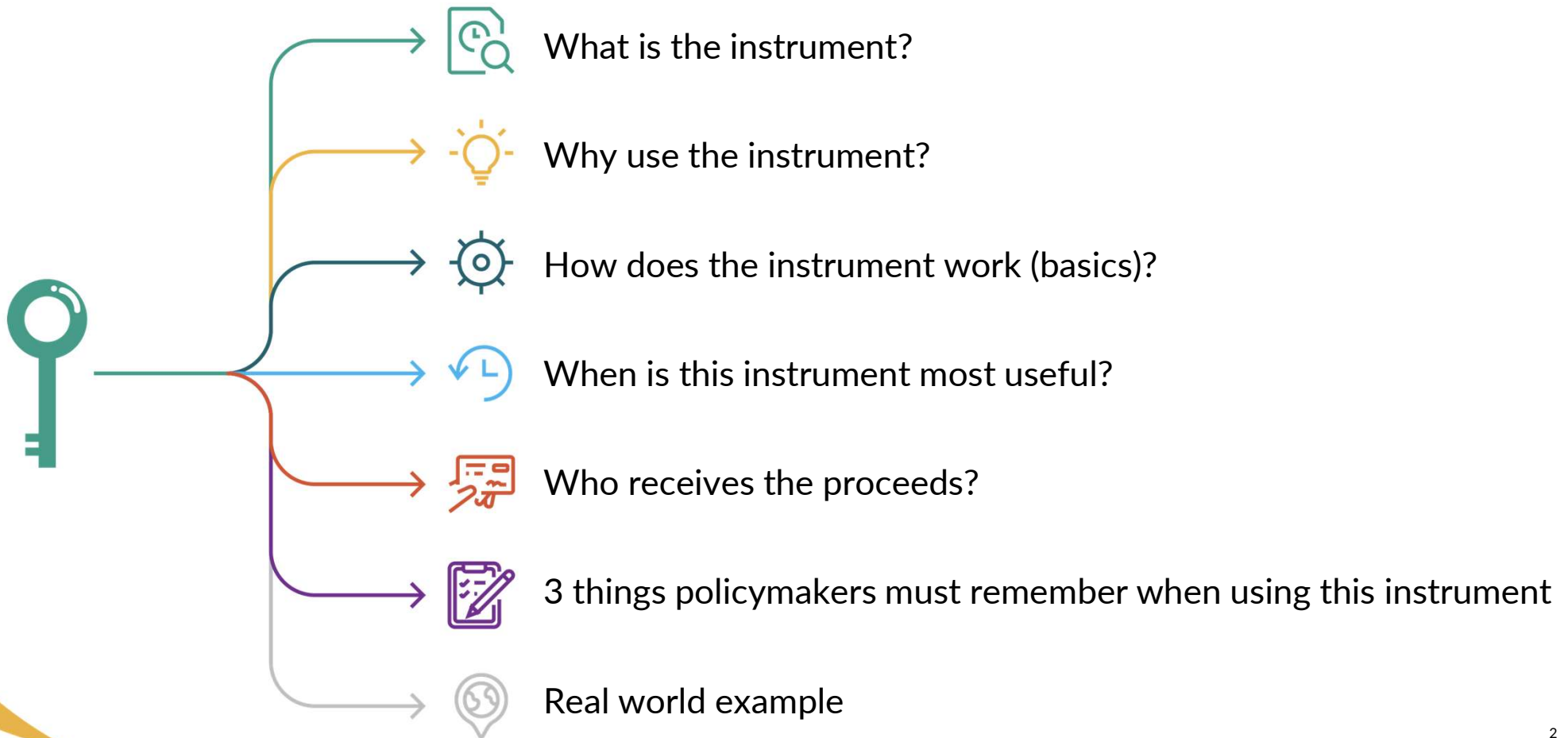
**Disaster Risk Financing
& Insurance Program**



Global Shield
Financing Facility



Key Facts



What are contingency funds (reserves) for disasters?



A risk retention instrument:

Pre-arranged public resources set aside by governments in advance to enable a rapid response in the event of a shock,

Supported by clear, pre-established processes and procedures on the use of funds.



Funds can take many different forms:

Type of fund: Extrabudgetary, on budget contingency line or flash appeal accounts

Financing: Annual allocation from state budget, accumulation and/or accrual

Legal framework: Established under existing laws or under a new decree.

Why hold money in a disaster reserve fund?



Cost-effective: Holding funds in reserve can be cheaper to maintain than borrowing after a disaster. They provide a readily available source of finance for frequent, lower-cost events, and can contribute to funding immediate priorities in larger scale events.



Flexible: Funds can be large or small, but they are most effective when pre-arranged for emergency response, allowing governments to act immediately after a shock without waiting for new budgets or external aid.



Improved coordination: Having a single, dedicated fund helps streamline where money comes from and where it goes, which ensuring faster, clearer, and more transparent post-shock spending.



How does the instrument work?



Legal Framework (law, decree, etc.):

- Often the fund is created by either: Decree (Fast setup with flexible control)
- A formal act (stronger legal foundation with durability)

Policy Framework:

- Establish the purpose of the fund and how it will operate alongside existing sources of disaster risk finance
- Identify optimal structure: on or off budget

Financing:

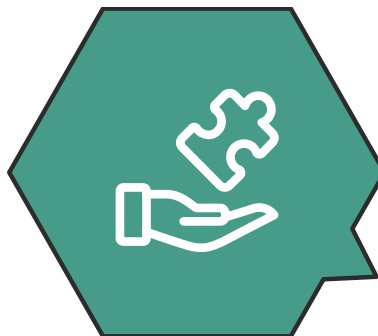
Determine the source of funds, for example upfront annual allocation from the national/state budget
Consider ability to attract external sources of finance

Operational Framework (e.g. SOP):

- Consider who will manage and operate the fund, payout criteria and triggers, eligible implementing entities

When is this instrument most useful?

Particularly helpful for countries where reallocating funds post-disaster is slow or politically difficult.



Most useful for localized, low-severity shocks that happen often – for example, an event expected about once every two to five years.



When complemented other disaster risk financing approaches/instruments as part of the government's financial protection strategy.

Who receives the proceeds?



Rapid response contingency funds are particularly useful immediately after a disaster, when fast financing is needed for emergency costs and early recovery.



Funds can be channeled directly to:



Government agencies or local authorities – for clearing debris, restoring utilities, or providing shelter.



Contractors and service providers – to repair roads, power lines, and water systems.



NGOs and humanitarian partners – to deliver food, water, and emergency relief.



Households and communities – through temporary cash assistance or livelihood support.



Larger contingency funds – can also finance longer-term recovery and reconstruction, though they carry an opportunity cost, as money held in reserve cannot be used for other development or social priorities.

3 things policymakers must remember when using this instrument

Establish legal basis and policy foundation

Define what the fund is for, when it can be used, and who makes decisions — and formalize this through formal legal acts or decree



Ensure predictable and flexible financing

Regular funding is essential. Funds should be backed by stable sources finance such as regular budget contributions



Clear & Practical Operational Rules

Use simple, transparent procedures (e.g., SOPs, triggers, eligibility, reporting) to enable fast and accountable disbursement when needed.



Global examples

| Country / Fund | Purpose / Use | Notable Feature |
|---|---|---|
| Mexico – FONDEN (Natural Disaster Fund) | Finances emergency response, reconstruction, and prevention activities. | Cost-sharing with states: federal covers 100% of federal asset losses and 50% for state/local assets (with incentives to insure). |
| Lao PDR – State Reserve Fund (SRF) | Supports preparedness, emergency relief, and reconstruction; also market stabilization needs. | Fund includes cash + strategic goods reserves; expenditures approved by Prime Minister under urgent and non-urgent SOPs. |
| Philippines – NDRRM Fund | Funds preparedness, response, relief, recovery, and reconstruction activities. | 30% automatically set aside as Quick Response Funds for rapid agency-level access during emergencies. |
| Cook Islands – Emergency Response Trust Fund (ERTF) | Provides rapid financing for early response and restoration of essential services. | Can only be drawn after declaration of a State of Disaster/Emergency, ensuring timely but controlled access. |
| Canada – Disaster Financial Assistance Arrangements (DFAA) | Supports provinces and territories in post-disaster recovery costs. | Federal co-financing increases with severity, covering up to 90% when costs exceed defined per-capita thresholds. |

Global examples

| Country / Fund | Purpose / Use | Notable Feature |
|---|--|---|
| Australia – Natural Disaster Relief and Recovery Arrangements (NDRRA) | Helps states restore essential public assets and deliver recovery programs. | Tiered cost-sharing: federal share rises from 0% → 50% → 75% as state costs exceed revenue-based thresholds. |
| New Zealand – Disaster Relief Funding | Funds response and repair of essential infrastructure assets damaged by disasters. | Central government reimburses 60% of eligible costs above thresholds tied to local government net capital value. |
| United States – FEMA Disaster Relief Fund / Public Assistance | Finances emergency response and restoration of public infrastructure. | Federal share usually ≥75%, can increase to 90% for severe events following Presidential declaration. |
| Japan – National Treasury Sharing for Disaster Recovery | Supports recovery of public civil works after disasters. | Central government covers ~ $\frac{2}{3}$ of costs; may subsidize up to 95% of local disaster recovery bond repayments. |
| Viet Nam – Central Budget Support for Disaster Response | Supports repair of public buildings and infrastructure after disasters. | Central assistance provided only after local funds are exhausted, reinforcing local responsibility first. |

Thank you



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