

An Executive Education Program on  
Disaster Risk Finance for Bangladesh

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**DAY 2: DRF INSTRUMENTS - DEEP DIVE**

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# Risk Retention - Contingency Credit

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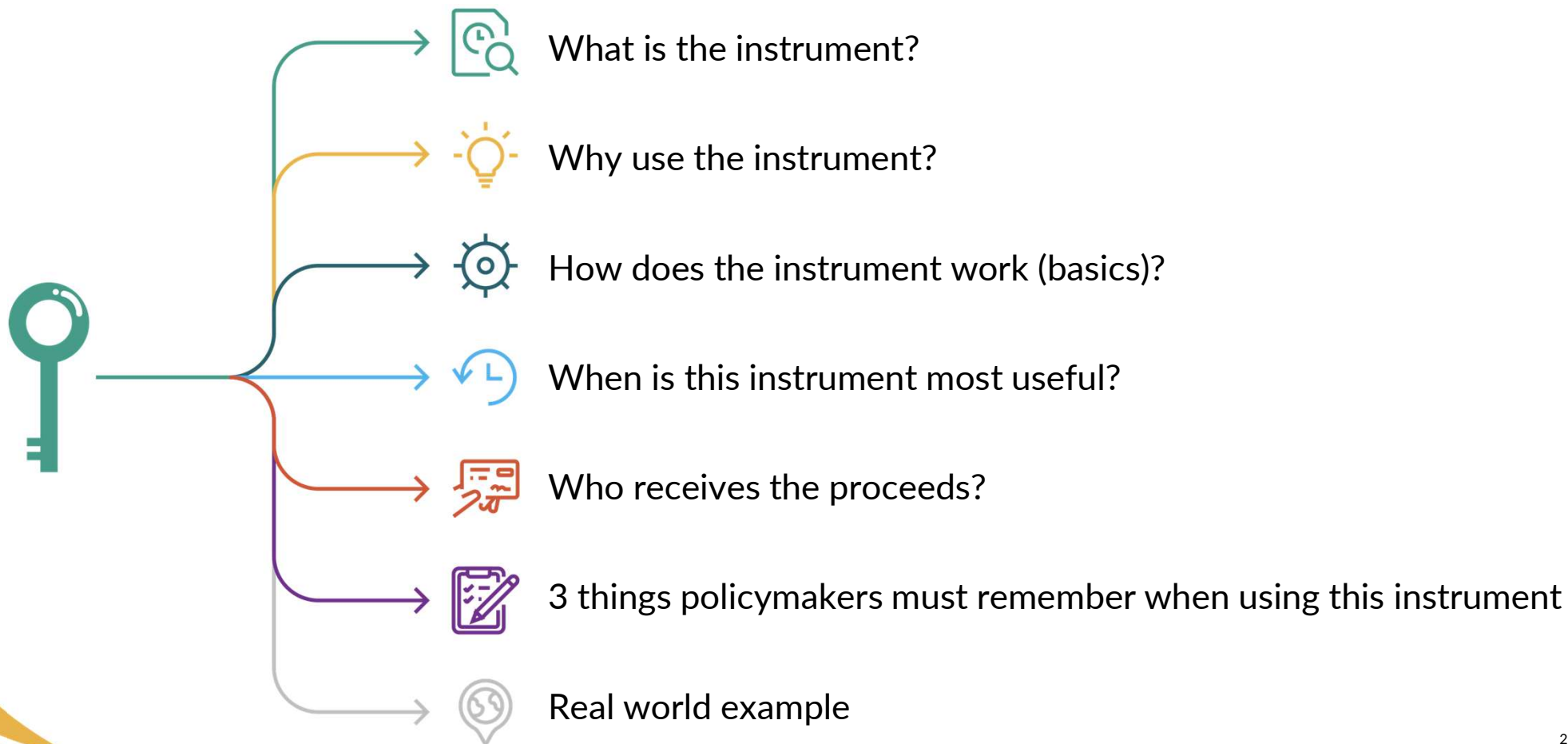
**Disaster Risk Financing  
& Insurance Program**



**Global Shield**  
Financing Facility



# Key Facts



# What is contingent credit?



A **pre-arranged line of credit** that provide countries with fast liquidity – (often within 48 hours) – that a government can quickly access after a disaster or shock.

Access is **preapproved based on agreed conditions** like strong financial management or disaster planning.

Funds are **only drawn when needed**, and interest is paid only on the amount used.

It helps governments act early and maintain stability while waiting for other resources to arrive.

# Why use the instrument?



**Reduces fiscal shock:** Provides budgetary liquidity when it's needed most, helping government manage sudden spending needs and temporary drops in revenue after a disaster.

**Quick access to funds:** Financing is pre-arranged, so money can be released rapidly without waiting for emergency borrowing, aid appeals, or lengthy reallocations.

**Protects essential services and development projects:** Governments can respond to emergencies without pulling money away from health, education, or social protection priorities..

**Strengthen disaster risk management:** Supports agreed reforms that build stronger institutions, clearer procedures, and better planning to manage disaster impacts..

**Cost-effective:** Some instruments offer no standby fees on unused funds, making them a cost-effective way to secure contingency financing.

# How does the instrument work?



## Engagement and agreement:

The government and financing institution begin discussions and agree on pre-approval criteria (e.g. conditions such as policy reforms). The negotiation includes agreement on eligibility for drawing down resources, e.g., what qualifies as eligible events.



## Approval and placement:

The contingent credit line is formally approved and made available—ready to be drawn if a qualifying event occurs.



## Activation:

When a disaster or emergency strikes and the agreed trigger is met (e.g., declaration of emergency or a parametric trigger), the government can request access to the funds.



## Disbursement:

Upon agreement with the financing institution, the funds are released quickly, providing bridge financing for immediate response and recovery.



## Monitoring:

Progress on agreed reforms is reviewed regularly. Continued access depends on meeting commitments and maintaining eligibility.

# When is this instrument most useful?

Best suited for countries facing repeated natural hazards or health emergencies that cause significant disruption but don't overwhelm national systems.



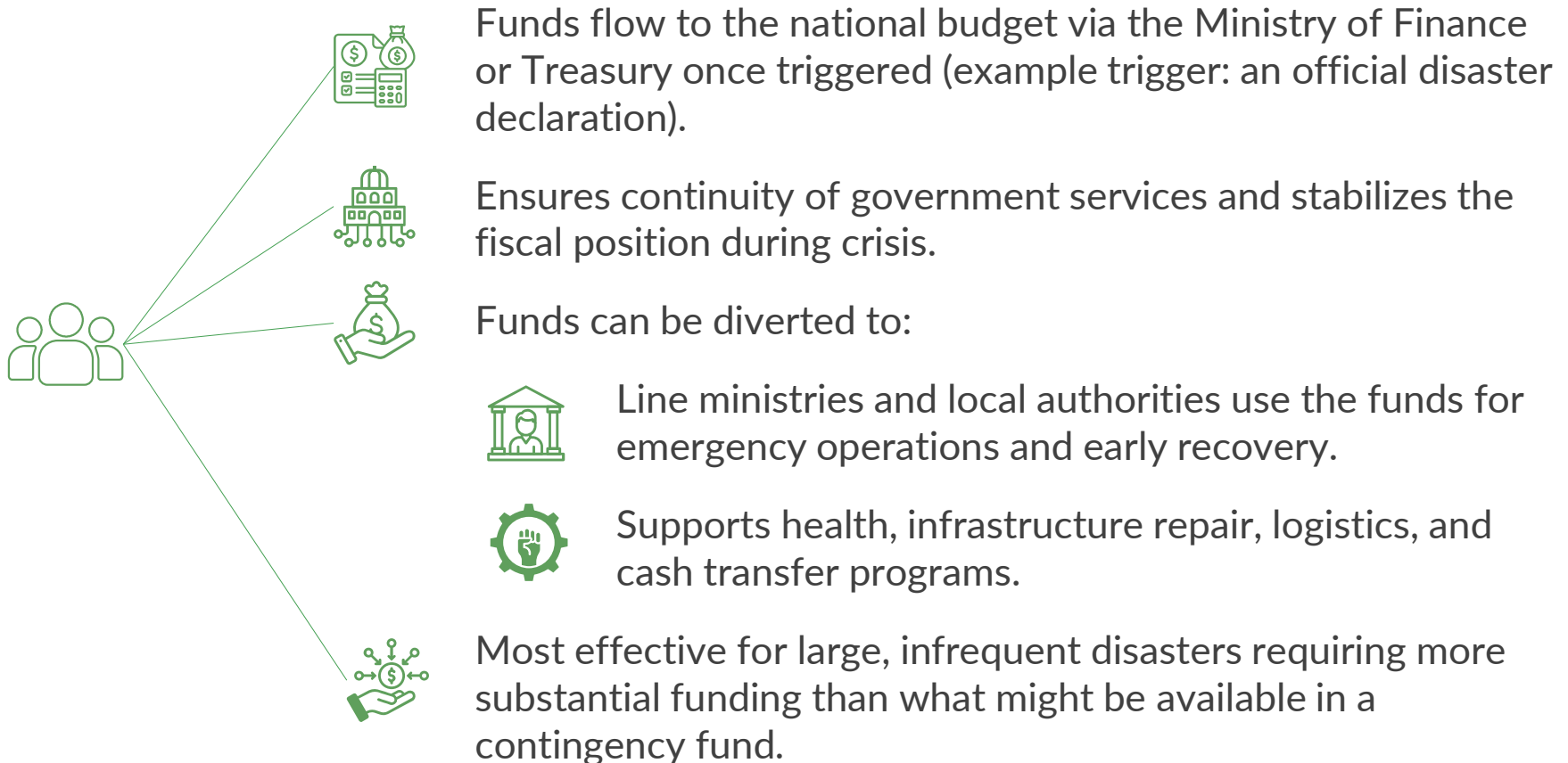
Helps governments respond quickly without relying on slower budget reallocations or higher-cost emergency borrowing.

Works best when complemented by other risk retention and risk transfer instruments as a part of a broader disaster risk finance strategy.



Encourages policy and institutional reforms as part of the pre-agreed conditions, improving long-term resilience.

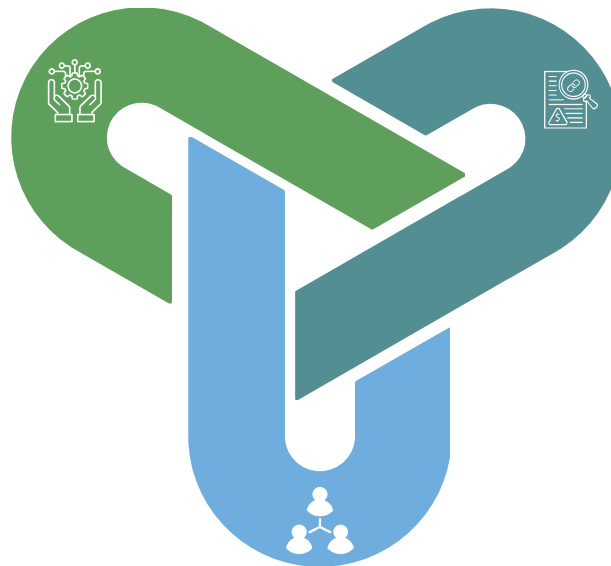
# Who receives the proceeds?



# 3 things policymakers must remember when using this instrument

## Flexible use of proceeds

Governments can direct funds to the sectors or regions most affected – such as health, infrastructure, agriculture, or social protection



## Links DRM with DRF

Contingent credit helps combined disaster risk management actions and disaster risk finance instruments.

## Engages stakeholders

Encourages coordination across ministries and disaster management agencies before a disaster, to ensure funds can be rapidly deployed when triggered.

# Recent global examples

Country	Year	Instrument	Size	Purpose
Tanzania	2025	Credit Line	USD200m	Rapid budget liquidity for disaster response as part of \$300m package. ( <a href="#">World Bank</a> )
Barbados	2025	Credit Line	USD30m	Quick access to funds after emergencies; strengthen DRM systems. ( <a href="#">World Bank</a> )
Colombia	2025	Credit Line	USD200m	Bridge financing for high-impact natural or health events; DRM reforms. ( <a href="#">World Bank</a> )
Bhutan	2024	Credit Line	USD40m (package)	Strengthen DRM/climate resilience; gives immediate liquidity post-event. ( <a href="#">World Bank</a> )
Sierra Leone	2024	Credit Line	USD20m	Contingent budget support within macro-stability DPF series. ( <a href="#">World Bank</a> )
Philippines	2021	Credit Line	USD500m	Fast drawdown for disasters and disease outbreaks; LGU DRF reforms. ( <a href="#">World Bank</a> )
Pacific Islands (multiple)	2023	Credit Line	USD38m (total)	Quick-disbursing contingent disaster financing ADB (grants/loans) for early response. ( <a href="#">nepituno.to</a> )

# Real-World Example - Colombia



Colombia faces one of the highest rates of recurrent natural disasters in Latin America –over 600 events annually, with 84% of the population and 86% of assets exposed to multiple hazards.



Disasters and climate risks represent up to 4.4% of GDP in potential contingent liabilities.



A Series of contingent credit lines have been used to provide immediate liquidity following natural or climate-related disasters and public health emergencies, while strengthening Colombia's disaster risk management and fiscal resilience.

## Design & Features



Size: USD 200 million (credit line – fourth in a series)

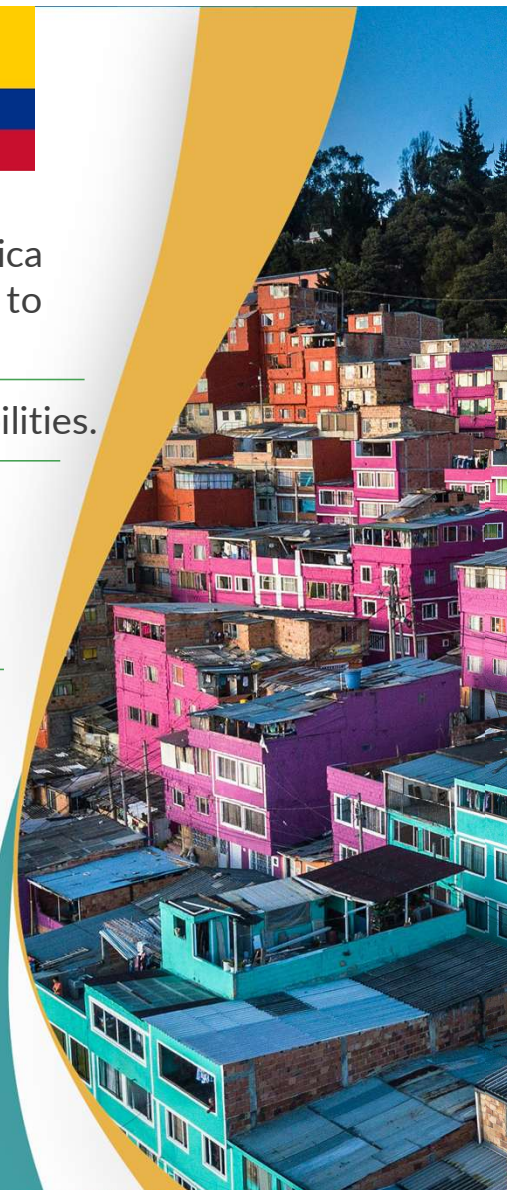
Trigger: Disburses rapidly upon declaration of a qualifying event

Linked reforms: Strengthening DRM systems and integrating climate resilience into fiscal management

## Results from previous credit lines accessed:

*Ensured immediate access to financing after major disasters, including La Niña (2010–11) and COVID-19 (2020)*

*Institutionalized DRM within national and fiscal planning frameworks*



# Real-World Example - Malawi

## Contingent Credit Design and Implementation

Solution: Contingent Credit Line

#1: 2019, US\$70 million: Supported policy reforms and provided immediate liquidity for Cyclone Idai and COVID-19 response.

#2: 2023, US\$57.6 million: Activated in March 2024 for food crisis response due to El Niño (drought).

Policy reforms: DRM Act (2023), DRM Fund, National DRM Committee, safer school construction guidelines, **integration with social protection.**

The credit line was one part of a broader approach to layering DRF instruments



# Real-World Example - Malawi

## Results and Impact

**Timeliness:** Funds released within days of disaster declaration for COVID-19 and food crises.

**Institutional strengthening:** Technical sub-committees and annual DRM reporting.

**Social protection:** Unified Beneficiary Registry enabled targeting of 87% of shock-affected households; scalable cash transfers reached 74,000 households in 2021/22 and 100,000 in 2022/23.

**Challenges:** Limited fiscal space, need for further expansion of risk financing, ongoing capacity constraints.



# Thank you

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Website



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