

Climate and Disaster Risk Finance (DRF):
A Learning Program Designed for Bangladesh

DAY 4: DRF INSTRUMENTS – DEEP DIVE

Bangladesh Executive Education Program

Post-Climate Event Contingent Liquidity Facility for Pakistan

Sumati Rajput
World Bank

Disaster Risk Financing
& Insurance Program



Context



Contingent Liquidity Facilities (CLFs):
What are these? Just like Contingency Funds.

Why is this important? Because the **microfinance sector is a key driver of economic growth**. And it faces several structural challenges when impacted by disasters:



What do Microfinance institutions (MFIs) do?
Provide access to credit for households and individuals.

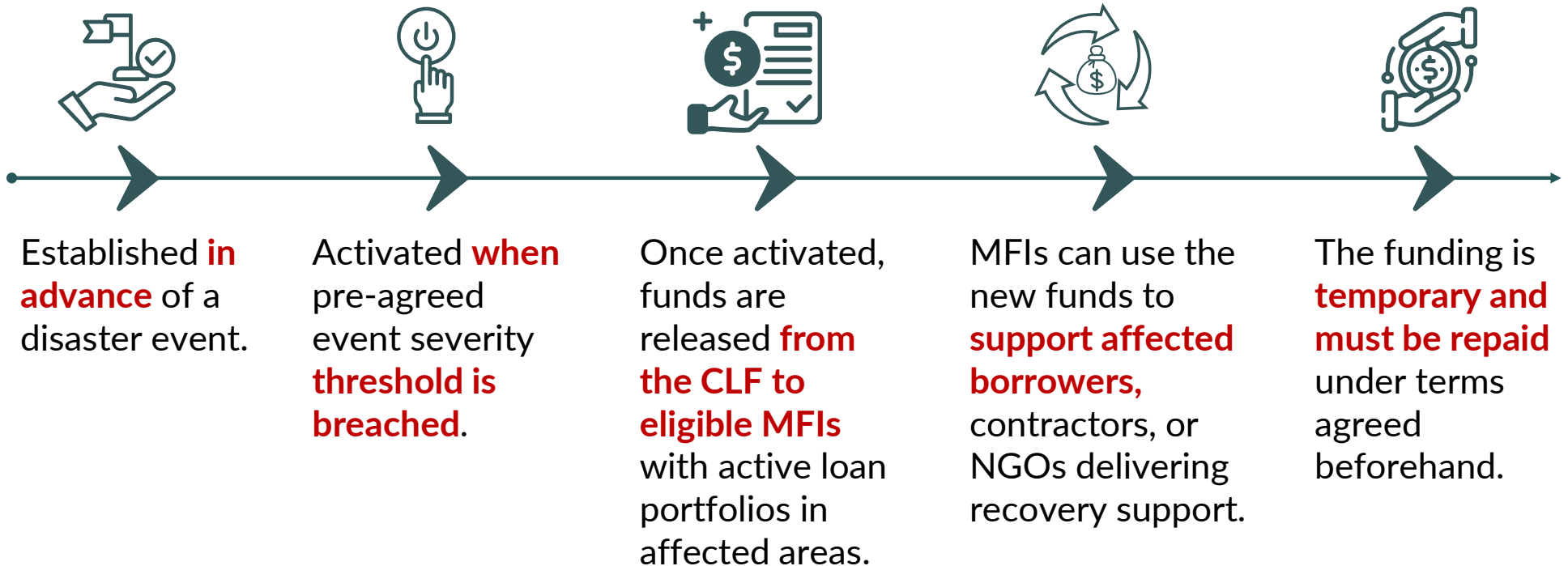


When MFIs are affected by unexpected shocks it also impacts its borrowers.







When **borrowers** are affected by disasters, they often **don't meet their debt obligations**, which puts additional financial stress of MFIs.

How CLFs works



Today's example at a glance

<p>Objective</p>  <p>To provide liquidity to Microfinance partners (MFPs)* after flooding events, allowing them to restructure existing loans or provide new credit to affected borrowers</p>	<p>Target Group</p>  <p>MFPs and their borrowers</p>
<p>Hazard(s) covered</p>  <p>Flood</p>	<p>Trigger</p>  <p>Flood height reaches a certain threshold</p>

**MFPs are the term used in this project but are the same as microfinance institutions (MFIs)*

Post-Climate Event Contingent Liquidity Facility (CLF) for Pakistan – What is it?



A **lending facility** that provides finance to eligible MFPs following a major flood event (a “Qualifying Event”) to support borrowers in severely affected areas.



Activated when **pre-agreed, measurable severity thresholds for floods are met** (known as “parametric triggers”). *Moderate-High severity events.*



Liquidity must be used in flooded areas to:



Restructure existing loans → Gives borrowers breathing room to recover without defaulting, preserving financial stability and trust.



Top up current loans → Provides additional capital to help borrowers restart operations or meet urgent recovery needs.



Issue new recovery loans to existing or new borrowers, contractors, or NGOs → Enables fresh investment in rebuilding livelihoods, infrastructure, and essential services in flood-affected areas.



Funds borrowed are repaid by MFPs under pre-agreed terms within one or two years, under terms agreed in advance.

Global experience – How does it work?



Who manages the Fund?

Fund hosted by State Bank of Pakistan – Climate Risk Fund. Fund established as a Trust. Capital in the funds come from a World Bank program.



Who oversees the fund?

There is an Oversight Committee to make strategic decisions, for example if the funds in the Climate Risk Fund should also be used to buy insurance for larger events.



Who operates the fund?

There is a Working Committee that makes day-to-day decisions about the fund, for example selection of MFPs, deployment of funds etc.

Funds from the CRF need to be “Requested” by eligible MFPs when eligible events occur.

From shock to support: how funds flow

*In Normal times
when no flood
event*

Funds in the Climate Risk Fund are invested by State Bank of Pakistan. Investment Income is earned on these funds, which allows it to grow.

*When an eligible
flood event
occurs*

Funds in the Climate Risk Fund are deployed to eligible MFPs when requested.

This allows MFPs to stay solvent and continue to lend to borrowers.

*1-2 years after
an eligible flood
event*

Funds are repaid to the Climate Risk Fund to MFPs by borrowed based on terms agreed.

Financial sustainability



The amount of funds available for each event depends on:

Liquidity/capital support already provided to MFPs

Capital available in the CRF:

Available balance plus accumulated investment income minus operating expenses

Potential parametric **insurance backstop**

Internal risk transfer instruments to increase post-disaster liquidity



To access the CLF, MFPs must meet criteria:

Must have a license to operate

At least 3 years of experience in providing Microfinance Services

Good corporate governance

Annual Audited Accounts

Quantitative operating information: staff headcount, number of branches

Quantitative financial information: number of active clients, outstanding loan portfolio, and non-performing loans over 30 days

*Under consideration and development

What is the expected impact?



Protects the growth of the real economy, where MFIs contribute significantly.



Strengthens the resilience of microfinance institutions to ensure continuous access to financial services during climate shocks.



Enables individuals and small businesses to recover faster and rebuild livelihoods through access to 'recovery' loans.



Expected to benefit nearly 1.89 million people, including over 1 million women and 350,000 youth in vulnerable and low-income rural communities

3 Challenges and 3 Lessons Learned



Preparation is critical: When DRF solutions are set up in advance, they can quickly restore the financial capacity of microfinance providers (MFPs) after a shock, allowing lending to continue and helping communities recover faster.



Efficient funding depends on choosing the right disbursement mechanism: Pakistan's Trust structure provides a secure, independent platform for channeling funds, enabling timely delivery and attracting additional financing to reduce the impact of climate shocks.



Risk layering improves the predictability, sustainability, and scalability of DRF: It allows MFPs to absorb small and medium shocks, uses CLFs to support larger events, with the potential to embed risk transfer to cover catastrophic risks. This approach protects core funds and ensures a more responsive and sustainable system.

Relevance for Bangladesh



MFI's play a vital role in Bangladesh's socio-economic growth, **with 724 MFIs licensed by the Microcredit Regulatory Authority (MRA)**. They serve over 41 million members and **32 million borrowers**, driving financial inclusion for rural and marginalized communities ⁽¹⁾

(1) Microfinance in Bangladesh, Annual Statistics, June 2024, Microcredit Regulatory Authority



Despite their importance, **MFI's face growing risks from climate shocks and natural disasters that threaten their stability**. While Bangladesh's policy frameworks address climate change adaptation and disaster risk management, they lack specific strategies for building climate-resilient microfinance ⁽²⁾

(2) Climate Change: Microfinance in Bangladesh, April 2024, Microcredit Regulatory Authority



To ensure long-term sustainability, the **sector needs innovative approaches** that strengthen resilience against climate risks.

Key Takeaways

- 1** **Protecting MFIs means protecting economic growth** – MFIs play a key role in enabling access to finance to borrowers in the informal and formal sector.
- 2** **Segmented solutions for targeted impact** – DRF instruments can be tailored to market segments like MFIs serving rural women and smallholder farmers, enabling precise, equitable support.
- 3** **Pre-arranged funding enables fast response** – Parametric flood triggers release liquidity quickly and transparently, minimizing delays and ensuring timely recovery.
- 4** **Build on existing systems for scale** – Pakistan’s central bank and microfinance network deliver scalable support. Bangladesh’s 724 MRA-licensed MFPs serving 32 million borrowers offer similar potential.
- 5** **Bangladesh faces parallel risks and gaps** – MFPs drive financial inclusion, but climate shocks threaten their stability. National policies lack targeted strategies for climate-resilient microfinance

Thank you



Global Shield
Financing Facility
Website



Community
of Practice



LinkedIn
Group



Discussion

Break out for 10 minutes in groups, then come back to present findings.

Working group questions:

1

Which features of the **Pakistan's Contingent Liquidity Facilities (CLFs)** are most relevant for Bangladesh?

What **enabling factors** would be needed to implement something similar here?

2

3

How could the **Pakistan CLFs case study** be adapted to the Bangladeshi context?