

# Financing Disaster Risk: Implementing Novel Ideas in Colombia and Mexico

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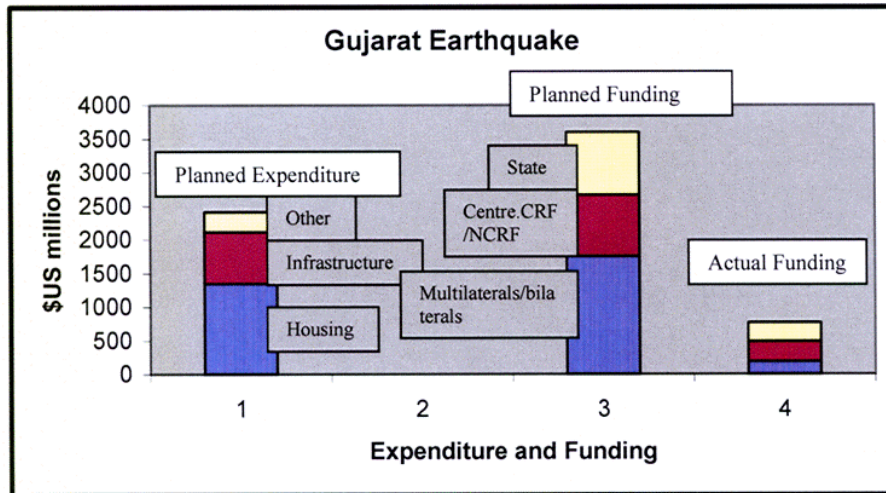
# Public infrastructure losses

- Can be a significant proportion of losses
- Without timely reconstruction can cause long-term reductions in economic growth
- Need improved financial planning for assuring post-event funds



Source: GTZ-PDRS 2004

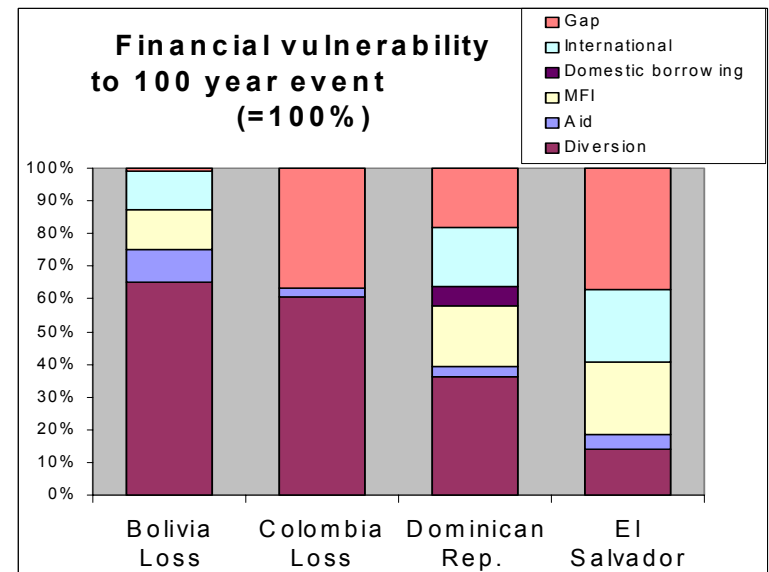
# Public sector financing issues



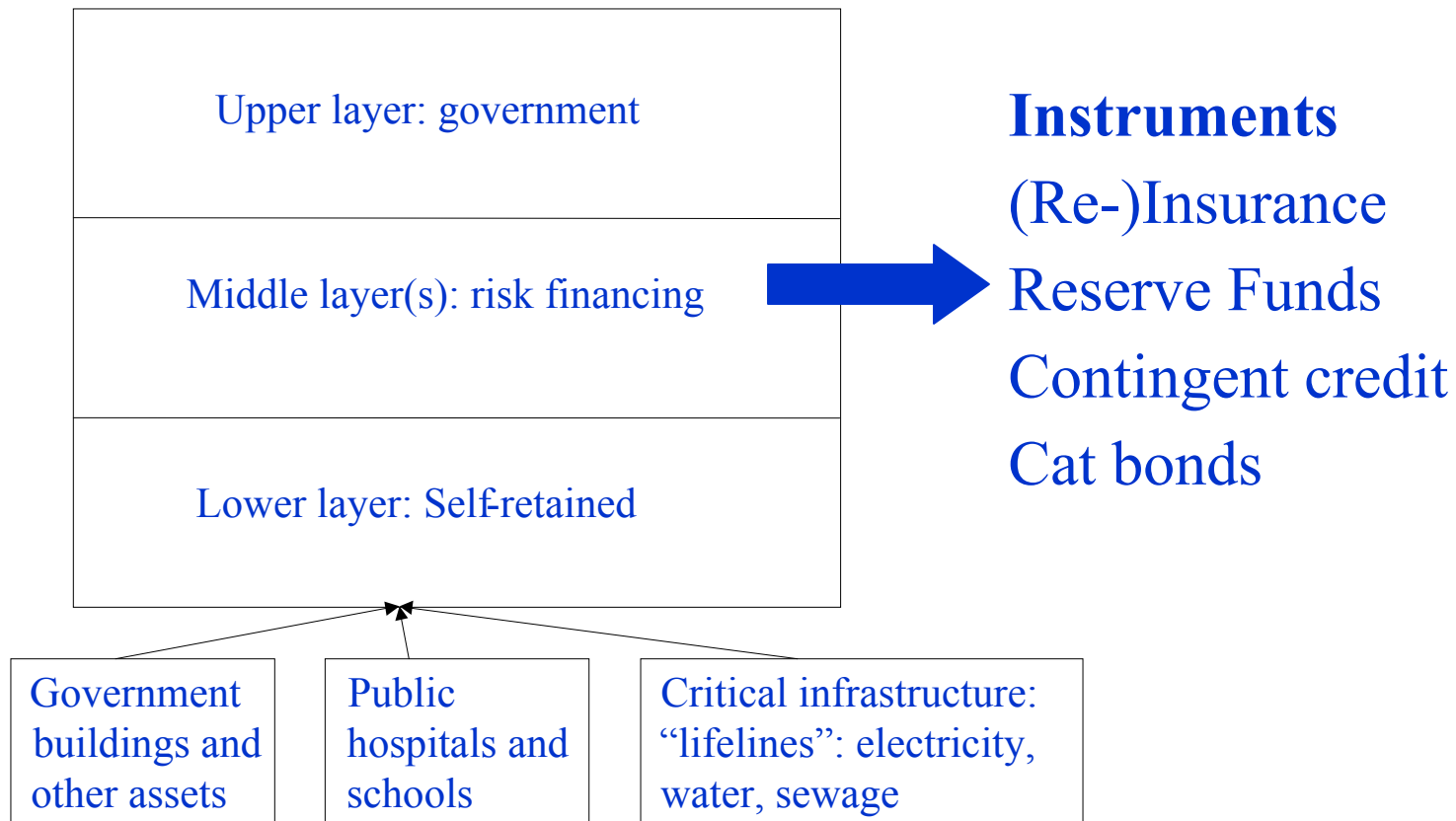
Source: World Bank 2003

## Financing gaps after Gujarat earthquake

Financing gaps post-disaster to be expected in some Latin American countries

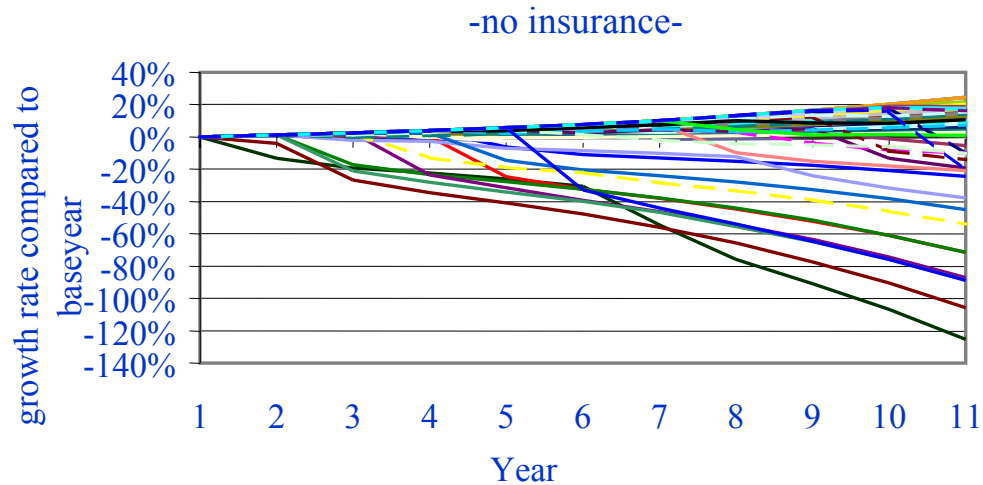


# Public sector risk financing

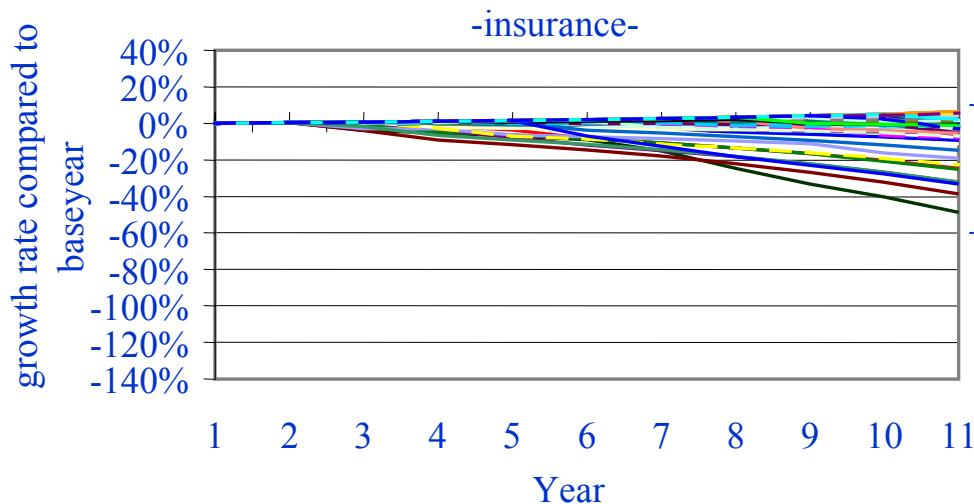


# Growth-stability tradeoff

## El Salvador growth paths

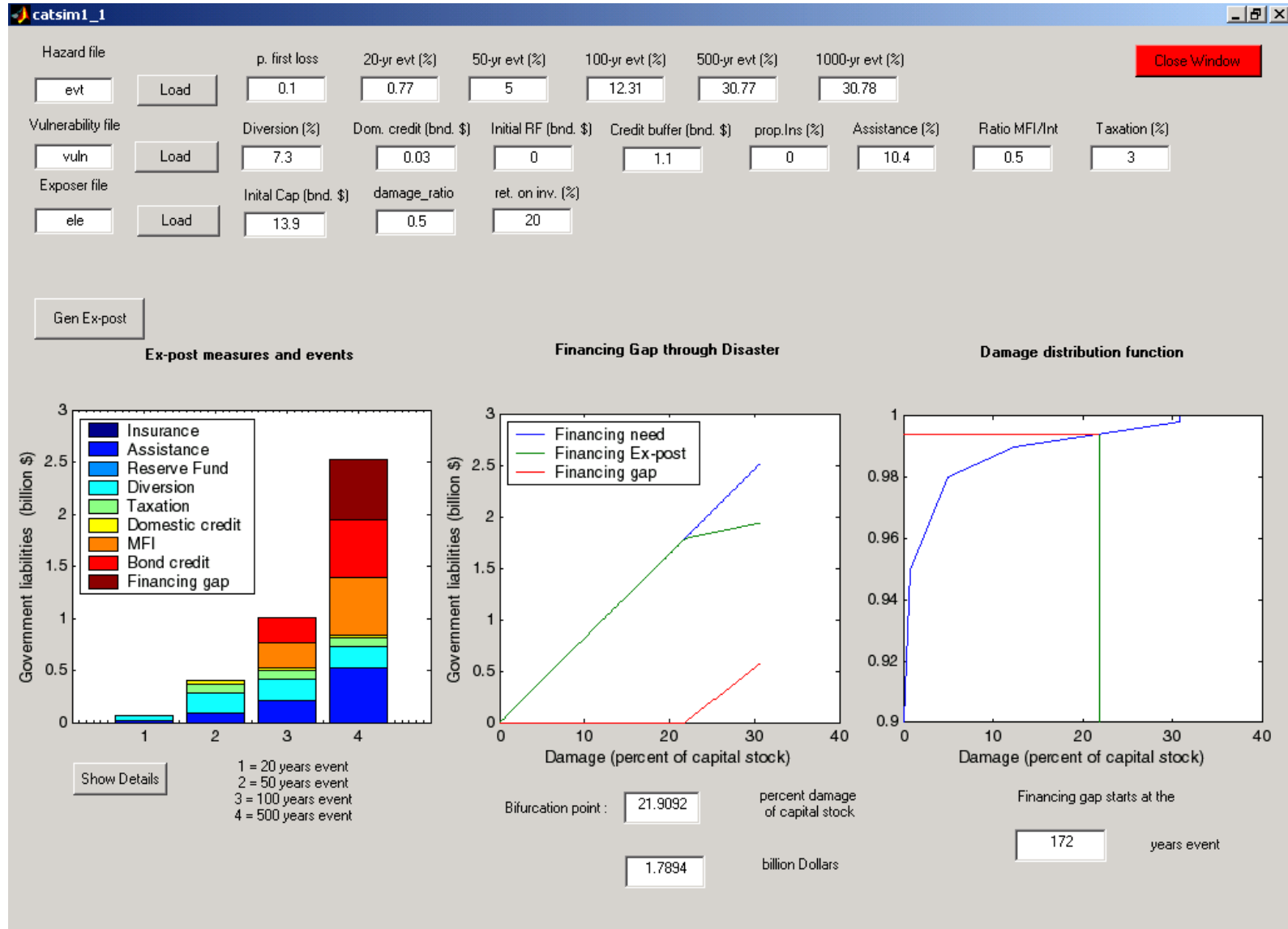


Higher potential  
growth



Less  
volatility

# Model-based workshops on Financial Disaster Risk Management



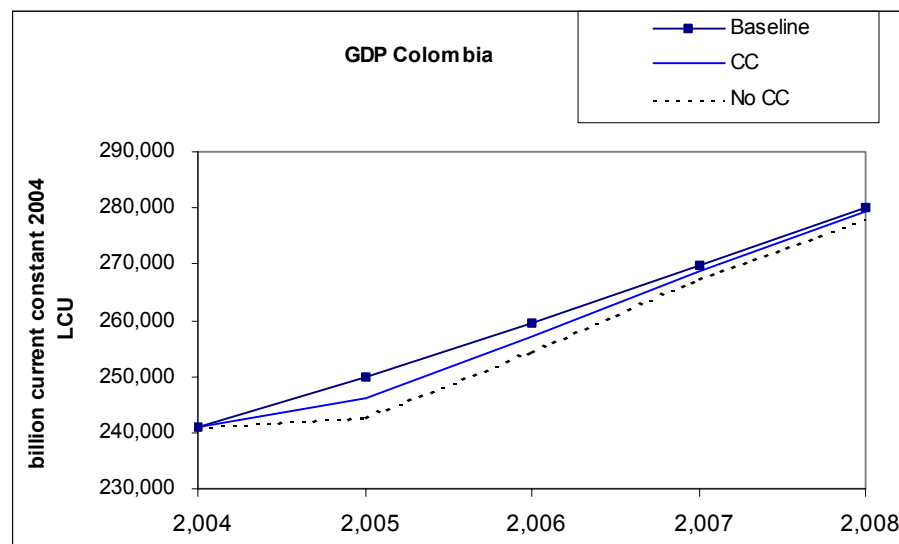
# Model-based workshops on Financial Disaster Risk Management



- Raising awareness and deeper understanding of financial, macroeconomic and developmental impacts of disasters
- Options and trade-offs involved in financial disaster risk management
- Development of financing strategies for disaster risk management
- Mutual learning exercise: research & application

# Colombia: Contingent credit

- Difficult situation regarding the public financing of disaster losses: in past losses of up to 3 billion USD
- At the same time, fiscal policy heavily constrained by high external debt levels and debt service payments.
- Currently discussed: Contingent credit facility by MFI
- Benefit: quick availability of funds, but debt, has to be paid back

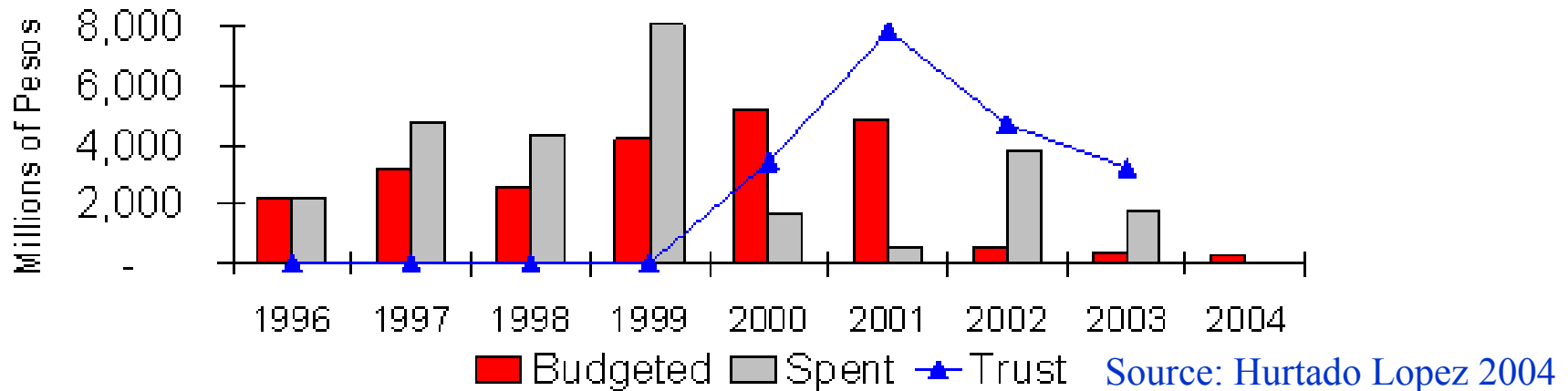


**Scenario: 100 year earthquake event in 2005**



# Mexico: Catastrophe bond

## Fonden: budgeted and spent funds



- Resources proposed for funding tend to be stripped in Congress
- Fonden resources have been reduced since 2001, spending for natural disasters is highly unpredictable
- Cat bond would provide financial security
- Avoidance of reinsurance cycle

# Conclusions

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- A number of efforts underway related to natural disaster risk financing in developing and emerging economies
- Public sector risk financing one issue, eg. Mexico and Colombia
- Model-based approach involving mutual learning can help identifying efficient strategies that are implementable, adjusted to specific country needs and efficient