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

Financing gaps after Gujarat earthquake

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

Source: World Bank 2003
Public sector risk financing

Upper layer: government

Middle layer(s): risk financing

Lower layer: Self-retained

Instruments
(Re-)Insurance
Reserve Funds
Contingent credit
Cat bonds

Government buildings and other assets
Public hospitals and schools
Critical infrastructure: “lifelines”: electricity, water, sewage
Growth-stability tradeoff

- **El Salvador growth paths**

  - **-no insurance-**
    - Higher potential growth

  - **-insurance-**
    - Less volatility
Model-based workshops on Financial Disaster Risk Management
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• 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

- 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

Source: Hurtado Lopez 2004
Conclusions

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