



3.2 Putting DRF into practice – case studies from around the world

Contingent credit perspective

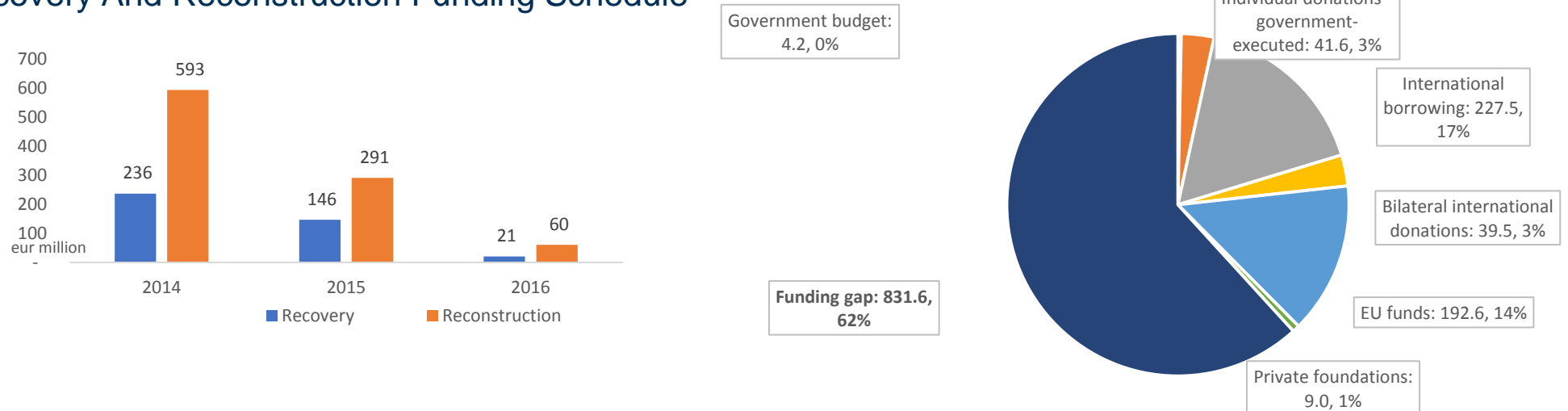
Marija Bijelic
18 July 2018

DRFI Solution: Contingent Credit

- Severe liquidity gap in 2014 floods
- No historical data available for decision-making
- Ongoing policy reform to overcome identified weaknesses

Floods 2014 – Financial Background

Recovery And Reconstruction Funding Schedule



- Very **low insurance penetration** of both private and public buildings
- Very **low contingency reserves** (< 1m EUR originally budgeted)
- **Limited budget reallocation** possibilities (10% of each appropriation)
- Supplementary Budget passed in **December (7 months later)**
- WB Emergency recovery loan operational in **March 2015 (10 months later)**
- Largest donation EUSF arrived in **April 2015 (11 months later)**

Funding Gap Solution

Contingent Credit

- **No historical data** on which to quantify and base decision-making
- **Limited borrowing potential** due to fiscal constraints and lack of space in WB lending envelope
- Reluctance of MoF to **conclude DPL which may not be withdrawn** (ideally)
- Utilize contingent credit to **access rapid liquidity** following disaster shocks
- Contingency credit with a catastrophe-deferred drawdown option from the World Bank (**CAT DDO**) signed in 2017
- \$70 million available immediately after a disaster to **serve as bridge financing** until other domestic funds can be reallocated or international aid is received
- Disaster risk management **Development Policy Loan** - support for **ongoing Policy reform**



Policy Reforms Prerequisites for approval

- National DRM Program (2014)
- Law on Reconstruction following Natural and other Hazards (2015)
- Establishment of Public Investment Management Office as a permanent body within the Government (2015)
- National DRFI Program (2017)

CAT DDO Policy Support Actions

- Establishment of **Fiscal Risk Unit** within MoF
- Completion of **Flood risk assessment**
- **DRFI Plans** local level
- Adoption of **post-disaster needs assessment methodology**
- Annual collection and consolidation of **post-disaster expenditure data**



Utilizing CAT DDO

Real-time developments

- June 10 18 **severe floods and hail** hit central parts of Serbia
- GoS unofficially alerts WB on the hazard and its **intention to withdraw** a portion of CAT DDO to finance recovery and reconstruction efforts
- June 21 - GoS officially **declares a state of natural hazard** in 23 municipalities which is defined as a trigger for withdrawal in the loan agreement
- WB carries out a **technical review of policy developments** related to the policy matrix defined in the agreement
- July 10 - GoS through MoF sends an **official request to withdraw** EUR 30m
- July 13 - **Funds are disbursed** to the dedicated account of PIMO





**UNIVERSITY OF
CAMBRIDGE**
INSTITUTE FOR
SUSTAINABILITY LEADERSHIP

**Disaster Risk Financing
& Insurance Program**



CENTRE FOR
GLOBAL
DISASTER
PROTECTION



GFDRR
Global Facility for Disaster Reduction and Recovery

