Strengthening Subnational Disaster Risk Financing Capabilities

A significant share of the public cost of disaster recovery and reconstruction ultimately falls on local governments. For example, they often must pay for the repair of provincial, district, and community roads, schools, health clinics and other infrastructure within their remit. Local governments may face additional pressures to support the recovery of local businesses and livelihoods, speeding the restoration of local economies. While local governments in developing countries are often required by law to make budgetary provisions for post-disaster needs, they typically have limited discretionary financing, and what little funds they do have are quickly spent in the event of a disaster. As a consequence, reconstruction efforts can extend over a number of years, exacerbating the indirect economic and social costs of a disaster. State-owned enterprises can face similar challenges and pose additional contingent liabilities to national governments. Over the past decade, there has been an increasing recognition of the need to address this issue by strengthening local, as well as national, disaster risk financing capabilities. National governments can help stimulate this growth at the local level by providing explicit incentives for uptake and through regulatory and legislative reforms supporting the growth of financially sustainable risk transfer solutions tuned to the needs of local government. For instance, in addition to limiting the availability of post-disaster federal funds for states that continuously do not insure their assets, Mexico also incentivizes states to build reserve funds, similar to its national-level program FONDEN by providing seed funding. Colombia has begun to improve guidelines on insurance requirements for concessions at the subnational level, modeled after the 2013 reform of insurance requirements of national government concessions. In Indonesia, provincial and municipal governments voluntarily insure critical public assets (World Bank, 2011). International Financial Institutions are supporting the development of disaster risk financing and insurance strategies and risk transfer schemes tailored to the subnational level. The Asian Development Bank, for example, has been focusing on climate risk adaptation in megacities and is currently developing disaster risk financing and insurance instruments at the city level in Indonesia, the Philippines, and Vietnam.

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