

**The Role of International Financing Institutions in Disaster Risk Management  
in Urban Areas: A Perspective from the Inter-American Development Bank**

**Caroline Clarke  
Inter-American Development Bank**

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The present paper aims to highlight some of what international financial institutions (IFI) do and can do to promote disaster risk management in urban areas in Latin America and the Caribbean – and does so by giving a peek into the largest IFI for the region, the InterAmerican Development Bank. The paper briefly outlines the Bank’s traditional work in development and disasters, then reviews some of the changing vulnerability context in the region, and suggests a few potentially fruitful ways international financial institutions might think about meeting the challenges of development in a disaster prone region. Rather than being comprehensive or particularly rigorous, the paper instead seeks to open some of the issues the Bank faces for discussion among the experts and decision-makers attending this Conference.

I. The IDB and development in the region<sup>1</sup>

The IDB provides loans and grants to its member countries of Latin America. The Bank is the region’s main source of multilateral credit – supporting Latin America and the Caribbean economies in efforts to increase productivity, alleviate poverty, build infrastructure, support the private sector, and reform state institutions. Each year, the Bank lends around \$7 billion dollars (last year, \$10 billion) for: productive activities (such as agriculture, fisheries, industry, tourism), export financing, modernization of the state. By far the largest investments are in social projects – to finance schools, health facilities, water and sanitation systems in the countries’ poorest areas, many of them urban – followed by physical infrastructure projects, to build electrical networks, bridges, and roads.

The Bank is a major catalyst in mobilizing resources for the region. Many of its loans are co-financed, with the multilateral and bilateral financing on concessional terms. In 1998, cofinancing totaled over \$3.5 billion dollars. The World Bank parallel financing amounting to \$2.8 billion<sup>2</sup>, and almost \$700 million from bilateral and multilateral cofinanciers, with Japan being the largest source of bilateral cofinancing. Over \$50

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<sup>1</sup> For more detail, see the Bank’s Annual Reports.

<sup>2</sup> Almost 90% of which cofinanced Argentina’s Special structural Adjustment Program.

million in grants were committed from bilateral trust funds administered by the Bank. Moreover, the Bank's \$7 plus billion in loans leverage the same amount in local resources, multiplying to \$14 billion development investment in the region.

Compared with the amount of private capital flowing to the region, \$80 billion in 1997, the Bank resources are small. But the standards and criteria that are introduced have repercussions wider than its operations. Most importantly, the Bank makes an effort to see that its lending operations directly benefit low income populations. These investments mean important opportunities for improving the living conditions and economic gains for the countries' population.

*Bank Lending in support of Urban/Local Development*

In the 40 years of operations, the Bank has lent 14% of the total amount of resources for projects directly benefiting local development. (In the last 10 years, just under 20% of the lending portfolio has been for urban sector projects.) These include investments in water supply and sewerage, waste disposal, housing and neighborhood upgrading, targeted assistance projects (street children, migrant workers, women's groups), and a collection of other types such as historic center revitalization, intra-city transport planning, and urban environment. The number of municipal development projects is on the rise in the last 5 years. These finance broad sector reforms (decentralization and fiscal federalism), municipal management with private sector involvement, financial intermediation mechanisms (formerly municipal development banks), infrastructure investment and planning, and land management.

<b>IDB lending for local governments 1961-1997 (1992 US\$ million)</b>			
<b>Type of operation</b>	<b>Sector</b>	<b>Amount</b>	<b>N1</b>
Urban development operations benefiting local governments	Municipal Development	2,668.5	32
	Integrated Urban Development	1,335.2	14
	Urban Transportation	707.0	6
Sector operations benefiting local governments	Sanitation	8,881.0	160
	Infrastructure	1,952.6	20
	Urban Environment	1,512.1	12
	Education	165.1	2
	Health	155.1	1
<b>Total</b>		<b>17,376.6</b>	<b>247</b>

**Source: "Local Government Development: A Strategy Profile," a working paper currently under preparation. IDB.**

Traditionally, the central government acted as borrower, guarantor, and implementor of Bank supported operations. With the growing autonomy granted to local governments, however, the Bank has been able to work directly with local governments as the

executors of the operations, with the Central Government remaining as borrower and guarantor. As the design of operations and their execution are more decentralized, the Bank operations have begun to focus increasingly on issues related to strengthening institutional capacity of local governments, including better community involvement in local decision-making, and the many facets of the decentralization process.

## II. Traditional ways the IDB has dealt with disasters

### *Immediate response in event of a natural disaster*

The Bank sees its main business as development lending, with disaster relief being the exclusive domain of countries and the international humanitarian assistance organizations. Nevertheless, the Bank does provide member countries with a quick response, albeit modest, grant resources when a disaster is declared. The Bank's representative in the country can make available immediately \$50,000 – that usually is passed directly to the Red Cross or other local response agency.

Also, within days, the Bank's representative in the country can identify resources from projects in execution that may be redirected for the emergency, restoration of services, or immediate rehabilitation of infrastructure. In a matter of 2-3 days after the floods in Venezuela, the Bank was able to make available \$200 million for the emergency – allowing the Government and the Bank to work out quickly the priorities for their execution.

### *Rehabilitation and reconstruction*

The Bank has characteristically responded to natural disaster risk by focusing on the aftermath of an event, lending for reconstruction and rehabilitation of affected sectors and infrastructure. In the last 10 years, the Bank has lent around \$2 billion in the region to help countries to emerge from disaster-related emergencies – primarily to rebuild and rehabilitate damaged infrastructure. In some cases, lending to rebuild those same water projects, road systems, and housing that the Bank had helped to finance in the first place.

Certainly, reconstruction has been by far the most *visible* disaster-related lending. Of reconstruction lending in the last 10 years, Bank financing has concentrated: 65% in rebuilding physical infrastructure (water, sewerage, electricity, and road systems), 25% in reestablishing social services (health, education, housing), and 10% in credit lines and support for productive activities, such as micro-enterprises. In the same period, over two thirds of the IDB loans related to emergencies represented new monies to the affected countries. Less than a third of the reconstruction resources came from modifications of already approved loans under implementation.<sup>3</sup>

Bank financing for reconstruction has ranged from targeting specific reconstruction works to a more comprehensive approach. A recent example of the latter is a program in the Dominican Republic after Hurricane George (1998). Here, the program is financing the usual rehabilitation activities – both large infrastructure projects (city water supply systems, and repair of high-voltage towers in the power transmission system in the east), as well as many more smaller projects to repair, rehabilitate and rebuild social,

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<sup>3</sup> Carlos Valencia. 1997. "Respuesta del Banco Frente a Emergencias Causadas por Desastres Naturales e Inesperados", (September) IDB working paper.

productive and institutional infrastructure in low-income communities affected by the hurricane.

At the same time, the program protects recurrent public expenditures on social programs – in this case, making up the fiscal shortfalls to safeguard programs aimed at children’s welfare. This protection can be quite important, as we all know that reconstruction necessities can displace public investments in priority development areas – often those targeted at improving living conditions and economic opportunities for the poor.<sup>4</sup> Finally, the program finances activities to improve the country’s capability to reduce vulnerability to future disasters, as well as to better respond to the next event. These include strengthening of disaster response agencies, a national land-use plan that includes the evaluation of disaster risk, forestry and ecotourism investments, and flood control works.

As the example in the Dominican Republic shows, the Bank’s reconstruction lending can help countries to build in disaster mitigation for the future. In the best of cases, they have financed risk assessments, the adoption of disaster resistant technologies, and strengthening of disaster prevention arrangements such as modifications to existing building codes or land use regulations, and stimulating the rational use of natural resources.

#### *Addressing macroeconomic impacts of large disasters*

In the aftermath of a large disaster, countries may face a variety of macroeconomic impacts, including declining exports and rising imports, a deceleration of economic growth, a reduction of per capita income, a decline in their tax revenues that can prolong fiscal disequilibriums, and a sudden increase in the level of indebtedness. The Bank has helped countries to address these impacts in a variety of ways, such as by lending to fill the shortfall in recurrent public expenditures for vital social programs as in Honduras outlined above, for balance of payment support, and by restructuring and forgiving debt. After Hurricane Mitch, for example, the IFIs helped Honduras and Nicaragua to qualify for HIPC. In so doing, they helped to negotiate new agreements with creditors, and established the Central America Emergency Trust Fund in collaboration with the IMF and World Bank to mobilize funds to help cover debt service payments.

#### *Disaster mitigation and preparedness components in Bank financed operations*

While providing sizable resources for reconstruction is a visible Bank role, this visibility is in fact misleading. The traditional focus on *ex-post* operations does not mean to say that in the absence of disaster events, Bank financed projects have ignored natural hazard risk. A recent look into IDB experience over the last ten years in Central America, for example, finds that disaster mitigation, prevention, and preparedness activities accounted for between 35% to 45% of all the disaster-related lending. That is, in the last 10 years, approximately \$280 - \$360 million was lent for activities that contribute to disaster

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<sup>4</sup> The most recent example is the 1999 loan to Honduras for Social Protection and Transition Program, which safeguards public expenditures for social protection programs given severe fiscal problems after Hurricane Mitch. It also finances the improvement of the line ministries’ managerial capacity to respond to increasing demand for services, and the development of policy frameworks to ensure coordination in the social sectors during reconstruction.

mitigation and preparedness in Central America.<sup>5</sup> For the most part, this disaster-related lending is not part of emergency or reconstruction lending, but rather are components within more traditional lending programs which for the most part are in the absence of an event.

Some examples from Bank-supported projects in Central America, Mexico, and the Isla Española<sup>6</sup> include:

Costa Rica: Electric Development Program III (1993-) includes the study of earthquake risks (active faults) and use of anti-seismic techniques for the design of the construction, as well as geological surveys to identify unstable slopes and the use of this information to decide location of construction sites and laying of electric transmission lines.

El Salvador: Water and Sewer Program (1998-) finances the modernization of a hydrometeorology information network, and a study for analyzing detailed characteristics of the hydrological aspects of the watershed areas.

Guatemala, Honduras, Nicaragua: Housing Programs (1997, 1999, 2000) finance mapping of areas at risk to natural hazards, and ties housing benefits to locating outside high-risk areas. Also finances information on low-cost, community mitigation measures, and preparedness.

Haiti: Road Maintenance and Rehabilitation National Program (1995-) finance contingency planning to ensure reestablishment of roads to populated areas after disasters.

Haiti: Economic and Social Assistance Fund Phase II (1996). Finances mitigation measures, such as retaining walls, for protection against landslides and floods.

Honduras: Reorganization of the Health System (1998) provides resources to strengthen the national emergency care system, and environmental safety actions including protective measures against natural disasters.

Mexico: Sanitation Program for the Valley of Mexico (1996) finances the rehabilitation and expansion of the macro drainage system for Metropolitan Mexico City in order to prevent potentially catastrophic floods. Includes the preparation of flood maps in order to identify zones susceptible to flooding in the metropolitan areas, especially in terms of housing, schools, hospitals, hotels, subway, and infrastructure.

Nicaragua: Managua Municipal Modernization Program (in preparation for 2000) will finance surface drainage investments, renovation of neighborhoods at risk (on fault lines, flood areas), and is analyzing the possible resettlement of populations in high risk zones.

Panama: Road Rehabilitation and Administration Program (1993). In recognition of Panama's proneness to earthquakes, torrential rains and flooding, the Program finances

<sup>5</sup> Preliminary results (December 1999) from the desktop review of lending and non-lending portfolio for Region 2 currently underway (includes Haiti and the Dominican Republic; Mexico data is compiled separately). M. Nanita-Kennett and C. Chaveriat (consultants).

<sup>6</sup> These examples are focusing on Central America to reflect the emphasis of the present conference. For more examples of Bank supported operations for disaster mitigation and preparedness, a forthcoming publication to be presented in the meeting, "Como Enfrentar los Desastres Naturales: Una Cuestión de Desarrollo," that the Bank will carry out in conjunction with its Annual Meeting in March 2000.

the rehabilitation and replacement of bridges whose original design and construction included reasonable specification in accordance with AASHTO standards for highways and bridges, plus a safety margin of 10% for the mitigation and reduction of potential damages.

Belize: Hurricane Rehabilitation and Disaster Preparedness (1999) finances a forward looking program to improve state of readiness in the event of a hurricane. Includes, retrofitting existing schools to act as local shelters, and building of regional shelters; community preparedness measures; institutional strengthening of the National Emergency Management Organization and public awareness education and training programs for local civil preparedness. Mitigation components will finance the : upgrading of drainage works in Belize City, improvement and enforcement of building codes, hazard and risk assessments, design of measures to protect critical infrastructure, and plans for disaster management.

*Environmental Reviews: Integrating disaster risk management in development lending*

When the Bank and the country develop a proposal for a loan, it is screened through an environmental review process. The environmental review may require detailed environmental impact assessments be undertaken, and special reporting on the mitigation of any environmental risks the project to be financed may pose. The evaluation of the project's risk to natural hazards is included in the environmental review. In this regard, Bank environmental reviews have examined the strategies for managing landslide and flooding risk for housing programs, measures for reducing wind and flood risks in coastal zone management projects, the disaster resistance of bridges and roads, and contingency plans for dealing with interruptions to basic services, to name a few.

Despite this well-established environmental review process, natural disaster risk is not always identified as a priority concern where it should be, and Bank-financed programs have likely under-invested in mitigation to safeguard those investments if the impact of natural disasters on assets financed by the Bank is any indication. Recent disaster events, however, have made visible again the imperative of investing in mitigation, and the environmental review meetings at Bank headquarters are pursuing issues of disaster risk management with renewed vigor. All of which is to say, the Bank's environmental review process is generally an adequate instrument to bring to light natural disaster risk and its management within Bank financed projects, but its effectiveness depends on the vigilance with which it is exercised.

At this point in time, the environmental review process may be best suited to evaluating investments in specific physical infrastructure – bridges, electric utilities, water and sewer systems, housing and neighborhood upgrading projects. Nevertheless, especially after major events, the environmental review is increasingly looking at disaster risk management issues in projects that finance sectoral policy, regulatory, and institutional reforms. Safeguarding physical assets should have a significant impact in the urban sector, as much of countries' investments in social and economic infrastructure is, in fact, in cities. However, as the cities are growing, so is the region's risk to disasters. A concerted, macro approach that pays attention to improving capabilities to manage vulnerability in cities generally – not just the specific investments the Bank finances – is

needed. The role in IFIs in supporting this macro approach will be discussed in the sections following.

### III. Changing Context in the Region

#### *New and greater disaster vulnerability is in urban areas*

Disaster resistant reconstruction, and mitigation and preparedness components throughout the Bank's portfolio are important for the success of these project's sustainability. Nevertheless, like other IFIs, the Bank's impact in terms of stimulating adequate mitigation measures on the ground – particularly given the risk – should not be overstated.

As we all know, the impact of disasters on development is the result not only of the severity and frequency of the natural phenomena in a place, but also the level of vulnerability and the lack of physical, economic, social and environmental resilience to natural hazards. A number of trends are visibly affecting the region's vulnerability to natural disasters.

The prominent supposition that disaster vulnerability is higher in urban areas is indeed correct. Despite enormous investments in physical assets, the investments to protect these assets and to ensure safety to urban dwellers has not kept pace. Vital goods and services – such as, food distribution networks, water and fuel distribution systems – are particularly vulnerable to damage caused by natural hazards. Given their extension and interdependence, breakdowns in these systems lead to extensive consequences for affected populations. The interruption of water networks in an earthquake, for example, not only reduces the capacity to fight fires, but also accelerates the deterioration of health conditions, and with it the increase in victims.

During the 1990s, the number of people living in urban areas in Latin America has increased tremendously, and the trend is estimated to result in 85% of the region's population to be living in cities by 2025 (CEPAL). And, the tendency in Latin America has been the rapid increase in the proportion of the population that live in megacities. This may be one of the most important factors in the changing vulnerability profiles in the region. As the cities grow, more people and critical development assets are locating in hazard-prone areas. Simply speaking, more social and economic infrastructure, buildings, critical facilities like hospitals and schools, and human settlements are at risk.

At the same time that cities are clear engines for economic growth, they are also absorbing greater percentages of the poor in the region. Poverty, by its very nature, puts people at greater risk to disasters as without resources, they settle in disaster prone areas like steep hillsides and flood plains. The type of construction in the region is also increasing the region's vulnerability to disasters. The majority of older construction is of adobe or unreinforced masonry – known to perform poorly in some kinds of earthquakes. We have seen repeatedly how tile roofs can kill. Newer construction is often not built to disaster resistant codes. Many informal residential settlements, especially in their initial stages of consolidation, do not include disaster resistant construction (simple roof tie downs can greatly reduce damage in hurricanes) or the basic low-cost community level mitigation measures, like retention walls and adequate surface drainage.

Throughout the region, municipal regulations designed to ensure adequate standards for urban development have had a systematically perverse impact on the poor's ability to acquire legally land in relatively safe areas, and to rapidly improve their houses and neighborhoods – including measures to reduce disaster risk. Municipal regulations specify minimum set asides, plot size, and service standards for water, sewage, drainage and the like, even for social housing. The subdivision and sale of plots that do not meet these standards are illegal and such properties cannot be registered. These regulations can severely distort land markets by raising the price.<sup>7</sup> Excluding the poor from the legal land market, the regulations prolong the insecurity that inhibits private investment. This is exacerbated by public institution's inability to provide support for infrastructure and neighborhood upgrading support. The shortcomings of urban development regulations and institutional support are excluding the poor from legal, safe land and are limiting more speedy neighborhood consolidation. In areas like Guatemala City, this is directly translating into growing vulnerability to natural disasters.

The evidence suggests that today we are more at risk of suffering truly catastrophic disaster than we were fifty years ago. Certainly the region has seen the consequences of this cumulative vulnerability in recent years with the rising economic costs and social disruption caused by natural disasters.

*Shift to the understanding of disaster vulnerability is finally taking place*

It is the recent events – Hurricanes Mitch and George, the El Niño of 1997-1998 – that, without a doubt, have brought the topic of disasters out of the exclusive realm of humanitarian assistance, and clearly to the development arena. For disaster reduction specialists laboring in the trenches during the last decade (the International Decade for Natural Disaster Reduction, no less), this is most welcome. These events had huge and widespread impacts, effecting multiple countries at a time. And, they represent a notable departure from the experience in the region where the countries themselves have dealt with the vast majority of events without massive international assistance. The recent experience illustrates clearly the relevance of disaster reduction – of disaster prevention and mitigation – as well as its clear difference with the traditional approach of preparing for, responding, and reconstruction in the event of an emergency.

Never has disaster mitigation been more readily recognized as a fundamental input, not only in reconstruction projects, but also of development planning and management across sectors. Its visibility on government agendas is unprecedented in the region. The countries included disaster mitigation as part of their national reconstruction and transformation plans presented in Stockholm. And last October, at their annual Central American Presidents Summit, the six presidents of Central America adopted the “Strategic Framework for the Reduction of Vulnerability and Disasters in Central America.” The framework contains basic guidelines for disaster mitigation, preparedness actions and emergency management, with special emphasis to support the most vulnerable populations. The national reconstruction plans and the adoption of this framework manifest the countries' commitment to disaster mitigation to ensure the

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<sup>7</sup> A IDB study (1997) showed that full compliance with all the regulatory standards in Guatemala City would require a sales price for the smallest legally permissible plot to be more than \$3,500. This minimum price represents more than 18 months of total income for the 60% of the urban households with total monthly incomes of \$200 or less

sustainability of the reconstruction investments after Hurricane Mitch, as well as to reduce their long-term and recurrent risk due to natural hazards.

This new political commitment is important, but we must remember most countries in the region have a long way to go. With a few notable exceptions, prevention and mitigation efforts are taking place in an ad hoc fashion at best, and the capability to manage or reduce natural disaster risk in the countries is limited. Typically, countries have lacked effective legal and institutional arrangements, dedicated budgets, as well as the technical and policy know-how to take leadership in the prevention area. While many countries have an emergency (contingency) plan, few have a national strategy or policy for prevention and mitigation.

The early warning and emergency preparedness capabilities – the state of readiness to respond rapidly and effectively to save lives, reduce suffering and enhance recovery of communities after disaster strikes – is very uneven, as highlighted by recently events in Central America and Venezuela. Recent devastating experiences notwithstanding, in the last decade, even the poorer countries in Central America had begun to improve their response capability, and had become proficient at a modicum of preparedness activities such as stockpiling supplies, information management in some cases, and training of local emergency responders.

Throughout the period, the international community has also supported these efforts through regional, national, and local risk assessment, emergency preparedness training and investments, and mitigation projects.<sup>8</sup> Today, after Hurricane Mitch, many more donors recognize that disaster management is a sector requiring concerted support. They have identified particular natural hazards, vulnerable communities, and responsible institutions (public and private), and are designing programs to help countries to better understand and confront the next disaster.

Even while we have daily reminders of the failures to get mitigation into reconstruction investments – newly replaced bridges washed away in this October's rainy season, and families are again resettling in high risk areas – the countries are programming new investments, with donor support, to improve their risk management capabilities. These include resources for hazard monitoring and forecasting systems, risk mapping, watershed management, building regulations, and mitigation works and preparedness activities at the community level, among others.

#### IV. New approaches to disaster related lending

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<sup>8</sup> A couple of recent surveys summarize the efforts of the international community to support disaster mitigation and preparedness activities in Central America. To name just three: the Disaster Preparedness Programme of the European Commission Humanitarian Office (DIPECHO) in 1997 sponsored a diagnosis of disaster management capabilities in CA and the Caribbean (carried out by the Centre for Research on Epidemiology of Disasters, Belgium, and the International Centre for Training and Exchanges in the Geosciences, France). This year, 1999, USAID is sponsoring a survey of disaster management capabilities in CA which includes a summary of international support ("The Assessment" is being carried out by International Resources Group). The Inter American Development Bank (IDB), through its lead responsibilities in the organization of the Regional Consultative Group for the Reconstruction and Transformation of Central America, is also been instrumental in assisting the coordination of information, strategies, and resources for the region after Hurricane Mitch.

### *New Policy on Natural and Unexpected Disasters*

The Bank has had a specific disaster policy in place since the early 1980s, which stipulates the kind of support the Bank would provide in the case of an emergency. The distinction has always been made that the Bank helps countries to finance rehabilitation and reconstruction activities, and except for small, initial grants, leaves emergency humanitarian assistance to other international cooperation agencies such as the UN.

In March 1999, the Bank adopted a new disaster policy, with a vital improvement – it has explicitly put disaster prevention and mitigation on equal footing with disaster response and reconstruction in Bank operations. The policy states that the purpose of the Bank’s participation in the field of natural disasters is to assist member countries to protect and resume their socio-economic development, and to support countries efforts to strengthen countries’ capacity to manage natural disaster risks. The policy makes explicit the importance of vulnerability reduction as an important element for development lending, and has paved the way for stand-alone projects dedicated to disaster management – in the absence of a disastrous event.

The disaster policy, then, presents clearly the Bank approach that aims to mainstream risk assessment and mitigation across all the Bank’s lending, and to target Bank support to improving country’s over-all capacity to manage disaster risk (mitigation and preparedness). In the case of emergencies, the policy further stresses that the Bank, whenever possible, will coordinate with other donors and local actors to determine the scope of Bank participation. Recent Bank operations illustrate elements of this new approach.

#### *Emphasis on structural (institutional) reforms: building national systems for disaster management*

With disaster mitigation on government agendas, there may be for the first time significant demand for building national systems for disaster mitigation. The Bank is placing new emphasis on supporting the structural (institutional) reforms to help countries to improve their risk management policies/strategies, institutional and regulatory frameworks, as well as cross sectoral technical and coordination capacity necessary to ensure sustained – and long overdue – investments in disaster mitigation to reduce their vulnerability to natural disasters over the long run. Local governments and civil society are on the front lines when it comes to disaster mitigation and preparedness – and special attention is warranted to promote their capabilities. The Bank’s resources for financing mitigation works – investment components of a project – are an important instrument to promote the institutional reforms to transform these fledgling national systems into more efficient providers of mitigation and preparedness services. Indeed, the momentum of the flurry of mitigation and preparedness activities that inevitably emerge in most post-disaster situations will be lost if countries do not organize effective national systems for disaster management to support and lend continuity to the efforts.

Recent projects in Argentina and Colombia, for example, are doing just this. In Central America, the Bank has begun by supporting a regional program to promote disaster mitigation. The operation will finance the formulation of action plans for mitigation policies and institutional arrangements, a Disaster Mitigation Fund that provides

matching grants for mitigation projects identified by the participating countries; and strengthens the regional network to share technical information and best practice.

*Emergency Reconstruction Facility: reconstruction resources faster*

In December 1998, the Bank established the “Emergency Reconstruction Facility” (ERF) – a mechanism that permits the Bank to respond rapidly in the aftermath of a disaster. Its purpose is to make available very quickly resources to finance a pre-established menu of eligible activities – those to help speed the restoration of services, finance temporary repairs, and clean-up in the early period after a disaster. The country’s request for use of these funds triggers a fast-track process of loan approval at Bank headquarters – which can be as little as two to four weeks. After last year’s earthquake in the coffee region in Colombia, in just 27 days a fresh \$20 million was made available for the Coffee Belt (Eje Cafetero) Reconstruction Fund, and its execution on the ground has been rapid.

Envisioned as a mechanism to be triggered in the first days and weeks after a disaster, the ERF can provide up to \$65 million chargeable to the Bank’s Ordinary Capital and up to a total amount of \$35 million chargeable to the Bank’s Fund for Special Operations (highly concessional resources), to finance the individual operations of the Facility on a reimbursable basis. This Facility may be used at the option of the Bank and is subject to a case-by-case justification, and typically the Facility finances activities during a period of 12 months. As short-term reconstruction assistance, they do not replace the more conventional reconstruction lending that the Bank provides the countries.

IV. Meeting the challenges of development lending in a disaster prone region: Some Issues for the Bank

*Disaster Prevention Culture: Creating Demand for Mitigation*

When disaster specialists look at how to help countries to improve their disaster management capabilities, the tendency is often to focus on all kinds of scientific, technical and operational capabilities to make available – that is, the supply side for disaster management: hazard monitoring systems, equipment and technical know-how for risk assessment, forecasting and early warning systems, command centers, and public investments for mitigation to name a few. Yet, it is often difficult to know what is appropriate, and to dimension these investments so they are not too big or small, and to evaluate priority investments.

Another way of looking at the problem is that we give far too little attention to understanding what is needed from the point of view of the consumers of disaster management, and to stimulating effective *demand* for mitigation. Families need safe homes and neighborhoods, communities to protect their schools and health clinics and designate safe havens, companies to safeguard their assets against business interruption, and local governments to enforce construction codes and land use decisions. Attention to demand for safety also helps to more efficiently allocate the resources for mitigation, and not only can help to make governments and others accountable to do the right thing in risk management (however we might define that), but also that they monitor progress in reducing disaster vulnerability.

Some examples of mechanisms that the Bank might consider to help to stimulate and consolidate this demand for mitigation include:

- Empowering constituents. That is, building knowledgeable consumers – who may be local communities and municipal governments, line ministries, or the private sector – who understand the risks they face, and who are interested in safeguarding themselves and their assets. Sharing good practice and demonstrating the positive results of mitigation measures. Also, making readily accessible information about the hazards that communities face, what makes them vulnerable, and their standing relative to other communities all can help elevate mitigation as a priority. The Bank can support the priority setting process – ensuring stakeholder participation, promoting conflict resolution, and the evaluation of tradeoffs. The Bank supported operations in disaster mitigation will benefit from having technically capable, operationally active, and politically savvy institutions in the region.
- Economic incentives: For example, the provision of matching grants for mitigation works. These signal the importance of mitigation, as well as stimulate investment in an area that may be new for municipalities and others. Positive experience stimulates its own demand. The public and private sectors may also want to target subsidies that stimulate mitigation investments – subsidies for specific feasibility studies for larger mitigation investment projects which themselves will be bankable, for example.
- Policy dialogue. The IFIs, in particular, are in constant dialogue with the senior government officials in identifying development objectives, and prioritizing their financing. This policy dialogue can bring to light disaster vulnerabilities, consolidate policy and program initiatives in existing platforms, stimulate investments in mitigation and institution building, and help countries monitor their progress. The new Government in El Salvador, for example, has disaster reduction already in its platform.
- Indicators and benchmarking strategies to measure countries' progress in reducing and managing disaster risk. IFIs can sponsor the development of indicators that not only look at natural hazards and accumulated vulnerabilities, but also a country's capabilities and efforts in risk assessment, mitigation measures in place, early warning and preparedness capabilities, and the policies and resources at play – relative to the risks a country may face. While benchmarks may be developed for individual communities or development sectors, particular attention would also be given to the impact that multiple sectoral activities have on a country's (or community's) vulnerability to disasters. Progress in disaster reduction happens through an accumulation of actions and capabilities in a multiplicity of sectors – in urban development, infrastructure systems, health and education, financial sector depth and resiliency. We need to better understand this multi-sectoral dimension of vulnerability reduction. IFIs may also then use these indicators to work with decision-makers to develop effective strategies for investments to reduce and manage disaster risk. Demonstrable progress (or lack thereof) can both stimulate and reward these efforts.