

Financing Disaster Risk: The Role of the World Bank

Session 4.3

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Natural hazards are a major source of risk for the poor

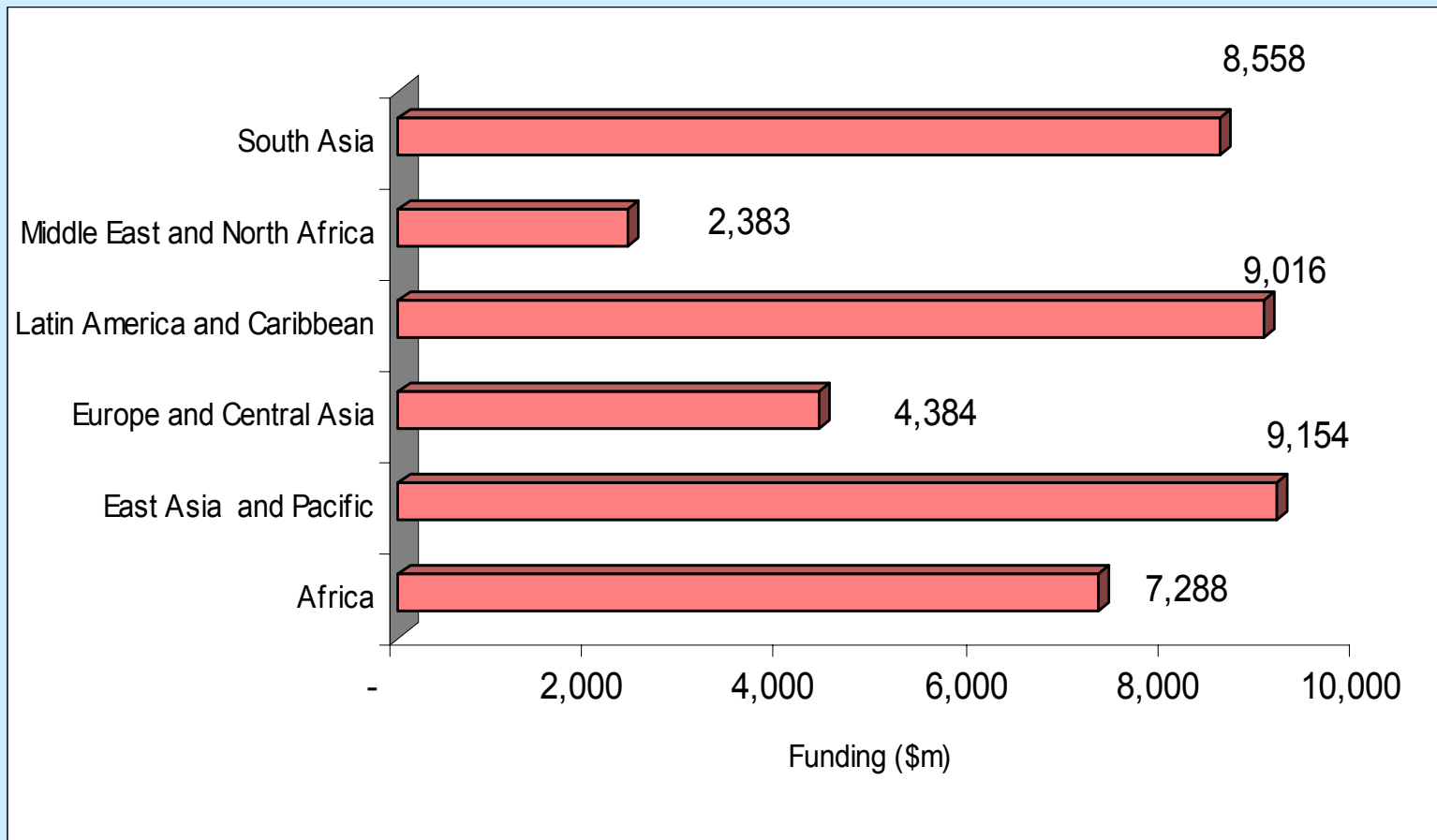
- ✓ Prevalence of death due to disaster is 4 times higher in low-income countries
- ✓ Disasters are an important dimension of poverty -- per WDR 2000/2001
- ✓ With similar patterns of disasters, Peru fatalities average 2900 a year and Japan averages 63

Disasters cause loss of development gains and wealth in developing countries

- ✓ Annual GDP losses = 2-15%
- ✓ Average yearly losses due to disasters during 1990s = US\$63 billion
- ✓ Annual losses of infrastructure during 1990's due to disasters in Asia alone were about \$12 billion - about 2/3 total annual lending of the Bank

Natural Disasters: Unrecognized "Sector" of Bank Lending

Disaster-related lending, 1980-2003: >\$43 billion



Integrating HRM into the development agenda since 1998

The HMU has worked to:

1. document links between poverty and disasters
2. improve response to disaster emergencies
3. build HRM capacity through training
4. develop country case studies and AAA work leading to investments in HRM
5. facilitate integration of HRM into more CASs and PRSPs

Towards a comprehensive approach for the WB

- ✓ Systematic treatment of HRM at policy and operational levels
- ✓ Provide a framework for:
 1. Making hazard risk a standard feature of relevant CASs and PRSPs
 2. Assisting clients to develop proactive, national strategies for HRM
 3. Developing lending programs that build capacity for effective risk reduction and risk financing
 4. Introducing more effective financing and risk transfer mechanisms

Need for ex ante risk financing

- ✓ Opportunity costs of diverting scarce financial resources to relief and recovery
- ✓ Disruption of budgetary planning process
- ✓ Reliance on international assistance, which cannot guarantee that needed resources will be delivered

Types of ex ante financing arrangements

- ✓ Reserve funds - need to be allowed to accumulate from year to year
- ✓ Contingent credit - less attractive than readily available low-interest loans after a disaster
- ✓ Insurance - requires laws, regulations, and administrative agencies
- ✓ Others - CAT bonds, hedging instruments, etc.

Financial products are not enough on their own

- ✓ Part of a risk management strategy that includes:
 - ✓ Identifying/understanding risk,
 - ✓ Reducing it
 - ✓ Planning ex ante for the financial impacts (risk transfer, sharing)

Need to build culture of ex ante planning

- ✓ Both donors and countries need to change
- ✓ This will take time - goes hand in hand with culture of savings, credit, etc.
- ✓ Consider mandatory insurance programs for certain sectors of the population
- ✓ Insure public infrastructure
- ✓ The very poor will still need help - potential for microinsurance

How can the World Bank help?

- ✓ Support capacity building for data gathering
- ✓ Help establish regulatory framework
- ✓ Facilitate the development of markets for financial services

Turkey MEER Recovery Project

Reconstruction

- rural & urban housing units
- municipal infrastructure
- power distribution networks
- social infrastructure
- planning, design, supervision

Recovery

- social trauma program
- budget support (MERL Project)
- business rehabilitation

FOR FUTURE EVENTS:

Preparedness

- national emergency management system
- new emergency management agency
- regional pilot projects
- public awareness campaign

Mitigation

- *disaster insurance scheme*
- major policy changes
- land use planning
- enforcement of building codes
- cadastre renovation and land management

Colombia Vulnerability Reduction Project

- ✓ Define the role and responsibilities of the state in relation to natural hazard events
- ✓ Identify and implement measures to avoid the creation of new risks
- ✓ Implement retrofitting mitigation and prevention works to reduce existing vulnerability of vital physical and social infrastructure to natural hazard events
- ✓ Implement a strategy of risk retention and risk transfer to cover public sector losses due to natural hazards
- ✓ Establish similar mechanisms to encourage risk retention and risk transfer in the private sector