Disaster Finance in Latin America:
examples of finance perception

Stefanie Dannenmann, Koko Warner, Walter Ammann
Evaluation of Inter-American Development Bank’s Policy on Natural and Unexpected Disasters

OP-704: Approved by the board of executive directors of IADB in Nov. 1998, revised in 2000

List of principle engagements for IADB

– National Systems for Disaster Prevention and Response

– Culture of Prevention

– Lessen the Vulnerability of the Poor

– Involve the Private Sector (risk-spreading financial instruments)

– Generate Risk Information for Decision-Making

– Leadership and Cooperation (regionally and beyond)
## Field Trips

Countries visited and number of people interviewed in each country  
(May 19 – June 13, 2003)

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bolivia</td>
<td>13</td>
</tr>
<tr>
<td>Mexico</td>
<td>07</td>
</tr>
<tr>
<td>Peru</td>
<td>15</td>
</tr>
<tr>
<td>Jamaica</td>
<td>28</td>
</tr>
<tr>
<td>Honduras</td>
<td>17</td>
</tr>
<tr>
<td>El Salvador</td>
<td>30</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>141</strong></td>
</tr>
</tbody>
</table>
Total reported losses in US$ bn, 1975-2002

<table>
<thead>
<tr>
<th>Region</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caribbean</td>
<td>7.07</td>
</tr>
<tr>
<td>Central America</td>
<td>15.43</td>
</tr>
<tr>
<td>Mexico</td>
<td>15.69</td>
</tr>
<tr>
<td>South America</td>
<td>53.84</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>92.03</strong></td>
</tr>
</tbody>
</table>

EM-DAT, 2003
Risk Perception of Disaster Risk Management activities

- **Not a priority**
- **5**
- **4**
- **3**
- **2**
- **Highest priority**

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<table>
<thead>
<tr>
<th>Category</th>
<th>Current Situation</th>
<th>Ideal Situation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevention</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disaster Preparedness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency response</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reconstruction/Rehabilitation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Disaster risk financing

A) Pre-Disaster Financing

- Pre-disaster contingency credit
- Pre-disaster reserve fund
- Insurance and reinsurance

B) Post-Disaster Financing

- Community solidarity
- Post-disaster grants and aid
- Post-disaster lending

[Graph showing questionnaire response percentages for used and not used options]
Example on IADB’s loan portfolio

**Apparent functional distribution of 49 natural disaster-related loans, 1995-2002**

<table>
<thead>
<tr>
<th>Functional Category</th>
<th>Number of Loans</th>
<th>% of loans</th>
<th>Natural disaster % of project amount</th>
<th>Natural disaster % of IDB amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevention/Mitigation</td>
<td>26</td>
<td>53</td>
<td>41</td>
<td>47</td>
</tr>
<tr>
<td>ERF/Emergency Response</td>
<td>8</td>
<td>16</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Rehabilitation/Reconstruction</td>
<td>15</td>
<td>31</td>
<td>52</td>
<td>46</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>49</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

**Apparent functional distribution of 47 natural disaster-related technical cooperation projects, 1995-2002**

<table>
<thead>
<tr>
<th>Functional Category</th>
<th>Number of projects</th>
<th>% of projects</th>
<th>% of project amount</th>
<th>% of IDB amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prevention/Mitigation</td>
<td>33</td>
<td>70</td>
<td>78</td>
<td>73</td>
</tr>
<tr>
<td>Emergency Assistant</td>
<td>4</td>
<td>8</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>Reconstruction/Rehabilitation</td>
<td>10</td>
<td>22</td>
<td>17</td>
<td>20</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

* TCs ≥ US$ 150'000

Loans reformulation under certain circumstances (incl emergency situation) might abandon initial objectives!

Source: Ammann et al., 2003 & OVE RE-292-E, 2004
Per-capita spending on non-life insurance and premiums in % of GDP

LAC World Market Share: 2.8% in 2001

Source: SwissRe Sigma No.6/2002
Pre-requisites for a functioning insurance / reinsurance market

• Acceptable quality of risks (building standards, regional planning, etc)
• Assessable/quantifiable exposures
• Low/inexistent risk of anti-selection
• Adequate capitalization of insurance companies
• Availability of sufficient reinsurance capacity to cover major losses
• Availability of sufficient governmental funds to absorb (part) of uninsured/uninsurable losses
• Adequate legal framework and judiciary practice

Source: Ammann et al., 2003 & SwissRe, 2003
Information on technical capacity

- High capacity
- 4
- 3
- 2
- 1
- No capacity

- Information on capital stock
- Loss potential studies
- Building a disaster database
- Infrastructure information
- Hazard Mapping
Obstacles for pre-disaster risk reduction activities in Latin America

**Technical:** information needs (e.g. Risk Maps), etc.

**Institutional:** legal regulations, criteria for loan selection (national & international) etc.

**Political:** competing priorities, timing of political processes, etc.
“We don’t have electricity or running water for many of the people living in our district. We have inadequate roads, and many of the people live in temporary housing from the last disaster. How can we attempt to make investments in lowering risk when faced with these other priorities? Where do we start? How can we do more than emergency response in this situation?”

A field mission interviewee in La Paz, May 2003
There is a need to

- Create incentives for preventive, risk-reducing disaster finance mechanisms.
- Involve key players to lay groundwork for effective cooperation in disaster finance schemes.
- Develop institutional and legal capacity for disaster finance.
- Encourage ongoing assessment of disaster risk-management methods and socio-economic studies.
- Develop training programs and guidelines to incorporate the concept of integrated risk management.
Thank you very much for your attention!

Flood of December 20, 1999 – Caracas, Venezuela
(©USGS)

Earthquake of July, 29, 1967 – Caracas, Venezuela
(©National Geophysical Data Center)

Earthquake of May 31, 1970, Huaraz, Peru
(© University of Colorado)

Hurricane Mitch of October, 26, 1998 – Honduras
(©Hal Pierce, NASA)
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