**Inter-American Delopment Bank** **Regional Policy Dialogue**

# ADVANCES IN THE STRATEGIES FOR INSTITUTIONAL DEVELOPMENT AND FINANCIAL SUSTAINABILITY RELATED TO RISK MANAGEMENT IN LATIN AMERICA AND THE CARIBBEAN

**Summary**

by

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## SUMMARY

After 15 years of change and new experiences in the region, between 1990 and 2005, it is important that institutional and financial practices be analyzed in an effort to discern generally and specifically applicable practices for the future, and thus be able to propose adjustments that bring us closer to the goal of adequately dealing with new risk conditions. It is critical to have governmental structures that are well articulated with private and civil society interests, that are decentralized and participative and which are developed within the framework of working governance and sustainable development policies. Once weaknesses and obstacles and goals and achievements have been identified it may be feasible to identify the efforts needed to positively influence public policy and which contribute to the strengthening and promotion of integral risk management in Latin America and the Caribbean.

The present study was based on a short and intensive period of field work in four countries (El Salvador, Jamaica, Chile and Colombia) and analysis based on researcher knowledge, secondary sources and long distance consultations in Mexico, Costa Rica and Bolivia. Analysis was also complimented with the use of the results of a 2004 UNDP analysis of its own role in the promotion of risk management systems in the world between 1986 and the present date and the results of the Risk Management Indicators Project run by the Institute of Environmental Studies at the Manizales site of the University of Colombia and financed by IADB. The analysis has provided the following conclusions and recommendations.

### Conclusions:

*Institutional organization and the conceptual paradigm*

1. Wide ranging legislative and institutional changes in some countries have been accompanied by inertia and stagnation in others. However, there is little evidence to date to suggest that any one institutional model is necessarily better than another as regards promotion given that some of the “backward” models have compensated the lack of change with imagination and flexibility. This suggests that the notion of a single best model is untenable and that different models may be more workable for different countries. 15 years experience have shown that although a systemic approach is desirable it is not a panacea as such and can not work adequately where the conditions required for is functioning and for defining and making it viable do not exist. Moreover, no country can expect to move forward in the topic where adequate conditions of governance and development management do not exist.

2. Knowledge and education are fundamental in the short and long terms. The development and diffusion of adequate and comprehensive concepts is a necessary starting point for change and the development of a new paradigm as to risk and disaster and the links to development. Conceptual clarity has an at times unsuspected influence on process and results. Advances in educational and informational aspects are well advanced in many countries but a lot still needs to be done in fine tuning the conceptual model and its interpretation. In many places professionals, political authorities, the mass media, and NGOs use the term "risk management" as a cliché to refer to traditional preparedness and response activities.

*The sustainability of financial mechanisms*

3. In the majority of countries probable losses are still not evaluated and made a permanent component of their budgetary processes. Clearly, if potential losses are not calculated, the information needed for considering and evaluating alternatives for reducing or financing such losses will be missing. As a result, the policies aimed at reducing or transferring risk and for financial protection do not receive the attention they need.

4. Even where important changes in legislation and institutional setups have been promoted it is difficult to find financial measures that sustain risk management in those countries that have scarce financial resources and little chance of transferring loss to third parties. The majority of the more functional and sustainable financial measures may be seen with the local and municipal, prevention and response reserve funds that operate as co-financing by the central governments and incentive instruments for the efforts of the local level or municipalities. Similarly, where clearly defined institutional roles and well defined budgetary allocations exist, based on expenditure regulations, greater participation of responsible agencies and greater stimulus to civil society and private sector investments has been achieved.

*Sustainability of risk management*

5. Advances have been achieved in concepts (not always accompanied by advances in action), in organizational and institutional schemes and operational criteria, in local level management, in the incorporation of risk reduction criteria and activities in sectoral and territorial processes and in education. But, the sustainability and success of these advances and good practices may be severely questioned given the lack of widespread diffusion, permanence and consolidation of many of these. Risk management institutionalization and ownership is not in tune, in general, with future needs and expectations. This means that at present the risk problematic is growing faster than the solutions to deal with it. Many examples of to date successful local and municipal level management exist, in larger cities, smaller towns and rural areas, where various risk reduction instruments and financial mechanisms have been used in an innovative manner. The sustainability at these levels has tended to be greater than at more aggregated national scales.

**Recommendations:**

*Institutional organization*

1. Although it has been demonstrated that the existence of ad hoc legislation has not been the key in many cases to the formulation and promotion of explicit risk reduction policies, it is important to recognize the importance of the existence of a legal framework that legitimates the actions that should be developed by different institutions thus allowing a clear definition of roles and the avoidance of many institutional conflicts. It also permits that risk reduction policies assume an importance at the national level. This may not be the case with regard to the formulation of State policy but it is as regards the integral planning process.

2. Analysis indicates that whilst systematic organizational frameworks are necessary specific aspects of governance also need to be promoted taking into account the particularities of different countries. In order to improve risk management an analysis of existing effectiveness and good practice suggests that the following factors or actions are required to be promoted by the governments and by the competent entities in all territorial levels:
   a) The definition among the stakeholders of a clear integrated public policy statement on the topic;
   b) Harmonization and modernization of legislation in accord with implementation of the policy statement;
   c) Strengthening of the financial capacity for prospective and corrective risk interventions and strengthening of the mechanisms for retention and transfer of losses;
   d) Consolidation or creation of integral risk information systems;
   e) Educational promotion and strengthening of institutional and community training; and
   f) Collaboration with the private sector and civil society.

*Risk management instruments*

3. The principal pertinent and possibly replicable risk reduction instruments are:

   a) The promotion of integrated information systems in order to provide information for the categorization and definition of policies taking into account existing risk levels. These should include relevant environmental, housing and public service data; follow up information on sectoral and territorial management schemes; project data banks; information from monitoring and early warning networks; and other information of interest to social and institutional actors and the public in general.
   b) The development of consistent risk evaluations with appropriate methodologies for budgetary planning, territorial organization and environmental management, risk transference and emergency response activities. In order to achieve this it is necessary to coordinate terms of reference adequate for all territorial scales and which take into account the type of decisions to be made, available and feasible information, the importance of the exposed elements, geographical scale, and resolution levels.
   c) The formulation of risk indicators in order to facilitate access to information by decision makers which allows the identification and proposal of adequate corrective and

prospective risk reduction actions, considering macro economic, social, institutional and technical aspects.

d) The incorporation of corrective and prospective risk reduction mechanisms in development programs and projects, territorial organization schemes, investment projects, infrastructure, human settlements, housing, river basin management and urban and rural land use planning. These mechanisms should be executed following consultation and explanation to affected communities.
e) The promotion of post disaster recovery programs that do not over-ride existing risk management institutional arrangements by creating temporary institutional schemes. The reconstruction of vulnerability should be avoided and measures identified that go beyond the physical recovery of buildings, infrastructure and houses, and which help recover the income, production and development processes of affected communities.

Given the greater sustainability, promotion, survival and innovation witnessed at the local and municipal levels, using these and other instruments, it may be recommendable to pay more attention to these levels and attempt to construct national organizational frameworks and systems from the bottom up in an iterative and progressive way over time.

*Financing arrangements*

4. With regard to financing initiatives the following may be considered in order to improve the allocation and sustainability of investments in risk management:

    a) Define a minimum percentage of the governmental budget that should be obligatorily allocated to sectoral and territorial organizations (sub-national) and regulate and make explicit the types of activities and actions in which these may be used.
    b) Establish a certain percentage of budgets to be transferred to the different territorial levels and to be used explicitly for risk management. That is to say, a proportion of generally allocated funds should be allocated specifically to risk management activities and these should clearly identify the types of actions to be financed
    c) Create or strengthen reserve and compensation funds for emergencies, rehabilitation and reconstruction. These should establish rules as regards the rates of accumulation and expense and these should be based on the quantification of the probable impacts of the small recurrent disasters.
    d) Establish funds or specific accounts in order to stimulate the co-financing of projects and programs oriented towards risk management, between the central government and the sub-national governments, differentiating these from emergency, rehabilitation and reconstruction processes.

5. Mechanisms should be established that permit a dimensioning of the “resilience” levels of sub-national governments (territorial entities: municipalities, provincies, etc.) in order to be able to define the possible level of co-financing and support to be given by central government in case of emergencies, rehabilitation and reconstruction. This assumes that such support clearly can not be unlimited or undefined temporally. By this means it should be established that the central government will not cover all costs, thus avoiding the Samaritan

dilemma. Provisions must be made for the creation of sub national accounts or funds. As regards the identification, reduction and risk transfer, central government would not be the principle actor undertaking projects at a sub-national level, but would offer technical advice and partial economic support.

*Risk transfer*

6. All levels of government should be conscientious of the fact that they must adopt measures to diversify potential losses especially where these involve damage to public facilities. Insurance mechanisms or transference of loss to the capital market could be subsidized by national government thus allowing a reduction of the fiscal burden for the State once a disaster occurs. Financial protection instruments, based on a definition of the State responsibility and estimates of its fiscal capacities can be gradually established. These should have modest goals to begin with and these may be increased over time taking into account the existing levels of economic prosperity and the process of development of an insurance culture in the private and public sectors.