In harm's way:

How international finance institutions' policies can increase poor people's vulnerability to disaster

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This briefing paper recommends that the World Bank, IMF and regional development banks:

- make a real effort to mainstream disaster risk reduction into long-term development plans
- strengthen analytical tools for assessing vulnerability to disasters
- assess the impact of IFI-supported work on vulnerability to disaster and build safeguards into projects to protect the poor
- develop and adjust aid and lending tools to be more disaster risk reduction friendly
- link debt relief to disaster risk reduction

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Introduction

Natural disasters or what we think of as being 'natural' present one of the most critical challenges to development in the 21st century.[1] The recent tsunami disaster in south Asia serves as a reminder of what the future may hold. Although tsunamis are rare, the countries affected by this disaster are perennially at risk from extreme weather events, with millions of people affected each year. The effects of climate change are already being realised across the globe and the frequency and impact of so-called natural disasters continue to mount.

Disasters create poverty, destroy assets, reduce incomes and leave communities less able to make a sustainable living and cope with future shocks. They wreak havoc on developing countries' economies and cost billions of dollars in reconstruction. They throw development plans off track and undermine governments' ability to service their debt payments. If current trends continue, disasters will be a key factor preventing the achievement of key millennium development goals (MDGs).[2]

But although hazards themselves whether cyclones, earthquakes or tsunamis may be natural, their impact is not. Their cost, both human and economic, is directly related to a society's vulnerability and to past development choices. We know that if we make people less vulnerable, we reduce the cost of disaster. The challenge is to reduce vulnerability by making disaster risk management an integral part of development. It is this challenge which the international financial institutions (IFIs) are failing to meet.

Despite claiming to be at the forefront of disaster management and risk reduction, the World Bank, International Monetary Fund (IMF) and regional banks are promoting policies which can sometimes increase poor people's vulnerability to disaster. Our evidence shows that some of the key projects the IFIs fund, the economic policies they promote, and the conditions they impose on loans deepen poverty and increase vulnerability. In some cases, they support projects which directly put people in harm's way.
While governments are ultimately responsible for the protection of their citizens, many low-income countries rely on loans from the IFIs to fund development. These loans often come with conditions attached political, economic and institutional reforms which must be implemented in order for the money to be released and to gain access to future funding. In this respect IFIs play a crucial role in influencing, formulating and implementing international and national development policies and practices, which in turn affect disaster risk reduction.

Over the past decade the IFIs have recognised the important role they could play in disaster risk reduction.[3] The World Bank, for example, states that it aims is to include disaster risk reduction in all the projects it funds and to encourage governments to finance risk reduction efforts before disasters strike. It has noted the cost benefits of such action, estimating that economic losses worldwide from natural disasters in the 1990s could have been reduced by US$280 billion if US$40 billion had been invested in preventative measures.

This paper argues that despite encouraging progress, some IFI policies are increasing people's vulnerability to disaster and that IFIs are missing important opportunities to help governments and communities reduce their vulnerability to disaster.

Flawed development

Over the years, the World Bank and regional banks have funded many large-scale projects in high-risk countries. In response to criticism, they significantly improved their procedures for assessing the social and environmental effects of these projects. Although this practice has gone some way towards mitigating risk, it does not go far enough. There is no specific assessment of the impact of World Bank and other IFI-funded projects on vulnerability to disaster. And, in a few significant cases, IFI-supported projects have

removed traditional protections, placing people at more risk.

The World Bank, for instance, failed to examine fully the risks associated with the high-profile oil pipeline it funded to run between Chad and Cameroon. A recent UNDP report claimed that, despite boosting the Chadian government's exchequer, the project did little to reduce Chad's vulnerability to drought and food insecurity or to help local people.[4] In fact, the report stated, the project actually increased the risk of food insecurity among the poor by doubling the price of basic foodstuffs while creating few social benefits.[5]

IFIs have promoted and funded numerous large-scale infrastructure projects in Sri Lanka, including motorways, hydro-electric projects and dams. These have displaced communities and cost them their livelihoods. The ongoing Mahaweli River diversion scheme, to take one example, has displaced thousands of poor farmers since its implementation. The expansion of the Katunayake airport and Katunayake-Colombo highway resulted in fishing communities losing their livelihoods after sand was pumped from the coast to be used in building the road.

The Southern Transport Development project which began in 2003 included the construction of an expressway connecting Matara and Colombo along Sri Lanka's western coast and was jointly funded by the Asian Development Bank and the Japanese Bank for International Cooperation. This 128km road cut through four river basins and 100 large and small paddy fields; 5,684 households were displaced as the earth around them was dug up during construction.

A Christian Aid partner, MONLAR, which works with these communities, reported that: 'These infrastructure developments aimed to attract foreign investment but have not helped to reduce poverty. They have displaced people who have been forced to move to vulnerable, low-lying squatted land along the coast and at risk from disasters such as floods.[6]

In south India, the World Bank has been one of the biggest promoters and funders of the growing prawn-farming industry. While prawn farming has brought in foreign currency from exports, it has resulted in the destruction of huge areas of coastal mangroves, wind-breaker trees, casaurina plantations and beach grass. It is generally agreed that the destruction of these kinds of natural defence barriers increases people's vulnerability to disasters such as flooding, high tides and maybe the recent tsunami. Preliminary reports indicate that in the southern Indian state of Tamil Nadu, areas in Pichavaram and Muthupet with dense mangroves suffered fewer human casualties and less damage to property than areas without mangroves.[7] During the 1990s, companies acquired thousands of acres of land along 110km of this coastline for prawn cultivation, resulting in the removal of mangroves and other natural barriers.[8]

A study of the World Bank-sponsored Forth Fisheries Project (FFP) in Bangladesh found that vulnerability to disaster increased in 12 fishing communities around Dasherhat Chara, an oxbow lake with an area of almost 500 hectares in Kurigram district, which was brought under the FFP in 2001. The nearby fishing community used to have access to the lake all year round by paying a nominal fee. To encourage commercial aquaculture, the FFP imposed a fishing ban, restricting the access of the local community to just two months of the year and throwing their lives into uncertainty and greater poverty.

When floods struck in 2004, most of the Kurigram district became inundated with flood water. With little to fall back on, these impoverished communities went hungry in the immediate aftermath of the floods and were unable to recover through their traditional livelihood strategy of fishing. This left them dependent on external assistance. Even though the project documentation specifies 'natural disaster' as a risk to the project itself, no assessment of the impact of the project on the vulnerability of local communities to disasters was carried out as part of its design or implementation.[9]

As the pendulum at the World Bank is swinging back in favour of large infrastructure projects,[10] there is a clear need to improve analytical tools for assessing the multifaceted aspects of vulnerability to disasters. These tools should facilitate the analysis of both socio-economic aspects of vulnerability to disaster as well as technical ones.

The cost of conditions

Evidence from Africa, Asia and Central America shows that IFI-enforced structural adjustment programmes have undermined public health, education, water and sanitation infrastructure,[11] despite it being generally agreed that public sector investment provides the basis of resilience to disaster. The IFIs have failed to ask whether aspects of the neo-liberal development paths that they promote as the quickest route to economic growth may be contributing to greater vulnerability to disaster. This omission can have serious consequences.

A few years ago the IMF and World Bank imposed a loan condition on Malawi that helped to undermine farmers' livelihoods. The state marketing mechanism, the Agricultural Development and Marketing Corporation, was privatised and subsidies that had ensured food security in the past were watered down or abolished. A poverty and social impact analysis (PSIA)[12] carried out by the World Bank itself warned that these actions would significantly increase Malawians' vulnerability to food shortages.[13] But that study was ignored, as were the warnings of the Malawian government and civil society groups.

The IMF also advised the sale of part of the strategic grain reserve to pay off IMF loans, despite the signs of an impending food crisis.[14] In the event, these were identified as factors that increased vulnerability to drought and harvest failure in 2002 by restricting access to affordable food. This contributed to a famine,[15] which lead to the deaths of up to 1,000 people and left many thousand at risk of malnutrition.[16]

Throughout the 1990s, the World Bank and IMF imposed structural adjustment in Honduras. This led to the privatisation of public utilities, price increases, wage freezes, layoffs and liberalisation measures, as well as tariff reductions on agricultural imports. There was no account taken of the potential impact of these measures on the poor.

Then, in 1998, Hurricane Mitch struck. The poor were the most affected and least able to cope with the disaster. Those who were economically marginalised were also physically marginalised living in inadequate and dangerous housing in shantytowns in high-risk areas and were subsequently killed or made homeless by the hurricane.[17] Many of these people were small farmers who had migrated to these areas in search of work when agricultural markets collapsed.[18]

A World Bank study later confirmed that the fall-out of the IFI's policies, described as 'the ever-deepening gaps in the distribution of wealth… the chronic shortage of gainful employment, the impact of price increases in and privatisations of basic services such as water... and high levels of external debt...[19] had contributed significantly to the high level of vulnerability to the hurricane in Honduras.

In Indonesia, even after the extensive forest fires of 1997, the IMF continued to champion the oil-palm and logging sectors by making their further expansion a condition of a loan package, despite evidence that this would contribute to environmental degradation and increased vulnerability to disaster. No doubt, the IMF judged that these conditions would contribute to macro-economic recovery and help Indonesia repay its loans. But this was at the expense of the poor. It was exactly the expansion of these sectors that small farmers blamed for the fires in the first place.[20]

Analytical tools such as PSIA help to assess the poverty and social impact of IFI policies and projects. But they are rarely used effectively and their findings are often ignored. However, it is imperative that impact assessments are carried out and that their nisations

recommendations are acted upon by building safeguards into the design and implementation of the projects. There is a clear need to incorporate impact on vulnerability to disasters as a crucial component of these pre-programme assessments and to ensure that civil society and community organisations are consulted.

In debt to disaster

Many poor countries prone to disaster are struggling to manage crippling levels of debt. Ironically, new borrowing to cope with disasters, whether to pay for preventative measures or to cover the costs of post-disaster relief and reconstruction, can deepen national debt crises. When domestic resources are limited there are few incentives to encourage spending on disaster risk reduction, despite cost-benefit analysis, which shows fending off the worst effects of disaster is likely to reduce the need for borrowing later to pay for reconstruction.

The Highly Indebted Poor Countries (HIPC) initiative has provided an opportunity for some countries vulnerable to disaster such as Honduras and Mozambique to obtain much-needed debt relief, but its impact has been limited. Countries must follow six years of IFI-recommended structural adjustments to have their debt reduced to 'sustainable levels', which in many cases is still considerable. Even after HIPC, for instance, Mozambique will spend close to US$100 million a year on debt servicing twice what it spends on running its health service.[21]

Despite HIPC, many countries, including Mozambique, still require loans to pay for the investment they need to reach the MDGs, and therefore continue to build up new debts. It is estimated that this increased borrowing will lead to a doubling of annual debt repayments after 2010 when grace periods start expiring. Economic growth in the countries concerned is not expected to be fast enough to meet these higher repayments.[22]

In the aftermath of some disasters, IFIs have agreed to waive debt service during reconstruction. After the devastating floods in Mozambique in 2000, they agreed to waive Mozambique's debt service for 12 months. Likewise, Honduras received debt relief after Hurricane Mitch in 1998. Unfortunately, these steps did little to reduce the long-term burden and came at a time when these countries had to borrow more money for reconstruction. In 2002 and 2003 Honduras was still paying almost US$250 million a year to service its debt.

Countries affected by the recent Asian tsunami have not yet been considered for debt cancellation, despite being both highly indebted and very poor. Indonesia is carrying a debt burden of US$136 billion, much of which was incurred during the Suharto regime, and spends around half of its government revenue on repayments. Sri Lanka has a debt burden of US$10 billion and spends around US$600 million a year on repayments. It is unclear at the moment whether the debts of these countries hampered their disaster preparation. But as Gordon Brown has indicated, it would be ludicrous to give aid to help reconstruction and risk-reduction efforts on the one hand and then take it away again through debt repayments. But since reconstruction will take many years, simply suspending repayments for 18 months will not be enough.

As the leaders of rich countries debate the details of a moratorium on their debt repayments, Christian Aid and ActionAid believe that once repayments are suspended, G8 leaders should turn their attention to debt cancellation. If there is no cancellation, countries may have to make higher repayments once the moratorium is over, because of the interest that will have accumulated.

There is a need to make a clearer link between debt and disaster risk reduction. A very simple suggestion is to provide more grants for risk-reduction initiatives which aim to limit damage from disasters to the development process.[23] For example, IFIs could allocate a percentage of their income from interest

repayments to disaster-vulnerability reduction in HIPCs, which are prone to chronic disaster.

Christian Aid and ActionAid argue that countries in crisis, either in the aftermath of a natural disaster or because of chronically poor health and education indicators, should have most or all of their debts cancelled. Also, where it can be shown that IFI lending associated with poorly designed rural and urban development policies has increased vulnerability to disaster or poverty, countries should not be obliged to repay these loans. Such linkage of debt with disaster vulnerability may encourage greater accountability on the part of the IFIs for the policies they promote and the advice they offer to disaster-prone countries.

At the heart of development: disaster risk reduction and IFI policies

The very language often used to describe natural disasters in much IFI literature including the all-important country assistance strategies and poverty reduction strategy papers (PRSP) is problematic. Many documents continue to refer to disasters as 'natural' and 'external' or 'exogenous' shocks, which undermines an understanding that disasters are, for the most part, the products of flawed development and therefore human made. It also acts as a counter-incentive to the acceptance of a culture of risk management and presents a major challenge for those working to incorporate this approach into long-term development and investment strategies.[24]

Poverty reduction is now the cornerstone of IFI strategy in many poor countries. But an examination of PRSPs reveals that there is still a long way to go before disaster risk reduction is treated as an important, crosscutting, integrated priority for development and poverty reduction. Even where disaster risk reduction has been mentioned in PRSPs (for example, in Bangladesh, Madagascar, Mozambique, Malawi and Zambia) the analysis is weak and often appears to have been bolted on as an afterthought rather than included systematically. The papers for Mozambique and Malawi make passing comments on disasters but contain no concrete implementation plans for risk reduction.[25] This is a significant oversight for countries which have just suffered serious disasters of floods and drought.

In some high-risk countries, such as Armenia, Algeria, Azerbaijan, Chad, Mali, Indonesia and the Philippines, there is no effort to integrate disaster risk reduction into World Bank country assistance strategies, even though most of these strategies mention natural disasters as risks to development. A recent Inter-American Development Bank (IDB) evaluation reported a very similar picture in its country papers and programming mission reports on Latin American and Caribbean countries: 'Almost across the board, the Bank's official program statements at the country level fail to take disaster risk management and the reduction of vulnerability into account.[26] The IMF also acknowledges gaps in its funding reporting and analysis from countries at high risk of natural disasters.[27]

There is a lack of analysis and data on vulnerability to disasters and on the effectiveness of risk reduction efforts. IFIs do not have reliable comprehensive data on their own disaster-related activities because they do not report on these activities as a separate lending category and because there is no consensus on the scope of disaster mitigation or prevention. The IDB recently found that: 'The Bank is almost bereft of data to gauge the implementation progress of natural disaster-related lending.[28] This lack of even basic information hampers the formulation of effective disaster risk reduction strategies.

Weaknesses in IFI procedures

Disaster risk reduction costs money. But it does not cost nearly as much as paying to repair the physical and macro-economic costs of a disaster once it has struck. The benefits of prevention are usually clear (even if they are not well assessed and measured), but IFI lending procedures, policy advice and financial

tools have three key weaknesses when it comes to promoting disaster risk reduction:

- They do not provide incentives for borrowers to prioritise disaster prevention over disaster response and rehabilitation. This is despite wide acknowledgement that a failure to spend money on mitigation can increase the impact and cost of disasters and lead to an over-reliance on post-disaster borrowing.

- In the event of a disaster, the first response of IFIs is usually to divert financial resources from other in-country development programmes. In the long term, this undermines the development process in that country. For example, in Mexico the World Bank estimates that during the 1990s up to 35 per cent of its lending for infrastructure was diverted for reconstruction.[29] Disaster response and reconstruction should be paid for with new money.

- Aid flows are highly dependent on a poor country's ability to meet IFI-imposed fiscal targets. Failure to meet such conditions leads to a drying up of aid. This makes short-term fiscal targets more important than long-term sustainability. It also constrains a government's ability to implement strategies for reducing vulnerability to disasters. For example, in Honduras, the flow of post-Hurricane Mitch aid all but dried up in 2001 because the country failed to meet IMF targets. Donors turned off the aid tap despite the fact that Honduras was still struggling to recover from the disaster (and the international collapse of the price of its main export, coffee).

Recommendations

Disasters cost lives and threaten development in the world's poorest countries. Effective disaster risk reduction strategies in poor countries will make best use of limited resources to reinforce development and help to curb debt incurred by disasters. What is needed is a shift from merely reacting to disasters-chasing the ambulances in the wake of disaster- to preventing their worst effects through sustained development, risk management and poverty reduction. This is a profound shift, from reactive to proactive, in how we manage disasters and their effects.

The World Bank, IMF and regional development banks have a crucial role to play in this process.

Christian Aid and ActionAid recommend that:

- IFIs ensure that their policies and practices do not increase poor people's vulnerable to disasters

- they improve their analysis of vulnerability and disaster risk reduction and include appropriate safeguards in all IFI-funded development projects

- they review their policies and practices on lending, investment and debt with the view to optimising disaster risk reduction and thereby reinforcing development

- economic conditions such as trade liberalisation are not part of IFI loan agreements

- debt cancellation is considered a high priority for disaster-prone countries

- governments carry out their own participatory cost-benefit analysis of disaster risk reduction and negotiate with IFIs for financial concessions on effective disaster risk reduction measures.

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Endnotes

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