

Risk Management in an Uncertain World
Roundtable Discussion
April 12-13, 2002
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My concerns focus on the role of risk management for developing countries and natural hazard risk. I am currently completing a project for the Inter-American Development Bank that examines strategies for poorer countries to finance post disaster reconstruction. As a component of the project, I have just completed missions to seven South and Central American countries to compare existing financing practices in these countries to provide for reconstruction funding post disaster. One striking feature in all of the countries is that none of the countries employs a probabilistic estimate of future natural hazard losses as a component of either its budget or development planning process. Rather, the countries attention is focused on responding to disasters when they occur.

The implications of failure to incorporate disasters within the planning process have significant consequences. First, despite alarming increases in the damages caused by natural hazard events, little sustained effort at instituting and sustaining risk prevention or mitigation measures occurs. Without an understanding of future expectation of loss, current expenditures that may reduce that expectation receive little sustained attention. As well, the unwillingness to understand the expectation of loss as a component of planning undermines the sustainability of national programs addressing hazard risk. Within the past two years, new legislation has been passed in the Dominican Republic, El Salvador, Bolivia, Nicaragua, and Honduras that create comprehensive national systems to address natural hazard risk. Most of these systems are based on a model developed in Colombia. Colombia itself is undergoing a major restructuring of its national system. The most common characteristic of hazard programs in the region is their inability to sustain political and/or financial resources for their programs. There is little to indicate that the recent legislative efforts to manage natural hazard risk will be sustainable without an explicit recognition of potential loss within the budgetary process.

A focus of the existing research work is to compare alternative strategies to finance post disaster reconstruction. A modeling process was created that creates simulations to examine the tradeoffs between alternative approaches to finance reconstruction. The simulations address the role of reserve funds, contingent credit, post disaster borrowing and insurance. Without an existing calculation of hazard risk for these countries, the ability to examine policy options is severely limited. To make the calculations required for the study, our research team created ranges of risk for each examined country. What is striking is that none of the countries we visited was currently capable of performing a similar calculation for themselves because of a lack of basic computations. This failure was not a result of lack of information. In many countries, the core data needed for the calculations existed and was relied on by our team to do the

work we performed. Rather, the significance of understanding the consequences of future losses from natural hazards was missing. As a result, policies to address those consequences receive little attention.

In examining the behavior of the governments recently visited, I was reminded of a passage from James Mitchell in his book Crucibles of Hazard: Mega-Cities and Disasters in Transition. Professor Mitchell was lamenting the inattention given by the international community to the crucial role that disasters play in the life of mega-cities. He notes “the truth is that large and complex cities require expansive management initiatives that can simultaneously address incommensurable goals. Mega-cities must be prepared to cope with unexpected or unfamiliar events as well as long-term problems; acute natural hazards as well as chronic crises of environmental degradation.... To assume that sustainable urban development can be achieved without attention to problems of contingency-of which natural hazards is a pre-eminent example- is to court frustration and failure.” Perhaps the unwillingness of countries to account for natural hazard risk is rooted in the difficulty of coping with a contingency. It may arise from a failure to recognize the role of risk; particularly risk as represented by low probability, high consequence events.

My interest in this roundtable focuses on how to make contingencies a meaningful component of policy dialogues. Without contingencies being squarely on the planning table, it is not possible to create policy options to efficiently manage risk.