

## Chapter 4.

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# Housing Recovery Issues to Clarify

## WHAT DOES THE BANK REALLY WANT TO ACHIEVE?

4.01 To become effectively and purposefully involved in housing reconstruction on a larger scale, there has to be an unequivocal answer to this question. Families made homeless by a natural disaster have a clear and simple need: shelter. That much is straightforward. Less clear in the recent past has been what the Bank's own contribution can best be toward meeting their needs. Thus, issues for the Bank to clarify quickly are the exact purpose of its support for post-disaster housing construction and who are the target beneficiaries. In other words, there should be a clearer formulation of why the Bank should provide such assistance, what this support should aim to achieve and whom it should support.

4.02 Helping those made homeless by natural disasters—especially the very poor—get back on their feet so that former victims once again contribute to economic and social activities, is part of the answer to the question posed here. To achieve this successfully and coherently, the Bank and its partners should focus on emergency housing reconstruction as, first and foremost, a *recovery* effort. The often chaotic situation after a natural disaster, when emergency shelter is a basic need, is not a propitious time for reforming long-term housing sector goals or policies or promoting technological innovations in construction.

4.03 Even though the Bank rightly would not seek to achieve long-term housing goals through reconstruction efforts, task teams will need to be constantly vigilant to ensure that recovery goals do not take second place to sector policy goals in housing reconstruction projects. Such projects should not be allowed to become hastily (and in all likelihood poorly) conceived *de facto* instruments of long-term policy, which could undermine reform. In practice, however, project task teams may not always find it easy to separate an operation's recovery impact from its long-term sector impact. A minimal goal should be to ensure that emergency housing reconstruction projects, while not purposefully furthering a sector policy agenda, should not undermine long-term sector reforms. At the same time, task teams need to recognize that reconstruction on a large scale can have significant impacts on the broader housing sector and markets, through the price of building materials that may be in short supply, for example.

### Box 4.1 The Purpose of Bank Assistance for Those Made Homeless by Natural Disasters

- To help the disaster homeless get back on their feet again as quickly as possible.
- To focus primarily and expeditiously on *recovery* needs.
- To provide most assistance to the poor who do not have access to insurance
- To bring existing good sector policies and practices to bear upon housing reconstruction.
- To encourage mitigation measures that can help reduce the impact of future disasters.

## GIVING IMMEDIATE RECOVERY THE TOP PRIORITY

4.04 With consensus among task teams and sector managers about the *emergency recovery* nature of housing reconstruction, housing components of ERLs can be conceived first and foremost as instruments of

that recovery; not as instruments of housing policy. Among other things, such a conception would help explain why much normal sector policy—such as promoting private sector delivery and technological innovations in construction, for instance—may not apply during the emergency phase of reconstruction. Such changes take time and have no place in the urgent efforts to provide shelter as soon as possible for disaster victims. Well-tried and proven approaches are recommended for their ease of application and likelihood of success. This principal is explicitly incorporated in the policy of the Asian Development Bank (ADB), which prescribes that “the execution of the rehabilitation project should not involve complex new design and technical work or require the use of extensive technical assistance.”<sup>26</sup>

4.05 Once the emergency phase of recovery is over, however, the Bank’s pursuit of sustainable economic and social development through sound long-term policies and reforms in housing as in other sectors can resume in earnest. Thankfully, the disaster emergency can only be a temporary interruption of the normal development process, a process that should be restituted to the affected community as soon as possible. In this framework, housing reconstruction as an emergency effort can therefore only be a transitory intervention while normal sector policies may be suspended. Such a framework is analogous to a government’s declaration of a state of emergency that, for a while, hold in abeyance normal political and administrative criteria and procedures.

4.06 The lifetime of housing reconstruction, as an *emergency* effort should therefore be strictly limited, maybe to no more than two-and-a-half years after a disaster event struck. Beyond that time, even if all reconstruction is still not completed, subsequent solutions can no longer be considered *emergency* solutions; they would simply be too late. Bank-financed projects can still continue to assist the disaster homeless after that period, however, principally through efforts at natural disaster mitigation and promoting insurance solutions in the medium to long-term. A strict time limit for the project’s emergency phase is necessary, lest the ‘*emergency*’ situation becomes the norm by default and normal development policies and procedures are unjustly held in suspended animation for long periods.

4.07 An emergency housing reconstruction project would be expected to complete all its emergency planning work within, say 30 months. Important mid-term products of such a project would include: (i) the completion of a plan for the resumption of normal housing operations; and (ii) completion of a plan for mitigation against future disasters—including insurance—and the implementation of key elements of it. A plan for resuming normal operations should explain, among other things, how an emergency effort—including ad hoc implementation arrangements—would be wound up. It should also lay out the policy prescriptions for normal operations from that point on.

4.09 Focusing on recovery does not mean that housing ERLs do not contribute to long-term goals of sustainable development. On the contrary, they can make a valuable contribution to a borrower’s economic and social development through: (i) helping a disrupted economy get back onto the path of development; (ii) fighting poverty among the most vulnerable members of a disaster-afflicted community, and (iii) raising the awareness of the need for mitigation measures to reduce an economy’s vulnerability to disruption by natural disasters in the future

## REACHING THE VICTIMS WHO ARE POOR AND UNINSURABLE

4.10 Giving priority direct assistance to the poor among the disaster homeless makes sense. It is in keeping with the Bank’s own poverty reduction mandate (OP 4.17), recently reinforced by the 2000/2001 WDR and its own call for a broader attack on poverty. Furthermore, experience has shown that the poor themselves—not able to afford safer, less disaster-prone locations—are the most vulnerable to the adverse effects of natural disasters.<sup>27</sup> Thus, in helping the disaster homeless, the Bank’s priority client for disaster-

<sup>26</sup> ADB Operations Manual Section 25; December 12, 1995.

<sup>27</sup> Gilbert Roy and Alcira Kreimer, *Learning from the World Bank’s Experience of Natural Disaster Related Assistance*. Washington DC, World Bank, 1999

related housing assistance should be the uninsurable poor (details: Box 1.5 and paras. 1.30-1.31).<sup>28</sup> For *de jure* or *de facto* owner-occupiers, Bank assistance should be provided in the form of direct housing provision or repair, using simple and low-cost materials that would not be attractive to higher income groups who can afford insurance in the first place.

4.11 As well as poor owners, low-income renters too are often victims of natural disasters, but tenants' losses and requirements for assistance are different from those of owners. For a tenant, the destruction of a rented house by a flood, for instance, means the loss of a *home* and its contents, but *not* the loss of a financial asset. Thus, housing ERLs—probably through NGOs and community groups—could help finance cash compensation for lost appliances, furniture etc. and assist victims to find new (rental) homes.<sup>29</sup>

4.12 Owners face the loss of a financial asset if their house has been destroyed, even if they did not live in it. In such cases, low-income uninsurable families among them could be entitled to compensation to reconstruct their unit under an ERL. Such compensation is unlikely to be awarded to a (non-resident) owner of rented housing lost through a disaster, however, for two reasons. First, the owner as landlord will not have been made homeless. Second, rental income—especially if from more than one house—has likely lifted that owner as landlord out of the eligible category of the uninsurable poor. In most cases, non-resident landlords can afford to insure themselves against such losses and do not need to lay claim to assistance through ERLs.

4.13 Poor homeless victims of natural disasters are likely to include squatters. Since they are neither formal owners nor renters, they require special attention during housing reconstruction. When governments pursue an active squatter-upgrading program, then an housing ERL can accelerate site and service works and bring disaster victims to the front of the queue of potential beneficiaries. Task teams working on emergency housing reconstruction projects will want to have reliable lists of disaster victims and accurate damage assessments from a trustworthy source. This is to ensure that assistance goes to bona fide victims and is not wrongly captured. These teams need to be alert to the moral hazard posed by three phenomena that can undermine attempts to reach genuine uninsurable poor victims. (i) a minority of people—taken from all income groups—who purposefully settle in hazardous zones to claim compensation from local authorities that far exceeds the cost they incurred invading such areas; (ii) a relatively small number of nevertheless very mobile people who may move into a disaster zone in the immediate aftermath of a disaster to claim entitlement for compensation; and (iii) unscrupulous individuals who inflict more damage on their own house, in order to be eligible for more compensation.

4.14 Helping those made homeless by natural disasters by concentrating most direct assistance on poor uninsurable victims makes a lot of sense for a World Bank whose mission is to fight poverty. On the other hand, such a focus may require some very hard decisions by task teams. Why exclude, for instance, helping equally poor and destitute families elsewhere in the country, but who were *not* victims of the disaster itself? The answer is that the latter groups should not be excluded altogether, but should instead be the constant and continuous focus of long-term development efforts to lift them out of poverty permanently. Emergency housing reconstruction is only a *temporary* intervention in *atypical* circumstances. It can complement, but not be a substitute for the sustainable long-term programs that must form the frontal attack upon poverty itself.

## COST RECOVERY ISSUES

4.15 Should emergency housing reconstruction aim to instill cost recovery practices among stakeholders and beneficiaries? Embodying a principle of good long-term housing sector practice and policy, this is a question that task teams designing these projects will have to confront. While it is preferable to have cost

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<sup>28</sup> Higher income families can also be made homeless by natural disasters. Since they can afford insurance, they can be expected to take responsibility for managing their own disaster risks. The Bank can help them indirectly by encouraging borrowers to alert *up-front* these higher income families, so that they take out insurance *before* a disaster strikes. The Bank can also help further by facilitating the expansion of private and mixed public/private disaster insurance schemes.

<sup>29</sup> Similarly, direct assistance to renter victims should focus primarily on the uninsurable poor

recovery, the trade-offs of the emergency situation must be carefully weighed. Subsidies can be provided, particularly to the poorest affected by the disaster.

4.16 Formal Bank policy documents do not provide a simple answer to this question,<sup>30</sup> but Bank practice does permit the award of subsidies to well-targeted poor beneficiary groups, in order to relax demand-side constraints in the consumption of privately produced services, including housing (WDR 2000/2001 p. 83). Subsidies to help poor people re-house themselves after a natural disaster should embody the tenets of good financial sector practice. Among other things, subsidies should be explicit, transparent and accurately targeted on the priority beneficiaries, the poor in this case. At the same time there needs to be tight financial control over their allocation and use. Efficient subsidy management in the context of emergency housing reconstruction could be best and most easily achieved through lump-sum assistance in cash or kind to carefully identified beneficiaries

4.17 Housing reconstruction programs targeted toward very poor victims could thus be conceived as explicitly providing a direct subsidy to the most vulnerable population groups in urban and rural areas. Already poor, and made further destitute by a natural disaster, these low-income victims may not be reasonably expected to pay—at least during the period of the emergency—for the kind of safety-net assistance that a housing ERL should be designed to provide. At the same time, task teams will want to ensure that higher income households—who can pay for insurance—do not benefit from these subsidies.

4.18 Once the physical and financial conditions of the poor victims is back to normal—namely that economic and social recovery has been successful—efforts can be resumed to instill direct cost recovery practices. Housing ERLs can be granted a temporary cost-recovery holiday, provided that they focus their assistance on the poor. Past Bank practice is consistent with this view. Bank ERLs provided housing free-of-charge to earthquake victims in Ecuador (Loan 2135) and flood victims in Brazil (Loan 2975). Once normalcy returned, so too did cost recovery. Cost recovery, of course, should remain a central feature of all good practice *normal* housing programs over the medium to long-term.

<sup>30</sup> By contrast, the Asian Development Bank (ADB) policy of not requiring cost recovery during emergency recovery is explicit: "The [Asian Development] Bank does not insist on improvement in cost recovery practices under rehabilitation loans, as the main purpose is the rapid restoration of damaged structures and infrastructure, and productive activities." (ADB Operations Manual Section 25, December 12, 1995.)

## Chapter 5.

# Consolidating and Expanding Good Practice

## RESOLVING THE DILEMMAS

5.01 A clear vision of the purpose of helping those made homeless by natural disasters is key to providing the appropriate assistance successfully. That requires resolving dilemmas introduced earlier in this paper (see: Box 1.1). Both past experience and a developing consensus of practitioners point to a vision of *recovery* from a disaster as the point of departure for helping the poorest and most vulnerable victims. A clear focus on *recovery* helps task teams respond more effectively to borrowers' demands for housing reconstruction assistance in three ways. First, it helps circumscribe the scope and determine the priorities of the limited emergency assistance that can be offered, especially in the face of overwhelming demands. Second, it provides a framework within which sector capacity constraints can be assessed and understood. Third, it helps unshackle the emergency housing reconstruction effort from longer-term sector reform, allowing technological and policy changes, for instance, to be put temporarily on hold

5.02 A clear *recovery* vision can also help resolve many of the dilemmas facing task teams in dealing with an often tragic situation in the aftermath of a natural disaster. Of course, for anyone who has been at the site of a severe earthquake, for instance, there is a noble human emotional imperative to "do something." But *doing something* does not mean *doing anything*. The *recovery* vision can help channel such noble sentiments into thinking rationally about how to help those poorest victims effectively and efficiently to get back on their feet.

5.03 A natural disaster throws a spotlight on the deprivation of poverty, but only in very special circumstances and just for a short time. A *recovery* vision calls for a quick response by a task team while attention lasts as well as enduring support for the long haul, well after media attention on the event has faded. Even though task teams and others will need to act quickly, effective and efficient *recovery* requires controls to ensure that resources are applied where they should be in the appropriate amounts. Finally, the *recovery* vision can help task teams focus on the task at hand, namely helping to get poor disaster *victims* get back on their feet. Other efforts to help lift the remaining poor—unaffected by the natural disaster—out of poverty should not be relaxed. The effort should come from poverty focused long-term development programs, however, and not from emergency reconstruction programs designed to respond to particular natural disaster events.

## INTERPRETING POLICY

5.04 To help those made homeless by natural disasters more effectively, the Bank does not need a major overhaul of its sectoral policies or policy framework. Policies already in place that support the *recovery* vision should drive emergency housing reconstruction.

5.05 At the time of writing, the Bank's Disaster Management Facility (DMF) is updating OP 8.50 on Emergency Recovery Assistance. As far as housing is concerned, the *recovery* vision already exists in the OP, and it is most likely that this will be unchanged in the updated policy statement. After immediate relief efforts are underway, an ERL may finance housing reconstruction components that aim to restore housing assets and activities destroyed or disrupted by a natural disaster. Such components can include: (i) the

direct and indirect provision of permanent housing for the poor, targeting particularly the uninsurable among them; (ii) support for insurance schemes for those able to afford them; and (iii) mitigation measures to reduce the impacts of future disasters. While not directly addressing long-term technical, institutional and financial reform of the housing sector, nor including conditionality linked to macroeconomic reform, these components should always observe good sector practices of housing design, location, disaster resistant materials, financial management and cost-effectiveness to avoid undermining long-term sector reforms. It is recommended that all emergency reconstruction funds be allocated within approximately 30 months, after which project investment should focus on the return to normal housing operations and insurance and mitigation measures to reduce the impact of future disasters.

5.06 Bank staff involved in emergency reconstruction projects should remember that resettlement policy constraints do not apply to victims of natural disasters. Of course, this does not exempt task teams from applying, where possible and practicable, good practice standards<sup>31</sup> to resettlement made necessary through a disaster event. It is also important to note that resettlement within a reconstruction project that is not directly related to the natural disaster itself—such as moving others to resettle the disaster homeless—would still be covered by the policy.

5.07 The specific needs of emergency housing reconstruction following natural disasters should also be kept in mind. The relationship of emergency housing reconstruction to long-term housing sector policies is a complex one. While emergency housing reconstruction should not seek to: (i) change long-term housing policies; or (ii) innovate through the use of untried materials or unfamiliar practices, it should not seek to undermine long-term reform in the housing sector. Emergency housing reconstruction is linked to housing policy through the adoption of good long-term housing practices, wherever possible, especially as far as disaster-resistant design, location, cost-effectiveness and affordability are concerned. The exemption to the pursuit of policy reform through emergency projects is only temporary, and should last no more than 30 months.

5.08 Bank task teams and sector managers may want to satisfy themselves that housing policy reform does not 'enter the back-door' through unduly zealous attention to emergency housing reconstruction efforts. Table 5.1 offers a checklist to consider for emergency housing reconstruction related to these policy issues, as well as to the dilemmas that may arise, project design and implementation.

## IMPROVING PROJECT DESIGN

5.09 Emergency housing reconstruction projects need to provide timely responses to disasters, and be clearly focused on the actual victims of disaster events, especially the uninsurable poor among them. Many ingredients for how to do this well can be found in the Bank's experience thus far (details in Chapter 3). These include preferences for quick disbursing components, such as financing a positive list of building material imports. Land ownership issues need to be clarified up-front, so that poor victims will have an unalienable right to the project benefits.<sup>32</sup> Task teams will want to be familiar with land tenure rights in the area and country affected by the disaster. Proposed housing solutions should be unattractive to higher income families, cost effective and affordable to poor families (even if they will not be expected to pay for them in full). Only construction technologies that are well tried and with proven disaster resistance as well as familiar to local builders should be used. In many countries, local builders understand disaster resistant

<sup>31</sup> These would include, for example (i) addressing community cohesion and participation; (ii) use of local organizations, NGOs and private firms to help administer resettlement, (iii) new location with comparable access to employment, infrastructure, services and production opportunities; (iv) new settlement with favorable environmental impacts, and (v) institutionalizing a grievance process for those who feel unfairly treated.

<sup>32</sup> Recognizing de facto land tenure rights of the poor is at the heart of all Bank investment operations aimed at poverty reduction and should be at the heart of housing reconstruction operations too (Poverty Reduction OD 4.15 para 27).

materials and designs, even if the same builders had not used them properly prior to the disaster due to cutting costs (and corners) in a context of lax enforcement of building codes.

5.10 More than in the past, emergency housing reconstruction projects should pay special attention to mitigation measures to reduce the impact of future disasters and encourage greater insurance penetration in order to share the risk of losses through natural disasters more widely. They can likely do this after all the emergency fund allocations are complete. Then these projects can turn their attention more fully to planning and implementing measures to mitigate the effects of future disasters and manage the risks more effectively. Among the most important mitigation measures will be land use controls to steer vulnerable poor families especially away from occupying disaster-prone locations along seismic fault lines or in flood plains. Enforcement of disaster resistant building codes would be another key mitigation measure. The design, dissemination and enforcement of land use and building codes pose major challenges in most disaster-prone countries, but they need to be tackled head-on beyond the emergency recovery effort to become a central feature of sector policy and reform in these countries.

5.11 To complement direct assistance for the uninsurable poor, Bank supported housing reconstruction efforts provide valuable opportunities to encourage greater penetration by private insurance to help higher income families in developing countries transfer disaster risk as they do in developed countries. A project itself can send an important signal about the need for insurance, simply by focusing its direct assistance on the uninsurable poor only. The project should convey the clear message and provide an incentive for those who can afford it to get insurance cover. Demand for insuring private housing units is most likely to come from homeowners who are; (i) made aware of the risks of natural disasters; (ii) can afford to buy insurance; and (iii) advised that there will be no government bail-outs for uninsured property.

5.12 Whatever the precise design of an emergency housing reconstruction project, it always needs to have clear outcome objectives that are genuinely monitorable. The operation therefore needs to incorporate a clear system of monitoring and evaluation to allow a continuous assessment of the delivery of the planned outputs and the achievement or otherwise of the intended outcomes. Project task teams should always be convinced that they are helping the poor disaster victims. This means having accurate lists of those made homeless by the disaster and accurate damage assessments from reliable sources. These can be challenging in the chaotic aftermath of a natural disaster, but trusted NGOs can provide valuable help at times like this.

## IMPLEMENTING RECONSTRUCTION EFFECTIVELY

5.13 There is no single blueprint to best implement an emergency housing reconstruction project. Bank experience includes satisfactory results from operations implemented well in many different ways (details in Chapter 3). Some use specially created project units, while others rely on regular government departments. In countries with administrative capacity at the sub-national level, municipal governments have a key role to play in housing reconstruction. More generally, existing capacity and a proven track record of achievement should determine which agencies take lead roles in project implementation. Whichever implementation arrangement is adopted, a key to success is to ensure that the unit or agency responsible for project execution is vested with the necessary authority and access to funds to get the job done.

5.14 Successful implementation will thrive on the trust that close and intensive communication between executing agencies and disaster victims helps build up. Group solidarity is often strengthened by losses shared throughout a disaster-struck community, so that working with local community groups with the assistance of NGOs can help keep information channels open between victims and those trying to assist. By working through local community groups, reconstruction projects themselves can help the disaster-homeless rebuild social organizations disrupted by the natural disaster.

5.15 Lastly, swift and expeditious implementation is key if housing reconstruction is to bring benefits to the disaster-homeless in a timely fashion. Task teams therefore need to be aware of the various streamlined procedures for procurement and disbursement and encourage borrowers to make full

use of them (see Table 2.2). Through a prompt response, backed by a clear recovery vision and an emphasis on assisting the uninsurable poor, the Bank can help an important segment of its clientele; namely, the urban and rural poor increasingly at risk to the vagaries of ever more devastating natural disasters that hit the developing world.

## NECESSARY CONDITIONS FOR BEST PRACTICE: A CHECKLIST

**Table 5.1 Helping Those Made Homeless by Natural Disasters: A Good Practice Thumbnail Sketch for Bank Task Teams**

<p><b>A. Resolving Dilemmas</b></p> <ul style="list-style-type: none"> <li>❑ Be emotionally committed, but ensure that solutions are rational, relevant and efficient.</li> <li>❑ Respond quickly, but with due diligence; opportunities for corruption can be borne of haste.</li> <li>❑ Support housing reconstruction only if there is strong demand by both victims and borrowers.</li> <li>❑ Resist technological innovations, using well-tried and proven disaster-resistant construction.</li> <li>❑ Coordinate Bank's reconstruction with relief efforts, meeting with the relief agencies early on.</li> <li>❑ First attention to the poor who suffered most, but also to those suffering less through mitigation.</li> <li>❑ Draw a tight boundary around homeless problem focused on the uninsurable poor only.</li> <li>❑ Resist temptation to solve broader poverty problem through reconstruction alone.</li> </ul>	<p><b>B. Interpreting Policy</b></p> <ul style="list-style-type: none"> <li>❑ Keep eye on <i>recovery</i> to enable homeless victims to get back on their feet again.</li> <li>❑ Keep involuntary settlement to a minimum and apply best practice of OD 4.30, especially community participation, and reintegration.</li> <li>❑ Do no harm to good practice long-term sector policies.</li> <li>❑ Focus on private as well as public provision of housing for the uninsurable homeless.</li> <li>❑ Ensure provision of necessary infrastructure.</li> <li>❑ Care with land-use controls, ensuring especially that unsafe areas are not reoccupied.</li> <li>❑ Consider housing sector/market as a whole, especially impact upon it of a major disaster.</li> <li>❑ Treat emergency reconstruction as temporary interruption of sector reform of 30 months max.</li> </ul>
<p><b>C. Project Design</b></p> <ul style="list-style-type: none"> <li>❑ Require a reliable list and description of disaster victims from a reliable source.</li> <li>❑ Set clear monitorable objectives of recovery outcome that project intends to achieve.</li> <li>❑ Formulate a few key simple performance indicators to assess subsequent performance.</li> <li>❑ Take advantage of inputs by local governments, NGOs and community organizations.</li> <li>❑ Focus on coordination of donor reconstruction efforts.</li> <li>❑ Emergency reconstruction funds should be allocated within 30 months, after which project implementation should return to normalcy.</li> <li>❑ Do <u>not</u> involve major land acquisitions.</li> <li>❑ Foster insurance solutions for those who can afford them.</li> </ul>	<p><b>D. Implementation</b></p> <ul style="list-style-type: none"> <li>❑ Establish good communication and mutual trust between victims and borrower agency.</li> <li>❑ Involve existing housing agencies with good track records where they exist.</li> <li>❑ Manage home reconstruction loans through established banks and financial institutions.</li> <li>❑ Follow good practice building and land-use standards from the outset.</li> <li>❑ Resist temptation to discuss institutional changes and reforms in first supervision missions.</li> <li>❑ During later supervision missions, engage the borrower more on mitigation.</li> <li>❑ No later than 30 months after appraisal, agree with borrower actions on: (i) implementation of mitigation measures; and (ii) transition to normal operations.</li> </ul>