

**UPDATE ON THE WORLD BANK RESPONSE  
TO THE TSUNAMI DISASTER**

**APRIL 22, 2005**

## **ABBREVIATIONS AND ACRONYMS**

AsDB	Asian Development Bank
ASEM	Asia-Europe Meeting
CAS	Country Assistance Strategy
EDA	economic development agency
FMTAAS	Funding Mechanism for Technical Assistance and Advisory Services (IFC)
FY	fiscal year
GDP	gross domestic product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
IPI	investment promotion intermediary
LTTE	Liberation Tamil Tigers of Elam
MDTF	Multidonor Trust Fund
MIGA	Multilateral Investment Guarantee Agency
NGO	nongovernmental organization
PPP	public-private partnerships
PRI	political risk insurance
PRS	poverty reduction strategy
SME	small and medium enterprise
TA	technical assistance
UN	United Nations

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## UPDATE ON THE WORLD BANK RESPONSE TO THE TSUNAMI DISASTER

### I. INTRODUCTION

1. This paper provides an update on the briefing to Executive Directors on February 1, 2005 on the role of the World Bank in providing assistance to countries affected by the December 26, 2004 earthquake and tsunami.<sup>1</sup> Management subsequently sent to the Board for approval operations responding to the disaster in India,<sup>2</sup> Indonesia,<sup>3</sup> Maldives,<sup>4</sup> and Sri Lanka,<sup>5</sup> as well as a proposal to use IBRD surplus to support tsunami disaster recovery in India and Indonesia,<sup>6</sup> and in those contexts provided information to Executive Directors on the approaches being followed by the respective governments and their international partners. This paper complements the earlier reports by taking stock of the evolving responses at the country level, and describing the common challenges and the measures that are being adopted to address them.

2. ***Results from the Bank's Initial Response.*** Within the critical first 18 weeks following the disaster, the Bank successfully helped put in place a range of instruments—financing and technical assistance—in each of the affected countries to support rehabilitation and reconstruction of infrastructure and restoration of communities and livelihoods of tsunami disaster survivors. The Bank has reached out to other donors in a range of aid coordination efforts at the country level, and has actively cooperated with global coordination initiatives led by the Asian Development Bank (AsDB) and the United Nations (UN). There is widespread recognition that while reconstruction and rehabilitation are expected to last up to four years, the next twelve months, when expectations from communities ravaged by the calamity run the danger of exceeding the pace at which critical recovery activities can be launched, will be as challenging as the immediate aftermath of the disaster. With that in mind, the Bank has in place in all countries a flexible set of instruments to allow it to support national recovery efforts.

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<sup>1</sup> *World Bank Response to the Tsunami Disaster* (SecM2005-0035), January 28, 2005.

<sup>2</sup> *India Emergency Tsunami Reconstruction Project* (IDA/R2005-0068), April 15, 2005; *India Proposed Trust Fund for Tsunami Disaster Recovery* (R2005-0091, IDA/R2005-0073), April 26, 2005.

<sup>3</sup> *Indonesia Tsunami Emergency Recovery Support Package: Proposed Restructuring of Three Ongoing Projects in Response to the Late-2004 Natural Disaster* (IDA/R2005-0054), March 31, 2005; *Indonesia Proposed Multidonor Trust Fund (MDTF) for Aceh and North Sumatra* (R2005-0074, IDA/R2005-0059), April 4, 2005.

<sup>4</sup> *Maldives Post-Tsunami Recovery and Reconstruction Project* (IDA/R2005-0026), February 28, 2005.

<sup>5</sup> *Sri Lanka Tsunami Emergency Recovery Program-Phase I: Proposed Amendments to Seven Credit and Three Grant Agreements* (IDA/R2005-0012), February 2, 2005; *Sri Lanka Tsunami Emergency Recovery Program – Phase II* (IDA/R2005-0022), February 15, 2005.

<sup>6</sup> *Proposed Transfer of IBRD Surplus to Support Tsunami Disaster Recovery in India and Indonesia* (R2005-0061), March 8, 2005.

3. **Casualties and Displacements.** The tsunami in the Indian Ocean triggered by the December 26, 2004 earthquake is the worst rapid-onset natural disaster in recent memory: the damage in the impacted areas is colossal, with poor people disproportionately affected. Nearly 300,000 people died or are still missing, and more than 2 million lost their homes and often their livelihoods. (Table 1 provides an update by country.) By far the largest number of deaths occurred in Indonesia, because of its proximity to the earthquake, followed by Sri Lanka. Over the last four months, emergency relief efforts have reached a large majority of the survivors in all affected countries with the necessary food, water, and medical supplies to avert famine, the spread of disease, and further major loss of life. However, the damage has been substantial, and hundreds of thousands of people continue to live in temporary shelters and to be dependent on emergency assistance.

**Table 1. Summary of the Human Toll Caused by the Tsunami**

Country	Dead	Missing	Displaced	Homeless
Indonesia <sup>a/</sup>	126,732	93,662	533,770	n/a
Sri Lanka <sup>b/</sup>	31,147	4,115	546,509	480,000
India <sup>a/</sup>	10,881	5,792 <sup>d/</sup>	647,599	135,000
Maldives <sup>b/</sup>	82	26	21,663	n/a
Thailand <sup>b/</sup>	5,395	2,932	n/a	n/a
Myanmar <sup>b/</sup>	90	10	n/a	3,200
Malaysia <sup>b/</sup>	68	12	n/a	4,296
East Africa <sup>b/,c/</sup>	312	158	2,320	n/a
<b>Total</b>	<b>174,707</b>	<b>106,707</b>	<b>&gt;1,751,861</b>	<b>&gt;622,496</b>

Notes:

<sup>a/</sup> Government source.

<sup>b/</sup> International Federation of Red Cross and Red Crescent Societies (IFRC).

<sup>c/</sup> East Africa covers tsunami-affected countries of Kenya, Madagascar, Seychelles, Somalia, and Tanzania.

<sup>d/</sup> Government estimates that 2,812 of the missing have died.

## II. SUMMARY OF COUNTRY DAMAGE ASSESSMENTS AND RECOVERY PLANS

4. Table 2 summarizes the damage and overall reconstruction financing needs assessments available to date in the four countries that suffered proportionally the greatest losses and damage and that have requested international support for rehabilitation and reconstruction.<sup>7</sup> Reconstruction costs and financing needs can be higher than losses and damages for several reasons, notably the necessity to reconstruct to current higher construction and environmental standards, the higher quality and cost of modern replacement equipment, and tsunami-induced relocation expenses (for example, in the Maldives, several islands are being abandoned, even though damage was not complete). In several cases, work is currently under way to complete or refine these estimates.

**Table 2. Summary of Damage and Needs Assessments**

Country	Damage/Loss Assessment		Assessment of Financing Needs		
	Date	US\$, billions	Date	US\$, billions	Next Steps
India	2/15/05	1.0	2/15/05	1.2	World Bank, AsDB, and UN are discussing with government nature of support from each agency and implementation arrangements for the reconstruction program.
Indonesia	1/19/05	4.45	3/31/05	6.0 (prel.)	Comprehensive reconstruction and recovery master plan issued and financing needs being validated.
Maldives	2/14/05	0.47	2/14/05	0.406	Work on reconciling needs (US\$304 million in the public sector and US\$102 million in the private sector) and available support is ongoing; preparation of a plan identifying where financing is needed is underway.
Sri Lanka	2/02/05	1.0	2/02/05	1.5-1.6	Sri Lankan national authorities and their development partners, including the Liberation Tamil Tigers of Elam (LTTE), and district authorities, are undertaking a second phase of the needs assessment to prepare district-level reconstruction strategies, to be completed by end-April.
<b>Four-Country Total</b>		<b>6.9</b>		<b>9.1-9.2</b>	

5. **Common Features.** The damage and needs assessments show several common features. In all cases, a large part of the destroyed assets were privately owned, which creates special issues for the provision of recovery and reconstruction support. Priority needs include

<sup>7</sup> The assessments are available at [www.worldbank.org/tsunami](http://www.worldbank.org/tsunami).

reconstruction of infrastructure (water supply, sewers, electrical systems, roads, schools, and health facilities) as well as housing for survivors and restoration of their livelihoods. Except for the Maldives, where much of the territory and population were impacted, the damages are moderate relative to the entire economy of each country but extreme in the areas hit by the tsunami. In all cases, the damage and needs assessments have been a joint effort, bringing together governments of the affected countries with key donors. In all cases as well, community and local government representatives are involved in shaping the roadmaps for the reconstruction and rehabilitation programs—and will continue to be engaged as further preparation and subsequent implementation of these programs get under way, though such consultations require an investment of resources and time and thus delay the delivery of assistance. The process of preparing plans for these activities itself has helped to cement constructive relationships within the donor community that it will be important to sustain during recovery efforts.

6. ***Impact on Growth.*** Though devastating to the affected areas, the expected impact of the tsunami disaster on growth in GDP, after taking into account the projected reconstruction and rehabilitation activities, is negligible in India and very small in Indonesia (up to 0.25 percentage points, lowering projected growth in 2005 from 5.4 to around 5.2 percent). In Sri Lanka, the impact is limited and will lower projected growth in 2005 from 6 to 5 percent. In the Maldives, where damage is close to 62 percent of GDP, the impact is severe and is compounded by a second shock resulting from a sharp drop in tourist arrivals, far in excess of that warranted by the disruption of tourism-related facilities.

7. ***Other Countries.*** In Africa, the tsunami struck hardest on the northeastern coastline of Somalia. The tsunami was a further assault on already vulnerable populations as chronic droughts and floods had already affected many parts of Somalia over the last few years. Following the disaster, both the UN and nongovernmental organizations (NGOs) initiated interagency assessment missions to the affected areas and have provided relief materials, but some of the affected areas have been inaccessible because of security concerns. The UN estimates that up to 1,500 buildings and 40 villages in northeastern Somalia were damaged by the tsunami; the UN Habitat agency aims to repair 1,000 houses and build 500 new ones in affected areas, at an estimated cost of US\$2 million. The Seychelles archipelago suffered flooding and damage to roads, fishing infrastructure, and tourism resources. The IMF, supported by the Bank, conducted an assessment of the macroeconomic impact of the tsunami damage that concluded that the already-struggling economy risks an even steeper downturn; direct and indirect damages are estimated by the Government to amount to US\$33.2 million, including priority needs of US\$11.4 million.

### III. TOWARD EFFECTIVE RECOVERY FROM THE TSUNAMI DISASTER

8. To sustain effective recovery programs, all of the governments recognize that they need to address three main challenges. First, there is an economic management challenge—to smooth the availability and use of funding and avoid sharp imbalances in the reconstruction phase. Second, there is an investment coordination challenge—to avoid duplication, implement appropriate standards, and exploit synergies to ensure high-impact spending. And, most important, there is a governance challenge—to ensure that funds reach the intended recipients, that they are equitably and transparently spent and are also seen by the public to be so, and that



they mitigate the underlying sources of poverty and conflict that exist in some of the tsunami-affected communities. Although these challenges are common after major rapid-onset disasters, the post-tsunami situation presents specific challenges: the disaster itself is spread out over a vast area and predominantly affects private assets, the donor response has been strong and multifaceted, and governments will need to arbitrate pressures for resettlement of people and communities in an effective and equitable manner.

9. ***Aspects of the Tsunami Disaster and Response.*** The restoration of livelihoods and communities spread across a wide geographical area will have to constitute the bulk of recovery activities. The international community—both private and official donors—have already pledged billions of dollars. These funds have to support not only the reconstruction of medium-to-large infrastructure (e.g., roads, water and sanitation facilities, public-use buildings), but they also have to be transformed into smaller packages of just a few hundred dollars needed by each of the affected individuals and households to rebuild their homes, reestablish their livelihoods, and reconstruct their communities. Private assets have borne the brunt of the impact so, while essential, the provision of public goods, by itself will not be enough to support a robust recovery in the affected areas. A variety of delivery mechanisms—public budgetary spending for investment or transfers, credit assistance, capacity-building technical assistance—are being put in place in each of the affected countries.

10. ***Contribution and Challenge of Private Donations.*** The amount of private charitable contributions and the variety of collections organized for the tsunami victims—in schools, firms, and community organizations around the globe—are unprecedented. These sources can make a significant contribution to the financing for recovery activities, especially in the initial period, but the large amounts and diverse channels through which these donations will flow also present risks. Such a large amount of funding outside of government budgets could result in duplication of investments and wide variations in standards, and also undermine priority reconstruction frameworks (with implications for the sustainability or implementation of long-term recovery strategies, prices, and, in some cases, orderly management of imports and their financing). The potentially adverse effects from uncoordinated spending could be even more serious than those that arise when official donors or government agencies follow their own mandates, without harmonizing through a basic set of guiding principles.

11. ***Impact on Poor People.*** The tsunami has had a severe effect on poor households and communities. Reconstruction and recovery programs should and can be used to break out of the cycle of poverty and conflict that has afflicted many such communities, especially in Aceh and the North and East of Sri Lanka. This involves a range of practical projects and programs for the recovery and long-term expansion of incomes, for income and disaster risk management and insurance, and for other such measures. However, the effectiveness of such programs depends crucially on a central role, right incentives, and full ownership of reconstruction programs and projects by the relevant governments and local communities. Luckily, as demonstrated in the past and since the tsunami in December, each of the affected countries has public administrative capacity in place and has made commitments with regard to open and transparent monitoring of reconstruction funding.

12. ***Pressures to Relocate Communities.*** In the wake of the devastating tsunami, there has been a natural reaction to relocate communities away from the coastline to protect people from

potential future disasters. While understandable, decisions to relocate groups of people or communities must be made by the communities themselves, equipped with information on technical considerations, including the exposure of the site to multiple hazards, and where appropriate (e.g., for small, isolated communities such as in the Maldives), the capacity of the government to provide services in a cost-effective manner.<sup>8</sup> Because of the impacts of the tsunami on the physical terrain and the likelihood of future disasters in highly exposed areas, it may not be feasible for some communities to rebuild in their original sites. While it is laudable to try to protect at-risk communities from hazard events, international experience clearly shows that blanket no-build zones are neither feasible nor sustainable. A practical approach is necessary, in which risk assessments are undertaken to identify where return to original sites is or is not technically and environmentally feasible. These assessments should involve community representatives working with social and technical specialists, and assess suitability of the original site for rehabilitation, including vulnerability to various natural hazards, disease and environmental risks, suitability of land for agriculture, and so forth.

13. Where reconstruction on the original site is not feasible or not desired by the community, new sites for relocation should be identified and assessed for the following:

- Clarification of the current status of the site with respect to occupation, ownership, land use rights by other groups and potential encroachment on protected areas.
- More detailed social assessment, including the nature of neighboring communities or villages and potential tensions/conflicts with resettled population.
- Carrying capacity of the new site with respect to population and livelihood activities.
- Environmental and hazard risk assessment.<sup>9</sup>

A core set of principles to guide recovery and reconstruction is attached in Annex A.

#### IV. THE WORLD BANK RESPONSE

14. ***Common Principles Underlying World Bank Support.*** The Bank has structured its support to the emerging recovery efforts according to three principles. First, the governments of the affected countries must have the central role in and ownership of the recovery efforts. Second, communities should be involved in assessing their needs and designing recovery programs that are linked to long-term strategies for growth and poverty reduction. It is important that reconstruction be undertaken in ways that help to break the cycle of poverty in these communities. Third, the international community must act in coordination to ensure efficient use

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<sup>8</sup> Evaluations of past World Bank experience with post-disaster reconstruction have shown that rebuilding in situ is generally preferable to relocating communities after a disaster. It is usually the quickest and most cost-effective method for bringing about recovery and normalcy. Wherever feasible, reconstruction in situ should be promoted to take advantage of existing infrastructure and community facilities, and minimize resettlement and social dislocation.

<sup>9</sup> The Environmental Assessment should assess the natural environment (e.g., air, water, land); human health and safety; and social aspects (e.g., involuntary resettlement, indigenous peoples, cultural property) of relocation, and should include a process to mitigate and manage adverse environmental impacts throughout project implementation.

of donor resources and work with the governments of affected countries to set clear goals and monitor and evaluate progress. Achievement of results on the ground will hinge on the extent to which resources for disaster recovery are managed in a robust governance framework and channeled to disaster recovery activities in a transparent, accountable, and effective manner.

15. **Rapid Assessments of Damage and Financing Needs.** As noted above, the World Bank and other donors responded immediately to government requests for contributions to the preparation of damage and needs assessments in India, Indonesia, Maldives, and Sri Lanka. By the end of March, all of these assessments had reached a stage at which they can support the initial round of rehabilitation and reconstruction activities. In parallel, the Bank has been providing assistance to the governments with the planning and costing of recovery activities, which will require not only financing and technical assistance but also substantial investments in coordination and consultation with government agencies, affected communities, official donors, and local as well as international NGOs.

16. **World Bank Financing.** The Bank's contribution toward financing the recovery from the tsunami disaster now amounts to US\$737.5 million, as summarized in Table 3 (an additional IDA commitment of US\$100 million is tentatively planned for Indonesia). Disbursements of this assistance are projected to pick up significantly in the later part of 2005 and beyond as reconstruction and other recovery activities accelerate.

**Table 3. World Bank Financial Contribution to the Tsunami Recovery Programs**

(actual commitments plus those planned through end-June 2005, US\$ million equivalent)

	India	Indonesia	Maldives	Sri Lanka	Four-country total
Project restructuring	471.0 <u>a/</u>	20.0	12.0	75.0	578.0
Additional IDA financing	55.0	100.0 <u>b/</u>	2.0	75.0	232.0
<b>Total</b>	<b>526.0</b>	<b>120.0</b>	<b>14.0</b>	<b>150.0</b>	<b>810.0</b>
IBRD transfer from surplus	2.5	25.0	n.a.	n.a.	27.5
<b>Total</b>	<b>528.5</b>	<b>145.0</b>	<b>14.0</b>	<b>150.0</b>	<b>837.5</b>
<i>Memo item:</i>					
Estimated size of multidonor trust fund (MDTF)	n.a.	450	n.a.	100 <u>c/</u>	>550

a/ Includes utilization of existing IDA credits in Andhra Pradesh and Kerala (US\$50 million) and of an existing IBRD loan in Tamil Nadu (US\$11 million), as well as US\$410 million of IDA resources released from restructured projects and contributed toward the financing of the Emergency Tsunami Reconstruction Project.

b/ Tentative.

c/ Estimate of initial amount.

17. ***Aid Coordination at the Global Level.*** The UN has appointed former U.S. President Clinton as the Special Envoy for the Tsunami Response effective March 1, 2005. Over the next two years, the Special Envoy plans to help sustain global attention on tsunami recovery efforts; he may, in particular, initially focus on bringing together NGOs and private donors, most likely in the context of country-level aid coordination activities. The Asian Development Bank organized a high-level coordination meeting in Manila on March 18, 2005, bringing together donors and governments of the affected countries, as well as civil society and private sector representatives. The tsunami response was also on the agenda of the Asia-Europe Meeting (ASEM) Finance Deputies Meeting on April 21-22, 2005. The focus of coordination will now turn from resource mobilization globally to ensuring that resources are available at the country level, and that implementation of projects and programs is coherent and appropriately sequenced in individual districts and communities. Further strengthening country-level coordination is thus among the main challenges in the period ahead.

18. ***Aid Coordination at the Country Level.*** Coordination of assistance is a high priority in all of the affected countries and poses a particular challenge in Indonesia and Sri Lanka where large amounts of external financing from a large number of donors are being made available. In the case of Indonesia, IDA has agreed to be the trustee and administrator of a multidonor trust fund (MDTF) for Aceh and North Sumatra, which is expected to mobilize US\$450 million to support the government's recovery program.<sup>10</sup> The MDTF Steering Committee will bring together representatives of the government, bilateral and multilateral (AsDB, UN) donors, international NGOs, and other stakeholders, and in its work it will seek to underpin broader coordination among official and nongovernmental agencies active in the recovery efforts. In Sri Lanka, donors (including the Bank) and the authorities have been discussing a possible MDTF, but progress toward its establishment hinges on the Government and LTTE reaching agreement on a joint mechanism for allocating tsunami-related resources in the conflict-affected areas. In the Maldives, the World Bank is opening a temporary office, jointly with the AsDB. Although the Maldives Government has set up a robust fiduciary framework for channeling aid funds (the Tsunami Relief and Reconstruction Fund), which could significantly improve the efficiency and effectiveness of aid by avoiding fragmentation of financing and a multiplicity of donor-specific procedures, a considerable part of reconstruction support appears to be only loosely coordinated with the national reconstruction program. Assisting the government in its relations with donors will therefore be an important function of the new office.

19. ***Donor Meetings.*** In Indonesia and Sri Lanka there is a strong donor presence in-country, and consultations among donor representatives are held regularly. In Indonesia, the MDTF Steering Committee will serve as the key mechanism for donor coordination and policy dialogue with the government on tsunami disaster recovery issues; the first meeting of the Steering Committee has been scheduled for April 26, 2005 in Jakarta. In Sri Lanka, the Bank is helping the Government organize a two-day development forum (with one day devoted to tsunami-related issues) on May 16-17, 2005 in Kandy, Sri Lanka. For the Maldives, the authorities have

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<sup>10</sup> World Bank-administered multidonor trust funds have been used successfully in many countries to pool donor contributions in a transparent framework and to help governments promote aid coordination with a strong focus on results.

asked the Bank to help organize a meeting focused on raising funds for water and sanitation and transportation-related infrastructure.

20. ***IFC and MIGA Support.*** The private sector is playing an important role in immediate relief activities and is central to the restoration of livelihoods in affected areas. IFC and MIGA are supporting the private sector's response in ways that complement the Bank's response. Annex B provides an overview of the IFC response. Annex C outlines MIGA's role.

## **V. REPORTING ON PROGRESS OF RECOVERY PROGRAMS**

21. Management plans to inform the Board on progress in implementing Bank support to tsunami recovery in the course of regular reporting on implementation of Bank projects. The main focus of Bank country teams will be to support strong monitoring of projects to ensure sustainable results. For this, the Bank will encourage systematic disclosure of information at the community and government levels, for example through the dedicated website established by the government in Indonesia (e-Aceh, accessible at <http://e-aceh.bappenas.go.id>). Executive Directors will also receive regular reports on the implementation of the IDA-administered multidonor trust funds.



## **CORE PRINCIPLES FOR RECOVERY AND RECONSTRUCTION ACTIVITIES**

All reconstruction and recovery efforts should be undertaken with sound and comprehensive spatial planning in order to reduce the vulnerability of communities to future natural hazard events. In addition, these efforts should include:

- Improving the construction standards of the built environment and/or introducing them where they do not exist.
- Establishing hazard monitoring, early warning, and community preparedness plans for multi-hazards.
- Enhancing the ability of natural systems to protect people and provide essential goods and services to sustain and enhance livelihoods.
- Supporting comprehensive regional and subregional strategic planning that integrates social and environmental considerations (i.e., strengthens holistic, regional economic planning).

The following principles can inform all recovery and reconstruction activities:

- There is recognition that a healthy environment underpins healthy and safe coastal communities.
- There will be full and consistent participation of all community members in the decision-making process and implementation of decisions (including women, poor people, and other vulnerable groups).
- The rights and needs of highly vulnerable groups (including widows, women, the aged, children, poor people, etc.) will be equitably addressed.
- There should be clear and transparent communication to affected people and communities concerning their eligibility for support, compensation and entitlement packages, as well as the mechanisms to gain access to such resources.
- In internal conflict situations, reconstruction and resettlement should ensure protection of all affected persons and other civilians based on the Guiding Principles on Internal Displacement presented to the UN Commission of Human Rights and UN General Assembly.
- Involuntary resettlement should be avoided or minimized. Where this is not feasible, a transparent process for securing land for settlement in less vulnerable sites and access rights to coastal areas essential for livelihoods should be established.
- Technical assistance should be made available to all communities to enable them to assess environmental, social, situational, service and infrastructure and related needs and issues to arrive at informed decisions concerning choice of sites and specific strategies for reconstruction.
- Channels for grievance resolution should be set up at various levels of the administrative/organizational structure to deal with individual or collective complaints. Responsiveness to grievances within a reasonable time frame will help to build community support for the rehabilitation process and mechanism.
- Reliance on traditional leadership (village and religious leaders, etc.) for guidance and mediation will be critical. Regular meetings with these leaders would provide an effective feedback loop for gauging community response.

## IFC SUPPORT FOR POST-TSUNAMI RELIEF AND RECOVERY

1. IFC is working closely with the World Bank, the Asian Development Bank (AsDB), and other donors to support private sector activities that contribute to relief and recovery.
2. **Short-Term Relief.** IFC Management has approved an allocation of US\$2.5 million from the IFC Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS) to support immediate post-tsunami relief efforts by the private sector in Indonesia, the Maldives, Sri Lanka, and Thailand through a matching grant program.<sup>1</sup> Major constraints to the relief effort are bottlenecks in getting supplies and services to the affected areas. The program is targeting the alleviation of infrastructure and distribution bottlenecks for relief operations and providing emergency health services and clean water. As of end-March 2005, IFC has approved seven proposals under the Matching Grant Scheme, for a total of US\$722,700. This supplements private sponsors' contributions of US\$783,700 to clean up affected areas, to restore and improve airport and port logistics, for medical assistance, and for free telecom services and other rehabilitation projects. Of the US\$722,700 approved so far, US\$200,000 is for initiatives in Indonesia, US\$383,700 in Sri Lanka, and US\$200,000 in Thailand. In addition, three relief initiatives for a total of US\$645,540 in Indonesia are near approval.
3. **Partnerships.** IFC is partnering with selected private companies, including IFC client companies, to assist in the relief effort. A number of private companies in the region, including IFC clients, are using their resources to provide shelter, water, medical services, and communication and transportation facilities to assist affected communities. For example, among the private sector initiatives that IFC is supporting, United Tractors of Indonesia is using their own equipment for clean-up operations in Banda Aceh. Suntel of Sri Lanka is providing free telecom services valued at US\$100,000. Modern Asia has allocated US\$200,000 for the clean-up of Phang Nah village in Thailand. IFC is providing support to clients that have resources on the ground, are responding to emergency needs, and complement the normal channels of emergency aid funding. If it is determined that the needs on the ground are greater, IFC may consider an additional allocation at a later date and will seek formal Board approval in that case.
4. **Medium- and Long-Term Recovery.** Private sector activities—notably tourism and fisheries—play a key role in the livelihoods of affected communities. Beyond the tourism sector, most private enterprises are small or microenterprises. Private construction companies are playing a key role in site clearance and reconstruction activities. There may also be a role for private or municipal finance in reconstructing infrastructure in affected areas. IFC has participated in World Bank missions to affected countries, and it has been in contact with clients and other companies operating in affected areas to assess the need for financing or technical assistance to support the recovery of these private sector activities.
5. **Financing.** IFC has established a financing facility that will rapidly mobilize long-term debt financing for the recovery of the tourism operations in affected areas. The facility was approved by the Board on March 21, 2005. It will allow prompt provision of loans with an aggregate amount of

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<sup>1</sup> A note to the Board regarding the FMTAAS allocation was circulated on January 6, 2005 (IFC/Sec M2005-0005).



up to US\$150 million to selected companies in the affected countries to help these companies meet the cost of reconstruction and weather the downturn in tourism arrivals. Three subproject companies, with whom IFC has already signed the Mandate Letters for a proposed investment, have been identified on a preliminary basis through fact-finding mission to the affected countries immediately after the tsunami. In the longer term, IFC may be able to finance housing through support for mortgage-lending institutions, and infrastructure reconstruction through project finance and/or support for local financial intermediaries. IFC is also exploring the scope to mobilize funding for affected municipalities through partial credit guarantees. In all of these, IFC will explore opportunities to leverage donor money through public-private partnerships and risk-sharing structures to increase the impact of aid and improve implementation and long-term financial sustainability through the involvement of the private sector.

6. **Technical Assistance (TA).** IFC is working on the launch of a new multidonor TA program for small and medium enterprise (SME) development in Sri Lanka and the Maldives (US\$2 million was committed by IFC in FY04). Building on successful models from the existing South Asia Enterprise Development Facility and other Project Development Facilities, this program will provide TA to financial institutions to support increased SME and microenterprise lending; and provide targeted TA to support recovery and growth of SMEs in the agribusiness, construction, fisheries, and tourism sub-sectors. It will also work to improve the business climate for investment in Sri Lanka and the Maldives, which will facilitate new investment by the private sector.

7. **Support for SMEs.** IFC is also considering extension of its investment and SME TA activities in Indonesia, currently delivered through Program for Eastern Indonesia SME Assistance. IFC is planning the opening of an office in the city of Medan in North Sumatra. There may also be specific TA initiatives to complement SME/microenterprise and tourism financing activities in Indonesia and Thailand.

## MIGA ROLE IN POST-TSUNAMI RECOVERY

1. MIGA provides political risk insurance (PRI) for private foreign investment and technical assistance to facilitate such investment in its developing member countries. With regard to PRI, MIGA has traditionally primarily operated in response to requests from investors for cover on specific prospective deals. While MIGA stands ready to respond quickly and with a positive view to investment proposals related to post-tsunami recovery activities, it needs to be recognized that a purely passive posture is unlikely to lead to many deals being concluded.
2. MIGA is not a “first responder” at the time of crisis; instead, its product offering lends itself to a phased approach, focusing on technical assistance capabilities (both information dissemination and capacity building) in the near term, and on more proactive approaches to providing PRI in the medium to long term.
3. ***Experience of Economic Development Agencies in Addressing Post-Disaster Recovery.*** Economic development agencies in Florida, Texas, and other southern U.S. states and many other countries have extensive experience and recognized successes in rebuilding their infrastructure and economies in the wake of hurricanes and flooding. The experience of Florida in reestablishing its tourism infrastructure may be particularly instructive for investment promotion intermediaries (IPIs) and economic development agencies (EDAs) in hard-hits areas in Sri Lanka and Thailand. Likewise, investments in both the infrastructure sector and the fishing industry have been facilitated by EDAs, and may hold lessons for the tsunami-battered countries. Cooperation is being explored between U.S. EDAs, their Asian IPI counterparts, and other IPIs around the world that have experience in economic regeneration following natural disasters. Depending on the level of interest, this may lead to a workshop in Southeast Asia and follow-up capacity building and advisory work facilitated by MIGA.
4. ***Online Services Provide Reconstruction Information.*** As the post-tsunami reconstruction effort takes shape, MIGA is utilizing its online investor information services to inform the international business community about the individual country reconstruction programs and the resulting investment and public-private partnership opportunities. Initially, this has taken the form of a special section within the Investment Promotion Network (IPAnet) web portal, which provides an overview of each country’s reconstruction program and links to further information available from the World Bank Group and other finance institutions (for example, ADB), government online sources, and private sector information services. Going forward, MIGA will strengthen its institutional cooperation with the IPIs and relevant ministries in the affected countries to obtain timely updates on new reconstruction initiatives and the resulting investment and business opportunities. The main sector focus will be on infrastructure and tourism, although this may be expanded in specific countries to reinforce the targeting strategy of the IPIs.
5. ***Guarantees.*** MIGA will consider providing PRI cover for affected commercial investments, but with a more proactive campaign to ensure investors are aware of what MIGA can provide. To better serve the affected countries, MIGA will ensure that appropriate resources are made available to actively promote PRI services to key potential investors, and provide expedited service to deals that arise. MIGA will work closely with the World Bank and IFC country offices to ensure that, to the extent possible, perceived risks do not inhibit the foreign

private sector from playing a role in the reconstruction process (e.g., housing, industrial parks, ports, marinas, hospitals, schools, tourism, infrastructure). MIGA would play a facilitating role, when necessary, in these business ventures. In this context, MIGA's Executive Vice President will be visiting the tsunami-affected area in Sri Lanka in late April, and discussing with government officials at various levels their specific needs.

6. MIGA is also looking at new ways to employ political risk insurance and advisory services as tailored solutions for tsunami-affected countries. An April consultation with the national investment promotion agency of Sri Lanka, for example, has already led to a request for MIGA technical assistance and additional information on PRI.

7. ***Develop Locally-based Information Channels.*** In the medium-term, MIGA plans to work with the Bank/IFC infrastructure and relevant Regional units, and the relevant ministries in the affected countries, to help develop effective locally operated information dissemination channels (e.g., infrastructure web portals) that can take advantage of MIGA's online services (e.g., IPAnet, PrivatizationLink, and FDI Xchange) to reach potential investors and suppliers. Given the scale and immediacy of the reconstruction needs, it is essential to rapidly disseminate project information to the business community, and to link these efforts to available support resources (e.g., project development funding) in the infrastructure and tourism sectors. Similar initiatives may be considered in other sectors depending on client demand.

8. ***Establish Investment Guarantee Facility for the Region.*** In Indonesia and Sri Lanka, the areas devastated by the tsunami are in or near regions that have been suffering from long-standing civil conflicts. The Government of Sri Lanka has informed MIGA that it is interested in an investment guarantee facility that is similar to the one being established by MIGA in Afghanistan, with World Bank and other support. MIGA's Executive Vice President will be discussing this proposal with Sri Lankan counterparts during the late April mission to Sri Lanka. If this facility were to go ahead, MIGA could then look at the possibility of including Indonesia in such an effort. In addition to MIGA's regular guarantees, this could also include the possibility of providing local guarantees and coverage for "loans without equity" in support of privately financed import transactions (e.g., health services, agricultural equipment, etc.).

9. ***Longer-Term Outlook.*** The activities that MIGA can support through the provision of PRI clearly need to complement the far broader and more extensive recovery activities under way or planned. In certain of the countries affected by the tsunami, and for certain types of investments, the PRI MIGA provides might play a useful role. However, it should be noted that prior to the tsunami, there was little demand from investors to purchase insurance from MIGA in the affected countries: in the case of Thailand, MIGA has not insured any investments in the past because the perception of political risk is low; in India, the government has been reluctant to issue Host Country Approvals; in Indonesia, most of the demand has been for long-term infrastructure projects, and in particular power projects because of the involvement of the national electricity company; and in Sri Lanka, MIGA has seen little demand for guarantees because of the continued perception among potential clients of uncertainties in the political climate. The Maldives is close to finalizing its membership in MIGA, and a senior delegation from MIGA is to visit the country in early May 2005.