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Mexico Able to Combat Natural Disasters

The World Bank says the country is among those that are best prepared for natural disasters, and stresses the importance of structuring financial strategies to support those affected



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MEXICO CITY (CNNExpansión) - Despite the recent onslaught of storms “Ingrid” and “Manuel,” the World Bank says Mexico is among the countries better prepared to deal with such events.

“This is not about emergency response operations, but about structuring a strategy to deal with natural disasters financially,” said World Bank Disaster Risk Management Specialist, Oscar Ishizawa.

According to Ishizawa, the Mexican strategy based on the Natural Disaster Fund (Fonden) is unique, with good lessons for other countries and very interesting.

On Wednesday, the President of the National Institute of Entrepreneurship (Inadem), Enrique Jacob, said that the Ministry of Economy will provide USD400 million in resources through the institute to small and medium sized businesses that have been affected by severe weather.

“We are reserving MXN100 million as subsidies for people to replenish inventory or equipment, and MXN300 million will be used as collateral for a program to support finance jobs,” Jacob said.

“Although no country can be 100% insured against this type of event, they must establish a comprehensive strategy about how much risk should be retained and how much should be transferred using financial instruments or contingent financial markets,” said Luis de la Plaza, Lead Financial Officer at the World Bank.

“Some natural disaster risks cannot be insured by any mechanism, or are prohibitively expensive, and therefore, it is important to prioritize.”

“Floods are the most difficult to insure anywhere in the world. Even the United States has struggled to find a scheme that insures against the effect of floods,” said Hector Ibarra , Senior Financial Officer at the Bank.

World Bank officials said that Mexico has learned from natural disasters over the years, and is the most advanced country in this type of strategies.

Just because Mexico has been hit by a number of disasters does not mean it is not doing things right. "Some losses are simply inevitable or un-insurable," said de la Plaza.

"Mexico has a highly developed risk financing strategy for natural disasters at the federal level, but some states are lagging behind and have not followed the same path," said Ishizawa.

States must design a comprehensive policy framework for all events. The rule of thumb is that the Federal Government and States should share the financial responsibility for natural disasters.

Natural Disasters = economic cost and poverty

According to Luis de la Plaza, natural disasters like the ones that affected Mexico recently do impact growth, but it is still too early to estimate.

"Disasters may impact a country's growth in varying degrees as all segments of the population are not impacted proportionately. Some segments of the population tend to be more vulnerable. Others not so."

The poor can be disproportionately affected by such events because of weak infrastructure, poorly planned urban developments or because there is a concentration of low-income people in areas that are more exposed to natural disasters.

These events punish the poorest strata of society disproportionately not only in Mexico, but in all countries that experience natural disasters.

The World Bank has a number of financial instruments such as direct loans, contingent financing and catastrophe bonds that Mexico could avail of as a member of the financial institution.

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<http://www.cnnexpansion.com/economia/2013/09/18/mexico-capaz-de-desafiar-tormentas>