

BANK GROUP ACTIVITY

Bank assistance in natural disasters: Nicaragua's earthquake, Iceland's volcano

There is no World Bank sector working paper on disasters. Perhaps that is a good thing, for one does not like to be put in the position of anticipating natural calamities. Nevertheless, calamities do happen and it is good to be prepared for them.

Two natural disasters occurred quite recently in widely separated parts of the world. Both have affected the activities of the World Bank.

On December 23, 1972, a massive earthquake all but leveled Nicaragua's capital city of Managua. One month later, disaster struck Iceland when Mt. Helga, a volcano dormant for over 7,000 years, erupted and imperiled the port of Heimaey on the island of Vestmannaeyjar. The eruptions have not yet stopped.

Managua

Within minutes of the earthquake, the administrative and commercial heart of Managua was destroyed. As many as 6,000 persons may have been killed; a quarter of a million people were left homeless.

Edgar Gutierrez, a department director in

the Bank's Latin America and Caribbean regional office, was on home leave in Colombia when the quake struck Managua. On December 26, Mr. Gutierrez was in what was left of the city to appraise, first hand, the extent and effects of the damage. Then to Washington, the headquarters of the Bank, for one day, then back to Nicaragua. Ten days after the earthquake, a tripartite panel, convened by the Bank, the Inter-American Development Bank (IDB), and the Organization of American States (OAS), assembled to advise the Nicaraguan Government on the reconstruction and rehabilitation of the city. World Bank specialists in power, public utilities, and urban-

The Bank specialists in urbanization, power, and public utilities were, in the meantime, identifying projects that could be of immediate benefit to the Nicaraguan Government. It was not hard, under the circumstances, to find projects; harder, rather, to determine what to leave out. And one more problem—after identifying and appraising project needs—the work had to be done quickly so as to help the Government when it most needed help.

Short cuts were taken. Written issues papers, which follow project identification missions, and which highlight the essential elements in a possible project, were, for the most part, given orally to the Bank's issues resolution meeting.



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zation were soon on the scene. International Monetary Fund personnel were also on hand (see *Fund Activity, Finance and Development*, March 1973).

In March of 1972, the Bank had made a \$6.9 million loan to help finance the expansion of the water supply system of Managua. Less than four months later, a \$24 million loan for a Nicaraguan power project was approved by the Board. Work on the water supply project had not yet begun when the quake hit Managua. Permission was granted for money from the Bank loan to be used for rehabilitation purposes instead; what was needed was no longer an extension of a water supply system but rather a supply of water itself.

The loan agreement for the power project included the usual strict provisos that imports of equipment purchased with foreign exchange be made under conditions of international competitive bidding; these provisos were scrapped. This relaxation of bidding procedures speeded implementation of the project by as much as two or three months.

A total of two weeks was spent between project identification and the start of project appraisal. In more normal circumstances: three to six months.

More short cuts. There is to be only one loan for immediate post-earthquake rehabilitation—thus requiring only one appraisal report, one Board meeting. In reality, however, the one loan is actually five:

- Water supply extension to areas outside Managua where refugees are now settled, and where post-earthquake construction will be concentrated;
- New money for power;
- Money for the construction of secondary, vocational, and technical schools (60 per cent of classroom space in Managua was destroyed);
- Industrial development;
- A sites and services project, which includes site clearing and basic infrastructure, and which will be spread over five towns near Managua. For the first time, however, the Bank is financing the building of what are



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called “core housing units”—one room and sanitary facilities for each of 5,500 houses to be constructed on the five sites. The rooms—and eventually the houses—will be built by Nicaraguan contractors and will be earthquake proof.

Total costs of the five-part IDA credit—the first to Nicaragua—will total about \$20 million. The credit has also been tailored so that its elements fit in with the Nicaraguan Government’s plans and priorities for long-run rehabilitation as well as for immediate help.

Heimaey

Heimaey was a small Icelandic port. Five thousand people lived there in 1,500 houses. They drove their 800 cars around a circuit that might take ten minutes. The 5,000 also enjoyed the highest incomes in all Iceland, averaging 20 per cent above those living on the main island. They were rich because of fish.

Four fifths of Iceland’s foreign exchange comes from the export of fish. Twenty per cent of that four fifths was earned by Heimaey’s fishermen, whose 60 fishing boats were the best in the country.

Heimaey is now deserted, its fishing boats and inhabitants dispersed. Only one person has died as a result of the volcano. One person and one town. Heimaey’s harbor is threatened by the continual lava flows which have come to within 90 meters of the port.

Less than a month after Mt. Helga erupted, the Governor of the Central Bank of Iceland arrived at the World Bank to find out what might be done to help his country. He came with a proposal: that help be made available to

improve the port facilities in any one of a number of fishing villages on Iceland’s southern coast.

Port and harbor facilities along Iceland’s southern coast are poor. Heimaey’s were good. Southern Icelandic ports are not big enough to

accept large fishing boats with safety. They lack breakwaters, so necessary for protecting boats from winter storms in the Norwegian Sea. They are, however, near the fish and near the capital of Reykjavik, the export center for fish. The Governor asked what could be done.

IDA CREDITS DURING THE THIRD QUARTER OF FISCAL 1973

Country	Purpose	Amount (\$ millions)
Afghanistan	Livestock	9.0
Bangladesh	Small-Scale industry	3.0
Dominican Republic	Irrigation	13.0
Equatorial Guinea	Highways	2.0
Ethiopia	Livestock	5.0
India (2 loans)	Small-scale industry; fertilizer	83.0
Indonesia (2 loans)	Livestock; agriculture	8.6
Lesotho	Rural development	5.6
Malawi	Agriculture	10.5
Nepal	Irrigation	6.0
Senegal	Highways	8.0
Somalia	Port improvements	12.95
Sudan	Irrigation	42.0
Thailand	Education	19.5
Turkey	Irrigation and power	30.0*
Total credits during the third quarter of fiscal 1973		258.15
Total credits during the first three quarters of fiscal 1973		470.215
*Together with a \$44 million Bank loan		

WORLD BANK LOANS APPROVED DURING THIRD QUARTER OF FISCAL 1973

Country	Purpose	Amount (\$ millions)
Cameroon	Agriculture (supplemental loan)	1.7
Colombia	Power	56.0
Fiji	Highway (supplemental loan)	4.2
Guyana	Power	6.0
Iran	Telecommunications	82.0
Iraq	Irrigation	40.0
Malaysia (2 loans)	Population; agriculture	54.5
Nicaragua	Port expansion	11.0
Tunisia	Industry	14.0
Turkey	Irrigation and power	44.0*
Zambia	Agriculture	11.5
Total loans during the third quarter of fiscal 1973		324.90
Total loans during the first three quarters of fiscal 1973		873.85

*Together with a \$30 million IDA credit

FAO-IBRD Cooperative Program

The Icelandic request brought into action members of the FAO-IBRD Cooperative Program.

The FAO-IBRD Cooperative Program is staffed by members of the Food and Agriculture Organization, whose headquarters is in Rome. About 60 people now work full time for the nine-year old program which is looked upon as an alternative to the Bank's expansion of its own staff in agriculture. Three fourths of the money for the unit, however, is paid for by the Bank.

Members of the Cooperative Program identify and prepare projects for Bank financing, although what they do and where they go is subject to Bank approval. It is the responsibility of the Bank to appraise projects identified and prepared by the Cooperative Program.

Thus, in mid-March a port engineer and a fisheries expert from the Cooperative Program journeyed to Iceland to look into the request for help.

As of this writing the Bank's role in helping Iceland is an on-going one. No conclusions have been made about improving fishing facilities along Iceland's southern coast.

Clearly one cannot even compare Heimaey—a disaster affecting 1,500 people with the loss of one life—with Managua where 250,000 were affected and thousands killed. Both were, however, unquestionably disasters. And from both one can learn what the World Bank does in response to requests for assistance following natural calamities.

The answer has not been formed solely in the wake of the Nicaraguan and Icelandic experiences. The Bank's response in these two cases reinforces the answers provided by the aftermath of the 1971 cyclone and tidal wave that engulfed East Pakistan, and of the earthquake that devastated so much of Peru the year before. And the answer is this: the Bank does what it knows best how to do—lend money for projects which serve to aid the economy of countries affected by disaster. And, so important in times of calamity, it can and does do this quickly, relaxing bureaucratic inhibitions without relaxing economic criteria. The countries who must, after all, pay the money back would be satisfied with nothing less.

Peter C. Muncie

International Finance Corporation

During the quarter ended March 31, the International Finance Corporation (IFC) made its first investment in Bolivia; provided support in Iranian agribusiness; and joined with other foreign and local financial institutions in furthering the development of the capital market in Brazil.

First Bolivian investment

The IFC's first investment in Bolivia is the \$400,000 put in PLASMAR S.A., the country's

major electric cable manufacturer which also produces PVC piping, roofing sheets, and floor tiles. The purpose of the project is to help finance the expansion and modernization of PLASMAR's production facilities so that it can better meet the needs of the country's mining, construction, and industrial sectors. Hitherto there have been costly delays in deliveries of imported cables and PVC compounds because of Bolivia's landlocked position.

This investment was the result of efforts by IFC to identify suitable projects for developing industrialization in Bolivia. The amount of the investment is below the IFC's normal lower investment limit—a reflection of IFC's wish to be as flexible as possible in helping one of its smaller member countries.

Support for securities market development in Brazil

On February 1, 1973, IFC extended a line of credit of US\$5 million to a syndicate of privately owned Brazilian investment banks. This is designed to provide financial support for the banks' underwriting activities with FUMCAP (Fundo de Desenvolvimento do Mercado de Capitais), a revolving capital market development fund maintained by the Central Bank. The overall purpose of FUMCAP is to strengthen and improve Brazilian capital market institutions, practices, and instruments.

FUMCAP will make available to investment banking institutions, for limited periods, part of the working capital they need to underwrite new issues of equity and long-term debt securities of Brazilian enterprises. The objectives is to

- induce the investment banks to assume a greater role in the sound underwriting of corporate securities in Brazil;
- improve the access of Brazilian enterprises to domestic sources of long-term funds needed for expansion; and
- encourage savers to invest in sound domestic securities.

Iranian agribusiness

During this quarter the IFC also invested \$1.25 million, in the form of a loan with options to purchase shares, in Iran California Company. This Iranian agribusiness is developing a large-scale farm in the Dez area of the Khuzestan province that will itself benefit from a dam and irrigation facilities set up with financial help from the World Bank.

Although the Iranian economy has shown an impressive growth rate during the past decade, agriculture has lagged behind. This sector is now being given high priority by the Government, which is trying to spur agricultural development through large-scale commercial farming or agribusiness. This is expected to increase greatly through the application of modern production and management techniques.