

Stories of Impact

A series highlighting achievements in disaster risk management initiatives

Building Financial Resilience against Natural Hazards in Panama



RESULTS & ACHIEVEMENTS

- GFDRR support started in 2010 and coincided with a \$66 million World Bank loan designed and disbursed in 2011 to strengthen the country's ability to promptly bridge the liquidity gap that can emerge in the wake of a natural disaster.
- GFDRR has been instrumental in helping proactive municipalities, like the city of David, move forward with risk-based planning. In David, a CAPRA seismic risk assessment was completed for houses, schools, and hospitals, which is now being used by local and national officials to inform public investments, such as the structural reinforcement of the most vulnerable buildings.
- In 2014 Panama implemented a comprehensive framework for disaster risk financing and insurance, becoming the first country in the world to adopt such a strategic framework; other Latin American countries have expressed interest in following the country's example.

REGION: LATIN AMERICA AND THE CARIBBEAN

COUNTRY: PANAMA

FOCUS AREA: FINANCIAL PROTECTION

Panama is a driver of economic growth in Central America and the Caribbean. The capital, Panama City, is the region's major financial and transportation hub, largely due to the Panama Canal. It is also highly vulnerable to natural hazards, such as floods, landslides, earthquakes, windstorms, wildfires, and storm surges, which threaten the country's infrastructure and economic assets.

The Government of Panama has been working with the World Bank and the Global Facility for Disaster Reduction and Recovery (GFDRR) since 2010 to develop and implement a strategy to effectively manage the financial impact of natural disasters. Leveraging the international experience of these institutions on disaster risk financing, Panama has carried out a thorough public sector reform. A dedicated unit was established within the Ministry of Economy and Finance to inform public policies on disaster risk management and engage relevant stakeholders.

Context

A high proportion of Panama's low-income population lives in areas most exposed to natural hazards, which feature poorly designed structures. The ineffective enforcement of national and local land use regulations, uncertainty about compliance with building codes, rapid demographic growth, and unplanned urban and industrial expansion are key drivers contributing to increased vulnerability. At the same time, the country has seen large amounts of foreign direct investment, infrastructure and transportation systems built, and new housing and tourism projects developed. Urban areas where trade and financial services are concentrated account for 43% of GDP and over 80% of the country's total exports. The Panama Canal has been expanded to further open the country to trade. Damages to the Panama Canal alone caused by natural disasters could disrupt international transportation networks and negatively impact further growth of Panama's economy.

Approach

Following a torrential rainfall in December 2010 that caused a declaration of national emergency, Panama undertook a series of efforts to better understand its level of disaster risk and develop strategies to become more resilient against disaster shocks. In November 2014, a Presidential Decree setting out a National Strategic Framework for the Financial Management of Disaster Risk was approved, making Panama the first country in the world to enact such a law.

The adoption framework represents the culmination of a series of public reforms, consultations, and studies undertaken by the Government of Panama in recent years. These efforts have created a strong legal mandate for establishing a financial management strategy that addresses natural disasters.

The framework is forging a nationwide consensus to pursue evidence-driven disaster risk reduction, improve budget planning and invest in disaster risk management. This also includes looking at ways to increase financial resilience. GFDRR helped Panama early on to find ways to improve decision-making and risk management. For example, GFDRR made open-source, multi-hazard disaster risk analysis tools available to strengthen the capacity of Panama's policymakers to integrate risk information into the development planning process.

LESSONS LEARNED

Collaboration is critical to provide clients with comprehensive solutions for disaster risk financing. This engagement is a result of continuous collaboration across the World Bank Group and external partners to foster financial resilience to natural hazards. GFDRR's partners have included the United Nations Office for Disaster Risk Reduction in the Americas, the Inter-American Development Bank, the International Monetary Fund, and the Central American Integration System for Natural Disaster Prevention. This approach has been essential in customizing the Strategic Framework to Panama's specific needs, such as establishing a dedicated unit within the Ministry of Finance. This enabled the country to effectively facilitate the decision-making process around disaster risk management initiatives as previously fragmented responsibilities have become centralized.

A national policy promoting integrated disaster risk management is crucial to spur reforms. Integrated solutions acknowledge that disaster risk financing and insurance is only one pillar of a country's national disaster risk management framework and should be complemented by risk analysis, risk reduction, disaster preparedness, and recovery and reconstruction after disasters. This latest national policy contained a component on financial management of natural disasters that was crucial for sustaining Panama's commitment to formulate and adopt the Strategic Framework despite changes within the Government following an election.

Next Steps

World Bank and GFDRR engagement paved the way for institutional reforms that led to the enactment of a law setting out a strategic framework for the management of disaster risk. Starting in 2015, the country will implement this framework through a five-year operational plan. As part of this process, risk analysis will be thoroughly inserted into public investment planning and public expenditure on risk management will be monitored. Furthermore, risk retention and transfer instruments are planned to be developed.

"This National Strategic Framework for Disaster Risk Financing and Insurance provides a model of best practice for the financial management of disaster risk, reflecting Panama's commitment to improve its resilience to natural hazards. It has the potential to encourage similar developments in other countries and regions."

—Dulcideo de la Guardia, Minister of Economy and Finance, Panama

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*All figures in US Dollars