Guiding Principles for Mobilizing Finance and Other Assistance

- Transparent, timely systems must be in place or be put in place for programming financial resources for reconstruction and monitoring reconstruction progress.
- Tracking systems for housing and community reconstruction projects should be compatible with the systems used to track the overall reconstruction program.
- The systems and procedures used in managing reconstruction funds may be on-budget or off-budget, special or normal, but in all cases government must apply good public financial management (PFM) practices.
- Even if government is not handling all reconstruction funds, it should consider tracking them and establishing rules for their use in reconstruction.
- Reconstruction financing decisions should be as consistent as possible with existing sector investment plans, both national and local.
- The financial strategy for reconstruction should ensure that the delivery of assistance is fair, efficient, and transparent, down to the household level.
- The form of housing assistance should be consistent with the reconstruction approach and should take into consideration the capacity of households to receive and manage the funds and the state of the construction materials market.

Introduction

Without financing, post-disaster reconstruction cannot take place. A good reconstruction financing effort is one that is efficient, transparent, and firmly directed toward realizing the physical results envisioned in the reconstruction policy. Those in charge of reconstruction financial management should take a strategic approach, and take seriously their responsibility to the affected population and to the public.

A number of conditions contribute to the development and implementation of a successful financing strategy: clarity about objectives, good coordination among the sources of financing and executing agencies, and careful administration of the receipt and the distribution of funds. Careful tracking of assistance from all agencies involved in reconstruction increases accountability and the effectiveness of the reconstruction effort.

This chapter covers various dimensions of the two key aspects of reconstruction finance: (1) mobilization and tracking of financing sources and (2) targeting and delivery of financial and other reconstruction assistance to households. It also briefly mentions other financial sources that may support households during reconstruction, specifically migrant remittances and microfinance.

Public Policies Related to Mobilizing Financial Resources and Other Reconstruction Assistance

National and local governments increasingly have long-range plans to guide public expenditures in regions or specific sectors and systems for prioritizing public investments and for approving projects. These are useful when negotiating post-disaster financial commitments with donors and for benchmarking the housing and infrastructure investments of outside agencies.

Yet post-disaster funding from external sources is rarely incremental over the medium term. Therefore, poorer countries dependent on external funding for both post-disaster reconstruction and future public investment should analyze how donor contributions to reconstruction will affect future development goals and investment plans. In programming reconstruction funds, policy
Policy makers must ensure that the entity responsible for operating and maintaining the infrastructure being rebuilt is involved in reconstruction decisions and discussions about budgetary support for future operations.

Key Decisions
1. **Government** must designate the agency to manage and monitor reconstruction financing. If this is not the lead disaster agency itself, the relationship of this entity with the lead disaster agency and with the agency responsible for normal government financial management will need to be clearly established.
2. The **reconstruction finance agency** needs to help government develop a viable reconstruction finance strategy and support government in presenting it to donors.
3. The **reconstruction finance agency** needs to decide with **government** on the PFM approach to reconstruction finance, such as whether financial management will be on-budget or off-budget and the type of controls to be employed.
4. The **reconstruction finance agency** should decide on the system for tracking reconstruction finance at the national and project levels, and work with **agencies involved in reconstruction** to promote full use of the system.
5. The **reconstruction finance agency**, in consultation with the **lead disaster agency**, **local government**, and **agencies involved in reconstruction**, should decide how to use reconstruction funds to support existing sector-specific public investment plans in carrying out reconstruction.
6. **Agencies involved in reconstruction** should decide with **government** on guidelines for qualifying recipients of aid and the means for delivering assistance to them, so that results are equitable and secure.
7. **Government**, in consultation with **agencies involved in reconstruction**, should establish guidelines for communications with affected communities regarding assistance and for disclosure of financial information to affected communities and the general public, and monitor their implementation throughout reconstruction.
8. **Government**, in consultation with **agencies involved in reconstruction**, should establish conditions for the use of housing assistance, for instance, those related to the improvement of disaster resistance in reconstruction. (See Chapter 6, Reconstruction Approaches, and Chapter 10, Housing Design and Construction Technology.)

Technical Issues
Mobilizing national and international resources. In the aftermath of a major disaster, a series of activities generally proceeds in rapid succession, leading ultimately to the identification and programming of financial resources for reconstruction at the national, community, and household levels. These activities generally start with the initial assessment, the definition of an outline strategy, and the issuance of a rapid appeal, followed by more detailed needs assessments; the scheduling of a donor conference; the development of a reconstruction policy, strategy, and financial plan by sector; and the establishment of implementation mechanisms for reconstruction. This sequence of activities and guidelines for establishing reconstruction policy are discussed in Chapter 1, Early Recovery: The Context for Housing and Community Reconstruction, and Chapter 2, Assessing Damage and Setting Reconstruction Policy.

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Because the impact of a disaster may exceed a country’s resources and capacity to respond, financial assistance from international donors often plays a significant role in recovery and reconstruction. Donor conferences provide the venue for mobilizing official international assistance. Outcomes from the donor conference, such as commitments to specific sectors, prioritization of needs by government, and sector policies, will affect the resources available for housing and community reconstruction. Because donors are more likely to make commitments to support sector strategies or project proposals that are clearly defined, having predefined strategies for reconstruction in key sectors such as housing is an aid to mobilizing donor resources.

Depending on the scale and visibility of the disaster, assistance will come from multiple sources, including international, national, and local nongovernmental organizations (NGOs); civil society organizations (CSOs); and the private sector. The roles of these entities are discussed in Chapter 1, Early Recovery: The Context for Housing and Community Reconstruction, and Chapter 14, International, National, and Local Partnerships in Reconstruction. Coordination of these entities falls to government.

One of the key issues in post-disaster situations is how to make financial resources available quickly. NGOs and bilateral agencies may have greater flexibility in the short run than government, although the amounts at their disposal are frequently limited. Mobilizing national resources will generally involve a budget reallocation process. An important issue will be whether the country’s budget law is flexible enough to allow prompt reallocation of budgeted resources when a disaster occurs, while providing for necessary controls. In a country whose PFM system provides for emergencies, the arrangements should be defined in an emergency management policy.

With international financial institution (IFI) funds, new loans and grants can be provided. Alternatively, or in addition, resources in existing projects be reprogrammed. Representatives of the IFIs in the country assist with these requests. World Bank Community-Driven Development programs (which operate on the principles of local empowerment, participatory governance, demand-responsiveness, and enhanced local capacity) are good candidates for restructuring, since the execution arrangements are appropriate for housing and community reconstruction, as are loans and programs in infrastructure sectors where reconstruction is needed. See Chapter 20, World Bank Response to Crises and Emergencies, for a description of how the Bank can respond to borrower requests to restructure existing loans and programs.

Public financial management. Government will be required to make a number of decisions regarding PFM in reconstruction. (These decisions will generally be made for the entire reconstruction program, within which housing and community reconstruction is only one sector.) The goal should be an implementation scheme that provides flexibility without sacrificing control, although compromises are sometimes made at the beginning, while additional financial safeguards are put in place. These decisions include:

- The management and institutional set-up for reconstruction (See Chapter 13, Institutional Options for Reconstruction Management, for a discussion of the options generally considered)
- How much time to spend in reconstruction planning versus proceeding rapidly to project implementation (this decision may be sector-specific)
- Whether reconstruction funds will be managed on-budget or off-budget
- Whether public funds will be spent early on or later in recovery
- If a regular or special procurement regime will be used for public funds
- The role given to institutions of accountability and control (e.g., supreme audit institutions, internal audit units, and inspection units) and their need for additional capacity
- Whether to use ex ante or ex post controls in overseeing the use of funds
- How to equalize funding during reconstruction among regions, sectors, and types of projects
- The extent to which reconstruction funds can be used to support existing sector-specific public investment strategies
- How to coordinate the funding of all agencies involved in reconstruction, including NGOs and the private sector

International financial institutions and donors often provide assistance to establish the procedures necessary for reconstruction PFM. This can include:

- assessing government’s capacity for management of reconstruction finance;
- providing funds for technical assistance for improving PFM during the reconstruction period;
- establishing a multi-donor fund and execution arrangements; and
- providing technical assistance to set up and help run a financial tracking system.

2. For that reason, only a brief discussion of post-disaster PFM is included in the handbook. Additional information is found in the Resources section.
Tracking funds at the project level. PFM is a concern not only within central government; financial tracking is also needed at the community and project levels during reconstruction.

Numerous project management systems are available as software and online systems; however, no proprietary system seems to be in common use for post-disaster housing and community reconstruction project management. Local governments with good financial management systems may have project financial tracking capacity, although in rural areas or countries with a weak decentralization scheme this is rare. The local tracking system should have similar capabilities to the national tracking system and should be able to communicate with it, so government can aggregate information on the progress of execution and expenditure at the local level. Since many tracking systems are Web-based, the local system could be a component of the national system, although local Internet speed and access may be a constraint. In the absence of a technology-based solution, a simpler spreadsheet-based or paper reporting system may be adequate, especially in the early days of reconstruction.

The system should be accessible by and understandable to households and communities overseeing their own projects. Indonesia developed a system with many of the features described above after the Yogyakarta earthquake as part of the World Bank Community-Based Settlement Reconstruction and Rehabilitation Project.6

The ideal system for tracking expenditures for housing and community reconstruction has the functional capabilities shown in the following table.

### Capabilities of Housing and Community Reconstruction Project Management System

#### Project-level data

- Government monitors project-level data suitable to produce output and outcome indicators by project and for the sector. These may be a product of the tracking system at the project level or produced by government by project and sector. Examples are:
  - Project disbursements
  - Families assisted
  - Demographic information
  - Project milestones
  - Overhead costs

#### Housing reconstruction component

- Administrative component for keeping track of household registration, family registration, demographic data, names of responsible parties, proof of property ownership, registration of owner contribution, owner bank information, power of attorney, etc.
- Budget and budget execution at the individual household level
- Expenditures or progress payments tracking at the household
- Physical advance of individual projects, such as project schedule, architect and engineering reports, safety inspection reports, change orders, and photographs

#### Infrastructure reconstruction component

- Administrative component for registering connections, ratepayers, hours worked, etc.
- Budget entry and tracking at project level
- Expenditures by project
- Ability to monitor physical advance of projects, such as engineer’s reports, safety inspection reports, change orders, and photographs

#### Project financial management

- Administrative component for tracking contracts, purchase orders, vendor and contractor information
- Project budget and budget execution
- Receipts and disbursements of funds
- Work plans and project milestones
- Project overhead costs and allocations

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How “build back better” affects reconstruction costs. “Build back better” is a phrase widely used after the 2004 Indian Ocean tsunami; however, the phrase has many interpretations. Codified into 10 propositions in a report to the office of the UN Secretary-General by special envoy and former U.S. President, Bill Clinton, the “build back better” concept encourages reconstruction that reduces vulnerability and improves living conditions, while also promoting a more effective reconstruction process. Not all the “build back better” propositions necessarily increase reconstruction cost (“Good recovery planning and effective coordination depend on good information”), but others may (“Good recovery must leave communities safer by reducing risks and building resilience”). One estimate of cost increases from implementing disaster risk reduction measures, such as using ringbeams, plinth beams, and stronger roof connections, is around 10 percent of reconstruction cost, including additional materials, training, and supervision. These improvements should be implemented whenever possible, and may be sound conditions for the receipt of housing assistance, even if they result in marginally higher costs.

Budgeting for operation and maintenance. Policy makers must ensure that the assets created in rebuilding and the responsibility for operating and maintaining them are properly transferred to the relevant owner and/or operating entity (e.g., subnational government, public corporation). The respective entity should be involved in the reconstruction decisions and discussions about operations and budgetary support, including tariff adjustments. If the entity is not involved, new public investment can deteriorate from lack of maintenance in the years following reconstruction. This issue is discussed in more detail in Chapter 8, Infrastructure and Services Delivery.

Targeting and Delivering Assistance to Households

The criteria for eligibility and levels of assistance are discussed in Chapter 4, Who Gets a House? The Social Dimension of Housing Reconstruction. The following sections provide information on the administrative aspects of providing assistance, such as the form of assistance, the mechanisms for delivery, and the procedures for qualification. A communications strategy, including such mechanisms as telephone hotlines, will be needed to promote accountability and detect problems in the targeting and delivery of assistance.

A communications strategy, including such mechanisms as telephone hotlines, will be needed to promote accountability and detect problems in the targeting and delivery of assistance. The suggestions on communicating with the affected population included in Chapter 3, Communication in Post-Disaster Reconstruction, should be kept in mind when developing and announcing the targeting and delivery mechanisms for housing assistance.

Cash transfers and vouchers. Cash transfers and vouchers are the most common ways to provide assistance to affected populations to carry out housing reconstruction. They can also be used to pay for work on infrastructure projects and to provide a broader “social safety net.” A detailed discussion of the factors to consider in designing a social protection system for natural disasters is found in Chapter 4, Who Gets a House? The Social Dimension of Housing Reconstruction, Annex 1, Considerations in Designing a Social Protection System for Natural Disasters. The types of transfers commonly used are the following.
<table>
<thead>
<tr>
<th>Type of cash transfer</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unconditional cash transfers</td>
<td>Given with no conditions as to how the money should be used. Often used immediately after an emergency.</td>
</tr>
<tr>
<td>Conditional cash transfers</td>
<td>Given on the condition that recipients do something (for example, rebuild their house, plant seeds, provide labor, or establish or reestablish a livelihood). See Designing the Conditional Cash Transfer System for Reconstruction, below.</td>
</tr>
<tr>
<td>In-kind transfers or vouchers</td>
<td>Stipulate the items or services for which the recipient can exchange his or her voucher, including construction materials; have a specific value; can either define a service or good that the voucher can be exchanged for or allow the recipient freedom as to purchases; exchanged with specified vendors or at organized fairs.</td>
</tr>
<tr>
<td>Public works</td>
<td>Payment for work on public works programs. Wages should be slightly below market levels to avoid competing with labor market.</td>
</tr>
<tr>
<td>Social safety net or other social transfers</td>
<td>Repeated, unconditional cash transfers provided to vulnerable households or individuals (for example, the elderly or pregnant women). Often focus on reactivating and/or replacing livelihood activities. Best implemented in partnership with government agencies.</td>
</tr>
</tbody>
</table>

The delivery mechanism for cash and vouchers requires careful planning and execution, especially when using direct deliveries. Two important aspects of the delivery system for funds are the institutional intermediary who will manage the delivery and the form in which the funds will be delivered. The following are needed to administer a transfer program:

- A clear targeting rationale and a reliable recipient identification system
- Institutional capacity sufficient to carry out the program in a timely manner
- Good coordination between governmental and nongovernmental actors, if both are involved
- A system for monitoring, reporting on, and evaluating the program, and making adjustments, if necessary

The source of the funds and the agency responsible for delivery may be distinct. The World Bank has analyzed the potential for social funds to participate in the delivery of financial assistance and points out the importance of using an agency experienced in community-based development that has an operational presence in the disaster zone.\(^\text{10}\) Having an effective housing assistance strategy to which key institutions are committed may be more important than having vast sums of money, as shown in the case study, below, on Hurricane Katrina assistance.

The forms in which assistance may be delivered to recipients could include the following:

- Cash transfer into bank/post office accounts
- Cash transfer to local remittance and money transfer companies and burial societies
- Direct cash, check, or voucher distribution to recipient
- Mobile ATMs (for cash withdrawals), smart cards, or money orders
- Direct credit to mobile phones (including distribution of phones, if necessary)
- Delivery through local businesses or community-based organizations

The delivery of funds may not necessarily be to individual households. Management of funds by groups of households has been used successfully in Indonesia and elsewhere. Groups can assist in delivery of, approval of, and social control over disbursements, thereby improving transparency and lowering security and transaction costs.

In designing the delivery system, program sponsors should factor in travel costs, gender mix, security risks (especially if women are delivering or picking up the cash or vouchers), cultural familiarity with the mechanism chosen (ATMs, for example, may require instruction), and direct delivery methods for those who cannot travel.
At the same time, for the transfer program to provide households with the materials they need for reconstruction, the following conditions must be in place in the local market:

- Availability and/or production chain capacity for goods
- A functioning market for the goods and/or services people need and geographical access
- Willing traders with financial and logistical capacity to get goods into the region and assurance that traders will accept vouchers (in the case of voucher systems)
- A reliable recipient identification system
- A reliable and secure delivery system for paying traders who accept vouchers
- No excessive taxation of goods
- An ability to monitor price levels to control price gouging
- An ability to monitor and if necessary offset inflation in costs of materials and labor

Compensating households for price increases may be done by government, or by NGOs or other agencies involved in reconstruction as was done in Sri Lanka after the 2004 Indian Ocean tsunami, as discussed in the case study, below.

Providing construction materials in-kind. When local markets are not functioning properly, or do not have the capacity to provide the quantity or quality of materials required for reconstruction, providing in-kind assistance may be advisable. This can be done simply by buying construction materials in local market and or by sourcing the materials outside the local market. Depending on the quantities procured, in-kind assistance may require the agency involved to arrange warehousing and other forms of logistics. In-kind assistance should be provided to households according to an allocation scheme with criteria and qualification procedures similar to those for cash and vouchers. (In fact, stricter controls may be required for the delivery of materials, which may be more subject to fraud than are cash and voucher programs, due to the demand for and marketability of the goods.) From these “materials banks,” materials may be provided without a financial exchange or traded for cash or vouchers. Goods may be physically delivered directly to households, or the banks may act like markets where homeowners come and choose materials.

While the provision and distribution of in-kind assistance can be challenging for the agencies involved, the benefits may outweigh the costs. The frequently cited benefits of in-kind provision at the household level include the following.

- For poor people, it makes it more likely they will obtain what they need.
- For residents of remote areas, it reduces the time spent travelling to markets and the cost of transporting materials.
- For all homeowners, it helps ensure that they have the proper quantity and quality of materials required to improve building safety.

For an agency experienced with the procurement of construction materials, there are important benefits that can be realized from the scale of procurement, relative to purchases in small lots. Specifically, an agency can:

- order according to specifications (e.g., pre-bent iron bars) that will increase safety, reduce labor inputs on the construction site, and save training time;
- demand quality standards, including materials testing;
- ensure that the desired materials are procured, even if they have to be brought from another region of the country or imported;
- negotiate lower prices or organize procurement before post-disaster prices increases kick in; and
- by receiving materials on a schedule, deliver materials to homeowners in standardized packages (for instance, a package corresponding to a core house).
Designing the Conditional Cash Transfer System for Reconstruction

House Design and Cost
In many programs, the amount of housing assistance is set at a level to allow construction of a core house. Using the core house as a benchmark, government or agencies involved in reconstruction can work with architects, chartered surveyors, and engineers to develop typical floor plans, house designs, labor requirements, materials specifications and quantities, and construction cost estimates. Those developing the house designs and cost estimates will need guidance regarding the reconstruction approach to be employed, role of contractors, availability and cost of materials, etc., so that the specifications accurately reflect conditions in the disaster location.

Homeowners should ideally be given a choice of core house floor plans. The core house designs should generally be improved versions of local traditional designs. Using these designs, the sufficiency of the proposed housing assistance amount should be verified. Where families have financing capacity beyond the core house or other financing sources are available, higher-cost housing designs and cost estimates may also be developed. The house designs should be used to develop construction guidelines and to build model houses. (See Chapter 16, Training Requirements in Reconstruction.)

Progress Payments
Payments should be linked to the progress of construction, in order to control the quality and disaster-resistance of the construction. Progress payments also reduce the potential that beneficiaries use the housing assistance for other purposes and do not rebuild or repair their house and reduce the amount of assistance spent on houses that are never completed (although there will always be some). At the same time, there may be reasons to allow flexibility in the use of the housing assistance. See Chapter 4, Who Gets a House? The Social Dimension of Housing Reconstruction. The amount of the construction progress payments can be derived using the house designs and cost estimates.

Homeowners often have no funds with which to pre-finance the construction, so the payment schedule generally has to advance funds. While this part of the payment is at risk, effective supervision should keep this to a minimum. Payments also have to be timely, so that households do not run out of funds.

Providing four or five installments, each linked to an identifiable stage of construction, keeps transaction costs under control, while providing sufficient leverage on the homeowner. The release of the installment takes place only after an inspection that certifies the consistency of construction with established safety standards. The amount of the installments depends on local conditions (house size, type of construction, and price of materials) and whether part of the assistance is being provided in-kind as materials.

The following is an example of a payment schedule:

- **Installment 1**: 10 percent advance for excavation
- **Installment 2**: 25 percent after the completion of the excavation of the foundations
- **Installment 3**: 25 percent after the construction of the plinth level
- **Installment 4**: 25 percent after the top of the wall (wall band) is cast
- **Installment 5**: 15 percent after roof completion (including gables, if applicable)

Special Payments
Special arrangements are needed to ensure adequate housing reconstruction assistance for vulnerable households (e.g., widows, elderly, female-headed households). This may entail, for example, higher payments so that the household can hire all the labor and/or someone to oversee the reconstruction project.

Care should be taken that the payment scheme encourages homeowners to save on reconstruction costs, e.g., by contributing more labor or recycling disaster debris. Incentives may also be provided to those who finish sooner, since this saves costs for government or other agency overseeing the construction process.

and Distribute Reconstruction Materials, summarizes a range of issues to consider in developing a delivery program for construction materials, based on the experience of the humanitarian sector.

Providing fully built houses. The ultimate form of in-kind assistance is the provision of a fully built house. Programs that provide fully built houses with no contribution from the family are sometimes sponsored after large-scale disasters, often by international organizations concerned about the speed of the response but without existing programs in the disaster area.

Awarding fully built houses as a way to rehouse an affected community has had mixed results. Households sometimes sell a house soon after it is awarded. This is common if the recipient family does not consider the location suitable, could build itself a house for less than the value of the fully built house it has been given, or has pressing needs for cash. Some agencies attempt to force the family to remain in the house, for instance, by restricting the ability to sell for a period of time; however, these requirements can be bypassed by renting or arranging a transaction that is not formally a sale. Fraud can also be a serious problem in programs that award fully built houses, so good control over eligibility and qualification procedures is critical. If the assistance strategy is to provide a fully built house, households should be involved in the construction process to increase the chance that it meets their needs or given the liberty to use this asset as they prefer once it is transferred to them, as they would with cash. See case study in Chapter 8, Infrastructure and Services Delivery, on relocation following Hurricane Mitch, for an example of where families did not remain in fully built houses.

Qualifying Recipients of Assistance
Once the criteria for assistance are established, a system is needed to qualify recipients. This may be especially important in a social protection-type transfer program, where eligibility may seem subjective but recipients of housing assistance should also be subject to a qualification process. Even when the criteria are relatively straightforward (a fixed amount of assistance for every homeowner living in a specific location, for instance), the qualification process may be complex. For the criteria just mentioned, for example, both residency and prior homeownership need to be verified. Outreach or targeting may also be necessary, to ensure that the qualification process reaches all those who are eligible. Local communities, government, and external agencies can help with targeting and qualifying potential recipients.

The procedures can be community-based or administrative, or a combination of the two. Some options for qualifying recipients and their associated risks are shown below.

<table>
<thead>
<tr>
<th>Methods of Qualifying Recipients in Transfer Programs</th>
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<tbody>
<tr>
<td><strong>Type</strong></td>
</tr>
<tr>
<td>Community-based</td>
</tr>
<tr>
<td>Administrative</td>
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<tr>
<td><strong>Method for establishing qualification</strong></td>
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<tr>
<td>Through community leaders</td>
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<td></td>
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<tr>
<td></td>
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<tr>
<td>Through a committee elected by the community</td>
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<tr>
<td>Triangulation of lists compiled by different groups of, for example, men, women, elders</td>
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<tr>
<td>Self-targeting: individuals or households opt in to the program</td>
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<tr>
<td></td>
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<tr>
<td>Selection based on existing government data</td>
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<tr>
<td></td>
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<tr>
<td>Selection based on real-time data collection (survey or census)</td>
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</tbody>
</table>
Qualifying in urban environments. Qualifying recipients in urban environments is frequently more complex than in rural settings, where people tend to know one another. The following are options for improving qualification in urban areas.

- Form local selection committees composed of religious leaders, respected families, women, and representatives of respected professions (for example, teachers).
- Present eligibility/targeting criteria to numerous community groups.
- Divide the urban area into smaller units.
- Target locations within the city where the eligible may congregate (for example, aid centers or refugee camps).

Complaint and Grievance Redressal

Processes that allow stakeholders to file complaints are an important part of an assistance program. They help to ensure transparency and fairness and reduce the risk of errors or manipulation. Complaints are common in programs that provide direct financial assistance. Those being assisted are in a vulnerable situation, and program criteria related to assistance schemes—no matter how well defined—are subject to misinterpretation. Complaints increase when amounts of assistance are large, such as those related to housing reconstruction.

A post-disaster complaints system can have different levels of mediation and grievance redressal, which should be operating both at the project level and at the national policy level. Components of such a system include:

- ongoing outreach, consultation, and review procedures to resolve complaints;
- the use of an independent advisory panel or committee;
- access to the country’s ombudsman or similar function, where it exists; and
- access to legal redress through the courts.

Detailed advice on setting up grievance redressal mechanisms at the project level is included in Annex 2, How to Do It: Establishing a Grievance Redressal System. Information on complaint handling related to public procurement, such as channels for whistleblowers, is provided in Chapter 19, Mitigating the Risk of Corruption.

Lending and Bank Servicing in Reconstruction

Providing credit for post-disaster reconstruction can be done through the banking system or administered by government. Use of credit is more common in countries with good property insurance systems, where insurance proceeds provide the bulk of the reconstruction funds. Demand for credit is likely to be greater in urban reconstruction, where incomes are higher and because multifamily housing is difficult to rebuild without it.

Banks or government may provide reconstruction credit. Governments with experience lending to a population similar to the one affected by a disaster are in the best position to provide credit for reconstruction. Unless potential borrowers’ income is unaffected by the disaster, banks should not be pressured to provide credit for reconstruction under conditions that expose them to unacceptable risks, without government guarantees or other risk reduction strategies.

Banks may play other roles in reconstruction finance, such as in safely delivering housing assistance. They have experience handling large quantities of cash and have financial controls in place. Care should be taken to ensure that banks are experienced or properly prepared to administer reconstruction finance, whether they are providing credit, or simply acting as an intermediary for the delivery of assistance. Bank administrative systems should be capable of handling the volume of transactions; checkbooks, debit cards, and other necessary materials must be available in sufficient quantities; and potential customers should be advised in advance of documentation and other bank requirements. Experts in retail banking may be needed to set up post-disaster programs that entail a large number of banking transactions.
Migrant Worker Remittances in Reconstruction

Migrant worker remittances, by diversifying the recipient family’s income, play a significant role in helping manage risk within the family’s finances.\(^\text{14}\) They smooth consumption patterns when work is seasonal and help households absorb unexpected shocks and demands, including those created by natural disasters. Remittances therefore act as a type of insurance that improves a family’s ability to respond to a crisis.

Labor migration may be an important coping strategy for families affected by a disaster. Migration varies by season, degree of permanence, and location (such as urban/rural, domestic/regional/international), and it has different demographic characteristics (migration by families, men, or women), all depending on the country and culture. Analyzing the components of household income reveals the level of dependence of the affected population on remittances or income from labor migration and the extent to which a disaster has affected them.

Aid agencies should avoid discouraging post-disaster migration or penalizing families for whom migration is an economic coping strategy. This may mean permitting cash grants to be used to support and sustain remittances, including returning to jobs abroad or communicating with relatives. Reestablishing the local communications and banking systems through which remittances flow should be a priority in recovery.

Assistance schemes and reconstruction approaches should reflect the fact that people will want to blend the assistance resources with remittances and other household resources in reconstruction and productive activities. Cash-based support generally provides greater flexibility and choice.

**Role of the diaspora community in reconstruction.** Assistance for entire communities is sometimes financed by collective remittance programs, organized by diverse diaspora groups, sometimes known as hometown associations.\(^\text{15}\) Government may take action to facilitate the entry of remittances following a disaster, as Indonesia did in 2006.\(^\text{16}\) See the case study on Hela Sarana, below, for an example of how the diaspora supported post-tsunami reconstruction in Sri Lanka.

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\(^\text{15}\) Also called township associations and organisations de solidarité international issues de l’immigration, among other names.

Microfinance in Reconstruction

The principle role of MFIs in reconstruction is reactivating the local economy. This is because these institutions are often the principal source of credit for the livelihood activities of low-income, disaster-affected households. Few MFIs have the capacity to finance housing reconstruction; however, they commonly finance microenterprises that are based in the home and provide income that will make reconstruction possible.

There are significant risks for MFIs operating in post-disaster situations. Funders should not pressure MFIs with reconstruction lending targets, for example. Some recommended guidelines for MFIs under these conditions, which agencies supporting MFI activities should also understand, include the following.

- Avoid activities beyond the normal capacity and mission, such as giving medium-term loans to rebuild assets if they have not been provided before.
- Limit relief activities to locating clients, linking clients to relief, and transporting people to where they can receive services.
- Wait until an emergency is over to assess clients’ property damage and credit standing before making reconstruction loans, limiting loans for purposes that don’t generate cash income.
- For disaster-affected clients with loans outstanding, MFIs may adjust savings requirements or reschedule loans, but should avoid subsidizing interest rates or providing other forms of economic relief, to avoid sending mixed messages to clients and damage the credit culture.
- Adjust services to a client’s circumstances, since some clients will be more severely affected by a disaster than others.
- Process insurance claims quickly to give clients access to emergency cash, while screening out false claims (for MFIs with insurance programs).
- Enter new areas to provide emergency financial assistance with caution, and explain the MFI’s purposes clearly, so the MFI is not viewed as a relief agency or donor program.

Restoration of Livelihoods

One of the primary preoccupations of a household after a disaster is restoring its livelihood. It is logical, therefore, that government, humanitarian, and other agencies involved in reconstruction are also concerned about livelihood restoration. Reconstruction provides many livelihood opportunities (as is discussed in several other chapters of this handbook); however, a full treatment of this issue is, regrettably, beyond the scope of the handbook. The authors encourage government and agencies involved in reconstruction to include experts in post-disaster livelihood restoration in assessment teams and in teams developing the assistance strategy for reconstruction, so that livelihood opportunities—especially for poorer households—are maximized in reconstruction. The case study on Habitat for Humanity Nicaragua, below, shows how purchasing of reconstruction materials after Hurricane Felix provided income to the members of a Miskito lumber cooperative.

Risks and Challenges

- Duplication of efforts among government and agencies involved in reconstruction due to lack of coordination in financial programming and in monitoring execution.
- Lack of transparency and accountability in the use of reconstruction funds.
- Abandonment of good PFM practices to speed up disbursements, or overtaxing the PFM system in a way that slows down reconstruction.
- Poor financial decision making due to out-of-date tracking information.
- Confusion on the part of affected households about how to access assistance programs and the rules for using the funds, due to poor communications with the families.
- Delays in distributing reconstruction assistance. Distribution of funds in a way that does not reflect actual needs, due to insufficient outreach, poor qualification procedures, or fraud.
- Misunderstanding the composition of household income, including the importance of remittances.
- Ignoring security risks when delivering cash and voucher assistance.
- Failing to understand the nature of bottlenecks in the market for reconstruction goods and services and therefore trying to solve the wrong problem.
- Long-term negative economic impact of the disaster in poor households.

17. Consultative Group to Assist the Poor (CGAP), 2005, Sustaining Microfinance in Post-Disaster Asia: Guidance for MFIs and Donors (Washington, DC: CGAP), http://www.cgap.org/p/site/c/template.rtc/1.26.1882#key. Also, a range of research on the topic of microfinance and disasters by the Banking With the Poor Network can be found at http://www.bwtp.org/.
Recommendations

1. Be prepared to define the housing reconstruction program in as much detail as possible during the donor conference, as this will encourage the commitment of donor resources.

2. Define the basic parameters of reconstruction, such as minimal housing and public services standards, and establish maximum assistance to reduce competition among agencies involved in reconstruction.

3. Establish an expenditure tracking system at the national level, integrated with tracking at the project level, that ensures timely, accurate, and transparent exchange of information between levels of government, and between government and communities or agencies involved in reconstruction.

4. Define a communications strategy as well as the procedures for regularly and publicly disclosing financial information related to the reconstruction program to affected communities and the general public.

5. Design the assistance scheme so that it provides resources in a form consistent with the reconstruction approach or approaches people will employ. Grievance redressal is a necessary element of an assistance scheme.

6. Realize that members of the community may know best who needs post-disaster assistance and can help in identifying and qualifying households.

7. If production chains and materials markets are functioning, provide assistance in cash. Consider the distribution of construction materials based on a careful analysis of bottlenecks in materials markets.

8. Create a delivery system for cash that is accessible for recipients and secure for those delivering and receiving it. Make sure the system includes special arrangements for those unable to travel.

9. Understand that certain households will rely on remittance flows and microfinance to complement housing assistance, so measures may be needed to ensure access.

10. View institutions as mechanisms that can aid reconstruction, but don’t press them into activities that undermine their long-term survival.

11. Seek the advice of experts in designing the reconstruction program in such a way that it provides livelihood opportunities to poor households.

Case Studies

2007 Hurricane Felix, Nicaragua

Building Back Better while Supporting Livelihoods

Hurricane Felix hit Nicaragua’s Autonomous Region of the North Atlantic (RAAN) on September 4, 2007, leaving behind a path of destruction and despair among indigenous Miskito communities already suffering from significant levels of poverty. One of the worst-affected communities in the RAAN was the Auhya Pihni settlement. Of 150 houses in the settlement, only 3 were left standing, and they were heavily damaged.

During the assessment of recovery options, Habitat for Humanity Nicaragua (HFHN) agreed with the community that local materials and hurricane-resistant design would be used in the new homes. Timber and processed wood are the preferred local materials for house construction in the area, and the Miskito communities make their livelihood from the controlled exploitation of the surrounding forest.

HFHN agreed to purchase wood milled from the trees knocked down by the storm and additional timber processed by a community-based Miskito cooperative. Through this action, the project benefitted from a plentiful supply of materials purchased at a highly discounted price, while the cooperative generated much-needed income to support local families. The community was also able to participate with their skills and labor in the implementation of the project. The house design incorporated flood- and wind-resistant design elements, such as reinforced stilts, hurricane strapping, and use of a specially designed nails to attach the roofing to the structure. The final outcome was 150 houses built within one year of the hurricane and economic support to the families in Auhya Pihni, taking advantage of the natural linkage between housing recovery and livelihood.

2004 Indian Ocean Tsunami, Sri Lanka
Role of Diaspora Financing in Reconstruction
After the 2004 Indian Ocean tsunami hit Sri Lanka, several donors and other agencies developed programs to provide cash for permanent housing reconstruction. The Sri Lankan government cash grant for self-builders was US$2,500 for a new house and US$1,000 for repairs to a damaged house. For full rebuilding, grants were released in four installments over six months. For damaged houses, the money was released in two installments over six months as repairs were completed. The value set by government proved to be inadequate in some cases as demand in the market as a result of the disaster more than tripled the pre-disaster price for construction materials, skilled labor, and land. Government was reluctant to adjust the amount of its housing cash grants because it perceived that the influx of NGO funds for overall tsunami reconstruction was contributing to the cost increases. Another problem was the lack of an effective mechanism to coordinate NGO activities to ensure equitable distribution of the NGO funds, including in the conflict area in northeast Sri Lanka. As a result, NGOs were called on in many cases to provide additional support, either through top-up payments or in-kind assistance, so that people could complete construction.


New Orleans Katrina Housing Facts
- New Orleans had approximately 87,500 owner-occupied housing units in 2000.
- 61% of owner-occupied homes suffered major or severe damage from Katrina.
- 51% of renter-occupied housing suffered major or severe damage from Katrina.
- 80% of subsidized affordable housing suffered major or severe damage from Katrina.
- By late 2008, there were 60,016 applications for reconstruction funds recorded for the city, of which 72% had been approved.
- 80% of homeowners received insufficient funds from various sources to rebuild.
- The average gap between resources and rebuilding costs is $55,000.


2005 Hurricane Katrina, Gulf Coast, United States
More than Money Is Needed to Resettle Disaster-Affected Households
In the United States, federal aid ordinarily lasts only 18 months after a disaster. But temporary housing programs set up in the aftermath of Hurricane Katrina only expired in June 2009, some 45 months after the worst hurricane in U.S. history hit New Orleans and other parts of the U.S. Gulf Coast. While 139,000 households had successfully cycled out of temporary trailers by the end of the program, more than 3,000 households were threatened with eviction from trailers, and another 15,000 faced a cut-off from federal rent subsidies at the deadline.

Expensive missteps in the temporary housing strategy included sheltering the affected population in cruise ships, hotel rooms, military facilities, and unhealthy trailers, until many families were finally moved into apartments. The states of Louisiana, Mississippi, and Texas received reconstruction funds and low-income housing vouchers, but lagged in developing long-term solutions.

When the problems with the trailer program were revealed, US$400 million in federal funds was offered to mass produce prefabricated cottages that could be used either temporarily or permanently. These cottages cost less than US$34,000 to construct, but could not be located where flood risk was the greatest. Mississippi built 3,075 of the cottages, but local jurisdictions refused to grant permits or alter zoning codes, fearing the cottages would lower property values. (Temporary use was later allowed.) Louisiana received funds to build the cottages, but after two years had not delivered a single one. In early 2009, the federal government offered to sell federally owned mobile homes to trailer occupants for US$5 each, and offered an additional US$50 million in vouchers and US$40 million in economic stimulus funds to Louisiana and Mississippi, even though the states had not used the money that was already available.

An important lesson from Hurricane Katrina is that money alone is not sufficient to provide permanent housing solutions to all those affected by a disaster. A reconstruction strategy that provides the proper incentives to the actors involved and to which all institutions are committed may be a more critical element.

2004 Indian Ocean Tsunami, Sri Lanka

Effect of Post-Disaster Price Increases

After the 2004 Indian Ocean tsunami hit Sri Lanka, several donors and other agencies developed programs to provide cash for permanent housing reconstruction. The Sri Lankan government cash grant for self-builders was US$2,500 for a new house and US$1,000 for repairs to a damaged house. For full rebuilding, grants were released in four installments over six months. For damaged houses, the money was released in two installments over six months as repairs were completed. The value set by government proved to be inadequate; demand in the market as a result of the disaster had increased the price for construction materials, skilled labor, and land by at least three times their pre-disaster costs. As a result, NGOs were called on to provide additional support, either through top-up payments or in-kind assistance, so that people could complete construction.


Resources


Reconstruction depends on the disaster-affected population having access to construction materials. When the usual system that supplies construction materials is either inadequate or interrupted, interventions by government or agencies involved in reconstruction may be required. The decision about how and where to intervene in the market is relatively complex, and the best intervention may be something other than materials procurement, warehousing (also called stockpiling in the humanitarian community), and distribution. This annex provides guidance on making these decisions.

Understanding Non-Food Item Distribution

Construction materials are referred to by the humanitarian community as “non-food items” (NFIs). They are distributed in large numbers every year as part of humanitarian assistance programs. Humanitarian agencies know that NFI distributions help to save lives and restore a sense of home following a natural disaster. The categories of NFIs generally include (1) general household support items, such as blankets and cook sets; (2) household shelter construction support items, such as tool kits and construction materials (see adjacent box); and (3) household water, sanitation, and hygiene support items, such as mosquito nets and household water treatment.

As the Inter-Agency Standing Committee (IASC) guide on NFIs notes, the demand for and source of NFIs changes over the course of a disaster response. Initially, a higher proportion NFIs are likely to have been stockpiled or brought in from outside the region, because there may be constraints on local availability and logistics. Later, after the emergency phase, the NFIs are more likely to be procured and distributed locally and regionally.

Analyzing the Need for Materials Distribution

In addition to creating logistical and economic challenges for the agencies involved, the importation and distribution of construction materials can create distortions in the local materials market that can have long-term unintended consequences. In making an assessment of available resources, and deciding whether materials need to be brought in from outside, it is important to evaluate the impact of the disaster on materials availability, demand, and distribution. Agencies involved in reconstruction should also confirm whether household shelter construction support has taken place or is planned as part of the humanitarian response. There are several factors to consider.

Increases in demand. Demand for materials increases dramatically after a disaster. However, the pattern of the increase changes over the reconstruction period, which is likely to last a number of years. Both the population affected by the disaster and implementing agencies will be looking for materials for reconstruction. In addition to what is needed for reconstruction, the population will need materials for constructing shelter. Displaced families will need materials for transitional shelter, such as a temporary shelter on the property of a host family. Returned or nondisplaced families will need materials for transitional reconstruction, for example, for weatherproofing their damaged house, while they undertake full repairs. One of the justifications for the transitional shelter approach, whereby materials are used for shelter and reused in reconstruction, is precisely the reduction in the demand for reconstruction resources.

Decreases in supply. Demand for materials can often outstrip sustainable supply, as the baseline supply is usually just a fraction of what is required after a disaster. Constraints on supply may produce interruptions in production, including (1) the workforce is not available immediately after the disaster because their priorities change or they are displaced and unable to get to work; (2) there are shortages of raw materials because of the disaster; (3) there is insufficient or damaged capacity of the manufacturing plant, due to cut-off of power or water; and (4) there is a demand for materials that are not normally harvested or manufactured or used in a particular season, for example, thatch. The transportation of significant quantities of materials can also disrupt markets and damage infrastructure, for example, absorbing all available transport capacity or damaging the roads themselves.

Logistics breakdowns and transportation interruptions. Post-disaster logistics may also constrain supply. This may affect both normal movement of materials and shipments that agencies attempt to bring into the region. The capacity to move materials is affected by (1) damage to access routes; (2) reductions in transport capacity (damage to trains or competition for trucks, for example); (3) security problems in transportation; and (4) barriers to transportation, such as border crossings and hazardous areas.
The distance materials are transported, such as those caused by diversions of routes, and the number of stages in the distribution chain also affect supply. Losses in transit are caused by damage and theft and by inefficiencies in the on- and off-loading of materials. When combined, loss in transit and double handling may account for well over 10 percent of materials sourced not reaching their destination, a significant inefficiency.

Warehousing and distribution issues. Finally, in considering the outside procurement and distribution of materials, the distribution chain may require warehousing at international, regional, national, local, and satellite community levels. Damage to warehouses or higher demands for warehousing or distribution can also cause interruptions in supply. Local distributions may be to communities or households, with each option having advantages and disadvantages. Temporary warehouses may need to be constructed, and entities who can handle the physical distribution to recipients, possibly private shipping and distribution companies, nongovernmental organizations (NGOs), or civil society organizations (CSOs) with distribution experience or under the direction of agencies with this experience, must be identified.

Addressing Bottlenecks in the Construction Materials Chain

As this analysis demonstrates, it is not enough to simply identify that materials are in short supply or that prices have risen. It is necessary to understand which factors in the supply chain are creating bottlenecks, and to identify the appropriate interventions. Interventions in response to inadequacies and interruptions in the market supply of construction materials may be general or localized, short term or medium term. For example, the most effective way to increase supply may be to temporarily provide transportation for a workforce or to rebuild the power station that would allow a sawmill to get back online to produce planks and door and window frames locally. The Emergency Market Mapping and Analysis (EMMA) can be used to identify these bottlenecks.

An analysis tool like EMMA is useful in conducting this analysis. EMMA is used in shelter recovery to inform early decisions about the possibility of using cash, to help identify opportunities and actions needed to restore or rehabilitate critical market systems, and to track the impact of a crisis and humanitarian interventions on critical markets.

Similar to a value chain analysis, EMMA provides insights on the impact of a disaster on markets and supply chains for critical reconstruction inputs and other products. Still in development with the support of Oxfam Great Britain and the United States Agency for International Development (USAID) Office of U.S. Foreign Disaster Assistance (OFDA), among others, the analysis produced can inform early decisions about whether cash or in-kind is the most appropriate form of assistance, can help identify opportunities and actions needed to restore or rehabilitate critical market systems, and can be used to monitor the impact of humanitarian interventions on markets.

The EMMA methodology analyzes three critical dimensions of a market system:

1. Institutions and rules (policies, institutions, regulations, and norms that affect a trading environment)
2. Value chain actors (businesses and individuals who own the goods as they move along a chain from producers to consumers)
3. Services and infrastructure (business services and infrastructure that support or enable the chain’s operations to work more effectively)

The figures below were produced as part of an EMMA and show the affect of Cyclone Nargis on the supply of thatch in Myanmar.

Annex 1 Endnotes
Complaint and grievance redressal mechanisms help to ensure transparency and fairness and reduce the risk of errors or manipulation in an assistance program. All assistance programs produce complaints. Beneficiaries are in a precarious situation, and complaint criteria—no matter how well defined—are subject to misinterpretation, creating fertile ground for complaints. Complaints increase when amounts are higher, as those for housing reconstruction generally are. Lessons from experience include the following.  

## Nature of Complaints

The matters people will complain about are fairly predictable.  
- Exclusion: People neglected or forgotten who should actually be registered.  
- False claims: People who know that they are not eligible trying to get assistance anyway.  
- Reinstatement: Eligible beneficiaries deleted or omitted from registration list due to clerical errors.  
- Hardship: People who don’t strictly meet the criteria asking for inclusion for reasons of hardship. (Names may be registered and procedures for exceptions should be transparent and well documented.)  
- Inclusion: People objecting to presence of certain other people on the beneficiary list.  
- Program staff, rules, or procedures: People lodging complaints against the program administration, employees, or rules, or about the amount of assistance.

## Design Requirements

Complaint mechanisms cannot be added when complaints arise; they must be designed into any program that provides cash, vouchers, or other assistance from the beginning. The characteristics of good complaint mechanisms are as follows.  
- Staff and beneficiaries understand the mechanism.  
- Mechanism is set up early, has well-documented procedures, and good records of intake and outcomes.  
- It is timely in responding, so grievances don’t build.  
- Processing is confidential, impartial, and transparent, so people feel fairly treated.  
- Decisions are based on good information and validated locally wherever possible.  
- Agency is able to provide redress for issues it is taking complaints for and to guarantee safety of staff involved.

## Communicating Procedures

Complaint mechanisms cannot be added when complaints arise; they must be designed into any program that provides cash, vouchers, or other assistance from the beginning. The characteristics of good complaint mechanisms are as follows.

### Elements of a Grievance Redressal System

| Announcement | The right to complain and procedures for complaints must be explained in detail to beneficiaries. |
| Complaint intake | The procedure must be clear. Appointments may be advisable. All complaints must be registered in a database regardless of source. A telephone hotline, if used, should include a reliable system to register complaints. Complainants should receive a receipt, ideally a copy of the written record. |
| Location | A safe place is provided to present complaints and to be interviewed, ideally away from where cash or vouchers are distributed. Complainants should not be allowed to congregate at this location. |
| Enquiry and verification | Each complaint should be verified within a given period, using local information. |
| Communicating decisions | The complainant should be notified in writing as to whether the complaint has been accepted or denied. |

### Second Hearing

It is often advisable to have a second level of appeal mechanism that provides arbitration if the complaint cannot be satisfactorily resolved within the program’s complaint system. In the case of an arbitration process:
- The steps and controls in the process should be similar if not identical to the complaint procedure.  
- The appeal committee may include a wider range of actors, including community representatives or local officials.  
- More extensive investigation may be carried out.  
- The decision of the grievance committee should be final.  

An alternative is to have the second hearing be advisory and to have an additional arbitration process. The number of levels of recourse will depend on the particular circumstances.

### Other Feedback Mechanisms

Feedback mechanisms should be available at each level where accountability is required, at a minimum, agency, staff, and program. There should be a mechanism to report corruption in the system, either a separate system, or reports may be accepted through the complaint mechanism and forwarded to an appropriate body. See Chapter 19, Mitigating the Risk of Corruption, for information on anticorruption measures. Complaint procedures should be evaluated once they have been in operation for a period of time to ensure that outcomes are fair and acceptable to those being served. The database of complaints is an important input for this evaluation.

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Annex 2 Endnotes