

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

JAMAICA

CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES

(JA-O0004)

PROJECT PROFILE

This document was prepared by the project team consisting of: Juan Jose Durante, Team Leader; Fernando de Olloqui, Alternate Team Leader; Guillermo Collich, Annabella Gaggero, Rafael Rosillo and Hongrui Zhang, IFD/CMF; Sergio Lacambra and Yuri Chakalall, CSD/RND; Maricarmen Esquivel and Anaitee Mills, CSD/CCS; Anne-Marie Urban, SCL/GDI; Guillermo Eschoyez, LEG/SGO; Naveen Jainauth-Umrao and Renee Herrera, VPC/FMP; and Sheriees Ruddock, CCB/CJA.

Under the Access to Information Policy, this document is subject to Public Disclosure.

PROJECT PROFILE

JAMAICA

I. BASIC DATA

Project Name:	Contingent Loan for Natural Disaster Emergencies		
Project Number:	JA-O0004		
Project Team:	Juan Jose Durante, IFD/CMF, Team Leader; Fernando de Olloqui, Alternate Team Leader, IFD/CMF; Guillermo Collich, Annabella Gaggero, Rafael Rosillo and Hongrui Zhang, IFD/CMF; Sergio Lacambra, CSD/RND; Yuri Chakalall, RND/CJA; Maricarmen Esquivel, CSD/CCS; Anaitee Mills, CCS/CJA; Anne-Marie Urban, SCL/GDI; Guillermo Eschoyez, LEG/SGO; Naveen Jainauth-Umrao and Renee Herrera, FMP/CJA; and Sheries Ruddock, CCB/CJA.		
Borrower:	Jamaica		
Executing Agency:	Ministry of Finance and the Public Service		
Financial Plan:	IDB (OC):	US\$	285,000,000
	Total:	US\$	285,000,000
Safeguards:	Policies triggered:	B.01, B.07, B.13, B.17	
	Classification:	Not required	

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background and Justification

- 2.1 **Exposure and vulnerability to natural disasters.** Jamaica, the fourth largest Caribbean country by population at over 2.7 million, is highly exposed to natural hazards of varying intensity and severity, including hurricanes, earthquakes, droughts, floods, and landslides. Jamaica ranked 101 out of 206 countries worldwide in the frequency of disasters, 1990-2014¹. Between 1988 and 2012, eleven named storms made landfall in Jamaica, causing significant physical and financial damages.² The assessed damage from Hurricane Gilbert in 1988 of US\$1 billion represented 26% of GDP, while from 2004 to 2010, there were five severe hurricanes and storms that caused damages above US\$200 million each, representing losses ranging from 1.9% to 5.7% of GDP in the corresponding year,³ including Ivan in 2004 with assessed damages and losses worth US\$580 million and Dean in 2007 for US\$329 million.
- 2.2 Jamaica's exposure to climate hazards is mainly related to its location within the Atlantic Hurricane Belt and its hilly topography, and affects some of the primary

¹ Frequency of disasters per 1000 km². Jamaica 2016 Article IV Consultation, International Monetary Fund (IMF).

² Options for a Disaster Risk Financing Strategy in Jamaica. World Bank, September 2017.

³ Ibid, based on data from the Planning Institute of Jamaica.

drivers of the economy (tourism and agriculture).⁴ Tropical storms are the most significant hazard in terms of influence area and severity level.⁵ In addition, and to a lesser extent, there is high exposure to earthquakes. Jamaica's infrastructure and tourism sectors have historically accounted for 73% of damage and loss from natural disasters since 2000.⁶ The adverse impacts of hurricanes have affected the natural resources, including the decline in the health of coral reefs, loss of seagrass beds, severe beach erosion and loss of forested areas. In addition, the country has experienced loss of lives and property; damage to infrastructure; periodic isolation of communities; and disruption to the school system and health services.⁷

- 2.3 Moreover, as the effects of climate change intensify, Jamaica can expect extreme weather events to become more frequent and more intense, resulting in greater impacts on the environment, economy and the population. A study assessing the impact of climate change on tropical cyclones indicates a particularly large increase in potential direct economic damage for Jamaica.⁸ Coastal areas in Jamaica are at the forefront of climate change impacts as they are directly affected by storm surges, physical development and sea level rise. With sea levels projected to rise by an average of 2-3 mm per year during the first half of this century, the effects on the coastal areas will be severe, and include erosion and coastal land subsidence.
- 2.4 **Financial vulnerability.** Jamaica's economic reform program, supported by the IMF, has made major strides in restoring macroeconomic stability, supported by fiscal consolidation. Albeit, one of the risks to economic performance is that natural disasters could affect growth as well as the positive trend in the evolution of public debt.⁹ Jamaica is one of four countries that have been identified as among the most vulnerable small island sovereigns on the credit implications of climate change, due to its very low resilience based on low income levels and the government's limited fiscal flexibility.¹⁰
- 2.5 Jamaica's Country Disaster Risk Profile (CDRP)¹¹ presents country-level hurricane risk by estimating the potential economic losses of public and private assets due to hurricanes. According to the CDRP, the probable maximum loss (PML) due to hurricanes was estimated at US\$1.6 billion (with a 1/100 years return period) and the average annual loss (AAL) was estimated at US\$105 million. On the other hand, IMF debt sustainability stress test indicates that a shock that causes 4% of GDP in damages, twice the average cost of natural disasters in Jamaica over the past two decades, would shift the entire public debt trajectory up by around 5% of GDP above the baseline.¹²

⁴ IDB Group Country Strategy with Jamaica 2016-2021 (GN-2868).

⁵ Indicators for Disaster Risk and Risk Management: Program for Latin-America and The Caribbean: Jamaica, Inter-American Development Bank (IDB), 2010.

⁶ World Bank, op cit.

⁷ UNEP/EU – Caribbean environment program.

⁸ The heat is on: How climate change can impact sovereign ratings. Standard and Poor's. 2015.

⁹ IMF. 2016 Article IV Consultation.

¹⁰ [Bloomberg \(December 5, 2017\). Bahamas, Jamaica Among Most at Risk From Climate Change: Moody's.](#)

¹¹ Disaster Risk Profile for Jamaica. IDB-TN-635 (April 2014).

¹² IMF, op cit.

- 2.6 The country's vulnerability to natural hazards and its current macroeconomic environment highlight the importance of implementing measures that can help increase Jamaica's economic and fiscal resilience to disaster risk. Historically, the Government of Jamaica has chosen to reallocate resources within the domains of ministries to meet the more pressing costs of natural disaster response. Between 2004 and 2014, the national budget, through both the Estimates of Expenditure and the reallocation through mid-term Supplementaries, have accommodated approximately 22.6% of total disaster financing needs, or US\$895 million.¹³
- 2.7 **Natural disaster risk management.** Recognizing the importance to address the country's high exposure and vulnerability to hurricane events and additional risk imposed by climate change, over the last years the Government of Jamaica has initiated several policy, legal, and institutional actions that promote a proactive and comprehensive approach to Disaster Risk Management (DRM). The Disaster Risk Management Act (DRMA), revised in early 2015, defines the government's capacity to identify, reduce, and manage disaster risk through a comprehensive set of guidelines and procedures targeting the national, parish, and community levels.
- 2.8 In terms of financial protection, the DRMA has a legal provision for the Natural Disaster Fund (NDF) and its funding sources. The NDF is intended for projects for mitigation of disaster risk, prevention of, preparedness for, response to, and recovery from emergencies and disasters, and for financial assistance to households for relief and recovery from a disaster. However, the NDF is mainly used for risk reduction activities and is reported to be capitalized at US\$2 million.¹⁴ In addition, Jamaica has already taken steps for the implementation of ex ante risk transfer instruments to face the extraordinary expenses of natural disaster emergencies, mainly through the purchase of insurance from the Caribbean Catastrophic Risk Insurance Facility (CCRIF), which provides coverage for catastrophic events of very high intensity but low probability of occurrence. This risk transfer instrument complements the country's risk retention capacity provided with this contingent loan.
- 2.9 **Strategic alignment of the operation.** The operation is aligned with the IDB Group Country Strategy with Jamaica (2016-2021) (GN-2868), particularly with the cross-cutting theme of resilience to climate shocks, as the operation will contribute to increasing climate finance resources and support the multi-sectorial approach to the issue of resilience and disaster risk management through the financial protection provided by this loan, along with the actions contemplated in the Comprehensive Natural Disaster Risk Management Program (CDRMP) (¶3.4). The operation is also consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) and is aligned with the cross-cutting theme of climate change and environmental sustainability, by increasing the ex ante financial coverage available to the country in the event of a severe or catastrophic natural disaster. Additionally, the operation is aligned with the cross-cutting theme of gender equality and diversity, as it will strengthen the support for women during an emergency and increase their involvement in disaster preparedness and response, as part of the activities contemplated in the CDRMP. As well, the

¹³ World Bank, op. cit.

¹⁴ Ibid.

operation is aligned to the Corporate Results Framework (CRF) 2016-2019 (GN-2727-6), as it specifically contributes to the auxiliary indicator “Countries that have improved disaster risk management”. Furthermore, the operation is consistent with the Bank’s Disaster Risk Management Policy (GN-2354-5) and with the Climate Change Sector Framework (GN-2835-3) by supporting the public sector’s use of financial instruments, through the identification of practices that spread out the risk associated with the management of uncertainty within the public sector.

B. Objectives and Expected Results

- 2.10 The objective of the operation is to alleviate the impact that a severe or catastrophic natural disaster could have on the country’s finances, by increasing the availability, stability, and efficiency of contingent financing to address emergencies. Additionally, the operation seeks to enhance the comprehensive disaster risk management of the country by fostering improvements in five main areas to be monitored through the CDRMP: (i) disaster risk management governance; (ii) risk identification; (iii) risk reduction; (iv) preparation for emergency and response; and (v) financial protection and risk transfer.¹⁵
- 2.11 In line with the operation’s objective, the expected outcomes are: (i) an improved country’s financial risk management of natural disasters by increasing stable and efficient contingent financing to cover extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters; and (ii) an effective national policy for comprehensive natural disaster risk management that incorporates gender considerations.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 The proposed operation is structured as a Bank investment loan, which will be granted through the Contingent Credit Facility for Natural Disaster Emergencies (CCF) (GN-2502-2 and GN-2667-2), for a total amount of up to US\$285 million. To determine the country’s financing needs to address emergencies caused by natural disasters, the Bank analyzed the exposure, vulnerability and historical impact of natural disasters in Jamaica.¹⁶ This loan will be available for disbursement for a period of five years, starting from the loan effectiveness date. The disbursement period may be extended for up to five additional years, upon the borrower’s request and at the Bank’s discretion. The Ministry of Finance and the Public Service will be the executing agency. Under the coordination of the executing agency, the use of loan resources will be carried out by the government, through their public-sector institutions responsible for budget execution during emergencies, particularly the Office of Disaster Preparedness and Emergency Management (ODPEM).¹⁷ It is anticipated that the Bank will provide technical support to the Ministry of Finance and the Public Service to improve

¹⁵ Special attention will be given to addressing gender equality as a cross cutting issue in the CDRMP, particularly in the areas of DRM governance and emergency preparedness and response. Evidence suggests that the active inclusion of women in local disaster preparedness contributes to resilience and can prevent loss of life (for example, Making Disaster Risk Reduction Gender-Sensitive, UNDP, et al. 2009).

¹⁶ The amount of the loan is within the limits established for the CCF (GN-2667-2).

¹⁷ ODPEM is the organization responsible for disaster management in Jamaica.

implementation capacity, particularly with regard to emergency response and reporting of eligible expenditures.

- 3.2 The contingent loan will be designed to: (i) ensure a fast provision of liquid resources to finance extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters; and (ii) have an adequate amount of resources, within the limits established by the CCF, that can meet the foreseeable financing needs of Jamaica when such disasters take place.
- 3.3 Given the contingent nature of the operation, loan disbursements will only be made: (i) if an event of specific location, type and magnitude, previously agreed between the country and the Bank, takes place; and (ii) if at the time of disbursement, the Bank has sufficient resources from the sources mentioned in ¶3.5. The eligible events that can trigger potential disbursements will be outlined between the country and the Bank in the Operating Regulations (OR) of the program. The loan will provide coverage for hurricanes and earthquakes. However, during loan implementation, at the borrower's formal request and once the Bank has developed the corresponding parametric triggers for the respective hazard, other relevant hazards for the country could be included under the loan's coverage through modification of the OR.
- 3.4 **Comprehensive Natural Disaster Risk Management Program (CDRMP).** The CCF states that all borrowing member countries of the Bank are eligible to receive financing through the facility, provided that they have a current CDRMP in place to the Bank's satisfaction, with the objective of promoting the effective formulation of a national policy on the comprehensive management of disaster risks, thereby strengthening the general governance framework, improving the identification and reduction of such risks, and enhancing disaster management as well as the financial management of disaster risks. The Bank is currently working with the Government of Jamaica on formalizing the CDRMP.
- 3.5 **Disbursement mechanism.** According to the CCF, when an eligible event occurs, the country can decide if the funds to be disbursed under the loan will come from one of the following alternative sources of Bank resources: (i) funds from the regular lending program; (ii) funds from available undisbursed balances of investment loans in the country's active portfolio with the Bank (Automatic Reallocation List); or (iii) a combination of these two options.
- 3.6 **Eligible expenditures.** Resources disbursed from the contingent loan may only be used by the borrower to finance extraordinary public expenditures incurred during emergencies caused by eligible events. The Bank may recognize the eligible expenditures incurred and paid by the borrower for 180 calendar days following the date on which the disaster occurred. The types of eligible expenditures will comply with the requirements established in documents GN-2502-2 (paragraph 4.20) and GN-2502-3 (paragraph 1.7.b), including the negative list to be agreed upon between the country and the Bank. Some examples of eligible expenditures include: (i) emergency health equipment; (ii) vaccines and medications; (iii) facilities and equipment for temporary shelters; (iv) food for the affected population; and (iv) temporary rehabilitation of infrastructure and restoration of basic services; among others.

Sector knowledge. The Bank has approved seven loans from the CCF throughout the region, with two successful disbursements in the last two years for a total US\$176 million (3670/OC-EC and 4331/OC-DR). During 2018, the Bank is set to further expand the use of the CCF throughout five more countries in the region. Furthermore, in the last few years, the Bank has supported the Government of Jamaica in producing the following studies: (i) Indicators for Disaster Risk and Risk Management: Program for Latin-America and The Caribbean: Jamaica (see footnote 5); (ii) Jamaica's Country Disaster Risk Profile (see footnote 11); and (iii) Index of Governance and Public Policies on DRM (iGOPP) for Jamaica.¹⁸

IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1. In accordance with directive B.13 of the Environmental and Safeguards Compliance Policy (GN-2208-20), this operation does not require classification.
- 4.1 Regarding fiduciary aspects, the operation will be adjusted to the specific requirements and procedures for fiduciary control established for the CCF (GN-2502-2 and GN-2502-3).

V. RESOURCES AND TIMETABLE

- 5.1 It is estimated that a budget of US\$72,500 will be required for the preparation of this operation. The distribution of the Proposal for Operation Development (POD) for the Quality and Risk Review (QRR) is scheduled for July 6, 2018 and the consideration of the Loan Proposal by the Bank's Board of Executive Directors is scheduled for September 26, 2018.

¹⁸ iGOPP: Index of Governance and Public Policy in Disaster Risk Management: Jamaica's National Report. IDB-TN-757. October 2015.

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¹ The information contained in this Annex is confidential and will not be disclosed. This is in accordance with the "Deliberative Information" exception referred to in paragraph 4.1 (g) of the Access to Information Policy (GN-1831-28) at the Inter-American Development Bank.



Safeguard Policy Filter Report

Operation Information

Operation		
JA-O0004 Contingent Loan for Natural Disaster Emergencies		
Environmental and Social Impact Category	High Risk Rating	
B13		
Country	Executing Agency	
JAMAICA	JA-MF - MINISTRY OF FINANCE)	
Organizational Unit	IDB Sector/Subsector	
Country Office Jamaica	RISK FINANCING	
Team Leader	ESG Primary Team Member	
JUAN JOSE DURANTE		
Type of Operation	Original IDB Amount	% Disbursed
Container	\$285,000,000	0.000 %
Assessment Date	Author	
21 Jun 2018	annabellag Operational Analyst	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	18 Jun 2018	
QRR (Estimated)	6 Jul 2018	
Board Approval (Estimated)		
Safeguard Performance Rating		
Rationale		



Safeguard Policy Filter Report

Potential Safeguard Policy Items

[No potential issues identified]

Safeguard Policy Items Identified

B.1 Bank Policies (Access to Information Policy– OP-102)

The Bank will make the relevant project documents available to the public.

B.1 Bank Policies (Gender Equality Policy– OP-761)

The operation will offer opportunities to promote [gender equality](#) or [women's empowerment](#).

B.7 Supervision and Compliance

The Bank is expected to monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.

B.13. Noninvestment Lending and Flexible Lending Instruments

Ex-ante impact classification may not be feasible for this type of operation. This includes: policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, and conditional credit lines for investment operations.

B.17. Procurement

Suitable safeguard provisions for the procurement of goods and services in Bank financed operations may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.

Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

Additional Comments

ESRNet comment at ERM: It is our understanding that the CCF is one of the two instruments that the Bank can use in the event of natural disasters to cover a country's immediate expenses to restore basic services to the population. This instrument was created in 2009 on a pilot basis and incorporated in the normal instruments of the Bank in 2012, after OP-703 was approved, and therefore is not explicitly referred in OP-703. We understand that CRF are not exempted from application of OP-703 and we support the proposed classification as B.13 Flexible Lending Instrument.

ENVIRONMENTAL AND SOCIAL SAFEGUARD STRATEGY

- 1.1 The objective of the Contingent Loan for Natural Disaster Emergencies JA-O0004 is to alleviate the impact that a severe or catastrophic natural disaster could have on the country's finances, by increasing the availability, stability, and efficiency of contingent financing to address emergencies. Additionally, the operation seeks to enhance the comprehensive disaster risk management of the country by fostering improvements in five main areas to be monitored through the Comprehensive Natural Disaster Risk Management Program (CDRMP) required to access this loan¹: (i) disaster risk management governance; (ii) risk identification; (iii) risk reduction; (iv) preparation for emergency and response; and (v) financial protection and risk transfer.²
- 1.2 It is important to note that the types of eligible expenditures will comply with the requirements established in documents GN-2502-2 (paragraph 4.20) and GN-2502-3 (paragraph 1.7.b), including the negative list to be agreed upon between the country and the Bank. Some examples of eligible expenditures include: (i) emergency health equipment; (ii) vaccines and medications; (iii) facilities and equipment for temporary shelters; (iv) food for the affected population; and (iv) temporary rehabilitation of infrastructure and restoration of basic services; among others.
- 1.3 Additionally, it should be noted that the granting and availability of the contingent loan is conditioned upon the execution, to the Bank's satisfaction, of the CDRMP previously agreed upon between the country and the Bank. The CDRMP includes actions to prevent and mitigate risks associated with natural disasters.
- 1.4 Consequently, based on the foregoing, this operation is subject to the provisions established in Directive B.13 of the Environmental and Safeguards Compliance Policy (GN-2208-20) and, therefore, does not require classification or the preparation of an Environmental and Social Management Report.

¹ See Project Profile, paragraph 3.4.

² Special attention will be given to addressing gender equality as a cross cutting issue in the CDRMP, particularly in the areas of DRM governance and emergency preparedness and response.

SECTORAL WORK INDEX

Studies	Description	Dates	References and Links
IDB and other sources	Jamaica 2016 Article IV Consultation		International Monetary Fund
	Options for a Disaster Risk Financing Strategy in Jamaica	September 2017	World Bank
	IDB Group Country Strategy with Jamaica 2016-2021	October 2016	Document GN-2868
	Indicators for Disaster Risk and Risk Management: Program for Latin-America and The Caribbean: Jamaica,	2010	Inter-American Development Bank
	The heat is on: How climate change can impact sovereign ratings.	2015	Standard and Poor's
	Bahamas, Jamaica Among Most at Risk From Climate Change: Moody's	December 5, 2017	Bloomberg
	Jamaica's Country Disaster Risk Profile (CDRP)	April 2014	Disaster Risk Profile for Jamaica. IDB-TN-635
	iGOPP application in Jamaica (analysis of the legal, institutional and budgetary framework for disaster risk management)	October 2015	iGOPP: Index of Governance and Public Policy in Disaster Risk Management: Jamaica's National Report. IDB TN-757.
Execution mechanism and fiduciary and control issues	Operating Regulations of the Contingent Loan (designed by the Project Team)	In preparation	
	Contingent Credit Facility for Emergencies caused by Natural Disasters. Operational Guidelines	September 2014	Document GN-2502-3
Risk analysis	Application of the Bank's methodology for risk analysis carried out by the team	May 2018	

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