Inter-American Development Bank

Board of Executive Directors

For consideration

GN-2405-3
14 March 2006
Original: English

To: The Board of Executive Directors

From: The Secretary

Subject: Fund for the Financing of Disaster Prevention – Disaster Prevention Fund. New revised version

Inquiries to: Ms. Janine Ferretti (extension 1795) or Mr. Antonio Vives (extension 1608)

Remarks: Attached is a new revised version of the referenced document containing the changes requested by the Budget and Financial Policies Committee on 14 March 2006. The changes are marked with a line in the right-hand margin.

Supersedes: GN-2405-2(3/06)

References: GA-220-12(9/05), GN-2339(10/04), GN-2349-4(1/05), GN-2350-4(1/05), GN-2405-1(3/06)

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

FUND FOR THE FINANCING OF DISASTER PREVENTION

DISASTER PREVENTION FUND

14 MARCH 2006

This document was prepared by a team composed of Niels Holm-Nielsen, (Consultant SDS/ENV), Kari Keipi (SDS/ENV), Ricardo Quiroga (SDS/ENV), Gerónimo Frigerio (LEG) and Janine Ferretti (SDS/ENV), Team Leader, under the direction of Antonio Vives (SDS, a.i.). The following people provided comments for this document: Alonso Chaverri (LEG/LIN), Diego Buchara (LEG/OPR), Laura Fan (FIN/FND), Asunción Aguilá (RE1/EN1), Alvaro Llosa (RE3/EN3), Bob Kaplan (RE2/EN2) and Caroline Clarke (RE2/EN2).

FUND FOR THE FINANCING OF DISASTER PREVENTION

DISASTER PREVENTION FUND

FUND FOR THE FINANCING OF DISASTER PREVENTION[1]

I. OBJECTIVE

1.1 The main objective of this document is to propose the establishment by the Inter-American Development Bank (The Bank) of fund for the financing of individual non-reimbursable operations, to support disaster risk management activities and the preparation of disaster prevention projects that will benefit all Bank borrowing member countries (the "Disaster Prevention Fund" or the "Disaster Prevention Fund"). Initially the Disaster Prevention Fund will receive an allocation of US$10,000,000 from Ordinary Capital resources[2], to be complemented by resources obtained from Donors, in the form of individual trust fund or a multi-donor trust fund.

II. BACKGROUND

2.1 The vulnerability to natural disasters is becoming one of the greatest threats to the economic and social development of many countries in the region. Recent disasters have shown that, in addition to irreparable loses of life, countries can also lose essential infrastructure and services. The macroeconomic stability of a country may be seriously impacted by the effects of a disaster, particularly in the absence of prevention to minimize losses. The more intense and possibly more frequent weather related natural hazard events may contribute to the widening gap between the losses and available reconstruction funding. However, the capacities to undertake and manage prevention measures are still limited and require significant strengthening

2.2 When disasters occur, reconstruction is typically financed through budgetary transfers, use of reserve funds, diversion of current loans or grant funds and new borrowing. The use of each of these sources offers challenges for the countries. Budgetary transfers and diversion of loan or grant funds have an enormous opportunity cost because these actions reduce funding for programmed development projects. Limited resources for disaster rehabilitation lead to inadequate reconstruction, in turn increasing the risk to other hazards.

2.3 Investing in disaster prevention is increasingly recognized as a necessity to sustain growth and sustainable development in the region. The Bank and the donor community must increase their support to the countries and the region in terms of strengthening their capacity to undertake sound prevention measures and

[1] "Disaster" in this document refers to the consequences of a natural hazard only. Such hazards include: earthquakes, windstorms, hurricanes, landslides, tidal waves, volcanic eruptions, floods, forest fires, and drought, or a combination thereof.

[2] In line with the requirements set forth in the document that establishes the *Criteria for appraising Bank programs eligibility for funding from the Special Programs/Grants of OC resources* (revised version, GA-220-12)

activities. Appendix 1 of this document elaborates in detail how the Bank has been supporting countries in the area of disaster risk management, as well as the instruments available for that purpose. In fact, the Bank has a number of instruments that can be tailored to facilitate the countries' risk management and to improve their financing. However, there is still a need to strengthen proactive disaster risk management in order to focus on disaster prevention in the region.

2.4 In 2001 the IDB established the Disaster Prevention Sector Facility. Its objective is to provide countries with a short, fast track approval process at the Bank for investments in disaster prevention. The maximum amount through the facility is only US$5 million per loan. By February 2006, four loans from the Facility have been approved: Bolivia 2003, Dominican Republic, Haiti and Ecuador all in 2005. This demand has been less than expected due to the following reasons:

(i) Many countries are hesitant to take on more debt to finance risk reduction, either through the facility or within regular loans, given other competing demands for financing where outcomes are immediately felt. However, experience indicates that they will often be forced to borrow money to finance disaster response and reconstruction in crisis situations;
(ii) There is a moral hazard problem: the countries have less incentive to borrow for prevention when rehabilitation and reconstruction can be funded by international donor agencies;
(iii) Finally, the institutions dealing with disaster issues in the borrowing member countries are emphasizing response, which does not increase demand for prevention loans.

2.5 Demand for non-reimbursable sources of funding for disaster prevention exists but the Bank currently has no specific instruments that meet this demand. An analysis of the technical cooperations that have financed disaster related activities indicate this demand. It shows that disaster prevention constitutes about 78 percent of their total cost, the minority portion having been destined for disaster response. This indicates that Bank clients do have interest in prevention funding if the financial conditions are right.

III. JUSTIFICATION

3.1 With the introduction of this Fund, borrowing member countries will directly benefit through access to grant resources for project preparation and investments that will help them reduce their risk to natural hazards. This is a necessary step for many countries in the region to solve the problem of increasing costs of recovery after a disaster and to diminish the negative impact of natural hazards on the countries' economic and social development.

3.2 Investing in natural disaster prevention is increasingly recognized as a necessity to sustain growth and sustainable development in the region. However insufficient knowledge of the problem coupled with inadequate institutions for risk reduction,

means that the expressed demand for natural disaster financing has remained low. Consequently, available Bank loan instruments for natural disaster prevention have been sparsely used. A Fund that makes available non-reimbursable resources to pave the way for prevention investments would help bridge the gap and provide incentives for these investments.

3.3 The access to grant resources for risk identification, planning, institutional strengthening and project preparation will help countries reduce their risk to natural hazards. This is a necessary step for many IDB borrowers to solve the problem of increasing costs of recovery after a disaster and to diminish the negative impact of natural hazards on the countries' economic and social development. The risk information financed by the Fund will help decision makers understand the value of potential losses, with the associated negative indirect impacts and turn away for the dependency on post-disaster aid, and currently common moral hazard problem.

3.4 The Fund will address a need that is not being met by existing Bank instruments.[3] While both a grant and a loan facility exist for emergency response to disasters (Emergency Technical Cooperations, Immediate Response Facility), and the Disaster Prevention Sector Facility provides loans, there is no grant instrument for disaster prevention.

3.5 It is expected that such an instrument would stimulate borrowing for disaster prevention through the Disaster Prevention Facility and regular loans by helping to identify disaster risk management needs and cover costs of project preparation.

3.6 The Disaster Prevention Fund would help countries finance a public good since disaster prevention sometimes has relatively low private profitability but offers externality benefits for society as a whole

3.7 The Fund as a grant facility would be an incentive for countries that are willing to invest in disaster prevention at national and local levels in the form of a grant that will cover some of the costs and uncertainties involved in project preparation and reduce the risks and uncertainty that arise from the often long term disaster prevention investments.

3.8 In addition, the proposed multidonor Fund will provide the basis for possible donor coordination. The Bank would offer donors the possibility of a more direct and effective way to channel their cooperation with borrowing member countries under a specific instrument.

[3] See Appendix II for a discussion on the Banks existing instruments.

IV. Proposal

A. Objectives of the Proposed Fund

4.1. The objectives of the Fund are to: (i) support countries to manage risks related to natural hazards by reducing vulnerability, and by preventing and mitigating disasters before they occur; (ii) leverage knowledge, good practice, tools and government commitment for risk management solutions; and (iii) provide a vehicle for developing a shared approach to supporting disaster risk management in the region.

B. Characteristics of the Proposed Fund

4.2. Fund resources will be used to finance individual non-reimbursable operations, including studies concerning the preparation and design of prevention projects and components of loans in high-risk areas and sectors. The Fund will make grant resources available in support of strategic interventions to improve disaster prevention at the local, national and regional level.

4.3. **The activities financed by the Fund** will, in the context of strategic priorities agreed between the Bank and country, include:

i. Identification and documentation of country and sector risk to natural hazards.
ii. Project preparation costs for disaster prevention loans or disaster prevention components in sector loans.
iii. Design of prevention and mitigation investments in high risk areas, which could subsequently be financed by the Bank or other institutions.
iv. Improved preparedness through the strengthening of early warning, communication and public information/education systems.
v. Pre-approved research to gather data after a disaster that can provide crucial lessons learned for managing disaster risk in the future.
vi. Planning of reconstruction efforts in order to prevent renewed vulnerability.
vii. Environmental management and land use planning for vulnerability reduction.
viii. Strengthening of national and sub-national institutions, capacities, policies and programs for risk management and disaster response.

4.4. The Fund will finance mainly local and national operations since the Bank has other available grant instruments for regional initiatives. However, due to the regional nature of the problem, the Fund may finance:

i. Strengthening of regional insurance markets.
ii. Creation of regional networks of experts for risk assessments, disaster prevention, disaster preparedness and reconstruction.

iii. Support for disaster prevention for the Eastern Caribbean through the Caribbean Development Bank, in accordance with the established mechanisms between the IDB and CDB.

4.5. **Activities not to be financed by the Fund**: 1) on-going maintenance of existing works and measures; 2) projects that seek reimbursement for measures already undertaken; 3) projects that are designed to protect or which provide a commercial advantage to new developments for profit seeking; 4) humanitarian aid. Due to the limited size of the Fund and the amounts available for each operation, it could not provide financing for large investments such as for structural mitigation of infrastructure.

4.6. **Criteria for the Eligibility of Projects:** The following criteria should be taken into account at the time of financing individual operations: (i) targeted and effective – resources will be applied to those projects that demonstrate significant reductions in vulnerability; (ii) temporary – the payments shall be made during a well-defined period to prevent any relationship of permanent dependency; (iii) efficient in achieving the desired objectives.

4.7. Additionally, any such project receiving Fund resources must: (i) show an appropriate level of commitment from the government that guarantees its priority for the operation; and (ii) be consistent with the Bank's country and regional strategies.

4.8. The Bank will prepare all funding proposal documents for internal processing and the associated activities will be carried out by the beneficiary or borrower, in accordance with Bank's policies and procedures. Under exceptional circumstances, the Bank may hire and supervise the service providers.

C. Financial Management of the Proposed Fund

4.9. The Bank will have complete authority to formalize agreements and take other actions deemed necessary to achieve the objectives and manage the operations of the Disaster Prevention Fund.

4.10. The Disaster Prevention Fund Account and any sub-accounts will be handled and administered in the Ordinary Capital as a separate financing category

4.11. The Financial Support Services Subdepartment (FSS), in coordination with the Finance Department, will manage the resources of the Disaster Prevention Fund Account.

D. Resources

4.12. The Fund will operate in accordance with the terms of this proposal as well as those set forth in Bank policies and procedures applicable to technical cooperation. The Disaster Prevention Fund will be funded with US$10,000,000

charged to the Ordinary Capital resources of the Bank. During 2006 it will receive an allocation of US$4,000,000 with additional resources for the replenishment of the Fund to be approved and allocated yearly in the context of the Bank's budgetary exercise or once the non-committed resources reach close to US$2,000,000.[4]

4.13. The financial impact of a US$10 million expenditure on the Ordinary Capital of the Bank would lower the actual Total Equity-to-Loans Ratio (TELR) but would not be material in delaying the Bank's reaching the desired 38% TELR in the medium term.[5]

4.14. Additionally, subject to its policies and procedures the Bank may receive in trust and manage untied contributions of member and non-member countries and other national or international organizations as complementary resources to finance the activities described in this proposal. Any such contributions would complement the resources of the Disaster Prevention Fund, and would be managed separately by the Bank through the establishment of separate trust funds or a multi-donor trust fund, complementary to the Disaster Prevention Fund.

4.15. Specific donor contribution agreements may specify priorities and other conditions for the use of the funds, provided those conditions are in agreement with those set forth in this document and with the policies and procedures of the Bank. Standard financial terms and conditions for multi-donor funds will be established.

4.16. Funding proposals using donor funds will also include financing from Bank resources, in proportions to be determined in the individual donor agreements.

E. Termination and Other Provisions

4.17. *Termination:* Should the Bank decide for any reason to terminate the Disaster Prevention Fund, any balance remaining after paying or canceling any outstanding obligations of the Disaster Prevention Fund will be restored to the Bank.

4.18. *Executing Agency:* As a general rule, the execution of the operations financed with resources of the Disaster Prevention Fund will be the responsibility of the beneficiaries. For projects with a regional scope the executor will guarantee the coordination of activities with all the beneficiaries in the relevant countries. Executing Agencies may be the governments and public institutions of the Bank's borrowing member countries, and regional or sub-regional agencies. In

[4] The terms and conditions specified above are compatible with the requirements set forth in the document that establishes the *Criteria for appraising Bank programs eligibility for funding from the Special Programs/Grants of OC resources* (revised version, GA-220-12)

[5] Nonetheless, if more of these expenditures are envisioned in the future, the cumulative amount of these transfers needs to be looked at in the context of the Bank's future lending program and the objective to reach the desired 38% TELR level by 2010.

exceptional cases, upon the express written request and justification of the beneficiary country or countries, the Bank may select and hire the consulting services necessary to implement a specific operation financed with resources of the Disaster Prevention Fund.

4.19. *Use of Resources of the Disaster Prevention Fund:* The resources of the Disaster Prevention Fund will be used to hire consulting services, purchase goods necessary to carry out studies, complementary training activities and any other activity compatible with the goals of this paper and in accordance with this proposal and the Bank's policies applicable to technical cooperation operations (mainly document AT-80-10). The Fund will also be able to finance equipment for disaster prevention systems.

4.20. *Financing Amount:* The maximum amount per project to be financed by the Disaster Prevention Fund (including any support activities for such project) shall not exceed an accumulated total of US$1,000,000. This figure may be revised after two years to better reflect demand and progress in the utilization of the Disaster Prevention Fund. No country can execute more than thirty percent (30%) of the accumulated resources allocated to the Disaster Prevention Fund. Regional programs shall receive no more than 5% of the Fund's accumulated allocated resources

4.21. *Local Portion Contribution:* The beneficiary entity or entities will share the financial costs of each operation, an amount to be decided on a case-by-case basis by the Manager of the department, and which shall be at least twenty percent (20%) of the total cost. The total in kind contribution can be no more than twenty percent (20%) of the total cost of the project.

4.22. *Acquisition of Consulting Services and Goods:* The selection and contracting of consulting services to be financed with resources from the Disaster Prevention Fund will be carried out according to the Bank's policies and procedures set forth in documents GN-2349-4 ("Policies for the Procurement of Works and Goods Financed by the IDB") dated 19 January 2005, and GN-2350-4 ("Policies for Selection and Contracting of Consultants Financed by the IDB"), dated 19 January 2005, as such policies and procedures may be amended from time to time. The acquisition of goods and related services to be financed with resources from the Disaster Prevention Fund will be carried out according to the Bank's policies and procedures for regular technical cooperation operations. The amount per operation allocated to the acquisition of goods shall not exceed 30% of the cost of the project. Only on a case-by-case basis and in exceptional circumstances duly justified, a higher percentage of such resources could be allocated to the acquisition of goods for a particular operation.

F. Processing of the Operations

4.23. Except as expressly set forth in this proposal, the processing, approval, execution and implementation of each operation financed with resources of the Disaster Prevention Fund will be carried out in accordance with the Bank's policies and procedures applicable to regular technical cooperation operations as such policies and procedures may be amended from time to time.

4.24. Disaster Prevention Fund will complement other resources, and therefore:

a. it will be used only when those resources are not available or not suitable;

b. it will be used exclusively to hire specialized consulting services and the purchase of goods and services necessary to conduct and complementary activities (e.g., workshops, seminars, surveys).

4.25. Funding proposals must include the justification that other resources are not available for the financing as required by the *Criteria for appraising Bank programs eligibility for funding from the Special Programs/Grants of OC resources* (revised version, GA-220-12) as stated in paragraph 2.11.

4.26. Funding proposals will be generated by public or, with the non-objection of government, by private sector entities, Bank Headquarters, or Country Offices. Given the very dynamic nature of the process, proposals may or may not be included in country programming documents. When they are not included in such documents, the respective Manager at Headquarters will approve the processing of the proposal, through a brief profile. The Manager will also be responsible for resolving any potential conflicts between proposals.

4.27. Funding proposal preparation will be done by the Country offices and relevant units of HQ. Proposal preparation costs will be reimbursed to the preparation unit, from the proposal's budget, for up to 5% of the approved total cost, but not to exceed $20,000, if third parties are used in the preparation.

4.28. Processing of operations under the Disaster Prevention Fund will follow simplified procedures to be detailed in the corresponding guidelines. The procedures will include the approval of an eligibility profile by the corresponding Manager at Headquarters and the approval of a Plan of Operations by the President of the Bank. Plans of Operations will be submitted to the Board for information

4.29. The Fund will have a full time Coordinator in charge of promoting and steering the use of fund resources, preparation of guidelines for proposal preparation, supervision and management, prepare technical performance reports on the use of resources and, in general, being a resource person available to the units charged with preparation of proposals.

4.30. Country offices and responsible units in HQs will have a yearly performance objectives for the approval of funding proposals and their execution, set by the respective Managers.

G. Disbursements

4.31. Disbursement procedures will be the same as those applicable to regular Bank technical cooperation. The first disbursement will require the certification of the Country Office Representative concerning the fulfillment of all conditions precedent declaring the operation eligible for disbursements.

4.32. The Executing Agency should prepare the disbursement requests and forward the documentation to the Bank, through the relevant Country Office, where it will be reviewed for approval.

H. Monitoring and Information

4.33. The Fund Coordinator, in coordination with the corresponding Departments, will be responsible for monitoring the utilization of the resources of the Disaster Prevention Fund and will inform the Board of Executive Directors of the status of the Disaster Prevention Fund every year.

I. Governance of Disaster Prevention Fund

4.34. *Governance Structure*: the Disaster Prevention Fund governance structure will be similar to that of other IDB-managed facilities.

4.35. *Management of Disaster Prevention Fund*: the fund will be managed by the Bank on behalf of all the participating donors, and its operations will be managed on a day to day basis by a Coordinator.

4.36. *Stakeholders Consultations:* Disaster Prevention Fund will consult on an ongoing basis with representatives from governments and non-government associations, to ensure that the Disaster Prevention Fund maintains the required multi-stakeholder perspective necessary for the delivery of its mandate.

4.37. *Staffing:* Disaster Prevention Fund's operating model is based on the experience of both the Bank and other multilaterals in the administration of such funds, and it is designed to maximize impact while being cost efficient. The permanent overhead and fixed cost would be maintained at a minimum, and project delivery would be mainly through project-specific, specialized and outsourced consultants. Full time staff will be initially limited to the Coordinator. Nonetheless the fund would have access to the Bank's staff in charge of project management and sectoral experts, which would conduct initial assessments to select projects. For

this purpose, the use of local sub-contractors could be considered in order to reduce costs and build local capacity within the region.

4.38. *Measurable Results*: It will be critical to establish clear metrics for evaluating the success of the Disaster Prevention Fund at the outset. These metrics could include the demand and approval of operations from the fund, and the success of the fund to spur new Bank loans for disaster prevention. The fund Coordinator will set the parameters for measuring the fund's performance.

4.39. *Dissemination*: Lessons learned from the operation of the Fund will be periodically disseminated among stakeholders.

J. Governance of Parallel Donor Funds

4.40. For the parallel multidonor or single donor trust funds, guidelines will be developed, according to Bank policies and procedures..

V. RECOMMENDATIONS

5.1 Management recommends that the Board of Executive Directors approves a Resolution, which would:

a) Establish the Fund in the amount of US$10,000,000 chargeable to the Ordinary Capital resources of the Bank, open to the possible contribution from other donors, in accordance with the terms and conditions described herein and subject to paragraph b below.

b) Approve during 2006, an initial allocation of US$4,000,000 to the Fund and charged to the Ordinary Capital resources of the Bank. Additional resources for the replenishment of the Fund will be approved and allocated yearly in the context of the Bank's budgetary exercise or once the non-committed resources reach a level close to US$$2,000,000.

c) Authorize the President of the Bank or such representative as he shall designate to enter into such agreement or agreements and to take any other measures as may be necessary to: (i) manage and implement the Fund in accordance with the terms and conditions set forth in this proposal; and (ii) execute and implement individual non-reimbursable operations financed with the resources of the Fund, and approved in accordance with this proposal.

d) Authorize the financing, of individual operations for a maximum amount of US$1,000,000 per individual operation, provided that (i) no single country shall receive more than 30% of the Fund's accumulated allocated resources resources,

and (ii) regional programs shall receive no more than 5% of the Fund's accumulated allocated resources.

e) Authorize the President of the Bank, or such representative as he shall designate to approve individual operations financed with the resources of the Disaster Prevention Fund.

APPENDIX I

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/06

FUND FOR THE FINANCING OF DISASTER PREVENTION

The Board of Executive Directors

RESOLVES:

1. To establish a Fund for the Financing of Disaster Prevention (hereinafter referred to as "Disaster Prevention Fund") in the amount of up to US$10,000,000 chargeable to the Ordinary Capital resources of the Bank, as defined in Paragraph 2.7 of Document GA-220-12 (hereinafter referred to as "Ordinary Capital resources").

2. To approve an initial allocation of US$4,000,000 to the Disaster Prevention Fund to be charged to the Ordinary Capital resources of the Bank. Additional resources to be allocated to the Disaster Prevention Fund would be approved and allocated by the Board either on an annual basis, in the context of the Bank's budgetary exercise, or once the uncommitted resources reach a level of approximately US$2,000,000.

3. To authorize the financing of individual operations for a maximum amount of US$1,000,000 per individual operation, provided that: (a) no single country shall receive more than 30% of the Disaster Prevention Fund's accumulated allocated resources, and (b) regional programs shall receive no more than 5% of the Disaster Prevention Fund's accumulated allocated resources.

4. To authorize the President of the Bank, or such representative as he shall designate to: (a) approve individual operations financed with the resources of the Disaster Prevention Fund; (b) enter into agreements in the name and on behalf of the Bank, and to take any other measures as may be necessary for the purpose of: (i) managing and implementing the Disaster Prevention Fund in accordance with the criteria set forth in Document [____]; and (ii) executing and implementing individual nonreimbursable technical cooperation operations financed with the resources of the Disaster Prevention Fund, and approved in accordance with Document [___].

LEGIII/VA-687754-06

APPENDIX II: Bank Instruments for Disaster Preparation and Response

- **Bank Financing in Disaster Prevention and Response**

IDB has ample experience in assisting countries prepare, reconstruct and recover from disasters and makes use of a number of specialized instruments in addition to its regular loans in this effort. From 1995 to 2005 the Bank has allocated approximately US$2.0 billion to disaster related loans. Bank activity has tended toward disaster reconstruction with 55% of the disaster portfolio, with 45% for prevention. However financing of disaster related activities have significantly decreased in latter years.

Disaster prevention has often been financed as components included in regular loans, particularly in watershed management projects and some urban and rural development programs. Disaster reconstruction has largely been financed through reformulation of existing loans. In addition to regular loans, the Bank has specific instruments that support disaster related activities. They include the Disaster Prevention Sector Facility (see section C below), and the Immediate Response Facility (IRF).

Disaster Phase	Actions to Finance	Bank Instruments
Before	- Institutional development for prevention and mitigation; - Risk and vulnerability analysis; - Prevention, mitigation and preparedness investments; - Financial protection design and support to risk transfer market development.	- Disaster Prevention Facility loans (GN-2085-4); - Sector investment loans with prevention and mitigation components; - Technical cooperations for prevention and mitigation; - Policy based lending - Special funds such as those available under the RPG initiative
During	- Damage and needs assessment; - Reestablishment of basic services and critical infrastructure; - Clean-up and repair caused for the environment; - Humanitarian assistance (limited to emergency technical cooperation).	- IRF (GN- 2038-12); - Portfolio restructuring and reallocation; - Emergency technical cooperation (GN-1862-5).
After	- Rehabilitation and reconstruction investments; - Adaptation of productive investments to future disaster risk	- Portfolio restructuring and reallocation; - Investment and sector loans and grants for reconstruction; - Emergency technical cooperation (GN-1862-5).

Some lessons learned concerning disaster prevention borrowing include: (i) Countries face severe fiscal constraints that make investments with long term benefits such as in disaster prevention less appealing than those with immediate results; (ii) Countries are willing to borrow for risk reduction when the measures being financed are very clear and respond to specific felt risks; (iii) There is a potential moral hazard problem if countries feel that they should not borrow for prevention when rehabilitation and reconstruction can be funded by international donor agencies; (iv) Finally, the institutions dealing with disaster issues in the borrowing member countries are emphasizing response, which does not increase demand for prevention loans.

The Bank has established a grant facility for emergency response that quickly can disburse up to US$200,000 in the case of a declared emergency. In addition bilateral funds such as the Japan Special Fund,[6] have financed a number of technical cooperations to support disaster prevention. However, an evaluation by OVE (RE-292) did not find evidence that these activities have fostered a systematic and comprehensive approach to risk reduction in the region.

- **Facing the Challenge of Natural Disasters in Latin America and the Caribbean: An IDB Action Plan of 2000**

The groundwork for a strategic shift in the IDB towards a stronger focus on disaster prevention was made with the presentation of the first disaster action plan at the Annual Meeting of the Board of Governors of the Bank in New Orleans in 2000. The Plan represents a qualitative departure from the Bank's Operational Policy on Natural and Unexpected Disasters (OP-704). It offers a cross-sectoral vision, associates disasters with development and the environment, focuses on the reduction of vulnerabilities and risk. However, the implementation of the Plan has been limited due to the failure to assign financial resources to the activities to be executed.

The Plan makes the case for introducing risk management, prevention, mitigation and preparedness to the Bank' development agenda. It proposed the creation of a specific loan instrument, and complementary to it grant funding. The suggestion led to the creation of the Disaster Prevention Sector Facility (GN-2085-4) in 2001, but not to the establishment of a grant funding mechanism.

- **The Disaster Prevention Sector Facility**

The Disaster Prevention Sector Facility (the "Facility") was established to assist countries to take an integrated approach to reducing and managing their risk to natural hazards before a disastrous event through: (1) *Risk identification and forecasting* to understand and quantify vulnerability and disaster risk; (2) *mitigation* to address the structural sources of vulnerability; (3) *preparedness* to enhance a country's readiness to cope quickly and effectively with an emergency; (4) building *risk transfer* measures to spread financial risks over time and among different actors and (5) establishing effective *national systems for risk reduction*.

The main incentive for countries to use the Facility is the short, fast track approval process at the Bank. The maximum amount of Bank financing per individual operation is US$5 million. During the past four years, operations for Bolivia, Dominican Republic, Haiti and Ecuador have been financed under the Facility. The loans have been taken out mostly for investments in early warning systems and mitigation works, and some institutional strengthening. The overall demand has been less than expected.

---

[6] The Bank is currently in the process of finalizing the creation of the Korea Poverty Reduction Fund (CC-6016). One of the areas that are eligible for funding is disaster prevention and post-disaster response related to poverty reduction.

- **Bank Action Plan 2006-2008 for Improving Disaster Risk Management**

The Bank adopted an Action Plan for Improved Disaster Risk Management for 2006-2008 (GN-2339), in March 2005. It is a set of actions to be taken over the next three years in the three priority areas below that will position the Bank to manage disaster-related risk to the development effectiveness of our lending program. Rather than a comprehensive plan of work in this area, this Plan includes the essential activities of a strategic and disciplined process to change the Bank's disaster-related intervention from one that is largely reactive, to one that is proactive.
Country programming and portfolio management: The Bank will work with high-risk Latin American and Caribbean countries to assess potential losses due to natural disasters and their national capacity to finance recovery and reconstruction. In its dialogue with these borrowing member nations, the Bank will explicitly address the issue of disaster risk management in country strategy and programming documents. In the area of portfolio management, project performance and monitoring reports will consider the impact of disasters as a measure of effectiveness and sustainability.

Bank's policy, procedures and financial products. The Bank is currently drafting a new Disaster Risk Management Policy (CP-2884-2) that seeks to institutionalize the vision of proactive disaster risk management into the Bank's programming process, project cycle and disaster response. Under the new policy and strategy in preparation, disaster risk management will become an integral part of projects likely to be located in areas exposed to natural hazards, such as those involving infrastructure, housing, energy, agriculture and water and sanitation. Guidelines and training for incorporating disaster risk management in the project cycle will also be included here.
The Action Plan also calls on the Bank to review its current **instruments for disaster financing**. Existing exploratory research identifies several complementary risk management strategies and the related mechanisms, e.g. calamity funds, contingent credit, reinsurance facilities and capital market instruments that can be considered in effective risk management structures to hedge the economic exposures to disasters related to the impacts of natural hazards.
An organizational approach that focuses on ex-ante risk reduction. The Bank's organizational approach for delivering disaster risk management will be strengthened with the emphasis on *ex-ante* risk reduction. The Bank action builds on existing and additional staff, to equip itself to address the growing imperative for disaster risk management in the region. The new Action Plan will help increase internal and external awareness of the important links between disasters and development. It will consolidate the disaster risk management capacity in SDS and the regional departments, including implementing a communication strategy for the Bank's work in this area.

- **Draft IDB Disaster Risk Management Policy**

The Bank is currently drafting a new Disaster Risk Management Policy (CP-2884-2) that seeks to institutionalize the vision of proactive disaster risk management into the Bank's programming process, project cycle and disaster response. The activities eligible for financing by the Disaster Prevention Fund will support the achievement of the overall objective of the draft policy.

- **Moving forward on Disaster Prevention in the Region**

Disaster prevention is a long-term investment, which makes it even more crucial to provide accurate disaster risk information supported by cost-benefit analysis to make the case for disaster prevention. Experience shows that when risk to natural hazards is documented with quantifiable and timely information in a manner that is easily understood, decision makers are much more likely to prioritize investing in preventive measures.

Many countries need significant institutional strengthening of capacities to identify, design and implement disaster prevention investments and frameworks. This strengthening should include a broader coordination concerning disaster risk management among ministries with distinct but complimentary responsibilities in fields like planning, finance, and first response that are all integral parts of disaster risk management.

There are a number of “information gaps” that present obstacles for greater effective interventions and support by the Bank. For example, the Bank does not routinely assess vulnerability of operations to natural disasters related factors. Also, the Bank has not analyzed the vulnerability of its current portfolio or pipeline.

APPENDIX III: Glossary

Disaster – A serious disruption of the functioning of a society, community or a project causing widespread or serious human, material, economic or environmental losses, which exceed the coping ability of the affected society, community or project using its own resources, caused by a natural hazard.

Disaster Management/Emergency Management – The organization and management of resources and responsibilities in order to deal with all aspects of response to disasters/ emergencies including preparedness, contingency planning and rehabilitation.

Disaster Risk Management (DRM) – The systematic process that integrates risk identification, mitigation and transfer, as well as disaster preparedness, emergency response and rehabilitation/reconstruction to lessen the impacts of hazards.

Financial Protection – The use of market-based financial instruments to secure *ex ante* funding to cover potential losses due to hazards and the costs of revitalizing the economy.

Mitigation – Structural and non-structural measures undertaken to limit the adverse impact of natural hazards, environmental degradation and technological hazards.

Natural Hazard - Natural processes or phenomena which have an impact on the biosphere and may constitute a damaging event. Such hazards include: earthquakes, windstorms, hurricanes, landslides, tidal waves, volcanic eruptions, floods, forest fires, and drought, or a combination thereof.

Preparedness – Activities and measures taken in advance to ensure an effective response to the impact of hazards, including the issuance of timely and effective early warnings and the temporary evacuation of people and property from threatened locations.

Prevention – Activities to avoid the adverse impact of hazards and means to minimize related disasters.

Proactive Disaster Risk Management - Addressing the development challenges that lead to the accumulation of human vulnerability in order to reduce the effects of natural hazards that generate disasters. An approach to disaster risk management that emphasizes *ex ante* over *ex post*.

Recovery – Decisions and actions taken after a disaster with a view to restoring or improving the pre-disaster living conditions of the stricken community, while encouraging and facilitating necessary adjustments to reduce disaster risk.

Risk – The probability of harmful consequences or expected losses (deaths, injuries, property, livelihoods, economic activity disrupted or environment damaged) resulting from interactions between natural or human-induced hazards and vulnerable conditions.

Vulnerability – The conditions determined by physical, social, economic and environmental factors or processes, which increase the susceptibility of a community to the impact of hazards.

APPENDIX IV: WORK PROGRAM AND FINANCING: ACTION PLAN FOR IMPROVING DISASTER RISK MANAGEMENT (GN 2339)

Work Program and Financing Plan
Improving Disaster Risk Management

Activities	Implementation		Financing Plan		
	SDS	**Regional Depts.**	**Admin. Budget Initiative Resources**	**JSF**	**Fund-raising**
2006					
1. Country programming and portfolio management					
Country-specific risk evaluations		*		√	
Country strategies and programming	+	*	√		
Portfolio management		*	√		
Results indicators. Guidance document and training module	*	+	√		
Develop the Indicators Program for the Americas	*	*	√		√
2. Bank's policy, procedures and financial products					
New Policy and Strategy	*				√
Implementation plan for Strategy, Policy Guidelines	*	+	√		
Checklist and guidance, dissemination and develop training module	*	+			√
Financial instruments studies: Bank role in pooling of catastrophe risk	*	+		√	
Working group to resolve scope of the IRF (DEV has leadership)	+	+			
3. Organizational approach					
DRM network consolidation	*	*	√		
Communication strategy	*	+	√		
2007- 2008					
Country-specific risk evaluations		*			√
Country strategies and programming		*	√		
Portfolio management		*	√		
Results indicators in Country Strategies	*	+	√		
Indicators Program for the Americas	*	*			√
Training Bank and country staff: risk management indicators; strategy and policy guidelines	*	+			√
Communication strategy	*	+	√		

* = Leadership

\+ = Support

APPENDIX V: IDB DISASTER RISK MANAGEMENT FRAMEWORK

KEY ELEMENTS OF RISK MANAGEMENT					
Planning and Preparation				Response and Reconstruction	
Risk Identification	**Mitigation**	**Risk Transfer**	**Preparedness**	**Emergency Response**	**Rehabilitation and Reconstruction**
Hazard assessment (frequency, magnitude and location)	Physical/structural mitigation works	Insurance/ Reinsurance of public infrastructure and private assets	Early warning systems. Communication systems	Humanitarian assistance	Rehabilitation/ reconstruction of damaged critical infrastructure
Vulnerability assessment (population and assets exposed)	Land-use planning and building codes	Financial market instruments (catastrophe bonds, weather-indexed hedge funds)	Contingency planning (utility companies/ public services)	Clean-up, temporary repairs and restoration of services	Macroeconomic and budget management (stabilization, protection of social expenditures)
Risk assessment (a function of hazard and vulnerability)	Economic incentives for pro-mitigation behavior	Privatization of public services with safety regulation (energy, water, transportation, etc.)	Networks of emergency responders (local/national)	Damage assessment	Revitalization for affected sectors (exports, tourism, agriculture, etc.)
Hazard monitoring and forecasting (GIS, mapping, and scenario building)	Education, training and awareness about risks and prevention	Calamity Funds (national or local level)	Shelter facilities Evacuation plans	Mobilization of recovery resources (public/ multilateral/insurance)	Incorporation of disaster mitigation components in reconstruction activities

Building and Strengthening National Systems for Disaster Prevention and Response: These systems are an integrated, cross-sectoral network of institutions addressing all the above phases of risk reduction and disaster recovery. Activities that need support are policy and planning, reform of legal and regulatory frameworks, coordination mechanisms, strengthening of participating institutions, national action plans for mitigation policies and institutional development.

Source: IDB 2000. Facing the Challenge of Natural Disasters in Latin America and the Caribbean: An IDB Action Plan. Washington, D.C.