

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

REGIONAL

**GLOBAL LOAN FOR BUILDING DISASTER AND CLIMATE CHANGE
RESILIENCE IN THE OECS COUNTRIES**

(RG-L1142)

PROJECT PROFILE

This document was prepared by the project team consisting of: Sergio Lacambra, Team Leader (CSD/RND); Yuri Chakalall, Co-team Leader (RND/CJA); Eduardo Sierra Gonzalez, Co-team Leader, (IFD/CMF); Marisol Inurritegui (RND/CBA); Roberto Guerrero, Lisa Restrepo (CSD/RND); Jaiwattie Anganu (IFD/CMF); Maricarmen Esquivel (CSD/CCS); Luciano Bornholdt, Steven Collins, Jodi Johnson, Raimon Porta (VPS/ESG); Sofía Greco (LEG/SGO); Jean Eric Theinhardt (CCB/CBA); Vinicio Rodriguez (VPC/FMP); Johanna Pelaez (FMP/CBA); Janette Archer-Headley (CCB/CBA).

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PROJECT PROFILE

REGIONAL

I. BASIC DATA

Project Name:	Global Loan for Building Disaster and Climate Change Resilience in the OECS Countries		
Project Number:	RG-L1142		
Project Team:	Sergio Lacambra, Team Leader (CSD/RND); Yuri Chakalall, Co-team Leader (RND/CJA); Eduardo Sierra Gonzalez, Co-team Leader, (IFD/CMF); Marisol Inurritegui (RND/CBA); Roberto Guerrero, Lisa Restrepo (CSD/RND); Jaiwattie Anganu (IFD/CMF); Maricarmen Esquivel (CSD/CCS); Luciano Bornholdt, Steven Collins, Jodi Johnson, Raimon Porta (VPS/ESG); Sofia Greco (LEG/SGO); Jean Eric Theinhardt (CCB/CBA); Vinicio Rodriguez (VPC/FMP); Johanna Pelaez (FMP/CBA); Janette Archer-Headley (CCB/CBA)		
Borrower:	Caribbean Development Bank (CDB)		
Executing Agency:	Caribbean Development Bank (CDB)		
Financial Plan:	IDB (Ordinary Capital):	US\$	50,000,000
	Total:	US\$	50,000,000
Safeguards:	Policies triggered:	B.1, B.2, B.4, B.7, B.13	
	Classification:	B.13	

II. GENERAL JUSTIFICATION AND OBJECTIVES

- 2.1 The Caribbean Development Bank (CDB) has requested a US\$50 million Global Credit Loan to enhance the disaster and climate change resilience of Organization of Eastern Caribbean States' (OECS¹) countries. CDB is a regional development bank that supports member countries of the Caribbean region, contributing to the economic growth and sustainable and resilient development of these countries, and promoting economic cooperation and integration. The CDB and the Inter-American Development Bank (IDB) have maintained a long collaborative relationship since 1977 with a total of seven approved operations² worth US\$184 million, with the objective of supporting the economic and social development of the OECS. CDB has approved over US\$12 million in grants for microfinance and technical and vocational educational programs, and facilities

¹ The OECS is an International Inter-Governmental Organization dedicated to regional integration in the Eastern Caribbean. It was created in 1981 to cooperate and promote unity and solidarity among the Members. It currently comprises 11 member states: Antigua and Barbuda, Commonwealth of Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. These members are part of the Economic Union and received the full benefits of Economic Union like, free movement of people and goods, with the British Virgin Islands, Anguilla, Martinique, and Guadeloupe as associate members of the OECS.

² 551-SF-RG (approved in 1978; US\$12 million), 758-SF-RG and 488/OC-RG (1984; US\$25M), 975-SF-RG and 926/OC-RG-1 (1996; 37M), 1108/SF-RG (2002; US\$ 20M), 2798/BL-RG (2012; US\$20M), 3561/OC-RG (2015; 20M) and 5156/OC-RG (2020; US\$50M).

like Compete Caribbean Partnership, co-financed by the IDB. An [agreement between the IDB, the Inter-American Investment Corporation \(IDB Invest\) and CDB was recently signed to reinforce this commitment](#) (¶2.20). In 2020, the IDB and CDB agreed to collaborate to support OECS countries during the crisis caused by the COVID-19 pandemic (¶3.10).

- 2.2 **Natural phenomena.** Natural hazards present one of the most serious threats to the sustainable development of the Caribbean. Due to location, geomorphology, and socio-economic characteristics, the Caribbean is vulnerable to many hydro-meteorological (hurricanes, tropical storms, storm surges, flooding, and drought) and geophysical (earthquakes, volcanoes, landslides, and tsunamis) hazards.
- 2.3 **Disasters.** The OECS are highly vulnerable to the potential impacts of natural hazards, many of which often result in disasters. In fact, disasters have caused significant damage to the OECS and resulted in significant reconstruction cost in countries with little fiscal space and no budget contingencies. The outcome has been disruption to economic growth, larger deficits, and higher public debt.³ Debt-to-Gross Domestic Product (GDP) ratios in the OECS are estimated to have grown by almost 5 percentage points faster during the year a storm struck, with a cumulative debt increase of 5% of GDP a few years later.⁴ Between 2000 and 2020 the OECS were impacted by 32 disasters (30 hydrometeorological⁵ and 2 geological),⁶ which left 186 deaths and approximately 500,000 affected persons, and accrued an estimated US\$6.5 billion in total damage.⁷
- 2.4 **Climate Change.** According to the World Bank,⁸ the average annual damages due to hurricanes and tropical storms in the Caribbean Community countries is US\$452 million. Based on estimations from Clark,⁹ climate change (CC) impacts could add between US\$160 million¹⁰ and US\$610 million¹¹ to the figure above. Broader CC impacts in the Eastern Caribbean include the erosion of soft shores, increased salinity of estuaries and aquifers, rising coastal water tables, and increased and more severe coastal flooding and storm damage.¹² If emissions continue in the current path, the cost of global inaction to CC could be approximately US\$22 billion annually by 2050 and US\$46 billion by 2100 for the Caribbean. This represents 10% and 22% of the aggregate GDP of Caribbean States, respectively.¹³ When measured in terms of 2004 GDP, the economic

³ Gomez Osorio, C. et al. *Together for Prosperity in the OECS*. IDB, 2017.

⁴ Acevedo, S. 2014. Debt, Growth and Natural Disasters: A Caribbean Trilogy. IMF Working Paper 14/125. International Monetary Fund, Washington, DC.

⁵ For the period considered in this analysis (2000-2020): Tropical storms, floods, and droughts.

⁶ For the period considered in this analysis (2000-2020): Earthquakes and volcanic eruptions.

⁷ Centre for Research on the Epidemiology of Disasters (CRED). Online inquiry May 2021.

⁸ [Assessment of the Economic Impact of Climate Change on CARICOM Countries](#). WBG, 2002.

⁹ Clark, K.M., 1997. *Current and Potential Impact of Hurricane Variability on the Insurance Industry, in Hurricanes, Climate and Socio Economics Impacts*, SP 1997. Although these estimates were made for coastal U.S.A. the percentage changes should apply equally in well populated Caribbean countries.

¹⁰ Low impact scenario.

¹¹ High impact scenario.

¹² [Organisation of Eastern Caribbean States Systematic Regional Diagnostic](#). WBG, 2018.

¹³ Bueno et al. *The Caribbean and Climate Change: The costs of inaction*. TU, 2008.

fallout from CC could reach as high as 75% by 2100 in Dominica, Grenada, and Saint Kitts and Nevis (SKN).¹⁴

- 2.5 **Damage and loss by sector.** A damage and loss assessment¹⁵ carried out after Tropical Storm Erika struck Dominica in 2015 provides an example of the usual distribution of the disaster impact among sectors. Infrastructure sectors accrued almost 70% of damages and losses, followed by productive sectors (mostly tourism, agriculture, and fisheries) with 18% and social (housing, education, and health) with 12%. An assessment for the heavy rains that affected Saint Lucia (STL) in 2013 rendered similar results.¹⁶
- 2.6 **Road infrastructure.** The economic toll of these disasters on road infrastructure is often high and can take several years to be rebuilt. Extreme rainfall events, combined with the characteristically mountainous topography of many of the OECS, often lead to landslides and flash flood events which may block roads, isolate communities, restrict transit, erode road embankments, and damage bridges, among other damaging impacts. The disasters referred in the previous paragraph provided good evidence of this: post-disaster assessments indicated that road infrastructure sustained 72% (US\$71.9 million)¹⁷ in STL and 61% (US\$287.5 million)¹⁸ in Dominica of the damages and losses from these events.
- 2.7 The recent explosive eruption (April 9, 2021) of the La Soufriere volcano on St. Vincent caused the displacement of 22,400 people and damage to road infrastructure of over US\$41.5 million¹⁹ and highlighted the need to ensure resilience also to geophysical hazards, such that redundancy in the road network allows for safe evacuation, and timely resumption of social and economic activity.
- 2.8 **Water and sanitation.** Climate-related hazards present diverse risks to water security in countries which already have some of the highest levels of water stress in the world. Countries which rely on groundwater, such as SKN and Antigua and Barbuda (ANB), are impacted by saline intrusion to their aquifers, worsened by sea level rise. Threats to surface water sources are frequently evidenced when hurricanes damage watersheds, disrupting supplies due to turbidity issues and damaging effects of waterborne debris. The effects of drought are more pronounced in ANB, which does not benefit from the orographic rainfall of its more mountainous neighbors. Against these challenges, aged infrastructure, often vulnerable to the effects of flooding and other hazards, contributes to the high level of water losses and leakages (non-revenue water) estimated by most Caribbean utilities. Damage to wastewater collection and treatment systems resulting from the impact of hazard events increases the risk to public health through contamination of water sources. The water and

¹⁴ [An assessment of the economic impact of climate change on the macroeconomy in the Caribbean](#) ECLAC, 2011.

¹⁵ *Dominica, Rapid Damage and Impact Assessment Tropical Storm Erika*. Government of the Commonwealth of Dominica (2015).

¹⁶ *Saint Lucia, Joint Rapid Damage and Needs Assessment Flood Event of December 24–25, 2013*. Government of Saint Lucia and the World Bank (2014).

¹⁷ Ibid. World Bank (2014).

¹⁸ Ibid. Government of the Commonwealth of Dominica (2015).

¹⁹ *Presentation of the Findings of the Detailed Damage Sectoral Assessment Report of the Explosive Eruption of La Soufriere, St. Vincent*. Ministry of Finance and Planning. 2021.

sanitation infrastructure sustained 6.4% of all damage and losses of an intense rainfall event in STL in 2013 (¶2.5), the most impacted sector after transportation and agriculture, and ahead of housing and tourism.²⁰ Dominica's water and sanitation sector suffered an estimated US\$64 million in damage and losses due to Hurricane Maria in 2017, equivalent to 4.9% of the total, with 43 of the 44 water supply systems in the country being seriously affected.

- 2.9 **Productive sectors.** Disasters have often resulted in significant damage and losses to the productive sectors, necessitating significant investment for recovery, primarily in the tourism and agriculture sectors. For instance, Hurricane Ivan on Grenada in 2004 caused damages to these sectors corresponding to 41% and 10%, respectively, in relation to GDP.²¹
- 2.10 **Micro, Small and Medium Enterprises (MSMEs).** It is estimated that MSMEs in the Caribbean constitute between 70% and 85% of the number of enterprises, contribute between 60% and 70% of GDP, account for 50% of employment, and are significant contributors to income generation and poverty reduction in this region.²² MSMEs with linkages to tourism operate within the construction, agriculture, transportation, banking, manufacturing, and the creative industries sectors. This heavy reliance on tourism adds to their increased vulnerability to climate change.
- 2.11 Infrastructure damage has been identified as an important source of financial stress for businesses after disasters. It can cause temporary business closure while structural repairs needed to restore operations usually require large amounts of capital investments. In addition, post-disaster disruptions in the provision of public services such as electricity, water and sanitation, transportations and telecommunications can lead to business closures.²³
- 2.12 Despite the significant losses that can be incurred, barriers exist that prevent meaningful intervention by MSMEs to access affordable finance to support disaster resilience investments. These barriers are identified, mainly, as difficulties in accessing finance, stemming from their pervasive high levels of informality, and limited capacity and knowledge in how to assess disaster risk and to develop CC adaptation projects.
- 2.13 **Objective.** This Global Credit Loan (GCL) has the objective of enhancing the resilience of OECS countries to disasters and climate change. The specific objectives of the operation are to reduce the disaster risk of infrastructure and to foster MSMEs disaster-resilient growth.
- 2.14 **Components.** The Bank will provide a GCL to the CDB, which will on-lend the resources to finance eligible sub-loans in the beneficiary countries according to the following components:

²⁰ Ibid. Government of Saint Lucia and the World Bank (2014).

²¹ *Post-disaster Early Recovery in a Caribbean Small Island Developing State. The Case of Hurricane Ivan in Grenada (2004): Best Practices and Lessons Learned.* UNDP Barbados & the OECS (2007).

²² *Micro, Small and Medium Enterprise Development in the Caribbean: Towards A New Frontier.* CDB 2016.

²³ Zhang et al., *Modeling and managing the vulnerability of community businesses to environmental disasters.* University College Station, Texas; 2014.

- 2.15 **Component 1. Enhancing the disaster resilience of infrastructure.** This component will finance consulting services, infrastructure works, and the provision of goods and equipment required to enhance the disaster and CC resilience of infrastructure in the road and water and sanitation sectors. Measures include structural and non-structural. Examples of structural measures include the construction of sea defenses along coastal roads, floodwalls, and nature-based solutions for flood management, retrofitting infrastructure to stand earthquakes and, generally, any works aimed at reducing the physical vulnerability to natural hazards of existing infrastructure. Building new infrastructure is also eligible when justified in terms of redundancy to ensure the continuity in the provision of the transport or water and sanitation services. Examples of non-structural measures include activities related to contingency planning aimed at ensuring the continuity or swift resumption of the service provided by the infrastructure, that complement the level of disaster protection offered by the structural measures. This component will also finance the hazard-specific disaster risk assessments²⁴ and other feasibility studies that are required to generate the information needed to justify from both a risk reduction and economic viability perspectives the structural and/or non-structural measures. It could also finance other technical assistance required to prepare designs, costings, to identify and compare disaster risk reduction and adaptation solutions, and to undertake environmental and social assessments before the commencement of each sub-project.
- 2.16 **Component 2. Fostering disaster-resilient growth of MSMEs.** This component will finance productive investments in MSMEs in sectors vulnerable to natural hazards, channeling resources from CDB to the MSMEs through eligible Financial Intermediaries (FIs). The greatest demand is expected to be in the tourism and agriculture sectors. All sub-loans will be subject to a disaster and CC risk screening/assessment to ensure that resilience is duly considered (¶4.3). Based on the results of these assessments, financial resources of the individual sub-loans could be used to enhance the resilience of MSMEs to natural disasters. As with Component 1, measures for enhancing resilience may include, but are not limited to, capital investments, disaster risk assessments, business continuity plans, feasibility studies and other technical assistance required to formulate each sub-loan. This component may also finance the contingency planning of the FIs (¶3.2) to reduce their portfolio risk, prepare their portfolio supply for disaster-resilient investments that can be offered to MSMEs and be trained to confront more effectively the consequences of disasters. This component will be executed through eligible development financial institutions or

²⁴ Prior to the start of each subproject, the respective beneficiaries must provide evidence that: (i) site-specific disaster risk has been assessed in detail for any infrastructure subject to intervention; and (ii) mitigation measures and engineering solutions to address the disaster risk have been incorporated accordingly into the final design and an ad-hoc disaster risk management plan (DRMP) has been produced. The detailed disaster risk assessment (DRA) must provide quantitative outputs – at least the average annual loss (AAL), as well as the loss exceedance curve (LEC) and probable maximum losses (PML) when required. To that purpose, it is advised that any DRA is approached in accordance to the following: (i) a systematic project risk pre-evaluation or screening based on hazard exposure and criticality/vulnerability assessment; (ii) a robust quantitative evaluation of present and future risk scenarios (probabilistic preferred, ranging from simplified or mixed probabilistic-deterministic to fully probabilistic assessment if required); (iii) an economic evaluation of the risk reduction (RR) alternatives; and (iv) the definition of appropriate structural and non-structural RR measures to be included in the ad-hoc DRMP.

other financing vehicles that will channel resources directly or indirectly through eligible financial intermediaries to eligible MSMEs. To be eligible, development financial intermediaries must meet the CDB's eligibility criteria.

- 2.17 **Beneficiaries.** The potential beneficiary countries are Antigua and Barbuda, Commonwealth of Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. Direct beneficiaries are people, MSMEs and financial intermediaries exposed to natural hazards in these OECS countries.
- 2.18 **Expected results.** The results of this operation will be measured by the: (i) number of beneficiaries of enhanced disaster and climate change resilience; (ii) number of households with access to disaster-resilient water supply and sanitation; (iii) number of kms of disaster-resilient roads built or upgraded; (iv) value of investments in resilient infrastructure; (v) number of MSMEs financed; (vi) value of disaster resilience measures implemented among MSMEs; and (vii) number of agencies with strengthened managerial capacity.
- 2.19 **Strategic alignment.** This operation is aligned with IDB's Second Update to the Institutional Strategy 2020-2023 (AB-3190-2) and is expected to contribute to the Corporate Results Framework 2020-2023 (GN-2727-12) through the priorities of: (i) Social Inclusion and Equality, by contributing to indicator 2.4 "Households with improved access to water and sanitation" (ii) Productivity and Innovation, by contributing to indicator 2.9 "Micro, small, medium enterprises financed", and (iii) Economic Integration", by contributing to indicator 2.13 "Roads built or upgraded (km)". It also aligns to the cross-cutting issues of "Climate Change and Environmental Sustainability" by contributing to indicators 2.20 "Beneficiaries of enhanced disaster and climate change resilience" and 2.23 "Value of investments in resilient infrastructure", and "Institutional Capacity and Rule of Law." by contributing to indicator 2.26 "Agencies with strengthened managerial capacity". This operation aligns with CDB's 2020-2024 Strategic Plan,²⁵ which prioritizes the need for adaptation and climate resilience. Climate resilience is now mainstreamed into all CDB infrastructure investments. This operation also promotes IDB's sub-regional initiative of smart and resilient investments for the Caribbean – Build Forward.²⁶
- 2.20 **CDB as a borrower of IDB resources.** On July 13, 2020, [the IDB, IDB Invest and CDB entered into an agreement for mutual cooperation in the Caribbean region](#) ("IDB-CDB Agreement," subsequently). This agreement sets out how the parties will cooperate in the financing or co-financing of projects to build social, economic and environment reliance in the region. It establishes the general standards applicable to operating relations between IDB and CDB. The proposed financing to the CDB complies with all three criteria (compatibility,²⁷ complementarity²⁸ and additionality²⁹) as set forth in the Bank's Operational

²⁵ [CDB's 2020-2024 Strategic Plan](#)

²⁶ The Build Forward initiative is the CDB's sub-regional strategy and is anchored in our institution's 'Vision 2025'. It is a delivery-oriented initiative aimed at helping Caribbean countries define Sustainable Development Pathways for their transformation in a smart and resilient manner.

²⁷ CDB policies are consistent with those of the Bank.

²⁸ Since the Bank cannot lend directly to the OECS countries, as they are not IDB member countries, CDB provides the channel for Bank assistance to support the sustainable development of these countries.

Policies and Strategies Manual, “Relationship with Subregional Financial Institutions – General Policy” (OP-601).

- 2.21 **Lessons learned from previous work with CDB.** Project Completion Reports (PCR) of the two most recently completed GCL to the CDB (926/OC-RG; 975/SF-RG, and 1108/SF-RG) highlight the following aspects that contributed to effective program implementation: (i) sound project design process as reflected in the high quality of CDB project appraisal documents; (ii) project consistency with country strategies; (iii) CDB’s responsive approach to clients, as reflected by the flexibility in the use of sub-loans to address changing priorities in the borrowing countries; and (iv) high quality supervision by CDB in terms of ensuring that project outputs were achieved. In addition, the GCLs currently in implementation (2798/BL-RG, 3561/OC-RG and 5156/OC-RG) also signal the importance that all parties agree on the environmental and social requirements applicable to sub-loans. In this sense, the CDB’s Environmental and Social (E&S) Review Procedure includes the IFC Performance Standards, which have considerable overlap with the IDB’s safeguard policies. In previous loans this overlap has simplified the process of harmonizing the requirements of IDB and CDB E&S policies, requiring a limited set of additional requirements.
- 2.22 **Lessons learned from previous disaster risk management operations.** The following lessons will be considered in the formulation of this loan: (i) the importance of using a gradual and scalable approach to disaster and CC risk screening and assessment that considers hazard exposure and the analysis of the criticality and vulnerability of the exposed assets, and (ii) non-structural measures complement the level of protection offered by structural measures.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 **Borrower and executing agency.** The CDB will be the Borrower and the Executing Agency (EA) for this operation. Operational Regulations (OR) will be developed to define in detail the use of the operation’s resources.
- 3.2 **Financing instrument.** This operation will be structured as a Global Credit Loan, since it involves financial intermediation to the beneficiaries and it is considered the most effective mechanism to implement this intervention based on the preceding operations approved with CDB in 2012, 2015 and 2020. The total amount of the proposed program will be US\$50 million, financed with resources from the Bank’s Ordinary Capital. The CDB will on-lend the resources through sub-projects based on the components of the program in the countries that meet the eligibility criteria for the program as to be established in the loan contract and those to be set forth in the OR. The eligibility criteria for the financial intermediaries (FIs) that will channel resources from CDB to the MSMEs under Component 2 and, generally, CDB’s approval process for both components’ sub-loans will be set out in the OR. The disbursement period is expected to be around 48 months. This period will be defined with the CDB during the loan preparation, considering the potential demand for sub-loans for each component.

²⁹ This loan has a multiplier effect with regards to financial resource flow to the subregion and will increase the level of resources that CDB can provide to the beneficiary countries.

- 3.3 **Resource allocation.** As part of the Proposal for Operation Development (POD), the Project Team will work on ensuring that the operation provides equitable opportunity of access to all beneficiary countries while having a flexible design to address country specific needs. Maximum and minimum sub-loan sizes will be defined in the OR, as well as an upper threshold value of all the sub-loans in any country. Also, criteria will be defined to reassess the maximum threshold values per country in case CDB has not received sufficient requests from eligible countries. The loan will not be used for disaster relief and any resources used for reconstruction purposes will strictly be guided by the principle of “building back better” to avoid rebuilding or increasing vulnerability, thus safeguarding against future disasters.
- 3.4 **Risks.** Mitigation actions will be defined during the project preparation to the following risks: (i) inability to obtain data to inform project design and reporting, especially in relation to MSMEs, given data limitations in the OECS and Development Finance Institutions in these countries; (ii) weather-related and geophysical hazards, as well as an upsurge in COVID-19, could delay program preparation and implementation; (iii) limited ability of countries to borrow after the impact of COVID-19; and (iv) insufficient demand from beneficiary countries and MSMEs of resilient investments that the program offers.
- 3.5 **Sector knowledge.** Since the inception of the foundational Disaster Mitigation Facility Project (2001-2006) focusing on institutional strengthening for DRM within CDB and the institutionalization of DRM policies in borrowing member countries, CDB has continued to subsequently increase its programming footprint for DRM in its operations.
- 3.6 In 2008, IDB approved a technical cooperation – Mainstreaming Disaster Risk Management in OECS Countries (ATN/OC-11176-RS) - valued at US\$400,000 to support the mainstreaming of DRM in OECS focused on building the OECS Secretariat and OECS member states institutional capacity in Community-Based Disaster Risk Management (CBDRM) and enhancing disaster resilience in vulnerable low-income communities.
- 3.7 In 2012, CDB developed a US\$24 million Canada/UK/CDB financed multi-donor Community-Based Disaster Risk Reduction and Climate Change Adaptation Trust Fund (CDRRF). The CDRRF financed community-driven projects, selected through a competitive process, that were aimed at reducing natural hazard and climate change impacts. Additionally, under its Caribbean Technological Consultancy Services (CTCS) program, CDB has developed a business continuity toolkit for MSMEs which was inclusive of the identification of planning and risk management measures in relation to potential natural hazard impacts.
- 3.8 In 2014, CDB co-implemented with the Caribbean Disaster Emergency Management Agency (CDEMA) and the Government of the Dominican Republic, a EUR€20 million five-year Natural Disaster Risk Management (NDRM) Program supported by the European Union which strengthened the capacity of national disaster offices and enhanced resilience through early warning systems, risk profiling and CBDRM, as well as mainstreamed disaster risk reduction and climate change adaptation in key sectors such as water and sanitation and transport.

- 3.9 Through the Special Development Fund and other sources of funding, CDB has done significant work in improving the business ecosystem for MSMEs, including improving their access to credit through blended resources, which have been intermediated through Development Financing Institutions (DFIs) and FIs, and capacity building of MSMEs primarily through CDB's Caribbean Technology Consultancy Services (CTCS) Network program. Work to support the enabling environment has also been undertaken, more recently in partnership with the Compete Caribbean Facility to develop and implement a program addressing business climate reforms.
- 3.10 In December 2020, IDB approved 5156/OC-RG, a US\$50 million GCL to CDB to support the OECS response to the health, social and economic consequences of the COVID-19 crisis. Component 3 of the project provides financing to improve short-term financial capacity of MSMEs and access to production-oriented finance for economic recovery.

IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1 **Environmental and social risks.** As a GCL for a financial intermediary, this operation cannot be classified ex-ante for its environmental and social impacts as per the provisions of Directive B.13 of IDB's Environment and Safeguards Compliance Policy (OP-703). It is expected that the sub-loans will include subprojects classified as Category B and C according to the Bank's classification system. The infrastructure and MSMEs sub-projects to be financed through Components 1 and 2, respectively, will be those with the potential for adverse environmental and social impacts and/or risks, included those related to the ongoing COVID-19 pandemic, that are identified, site-specific, which may result from the proposed activities, and which can be avoided or mitigated by adhering to national regulations and systems, and internationally recognized performance standards, guidelines, and design criteria, especially the CDB's Environmental and Social Review Procedures (ESRP) and IDB's Environmental and Social Safeguards Policies, to which the subprojects will be subjected. The FIs involved in Component 2 will be required to demonstrate their environmental and social management capacity to appraise, monitor, and report on the sub-projects to lenders (CDB and, through CDB, to the IDB).
- 4.2 In the interest of complying with the IDB-CDB Agreement, and of not overburdening CDB's as well as FIs' due diligence processes with reporting on two separate sets of policies, CDB's ESRP will be followed, with any additional requirements established in the Environmental and Social Management Report, in the requirements in the loan contract and subsequently in the OR. These requirements will cover any relevant differences in terms of requirements between the two sets of policies. The IDB, as the lender, must provide its non-objection to any changes in the OR.
- 4.3 **Disaster risks.** Due to the program's intrinsic nature, its activities will take place in locations that are exposed to disaster risks. Each subproject will be screened for potential disaster and climate change risks using disaster risk screening tools that analyze hazard exposure, as well as criticality and vulnerability aspects. This screening will allow for the systematic categorization of subprojects

according to their level of risk and, therefore, to identify the subprojects that require a more in-depth disaster risk evaluation, particularly those that, according to the screening, are likely to be severely affected by natural hazards and/or to exacerbate the risk to third parties. The results of this evaluation will help to identify project alternatives (e.g., site, design, technology), as well as the development of appropriate measures for managing potential disaster and climate change impacts.

- 4.4 **Procurement.** Pursuant to the IDB-CDB Agreement, the prevailing CDB Procurement Policies and Procedures for Projects Financed by CDB will apply for the procurement of goods, works, consulting services and services other than consulting services under sub-projects, financed with the Project's resources. Eligibility to participate in the corresponding procurement process will be extended to firms and individuals from, and goods originating in, IDB member countries which are not members of the CDB, and firms and individuals from, and goods originating in, CDB member countries which are not members of the IDB.
- 4.5 **Financial management.** The IDB will disburse the resources in accordance with the Financial Management Guidelines for IDB-financed Projects (OP-273-12). CDB will make disbursements to beneficiary countries and FIs under the provisions of the prevailing Disbursement Guidelines for CDB-Financed Projects and the stipulations of the OR.

V. RESOURCES AND TIMETABLE

- 5.1 The expected POD distribution date is September 10, 2021, and approval by the Board on November 24, 2021. Administrative funds totaling US\$80,000 are required to complete the operation's preparation. Annex IV presents the timeline and resource requirements in more detail. As per Annex V, this operation is a double-booking between CSD/RND and IFD/CMF divisions. The participation of the latter is critical to design the preparation, execution and supervision of activities related to Component 2.



Safeguard Policy Filter Report

Operation Information

Operation		
RG-L1142 CDB Global Loan for building disaster and climate change resilience in OECS member countries		
Environmental and Social Impact Category	Disaster Risk Rating	
B.13	High	
Country	Executing Agency	
RG	BA-CDB	
Organizational Unit	IDB Sector/Subsector	
CSD/RND	INTEGRATED DISASTER RISK MANAGEMENT	
Team Leader	ESG Primary Team Member	
SERGIO LACAMBRA AYUSO	LUCIANO BORNHOLDT	
Type of Operation	Original IDB Amount	% Disbursed
LON	\$50,000,000.00	
Assessment Date	Author	
2021-05-26	Bornholdt, Luciano	
Operation Cycle Stage	Completion Date	
ERM	June 22, 2021	
QRR	September 10, 2021	
Board Approval	November 24, 2021	
Safeguard Performance Rating		
Rationale		



Safeguard Policy Filter Report

Safeguard Policy Items Identified

B.4 Other Risk Factors (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

The operation has the potential to exacerbate disaster risks and negatively affect the environment and/or communities (see <https://IADB-ESG.maps.arcgis.com> and https://idbg.sharepoint.com/sites/ESGCompassUAT/Shared%20Documents/criticality_charts_ENG.pdf to help screen for potential disaster risks).

B.4 Other Risk Factors (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

Construction activities are likely to lead to localized and temporary impacts (such as dust, noise, traffic etc) that will affect local communities and workers.

B.4 Other Risk Factors (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

There are risks associated with structural elements of the operation (e.g. dams, public buildings), and/or road transport activities (heavy vehicle movement, transport of hazardous materials, etc.) which could result in health and safety impacts to local community.

B.5 Environmental Assessment and Plans Requirements (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

The operation has environmental and/or social impacts and the borrower will conduct a process of environmental and social assessment and establish and maintain an environmental and social management system appropriate to the nature and scale of the operation and commensurate with the level of its environmental and social risks and impacts.

B.5 Environmental Assessment and Plans Requirements (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

The operation has the potential to cause economic displacement (economic loss or impact on livelihoods)

B.5 Environmental Assessment and Plans Requirements (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

Environmental and/or social assessment is required, and the Bank will need to ensure that those are made available to the public in time and substance.

B.6 Consultation (including consultation with affected women, indigenous persons, and/or minority groups) (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

The operation will carry out stakeholder consultation processes during preparation and implementation (including the equal participation of women and men).

B.6 Consultation (including consultation with affected women, indigenous persons, and/or minority groups) (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

If Indigenous Peoples have the potential to be affected, the operation will carry out a socio-culturally appropriate consultation process during preparation and implementation



Safeguard Policy Filter Report

B.9 Natural Habitats (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

The operation has the potential to convert or degrade non-critical natural habitat leading to impacts on species composition, ecological function or ecosystem services value (see <https://IADB-ESG.maps.arcgis.com> to help screen for potential biodiversity risks).

B.9 Natural Habitats (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

The operation has the potential to damage or negatively impact cultural sites.

B.11 Pollution Prevention & Abatement (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

The operation will have emissions or discharges (i.e. air contaminants, noise, effluents) that would negatively affect ambient environmental conditions.

B.11 Pollution Prevention & Abatement (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

The operation will generate solid waste.

B.13 Noninvestment Lending and Flexible Lending Instruments (Operational Policy on Environment and Safeguards Compliance Policy - OP-703)

Ex-ante impact classification is not be feasible for the 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).

OP-704 - Natural Disaster Risk Management Policy

The operation has the potential to exacerbate disaster risks and negatively affect the environment and/or communities (see <https://IADB-ESG.maps.arcgis.com> and https://idbg.sharepoint.com/sites/ESGCompassUAT/Shared%20Documents/criticality_charts_ENG.pdf to help screen for potential disaster risks).

OP-704 - Natural Disaster Risk Management Policy

A natural hazard* (including climate change influence) is likely to occur in the operation area with impacts to the operation, communities and/or the environment (see <https://IADB-ESG.maps.arcgis.com> and https://idbg.sharepoint.com/sites/ESGCompassUAT/Shared%20Documents/criticality_charts_ENG.pdf to help screen for potential disaster risks).

OP-761 - Operational Policy on Gender Equality in Development

The operation has the potential to have unequal requirements and/or access to project opportunities and derived benefits.

OP-102 - Access to Information Policy

Environmental and/or social assessment is required, and the Bank will need to ensure that those are made available to the public in time and substance.



Safeguard Screening Form

Operation Information

Operation		
RG-L1142 CDB Global Loan for building disaster and climate change resilience in OECS member countries		
Environmental and Social Impact Category	Disaster Risk Rating	
B.13	High	
Country	Executing Agency	
RG	BA-CDB	
Organizational Unit	IDB Sector/Subsector	
CSD/RND	INTEGRATED DISASTER RISK MANAGEMENT	
Team Leader	ESG Primary Team Member	
SERGIO LACAMBRA AYUSO	LUCIANO BORNHOLDT	
Type of Operation	Original IDB Amount	% Disbursed
LON	\$50,000,000.00	%
Assessment Date	Author	
2021-05-26	Bornholdt, Luciano	
Operation Cycle Stage	Completion Date	
ERM	June 22, 2021	
QRR	September 10, 2021	
Board Approval	November 24, 2021	
Safeguard Performance Rating		
Rationale		



Safeguard Screening Form

Operation Classification Summary

Overridden E&S Category	Overridden E&S Category Justification
Comments	

Overridden Disaster Risk	Overridden Disaster Risk Justification
Comments	

Summary of Impacts / Risks and Potential Solutions

Assessment and Management of Environmental and Social Risks and Impacts

The operation has environmental and/or social impacts and the borrower will conduct a process of environmental and social assessment and establish and maintain an environmental and social management system appropriate to the nature and scale of the operation and commensurate with the level of its environmental and social risks and impacts.

The operation has environmental and/or social impacts and the borrower will need to prepare environmental and social assessments and establish and maintain an environmental and social management system appropriate to the nature and scale of the project and commensurate with the level of its environmental and social risks and impacts

The operation will implement a grievance mechanism accessible to all stakeholders.

The operation will provide a grievance mechanism for all stakeholders

Labor and Working Conditions

The executing agency or other relevant entity (in relation to the operation) has a commitment/capacity to comply with applicable ILO requirements (including commitment to non-discrimination, equal opportunity, work accommodations, migrant workers' rights, collective bargaining and rights of association) and national employment in relation to working conditions and employment.

The executing agency or other relevant entity has limited commitment/capacity to comply with applicable ILO requirements and national employment in relation to working conditions and employment. The client will need to prepare a plan to ensure they comply with applicable ILO requirements and national employment in relation to working conditions and employment

The operation will provide a grievance mechanism for workers (and their organizations, where they exist) to raise workplace concerns.

The operation will provide a grievance mechanism for workers (and organizations, where they exist).

Pollution Prevention and Resource Efficiency

The operation will generate solid waste.

The operation will generate minor to moderate quantities of solid waste. The client will need to prepare a waste management plan

The operation will have emissions or discharges (i.e. air contaminants, noise, effluents) that would negatively affect ambient environmental conditions.



Safeguard Screening Form

The operation will have minor to moderate emissions or discharges that would negatively affect ambient environmental conditions. The client will need to prepare an emissions management plan

Community Health, Safety, and Security

There are risks associated with structural elements of the operation (e.g. dams, public buildings), and/or road transport activities (heavy vehicle movement, transport of hazardous materials, etc.) which could result in health and safety impacts to local community.

There are risks associated with structural elements of the operation and/or road transport activities which could result in minor to moderate health and safety impacts to local community. The client will need to prepare a community health and safety plan to ensure those risks are adequately managed

Construction activities are likely to lead to localized and temporary impacts (such as dust, noise, traffic etc) that will affect local communities and workers.

Construction activities are likely to lead to minor or moderate impacts that will affect local communities and workers. The client will need to prepare a community health and safety plan to ensure those impacts are adequately managed

The operation has the potential to exacerbate disaster risks and negatively affect the environment and/or communities (see <https://IADB-ESG.maps.arcgis.com> and https://idbg.sharepoint.com/sites/ESGCompassUAT/Shared%20Documents/criticality_charts_ENG.pdf to help screen for potential disaster risks).

The operation has the potential to exacerbate disaster risks from the following hazards: Riverine flooding, Urban or local flooding, Earthquakes, Landslides, Drought, Hurricane wind, Storm surge, Sea level rise, Tsunami, Volcanic and negatively affect the environment and/or communities in a minor to moderate way. The client will prepare mitigation measure to ensure the risk is not exacerbated

Resettlement and Livelihoods

The operation has the potential to cause economic displacement (economic loss or impact on livelihoods)

The operation has the potential to cause minor to moderate economic displacement. The client will need to prepare a livelihood restoration plan, according to the level of impacts, and carry out specific consultations with affected people

Biodiversity

The operation has the potential to convert or degrade non-critical natural habitat leading to impacts on species composition, ecological function or ecosystem services value (see <https://IADB-ESG.maps.arcgis.com> to help screen for potential biodiversity risks).

The operation has the potential to convert or degrade minorly or moderately non-critical natural habitat leading to impacts on species composition, ecological function or ecosystem services value. The client will need to prepare a biodiversity action plan to ensure such impacts are adequately managed/mitigated

Cultural Heritage

The operation has the potential to damage or negatively impact cultural sites.

The operation has the potential to damage or negatively impact cultural sites in a minor to moderate manner. The client will need to prepare a cultural heritage management plan to ensure such impacts are adequately mitigated

Gender Equality

The operation has the potential to have unequal requirements and/or access to project opportunities and derived benefits.

The operation has moderate to minor potential to have unequal requirements and/or access to project opportunities and derived benefits. The client will need to prepare a gender action plan to ensure such impacts/risks are adequately mitigated



Safeguard Screening Form

Access to information

Environmental and/or social assessment is required, and the Bank will need to ensure that those are made available to the public in time and substance.

Environmental and/or social assessment(s) is(are) required. The Bank will ensure that those are made available to the public in time and substance

Disaster Risk (Type 1)

A natural hazard¹(including climate change influence) is likely to occur in the operation area with impacts to the operation, communities and/or the environment (see <https://IADB-ESG.maps.arcgis.com> and https://idbg.sharepoint.com/sites/ESGCompassUAT/Shared%20Documents/criticality_charts_ENG.pdf to help screen for potential disaster risks).

A natural hazard is likely to occur in the operation area with significant impacts to the operation. The project is located in an area prone to Riverine flooding, Urban or local flooding, Earthquakes, Landslides, Drought, Hurricane wind, Storm surge, Sea level rise, Tsunami, Volcanic. A DRA/DRMP must be prepared. For details see the DRM policy guidelines. For details see the DRM policy guidelines

Noninvestment lending and flexible lending instruments

Ex-ante impact classification is not be feasible for the 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).

Ex-ante impact classification is not be feasible for the operation

Gender and Diversity (Mainstreaming)

The operation will offer opportunities for women.

The operation will offer opportunities for women. Please ensure GDI is involved in the preparation and execution of the operation

¹Natural hazards include volcanic activity, coastal flooding from storm surge, droughts, hurricanes, inland flooding, landslides, sea-level rise, earthquakes, glacier retreats.
Safeguard Policy Filter Report

Environmental and Social Strategy (ESS)	
Operation Name	Global Loan for Building Disaster and Climate Change Resilience in OECS Countries
Operation Number	RG-L1142
Prepared by	Luciano Bornholdt - CJA/ESG Raimon Porta Garcia – ESG
Operation Details	
IDB Sector	ENVIRONMENT AND NATURAL DISASTERS
Type of Operation	LON/GCL – Global Credit Loan
Environmental and Social Classification	B.13
Environmental and Social Risk Rating	Moderate
Disaster Risk Rating	Disaster risk classification ex-ante not possible (B.13)
Borrower	CARIBBEAN DEVELOPMENT BANK (CDB)
Executing Agency	BA-CDB
IDB Loan US\$ (and total project cost)	\$50,000,000.00
Applicable Policies/Directives	<p>OP-703 / B.1 Bank Policies OP-703 / B.2 Country Laws and Regulations OP-703 / B.4 Other Risk Factors (Institutional Capacity) OP-703 / B.7 Supervision and Compliance OP-703 / B.13 Noninvestment Lending and Flexible Lending Instruments OP-704 not applicable during preparation due to operation being classified as B.13: a disaster risk classification ex-ante is not possible. Given the type and scope of subprojects to be financed under both components, however, Disaster Risk Management policy OP-704 is highly relevant and will guide the preparation of the loan.</p>
Operation Description	
<p>This Global Credit Loan (GCL) has the objective of enhancing the resilience of the Organization of Eastern Caribbean States (OECS) countries to disasters and climate change by reducing the disaster risk of infrastructure and fostering Micro, Small and Medium Enterprises (MSMEs) disaster-resilient growth. The potential beneficiary countries are Antigua and Barbuda, Commonwealth of Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines. The Bank will provide a GCL to the CDB, which will on-lend the resources to finance eligible sub-loans in the beneficiary countries according to the following components:</p> <p>Component 1: Enhancing the disaster resilience of infrastructure. This component will finance consulting services, infrastructure works, and the provision of goods and equipment required to enhance the disaster and climate change resilience of infrastructure in the transport and water and sanitation sectors. Measures include structural and non-structural:</p> <p>(i) <u>Examples of structural measures</u> include the construction of sea defenses along coastal roads, floodwalls, and nature-based solutions for flood management, retrofitting infrastructure to stand earthquakes and, generally, any works aimed at reducing the physical vulnerability to natural hazards of existing critical infrastructure. Building new critical infrastructure is also eligible when justified in terms of redundancy to ensure the continuity in the provision of the transport or water and sanitation services.</p>	

- (ii) Examples of non-structural measures include activities related to contingency planning aimed at ensuring the continuity or swift resumption of the service provided by the infrastructure, that complement the level of disaster protection offered by the structural measures. This component will also finance the hazard-specific disaster risk assessments and other feasibility studies that are required to generate the information needed to justify from both a risk reduction and economic viability perspectives the structural and/or non-structural measures. It could also finance other technical assistance required to prepare designs, costings, to identify and compare disaster risk reduction and adaptation solutions, and to undertake environmental and social assessments before the commencement of each sub-project.

Component 2: Fostering disaster-resilient growth of MSMEs. This component will finance productive investments in MSMEs in sectors vulnerable to natural hazards. The greatest demand is expected to be in the tourism and agriculture sectors. Some financial resources of this component will be used to enhance the resilience of MSMEs to disasters. As with Component 1, measures for enhancing resilience may include, but are not limited to, capital investments, disaster risk assessments, business continuity plans, feasibility studies and other technical assistance required to formulate each sub-loan. This component may also finance the contingency planning of the financial intermediaries (FIs) (¶3.2) to reduce their portfolio risk and be prepared to confront more effectively the consequences of disasters.

Key Potential ESHS¹ Risks and Impacts

The risks and potential impacts of the eligible financing are predicted to be of low to moderate magnitude and can be managed with the application of an environmental and social management system (ESMS of the Program).

Identification of potential environmental and social risks and impacts.

Component 1:

The key potential risks and impacts of this component are, to a greater extent, related to the physical infrastructure measures required to enhance the disaster resilience of critical infrastructure in the transport and water and sanitation sectors. The infrastructure works that could be financed under this loan will likely be relatively small/localized works – generally, upgrades of existing infrastructure and being implemented in already anthropized areas –, given the overall amount of the loan and the fact that it is expected to support several projects in different countries.

Thus, it is expected that the works financed under Component 1 will cause limited direct environmental and social impacts, typical of projects of this scale (dust, erosion, noise, waste, transit disruption, water distribution disruption, workers' and community health and safety impacts associated with worker's camps). However, there is also the associated risk of contractors not implementing the projects properly, and the risk of poor management of project's Environmental and Social (E&S) risks and impacts by second-tier financial intermediaries. Additionally, there is a risk of interference and impacts with natural habitats and protected areas and critical natural habitats, for which requirements and an exclusion strategy will be developed during due diligence.

There exists also the possibility, albeit reduced due to the intrinsic nature of this Program, of increasing the risk levels contributing to the current disaster risk scenario if the disaster risk mitigation measures are not properly designed, implemented, and managed. This possibility of risk exacerbation (Type 2

¹ Environment, Social, Health and Safety.

risk) is present both in the construction and operation phases, dynamically varying the risk level during the whole project lifecycle. Special attention will be required to assess and manage the risk situation during the construction phase in projects where the final level of risk is secured to be reduced.

The CDB has experience implementing FI infrastructure loans with the IDB and other multilateral institutions, inclusive of Cat A projects.

Component 2:

The profile of the portfolio to be financed is expected to be similar to the existing MSMEs universe in the Caribbean with therefore a strong focus on the tourism and services sectors. Other relevant sectors are retail and services, logistics and agriculture and fishery.

- (i) Activities in the tourism sector are usually associated to the following common E&S risks and impacts:
 - Conversion and degradation of habitat
 - Stress on or contamination of water resources
 - Inadequate waste management (sewage and solid waste) – it is important to note that most waste produced by the tourism industry is non-hazardous.
 - Energy consumption
 - Removal or degradation of natural protection elements (sand dunes, riverbanks, etc.)
 - Implementation of activities in areas prone to natural hazard impacts
- (ii) The socio-environmental risks normally associated with retail and services activities are considered to be low
- (iii) The socio-environmental risks normally associated with the agricultural sector are the following:
 - Conversion and degradation of habitat
 - Improper use of land
 - Stress on or contamination of water resources
 - Inadequate waste management (sewage and solid waste)
 - Use of migratory or informal labor, child labor
 - Air emissions
 - Energy consumption
 - Use of pesticides and fertilizers
 - Removal or degradation of natural protection elements (vegetation cover, riverbanks, etc.)
 - Implementation of activities in areas prone to natural hazard impacts
- (iv) The socio-environmental risks normally associated with the MSMEs activity in the agro-industrial and industrial sector are the following:
 - Health and safety issues
 - Stress on or contamination of water resources
 - Inadequate waste management (sewage and solid waste)
 - Air emissions
 - Energy consumption
 - Removal or degradation of natural protection elements (vegetation cover, riverbanks, etc.)
 - Implementation of activities in areas prone to natural hazard impacts

Regarding Disaster Type 2 risks for Component 2, the exacerbation of risk will be mainly related to potentially increasing exposure of goods and vulnerability of the funded activities. Additionally, the nature of some economic activities may incur in inducing risk exacerbation in the sense of elimination of the natural defenses currently in place.

For both components, the physical infrastructure as well as the activities targeted with this loan are a priori exposed to natural hazards and climate change impacts, considering that investment will be prioritized to effectively reduce disaster risk. Therefore, Disaster Type 1 risks will be underlying the majority of sub-projects of this loan. Medium risk ratings are generally expected, with high-risk interventions to be potentially faced in infrastructure projects regarding the high level of exposure to cyclonic storm surges, volcanic and related seismic activity, landslides, and intense precipitation of key pieces of infrastructure in the region.

Overall, the loan is considered of moderate E&S risk, pending the assessments described in this strategy and which will be carried out as part of due diligence. The cause factor of the expected infrastructure investments is considered to be moderate, with contribution rated as low. Performance is currently set as moderate due to the fact that the CDB has good overall capacity and that although the subborrowers may have limited E&S capacity, the downstream loans and the projects to be financed (for MSMEs) are expected to represent relatively small amounts and less significant infrastructure if compared to Component 1. Many of the borrowing countries for Component 1 have limited capacity, but these operations will have their due diligence and supervision carried out by the CDB. Context risk is rated as substantial, due to its relation to disaster risk, and to the environmental, social and economic fragility of some of the small island countries that are potential beneficiaries. It is also worthy of note that the Covid-19 pandemic is still going on, representing an added risk for the implementation of these operations.

Information Gaps and Strategy for Analysis and Management

Information gaps

A full characterization of the consistency between the Disaster Risk Assessment methodology adopted by the CDB, namely Climate Risk Vulnerability Assessment (CRVA), and the IDB's Disaster and Climate Change Risk Assessment Methodology (DCCRAM) is required. Although a similar approach in the screening phase seems to be adopted (including hazard identification, exposure and criticality/vulnerability assessment), the methodologies may differ in their systematic application to projects and their risk-level thresholds/outputs provided. Additionally, further investigation is required on defining a common language of acceptable risk levels as well as how the methodology effectively promotes the early realization of technical studies and evaluations allowing for risk characterization and integral risk evaluation (e.g. including both Type 1 and 2 risks) leading to justified prioritization of measures. For Disaster Risk Management Plans, further investigation is required to ensure common language is shared regarding its objective and contents. Finally, in light of the nature of this loan and what is seen as the CRVA being oriented to dealing with climate risks, further investigation and complementation (if deemed necessary) is required to broad the assessment scope to geophysical risks that are notably present in the operation.

Institutional capacity of the executing agency

Although the IDB has signed other FI loans with the CDB as recently as 2020, and notwithstanding the fact that many aspects of CDB's capacity assessment as carried out for these previous loans still apply, there are some aspects of CDB's Environmental and Social Policies and Review Procedures (ESRP) and its E&S management system as a whole which need to be reassessed. The main aspects

include the number of E&S officers, Disaster Risk Assessment protocols and procedures for the assessment of second-tier financial institutions which will provide the loans to MSMEs. The gaps and strategy for analysis/assessment are described in more detail below.

CDB's current ESRP were approved at the end of June 2015. Their procedures include a set of nine environmental and social performance requirements (PR) that reflect the principles, core policies, standards and best practice approaches adopted and used in the treatment of sensitive environmental and social issues by the multilateral financial and development community.

Through a previous loan to CDB (RG-L1018) approved in 2012, IDB sought to specifically encourage alignment of CDB's safeguard policies with that of IDB with respect to operationalizing CDB's Information Disclosure Policy (IDP). CDB has since operationalized the IDP and project appraisal reports including environment and social analysis are disclosed on its website prior to Board approval with a minimum of two weeks prior notice. CDB has also recently put in place a mechanism for managing project complaints, which is consistent with international good practice.

During project preparation the team will assess CDB's capacity for E&S management, including working with the CDB to identify any financial liabilities in its existing portfolio, related to environmental, social and health and safety issues.

On July 13, 2020, the IDB, IDB Invest and CDB entered into an agreement for mutual cooperation in the Caribbean region ("IDB-CDB Agreement", subsequently). This agreement sets out how the parties will cooperate in the financing or co-financing of projects to build social, economic and environment reliance in the region. It establishes the general standards applicable to operating relations between IDB and CDB. The IDB-CDB Agreement covers among other subjects the application of E&S policies and standards on FI loans. Although the MoU is already in application, the guidelines are under development and as such not yet available to guide the preparation of this loan. A previous loan agreement (RG-L1143) was negotiated already under these circumstances, and an implementation arrangement understood by both IDB and CDB as compliant with each institution's E&S policies was successfully negotiated. The draft guidelines referred to above were developed based on the same principles, which will be used as guidance in the preparation of the specific loan conditions and implementation arrangements for the loan currently proposed. These, along with CDB's ESRP, will form the basis of the Program's Environmental and Social Management System (ESMS).

It will be necessary to assess certain aspects of CDB's ESRP in the context of the proposed subloans/activities of this operation, and especially the sufficiency of E&S personnel given the potentially large number of subloans to be managed by second-tier financial institutions to which the CDB will provide loans.

The lack of sufficient E&S personnel for CDB to oversee their operations with the IDB has been pointed out and recommendations made in Supervision Reports for existing IDB-CDB FI loans. Due diligence will include an assessment of the need for additional E&S personnel to oversee E&S aspects of this operation in the context of the IDB-CDB FI portfolio.

Management of Environmental and Social Aspects:

1. As a GCL, this operation is classified for its environmental and social impact as a financial intermediary operation for which ex-ante impact classification is not yet feasible as per the provisions of Directive B.13 of IDB's Environment and Safeguards Compliance Policy (OP-703). It is expected that the sub-loans will include subprojects classified as Category B and C according to the Bank's classification system. The infrastructure and MSMEs sub-projects to be financed through Components 1 and 2, respectively, will be those with the potential for adverse environmental and social impacts and/or risks, included those related to the ongoing COVID-19 pandemic, that are identified, site-specific, which may result from the proposed activities, and which can be avoided or mitigated by adhering to national regulations and systems, and

internationally recognized performance standards, guidelines, and design criteria, especially the CDB's Environmental and Social Review Procedures (ESRP) and IDB's Environmental and Social Safeguards Policies, to which the subprojects will be subjected. The FIs involved in Component 2 will be required to demonstrate their environmental and social management capacity to appraise, monitor, and report on the borrowers' sub-projects to lenders (CDB and, through CDB, to the IDB).

2. Category A sub-loans or subproject will not be financed by the operation.
3. In the interest of complying with the IDB-CDB Agreement, and of not overburdening CDB's as well as FIs' due diligence processes with reporting on two separate sets of policies, CDB's ESRP will be followed, with any additional requirements established in the Environmental and Social Management Report, in the loan requirements and subsequently in the Operational Regulations (OR). These requirements will cover any relevant differences in terms of requirements between the two sets of policies. The IDB, as the lender, must provide its non-objection to any changes in the OR.
4. Due to the program's intrinsic nature, its activities will take place in locations that are exposed to disaster risks. Each subproject will be screened for potential disaster and climate change risks using disaster risk screening tools that analyze hazard exposure, as well as criticality and vulnerability aspects. This screening will allow for the systematic categorization of subprojects according to their level of risk and, therefore, to identify the subprojects that require a more in-depth disaster risk evaluation, particularly those that, according to the screening, are likely to be severely affected by natural hazards and/or to exacerbate the risk to third parties. The results of this evaluation will help to identify project alternatives (e.g. site, design, technology), as well as the development of appropriate measures for managing potential disaster and climate change impacts. Disaster Risk Management Plans will be expected as the document integrating all the identified actions, resources and strategies required to bring disaster risk to acceptable levels.

Opportunities for IDB Additionality on Environment and Social matters (if any)

To be identified during due diligence, if any.

Annex Table: Operation Compliance with IDB Safeguard Policies

Please see Annex table

Additional Appendices (if any)

Please Appendix 1: maps showing the most relevant natural hazards that are present or expected in the OECS region.

Annex Table: Operation Compliance with IDB Safeguard Policies

Policies / Directives	Policy / Directive Applicable?	Rationale for applicability of Policy / Directive	Actions required during Preparation & Analysis
OP-703 Environment and Safeguards Compliance Policy			
B.2 Country Laws and Regulations	Yes	Projects funded with resources from this loan will have to comply with country laws and regulations.	None, as the projects to be financed indirectly through this loan will be defined in the future.
B.3 Screening and Classification	No	This is a financial intermediary (FI) operation, which as such cannot be classified ex-ante. As such, this operation is a B.13 and the future projects, once identified, will be categorized on an individual basis.	
B.4 Other Risk Factors (Institutional Capacity)	Yes	As an FI, the capacity of the EA (CDB) must be assessed during due diligence	Assessment of CDB's E&S capacity and its ESRP and ESMS will be carried out during due diligence, with the objective of identifying needs for strengthening both capacity and the ESMS of the program.
B.5 Environmental Assessment and Plans Requirements	No	EAs and plans will be prepared for the subloans during execution.	None, except for defining requirements for future subloans.
B.5 Social Assessment and Plans Requirements (including Livelihood Restoration Plan)	No	EAs and plans will be prepared for the subloans during execution.	None, except for defining requirements for future subloans.
B.6 Consultation	No	Consultations will be carried out in the context of subloans.	None required during preparation.
B.7 Supervision and Compliance	Yes	The projects financed by subloans will be supervised by the CDB, which as the FI's Executing Agency will be supervised by the IDB.	Determine the supervision regime between IDB and CDB.
B.8 Transboundary Impacts	No	No transboundary impacts expected	
B.9 Natural Habitats	No	Relevant in preparation and will be addressed in the ESMS.	Any necessary exclusion criteria and E&S management parameters will be defined as part of the program's ESMS, which will be defined during preparation.

Policies / Directives	Policy / Directive Applicable?	Rationale for applicability of Policy / Directive	Actions required during Preparation & Analysis
B.9 Invasive Species	No	Relevant in preparation and will be addressed in the ESMS.	Any necessary exclusion criteria and E&S management parameters will be defined as part of the program's ESMS, which will be defined during preparation.
B.9 Cultural Sites	No	Relevant in preparation and will be addressed in the ESMS.	Any necessary exclusion criteria and E&S management parameters will be defined as part of the program's ESMS, which will be defined during preparation.
B.10 Hazardous Materials	No	Relevant in preparation and will be addressed in the ESMS.	Any necessary exclusion criteria and E&S management parameters will be defined as part of the program's ESMS, which will be defined during preparation.
B.11 Pollution Prevention and Abatement	No	Relevant in preparation and will be addressed in the ESMS.	Any necessary exclusion criteria and E&S management parameters will be defined as part of the program's ESMS, which will be defined during preparation.
B.12 Projects Under Construction	No	Relevant in preparation and will be addressed in the ESMS.	Any necessary exclusion criteria and E&S management parameters will be defined as part of the program's ESMS, which will be defined during preparation.
B.13 Noninvestment Lending and Flexible Lending Instruments	Yes	This is an FI operation.	As per policies and directives, as described in this compliance table
B.14 Multiple Phase and Repeat Loans	No	This is not multiphase nor repeat	
B.15 Co-financing Operations	No	Not co-financing	
B.16 In-Country Systems	No	This operation will not use in-country systems, but the program's ESMS	
B.17 Procurement	No		

Policies / Directives	Policy / Directive Applicable?	Rationale for applicability of Policy / Directive	Actions required during Preparation & Analysis
OP-704 Natural Disaster Risk Management Policy			
A.2 Analysis and management of Type 2 risk scenario	No	Particularly Component 1 activities related to physical infrastructure implementation, but also Component 2 activities, are subjected to potentially exacerbate the current risk scenario.	IDB will ensure during the loan preparation that common language and procedures are shared and consistent with IDB's OP-704 Policy and DCCRAM when referring to acceptable risk levels, characterization of risk exacerbation, and Disaster Risk Management Plans' content.
A.2 Contingency planning (Emergency response plan, Community health and safety plan, Occupational health and safety plan)	No	The nature of the Program is building resilience to natural disasters and climate change, therefore both structural and non-structural actions are expected to observe a cross-cutting perspective of integrated residual risk management.	IDB will ensure during the loan preparation that common language and procedures are shared and consistent with IDB's OP-704 Policy and DCCRAM regarding DRMPs preparation and implementation.
OP-710 Operational Policy on Involuntary Resettlement			
Resettlement Minimization	No	Involuntary resettlement will be an exclusion criterium.	A list of exclusion criteria will be developed during project preparation.
Impoverishment Risk Analysis	No	idem	idem
Resettlement Plan and/or Resettlement Framework Requirement	No	ibidem	Ibidem
Resettlement Plan Consultations	No	Ibidem	Ibidem
Livelihood Restoration Program Requirement	No	Ibidem	Ibidem
Consent (Indigenous Peoples and other Rural Ethnic Minorities)	No	Ibidem	Ibidem
OP-765 Operational Policy on Indigenous Peoples			

Policies / Directives	Policy / Directive Applicable?	Rationale for applicability of Policy / Directive	Actions required during Preparation & Analysis
Sociocultural Evaluation Requirement	No	Impacts on IPs are not expected.	To be further determined during project preparation. A list of exclusion criteria will be developed as part of due diligence.
Good-faith Negotiations and proper documentation / agreements with Affected Indigenous Peoples	No	idem	idem
Indigenous Peoples Compensation, and Development Plan and/or Framework Requirement	No	Ibidem	Ibidem
Discrimination Issues	No	Ibidem	Ibidem
Transborder Impacts	No	Ibidem	Ibidem
Impacts on Isolated Indigenous Peoples	No	Ibidem	Ibidem
OP-761 Operational Policy on Gender Equality in Development			
Consultation and effective participation of women and men	No	As part of preparation of projects financed by subloans.	None beyond including any necessary requirements into the loan.
Application of safeguard and risk ² analysis	No	Relevant differential impacts based on gender are not foreseen in relation with the expected infrastructure to be financed.	none
OP-102 Access to Information Policy			
Disclosure of relevant Environmental and Social Assessments Prior to Analysis Mission, QRR, OPC and	No	As an FI operation, there are no E&S documents expected to be disclosed before analysis mission.	None

² Risks may include: (i) unequal access to project benefits/ compensation measures; (ii) men or women disproportionately affected due to gender factors; (iii) non-compliance with applicable legislation related to equality between men and women; (iv) increased risk of gender-based violence, including sexual exploitation, human trafficking and sexually transmitted diseases; and (v) disregard of women's ownership rights.

Policies / Directives	Policy / Directive Applicable?	Rationale for applicability of Policy / Directive	Actions required during Preparation & Analysis
submission of the operation for Board consideration			
Provisions for Disclosure of Environmental and Social Documents during Project Implementation	No	The CDB will be required to disclose E&S documents during preparation of operations financed by subloans.	None during preparation of the loan. Requirements for document disclosure will be added to the Program's ESMS requirements.

Appendix 1: Maps showing the most relevant natural hazards that are present or expected in the OECS region.



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Volcanic hazard

High

1:4,622,324
0 37.5 75 150 mi
0 60 120 240 km
Esri, HERE, Garmin, FAO, NOAA, USGS

Web AppBuilder for ArcGIS

UNEP (United Nations Environment Programme) & UNISDR (United Nations International Strategy for Disaster Reduction). (2014). Global Risk Data Platform. Fires – Density [raster geospatial data fi_average.tif]. Wildfire Hazard. Created by Inter-American Development Bank by processing the



5/26/2021, 1:25:09 PM

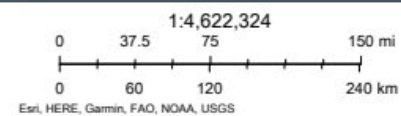
Hurricane Storm Surge hazard



High

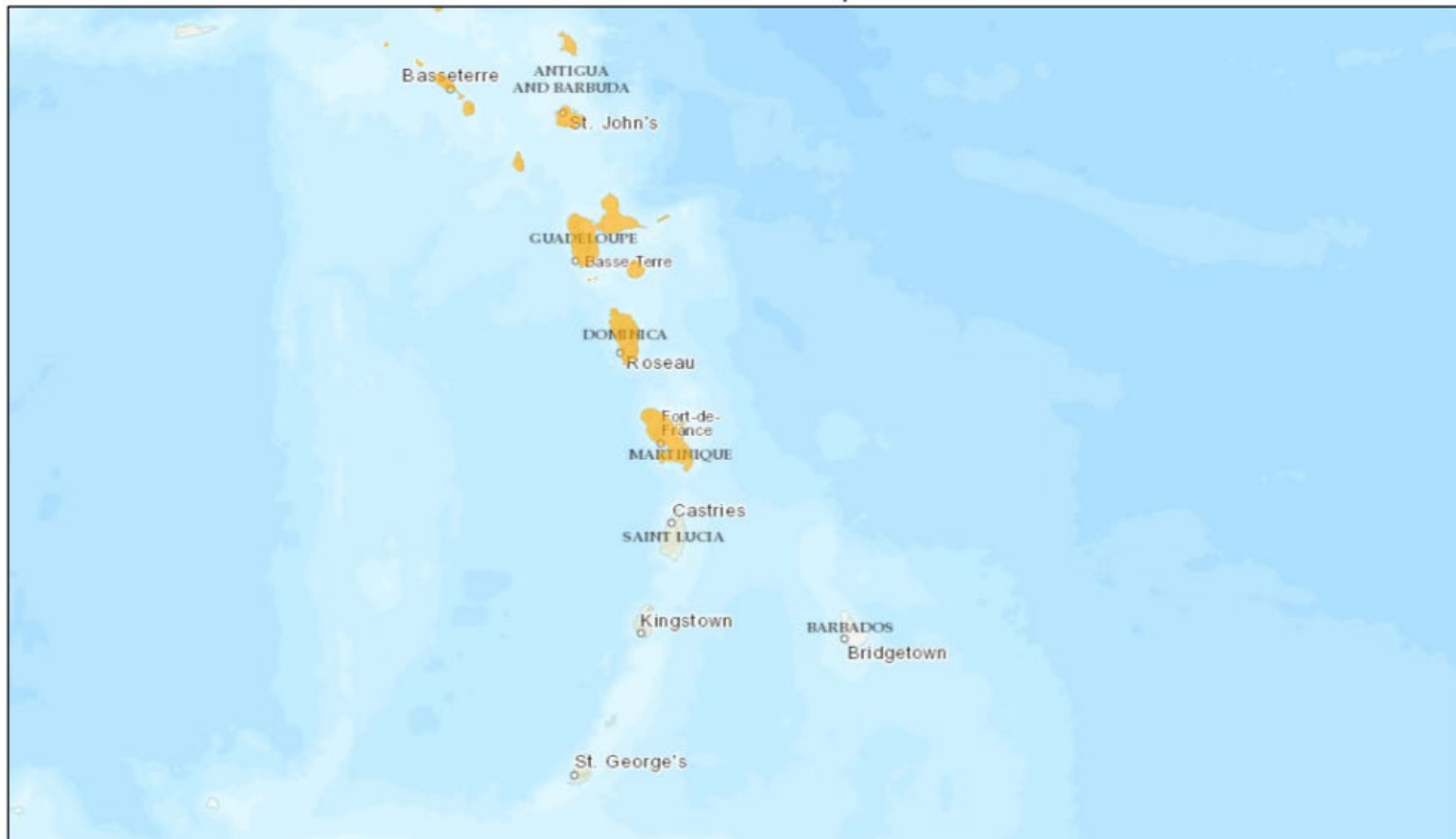


Moderate



Web AppBuilder for ArcGIS

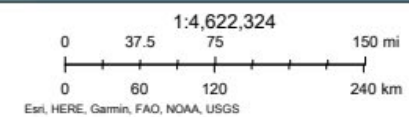
UNEP (United Nations Environment Programme) & UNISDR (United Nations International Strategy for Disaster Reduction). (2014). Global Risk Data Platform. Fires – Density [raster geospatial data file, average, tiff]. Wildfire Hazard. Created by Inter-American Development Bank by processing the

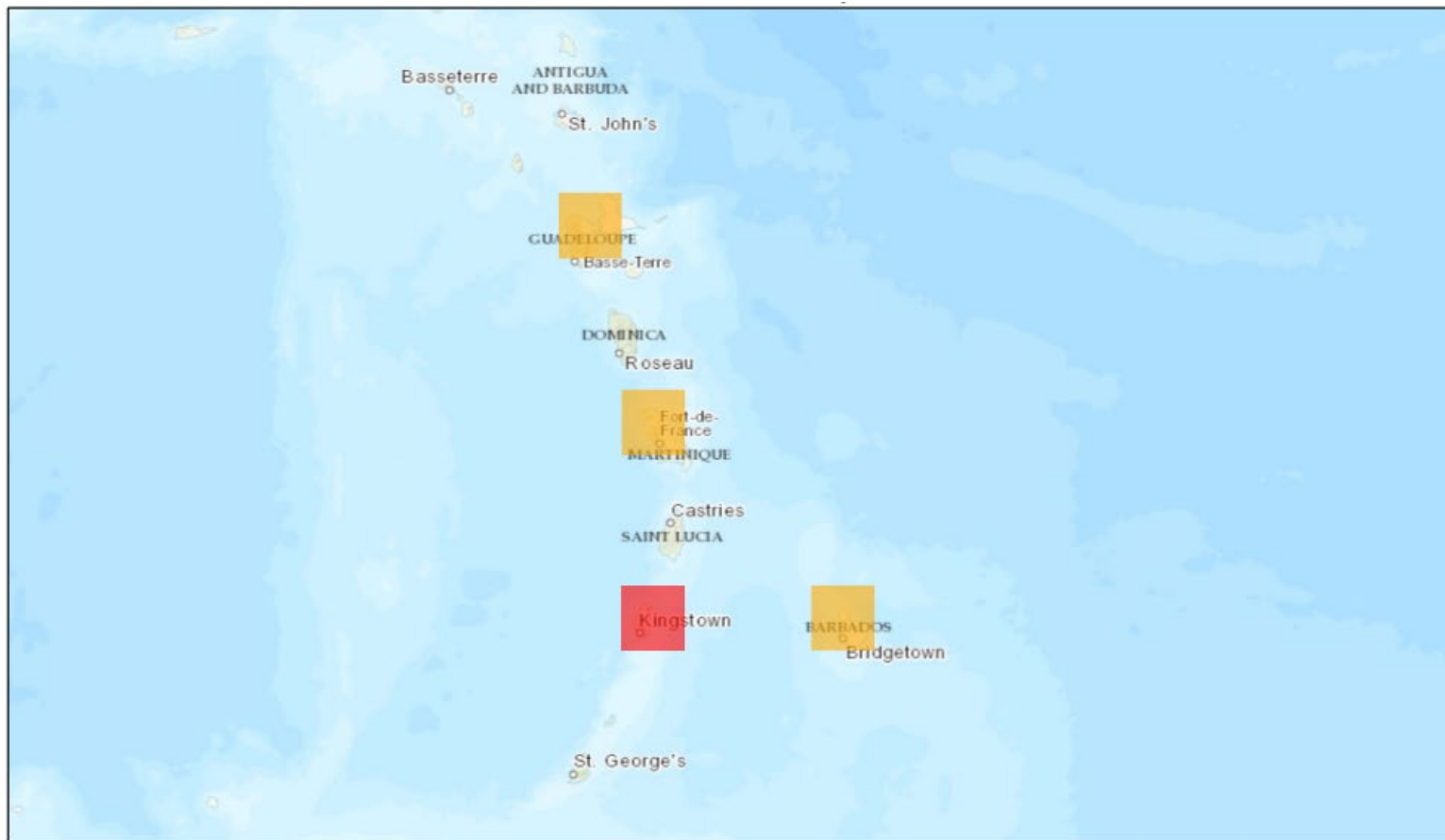


5/26/2021, 1:29:26 PM

Earthquake hazard

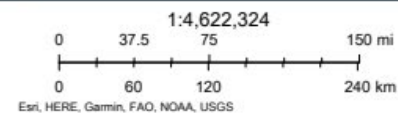
Moderate





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Drought hazard_change for the end of the century (with Climate Change)



Web AppBuilder for ArcGIS

UNEP (United Nations Environment Programme) & UNISDR (United Nations International Strategy for Disaster Reduction). (2014). Global Risk Data Platform. Fires – Density [raster geospatial data f1_average.tif]. Wildfire Hazard. Created by Inter-American Development Bank by processing the

INDEX FOR COMPLETED AND PROPOSED SECTOR WORK

Description		Estimated Dates	References and Electronic Links
Technical documents: disaster databases, disaster risk assessments, damage and loss assessments, methodological guidelines, etc.	Impact of natural disasters in OECS countries 2000-2020 (EM-DAT)	Completed	Link
	Assessment of the Economic Impact of Climate Change on CARICOM Countries; World Bank Group 2002	Completed	Link
	Organisation of Eastern Caribbean States Systematic Regional Diagnostic. WBG, 2018.	Completed	Link
	Bueno et al. <i>The Caribbean and Climate Change: The costs of inaction</i> . TU, 2008.	Completed	Link
	An assessment of the economic impact of climate change on the macroeconomy in the Caribbean. ECLAC, 2011.	Completed	Link
	Clark, K.M., 1997. <i>Current and Potential Impact of Hurricane Variability on the Insurance Industry, in Hurricanes, Climate and Socio Economics Impacts</i> , SP 1997	Completed	Link
	<i>Saint Lucia, Joint Rapid Damage and Needs Assessment Flood Event of December 24–25, 2013</i> . Government of Saint Lucia and the World Bank (2014).	Completed	Link
	<i>Dominica, Rapid Damage and Impact Assessment Tropical Storm Erika</i> . Government of the Commonwealth of Dominica (2015).	Completed	Link
	Advancing Disaster Risk Finance in Grenada (World Bank Group, 2018)	Completed	Link
	Advancing Disaster Risk Finance in Saint Lucia (World Bank Group, 2018)	Completed	Link
	Country Document for Disaster Risk Reduction: Antigua y Barbuda (National Office of Disaster Services, 2016)	Completed	Link
	Climate Trends and Projections for the OECS Region (OECS, 2020)	Completed	Link
	Eastern Caribbean Regional Climate Change Implementation Plan (OECS, 2018)	Completed	Link
	Regional Climate Modelling in the Caribbean (ECLAC, 2010)	Completed	Link
	Climate Change Projections in Latin America and the Caribbean: Review of existing regional climate models' outputs (IADB, 2016)	Completed	Link
	Exogenous Risk Management in Financial Institutions that serve the most vulnerable segments of the population (CDB, FOMIN 2011)	Completed	Link
	HR Wallingford. Training Manual. Supporting the integration of climate resilience in the water supply sector in the Caribbean. (CDB, 2018)	Completed	Link
	Post-disaster early recovery in a Caribbean Small Island Developing State: The case of Hurricane Ivan in Grenada (2004): best practices and Lessons Learned (UNDP Barbados and OECS; 2007).	Completed	Link
	Small Businesses: Impact of Disasters and Building Resilience. Analyzing the vulnerability of Micro, Small, and Medium Enterprises to natural hazards and their capacity to act as drivers of community recovery (UNDP; 2013).	Completed	Link

Description		Estimated Dates	References and Electronic Links
	Multi-hazard Early Warning Systems Report for St. Vincent & the Grenadines (UNDP, CDEMA, IFRC, ECHO, 2018)	Completed	Link
	Sirvio, K.M.; Philogene-Mckie, R. (2019): Implementation of Road Asset Management System in Saint Lucia. Proceedings of 26 th World Road Congress Conference, Abu Dhabi, 2019.	Completed	Link
Operational Guidelines		August 2021	
Procurement	CDB procurement Policies and Procedures	Completed	Link
CBA		August 2021	
M&E Plan		August 2021	
ESPF		August 2021	

CONFIDENTIAL

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.