

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BARBADOS

CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES

(BA-O0004)

PROJECT PROFILE

This document was prepared by the project team consisting of: Fernando de Olloqui, Team Leader, IFD/CMF; Juan José Durante, Alternate Team Leader, IFD/CMF; Guillermo Collich, Annabella Gaggero, Fanny Porras, Rafael Rosillo and Hongrui Zhang, IFD/CMF; Yuri Chakalall and Hori Tsuneki, CSD/RND; Leslie Stone, SPD/SMO; Maricarmen Esquivel, CSD/CCS; Anne-Marie Urban, SCL/GDI; Louis-Francois Chretien, LEG/SGO; Mario Rodriguez and Maria Padilla, VPC/FMP; Janette Archer-Headley and Laura Giles Alvarez, CCB/CBA.

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

PROJECT PROFILE

BARBADOS

I. BASIC DATA

Project Name:	Contingent Loan for Natural Disaster Emergencies (Modality I)		
Project Number:	BA-O0004		
Project Team:	Fernando de Olloqui, Team Leader, IFD/CMF; Juan José Durante, Alternate Team Leader, IFD/CMF; Guillermo Collich, Annabella Gaggero, Fanny Porras, Rafael Rosillo and Hongrui Zhang, IFD/CMF; Yuri Chakalall and Hori Tsuneki, CSD/RND; Leslie Stone, SPD/SMO; Maricarmen Esquivel, CSD/CCS; Anne-Marie Urban, SCL/GDI; Louis-Francois Chretien, LEG/SGO; Mario Rodriguez and Maria Padilla, VPC/FMP; Janette Archer-Headley and Laura Giles Alvarez, CCB/CBA.		
Borrower:	Government of Barbados		
Executing Agency:	Ministry of Finance, Economic Affairs and Investment (MFEI)		
Financial Plan:	IDB (OC):	US\$ 80,000,000	
	Total:	US\$ 80,000,000	
Safeguards:	Policies triggered:	B.13	
	Classification:	Not required	

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background and Justification

- 2.1 **Exposure and vulnerability to high impact natural disasters.** Barbados, as most Small Island Developing States (SIDS), is particularly vulnerable to severe natural disasters and climate change. More than half of its residents live in zones of high risk from natural hazards, and about fourth-fifth of the country's Gross Domestic Product (GDP) is generated in exposed areas.¹ Hurricanes are of primary concern as such natural hazards events typically put a large proportion of the population, residential and commercial buildings, and productive infrastructure at high risk.²
- 2.2 In its history of recorded storms, hurricane Janet in 1955 had the largest impact, as it made a direct hit on Barbados as Category 3 with maximum sustained winds of 120 mph and prolonged torrential rains. In Bridgetown, hundreds of buildings were damaged by strong winds, several thousand people were evacuated due to a 2 meter storm surge that swept away low-lying houses, and all electrical and

¹ World Bank, (2012), [Disaster Risk Management in Latin America and the Caribbean Region](#).

² DEM, (2014), [Country Document for Disaster Risk Reduction: Barbados](#). Barbados has also been affected by earthquakes and tsunamis, but less frequently. Caribbean Disaster Emergency Management Agency (CDEMA), (2017), Snapshot Document: Barbados.

telecommunication services were interrupted.³ It is estimated that the storm inflicted 38 casualties, left 29,000 residents homeless, destroyed 8,000 homes, and caused damage and losses representing 14% of GDP.⁴

- 2.3 Since then Barbados has not received any direct hits from any other major hydro-meteorological system but has nevertheless experienced the effects of other events. In 1980, hurricane Allen passed just north of the country as Category 3, producing damages to private housing, agriculture and the fishing sector. More recently, in 2010, Tomas made landfall on the south coast with wind gusts of 63 mph and produced excessive rainfall, resulting in 1,200 houses damaged and disruption of electricity service and water supply in the affected areas.⁵ Due to the country's significant coastal exposure, the estimated losses reached US\$68 million (1.5% of GDP), leading to an insurance payout by the Caribbean Catastrophe Risk Insurance Facility (CCRIF) to the government of approximately of US\$8.5 million.⁶ The impact of these disasters tends to be more severe among vulnerable groups, particularly female-headed households.⁷
- 2.4 Moreover, the country is highly vulnerable to the adverse impacts of climate change. As the effects of climate change intensify across the Caribbean, Barbados is expected to experience sea level rise, coral bleaching, fluctuations in weather patterns that could lead to more extreme rainfall episodes, and importantly, more frequent and severe tropical storms and hurricanes.⁸
- 2.5 **Financial vulnerability.** During the past decade Barbados experienced stagnating economic growth, which declined from an average of 1.4% (2000-2009) to 0.0% (2010–2018), coupled with recurring fiscal deficits. This resulted in a quick escalation of debt, reaching 158.3% of GDP in FY2017/18. In response, the Barbados Economic Recovery and Transformation (BERT) program was launched in August 2018. The program became the underlying framework for a US\$290 million four-year International Monetary Fund (IMF) Extended Fund Facility (EFF) program, signed in October 2018, and sets a debt-to-GDP target ratio of 60% of GDP by 2033. Following the successful completion of the first two reviews of the program, the debt-to-GDP ratio reached 115.9% of GDP in FY2019/20. The government is also on track to reach the target primary fiscal balance of 6% of GDP by the end of FY2019/20, which is a substantial increase from the 3.5% primary fiscal balance recorded in FY2018/19. The reforms will continue to be rolled out during the EFF program and fiscal consolidation measures are set to remain in place for the next 3 years.

³ Longshore, (2010). Encyclopedia of Hurricanes, Typhoons, and Cyclones.

⁴ IDB, (2019). Public Expenditure Review for Barbados: Climate Change and Disaster Risk Management Analysis.

⁵ CDEMA, (2010). [Summary of Impact of Hurricane Tomas on CDEMA Participating States](#).

⁶ CCRIF, (2010). [Tropical Cyclone Tomas \(AL212010\). Event Briefing, Eastern Caribbean Impact](#). The CCRIF is a regional risk insurance pool for governments.

⁷ CDB, (2016). [Country Gender Assessment \(CGA\): Barbados](#).

⁸ Government of Barbados, (2018). [Barbados' Second National Communication Under the United Nations Framework Convention on Climate Change](#).

- 2.6 In this context, large contingent fiscal liabilities associated with disasters and climate change pose risks to the fiscal consolidation process.⁹ It is estimated that a major hurricane (Category 3 or greater) with a return period of 50 years would cause potential losses of 28% of GDP, while a 100-year return period event would yield losses of 59% of GDP.¹⁰
- 2.7 **Natural disaster risk management.** Acknowledging the need to more effectively address the country's high vulnerability to tropical cyclones and the additional risk imposed by climate change, the government has taken several institutional, policy and legislative actions to mainstream Disaster Risk Management (DRM) and climate change. The Emergency Management Act of 2006 is the main legal instrument governing DRM in Barbados. It established, in 2007, the Department of Emergency Management (DEM) to coordinate, develop and implement the national policy on disaster prevention, reduction, preparedness, response and recovery. Regarding disaster response, the DEM coordinates the National Emergency Management System (NEMS), which is a broad-based multisector mechanism designed to manage emergencies at all levels. Barbados is a member of the CDEMA¹¹ and the government's policies are aligned to its DRM framework. The country has also reiterated its commitment to addressing disaster risk reduction and the building of resilience to disasters with a renewed sense of urgency within the context of sustainable development and poverty eradication by adopting the global disaster risk reduction framework - Sendai Framework for Disaster Risk Reduction 2015-2030. The country is also signatory to the United Nations Framework Convention for Climate Change (UNFCCC) and has ratified the Paris Agreement.
- 2.8 In terms of financial protection, the MFEI oversees the sourcing and allocation of funds used to address natural disasters. Overall spending on DRM consists mainly of the annual estimated budget of US\$0.6 million to the DEM.¹² Nevertheless, the government has taken effective measures to strengthen its financial resilience. The country has purchased insurance protection through the CCRIF against hurricanes, excess rainfall, and earthquakes and since 2010 has received six payments for recovery efforts, totaling US\$19.3 million. Another recent measure is the inclusion of natural disaster clauses into new domestic and external bonds.¹³ This contingent loan would be another important step in improving the country's natural disaster risk financial management and would complement the CCRIF¹⁴ with a risk retention tool that includes different coverage and trigger mechanisms.

⁹ IMF, (2019). [Article IV Consultation with Barbados](#). Annex V, Building Resilience to Natural Disasters and Climate Change. Also, according to Standard & Poor's, (2015), a 250-year tropical storm that impacts Barbados could lead a downgrade of its credit rating of up to 5 notches, and therefore, raising the cost of financing.

¹⁰ United Nations System for Disaster Risk Reduction (UNISDR), (2015). [Global Assessment Report on Disaster Risk Reduction 2015](#). Return periods estimates are a measure of average frequency and intensity of events. For example, a return period of 50 years means that one would expect, on average, two major hurricanes within a certain radius over the next 100 years.

¹¹ A regional inter-governmental agency of the Caribbean Community (CARICOM) that promotes comprehensive disaster management.

¹² IDB, op cit.

¹³ The clauses would enable the government to capitalize interest and defer principal maturities due for two years if a natural disaster hits the country and triggers a payout above US\$5 million by CCRIF.

¹⁴ IMF, op cit.

- 2.9 **Strategic alignment of the project.** The operation is aligned with the IDB Group Country Strategy with Barbados 2019-2023 (GN-2953-1), particularly with the cross-cutting issues of climate change and disaster risk management, as it will contribute to reducing vulnerability to natural hazards and increasing resilience against the effects of climate change through the financial protection provided by this loan, along with actions contemplated in the Comprehensive Natural Disaster Risk Management Program (CDRMP) (§3.3). The project is also consistent with the Update to the Institutional Strategy 2020-2023 (AB-3190-2) and is aligned with the cross-cutting theme of climate change and environmental sustainability, by increasing the ex-ante financial coverage available to the country in the event of a severe or catastrophic natural disaster. Additionally, it is aligned with the cross-cutting theme of gender equality and diversity, as it will strengthen support for women during an emergency and increase their involvement in disaster preparedness and response, as part of the activities contemplated in the CDRMP.¹⁵ The operation is also aligned to the IDB Group Corporate Results Framework 2020-2023 (GN-2727-12), as it directly contributes to the indicators: Beneficiaries of enhanced disaster and climate change resilience (Contributions to Development Results); and Climate finance in IDB Group operations (IDB Group Performance). Furthermore, the project is consistent with the Bank's Disaster Risk Management Policy (GN-2354-11) and with the Climate Change Sector Framework (GN-2835-8) by improving the public sector's access to climate finance for adaptation and resilience-building, through the use of financial instruments that provide rapid and cost-efficient resources to governments to finance unforeseen public expenditures during natural disaster emergencies.

B. Objectives and Expected Results

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

¹⁵ International evidence suggests that the inclusion of women in local disaster preparedness contributes to resilience and can prevent loss of life. United Nations Development Programme (UNDP), (2009), [Making Disaster Risk Reduction Gender-Sensitive](#).

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 The proposed operation is structured as a Bank investment loan, which will be granted through the Contingent Credit Facility for Natural Disaster Emergencies (CCF, Modality I) (GN-2502-7), for a total amount of up to US\$80 million.¹⁶ This loan will be available for disbursement for a period of five years, starting from the loan effectiveness date. The disbursement period may be extended for up to five additional years, upon the borrower's request and at the Bank's discretion. The MFEI will be the Executing Agency (EA), in close coordination with DEM, which through various committees communicates with a variety of relevant ministries that present their financial requirements and ultimately execute the budget during emergencies (§2.7). It is anticipated that the Bank will provide technical support to MFEI and DEM to improve execution capacity, particularly about emergency response and reporting of eligible expenditures.
- 3.2 The eligible events that are covered by the contingent loan are hurricanes¹⁷, whose parametric triggers will be developed following the methodology developed by the Bank, with the support of the country's technical agencies. The parametric triggers will be agreed upon by the country and the Bank and outlined in the Operating Regulations (OR) of the operation.
- 3.3 **Comprehensive Natural Disaster Risk Management Program.** The CCF states that all borrowing member countries of the Bank are eligible to receive financing through the CCF, provided that they have in place a CDRMP that is satisfactory to the Bank, with the objective of promoting the effective formulation of a national policy on the comprehensive management of disaster risks, thereby strengthening the general governance framework, improving the identification and reduction of such risks, and enhancing disaster management and disaster preparedness, as well as the financial management of disaster risks. The Bank is currently working with the government on developing the CDRMP in accordance with The Barbados Comprehensive Disaster Management Country Work Programme 2019-2023 approved in 2020 by the government.
- 3.4 **Eligible expenditures.** Resources disbursed from the contingent loan may only be used by the borrower to finance extraordinary public expenditures incurred during emergencies caused by eligible events. The Bank may recognize the eligible expenditures incurred and paid by the borrower for 180 calendar days following the date on which the disaster occurred. Upon formal request from the Borrower, the Bank, at its sole discretion, may extend this period for an additional 90 days, for a total of 270 days. The types of eligible expenditures must comply with the requirements established in documents GN-2502-7 (paragraphs 4.19 and 4.20 of Annex III) and GN-2502-3 (paragraph 1.7.b), including the negative list to be agreed upon by the country and the Bank.

¹⁶ The maximum coverage limit per Bank policy is up to 2.0% of the country's GDP (equivalent to US\$100 million), however the approved amount will be determined by the country's exposure, vulnerability, historical impacts of natural disasters and financing needs required by the government to attend to this type of catastrophic events and the eligible expenditures under the CCF.

¹⁷ During project preparation stage, if technically justified, additional events could be included in the coverage, particularly earthquake.

- 3.5 **Sector knowledge.** The Bank has been supporting borrowing countries in the design and implementation of disaster risk financing strategies, approving twelve loans from the CCF Modality I throughout the region. The main lessons learned will have been incorporated in the loan preparation and execution process, including: (i) the rapid disbursement of loan resources is key to achieving the success; (ii) the need to strengthen coordination among executing agencies during execution stage; (iii) a robust fiduciary and procurement system facilitates gathering of documentation and reporting of eligible expenditures; and (iv) support from the IDB during the emergency phase increases the effectiveness of the instrument.

IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1. In accordance with directive B.13 of the Environmental and Safeguards Compliance Policy (GN-2208-20), this project does not require classification.
- 4.2. Regarding fiduciary aspects, execution of resources will be adjusted to the specific requirements and procedures for fiduciary control established for the CCF (GN-2502-3 and GN-2502-7). There is medium fiduciary risk that certain expenses will be declined by not meeting the eligibility criteria. The Bank will provide technical assistance to the EA to strengthen its fiduciary capacity and it may also require having a concurrent verification of the appropriate use of loan resources.

V. OTHER ISSUES

- 5.1. A medium public management and governance risk identified is related to the possibility of institutional arrangements and coordination within the government being insufficient in case of an eligible event, which would risk that resources disbursed are not utilized within the stipulated period. The Bank, as part of the project's supervision process, will provide technical support to the MFEI to strengthen its executing capacity of the loan during emergency response. These efforts, in addition to the CDRMP and the government's resolve on improving overall financial management of disaster risks (¶2.8), will support the sustainability of the program.

VI. RESOURCES AND TIMETABLE

- 6.1 A budget of US\$54,600 will be required for the preparation of this project. The distribution of the Proposal for Operation Development for the Quality and Risk Review is scheduled for April 24, 2020 and the consideration of the Loan Proposal by the Board of Executive Directors for July 1st, 2020.

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



Safeguard Policy Filter Report

Operation Information

Operation		
BA-O0004 Contingent Loan for Natural Disaster Emergencies		
Environmental and Social Impact Category	High Risk Rating	
B13		
Country	Executing Agency	
BARBADOS	BA-MFEA - MINISTRY OF FINANCE	
Organizational Unit	IDB Sector/Subsector	
Connectivity Markets and Finance Division	RISK FINANCING	
Team Leader	ESG Primary Team Member	
FERNANDO DE OLLOQUI		
Type of Operation	Original IDB Amount	% Disbursed
Container	\$80,000,000	0.000 %
Assessment Date	Author	
3 Feb 2020	FANNYPO Project Assistant	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	19 Feb 2020	
QRR (Estimated)	24 Apr 2020	
Board Approval (Estimated)	1 Jul 2020	
Safeguard Performance Rating		
Rationale		



Safeguard Policy Filter Report

Potential Safeguard Policy Items

[No potential issues identified]

Safeguard Policy Items Identified

[B.13. Noninvestment Lending and Flexible Lending Instruments](#)

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

Recommended Actions

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

Additional Comments

In accordance with directive B.13 of the Environmental and Safeguards Compliance Policy (GN-2208-20), this project does not require classification. Regarding fiduciary aspects, execution of resources will be adjusted to the specific requirements and procedures for fiduciary control established for the CCF (GN 2502-3 and GN-2502-7). The fiduciary risks identified are related to the possibility of institutional arrangements and coordination within the government being insufficient in case of an eligible event that would risk that resources disbursed are not timely utilized and that certain expenditures do not meet the contractually stipulated eligibility criteria.

ENVIRONMENTAL AND SOCIAL SAFEGUARD STRATEGY (ESS)

- 1.1 The objective of the Contingent Loan for Natural Disaster Emergencies (BA-O0004) is to alleviate the impact that a severe or catastrophic natural disaster could have on Barbados' finances, by increasing the availability, stability, and efficiency of contingent financing to address emergencies. Additionally, it seeks to enhance the comprehensive disaster risk management of the country by fostering improvements in five areas to be monitored through the CDRMP: (i) disaster risk management governance; (ii) risk identification; (iii) risk reduction; (iv) disaster preparedness and response; and (v) financial protection.
- 1.2 The expected outcomes are: (i) improved country's financial risk management of natural disasters by increasing stable and efficient contingent financing to cover extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters; and (ii) an effective national policy for comprehensive natural disaster risk management that incorporates gender considerations.
- 1.3 The eligible events that are covered by the contingent loan are hurricanes¹, whose parametric triggers will be developed following the methodology developed by the Bank, with the support of the country's technical agencies. The parametric triggers will be agreed upon by the country and the Bank and outlined in the Operating Regulations (OR) of the operation.
- 1.4 Resources disbursed from the contingent loan may only be used by the borrower to finance extraordinary public expenditures incurred during emergencies caused by eligible events. The Bank may recognize the eligible expenditures incurred and paid by the borrower for 180 calendar days following the date on which the disaster occurred. Upon formal request from the Borrower, the Bank, at its sole discretion, may extend this period for an additional 90 days, for a total of 270 days. The types of eligible expenditures must comply with the requirements established in documents GN-2502-7 (paragraphs 4.19 and 4.20 of Annex III) and GN-2502-3 (paragraph 1.7.b), including the negative list to be agreed upon by the country and the Bank.
- 1.5 In accordance with directive B.13 of the Environmental and Safeguards Compliance Policy (GN-2208-20), this project does not require classification.

¹ During project preparation stage, if technically justified, additional events could be included in the coverage, particularly earthquake.

Index of Completed and Proposed Sector Work

Description	Status
Comprehensive Natural Disaster Risk Management Program	Ongoing
Snapshot Document: Barbados , CDEMA 2017.	Published
Country Document for Disaster Risk Reduction: Barbados , Department of Emergency Management 2014.	Published
Disaster Risk Management in Latin America and the Caribbean Region , World Bank 2012.	Published
Public Expenditure Review for Barbados: Climate Change and Disaster Risk Management Analysis IDB 2019.	Published
Summary of Impact of Hurricane Tomas on CDEMA Participating States , CDEMA, 2010.	Published
Tropical Cyclone Tomas (AL212010). Event Briefing, Eastern Caribbean Impact , CCRIF 2010.	Published
Country Gender Assessment (CGA): Barbados , Caribbean Development Bank 2016.	Published
Barbados' Second National Communication Under the United Nations Framework Convention on Climate Change , Government of Barbados, 2018.	Published
Building Resilience to Natural Disasters and Climate Change, See Annex V, Article IV Consultation with Barbados , IMF 2019.	Published
Global Assessment Report on Disaster Risk Reduction 2015 , UNISDR 2015.	Published
Making Disaster Risk Reduction Gender-Sensitive , UNDP 2009.	Published

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