



INTER-AMERICAN DEVELOPMENT BANK

DISASTER PREVENTION SECTOR FACILITY

March 9, 2001

I. DISASTER PREVENTION^{1/}/ SECTOR FACILITY

A. BACKGROUND AND RATIONALE

- 1.01 The countries of Latin American and Caribbean are no strangers to the devastation brought on by hurricanes, floods, earthquakes, landslides and volcanic eruptions. In the last ten years alone, natural disasters killed more than 45,000 people, affected 40 million people and caused over \$20 billion in direct damages. With an average of 40 major disasters a year, the region ranks second only to Asia in terms of the frequency of disaster occurrence.
- 1.02 During the past four years, the IDB approved \$1.5 billion in new financing to help the affected countries recover from disasters, increasing its average annual disaster-related lending by a factor of 10 compared to the previous 15 years. Over the last few decades, the region's pattern of development and, more specifically, the persistence of widespread poverty, rapid and uncontrolled urbanization, and environmental degradation have led to an increase in the severity of damages associated with natural hazards.
- 1.03 This trend makes it all the more necessary for the region to break the cycle of destruction and reconstruction and address the root causes of vulnerability. A proactive, integrated approach is needed to reduce the toll of disasters in the region. In recent discussions with the Caribbean countries related to natural disasters and adaptation to the impacts of climate change, a strong interest was expressed in the establishment of financial instruments such as the proposed facility.
- 1.04 To meet the challenge of increased risk and losses from natural disasters, and in accordance with its new Policy on Natural Disasters and an Action Plan, presented by President Iglesias in a special seminar at the IDB Annual Meeting in New Orleans, March 26, 2000, the Bank will give priority to prevention and mitigation of disasters, as well as to building risk management capacity. The Bank, as a development organization, will draw in its comparative advantage in assisting countries to integrate prevention and mitigation into sustainable development strategies through specially targeted financing instruments, such as the Disaster Prevention Sector Facility.
- 1.05 The establishment of the Disaster Prevention Sector Facility is submitted under the Sector Facilities Framework approved by the Board on March 22, 2000 (GN-2085-2). Operational aspects, regulations, and procedures that govern already established Sector Facilities (Education, Health, and Trade) will be applied to the Disaster Prevention Sector Facility. Important among these operational aspects is the requirement of the Sector Facility to be based on the already existing best practices. Since there will be initiatives

^{1/} The term "disaster" (according to the operational policies of the Inter-American Development Bank) is considered to refer to any emergency due to the action of natural, accidental, or human-generated actions that cause death, damage to the physical and service infrastructure of any borrowing member country, or a loss of material goods so extensive that economic and social development is affected. ("Emergencies arising from Natural and Unexpected Disasters", Document GP-92-14).

in the area of disaster prevention and preparedness that will have to be approached on a pilot basis, the use of Innovation Loans would need to be available as an option.

B. OBJECTIVE

- 1.06 The objective of the Disaster Prevention Sector Facility is to strengthen disaster prevention and risk management systems through vulnerability reduction and improved preparedness to natural disasters. It will help countries meet risk reduction objectives for their development through consensus building on inter-sectoral priorities, strengthened institutions and preparing countries to launch larger scale national programs.

C. DESCRIPTION

- 1.07 The resources of the Sector Facility will be used to fund, on a reimbursable basis, individual operations requested by borrowing member countries. Individual operations will be for an amount of up to the equivalent of US\$5 million according to the Sector Facility framework approved by the Board of Executive Directors (Section III.C. of the Proposal for New Flexible Lending Instruments, Document GN-2085-2) and will also be subject to the total amount of up to the equivalent of US\$150 million established as the overall cumulative limit on loans granted under all Sector Facilities. The approval procedures for Sector Facility operations will be followed, including the presentation of an executive summary of each project document to the Board of Executive Directors for information five days prior to approval of a loan.
- 1.08 In addition to providing reimbursable funds, the IDB would seek to mobilize non-reimbursable resources from bilateral donors. This *grant funding* would be used selectively, particularly for lower-income countries both on a national and a regional context, to identify key prevention needs and opportunities.
- 1.09 The Sector Facility, in particular, will assist countries to take an integrated approach to reducing and managing their risk to natural hazards before a disastrous event through the following components: (1) *Risk identification and forecasting* to understand and quantify vulnerability and disaster risk; (2) *mitigation* to address the structural sources of vulnerability; and (3) *preparedness* to enhance a country's readiness to cope quickly and effectively with an emergency. Financing will also be made available for (4) building *risk transfer* measures to spread financial risks over time and among different actors and (5) establishing effective *national systems for risk reduction*.
- 1.10 Activities within each one of these five components, such as the improvement of risk identification, mitigation and preparedness through early warning systems for settlements including favelas in vulnerable slopes, can be used to directly benefit the poorest within the society. The poor will also benefit from the wider national resilience to natural hazards, which is a goal of the Facility. For example, dependable social services and public transportation systems are essential for the low income groups.

1. Risk Identification and Forecasting

- 1.11 Risk management requires understanding natural hazards and countries' vulnerability to them. Both elements would be combined in *risk identification studies* which will design mitigation measures, set incentive systems for risk reduction (such as through contingency funds), plan land use and direct public and private investments to relatively safe areas. This component will finance *hazard monitoring and forecasting and geographical information systems, and other modeling aids* to integrate information, map disaster scenarios.

2. Mitigation

- 1.12 Mitigation is used to reduce the long-term risk from natural hazards to people, property, and development processes. This component will finance the *design of engineering works* such as retrofitting hospitals and schools to withstand earthquakes, drainage control and stabilization of slopes, building redundancy into critical systems such as water supply, and dam safety investments; and design of *investments in environmental works* such as riverbank protection, erosion control, soil conservation, and forest fire control. *Non-structural measures* include the design and application of building codes and standards, land-use planning, community awareness campaigns and studies on economic incentives for pro-mitigation behavior.

3. Preparedness

- 1.13 This component will finance actions to improve countries' readiness to respond rapidly and effectively to save lives, reduce suffering and enhance recovery of communities in the event of an emergency. They include *strengthening of early warning and communication systems, preparation of contingency plans* by utility companies and other providers of basic services; *equipping and training*, preparing and testing *evacuation plans*, and strengthening of emergency responders; and enhancement of identified facilities and organization of *local shelters* as part of a national emergency care system.

4. Risk Transfer

- 1.14 This component will finance the evaluation, design and promotion of transfer arrangements to spread financial risks over time and among different actors. It includes *studies and training on removing impediments to insurance markets*, and developing and making available risk information to strengthen the creation for insurance and reinsurance mechanisms. *Various market mechanisms* will be studied and designed. They include hedge instruments (catastrophe options and bonds), risk pooling mechanisms, publicly financed calamity mitigation funds, and contingent financing vehicles.

5. National Systems for Risk Reduction

- 1.15 The Sector Facility will also support countries' transition to new policies, legal and regulatory frameworks, institutional arrangements, and programs that *build* permanent technical and operational *capacity*. Attention will be given to technical assistance to planning and development agencies (as opposed to emergency management agencies) to establish and implement *national and sector-specific risk reduction strategies*. Activities may include *policy dialogue through seminars and workshops*, and *training* geared toward professionals in such areas as urban development, water and sanitation, social sectors, rural development, and legal and regulatory work.

D. SELECTION CRITERIA

- 1.16 Several criteria will be applied to ensure the appropriate use of the resources of the Sector Facility for high benefit operations. These criteria include:
- **Good Practices.** The operations will fall under an existing umbrella of accepted actions or interventions, known to be essential to well-functioning disaster prevention systems. There are several initiatives underway to promote exchange of promising practices. Partnerships in these initiatives include the Bank's participation in the working groups under the Inter-American Committee on Natural Disaster Reduction, which consist of: Natural Hazard Vulnerability Assessment and Indexing coordinated by the OAS; Financing chaired by the IDB; and Emergency Response led by PAHO. Others include the IDB partnership with the World Meteorological Organization; the ProVention initiative promoted by the World Bank; and the regional operations of the International Strategy for Disaster Reduction. In addition, ECLAC has built up a strong body of knowledge in the specific sector of potential loss estimates, which can also be used for prevention purposes before a disaster strikes.
 - **Short Preparation Time.** The Facility's resources will finance operations that should be relatively swift to prepare either because they are based on accepted good practice or because they themselves will finance a pilot activity. In this way, the time and cost of preparation of the operation will be reduced.
 - **Potential for Follow-on.** Special consideration will be given to operations that have high demonstration potential and are likely to leverage follow-on risk reduction investments either in sector oriented development programs or operations that position the country to launch major multi-sectoral efforts in risk reduction.
 - **Relationship to the Emergency Reconstruction Facility (ERF).** The Disaster Prevention Sector Facility will provide much-needed complementarity to the ERF, the Bank's post-disaster emergency instrument. The ERF requires for its use, the ... "solid assurance of the country's commitment to strengthen in-country capacity in the area of preparedness, prevention and organizational set up to manage disaster mitigation and relief efforts" (Document GN-2038-2). The new Sector Facility will help countries build this capacity.
 - **Exchange of Experiences.** Activities facilitating exchange among member countries would be favored. In this respect, certain countries in the region with a well-developed capacity and expertise have offered to support the Bank's initiatives. Moreover,

cooperation will be fomented with subregional entities, such as the Coordination Center for the Prevention of Natural Disasters in Central America (CEPREDENAC), the Caribbean Disaster Emergency Response Agency (CDERA) and the Latin American Network for Social Studies in Disaster Prevention (La RED). The Bank will also draw increasingly on the extensive experience and expertise of government organizations and private sector entities from the member countries outside the region.