

The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in a white serif font inside a black square.

ADB

Policy Paper

October 2012

Piloting a Disaster Response Facility

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
APDRF	–	Asia Pacific Disaster Response Fund
ATF	–	Asian Tsunami Fund
CRW	–	Crisis Response Window
DEAP	–	Disaster and Emergency Assistance Policy
DMC	–	developing member country
DNA	–	damage and needs assessment
DRF	–	Disaster Response Facility
EAL	–	emergency assistance loan
IDA	–	International Development Association
OCR	–	ordinary capital resources
PBA	–	performance-based allocation
PEF	–	Pakistan Earthquake Fund
TA	–	technical assistance
UN	–	United Nations
UNISDR	–	United Nations International Strategy for Disaster Reduction

NOTE

In this report, “\$” refers to US dollars.

Director General	K. Sakai, Strategy and Policy Department (SPD)
Deputy Director General	I. Bhushan, SPD
Director	D. Kertzman, Strategy, Policy and Interagency Relations Division, SPD
Team leader	X. Fan, Principal Planning and Policy Economist, SPD
Team members	N. Britton, Principal Disaster Risk Management Specialist, Regional and Sustainable Development Department C. Gautrot, Senior Counsel, Office of the General Counsel C. Mercado, Strategy and Policy Officer, SPD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
EXECUTIVE SUMMARY	i
I. INTRODUCTION	1
II. NATURAL DISASTERS IN ASIA AND THE PACIFIC	1
III. ADB'S MANDATE FOR DISASTER MANAGEMENT AND RESPONSE	2
IV. ADB'S CAPACITY TO HELP DEVELOPING MEMBER COUNTRIES MANAGE DISASTER RISKS AND RESPOND TO DISASTERS	3
A. Policies and Modalities	3
B. Operations	4
C. Funds	6
D. Development Coordination	7
E. Summary of Disaster-Related Policies and Facilities	8
V. ADB'S OPERATIONAL CONSTRAINTS AND RATIONALE FOR THE DISASTER RESPONSE FACILITY	9
A. ADB's Operational Constraints	9
B. Rationale for a Disaster Response Facility	10
VI. PILOTING A DISASTER RESPONSE FACILITY	11
A. Existing Policy Frameworks	11
B. The Proposal	12
C. Benefits and Risks	16
D. Review of Disaster Response Facility Pilot	17
E. Effective Date and Pilot Duration	17
VII. RECOMMENDATION	17
APPENDIXES	
1. Major Natural Disasters and Their Impact in ADF Countries	18
2. The Asia Pacific Disaster Response Fund	20
3. ADB Natural Disaster-Related Assistance in ADF Countries	22
4. Ratings of Natural Disaster-Related Projects	24
5. Disaster Responses: Working with Development Partners	25
6. Asian Development Fund XI Discussions and Consultations	27
7. Summary of the Disaster and Emergency Assistance Policy	29

EXECUTIVE SUMMARY

During the 10th replenishment of the Asian Development Fund (ADF XI), the Asian Development Bank (ADB) and ADF donors agreed to pilot the Disaster Response Facility (DRF) in the ADF XI period, 2013–2016. ADB will report on the implementation progress of the DRF at the ADF XI midterm review. ADB will discuss the future of the DRF with ADF donors at the ADF XII negotiations and then with the ADB Board of Directors.

Natural disasters affect Asia and the Pacific more than any other part of the world. They can cause major economic and social damage, undo development gains, and threaten a country's ability to reduce poverty. Natural disasters disproportionately harm poor countries and people. ADF countries are particularly vulnerable to natural disasters.

As the disaster–poverty nexus demonstrates, supporting disaster responses of developing member countries is an integral part of the poverty reduction missions of ADB and other multilateral development banks. Since the 1980s, ADB has been an active partner to its developing member countries in responding to natural disasters. However, ADB's disaster responses are constrained by the availability of, and difficulty in accessing, resources. Resource constraints are especially acute for ADF-only countries, which have limited access to resources beyond their performance-based allocation (PBA). The PBA system does not take into consideration vulnerability to natural disasters. Nor does it allocate additional resources to assist countries affected by natural disasters.

In the absence of dedicated funding mechanisms to respond to disasters, ADB's assistance to ADF countries has been provided through an ad hoc approach of reprogramming existing development assistance. This has led to delays, large gaps between the assistance needed and provided, and the diversion of resources from development projects to disaster responses, which poses a risk to long-term development goals. The piloting of the DRF is one step toward a more flexible, predictable, and systematic approach to responding to natural disasters in ADF countries.

The DRF will require ADF countries to contribute a small fraction of their PBA for the benefit of accessing the DRF in case of a disaster. The DRF will have the following key features:

- (i) The DRF will be for natural disasters.
- (ii) The DRF will support emergency assistance, restoration, and rehabilitation and reconstruction needs.
- (iii) The size of the DRF will be 3% of the PBA.
- (iv) In case of a disaster, an ADF-only country can get up to 100% of its annual PBA, or \$3 million per disaster, whichever is higher, from the DRF.
- (v) A blend country affected by a disaster can receive up to 3% of its annual PBA from the DRF.
- (vi) ADB will coordinate with the World Bank's CRW and other relevant development agencies in carrying out the DRF operations as appropriate, e.g., in information sharing or deciding on the nature of support for a disaster.

The design and implementation of DRF operations will follow ADB's existing policy frameworks, such as the Disaster and Emergency Assistance Policy (2004) and the Additional Financing Policy (2010).

I. INTRODUCTION

1. During the 10th replenishment of the Asian Development Fund (ADF XI), the Asian Development Bank (ADB) presented proposals to strengthen its capacity to assist ADF countries¹ in responding to natural disasters.² ADF donors appreciated the growing risks that natural disasters pose to sustainable development in ADF countries. After intensive discussions during three ADF XI replenishment meetings and other consultations, ADF donors agreed to pilot the Disaster Response Facility (DRF) in the ADF XI period, 2013–2016. ADB will report on the implementation progress of the DRF at the ADF XI midterm review. Management will discuss the future of the DRF with ADF donors at the ADF XII negotiations and then with the ADB Board of Directors. This paper presents the rationale, design, and other aspects of the pilot DRF.

II. NATURAL DISASTERS IN ASIA AND THE PACIFIC

2. Natural disasters affect Asia and the Pacific more than any other part of the world.³ From 2005 to 2010, Asia and the Pacific accounted for about 33% of natural disasters worldwide, nearly 90% of the people affected, more than 32% of the people killed, and more than 33% of the damages. Data over a longer period paint the same picture. From 1992 to 2011, the economic losses from natural disasters worldwide were estimated at \$1,879 billion, with the losses in Asia and the Pacific estimated to be more than half of that at \$952 billion. With changing climate patterns, natural disasters are expected to increase in number and intensity.⁴

3. ADF countries are particularly prone to natural disasters. From 2005 to 2010, about 309 natural disasters struck ADF countries, causing about \$26 billion in losses (Appendix 1).⁵

4. Natural disasters have significant adverse economic and social impacts. They harm lives, damage infrastructure, destroy productive capacity, undermine economic and social activities, reverse development gains, and threaten a country's ability to reduce poverty. Countries typically need large additional resources to respond to disasters and rebuild social and economic infrastructure. This increases fiscal deficits and public debt, and diverts funds away from development operations. Thus, natural disasters cause immediate economic and social damage, as well as create deep and lasting negative impacts on growth, poverty reduction, and human development.

5. Natural disasters disproportionately harm poor countries and people. This is because the severity of a disaster is determined not only by its scale and intensity, but also by a country's

¹ ADF countries are classified as either (i) "ADF-only" countries, which are fully eligible for the ADF; or (ii) "blend" countries, which have access to both the ADF and ordinary capital resources (OCR). Developing member countries without access to the ADF are "OCR-only" countries. In this paper, ADF countries refer to both "ADF-only" and "blend" countries, and country classifications are as of November 2011.

² ADB. 2011. *Preparing for and Responding to Crises*. Paper prepared for the first ADF XI replenishment meeting in Manila, Philippines, 8–9 September 2011; ADB. 2011. *Disaster Risk Management and Disaster Response Assistance in ADF Countries*. Paper prepared for the second ADF XI replenishment meeting in Dhaka, Bangladesh, 5–6 December 2011.

³ The United Nations International Strategy for Disaster Reduction (UNISDR) defines a disaster as a serious disruption of the functioning of a community or a society involving widespread human, material, economic, or environmental losses and impacts, which exceeds the ability of the affected community or society to cope using its own resources. The UNISDR definition is commonly accepted and has been adopted by ADB.

⁴ ADB. 2011. *ADF Operations for Climate Change Adaptation and Mitigation*. Paper prepared for the first ADF XI replenishment meeting in Manila, Philippines, 8–9 September 2011.

⁵ Based on information from the Centre for Research on the Epidemiology of Disasters (CRED). EM-DAT: *The OFDA/CRED International Disaster Database* – www.emdat.be, Université Catholique de Louvain, Brussels (Belgium).

capacity to respond to it. ADF countries are particularly vulnerable to disasters because of their weak capacity to respond at the individual, community, and government levels. Poor and disadvantaged people suffer more because of their limited access to services, opportunities, and resources.⁶

III. ADB'S MANDATE FOR DISASTER MANAGEMENT AND RESPONSE

6. Given the disaster–poverty nexus, managing disaster risks and responding to disasters is in line with ADB's mandate to help reduce poverty in Asia and the Pacific. As natural disasters are expected to increase in both number and intensity, combating their negative effects—through disaster risk management and reduction, and disaster responses—becomes increasingly intertwined with ADB's poverty reduction agenda.⁷

7. **Strategy 2020.** Strategy 2020 explicitly recognizes ADB's key role in providing priority post-disaster assistance.⁸ It also emphasizes the need to mainstream disaster risk management and reduction, and provide early and medium-term disaster responses.

8. **Disaster and Emergency Assistance Policy.** In 1987, ADB became the first multilateral development bank to establish a dedicated disaster policy.⁹ ADB updated the policy in 1989.¹⁰ Building on the experience of implementing the 1987 and 1989 policies, ADB adopted the comprehensive Disaster and Emergency Assistance Policy (DEAP) in 2004 to augment its institutional capacity to act quickly, flexibly, and responsibly.¹¹ The DEAP provides an integrated framework for ADB that covers disaster risk management, disaster risk reduction, and disaster responses. It established integrated policy objectives to (i) support disaster risk reduction in developing member countries (DMCs), (ii) provide rehabilitation and reconstruction assistance after disasters, and (iii) leverage ADB's activities by developing partnerships.

9. To boost the effectiveness of the DEAP, ADB in 2008 adopted an action plan for strengthening implementation of the policy.¹² In addition to setting out the reasons why disaster risk reduction is an essential component of development practice, the action plan and a companion paper demonstrate that disaster risk management is emerging as an important field in development work.¹³ The action plan highlights that (i) basic resources are urgently needed immediately after a disaster, (ii) disasters have a greater impact on the poor and other

⁶ For example, 97% of all human deaths caused by disasters occur in developing countries. More than half of the deaths occur in low human development countries, even though only 11% of the people exposed to hazards live in them. See Concern Worldwide U.S., Inc. 2005. *Approaches to Disaster Risk Reduction*. New York; and GTZ 2005. *Linking Poverty Reduction and Disaster Risk Management*. Eschborn, Germany.

⁷ UNISDR defines disaster risk reduction as the practice of reducing disaster risks through systematic efforts to analyze and manage the causal factors of disasters, including by reducing exposure to hazards, lessening the vulnerability of people and property, managing land and the environment wisely, and improving preparedness for adverse events. UNISDR defines disaster risk management as the systematic process of using administrative directives, organizations, and operational skills and capacities to implement strategies, policies, and improved coping capacities to lessen the adverse impacts of hazards and the possibility of disaster. The UNISDR definitions are commonly accepted and have been adopted by ADB. See ADB. 2008. *Action Plan for Implementing ADB's Disaster and Emergency Assistance Policy*. Manila (Glossary); and UNISDR. 2009. *Terminology on Disaster Risk Reduction*. Geneva, Switzerland.

⁸ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

⁹ ADB. 1987. *Rehabilitation Assistance to Small DMCs Affected by Disaster*. Manila.

¹⁰ ADB. 1989. *Rehabilitation Assistance After Disasters*. Manila.

¹¹ ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila.

¹² ADB. 2008. *Action Plan for Implementing ADB's Disaster and Emergency Assistance Policy*. Manila.

¹³ ADB. 2008. *Positioning ADB's Disaster and Emergency Assistance Policy in a Changing Regional Environment*. Manila.

vulnerable groups such as women and children, and (iii) the ongoing practice of governments and aid agencies of funding disaster relief and rehabilitation assistance by reallocating resources from development programs can undermine development outcomes. The action plan points out that a fast-disbursing fund could overcome many immediate post-impact difficulties.

10. **Joint efforts.** The international community recognizes the importance of prompt and effective responses to deal with the full impact of disasters and reduce vulnerability. All multilateral development banks have policies governing disaster responses and have supported their member countries following disasters. ADB's disaster response management is consistent with joint efforts undertaken by the international community.

IV. ADB'S CAPACITY TO HELP DEVELOPING MEMBER COUNTRIES MANAGE DISASTER RISKS AND RESPOND TO DISASTERS

A. Policies and Modalities

1. The Disaster and Emergency Assistance Policy

11. ADB's 1987 and 1989 disaster policies emphasized the importance of assistance for post-disaster recovery. Drawing on several years of implementation experience, the 2004 DEAP looked at disasters in a holistic manner, covering disaster risk management and disaster risk reduction, as well as disaster responses. The DEAP views a disaster and its management as a continuum of linked activities rather than as a series of events that start and stop with each disaster. It recognizes the importance of protective strategies that contribute to save lives, and safeguard property, assets, and resources before they are lost. The DEAP shifts the emphasis from responding only after a disaster to also supporting disaster risk reduction and management. Furthermore, the DEAP identifies the relationship between disasters and critical broad issues such as sustainable livelihoods, transitional safety nets, governance, and institutional capacity.

12. With the DEAP, ADB's disaster-related assistance has been broadened from post-disaster assistance to include prevention, mitigation, and preparedness. Guided by the DEAP, ADB promotes an integrated disaster risk management framework to assist DMCs in strengthening their capacities for effective disaster risk management. The 2008 action plan for implementing the DEAP emphasizes that disaster risk reduction is an essential component of development practice.¹⁴

13. The DEAP encompasses an array of modalities for speedy and effective responses, including

- (i) emergency assistance loans (EALs)—rapidly approved, small, short-term loans to help rebuild high-priority physical assets and restore economic, social, and governance activities after emergencies;
- (ii) normal lending following the transitional emergency financing to meet medium- to long-term reconstruction and risk reduction requirements; and

¹⁴ The 2008 action plan (footnote 12) will be updated in 2013. The update will examine and identify measures to strengthen integrated disaster risk reduction (prevention, mitigation, and preparedness), risk management, and disaster responses. It will also take into account the recommendations of a recent special evaluation study of the Independent Evaluation Department on ADB's response to natural disasters (ADB. 2012. *Special Evaluation Study: ADB's Response to Natural Disasters and Disaster Risks*. Manila). This update will influence the implementation of the DRF.

- (iii) technical assistance (TA) to meet immediate short-term requirements following a disaster, as well as to strengthen the disaster risk management capacity of DMCs.

14. Despite this array of modalities, the DEAP does not have dedicated financing for disaster and emergency assistance operations. The policy permits portfolio restructuring and the use of loan savings from existing projects. To provide grants that assist DMCs in meeting immediate expenses to restore lifesaving services, ADB established the Asia Pacific Disaster Response Fund (APDRF) in 2009.¹⁵ The APDRF disburses quickly, but it can only provide up to \$3 million in the emergency phase. Appendix 2 provides more details on the APDRF.

2. Additional Financing Policy

15. The Additional Financing Policy, which became effective in February 2011, adds to ADB's toolbox for responding to disasters.¹⁶ The policy recognizes that fast-tracking emergency assistance may be successfully pursued through existing projects. It enables ADB to deliver emergency assistance through an ongoing nonemergency project. Linking emergencies and ongoing nonemergency projects facilitates the rapid provision of emergency assistance, and provides much-needed flexibility for ADB and DMCs in responding to disasters. However, the policy does not allocate specific resources for disaster responses.

B. Operations

16. Since 2005, ADB has played an important role in responding to natural disasters in Asia and the Pacific. During 2005–2011, ADB financed 95 projects related to natural disasters, totaling \$3.9 billion, in all DMCs. ADF countries accounted for 46 of the projects worth about \$2.7 billion: \$2.0 billion in loans, \$0.7 billion in grants, and \$14 million in TA (Table 1). Of the total amount for ADF countries, the ADF financed about 46% (Table 2).

Table 1: Natural Disaster-Related Projects by Instrument, 2005–2011

Instrument	ADF Countries		ADB-Wide	
	Amount (\$ million)	Number ^a	Amount (\$ million)	Number ^a
Loan	1,960.18	16	2,770.27	23
Grant	697.77	26	1,042.77	41
Technical assistance	13.92	23	49.27	53
Total	2,671.87	46	3,862.31	95

ADB = Asian Development Bank, ADF = Asian Development Fund.

^a Numbers do not sum precisely because of multiple modalities within some projects.

Source: Asian Development Bank.

¹⁵ ADB. 2009. *Establishment of the Asia Pacific Disaster Response Fund*. Manila.

¹⁶ ADB. 2010. *Additional Financing: Enhancing Development Effectiveness*. Manila.

Table 2: Natural Disaster-Related Assistance in ADF Countries by Source of Funds, 2005–2011

Source of Funds	Amount (\$ million)	Share (%)
ADF	1,233.23	46.16
Ordinary capital resources	756.90	28.33
Other special funds ^a	425.00	15.91
Japan Fund for Poverty Reduction	21.00	0.79
Technical Assistance Special Fund	6.17	0.23
Japan Special Fund	1.00	0.04
Others (cofinancing)	228.57	8.55
Total	2,671.87	100.00

ADF = Asian Development Fund, APDRF = Asia Pacific Disaster Response Fund.

^a This includes the APDRF, Asian Tsunami Fund, and Pakistan Earthquake Fund.

Source: Asian Development Bank.

17. From 2005 to 2011, 25 of the 46 natural disaster-related projects included components for disaster risk reduction—higher than the respective number of projects for emergency assistance, and rehabilitation and reconstruction (Table 3). Rehabilitation and reconstruction accounted for about 80% of the total amount of natural disaster-related assistance during that period; emergency assistance took up about 13% and natural disaster risk reduction about 7% (Table 4). This distribution is because rehabilitation and reconstruction often involve infrastructure, which requires more financing.

18. Blend countries received about 93% of natural disaster-related assistance in amount from 2005 to 2011, while ADF-only countries got about 7%.

Table 3: Natural Disaster-Related Projects by Nature of Assistance, 2005–2011

Nature of Assistance	ADF-Only Countries		Blend Countries		ADF-Only and Blend Countries	
	Amount (\$ million)	Number^a	Amount (\$ million)	Number^a	Amount (\$ million)	Number^a
Disaster risk reduction ^b	20.11	10	153.16	15	173.27	25
Emergency assistance	10.05	6	341.72	8	351.77	14
Rehabilitation and reconstruction	154.73	8	1,992.11	10	2,146.83	18
Total	184.89	20	2,486.99	26	2,671.87	46

ADF = Asian Development Fund.

^a Numbers do not sum precisely because of multiple modalities within some projects.

^b Some projects have disaster risk reduction as one of the components. In processing the data, projects without an indicative allocation for the disaster risk reduction component are excluded from the amount but included in the number of projects.

Source: Asian Development Bank.

**Table 4: Percentage of Natural Disaster-Related Projects by Nature of Assistance
2005–2011 (%)**

Nature of Assistance	ADF-Only Countries		Blend Countries		ADF-Only and Blend Countries	
	Amount	Number ^a	Amount	Number ^a	Amount	Number ^a
Disaster risk reduction ^b	10.88	50.00	6.16	57.69	6.48	54.35
Emergency assistance	5.44	30.00	13.74	30.77	13.17	30.43
Rehabilitation and reconstruction	83.69	40.00	80.10	38.46	80.35	39.13
Total	100.00		100.00		100.00	

ADF = Asian Development Fund.

^a Numbers do not sum up to 100% because of multiple modalities within some projects.

^b Some projects have disaster risk reduction as one of the components. In processing the data, projects without an indicative allocation for the disaster risk reduction component are excluded from the amount but included in the number of projects.

Source: Asian Development Bank.

19. ADB has played an important role in responding to major natural disasters in ADF countries in recent years, including the December 2004 Indian Ocean tsunami, the 2005 Pakistan earthquake, and the 2009 Samoa earthquake and tsunami (Appendix 3).

20. ADB has remained a responsive partner to DMCs by providing them with timely assistance for responding to natural disasters. The 11 completion reports for natural disaster-related projects implemented from 2005 to 2011 rated ADB's assistance *successful* or *highly successful* (Appendix 4).¹⁷ The three available Independent Evaluation Department validation reports rated ADB's operations *successful*.¹⁸

C. Funds

21. ADB has established several funds to support disaster responses.

22. **Asian Tsunami Fund.** Responding to the effects of the tsunami on 26 December 2004, ADB established the Asian Tsunami Fund (ATF) in February 2005.¹⁹ The fund initially had \$600.0 million in grant resources drawn from ADB's ordinary capital resources (OCR) to help finance the recovery of the affected countries without increasing their debt burden and constraining their fiduciary positions. In addition, the Government of Australia contributed \$3.8 million equivalent for reconstruction work in Sri Lanka. The Government of Luxembourg

¹⁷ For example: ADB. 2011. *Completion Report: Earthquake and Tsunami Emergency Support Project in Indonesia*. Manila (Grant 0002) noted the project's significant innovations which increased efficiency of implementation. The project applied a flexible and adaptive modality to direct assistance to priority areas and meet evolving needs. Community participation and empowerment were integral to the project design and implementation strategy—it empowered many community organizations to participate in the longer-term development of Aceh and Nias. ADB delegated authority for administering the grant to the extended mission in the affected region, which was viewed highly positively by most government agencies, nongovernment organizations, and aid agencies. This innovation facilitated rapid and effective decision making. Innovative features in procurement included post-review of procurement contracts, and adjusted thresholds and ceilings to expedite contract awards.

¹⁸ ADB. 2010. *Validation Report: Cyclone Emergency Assistance Project in Cook Islands*. Manila (loan approved in 2005); ADB. 2009. *Validation Report: Emergency Flood Damage Rehabilitation Project in Bangladesh*. Manila (loan approved in 2005); and ADB. 2010. *Validation Report: Emergency Rehabilitation Project in the Kyrgyz Republic*. Manila (loan approved in 2003).

¹⁹ See *Status Reports on Asian Tsunami Fund*. ATF website <http://www.adb.org/site/funds/funds/asian-tsunami-fund-atf>.

contributed \$1.0 million to rehabilitate irrigation schemes in the Indonesian provinces of Aceh and North Sumatra.

23. The ATF financed immediate pre-reconstruction efforts and medium-term reconstruction and rehabilitation investments associated with the tsunami damage. It committed a total of \$571 million to investment projects in India, Indonesia, the Maldives, and Sri Lanka, including a Multi-Donor Fund in Indonesia. A TA grant of \$2 million was provided to Thailand. In November 2005, \$40 million was transferred to the Pakistan Earthquake Fund (PEF), and an additional \$40 million was transferred to the APDRF in May 2009. The ATF terminated its operations in December 2010 and completed disbursements by March 2011.

24. **Pakistan Earthquake Fund.** ADB established the PEF in November 2005, with an initial grant contribution of \$80 million, to support the reconstruction efforts of the Government of Pakistan after the 8 October 2005 earthquake.²⁰ The fund was dedicated to delivering emergency grant financing for investment projects and TA to support immediate reconstruction, rehabilitation, and associated development activities. ADB also received contributions equivalent to \$61.6 million from the governments of Australia, Belgium, Finland, and Norway. The PEF used \$137.5 million of its total \$141.6 million in resources to finance reconstruction and rehabilitation projects, and \$2.0 million for TA on capacity building of institutions involved in the reconstruction and rehabilitation in Pakistan.

25. **Asia Pacific Disaster Response Fund.** Based on the implementation experience of the DEAP since 2004, ADB set up the APDRF in 2009 to provide timely grant resources to DMCs affected by a disaster (footnote 15). The APDRF's resources totaled \$40 million, which was transferred from the ATF. The APDRF helps bridge the gap between ADB's hazard mitigation loans and grants to reduce disaster risks, and longer-term, post-disaster reconstruction lending. It provides quick-disbursing grants to assist DMCs in meeting immediate expenses to restore life-saving services to affected populations after a declared disaster (e.g., purchase of water purification and sanitation systems, transitional shelter, personal hygiene kits, emergency communication equipment, and aviation fuel, as well as debris sifting, site clearance, and safe disposal of useless rubble), and in augmenting aid provided by other donors in times of national crisis. The APDRF provides grant of up to \$3 million per event. All ADB DMCs are eligible for grant assistance from the APDRF, which has financed 12 emergency assistance projects totaling \$29.5 million in 9 countries (Cambodia, Indonesia, Fiji, Mongolia, Pakistan, the Philippines, Samoa, Sri Lanka, and Thailand). As of October 2012, the remaining balance was \$10.4 million.

D. Development Coordination

26. The DEAP emphasizes the need to leverage ADB's expertise and maximize resources and synergies. The aim is to ensure that strategic partnerships are complementary. Guided by the DEAP, ADB coordinates with other agencies to maximize resources and complementarity.

27. ADB's development coordination is aligned with DMC priorities and each development agency's comparative strengths. Typically, ADB, the World Bank, and other development agencies divide the work by sectors and geographical locations based on their existing assistance and relative advantages. This division of labor supports full utilization of the specific strengths of each organization and integration of disaster responses with a country's long-term development objectives. Table 5 lists examples of ADB's disaster response partnerships.

²⁰ Of the \$80 million ADB contribution, \$40 million was transferred from the ATF and \$40 million from OCR surplus. For details on the PEF, see <http://www.adb.org/site/funds/funds/pakistan-earthquake-fund-pef>

Table 5: Working Together to Respond to Natural Disasters

Natural Disasters	Principal Partners
2004 Indian Ocean tsunami	DFID, EU, Japan, UN, USAID, and World Bank
2005 Cook Islands cyclone	Australia, France, IFRC, New Zealand, Pacific Forum, and UN
2005 Pakistan earthquake	DFID, EU, Japan, UN, USAID, and World Bank
2006 Viet Nam calamity damage	UNDP, World Bank
2007 Floods and cyclone (Sidr)	Canada, Japan, the Netherlands, UN, and World Bank
2009 Mongolia dzud disaster	IFRC, People's Republic of China, UN, and World Bank
2009 Nepal general flood	DFID, Japan, UN, and World Bank
2009 Samoa tsunami	Australia, EU, New Zealand, and UN
2010 Pakistan flood rehabilitation	UN and World Bank

DFID = Department for International Development of the United Kingdom, EU = European Union, IFRC = International Federation of the Red Cross, UN = United Nations, UNDP = United Nations Development Programme, USAID = United States Agency for International Development.

Source: Asian Development Bank.

28. In line with Strategy 2020 (footnote 8), ADB generally supports infrastructure, environment, education, and finance. For example, when a tsunami hit Solomon Islands in 2007, the government asked ADB to rehabilitate a road severely damaged by the disaster, while the World Bank focused on health and education. ADB had long been involved in the Solomon Islands' transport sector and the World Bank had been supporting social sectors before the disaster. This clear division of responsibility contributed to an efficient disaster response. Similarly, after the 2005 Pakistan earthquake, ADB focused on assisting reconstruction of earthquake-damaged, high-priority infrastructure in the transport and energy sectors as well as education and health facilities. The World Bank financed activities to restore livelihoods, rebuild houses, purchase essential imports, and strengthen capacity for implementation and risk management. Appendix 5 provides more details on ADB's disaster response partnerships.

E. Summary of Disaster-Related Policies and Facilities

29. The DEAP (2004) is ADB's comprehensive policy for dealing with disasters and emergencies. This policy adopts a systematic approach to disaster management, including measures on disaster risk reduction, risk management, and post-disaster responses and recovery. The DEAP, however, does not have a dedicated pool of funds for its implementation.

30. The EAL, a lending modality within the DEAP, is an efficient approach to deliver assistance to countries hit by disasters. EALs are rapidly approved, small, short-term loans to help rebuild high-priority physical assets and restore economic, social, and governance activities after emergencies

31. The APDRF, one of ADB's Special Funds, can provide grants of up to \$3 million for each disaster. It supports the implementation of the DEAP by providing a dedicated fund for disaster responses. About 75% of the \$40 million APDRF have been used. Other disaster response funds, such as the ATF and PEF, have been exhausted (paras. 22-25).

32. The proposed DRF will be a mechanism for setting aside resources to support disaster responses from the ADF. The DRF will not deal with business processes or other broad policy issues. The DRF will provide assistance in the form of grants or loans depending on a country's status, and DRF operations will follow ADB's established business processes.

33. Details on the DRF are presented in paras. 44-76.

V. ADB'S OPERATIONAL CONSTRAINTS AND RATIONALE FOR THE DISASTER RESPONSE FACILITY

A. ADB's Operational Constraints

1. Gaps between Assistance Provided and Needed

34. Despite ADB's many advantages, its disaster-related assistance usually accounts for only a small fraction of what is needed.²¹ Table 6 shows that ADB's assistance to its DMCs has, with few exceptions, been 20% or less of the total requirements identified in damage and needs assessments.

Table 6: Emergency Assistance Loans, 2005–2011

Country	Type of Natural Disasters	Year	EAL (\$ million)				Estimated Total Damages ^e (\$ million)	EAL Share of Total Damages (%)
			ADF	OCR	Others ^a	Total		
ADF-Only Countries								
Maldives	Tsunami	2005	1.80	0.00	20.00	21.80	470.00	4.6
Nepal	Flood	2009	25.60	0.00	0.00	25.60	87.73	29.2
Solomon Islands ^b	Tsunami	2007, 2009	4.95	0.00	8.04	12.99	40.00	32.5
Blend Countries								
Bangladesh	Flood	2005	152.30	0.00	27.70	180.00	2,300.00	7.8
	Flood and cyclone	2008	120.00	0.00	0.00	120.00	3,000.00	4.0
Pakistan ^c	Earthquake	2005–2007	620.00	0.00	175.00	795.00	5,200.00	15.3
		2011		600.00	0.00	600.00	9,000.00	6.7
Sri Lanka	Tsunami	2005	7.00	0.00	150.00	157.00	1,500.00	10.5
Viet Nam ^d	Flood	2006, 2008	76.47	0.00	0.00	76.47	1,065.00	7.2

ADF = Asian Development Fund, EAL = emergency assistance loan, OCR = ordinary capital resources.

^a Includes special funds (Asian Tsunami Fund and Pakistan Earthquake Fund) and finance bilateral sources (European Commission, the Netherlands, and Sweden).

^b Solomon Islands received financing for two grants.

^c Pakistan received financing for three loans and one grant.

^d Viet Nam received financing for one loan and requested for a supplementary financing.

^e Based on various damage and needs assessments.

Source: Asian Development Bank.

2. Resource Constraints and Reprogramming

35. ADB's disaster responses are constrained by the availability of, and difficulty in accessing, resources. Resource constraints are especially acute for ADF-only countries, which have limited access to resources beyond their PBA. The PBA system does not take into

²¹ Reports by the Development Assistance Committee of the Organization for Economic Co-operation and Development state that humanitarian assistance is less than 10% of disaster losses (J. Linnerooth-Bayer et al. 2011. Insurance against Losses from Disasters in Developing Countries. *Journal of Integrated Disaster Risk Management*, 1[1], pp. 1–23). The United Nations also reports that only about two-thirds of its humanitarian appeals are normally met each year.

consideration vulnerability to disasters. Nor does it allocate additional resources to assist countries affected by disasters.

36. Regular development resources may be used for disaster risk reduction. The reconstruction of infrastructure and the rehabilitation of livelihoods are the most constrained elements in the disaster management process. Consequently, reconstruction and rehabilitation activities typically use portfolio restructuring, loan savings, and reprogramming of existing country pipelines. These are done by repackaging already committed loan envelopes into disaster operations, in effect avoiding additional lending to the country. While some of these steps may be necessary to reflect changed priorities, the processes for mobilizing the resources can be lengthy and lead to costly delays. The reprogramming also diverts resources from much-needed, long-term development and poverty-reduction activities. Having a dedicated funding mechanism will support a more systematic approach to ADB's assistance to ADF countries in responding to natural disasters, reducing interruptions to ongoing programs.

3. Funds

37. To alleviate resource constraints, ADB has established special funds financed with ADB's net income or multi-donor contributions.²² However, these separate funds are insufficient, unpredictable, and unsustainable. The establishment of such funds often requires disasters to be subregional, and of unprecedented magnitude and impact to mobilize multi-donor support. This disadvantages smaller countries with less visibility. Further, each fund requires the establishment of separate governance and management structures, which may significantly diverge from, and add to, ADB's established processes. Fund administration often demands much staff time from the DMC and ADB.

B. Rationale for a Disaster Response Facility

38. While the decision on whether to formally adopt the DRF will be made after gaining implementation experience and discussions during the ADF XII replenishment process, ADB's disaster responses to date provide a strong rationale for piloting the DRF.

39. **Addressing operational constraints.** The DRF is expected to alleviate a key operational constraint faced by ADB in helping ADF countries respond effectively and quickly to natural disasters—the lack of flexibility in using the ADF to respond to natural disasters. This constraint is becoming more acute as natural disasters in the region have become more frequent and intense. ADB needs to be better equipped to respond to natural disasters. The DRF will support a more systematic approach for disaster responses, reducing interruptions to ongoing programs.

40. **Meeting the needs of ADF countries.** ADF countries expressed support for the DRF proposal (Appendix 6). ADF-only countries especially welcomed the concept, which would provide them with additional and timely resources. The DRF will make ADB better prepared to assist ADF countries in responding to natural disasters.

41. **Complementing other aspects of disaster management.** ADB has been funding an increasing number of projects that assist in disaster risk management and disaster risk

²² As described in paras. 22-25, ADB's natural disaster response special funds include the ATF (2005), PEF (2005), and APDRF (2009). In addition, natural disaster preparedness activities may be eligible for financing by a small number of other funds, including the Japan Fund for Poverty Reduction (2000), the Regional Cooperation and Integration Fund (2007), and the Climate Change Fund (2007).

reduction. However, a lack of resources for disaster recovery for ADF countries has been a bottleneck. Further, while disaster risk reduction efforts can lessen the impacts of disasters, it will not eliminate them. Disaster risk reduction is not a substitute for disaster responses: ADB and DMCs need to address all disaster-related aspects. The DRF will improve ADB's preparedness and responsiveness, help reduce the impacts of natural disasters, and assist a DMC in returning to its development path.

42. Strengthening implementation of the Disaster and Emergency Assistance Policy.

The DRF is consistent with the DEAP and will strengthen its implementation. A key principle of the DEAP is improving organizational arrangements within ADB for planning, implementing, and communicating effectively on disaster and emergency assistance. The DRF will be consistent with this principle. The DRF is also consistent with the 2008 action plan for implementing the DEAP, which noted that development efforts are frequently disrupted by disasters that can sharply increase poverty and retard the pace of social and economic progress. Timely assistance after a disaster can help a DMC maintain its development momentum. Thus, the DRF is also consistent with ADB's overall mission to reduce poverty.

43. Strengthening development coordination. The DRF will strengthen ADB's capacity for development coordination. It will enable ADB to complement more effectively the disaster response mechanisms of other development agencies, particularly the World Bank's Crisis Response Window (CRW) established under the International Development Association (IDA) 16.²³ CRW resources are not sufficient to meet the extended needs of DMCs in distress after disasters, especially since CRW is a global facility facing large demands, and supports responses to both natural disasters and economic crises caused by exogenous shocks.²⁴ For most affected countries in Asia and the Pacific, a combination of resources is necessary. The DRF will serve as an important additional tool to respond to severe natural disasters.

VI. PILOTING A DISASTER RESPONSE FACILITY

A. Existing Policy Frameworks

44. The purpose of the DRF is to reduce resource constraints that hinder ADB's capacity to assist ADF countries in responding to natural disasters, rather than dealing with policy or procedural constraints. Thus, the DRF will follow the existing policy frameworks on disaster management.²⁵

45. The DEAP provides a comprehensive framework for determining the needs, design, eligibility criteria, business processes, and TA for EALs. The EALs can be used for emergency assistance, especially short-term rehabilitation and reconstruction, after a disaster to help rebuild high-priority physical assets and restore economic, social, and governance activities. If DRF assistance is designed under the DEAP, it will follow the DEAP procedures. The key aspects of the DEAP are summarized in Appendix 7.

46. ADB's Additional Financing Policy permits using ongoing projects as channels for emergency assistance. The DRF will follow the Additional Financing Policy's procedures if it is designed under the Additional Financing Policy.²⁶ ADB has also used other modalities for

²³ World Bank. 2010. *Technical Note on the Establishment of a Crisis Response Window in IDA16*. Washington, DC.

²⁴ The CRW size is SDR1,335 million (including a SDR329 million allocation for Haiti).

²⁵ This means that the business processes and other related aspects of the DRF may also change if the relevant existing policies and/or procedures change.

²⁶ ADB. 2011. *Additional Financing. Operations Manual*. OM H5/BP. Manila.

disaster responses. The DRF assistance will follow these policies and procedures as appropriate if it is processed under such modalities.

B. The Proposal

1. Summary of Key Features

47. ADB proposes piloting the DRF during the ADF XI period, 2013–2016. The DRF will have the following key features:

- (i) The DRF will be for natural disasters.²⁷
- (ii) The DRF will support emergency assistance, restoration, and rehabilitation and reconstruction needs.
- (iii) The size of the DRF will be 3% of the PBA.
- (iv) In case of a disaster, an ADF-only country can get up to 100% of its annual PBA, or \$3 million per disaster, whichever is higher, from the DRF.
- (v) A blend country affected by a disaster can receive up to 3% of its annual PBA from the DRF.²⁸
- (vi) ADB will coordinate with the World Bank's CRW and other relevant development agencies in carrying out the DRF operations as appropriate, e.g., in information sharing or deciding on the nature of support for a disaster.

2. Objective

48. The objective of the DRF is to provide timely and effective assistance to ADF countries to cover the costs of emergency assistance, restoration, and rehabilitation and reconstruction that arise after a disaster. This objective will be realized by providing a more predictable financing source.

49. The DRF will complement the disaster risk reduction activities mandated in the DEAP. It will not lessen the need for, or the importance of, ADB's role in assisting DMCs on disaster risk reduction and management.

3. Resources

50. The DRF will consist of 3% of the PBA taken from the ADF pool. To minimize the delayed utilization of headroom, any unused DRF allocation will be returned to the ADF pool at the end of each biennium.²⁹

51. In the event of a natural disaster, an ADF-only country can get up to 100% of its annual PBA from the DRF to respond to the disaster, without affecting its allocation for other operations from the remaining PBA.

52. A blend country affected by a disaster can receive up to 3% of its annual PBA from the DRF. ADB will also prioritize the use of hard-term ADF resources and OCR to assist blend

²⁷ Disasters that are caused by compounded factors, for example, natural events and human factors, will also be eligible for accessing the DRF.

²⁸ This equals to the annual contribution of a blend country to the DRF.

²⁹ The 3% of PBA amounts to about \$300 million for 4 years. The allocation of 3% of PBA for the DRF is based on the average share of ADF emergency assistance from 2005 to 2011. Emergency assistance lending over this period was 3%–5% of the ADF allocation in ADF-only countries. However, this level of assistance has repeatedly been insufficient to meet the requirements identified in disaster needs assessments. Although the proposed 3% of PBA will enable ADB to respond better and faster, it is likely to still be below the amount needed.

countries in those circumstances.³⁰ Compared to the PBA, ADB can allocate hard-term ADF and OCR with more flexibility in responding to disasters, depending on the needs of the DMC and availability of ADB resources. Therefore, it is not necessary to set aside resources or to set ceilings for using these resources for disaster-related assistance. OCR and the ADF hard-term facility are not included in the DRF.

53. Because of its small size, the DRF will reduce but will not eliminate the need for using portfolio restructuring and loan saving for disaster response. Reprogramming or other means are likely to be used in parallel in most cases.³¹ Access to the DRF will not disqualify ADF countries from accessing other ADB resources, such as the APDRF. ADB should also attract cofinancing, wherever possible, to complement DRF resources.

54. Table 7 shows the resources (including the DRF and other resources) available to ADF-only and blend countries in the aftermath of a disaster.

Blend Countries	ADF-Only Countries
Up to 3% of their annual PBA from the DRF	Up to 100% of their annual PBA, or \$3 million per disaster, whichever is higher, from the DRF
Hard-term ADF (subject to resource availability and demand)	
Additional OCR (subject to resource availability and demand)	
Reprogramming	Reprogramming

ADF = Asian Development Fund, DRF = Disaster Response Facility, OCR = ordinary capital resources, PBA = performance-based allocation.
Source: Asian Development Bank.

55. In allocating DRF resources for a disaster, ADB should consider the need to spread the resources across a 2-year span and between ADF countries. Because the occurrence and scale of natural disasters cannot be predicted, and the availability of resources at any given time is uncertain, ADB will exercise sound judgment in allocating DRF resources to a disaster. For example, ADB may be able to allocate more resources at the end of the biennium than at the beginning, if resources are available.

³⁰ According to the *Operations Manual* section A3 on Performance-Based Allocation of Asian Development Fund, blend countries are eligible for the ADF hard-term facility. These blend countries should have active OCR lending programs and gross national income per capita that has not exceeded the IDA operational cutoff for more than 2 consecutive years. Access by ADF-only countries could be considered in individual cases for high-revenue-earning projects that generate net foreign exchange earnings exceeding the foreign debt service requirement. See ADB. 2008. Performance-Based Allocation of Asian Development Fund Resources. *Operations Manual*. OM A3/BP. Manila.

³¹ During project implementation, surplus proceeds occur when some ADB-funded components are cancelled, and/or when the cost or bidding price is lower than that estimated during processing, leading to savings and need for reallocation within or between projects. At the country level, OCR allocations in ADB are based on country demand, the availability of resources, and the prioritization criteria. However, some countries cannot use up their allocated OCR, leading to the need for reallocation between countries.

4. Terms and Conditions

56. The DRF will stay within the overall ADF pool. The terms (e.g., loan, grant, grace period, interest rate, repayment terms, and maturity) will follow the ADF and/or other relevant provisions (such as the DEAP) for applicable lending terms, as appropriate.³²

5. Eligibility Criterion

57. The criterion for accessing the DRF is the severity of a disaster.³³ Only severe disasters will be considered for DRF assistance. Parametric data on disaster impact, if available, may be used to corroborate the intensity of an event as appropriate, but would not be the only basis for eligibility.³⁴ Disaster impact assessments may look at aspects such as the immediate economic damage, loss of lives and people affected,³⁵ or issuance of a United Nations (UN) flash appeal, as appropriate.³⁶

58. Using the severity of a disaster as the criterion for accessing the DRF—and drawing on parametric data, a UN flash appeal, and other means to assess the severity, as appropriate—is harmonized with the approach of the World Bank's CRW.

59. Low-intensity impacts caused by frequent natural hazards should be systematically considered in country programs; and prevention, preparedness, and mitigation measures should be incorporated in project design and implementation. The expenditures for these should be

³² The *Operations Manual* section A3 on Performance-Based Allocation of Asian Development Fund Resources (footnote 30) stipulates that eligibility for ADF grants is limited to ADF-only countries. Under the ADF grant framework, the level of debt distress determines what proportion of a country's PBA is to be provided in the form of grants following its debt-distress classification: (i) low risk of debt distress—no grants; (ii) moderate risk of debt distress—50% grants; and (iii) high risk of debt distress—100% grants. The debt-distress risk classification is determined by the outcome of the forward-looking debt sustainability analysis (when available), or by comparing a country's latest available external debt indicators with the policy performance-dependent debt burden thresholds. A 20% volume discount is applied to the grant portion of the PBA. The two main criteria to determine eligibility for ADF loans are (i) gross national income per capita, and (ii) creditworthiness for OCR or market-based resources. Under its Graduation Policy, ADB adopts the IDA's operational cutoff for eligibility as the income threshold. Creditworthiness of DMCs is assessed by a creditworthiness assessment committee in accordance with the Graduation Policy.

³³ This includes loss and damages caused by the disaster, as appropriate.

³⁴ This is also the approach adopted under the World Bank's CRW. As stated in the World Bank's technical note (footnote 23), parametric data (e.g., the magnitude of an earthquake on the Richter scale) may not always adequately reflect the severity of a disaster. In the case of an earthquake, for example, disaster preparedness and proximity to human settlements are just as important factors in determining the severity of a disaster. While the 1965 Rat Islands earthquake was the 10th largest in human history with a magnitude of 8.7, it had little impact (no deaths, damage of less than \$10,000). The 2010 earthquake in Haiti, in contrast, had a magnitude of 7.0 but its low depth and proximity to the capital city of Port-au-Prince, compounded by limited disaster preparedness, made it one of the deadliest earthquakes on record (220,000 dead and 1.5 million injured) with damages estimated at \$7.9 billion or 120% of Haiti's 2009 gross domestic product.

³⁵ This information may be drawn from government or other sources, taking into consideration that information immediately after a disaster may only be preliminary or may not be readily available.

³⁶ As noted by the World Bank (footnote 23), the issuance of a UN flash appeal can be useful in determining the impact of a disaster. However, flash appeals are not suitable as an initial (and/or sole) trigger for access to CRW resources for several reasons. First, flash appeals can be issued for disasters that would not necessarily qualify for CRW funding, e.g., a humanitarian crisis where the need for reconstruction support is limited. Second, flash appeals are often issued with a substantial delay. In the Haiti earthquake, for instance, the flash appeal was issued almost a month later. In contrast, the World Bank announced its intention to provide exceptional IDA resources the day after the earthquake (after the Board had been briefed). Third, explicitly linking resources to flash appeals may create the expectation that resources would be used every time one is issued. This could lead to misallocation of resources as well as institutional duplication, as high humanitarian needs may not always correspond to high needs for the reconstruction and recovery assistance that the CRW provides.

financed from regular developmental resources or follow established reprogramming and/or other procedures.

60. In determining whether DRF resources should be allocated to respond to a particular disaster, as well as the size of any allocation, ADB may also consider (i) ADB's delivery capacity, including its presence and/or expertise in the country; (ii) the availability of resources, including the DRF, ADB's headroom, domestic resources, and other external financing; and (iii) the country's needs and response capacity.

6. Processing Assistance Supported by the Disaster Response Facility

61. The DRF can cover all relevant aspects of emergency assistance, restoration, and rehabilitation and reconstruction costs that arise after a disaster that is determined to be eligible for the DRF.³⁷

62. Immediately after a severe disaster, ADB staff will review available impact information to form an early assessment regarding its severity, and the need to access the DRF. As immediate post-disaster impact data are likely to be limited and evolving, this assessment may also take into account information such as whether the affected country has issued a declaration of state of emergency and requested ADB support.

63. If initial information indicates a sufficiently severe impact, and the concerned regional department determines that accessing the DRF is necessary, the regional department, in consultation with other relevant departments, will process and implement the DRF assistance in accordance with established business processes, as defined by relevant policies such as the DEAP, Additional Financing Policy, or policy-based lending, depending on the specific modality to be used to deliver the disaster-related assistance.

64. Since disasters may highlight weaknesses in a country's development projects that did not include sufficient risk prevention measures, disasters provide an opportunity to build back safer. The DRF will support operations to build back safer and take measures to reduce risks from future disasters.

7. Development Coordination

65. As in other emergency and disaster response operations, ADB will coordinate with the DMCs and other development partners. The DRF support to ADF countries will be limited to areas where ADB has a comparative advantage — areas where ADB has an established role or expertise, or can add significant value. ADB will also involve the civil society and bring in private sector partners where it sees suitable opportunities. ADB will share its assessments with other partners, undertake joint assessments with them, or make use of assessments by other agencies, as appropriate.

66. Effective development coordination helps to augment resources. Equally important, it helps reduce duplication or conflicting assistance from different development agencies, and improves the efficiency and effectiveness of resource utilization. Consistent with the DEAP and ADB's established practices, ADB should proactively coordinate with other development partners to enhance disaster risk management and disaster preparedness, as well as post-disaster responses. Such coordination is especially important in DMCs with high disaster risks.

³⁷ For example, the DRF can be used to support post-disaster TA.

C. Benefits and Risks

1. Benefits

67. Insufficient resources to respond to disasters constrain ADB's capacity to assist ADF countries. The establishment of disaster-specific funds in the wake of a disaster, reprogramming, and cancellation and reallocation of savings can be unpredictable, unsustainable, time-consuming, and can disrupt the country's long-term development. The DRF will help ease the funding constraint and augment much-needed resources for ADF countries to save lives, reduce damage, and rebuild communities in the wake of disasters. It will improve ADB's disaster preparedness, which may reduce costly delays, alleviate resource gaps, and lessen the need for reprogramming.

68. The DRF represents one step toward moving disaster risk management in ADF countries from an ad hoc approach to a more predictable and systematic approach. The piloting of the DRF will

- (i) provide additional assistance to ADF countries, which are most vulnerable to the impact of disasters;
- (ii) accelerate ADB's response to disasters in ADF countries;
- (iii) reduce the diversion of resources from vital long-term development and poverty reduction activities;
- (iv) complement other disaster risk management efforts, especially in relation to disaster risk reduction;³⁸
- (v) enable ADB to complement other development agencies more effectively; and
- (vi) enhance ADB's implementation of the DEAP.

69. The piloting of the DRF will allow ADB to learn from the implementation experience and enable donors and ADB to make an informed decision about the future of the DRF during the ADF XII discussions.

2. Risks

70. **Opportunity costs.** The piloting of the DRF requires allocating 3% of the PBA, which can have an opportunity cost if the funds remain unutilized for a considerable time. However, this risk will be low based on the experiences during 2005–2011. Further, the 3% allocation for the DRF is a small fraction of the ADF envelope. Any unused allocation will be returned to the ADF pool at the end of each biennium to minimize the delayed utilization of available resources. Thus, the opportunity costs will be minimal.

71. **Effects on the performance-based allocation system.** The small allocation for the DRF will not materially affect the PBA system. The design of the DRF is primarily concerned about the urgent needs of the people in ADF countries after major disasters. Adding predictable resources for disaster responses will enrich the ADF system and complement the PBA.

72. **Potential for moral hazard.** One concern is that ADF countries will scale back their efforts to reduce disaster risks because of the DRF. However, the likelihood of such moral hazard is minimal. With the tremendous costs of disasters, it is in each country's interest to reduce the risk of disaster recurrence. The implementation of an integrated disaster risk

³⁸ For example, ADB is in discussion with the Canadian International Development Agency on establishing an integrated disaster risk management fund. The fund would support activities under ADB's integrated disaster risk management, which combines disaster risk finance, disaster risk reduction, and climate change adaptation.

management approach embodied in the DEAP will limit moral hazard. The DRF's effort to support build back safer will also reduce the potential for moral hazard. Effective management of disaster risks requires that ADB and ADF countries have a full menu of tools at their disposal. Piloting the DRF will increase the tools ADB has to assist ADF countries following disasters.

73. **Duplicating assistance by other development agencies.** At a broad level, the risk of duplicating other development partners' assistance is small because of the substantial demand from ADF countries for post-impact assistance. These vast needs require the participation of different agencies to augment resources and expertise. However, there are risks of duplication in responding to a particular disaster without effective development coordination. ADB will rely on its well-established coordination relationships with other development agencies to minimize duplication, and strengthen donor coordination mechanisms as needed.

74. Overall, the benefits of piloting the DRF are expected to be significant, while the risks are expected to be small. The piloting of the DRF will also provide an opportunity to correct design or implementation weaknesses, and ensure that a formal adoption of the DRF will be based on experience.

D. Review of Disaster Response Facility Pilot

75. ADB will implement the DRF and prepare a progress report that will be shared with donors and the Board at the ADF XI midterm review. The Independent Evaluation Department of ADB will review the implementation experience of the DRF and provide the findings to donors during the ADF XII negotiations. The future of the DRF—whether to make it a regular facility or discontinue it—will be discussed at the ADF XII negotiations, and subsequently with the ADB Board of Directors.

E. Effective Date and Pilot Duration

76. The DRF will become effective on 1 January 2013. The pilot duration for the DRF will be the ADF XI period, 2013–2016.

VII. RECOMMENDATION

77. The President recommends that the Board approve the piloting of a Disaster Response Facility as described in section VI of this paper.

MAJOR NATURAL DISASTERS AND THEIR IMPACT IN ADF COUNTRIES

Table A1.1: Major Natural Disasters in ADF Countries, 2005–2010

Year and Country	Natural Disasters	Relative Impacts		
		Deaths (% of total population in a country)	Population Affected (% of total population in a country)	Economic Damage and Loss (% of GDP of a country)
2004				
Maldives	Tsunami	0.0354	9.3	60.5
Sri Lanka	Tsunami	0.1819	5.2	6.4
2005				
Pakistan	Earthquake	0.0471	3.1	4.7
Pakistan	Great flood	0.0003	4.2	...
2006				
Viet Nam	Cyclones	0.0002	3.2	1.8
2007				
Bangladesh	Cyclone Sidr	0.0027	5.9	3.4
Bangladesh	General flood	0.0007	9.0	0.1
Nepal	General flood	...	2.4	0.0
Papua New Guinea	Cyclone Guba	0.0027	2.7	...
2008				
Afghanistan	Local storm	0.0045	0.7	0.0
Tajikistan	Extreme winter	...	30.6	16.4
2009				
Bangladesh	Cyclone (Aila)	0.0001	2.6	0.3
Lao People's Democratic Republic	Tropical storm (Ketsana)	0.0003	2.5	1.7
Mongolia	Cold wave	...	19.9	1.5
Nepal	General flood	0.0003	0.6	0.5
Viet Nam	Tropical storm (Ketsana)	0.0002	2.9	0.8
Samoa	Tsunami	0.0828	3.1	30.2
Tonga	Tsunami	0.0087	0.5	3.1
2010				
Pakistan	Flash flood	0.0012	12.3	5.9
Tajikistan	General flood	0.0011	0.1	4.1

... = no reported data, ADF = Asian Development Fund, GDP = gross domestic product.

Source: Asian Development Bank calculations based on the global disaster database maintained by the Centre for Research on the Epidemiology of Disasters, Université Catholique de Louvain, Belgium.

Table A1.2: Disaster Impact in ADF Countries, 2005–2010

Type of Natural Disasters	Number of Event (% of Total)	People Killed (% of Total)	People Affected (% of Total)	Estimated Damage (% of Total)
Earthquake (including tsunamis)	6.8	79.4	6.1	20.6
Health and/or epidemic	7.1	1.3	0.5	0.0
Extreme temperature	3.6	0.6	3.3	3.4
Flood	49.9	8.9	62.7	48.2
Storm	21.0	8.9	26.8	27.7
Landslide and/or avalanche	9.3	0.9	0.6	0.1
Volcano	2.3
Total	100.0	100.0	100.0	100.0
Total Number or Value	309	93,015	86,353,332	\$26.10 billion

... = no reported data, ADF = Asian Development Fund.

Source: Asian Development Bank calculations based on the global disaster database maintained by the Centre for Research on the Epidemiology of Disasters, Université Catholique de Louvain, Belgium.

THE ASIA PACIFIC DISASTER RESPONSE FUND

1. Based on the implementation experience of the DEAP since 2004, ADB set up the Asia Pacific Disaster Response Fund (APDRF) in 2009 to provide timely, incremental grant resources to DMCs affected by a disaster.¹ It aims to bridge the gap between ADB's assistance to DMCs for reducing disaster risks through hazard mitigation financing and the longer-term, post-disaster reconstruction financing.
2. The APDRF provides quick-disbursing grants to help DMCs cover immediate expenses to restore life-saving services to affected populations after a disaster and to augment aid provided by other donors in times of national crisis (e.g., purchase of water purification and sanitation systems, transitional shelter, personal hygiene kits, emergency communication equipment, and aviation fuel, as well as debris sifting, site clearance, and safe disposal of useless rubble). The APDRF responds to the urgent need for resources immediately after a disaster. If such urgency is not justified, an EAL will be used.
3. All of ADB's DMCs are eligible for grant assistance from the APDRF. Assistance may be provided only under the following emergency conditions:
 - (i) a disaster has occurred in a DMC;
 - (ii) a statement of national emergency has been officially declared by the affected DMC; and
 - (iii) the UN Humanitarian Coordinator or Resident Coordinator has confirmed the scale and implications of the disaster, and has indicated a general amount of funding that would be required to assist in alleviating the situation.
4. Assistance from the APDRF will be provided in the form of a grant for an amount up to \$3 million per event. The following factors may influence the size of the grant:
 - (i) geographical extent of damage;
 - (ii) initial estimate of death, injuries, and displaced persons;
 - (iii) the response capacity of key agencies in the country; and
 - (iv) the date and magnitude of the last disaster that affected the country (thereby taking into account the cumulative effect of disasters on the country's ability to respond).
5. ADB adopted specific regulations to govern the provision of grants from the APDRF. The authority to approve APDRF grants has been delegated to the President. The APDRF approval process is as follows:
 - (i) Wherever possible, within 24 hours of emergency conditions having been met, the concerned regional department director general, in consultation with the resident mission country director, assigns a disaster coordinator. Where practical, the country director should be assigned this function.
 - (ii) The disaster coordinator initiates discussions with the UN Humanitarian Coordinator or Resident Coordinator to determine the grant amount to be requested from the APDRF.
 - (iii) The disaster coordinator prepares and transmit a report to the regional department director general providing (a) an overview of the crisis and an outline of the rationale for ADB's emergency grant, including confirmation of a declaration of a national emergency; (b) a summary of the assistance that the UN Humanitarian Coordinator or Resident Coordinator recommends or intends to recommend to the international community; (c) to the extent possible, the initial and proposed type

¹ ADB. 2009. *Establishment of the Asia Pacific Disaster Response Fund*. Manila.

and amount of assistance from other aid agencies; and (d) taking into account discussions with the UN humanitarian or resident coordinator, a recommendation of whether ADB should provide grant assistance from the APDRF and the total amount of the grant (up to \$3 million).

- (iv) The regional department director general's recommendation is communicated to the relevant ADB vice-president for consideration and endorsement to the President.
- (v) The President approves the grant, allowing ADB to remit funds within days.

6. ADB's Regional and Sustainable Development Department manages the APDRF in close consultation with regional departments and resident mission disaster focal points, and is responsible for coordinating with other ADB departments the activities to be supported by the APDRF. ADB's Office of Cofinancing Operations facilitates the contributions and acts as the official channel of communications between external APDRF contributors and ADB for financial aspects.

7. ADB provided the initial allocation of \$40 million to the APDRF, which was transferred from the Asian Tsunami Fund. ADB accepts, on an untied grant basis, contributions to the APDRF from bilateral, multilateral, and individual sources, including companies and foundations. To ensure cost-effective processing and reporting, the minimum contribution is \$500,000 equivalent. The APDRF has \$10.4 million in resources as of October 2012.

ADB NATURAL DISASTER-RELATED ASSISTANCE IN ADF COUNTRIES

Table A3.1: Natural Disaster-Related Assistance in ADF Countries, 2005–2011

Type of Disasters	ADF Countries ^a		ADB-Wide	
	Amount (\$ million)	Share (%)	Amount (\$ million)	Share (%)
Flood	1,358.19	50.83	1,731.88	44.84
Earthquake	805.00	30.13	1,209.70	31.32
Tsunami	498.68	18.66	836.65	21.66
Landslide	0.00	0.00	56.40	1.46
Multi hazard	6.31	0.24	11.36	0.29
Climate change	0.00	0.00	9.17	0.24
Cyclone	0.00	0.00	2.83	0.07
Dzud ^b	2.50	0.09	2.50	0.06
Coastal erosion	1.20	0.04	1.20	0.03
Drought	0.00	0.00	0.63	0.02
Total	2,671.87	100.00	3,862.31	100.00

ADB = Asian Development Bank, ADF = Asian Development Fund.

^a Includes ADF-only and blend countries.

^b Dzud is a multifaceted disaster characterized by a summer drought in which insufficient fodder is available for stockpiling, followed by heavy winter snow and abnormally low temperatures.

Source: Asian Development Bank.

Table A3.2: Natural Disaster-Related Projects Funded by ADF and Technical Assistance Special Fund, 2005–2011

Type of Disasters	Amount (\$ million)	Share (%)
Flood	622.58	48.36
Earthquake	621.70	48.30
Tsunami	31.52	2.45
Climate change	6.78	0.53
Cyclone	2.83	0.22
Multihazard	1.25	0.10
Drought	0.40	0.03
Coastal erosion	0.20	0.02
Total Amount or Share	1,287.25	100.00

ADF = Asian Development Fund.

Source: Asian Development Bank.

Table A3.3: Emergency Assistance Loans, 2005–2011

Country	Amount (\$ million)	Share of Total (%)
ADF-only countries	60.39	2.07
Maldives	21.80	
Nepal	25.60	
Solomon Islands	12.99	
Blend countries	2,128.47	73.05
Bangladesh	300.00	
India	200.00	
Pakistan	1,395.00	
Sri Lanka	157.00	
Viet Nam	76.47	
OCR-only countries	724.89	24.88
China, People's Republic of	400.00	
Cook Islands	2.83	
Fiji	17.56	
Indonesia	304.50	
Total	2,913.75	100.00

ADF = Asian Development Fund, OCR = ordinary capital resources.
Source: Asian Development Bank.

RATINGS OF NATURAL DISASTER-RELATED PROJECTS

Table A4.1: Project Ratings of Natural Disaster-Related Projects, 2005–2011

Source of Funds	Country	Project Name	Date of Loan Effectiveness	PCR/TCR Rating
ADF	Bangladesh	Emergency Flood Damage Rehabilitation (Loan-2156)	2 May 2005	<i>Highly successful</i>
ATF	Maldives	Tsunami Emergency Assistance (Grant-0001)	23 May 2005	<i>Successful</i>
ADF	Maldives	Tsunami Emergency Assistance (Loan-2160)	23 May 2005	<i>Successful</i>
ATF	Indonesia	Earthquake and Tsunami Emergency Support (Grant-0002)	21 June 2005	<i>Successful</i>
ADF	Cook Islands	Cyclone Emergency Assistance (Loan-2174)	14 July 2005	<i>Successful</i>
ATF	Thailand	Subregional Development Plan for the Tsunami-Affected Andaman Region, Phase II (TA-4613)	1 September 2005	<i>Successful</i>
ADF	Pakistan	Earthquake-Displaced People Livelihood Restoration Program (Loan-2335)	16 July 2007	<i>Successful</i>
PEF	Pakistan	Capacity Building for Institutions Related to Earthquake Reconstruction and Rehabilitation (TA-4943)	August 2007	<i>Successful</i>
ADF	Solomon Islands	Emergency Assistance (Grant-0078)	1 October 2007	<i>Successful</i>
TASF	PRC	Providing Emergency Response to Sichuan Earthquake (TA-7081)	1 August 2008	<i>Highly successful</i>
ADF	Bangladesh	Emergency Disaster Damage Rehabilitation (Sector) (Loan-2409)	19 February 2008	<i>Highly successful</i>

ADF = Asian Development Fund, ATF = Asian Tsunami Fund, PCR = project or program completion report, PEF = Pakistan Earthquake Fund, PRC = People's Republic of China, TASF = Technical Assistance Special Fund, TCR = technical assistance completion report.

Source: Asian Development Bank.

Table A4.2: Summary of Project Ratings of Natural Disaster-Related Projects, 2005–2011

PCR Ratings	Number	Share (%)
Successful	8	72.7
Highly successful	3	27.3
Total	11	100.0

PCR = project or program completion report.

Source: Asian Development Bank.

DISASTER RESPONSES: WORKING WITH DEVELOPMENT PARTNERS

1. **Nepal emergency flood damage rehabilitation.**¹ On 18 August 2008, the Koshi River in Nepal breached its embankment and shifted its course. This displaced about 47,000 people and badly damaged about 5,000 hectares of farmland and 14 kilometers of roads. At the same time, heavy rain caused floods and landslides in districts of the far west and midwest regions, affecting 43,500 families and damaging physical infrastructure. In October 2008, the Ministry of Finance asked the Asian Development Bank (ADB) to lead a post-flood damage and needs assessment (DNA) in infrastructure (including roads, energy, housing, and water), agriculture and irrigation, health, and education to assist the government in preparing rehabilitation works. ADB coordinated closely with development partners in the preparation of the DNA and subsequent emergency assistance, particularly with the United Nations agencies (leading the international humanitarian relief efforts through thematic clusters), the Government of Nepal, and nongovernment organizations. Aware of Nepal's exposure and vulnerability, ADB committed to undertake a disaster vulnerability assessment in preparation for its country partnership strategy and is mainstreaming risk mitigation measures in its operations. A grant of \$25.60 million from ADB's Special Funds resources was provided to the project. When completed, the project will have restored economic activities mainly in three districts and improved the livelihoods of about 300,000 flood-affected people.

2. **Screening for risks in Nepal.** Nepal is extremely vulnerable to natural disasters and their adverse effects. Floods and landslides are regular features of the annual monsoon, causing hundreds of deaths, disrupting the lives of thousands, and causing millions of dollars of economic damage. Located in one of the world's most seismically active areas, the country has a history of destructive earthquakes. Nepal's capacity to manage these risks is limited. In recognition of this situation, the ADB country partnership strategy for Nepal, 2010–2012,² approved in October 2009, includes pilot-testing of a disaster and climate change risk-screening tool developed by ADB's Regional and Sustainable Development Department to incorporate consideration of the country's hazards into ADB's operations. The tool, which is the first of its type, seeks to ensure that ADB's operations factor in disaster risks, and maximize mitigation measures. A year after its use, the Nepal Resident Mission undertook a review of the tool as it was applied to seven projects approved during 2010 or processed for approval in 2011. The biggest achievement in applying the tool was greater understanding within project processing teams of the implications of climate change and disasters on their projects. ADB has shared this tool with other development partners in Nepal, who have shown a strong interest in using it. ADB's experience with this tool will be valuable in mainstreaming disaster and climate risk reduction across all major infrastructure projects in Nepal.

3. **Making schools safe from disasters in Nepal.** Nepal's seismic record shows the return period for destructive earthquakes to be about 75 years. Of the country's total building stock, 90% is not designed by professional engineers. Poor quality control of materials and construction practices make all of Nepal highly vulnerable. Almost all of the nation's 82,000 school buildings do not comply with the National Building Code, leaving them susceptible to multiple hazards. To mitigate disaster and climate variability risks, the government adopted the National Strategy for Disaster Risk Management and the Climate Change Policy in 2010. Under these strategy and policy, the government has prioritized the safety of children in schools and raising disaster awareness. However, the government has few resources to

¹ ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant Nepal: Emergency Flood Damage Rehabilitation Project*. Manila.

² ADB. 2009. *Country Partnership Strategy: Nepal, 2010–2012*. Manila.

implement necessary remedial actions. ADB is leading a consortium of development partners, working in coordination with the government, in implementing a school seismic safety program that will incorporate multi-hazard reduction measures. This program will operationalize sound practices for building safety to guard against multiple hazards, and will help protect the people of Nepal from disaster threats.

4. **Solomon Islands earthquake and tsunami emergency response.**³ On 2 April 2007, an undersea earthquake of magnitude 8.1 on the Richter scale triggered a tsunami with waves up to 10 meters that struck eight islands in Western and Choiseul provinces of Solomon Islands. The islands suffered widespread damage to houses, infrastructure, schools, and clinics. Several villages were destroyed and livelihoods ruined. About 20,000 of a total population of 90,000 in both provinces were affected, including 52 deaths and 5,000 people displaced. ADB, in coordination with major development partners, including Australian Agency for International Development (AusAID), New Zealand Agency for International Development (NZAID), the United Nations Development Programme, and the World Bank, conducted a DNA. ADB provided a grant of \$4.95 million from the Asian Development Fund, and the European Commission (EC) provided grant cofinancing of \$4.00 million equivalent, to be administered by ADB, for the road rehabilitation component. ADB, AusAID, NZAID, and EC prepared the emergency assistance project through a joint mission to draw on their existing partnerships in the Solomon Islands transport sector. This collaboration has ensured incorporation of the diverse experience, perspectives, and lessons learned by the Government and its development partners. As a result of these efforts, the project restored economic and social activities and accessibility in the affected areas to public health, and has made infrastructure less vulnerable to future natural hazards and climate change. Associated technical assistance supported the government in formulating a recovery action plan, shelter strategy, and rehabilitation strategy and program.⁴

5. **Pakistan flood emergency reconstruction.**⁵ The Pakistan floods of mid-2010 affected 20 million people and caused 1,600 deaths. Basic transport infrastructure and irrigation facilities were badly damaged, as were health and education centers, housing, agriculture, livestock, fisheries, and livelihoods. Of the 110 districts across Balochistan, Khyber Pakhtunkhwa, Punjab, and Sindh, 80 were seriously affected. About one-fifth of the country was under floodwaters and the total damage was estimated at \$10 billion. The Government of Pakistan asked ADB and the World Bank to jointly lead the DNA, and they coordinated with other development partners (including the European Union and development agencies of Germany, Japan, the United Kingdom, and the United States). ADB financed the rehabilitation and reconstruction of national and provincial roads and bridges, as well as irrigation, flood protection and drainage infrastructure in the Province of Sindh. When completed, the project will have restored critical physical infrastructure, livelihoods, and access to markets, including sections of the road network and irrigation facilities. The government has requested a loan of \$600 million from ADB's ordinary capital resources and \$50 from Asian Development Fund.

³ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant Solomon Islands: Emergency Assistance Project*. Manila

⁴ ADB. 2011. *Completion Report: Emergency Assistance Project in Solomon Islands*. Manila.

⁵ ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant Islamic Republic of Pakistan: Flood Emergency Reconstruction Project*. Manila

ASIAN DEVELOPMENT FUND XI DISCUSSIONS AND CONSULTATIONS

1. The 10th replenishment of the Asian Development Fund (ADF XI) included intensive discussion, debate, and consultation between the Asian Development Bank (ADB) and ADF donors about the need to establish the Disaster Response Facility (DRF) for ADF countries. Many ADF deputies supported the establishment of the DRF, but they also stressed that such a facility should be underpinned by strong support from the recipient countries. While an earlier proposal covered a facility to respond to both natural disasters and economic crises, it was subsequently agreed that the facility should exclude economic and financial crises.

2. ADB held two rounds of consultations with ADF countries. Most of them, especially ADF-only countries, expressed support for a DRF during the first round of consultation. However, some blend countries voiced concerns about forgoing a small share of the ADF resources without receiving resources from the DRF in return. Following the first round of consultations with ADF countries, ADB modified the DRF proposal by adding a provision prioritizing the hard-term ADF and ordinary capital resources savings for blend countries, and reducing the ADF allocation from 5% to 3%.

3. ADB then undertook the second round of consultations with all 28 ADF-only and blend countries, and shared the key design parameters of the proposed DRF with them. From mid-December 2011 to mid-February 2012, ADB received 26 responses from the 28 ADF countries on the proposed DRF. Virtually all the ADF countries supported the establishment of the DRF.¹ Representatives of developing member countries at the ADF XI meetings also expressed strong support for setting up the DRF. The overwhelming developing member countries support provided a strong basis for proceeding with the DRF.

4. The consultations and ADF XI meetings on the DRF generated several major suggestions, as summarized below:

- (i) **Piloting the Disaster Response Facility.** Recognizing the high incidence of disasters in the region and the strong support for the DRF from ADF countries, donors reached a consensus to proceed with the DRF. However, donors agreed that the DRF should be piloted during the ADF XI period (2013–2016) instead of being adopted as a formal facility. This would allow an evaluation of the experience and an informed decision on the DRF during the ADF XII negotiations. A pilot means that ADB does not presuppose the future of the DRF.
- (ii) **Monitoring the performance.** ADB should monitor the utilization and performance of the DRF, and report on the implementation of the DRF at the ADF XI midterm review as well as during the ADF XII negotiations.
- (iii) **Blend countries' access to their own contribution.** A blend country affected by a disaster should first be allowed to receive the amount of ADF resources deducted from its own performance-based allocation.
- (iv) **Conditions for accessing the facility.** ADF countries stressed that access to the DRF should not be tied to any conditions other than the severity of a disaster.

¹ Palau and Timor-Leste did not respond. Georgia noted that the country tends to be affected only by medium-scale natural disasters, and thus may not need the DRF.

- (v) **Efficient processes.** ADF countries emphasized that DRF disbursement needed to be rapid for it to be relevant. Timely processing and implementation are essential for fulfilling the intention of the DRF.
- (vi) **Timely access to the resources.** Establishing the DRF as a funding mechanism of last resort contradicts its core purpose—to quickly disburse the funds.

5. These comments have been incorporated in the design of the DRF (section VI of the main text).

6. It was also suggested that ADF-only and blend countries should have equal access to the DRF. However, the size of the DRF—the 3% of the PBA—does not provide sufficient resources to allow equal access to it for blend countries. Thus, for blend countries, ADB should prioritize hard-term ADF and ordinary capital resources for disaster response.

SUMMARY OF THE DISASTER AND EMERGENCY ASSISTANCE POLICY

A. Integrated Disaster Risk Management Framework

1. The Asian Development Bank (ADB) adopted the Disaster and Emergency Assistance Policy (DEAP) in 2004.¹ The policy views a disaster and its management as a continuum of linked activities, not a series of events that start and stop with each disaster occurrence.
2. The DEAP is based on the following principles:
 - (i) adopting a systematic approach to disaster management, including emergency prevention and post-conflict reconstruction;
 - (ii) mainstreaming disaster management as an integral part of the development process;
 - (iii) strengthening partnerships to maximize synergies between development and specialized (e.g., relief) organizations to boost the effectiveness of emergency aid to developing member countries (DMCs), because no single agency or actor can provide all the resources needed to cope with disasters and the resulting emergencies;
 - (iv) using resources more efficiently and effectively to better support pre- and post-disaster activities; and
 - (v) improving organizational arrangements within ADB to plan, implement, and communicate effectively on disaster and emergency assistance.
3. ADB recognizes the importance of protective strategies that contribute to saving lives and that protect property and resources before they are lost. The DEAP shifts the emphasis from responding only after a disaster to also supporting activities that anticipate and mitigate the likely impact of disasters that might occur. The DEAP requires ADB's emergency assistance activities to be implemented by working closely with DMCs to help them adopt a new approach that emphasizes preventive measures. Furthermore, ADB's disaster-related assistance should also strengthen or rebuild institutions, develop appropriate policies, and train people. Thus, ADB's assistance has been broadened from post-disaster assistance to include prevention, mitigation, and preparedness.
4. Guided by the DEAP, ADB promotes an integrated disaster risk management framework to assist DMCs in strengthening their capacities for effective disaster management. The integrated approach is particularly relevant and applicable to Asian Development Fund (ADF) countries. ADB emphasizes the importance of advancing support to ADF countries to develop disaster risk management capacity through risk-focused advisory assistance and financing.

B. Financing and Modalities

1. Portfolio Restructuring

5. The DEAP provides for using portfolio restructuring and loan savings to respond to disasters. Portfolio restructuring must be undertaken in a manner consistent with ongoing development priorities and activities. Restructuring is justified if funds exceed the amount required to achieve the original project objectives and/or if circumstances change whereby the original objectives are no longer relevant or can no longer be implemented in the desired time frame. In either case, the DMC must approve any restructuring proposal. In special

¹ ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila.

cases with particularly urgent rehabilitation needs, ADB may reallocate outstanding loan proceeds for rehabilitation purposes in response to changed government priorities because of the disaster and resulting emergency. Conditions for such reallocation are that (i) the scope of ongoing projects can be scaled down without reducing the benefits of existing project components, (ii) the ongoing projects and rehabilitation needs are in the same sector, and (iii) the government lowers the priority of ongoing projects because of the emergency.

2. Emergency Assistance Loans

6. The DEAP also introduced a formal modality—emergency assistance loans (EALs)—for rehabilitation after a disaster or for post-conflict reconstruction. The EAL modality is designed to alleviate immediate losses to priority assets, capacity, or productivity. EALs emphasize rapid approval of small, short-term loans to help rebuild high-priority physical assets and restore economic, social, and governance activities after disasters and emergencies.

7. EALs are generally smaller than normal development loans, consistent with their focus on immediate short-term requirements, e.g., rehabilitating critical infrastructure and meeting basic needs as determined by the damage and needs assessment. EALs normally are completed in 2 years for disasters, although they can be extended for up to 2 additional years. ADF-financed EALs carry interest of 1% per year and a maturity of 40 years, including a grace period of 10 years, with repayment of principal at 2% a year for the first 10 years after the grace period and 4% a year thereafter. For OCR loans, a grace period of up to 8 years and maturity of up to 32 years apply.

8. EALs may include quick-disbursing components but are not policy based loans. Quick-disbursing components of an EAL should only be used to finance a list of imports identified as necessary for an effective recovery program. Disbursements should be allowable up to 100% of eligible project costs. These components are expected to be moderate in size.

9. EALs are restricted to priority rehabilitation activities during the transition phase. EALs are used exclusively for the prompt restoration of services and should not be used for medium- to long-term economic rehabilitation investments, or to solve sector or institutional problems unrelated to the emergency. This implies that EALs should not include conditions linked to macroeconomic policies. However, EALs may include conditions concerning the underlying causes of the emergency that are directly related to emergency preparedness, mitigation, and prevention measures, e.g., hazard mapping, infrastructure design, and land use. An EAL may also include conditions related to stronger governance processes that will help prevent a reoccurrence of a similar disaster or that will mitigate the damage if such a disaster recurs.

10. The eligibility criteria for emergency assistance are outlined below:

- (i) The government or an internationally legitimate governing authority must make the official request to ADB for assistance.
- (ii) The potential impact on economic, social, and governance needs and priorities must be defined in a damage and needs assessment, as appropriate.
- (iii) In the case of chronic natural hazards (e.g., drought), normal reconstruction and development investments should be used whenever possible. However, if the event causes significant economic dislocation, an EAL may respond to immediate needs and/or expedite preparation of a normal project.
- (iv) The security risks to ADB staff, particularly in the case of conflict-driven emergencies, must be at an acceptable level for engagement as determined by

- the United Nations (UN).
- (v) The level of burden and risk sharing among partners, especially shareholders and other key local and international actors, should be appropriate.

11. The DEAP provides a streamlined and more flexible process and implementation arrangements. EALs must comply with ADB safeguard policies pertaining to the environment, involuntary resettlement, and indigenous peoples, as well as any future safeguard policies. Expeditious processing needs procedural flexibility. Standard ADB operational policies, including those on procurement, consulting services, financial management, and disbursement, should “be liberally interpreted to ensure speedy and effective rehabilitation” in the case of emergency assistance.² Existing policies on advanced procurement, retroactive financing, and local currency cost financing should be followed. To the extent possible, ADB will encourage the procurement of domestic goods and services to stimulate local economic recovery. For the procurement of civil works, a force account should be used only when bidding is not practical. Local competitive bidding with a short bidding period should be used to procure civil works for immediate emergency assistance.

12. In processing and implementing EALs, ADB will communicate and consult systematically with affected communities and coordinate its support with that of other agencies and shareholders to maximize the impact of its emergency assistance. Regional departments are responsible for policy implementation.

C. Business Processes

13. The DEAP highlights that all emergencies necessitate speed and flexibility. Thus, the following flexible features were included for the design and implementation of EALs:

- (i) **Country partnership strategy.** In the absence of a country partnership strategy or an inadequate country partnership strategy, an interim operational strategy—an emergency strategic document based on the watching brief and a damage and needs assessment—provides critical policy recommendations for Board consideration, thereby setting the parameters for action.
- (ii) **Safeguards.** While EALs must comply with ADB safeguard policies, the need for expeditious processing necessitates procedural flexibility. For example, ADB Management can waive the 120-day rule for disclosure of summary environmental assessment reports and the two-step public consultation requirement for projects with a potentially significant environmental impact (category A) on a project-by-project basis.
- (iii) **Procurement.** ADB’s emergency procurement policy stipulates that guidelines may be flexibly interpreted for rehabilitation loans, including relaxing international competitive bidding requirements in the interest of expediency. For the procurement of civil works, a force account should be used only when bidding is not practical. Local competitive bidding with a short bidding period (e.g., 7–15 days rather than 30 days) should be used to procure civil works for immediate emergency assistance. For goods and services, prudent shopping is recommended, with the bidding period reduced from 30 days to 7–15 days. Direct contracting can be used in response to disasters.
- (iv) **Disbursement.** Quick-disbursing components of an EAL should only be used to finance a list of imports identified as necessary for an effective recovery program. Disbursements should be allowable up to 100% of eligible project costs. Imprest

² ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila (para. 105, p.33).

accounts should be used wherever possible to expedite disbursements, and a specific increase in ceilings on imprest funds should be allowed because immediate and large disbursements are essential to effective and timely emergency assistance.

14. To balance the need for speed and flexibility with concerns about fraud and corruption, ADB should ensure that basic internal controls are built into the systems and stringent monitoring mechanisms are put in place. More intensive supervision, perhaps from the resident mission, will be encouraged to provide more frequent checks on performance.

D. Analytical Assessments

15. To develop its comprehensive approach to emergencies, the DEAP mandates ADB to promote analytical assessments in partnership with shareholders and other agencies. These include (i) risk and vulnerability assessments, as relevant, to complement ADB's environmental and social assessments; (ii) watching briefs to maintain ADB's knowledge of social and economic trends in a country even during periods of inactivity in that country; and (iii) damage and needs assessments undertaken as priority actions after an emergency and conducted in partnership with relevant shareholders and key local actors to provide the basis for preparing a loan or grant proposal and/or an interim operational strategy.

E. Technical Assistance

16. The DEAP provides technical assistance (TA) to meet immediate short-term requirements following a disaster, and to extend the reach and impact of an EAL. TA may cover (i) building national and regional capacity for emergency surveillance, preparedness, mitigation, and prevention linked to an EAL; (ii) preparing an interim operational strategy; and (iii) preparing emergency assistance programs and/or projects.

17. TA may also be appropriate for initiating time-sensitive, critical components of early emergency assistance programs, such as (i) removing rubble and cleaning up; (ii) repairing essential water, electrical, and sanitation services; (iii) controlling and stabilizing buildings, terrain, and physical structures; (iv) acquiring essential equipment and supplies for basic services; (v) gaining access to emergency seeds and tools to jump-start productivity; and (vi) carrying out special studies and surveys for the rapid preparation of emergency activities. Thus, TA is crucial to increase government capacity, even when government requests for assistance focus on more urgent financial needs.