



Policy Paper

Document Stage: Working Paper
August 2012

Piloting a Disaster Response Facility

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
APDRF	–	Asia Pacific Disaster Response 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
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund
UN	–	United Nations

NOTE

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

Director General	K. Sakai, Strategy and Policy Department (SPD)
Director	I. Bhushan, Deputy Director General and Concurrent Director, 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
	A. Cortez, Consultant, SPD
	M. Fortu, Strategy and Policy Assistant, SPD
	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.

GLOSSARY

- Disaster – 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.
- Disaster risk management – 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.
- Disaster risk reduction – A series of interconnected actions to minimize disaster vulnerability by avoiding (prevention) or limiting (mitigation and preparedness) the adverse effects of hazards within the broad context of sustainable development.
- Emergency management – The organization and management of resources and responsibilities for dealing with all aspects of emergencies, in particular preparedness, response, and initial recovery steps.
- Hazard – A potentially damaging physical event, phenomenon, or human activity that may cause the loss of life or injury, property damage, social and economic disruption, or environmental degradation.
- Natural disaster – A disaster triggered by extreme natural events.

CONTENTS

	Page
EXECUTIVE SUMMARY	i
I. INTRODUCTION	1
II. NATURAL DISASTERS IN ASIA AND THE PACIFIC	1
III. ADB'S MANDATE FOR DISASTER RESPONSE	2
IV. ADB'S CAPACITY TO RESPOND TO NATURAL DISASTERS	3
A. Policies and Instruments	3
B. Operations	3
C. Development Coordination	6
V. ADB'S OPERATIONAL CONSTRAINTS AND RATIONALE FOR THE DISASTER RESPONSE FACILITY	6
A. ADB's Operational Constraints	6
B. Rationale for a Disaster Response Facility	8
VI. PILOTING A DISASTER RESPONSE FACILITY	9
A. Existing Policy Frameworks	9
B. Proposal	10
C. Benefits and Risks	13
D. Review of Disaster Response Facility Pilot	14
E. Effective Date and Pilot Duration	14
VII. REQUEST FOR BOARD GUIDANCE	14
APPENDIXES	
1. Major Disasters and their Impact in ADF Countries	15
2. ADB Natural Disaster-Related Assistance in ADF Countries	17
3. Project Ratings of Natural Disaster Related Projects	19
4. Disaster Response: Working with Development Partners	20
5. ADF XI Discussions and Consultations	22
6. Summary of the Disaster and Emergency Assistance Policy	24

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, and discuss the future of the DRF with the ADB Board of Directors and ADF donors at the ADF XII negotiations.

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 assistance needed and provided, and the diversion of resources from development projects to disaster responses, putting at risk long-term development goals. The piloting of the DRF is one step toward a more flexible, predictable, and systematic approach to responding to disasters in ADF countries.

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

- (i) DRF will be for natural disasters.
- (ii) DRF will support emergency responses, 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 allocation, or \$1 million per disaster, whichever is higher, from the DRF.
- (v) A blend country affected by a natural disaster can receive up to 3% of its annual PBA allocation 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 (2011).

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, and discuss the future of the DRF with the ADB Board of Directors and ADF donors at the ADF XII negotiations. This paper presents the rationale, design, and other relevant 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. 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 damages. Data over a longer period paint the same picture. From 1992 to 2011, the economic losses from natural disasters worldwide are 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.³

3. ADF countries are particularly prone to natural disasters. From 2005 to 2010, about 20 major natural disasters struck ADF countries, causing about \$26 billion in losses (Appendix 1).

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

5. Natural disasters disproportionately harm poor countries and people. This is because the severity of a natural disaster is determined not only by its scale and intensity, but also by a country's capacity to respond to it. ADF countries are particularly vulnerable to natural disasters because of their weak capacity to respond at the individual, community, and government levels.

¹ In this paper, ADF countries include both ADF-only and blend countries. ADB follows a three-tier country classification system (groups A, B, and C). Developing member countries (DMCs) in group A are "fully eligible" for ADF, DMCs in group B are eligible for "limited amounts in particular circumstances," and DMCs in group C are ineligible. Thus, group A members are referred to as "ADF-only" countries; group B members with access to both the ADF and ordinary capital resources (OCR) are referred to as "blend" countries; and group C members are "OCR-only" countries. Country grouping is based on November 2011 classification of developing member countries.

² ADB. 2011. Preparing for and Responding to Crises. Paper prepared for the first ADF XI replenishment meeting in Manila, Philippines, 8–9 September; 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 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.

The poor and disadvantaged people suffer more because of their limited access to services, opportunities, and resources.⁴

III. ADB'S MANDATE FOR DISASTER RESPONSE

6. The natural disaster–poverty nexus demonstrates that responding to natural disasters is fully 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 becomes increasingly intertwined with ADB's poverty reduction agenda.

7. **Strategy 2020.** Strategy 2020 explicitly recognizes ADB's key role in providing priority post-disaster assistance.⁵ It also emphasizes the need to mainstream disaster risk management 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. ADB updated the policy in 1989. 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.⁶ The DEAP provides an integrated framework for ADB that covers the whole disaster management process. 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. To boost the effectiveness of the DEAP, ADB adopted an action plan in 2008. The action plan demonstrates that disaster management is emerging as an important field in development work.⁷ It highlights that (i) basic resources are urgently needed immediately after a disaster, (ii) disasters have a greater impact on the poor and other vulnerable groups such as women and children, and (iii) the ongoing practice of governments and aid agencies of funding disaster relief and rehabilitation assistance through reallocating resources from development programs can undermine development outcomes. The action plan pointed out that a quickly disbursing fund could overcome many immediate and internationally acknowledged post-impact difficulties.

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

⁴ For example, 97% of all human deaths due to natural 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.

⁵ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

⁶ See ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila. This policy superseded ADB. 1987. *Rehabilitation Assistance to Small DMCs Affected by Natural Disaster*. Manila; and ADB. 1989. *Rehabilitation Assistance After Disasters*. Manila.

⁷ ADB. 2008. *Action Plan for Implementing ADB's Disaster and Emergency Assistance Policy*. Manila.

IV. ADB'S CAPACITY TO RESPOND TO NATURAL DISASTERS

A. Policies and Instruments

1. The Disaster and Emergency Assistance Policy

10. ADB's 1987 and 1989 disaster policies emphasized speedy responses to disasters. Drawing on several years of implementation experience, the 2004 DEAP looked at disasters in a holistic manner, covering prevention, preparedness, responses, rehabilitation, and reconstruction. It also covers critical issues such as sustainable livelihoods, transitional safety net, governance, and institutional capacity.

11. The DEAP encompasses an array of instruments 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 comprehensive reconstruction, prevention, and risk reduction requirements; and
- (iii) technical assistance to meet immediate short-term requirements in the wake of a natural disaster, and to strengthen the disaster risk management capacity of DMCs.

12. While the DEAP provides various instruments, it has not allocated any financing for disaster and emergency responses.⁸ The policy permits portfolio restructuring and use of loan savings within and across existing projects and sectors. To alleviate the funding constraint, ADB established the Asia Pacific Disaster Response Fund (APDRF) in 2009 to provide grant resources that assist DMCs in meeting immediate expenses to restore life-saving services after a natural disaster. The APDRF disburses quickly. However, it can only provide up to \$3 million to the emergency phase of a disaster.

2. Additional Financing Policy

13. The Additional Financing Policy, which became effective in February 2011, adds to ADB's toolbox for responding to disasters.⁹ 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 projects facilitates the rapid provision of emergency assistance, and provides much-needed flexibility for ADB and DMCs in responding to disasters. However, the Additional Financing Policy does not allocate specific resources for disaster responses.

B. Operations

14. 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, amounting to \$3.9 billion, in all DMCs. Of these, 46 projects worth \$2.7 billion were for ADF

⁸ The APDRF started in 2009 with \$40 million in funds and has about \$10.4 million remaining, and a decision is yet to be made on its replenishment.

⁹ ADB. 2010. *Additional Financing: Enhancing Development Effectiveness*. Manila.

countries: \$2.0 billion in loans, \$0.7 billion in grants, and \$14 million in technical assistance (Table 1).

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

Modality	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 may not sum precisely because of multiple modalities within a project.

Source: Asian Development Bank.

15. Of the total allocation to ADF countries, about 46% was financed from the ADF (Table 2).

Table 2: Natural Disaster-Related Assistance in ADF Countries, 2005–2011

Source of Funds	Amount (\$ million)	Share (%)
ADF	1,233.23	46.16
OCR	756.90	28.33
Other special funds ^a	425.00	15.91
JFPR	21.00	0.79
TASF	6.17	0.23
JSF	1.00	0.04
Others (cofinancing)	228.57	8.55
Total	2,671.87	100.00

ADF = Asian Development Fund, JFPR = Japan Fund for Poverty Reduction, JSF = Japan Special Fund, OCR = ordinary capital resources, TASF = Technical Assistance Special Fund.

^a This includes the Asia Pacific Disaster Response Fund Asian Tsunami Fund, and Pakistan Earthquake Fund.

Source: Asian Development Bank.

16. ADB recognizes the importance of preventive strategies that contribute to saving lives, and protect property and resources before they are lost. With the DEAP, ADB's disaster assistance and management have been broadened from post-disaster assistance to include prevention, mitigation, and preparedness, which complements recovery and reconstruction operations. From 2005 to 2011, 25 projects included components for disaster risk reduction, higher than the respective number of projects for emergency assistance, and rehabilitation and reconstruction (Table 3). In terms of the amount, rehabilitation and reconstruction claimed the lion's share during 2005–2011 at about 80% of the total amount of natural disaster-related assistance. Emergency assistance took up about 13%, and disaster risk reduction received about 7% (Table 4). This uneven distribution of the amount of assistance among the three categories reflects the fact that rehabilitation and reconstruction often involve infrastructure, which requires more financing.

17. Between ADF-only and blend countries, blend countries received the biggest amount of disaster-related assistance from 2005 to 2011, about 93% of the total, while ADF-only countries got about 7%.

Table 3: Natural Disaster-Related Projects, 2005–2011

Nature of Assistance	ADF-Only Countries		ADF Blend Countries		Total ADF Countries	
	Amount (\$ million)	Number	Amount (\$ million)	Number	Amount (\$ million)	Number
Disaster risk reduction ^a	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 Some projects have disaster risk reduction as one of the components. In processing the data, projects without 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: Natural Disaster-Related Projects, 2005–2011

Nature of Assistance	ADF-Only Countries		ADF Blend Countries		Total ADF 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 (% of total)	100.00		100.00		100.00	

ADF = Asian Development Fund.

^a The sum will not equal 100% of the total number of projects due to multiple types of assistance within a project.

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

Source: Asian Development Bank.

18. ADB has played a crucial role in responding to all major 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 2).

19. ADB has remained a responsive partner to DMCs in reacting to disasters. The 11 project completion reports for projects implemented between 2005 and 2011 for natural disaster related projects all rated ADB's assistance *successful* or *highly successful* (Appendix 3). The 3 available Independent Evaluation Department validation reports both rated ADB's operations *successful*.¹⁰

¹⁰ See 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 Kyrgyz Republic*. Manila (loan approved in 2003).

C. Development Coordination

20. The DEAP emphasizes the need to leverage ADB's expertise and resources by developing strategic partnerships and drawing strength from complementarities. Guided by the DEAP, ADB coordinates with other agencies to maximize resources and complementarity.

21. 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 allows full utilization of the specific strengths of each organization and integration of disaster responses with a country's long-term development objectives.

22. In line with Strategy 2020 (footnote 5), 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 ravaged by the disaster, while the World Bank focused on health and education. ADB had long been involved in 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. Table 5 lists examples of ADB's partnerships; more details are in Appendix 4.

Table 5: Working Together to Respond to Disasters

Crisis	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.

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

A. ADB's Operational Constraints

1. Gaps between Assistance Provided and Needed

23. Despite the many advantages that ADB has, ADB's disaster-related assistance usually accounts for only a small fraction of what is needed.¹¹ Table 6 shows that ADB's emergency response assistance to its DMCs has, with few exceptions, been 20% or less of the total requirements defined in damage and needs assessments.

Table 6: Emergency Assistance Loans, 2005–2011

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

... = no assistance, ADF = Asian Development Fund, EAL = emergency assistance loan, OCR = ordinary capital resources.

^a Includes the Asian Tsunami Fund, the European Commission, the Netherlands, the Pakistan Earthquake Fund, and Sweden.

^b Solomon Islands received two projects.

^c Pakistan received four assistance loans.

^d Viet Nam received two assistance loans.

Source: Asian Development Bank.

2. Resource Constraints and Reprogramming

24. 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. It also does not allocate additional resources to assist countries affected by natural disasters.

25. Regular development resources may be used for disaster risk mitigation. Disaster responses, and reconstruction and rehabilitation are the most constrained elements in the disaster management process. Consequently, disaster responses typically use portfolio

¹¹ Reports by the Organization for Economic Co-operation and Development's Development Aid Committee state that humanitarian assistance is less than 10% of disaster losses (J. Linnerooth-Bayer et al. 2011. Insurance against Losses from Natural Disasters in Developing Countries. *Journal of Integrated Disaster Risk Management*, 1[1], pp. 1–23). Also, the United Nations reports that only about two-thirds of humanitarian appeals are normally met each year.

restructuring, loan savings, and reprogramming of existing country pipelines. These are done by repackaging already committed loan envelopes into disaster response operations, in effect avoiding additional lending to the country. While some of these steps may be necessary to reflect revised 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.

3. Funds and Front-Loading

26. To alleviate resource constraints, ADB established trust funds and special funds financed with ADB's net income or multi-donor contributions.¹² However, sole reliance on separate funds is insufficient as the funds can be 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.

27. Another option to reduce resource constraints is front-loading the ADF, as the PBA policy allows for additional country demands to be met through borrowing against future allocations or, in exceptional cases, through reductions in other countries' ADF allocations. However, DMCs have rarely utilized front-loading, because of the likely significant impact on their long-term development programs.

B. Rationale for a Disaster Response Facility

28. While the decision on whether to formally adopt the DRF can only be made after gaining implementation experience and then discussing the issues at the ADF XII, ADB's disaster responses to date provide a strong rationale for piloting the DRF.

29. **Addressing operational constraints.** The DRF is expected to alleviate ADB's operational constraints in helping ADF countries respond effectively and quickly to natural disasters. ADB's operational constraints are 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 to its response, reducing interruptions to ongoing programs.

30. **Meeting the needs of ADF countries.** ADF countries expressed strong support for the DRF proposal (Appendix 5). ADF-only countries especially welcomed the concept, which would provide them with additional and timely resources. The DRF will help ADB to be better prepared for ADF countries.

31. **Complementing other aspects of disaster management.** ADB has been funding an increasing number of projects that assist in disaster prevention, mitigation, and preparedness. However, a lack of resources in the disaster response phase has been a major bottleneck. Further, while prevention efforts can reduce natural disasters, it will not eliminate them. Disaster responses are thus not alternatives to preventive measures: ADB and DMCs need to tackle all

¹² Disaster response special and trust funds established since 2005 include the Asian Tsunami Fund (2005), the Pakistan Earthquake Fund (2005), and the APDRF (2009). In addition, disaster preparedness activities may be eligible for financing by a small number of trust funds, including the Japan Fund for Poverty Reduction (2000), The Regional Cooperation and Integration Fund (2007), and the Climate Change Fund (2007).

disaster-related aspects, including prevention, preparedness, and effective responses. The DRF will improve ADB's preparedness and responses, help reduce the impacts of disasters, and return a country to its development path.

32. 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 further improve such organizational arrangements. The DRF is also consistent with the 2008 action plan for implementing the DEAP, which noted that development efforts are frequently disrupted by natural disasters that can sharply increase poverty and retard the pace of social and economic progress. Timely assistance to reconstruction after a disaster can help the DMC maintain its development momentum. Reactionary assistance usually resulted in scarce resources being diverted, sometimes permanently, from important development programs. Thus, the DRF is consistent with the DEAP in particular and ADB's poverty reduction mission in general.

33. Strengthening development coordination.

The DRF will strengthen ADB's capacity for development coordination. It will enable ADB to better complement disaster response mechanisms of other development agencies, particularly the World Bank's Crisis Response Window (CRW) established under the International Development Association (IDA) 16.¹³ CRW resources are not sufficient to meet the extended needs of DMCs in distress after a disaster, especially since CRW is a global facility facing large demands, and supports responses to both severe natural hazard-induced disasters and economic crises caused by exogenous shocks.¹⁴ For most affected countries in Asia and the Pacific, a combination of resources is necessary. The DRF will strengthen the well-established coordination mechanisms between ADB and the World Bank, and serve as an important additional tool to respond to severe natural disasters.

VI. PILOTING A DISASTER RESPONSE FACILITY

A. Existing Policy Frameworks

34. The key purpose of the DRF is to reduce resource constraints that hinder disaster responses, rather than dealing with policy or procedural constraints. Thus, the DRF will follow the existing policy frameworks on disaster management.¹⁵

35. The DEAP provides a comprehensive framework for determining needs, design, eligibility criteria, business processes, and technical assistance for EALs and grants. The EALs can be used for emergency response, and short-term rehabilitation and construction, after a natural disaster. They are designed to mitigate immediate losses to priority assets, capacity, or productivity, rather than to provide relief or comprehensive reconstruction. EALs emphasize rapid approval of short-term, small loans to help rebuild high-priority physical assets and restore economic, social, and governance activities. If DRF assistance is designed under DEAP, it will follow the DEAP-related procedures. The key aspects of the DEAP are summarized in Appendix 6.

¹³ World Bank. 2010. *Technical Note on the Establishment of a Crisis Response Window in IDA16*. Washington, DC. September.

¹⁴ The CRW size is SDR1,335 million (including a SDR329 million allocation for Haiti).

¹⁵ This means that the business processes and other related aspects of the DRF will also change if the existing policies and/or procedures change.

36. ADB's Additional Financing Policy permits using ongoing projects as channels for emergency assistance. The DRF will follow the Additional Financing policy-related procedures if it is designed as an additional financing project. ADB has also used other modalities and instruments for disaster responses. The DRF assistance will follow these policies and procedures as appropriate if it is processed under such modalities.

B. Proposal

1. Summary of Key Features

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

- (i) DRF will be for natural disasters.¹⁶
- (ii) DRF will support emergency responses, 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 allocation, or \$1 million per disaster, whichever is higher, from the DRF.
- (v) A blend country affected by a natural disaster can receive up to 3% of its annual PBA allocation from the DRF.¹⁷
- (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

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

3. Resources

39. 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.¹⁸

40. In the event of a disaster, an ADF-only country will get up to 100% of its annual PBA allocation to respond to the disaster, without affecting its allocation for other projects from the remaining PBA. A blend country hit by a natural disaster will receive up to 3% of its annual PBA allocation. A blend country may also use the remaining portion of its PBA allocation to respond to a disaster to the extent that it is not already programmed. ADB will also prioritize the use of hard-term ADF resources to assist blend countries in those circumstances.

41. Because of its small size, the DRF will reduce but will not eliminate the need for portfolio restructuring and loan saving. Reprogramming or other means are likely to be used in parallel in

¹⁶ Disasters that are caused by natural events and other factors will also be eligible for accessing the DRF.

¹⁷ This equals to the annual contribution of a blend country to the DRF. In addition, they will be assisted through hard-term ADF and additional OCR.

¹⁸ The 3% of PBA is based on the average share of ADF emergency assistance from 2005 to 2010. 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 disaster need assessment requirements. Although the proposed 3% of PBA will enable ADB to respond better and faster, it is likely to still be below the amount needed.

most cases.¹⁹ Likewise, access to DRF will not disqualify the access of ADF countries to other ADB resources, such as the APDRF.

42. In case of a natural disaster, in addition to access to the DRF, a blend country may have access to (i) the hard-term ADF facility, (ii) additional ordinary capital resources (OCR), and (iii) reprogramming. The allocation of hard-term ADF and OCR does not have policy constraints akin to 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. As a consequence, it is not necessary to set aside resources or to set ceilings for these resources. OCR and the ADF hard-term facility are not included in the DRF. Table 7 shows the resources (including DRF and other resources) available to ADF-only and blend countries in the aftermath of a disaster.

Table 7: Access to Resources for Responding to Natural Disasters

Blend Countries' Access	ADF-Only Countries' Access
Up to 3% of their annual PBA	Up to 100% of their annual PBA
Hard-term ADF subject to resource availability and demand	Reprogramming
Additional OCR (subject to resource availability and demand)	
Reprogramming	

ADF = Asian Development Fund, OCR = ordinary capital resources, PBA = performance-based allocation.

Source: Asian Development Bank.

4. Terms and Conditions

43. The DRF will stay within the overall ADF pool. The terms (e.g., loan, grant, grace period, and duration) will follow the ADF or other relevant policy provisions (such as the DEAP).

5. Eligibility Criterion

44. The criterion for accessing the DRF is the severity of a natural disaster. Only severe disasters will be considered for DRF assistance. Parametric data on disaster impact may be used to determine the intensity of an event as appropriate, but would not be the only basis for eligibility.²⁰ Disaster impact assessments may look at aspects such as the immediate economic damage, loss of lives,²¹ and issuance of a United Nations (UN) flash appeal, as appropriate.²²

¹⁹ During project implementation, surplus proceeds occur when an ADB-funded component is deleted, or 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, requiring reallocation between countries.

²⁰ This is also the approach adopted under the CRW. As stated in the World Bank's technical note (footnote 13), 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 earthquake 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

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

46. Using the severity of a disaster as a criterion for accessing the DRF—and drawing on parametric data, a UN flash appeal, and other means to assess the severity—is consistent with the approach of the World Bank’s CRW.²³

47. In determining whether DRF resources should be allocated to a particular intervention and the size of the allocation, ADB may also consider (i) ADB’s delivery capacity, including ADB’s presence and/or relative expertise in the country; (ii) the availability of resources, including DRF resources, 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

48. The DRF will cover all relevant aspects of emergency expenses, and rehabilitation and reconstruction costs that arise after a natural disaster eligible for the DRF.

49. Immediately after a major natural disaster, ADB staff will review available impact information to form an early assessment regarding its severity and impact, and the need to access DRF resources. 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 (i) issued a declaration of emergency, and (ii) requested ADB support.

50. If initial information indicates a sufficiently severe impact, and the concerned regional department determines that accessing the DRF is necessary and eligible, the department will seek the concurrence of the Strategy and Policy Department. The regional department will provide an initial estimate of the size of the allocation from the DRF, which will be subject to adjustment as more information becomes available. If the Strategy and Policy Department

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.

²¹ This information may be drawn from government and other resources. The requirement of information will take into consideration the fact that information immediately after a disaster can only be preliminary.

²² As noted by the World Bank (footnote 13), the issuance of a UN flash appeal can be useful in determining the impact of a natural disaster. However, flash appeals are not suitable as an initial (and 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.

²³ The CRW also requires an assessment that existing resources and allocations are insufficient to mount a credible response. However, as discussed during the ADF XI negotiation, using the DRF only after ascertaining that it is the last resort would be inconsistent with its core purpose, which is to provide a timely response to a disaster. Further, resources are essentially always insufficient to respond to major disasters. As such, the evaluation of resources is likely to lead to the same conclusion, but at the expense of delaying—instead of enhancing—the delivery of relief measures. Thus, the source and adequacy of resources will be considered in allocating the DRF, but these will not be an eligibility criterion.

concur with the use and size of the DRF, the regional department will prepare a project document for submission to the President for endorsement and the Board for approval.

51. Other steps for processing and implementing the DRF will follow the established business processes, as defined by relevant policies such as the DEAP, additional financing, or policy-based lending depending on the specific modality used to deliver the disaster response.

7. Development Coordination

52. As in other emergency and disaster response operations, ADB will coordinate with the DMCs and other development partners. ADB will share information with other agencies, and focus its operations on areas where ADB has an established role or comparative advantages. ADB will also involve the civil society and bring in private sector partners where it sees suitable opportunities.

C. Benefits and Risks

1. Benefits

53. Insufficient resources to respond to natural disasters are a major constraint on 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 are unpredictable, unsustainable, time-consuming, and can disrupt the country's long-term development. The DRF will help ease the resource constraint. It will improve ADB's disaster preparedness, which may reduce costly delays, alleviate resource gaps, and lessen the need for reprogramming. The DRF will augment much-needed resources for ADF countries to save lives, reduce damage, and rebuild communities in the wake of disasters.

54. The DRF represents one step toward moving disaster responses in ADF countries from an ad hoc approach to a more flexible, predictable, and systematic approach. The piloting of the DRF will:

- (i) provide additional assistance to ADF countries, which are most frequently affected and most vulnerable to the impact of natural disasters;
- (ii) expedite ADB's response to disasters in ADF countries and improve the results of its operations;
- (iii) minimize the diversion of resources from vital long-term development and poverty reduction activities;
- (iv) complement other disaster management efforts, especially in relation to disaster preparedness, prevention, and risk mitigation;
- (v) enable ADB to complement other development agencies more effectively; and
- (vi) enhance ADB's implementation of the DEAP.

55. The piloting of the DRF will also 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

56. **Opportunity costs.** The piloting of the DRF requires allocating 3% of the PBA resources. This can have an opportunity cost if funds remain unutilized for a considerable time. However, this risk will be low based on the experiences during 2005–2010. 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.

57. **Effects on the performance-based allocation system.** The small allocation for the DRF will not materially affect the PBA system. More importantly, the urgent needs of people, especially the poor, after a major disaster are primary concerns for the ADF. Adding predictable resources for disaster responses will enrich the ADF system and complement the PBA.

58. **Potential for moral hazard.** One concern is that the DRF will reduce the efforts of ADF countries to prepare for and prevent disasters. However, the risk of such moral hazard is minimal. The tremendous costs of disasters mean that it is in the countries' interest to prevent them or reduce the risk of recurrence. The existence of an integrated disaster risk management strategy embodied in the DEAP will also reduce moral hazard. Many natural disasters occur as exogenous shocks and cannot be prevented. Effective management of disaster risks requires that ADB and ADF countries have a full menu of tools; disaster prevention and preparedness should not be viewed as substitutes, but rather as complements to each other.

59. **Duplicating assistance by other development agencies.** The risk of duplicating other development partners' assistance is minimal, because the post-disaster demand for assistance from ADF countries is tremendous. These vast needs require the participation of different agencies to augment resources and expertise. The well-established coordination relationships between ADB and other development agencies will also guard against any risk of duplication.

60. Overall, the benefits of piloting the DRF are expected to be significant, while the risks are expected to be minimal. The piloting of the DRF will also provide an opportunity to change the course of approaches, correct design or implementation flaws, and ensure that a formal adoption of the DRF will be based on experience.

D. Review of Disaster Response Facility Pilot

61. ADB will implement the DRF and prepare a progress report by the ADF XI midterm review. The progress report will be shared with donors and the Board at the ADF XI midterm review. ADB will also 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.

E. Effective Date and Pilot Duration

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

VII. REQUEST FOR BOARD GUIDANCE

63. The Board's guidance is requested on the proposed piloting of a disaster response facility set out in section VI of this paper.

MAJOR DISASTERS AND THEIR IMPACT IN ADF COUNTRIES

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

Year and Country	Disaster	Relative Impacts		
		Deaths (% of population)	Population Affected (% of population)	Economic Damage and Loss (% of GDP)
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				
Nepal	General flood	...	2.4	0.0
Bangladesh	Cyclone Sidr	0.0027	5.9	3.4
Bangladesh	General flood	0.0007	9.0	0.1
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				
Mongolia	Cold wave	...	19.9	1.5
Nepal	General flood	0.0003	0.6	0.5
Lao People's Democratic Republic	Tropical storm Ondoy	0.0003	2.5	1.7
Viet Nam	Tropical storm Ondoy	0.0002	2.9	0.8
Bangladesh	Cyclone Alia	0.0001	2.6	0.3
Tonga	Tsunami	0.0087	0.5	3.1
Samoa	Tsunami	0.0828	3.1	30.2
2010				
Tajikistan	General flood	0.0011	0.1	4.1
Pakistan	Flash flood	0.0012	12.3	5.9

... = no impact, 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: Natural Disaster Impact in ADF Countries, 2005–2010
(by type)

Item	No. of Events as % of Total Value	No. of People Killed as % of Total Value	No. of People Affected as % of Total Value	Estimated Damage as % of Total Value
Conflict and/or complex disasters ^a	0.3	...	0.1	...
Drought and/or food security	2.2	...	4.6	0.2
Earthquake (including tsunamis)	6.6	79.3	5.8	20.6
Health and/or epidemic	6.9	1.3	0.5	...
Extreme temperature	3.5	0.6	3.1	3.4
Flood	48.6	8.9	59.7	48.1
Storm	20.5	8.9	25.5	27.6
Landslide and/or avalanche	9.1	0.9	0.6	0.1
Volcano	2.2	...	...	...
Total share	100.0	100.0	100.0	100.0
Total Value	317	93,108	90,707,282	\$26.15 billion

... = no impact, ADF = Asian Development Fund.

^a Data does not include substantial statistics on the impacts of conflict in ADF countries.

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.

ADB NATURAL DISASTER-RELATED ASSISTANCE IN ADF COUNTRIES

Table A2.1: Natural Disaster-Related Assistance in ADF Countries, 2005–2011

Type of Emergency	ADF Countries ^a		ADB-Wide	
	Amount (\$ million)	Share (%)	Amount (\$ million)	Share (%)
Flood	1,358.19	50.83	1731.88	44.84
Earthquake	805.00	30.13	1209.70	31.32
Tsunami	498.68	18.66	836.65	21.66
Landslide	...	0.00	56.40	1.46
Multihazard	6.31	0.24	11.36	0.29
Climate change	...	0.00	9.17	0.24
Cyclone	...	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	0.63	0.02
Total	2,671.87	100.00	3,862.31	100.00

... = no assistance, ADB = Asian Development Bank, ADF = Asian Development Fund.

^a Includes ADF-only and ADF blend countries.

^b Dzud is a multifaceted natural 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 A2.2: Natural Disaster-Related Projects Funded by ADF and Technical Assistance Special Fund, 2005–2011

Type of Emergency	Amount (\$ million)	Share (%)
Flood ^a	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	1,287.25	100.00

ADF = Asian Development Fund, TASF = Technical Assistance Special Fund.

^a Data also includes river erosion, cyclone, and climate change.

Source: Asian Development Bank.

Table A2.3: Emergency Assistance Loans, 2005–2011

Country	Amount (\$ million)	Share of the total amount (%)
ADF-only countries	60.39	2.07
Maldives	21.80	
Nepal	25.60	
Solomon Islands	12.99	
ADF 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
Cook Islands	2.83	
Fiji	17.56	
Indonesia	304.50	
People's Republic of China	400.00	
Total	2,913.75	100.00

ADF = Asian Development Fund, OCR = ordinary capital resources.

Source: Asian Development Bank.

PROJECT RATINGS OF NATURAL DISASTER RELATED PROJECTS

Table A3.1: Project Ratings of Natural Disaster-Related Projects, 2005-2011

Source of fund	Project Name	Date of Loan Effectiveness	PCR/TCR Rating
ADF	BAN Loan-2156: Emergency Flood Damage Rehabilitation	2 May 2005	Highly successful
ATF	MLD Grant-0001: Tsunami Emergency Assistance	23 May 2005	Successful
ADF	MLD Loan-2160: Tsunami Emergency Assistance	23 May 2005	Successful
ATF	INO Grant-0002: Earthquake and Tsunami Emergency Support	21 June 2005	Successful
ADF	COO Loan-2174: Cyclone Emergency Assistance	14 July 2005	Successful
ATF	THA TA-4613: Subregional Development Plan for the Tsunami Affected Andaman Region - Phase II	1 September 2005	Successful
ADF	PAK Loan-2335: Earthquake-Displaced People Livelihood Restoration Program	16 July 2007	Successful
PEF	PAK TA-4943: Capacity Building for Institutions Related to Earthquake Reconstruction and Rehabilitation	August 2007	Successful
ADF	SOL Grant-0078: Emergency Assistance	1 October 2007	Successful
TASF	PRC TA-7081: Providing Emergency Response to Sichuan Earthquake	1 August 2008	Highly successful
ADF	BAN Loan-2409: Emergency Disaster Damage Rehabilitation (Sector)	19 February 2008	Highly successful

ADF = Asian Development Fund, ATF = Asian Tsunami Fund, PEF = Pakistan Earthquake Fund, TASF = technical assistance special fund

Table A3.2: 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

DISASTER RESPONSE: WORKING WITH DEVELOPMENT PARTNERS

1. **Nepal emergency flood damage rehabilitation.** 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 roads. In parallel, heavy rain caused floods and landslides in districts of the far western and mid-western 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 the United Nations (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. 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 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 country partnership strategy for Nepal, 2010–2012,¹ approved in October 2009, includes pilot-testing a disaster and climate change risk-screening tool developed by ADB's Regional and Sustainable Development Department to incorporate the country's hazards into ADB's operations. The tool, which is the first of its type, will help maximize the quality of projects. 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 under processing for approval in 2011. The biggest achievement in applying the tool was the increased understanding within project processing teams of the implications of climate change and disasters on their projects. Other development partners in Nepal have shown a strong interest in using the tool. 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 non-engineered. Poor quality control of materials and construction practices make all sections of Nepal's society highly vulnerable. Almost all of the nation's 82,000 school buildings do not comply with the National Building Code of Nepal, making them susceptible to multiple hazards. To mitigate disaster and climate variability risks, the government adopted the National Strategy for Disaster Risk Management and a Climate Change Policy in 2010. Under these programs, the government has made the safety of children in schools and raising disaster awareness a priority. However, it has few resources to implement necessary remedial actions. Under a consortium of development partners working in coordination with the government, ADB is taking the lead to implement a school seismic safety program that will incorporate multi-hazard reduction measures. This program will operationalize sound practices

¹ ADB. 2009. *Country Partnership Strategy: Nepal, 2010–2012*. Manila.

for building safety to guard against multiple hazards and environmental extremes, and will help protect Nepal's citizens from disaster threat.

4. **Solomon Islands earthquake and tsunami emergency response.** On 2 April 2007, an undersea earthquake of magnitude 8.1 triggered a tsunami with waves up to 10 meters that struck eight islands in the 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 Australia, New Zealand, and the World Bank, assisted the government in conducting a DNA. ADB led data collection and field assessments for various sectors. In recognition of ADB's comparative advantage and experience in infrastructure and implementation of ongoing projects and technical assistance, the government asked ADB to prepare an emergency assistance project to facilitate coordination of the recovery process. ADB also administered assistance from the European Commission. 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.

5. **Pakistan flood emergency reconstruction.** 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 in parallel the United Nations to lead the early recovery needs assessment. The DNA team covered 15 sectors, 8 of which were led by ADB. The DNA not only contained the sector data collected, but also macroeconomic information. It also suggested governance and institutional arrangements for implementing the reconstruction program while incorporating social and environmental, disaster risk management, and climate change considerations. When completed, the project will have restored critical physical infrastructure, livelihoods, and access to markets, including sections of the road network and irrigation facilities.

ADF XI DISCUSSIONS AND CONSULTATIONS

1. The 10th replenishment of the Asian Development Fund (ADF XI) included intensive discussion, debate, and consultation 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.

2. The Asian Development Bank (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 providing them with access to the facility. 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 suggestions, as summarized below:

- (i) **Piloting the Disaster Response Facility.** Recognizing the high incidence of natural 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 immediately 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 have not responded. Georgia noted that disasters affecting the country tend to be only of medium scale, and thus it 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 to 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.
- (vii) **Clarifying the design.** The key design parameters should be clearly laid out.
- (viii) **Policy preparation process.** ADF deputies should have an opportunity to review the paper before it goes to the Board.

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

6. It was also suggested that ADF-only and blend countries should have equal access to the ADF part of the DRF. However, the size of the ADF part of the DRF—the 3% of the PBA—does not provide sufficient resources to provide equal access to the ADF 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-related 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 only responding after a disaster to also supporting activities that anticipate and mitigate the likely impact of disasters that might occur. It 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, disaster 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 own 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 Instruments in Disaster and Emergency Assistance Policy

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 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 cases with particularly urgent rehabilitation needs, ADB may reallocate outstanding loan

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

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 natural disaster or for post-conflict reconstruction. The EAL modality within the DEAP 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 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 natural disasters, although they can be extended for up to 2 additional years. ADF-financed EALs will 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 program 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 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 conditionality in relation 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 will make the official request for assistance.
 - (ii) The potential impact on economic, social, and governance needs and priorities has been defined in a damage and needs assessment, as appropriate.
 - (iii) In the case of chronic natural hazards (e.g., flooding or 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 the acceptable level for engagement as determined by the United Nations.

- (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. 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, 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.

3. Asia Pacific Disaster Response Fund

13. Based on the implementation experience of the DEAP since 2004, ADB set up the Asia Pacific Disaster Response Fund (APDRF) in 2009 to provide, in a timely fashion, incremental grant resources to DMCs affected by a natural disaster.² It will help bridge the gap between existing ADB arrangements that assist DMCs to reduce disaster risk through hazard mitigation loans and grants, and longer-term, post-disaster reconstruction lending.

14. The APDRF provides quick-disbursing grants to assist DMCs in meeting immediate expenses to restore life-saving services to affected populations after a declared disaster and in augmenting 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).

15. The APDRF responds to the urgent need for resources immediately after a disaster has occurred. If there is no justification for such urgency, an EAL will be used.

16. All of ADB's DMCs are eligible for grant assistance from the APDRF. Assistance may be granted only on the following emergency conditions:

- (i) a natural disaster has occurred in a DMC,
- (ii) a statement of national emergency has been officially declared by the affected DMC, and
- (iii) the United Nations humanitarian/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.

² ADB. 2009. *Establishment of the Asia Pacific Disaster Response Fund*. Manila.

17. Assistance from the APDRF will be provided in the form of a grant for an amount up to \$3 million per event. Factors that may influence the size of the grant can be:

- (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).

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

C. Analytical Assessments

19. To develop its comprehensive approach to emergencies, the DEAP mandates ADB to promote analytical assessments in partnership with relevant shareholders and 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 particular 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.

D. Technical Assistance

20. The DEAP provides technical assistance (TA) to meet immediate short-term requirements in the wake of 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. TA may also be appropriate for initiating time-sensitive, critical components of early emergency assistance programs, e.g., removing rubble and cleaning up; repairing essential water, electrical, and sanitation services; controlling and stabilizing buildings, terrain, and physical structures; acquiring critical equipment and supplies for basic services; accessing emergency seeds and tools to jump-start productivity; and 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.