



Policy Paper

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Establishment of a Second Window of Assistance under the Asia Pacific Disaster Response Fund

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
APDRF	–	Asia Pacific Disaster Response Fund
COVID-19	–	coronavirus disease
DEAP	–	Disaster and Emergency Assistance Policy
DMC	–	developing member country
EAL	–	emergency assistance loan
PDNA	–	post-disaster needs assessment

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The Asia Pacific Disaster Response Fund (APDRF) was established in April 2009 as a special fund to provide fast-tracked grants to any developing member country (DMC) of the Asian Development Bank (ADB) to restore life-saving services in the immediate aftermath of a disaster triggered by a natural hazard.¹ The fund is intended to augment aid provided by other donors in times of national crisis and bridge the gap between ADB loan and grant arrangements to reduce disaster risk and provide long-term assistance for post-disaster recovery and reconstruction.

2. Initial funds of \$40 million were transferred from the residual funds in the Asian Tsunami Fund. The APDRF received a \$20 million replenishment in 2015 from ADB's 2014 net income, a replenishment of \$20 million in 2017 from ADB's 2016 net income, a replenishment of \$10 million in 2020 from ADB's 2019 net income, and a replenishment of \$15 million in 2021 from ADB's 2020 net income. As part of ADB's comprehensive response to the coronavirus disease (COVID-19) pandemic, and exceptionally in the context of COVID-19 response, the Board of Directors in April 2020 waived the requirements that ADB only accept untied contributions to the fund and that contributions should not be subject to any conditions.² In May 2020, the Government of Japan made a \$75 million contribution to the APDRF specifically for grants in response to COVID-19.

3. From the APDRF's establishment in 2009 to 30 June 2021, 75 APDRF grants totaling \$123.82 million (net of cancellations) were approved in response to disasters in 34 DMCs.³ Thirty-six APDRF grants to 30 DMCs were approved in response to the COVID-19 pandemic, totaling \$58.47 million, with 10 grants for \$11.50 million provided from the main fund and 26 grants for \$46.97 million sourced from the Government of Japan's contribution. As of 30 June 2021, the balance available for commitment (net of administrative expenses and undisbursed balances, and inclusive of interest income and savings from closed projects) was \$56.10 million, including the remaining \$28.03 million for grants from the Government of Japan's contribution for COVID-19 response.

4. A DMC must meet three conditions to access the APDRF: (i) a natural disaster has occurred in the DMC, (ii) an emergency has been officially declared that is of a scale beyond the capacity of the country and its own agencies to meet the immediate expenses necessary to restore life-saving services to the affected populations, and (iii) the United Nations humanitarian or resident coordinator has confirmed the scale and implications of the disaster and indicated a general amount of funding required to assist in alleviating the situation. The second condition for assistance is interpreted flexibly and broadly and may be deemed to have been met if the national government has approved the allocation of resources in support of the disaster response efforts and indicated that external assistance is welcome.⁴

5. The size of a grant, up to a maximum of \$3 million, is determined by (i) the geographical extent of the damage; (ii) the initial estimate of death, injuries, and displaced persons; (iii) the response capacity of key government agencies; and (iv) the date and magnitude of the last disaster that affected the country, thereby taking into account the cumulative effect of disasters on a country's ability to respond. The fund applies only to disasters triggered by natural hazards, including disease outbreaks.

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

² ADB. 2020. *ADB's Comprehensive Response to the COVID-19 Pandemic: Policy Paper*. Manila.

³ Partial cancellation (\$1.35 million) of ADB. 2009. [Philippines: Typhoon Ketsana \(Ondoy\) Project](#). Manila; and full cancellation (\$3 million) of ADB. 2010. Indonesia: Mount Merapi Disaster Response. Manila.

⁴ ADB. 2021. *Asia Pacific Disaster Response Fund: Implementation Guidelines*. Manila.

6. The APDRF was reviewed in 2015 and 2017.⁵ The reviews found that recipient governments regard the fund as a timely, flexible, and quick-disbursing source of stopgap financing in the immediate aftermath of disasters, which is of particular benefit since most international humanitarian support is provided in kind. The 2017 review concluded that current APDRF eligibility criteria remain relevant and that the \$3 million grant ceiling is still appropriate.

II. ISSUES AND GAPS

A. Findings of the Review of the 2004 Disaster and Emergency Assistance Policy

7. In 2019, ADB reviewed the Disaster and Emergency Assistance Policy (2004) (DEAP).⁶ As part of the review, ADB assessed the APDRF's contribution to the delivery of systematic and comprehensive support to DMCs for disaster risk management. The review acknowledged the important role that the APDRF has played in providing rapid liquidity for immediate humanitarian assistance following major disasters. However, the review also considered whether the APDRF could play a larger role in supporting DMCs in recovering from disasters, drawing on lessons gained from ADB's wide experience in processing emergency assistance loans (EALs).

8. The review highlighted several challenges associated with emergency assistance projects. First, EALs require rapid processing. The 2004 DEAP requires a processing time of less than 12 weeks, measured from the date of receipt of a government's formal request for emergency assistance to the date of Board consideration of the EAL.⁷ Based on the data available for 28 out of 40 EALs approved from 2004 to 2018, the average actual processing time was almost 16 weeks.⁸ Various reasons were cited for processing delays, including the wait for completion of post-disaster needs assessments (PDNAs), which are typically led by governments (para. 10). Emergency assistance projects are justified and based on the findings of PDNAs.⁹ Second, the review partly attributed delays in completion of EALs to start-up delays. Project start-up activities that are normally undertaken before project approval to improve project readiness—such as feasibility studies, preparation of subprojects, and safeguard due diligence—are completed during the EAL implementation because of the shortened processing time. In consequence, 61% of respondents to an EAL survey conducted for the DEAP review indicated delays in project start-up, with the period from loan approval to effectiveness averaging 81 days.¹⁰

9. While consultancy inputs for project processing could be provided to help overcome these issues, regional departments do not have a dedicated funding mechanism to rapidly engage such inputs following a disaster, and EALs are not accompanied by project preparatory technical assistance. The limited access to ready funding has restricted the use of consultancy expertise.

⁵ ADB. 2015. *Asia Pacific Disaster Response Fund: Review of Performance*. Manila; and ADB. 2017. *Asia Pacific Disaster Response Fund: Review of Performance*. Manila.

⁶ ADB. 2019. *Review of the 2004 Disaster and Emergency Assistance Policy*. Manila

⁷ The forthcoming Revised Emergency Assistance Loan proposes greater flexibility in setting the processing time frame, but a rapid time frame would still be set, commensurate with the emergency nature of the assistance. ADB. Forthcoming. *Revised Emergency Assistance Loan*. Manila.

⁸ The average actual processing time for the 40 EALs was 15.74 weeks. Since the introduction of the EAL Staff Instructions in 2015, reports and recommendations of the President have been required to include justification for the delay if processing times exceed 12 weeks. ADB. 2015. *Processing and Administration of Emergency Assistance Loans. Compendium of Staff Instructions*. Manila.

⁹ ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila.

¹⁰ The EAL survey respondents comprised 43 current and former ADB project officers who have led EAL processing, implementation, and/or the preparation of associated project completion reports.

10. Limited access to ready financing for experts also potentially curtailed the strategic role that ADB could have played in guiding timely and resilient recovery through greater engagement in PDNAs and the development of recovery plans. PDNAs are undertaken by governments—typically with development partner support—after major disasters to assess their direct physical damage; losses (disaster-related changes in economic flows such as changes in productive sector outputs, production and operational costs, service delivery costs); and macroeconomic, social, and household impacts. PDNAs also determine the nature and cost of implied recovery and reconstruction needs, and provide a crucial evidence-based foundation for the preparation of government recovery plans and the identification and design of development partner assistance. Strong recovery plans are key to securing opportunities to build back better—thereby strengthening resilience to future disasters—and ensuring that the recovery efforts help lead countries toward more resilient, green, and inclusive development pathways. A planned and systematic post-disaster process can help DMCs take an inclusive and multidimensional view of recovery and reconstruction, accounting for existing and future disaster risk and encouraging the use of spatial and integrated planning, which results in a resilient and comprehensive approach.

11. In the EAL survey, some respondents highlighted that PDNAs were important for identifying and prioritizing sectors and geographical areas for ADB emergency assistance, identifying specific subprojects, preparing cost estimates, and supporting recovery planning and coordination with governments and partners. From 2008 to 2019, ADB contributed to 17 post-disaster assessments using the globally recognized PDNA methodology, usually participating in the assessment of specifically assigned sectors. ADB provided subsequent post-disaster assistance in 10 of these cases, 8 of which were through EALs.¹¹

12. However, ADB's contribution to PDNAs and the preparation of recovery plans has been ad hoc, partly driven by the limited availability of ADB staff and resources to finance consultants. PDNAs following major events are typically financed through a tripartite agreement between the World Bank, the United Nations system, and the European Commission. The agreement provides funding to developing countries to coordinate and support government participation in PDNAs.¹² Other development partners may contribute technical inputs as well as government resources, and staff are typically severely stretched at such times. ADB's ability to engage in PDNAs has been in part dependent on regional departments' ability to rapidly access funding for consultancy inputs, limiting the strategic role that ADB could have played in guiding timely and resilient recovery, and potentially reducing the quality of subsequent ADB emergency assistance projects. Ad hoc engagement may have also hindered the full alignment of project design with recovery needs laid out in PDNAs and recovery plans and other development partner assistance.

13. The DEAP review, therefore, proposed a new window under the APDRF to provide consulting service support to meet the need for rapid post-disaster technical inputs, particularly for time-sensitive activities that are significant in determining the success and sustainability of ADB post-disaster activities and broader government recovery programs.

B. Auditing Requirements

14. The 2009 APDRF establishment paper requires recipients to (i) confirm the use of grants by submitting an unaudited statement of expenditure following grant closing; and (ii) provide an

¹¹ Excluding fast-tracked APDRF grants that are processed before a PDNA is completed.

¹² The Joint Declaration on Post-Crisis Assessments and Recovery Planning signed in 2008 sets out to mobilize institutions and resources to harmonize and coordinate post-crisis recovery frameworks to strengthen country resilience. The declaration is operationalized through a PDNA at the request of the affected country.

audit report on the use of the grant, including the advance account and the previously submitted statement of expenditure, within 6 months of receipt of the statement of expenditure by ADB.

15. The time line is not aligned with general ADB practice. A financial audit is a key accountability mechanism in determining if the grant is used for the purpose intended, and audited financial information is relevant only if received in a timely manner. Receipt of audited financial information within 6 months of grant closing date would be consistent with international best practice.

III. PROPOSED CHANGES

A. Asia Pacific Disaster Response Fund Second Window

16. It is proposed to establish a second window under the APDRF to finance experts to provide speedy post-disaster technical support for the preparation of PDNAs, recovery plans, and post-disaster projects, including EALs. The funding will enable ADB to participate more consistently in PDNAs and the preparation of government recovery plans as part of a multidonor team and support the timely processing and start-up of EALs. The second window will not finance any technical support needs arising during post-disaster project implementation.

17. The existing conditions for assistance in accessing the fund for grants to restore life-saving services from the first window will apply to the second window (para. 4).¹³ Following a request from the government, and once all the conditions for assistance have been met, the regional departments may consider applying for direct charges from the second window to support ADB's engagement in the PDNA and preparation of the recovery plan, and the processing of post-disaster assistance. Direct charges will be the only financing mechanism under the second window. ADB's Sustainable Development and Climate Change Department, as fund manager, will establish and manage a roster of technical experts on behalf of the regional departments to support the rapid engagement of consultants under the second window. Procurement of consulting services will be carried out following the ADB Procurement Policy (2017, as amended from time to time).

18. Direct charges will be approved and disbursed following the procedure to be set out in the implementation guidelines. The establishment of the second window is necessary as the business processes for processing and implementation (para. 17) differ from those applicable to the first window. Resources for both the first and second window will be held and managed by ADB in a single account. Access to the second window will not be contingent on application for an APDRF grant under the first window, and the two windows may be pursued separately.¹⁴ The implementation guidelines will set out the details of the second window, including the ceiling on the maximum direct charge per event, the approval procedures, and disbursement arrangements for the selection and engagement of technical experts. The second window will be accessible for eligible events occurring after effectiveness of this paper.

¹³ The first window may support the following types of activities to meet immediate expenses to restore life-saving services to affected populations following a disaster: (i) provision of emergency rescue equipment; (ii) provision of medical kits, food, and bottled drinking water; (iii) purchase of water purification and sanitation systems; (iv) provision of transitional shelter; (v) provision of personal hygiene kits; (vi) purchase of emergency communication equipment; (vii) debris sifting; (viii) site clearance; (ix) safe disposal of useless rubble; and (x) bulk purchase of aviation fuel. The first window may also support other activities.

¹⁴ From the establishment of the APDRF to the end of 2019, 19 EALs were approved in response to disasters triggered by natural events. No parallel APDRF grant was requested in four of the cases.

19. Total direct charges to finance consulting services under the second window will be limited to a maximum of 8% of the total fund amount.¹⁵ To ensure that the APDRF continues to fulfill its primary purpose of providing fast-tracked grants to restore life-saving services in the immediate aftermath of a disaster triggered by natural hazards under the first window, the second window will not be available should the fund's balance fall below \$6 million.¹⁶

20. The establishment of the second window is aligned with operational priority 3 of Strategy 2030 on tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability.¹⁷ Specific measures identified in Strategy 2030 under this operational priority include assistance for disaster response, including support to build back better. The second window will help enhance the quality of this assistance.

21. The second window will complement resources made available for post-disaster technical assistance through the Small Expenditure Financing Facility.¹⁸

B. Audit Requirements

22. It is proposed to amend the grant audit requirements set out in the APDRF establishment paper to require each recipient of an APDRF grant to provide an audit report on the use of the grant, including the advance account and the statement of expenditure, within 6 months of grant closing. The audit will be conducted by an auditor acceptable to ADB. The amendment will align the audit requirements for APDRF grants with those generally applied to ADB sovereign operations and is in line with international best practice. The amended auditing requirements will apply to all new APDRF grants approved after effectiveness of this paper.

IV. RECOMMENDATION

23. The President recommends that the Board approve the following items, which shall become effective upon approval:

- (i) the establishment of a second window of assistance under the Asia Pacific Disaster Response Fund, as described in paras. 16–21; and
- (ii) the amendment of APDRF audit requirements, as described in para. 22.

¹⁵ The amount will be calculated based on 8% of the balance of the fund on the date of approval of the second window (excluding any remaining resources from the Government of Japan's \$75 million contribution to the APDRF in May 2020 for response to COVID-19). The amount will be increased on the date any replenishment of the fund is made based on 8% of the new amount contributed to the fund.

¹⁶ The amount of \$6 million is based on average APDRF grant approvals of \$5.6 million per annum over 2009–2019, implying that the amount ring-fenced for the first window would be equivalent to average grant approvals required for a 12-month period. The average does not include 2020 approvals in view of the exceptionally high volume of grants approved in that year because of COVID-19 (para. 3).

¹⁷ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

¹⁸ ADB. 2018. *Proposal for ADB's New Products and Modalities*. Manila.