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Note on a Proposed Disaster Response Facility

Asian Development Bank

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ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CRW	–	crisis response window
DMC	–	developing member country
DRF	–	disaster response facility
EAL	–	emergency assistance loan
OCR	–	ordinary capital resources
PBA	–	performance-based allocation

NOTE

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

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.

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I. INTRODUCTION

1. During the second Asian Development Fund (ADF) XI replenishment meeting in Dhaka, Bangladesh 5–6 December 2011, the Asian Development Bank (ADB) presented a paper entitled *Disaster Risk Management and Disaster Response Assistance in ADF Countries*.¹ The paper proposed the establishment of a disaster response facility (DRF) to assist ADF recipients in responding to natural disasters.

2. Many ADF deputies supported the establishment of the DRF. However, they also stressed that such a facility should be underpinned by strong demand and support from the recipient countries. Further, the recipient countries should be informed about the key design features, as well as the costs and benefits, of this facility. Therefore, the ADF deputies requested that ADB hold further consultations with potential recipient countries of the DRF.

3. ADB consulted all the 28 ADF recipient countries about the proposed DRF after the second ADF XI replenishment meeting, and shared the key design parameters of the proposed DRF with them. This note presents the feedback received. Reflecting the overwhelmingly positive support for the DRF from ADF recipient countries, this note also seeks donors' endorsement for establishing the DRF during the ADF XI period, 2013–2016.

II. CONSULTATION WITH ADF AND BLEND COUNTRIES

4. From mid-December 2011 to mid-February 2012, ADB received 27 responses from the 28 ADF recipient countries on the proposed DRF.² The outcome of the consultations is summarized in paras. 5-7.

5. **Strong support for the proposed facility.** All the responses, except that of Georgia (a blend country), supported the establishment of the DRF. Georgia noted that disasters affecting the country tend to be only medium scale and thus may not need the DRF. All ADF-only countries supported the establishment of the DRF.

6. **Main suggestions.** Some ADF recipient countries suggested that the allocation and disbursement of assistance should not be tied to any conditions, but should be based on the severity of the disaster. They added that disbursement should be quick. Bangladesh suggested that each blend country hit by a disaster should first be allowed receive the amount of ADF resources deducted from its own performance-based allocation (PBA) share (see para. 15).

7. **Major questions.** Questions raised by respondents centered on operational issues, including borrowing terms and conditions, the time frame to make the DRF operational, the procedures for accessing the DRF, and the measures to ensure ADB's timely response.

8. Tables A.1–A.3 in the Appendix summarize the support, suggestions, and questions and/or issues raised by respondents.

¹ 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. This paper incorporated donors' comments on the paper prepared for the first ADF XI replenishment meeting in Manila, 8–9 September 2011 (ADB. 2011. *Preparing for and Responding to Crises*. Manila).

² Palau has not responded.

III. DEVELOPMENT COORDINATION

9. ADF deputies emphasized the need for close coordination with other development partners, especially the World Bank and its crisis response window (CRW).³ This will be a prerequisite for assistance under the DRF.

10. ADB has traditionally collaborated closely with other development partners during the post-disaster and recovery phases. For example, ADB played a crucial role in responding to the December 2004 Indian Ocean tsunami, the 2005 Pakistan earthquake, and the 2009 Samoa earthquake and tsunami. More recently, ADB launched several disaster preparedness pilot initiatives,⁴ which have been jointly developed with or well received by development partners. In these cases, ADB, the World Bank, and other development agencies divided the work required based on their existing assistance and relative strengths. As part of their specialized roles, ADB and the World Bank in particular divide their interventions in a given developing member country (DMC) by sector and geographical location. The continued presence and sector knowledge enable each institution to respond rapidly to disasters.

11. In line with the Strategy 2020,⁵ ADB typically supports infrastructure, environment, education, and finance, taking into consideration a country's needs and development coordination. For example, when a tsunami hit the 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 been involved in the transport sector for a long time and the World Bank had been supporting social sectors before the disaster. This clear division of responsibility remained an efficient approach during the disaster response as well. 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 hazard risk management.

12. The risk of duplicating other development partners' assistance is minimal, because the post-disaster demand for financing and other assistance from ADF and blend countries is tremendous and the well established coordination relationships between ADB and other development agencies. The vast needs in countries hit by disasters require the participation of different agencies to augment resources and expertise. For example, the World Bank's CRW resources⁶ would not likely be sufficient to address the extended needs of ADB's DMCs in distress, especially since it is a global facility facing large demands. For most affected countries in Asia and the Pacific, a combination of resources from multiple development agencies would be necessary. Through proper coordination, ADB can effectively complement other development partners.

IV. KEY DESIGN FEATURES

13. The DRF would essentially work like an insurance scheme. It would require ADF countries to pay a small premium for the benefit of accessing a much larger allocation in case of a natural disaster. However, what distinguishes the DRF from standard insurance premiums is

³ World Bank. 2010. *Technical Note on the Establishment of a Crisis Response Window in IDA16*. Washington, DC.

⁴ One example is Nepal's disaster and climate change risks screening tool, designed to incorporate a country's hazard challenges into ADB operations.

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

⁶ The global CRW was approved as an ex-ante facility for SDR1, 335 million (including the SDR329 million allocation for Haiti).

that any unused allocation will be returned to the PBA pool at the end of the biennium to minimize the delayed utilization of available resources.

14. All ADF recipient countries would be eligible to access the DRF. ADF-only countries⁷ would have access to ADF resources. For blend countries affected by natural disasters, ADB will prioritize the use of hard-term ADF resources. Additional support will be provided through savings and the reallocation of ordinary capital resources (OCR). Blend countries would also receive additional ADF resources equivalent to their contribution to the DRF.

15. **Resources and size.** Based on the discussions in the first and second ADF XI replenishment meetings, the DRF resources will come from 3% of the PBA resources, hard-term ADF resources, and OCR. In the event of a disaster, an ADF only country will get up to 100% of its PBA allocation to respond to the disaster, without affecting its normal PBA allocation for other projects. Based on the suggestion by Bangladesh, each blend country hit by a disaster will first receive the amount of ADF resources deducted from its own PBA share.

16. **Processing instruments.** Loans and grants using DRF resources may be made available to eligible countries based on their ADF eligibility grouping and debt-distress classification.⁸ Available instruments, such as emergency assistance loans (EALs) or grants,⁹ and additional financing loans or grants, may be used to process DRF projects. ADB will ensure that DRF support is closely coordinated with other development partners, especially the World Bank.

17. **Allocating funds.** In determining its intervention, ADB will consider (i) the intensity of a disaster; (ii) the impact on the disaster on the economy, people, and other aspects of the DMC; and (iii) the country's response and absorptive capacity. ADB will assess the priority areas requiring post-disaster assistance and ADB's relative expertise and presence, as well as the availability of resources from ADB and other sources. The triggers for the DRF will be aligned with ADB's Disaster and Emergency Assistance Policy.¹⁰

18. The DRF should be available only (i) after all other resources have been evaluated and found to be inappropriate or insufficient for the emergency, and/or (ii) if the diversion of such resources will directly and significantly constrain the affected DMC's ability to attain its long-term development goals. In consultation with the partner country, ADB will evaluate alternative resources, including (i) full or partial cancellation of ADB loans and/or grants that are no longer needed; (ii) reprogramming of non-priority ADB projects; and (iii) existing trust funds and/or cofinancing that may support emergency, rehabilitation, and reconstruction activities.

V. ISSUES FOR DONORS' GUIDANCE

19. Donors' concurrence is sought on the broad concept of a DRF to be established within the ADF XI period to enhance ADB's support for the responses of ADF-only and blend countries to natural disasters.

⁷ ADF-only countries would have access to the ADF on the same terms as they are receiving for usual operations. If they have access to ADF grants, for example, they would continue to receive grant assistance under the DRF.

⁸ ADB. 2007. *Revising the Framework for Asian Development Fund Grants*. Manila.

⁹ 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.

¹⁰ ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila.

VI. NEXT STEPS

20. Contingent upon donors' concurrence of the DRF concept, Management will prepare a policy paper on the DRF. ADB will consult stakeholders about the DRF, guided by ADB's Public Communications Policy (2011). Management will submit a policy paper on DRF for the consideration of the ADB Board of Directors. The DRF is expected to become operational before the start of ADF XI.

SURVEY OF ADF AND BLEND COUNTRIES—SUMMARY OF RESPONSES

Table A.1: Support for the Proposed Disaster Response Facility

Countries ^a	Response from consultation after the second ADF XI meeting in Dhaka 5–6 December 2011
ADF-Only Countries	
Afghanistan	Yes
Bhutan	Yes
Cambodia	Yes
Kiribati	Yes
Kyrgyz Republic	Yes
Lao PDR	Yes
Maldives	Yes
Nauru	Yes
Nepal	Yes
Samoa	Yes
Solomon Islands	Yes
Tajikistan	Yes
Tonga	Yes
Tuvalu	Yes
Vanuatu	Yes
Blend Countries	
Armenia	Yes
Bangladesh	Yes
Georgia ^b	No
Marshall Islands	Yes
Micronesia	Yes
Mongolia	Yes
Pakistan	Yes
Papua New Guinea	Yes
Sri Lanka	Yes
Timor Leste ^c	Yes
Uzbekistan	Yes
Viet Nam	Yes

ADF = Asian Development Fund, Lao PDR = Lao People's Democratic Republic.

^a 27 of the total 28 ADF and blend countries responded to the consultation. Palau has not responded by 15 February 2012.

^b Georgia noted that "...disasters faced by Georgia are sometimes of medium scale..."

^c Timor-Leste supports the proposed DRF subject to entry to the facility being voluntary and their being further consulted on the detailed design.

Table A.2: Consultation on the Disaster Response Facility—Suggestions by Respondents

Respondents	Suggestions
ADF Countries	
Bhutan	Certain percentage of the ADF XI replenishment should be set aside for the crisis response facility before arriving at the PBA allocation.
Kiribati	Disaster, as we perceive it in Kiribati, encompasses coastal erosion and relocation, droughts and affected water lens causing areas to be uninhabitable. These should be covered by the facility.
Lao People's Democratic Republic	In addition to the proposed 3% from ADB sources, there is a need to mobilize from other sources.
Nauru	We would like to see the facility be a responsive mechanism that can provide quick and ready support in times of natural disasters. By this we mean the facility should not require the same process as with other program /project development and that there is a very streamlined and simple process to access this facility in a very timely and responsive manner. If the facility requires the same project development process as other ADB loan or program grants, then it diminishes the value of having such a facility that is responsive to crisis situations.
Tuvalu	It is suggested that the allocation and disbursement of assistance from this facility should not be tied to any other conditions but based only on the severity of the disaster and the rapidity of the disbursement (i.e., during the disaster but not after).
Vanuatu	The government is indeed interested in the said assistance, i.e., in the form of a grant.
Blend Countries	
Bangladesh	Free access to the overall facility (including PBA of ADF resources) should be available to the blend countries as well. In case this is not feasible, each blend country should first be allowed access to the proportionate amount of ADF resources preempted from its own PBA share before country allocations are made. If more resources are required, a blend country could then be allowed to access hard-term ADB and finally, OCR resources.
Micronesia	Grant basis for support preferred – concern that additional loan encumbrances (as opposed to grant), following a major disaster, may not be feasible.

Respondents	Suggestions
Pakistan	Pakistan has been severely affected by natural disasters. The DRF should be available both for ADF as well as for blend countries.
Papua New Guinea	The Government would like to see a facility that is very flexible and easily accessible when under duress situations due to very high impact and heavy loss of lives, properties or would severely impact the economy.
Sri Lanka	Benefits of this facility should not be restricted to “ADF-only” countries and Sri Lanka should benefit from it when there is an urgent need.
Timor Leste	The key issue faced by the Government is uncertainty over whether Timor-Leste would use the facility. Timor-Leste's financial and public debt legislation restricts borrowing to a level that is within a ceiling approved annually by Parliament. If the annual ceiling was fully committed, it would be necessary to seek Parliamentary approval of a revised budget and loan ceiling in order to access the DRF. This may be impractical in a post-disaster environment, and the Government may prefer to instead call on its own funds (e.g. the Petroleum Fund) to meet post-disaster needs. Loans are also restricted to use for infrastructure, and thus may be too restrictive to meet post-disaster needs. The Government would prefer the option of being able to choose whether to enter the facility, once it has clarified for itself if the facility will meet its needs.
Viet Nam	Will use the funds of ADF only; the funds received will be implemented through the state budget support.

ADB = Asian Development Bank, ADF = Asian Development Fund, OCR = ordinary capital resources, DRF = disaster response facility, PBA = performance-based allocation.

Table A.3: Consultation on the Disaster Response Facility—Questions and Issues Raised by Respondents

Respondents	Questions and/or Issues
ADF Countries	
Bhutan	We understand grant resources would also come out of the DRF to support ADF countries. Should the requirement for financing be substantial the other option is to go for loan support out of the DRF. In this case what would be the borrowing terms applied, i.e., grace period, repayment period and interest rate?
	If a DMC is never struck by disaster what will happen to the accumulated 3% PBA resource deducted from its PBA? Will there be opportunity to transfer some portion of profits out of OCR transactions into the DRF? Will there be opportunity to transfer the savings from the closed PPTA/CDTA into the DRF? What would happen if there is recurrent occurrence of disaster in the same country? When will the DRF be operational?
Lao People’s Democratic Republic	Regarding allocation from the facility, besides actual damage and lost, we suggest having special consideration for least developed countries.
Nauru	Nauru is more vulnerable to the impacts of sea level rise and drought than to natural disasters such as cyclones. Therefore, Nauru’s priorities are to address coastal erosion and drought due to climate change. These have already impacted Nauru’s foreshores and affecting the associated coastal road infrastructure and certain parts of residential dwellings. The underground water has been contaminated with sea-water intrusion and Nauru often suffers from extended periods of drought. The question for us therefore is would this new facility be able to support projects dealing with these climate change-related impacts in addition to the cyclone impacts, etc?
Nepal	Not accessing the facility.
Samoa	<ol style="list-style-type: none"> 1. On triggering mechanism - How do you define “exceptionally intense and severe disaster”? A similar Caribbean facility of the WB had a lot of information on this 2. Is the DRF a last resort given the reference that “The DRF should be available (a) after resources have been evaluated and found to be inappropriate or insufficient for the emergency.”? This may delay the response given the emergency nature involved. 3. Expediency of response is critical for such a facility- how can the ADB ensure this is so? 4. The difference we are reading into this is the fact that

Respondents	Questions and/or Issues
	unlike the immediacy with which the US\$1m was extended to Samoa for the tsunami, the processes for doing damages and losses assessment will take time and as such the 'emergency' nature of the facility is not guaranteed and that the DRF is intended for recovery efforts – is this the understanding or are we off the mark?
Tajikistan	Support the establishment of a crisis response window without disrupting ongoing development programs. It also finds acceptable that (i) their PBA allocation is reduced by 5% to fund this facility; (ii) ADF-only countries benefit from this facility in case of a natural disaster through financing in addition to the PBA, and (iii) blend countries will continue to be supported through additional OCR resources in case of natural disaster.
Vanuatu	Interested to discuss this further in relation to criteria as outlined.
Blend Countries	
Micronesia	<ul style="list-style-type: none"> (i) The absorptive capacity of the FSM is perhaps already reached (ii) The processing of a loan requires congressional approval and the process could go on far beyond the disaster (iii) Other assistance are available to the FSM on a grant basis and these would be prioritized before any loan is considered (iv) The FSM President has established a “trust fund” for the same purpose (v) Through UNFCC negotiations, funding is available for adaptation and the small island countries may want to pursue climate related disaster funding and this might derail that process.
Papua New Guinea	The Government does not have any immediate issues to discuss with ADB but agrees on the general principles of the DRF and sees as window of opportunity to access finance given that if there are resource constraints to accommodate such a disaster. The DRF will be an ideal option to secure emergency resources.
Sri Lanka	This will reduce the ADF resources available to Sri Lanka. Therefore, the annual OCR lending limit should increase.

ADB = Asian Development Bank, ADF = Asian Development Fund, CDTA = capacity development technical assistance, DMC = developing member country, DRF = disaster response facility, FSM = Federated States of Micronesia, OCR = ordinary capital resources, PBA = performance-based allocation, PPTA = project preparatory technical assistance, UNFCC = United Nations Framework Convention on Climate Change.