



ASIAN DEVELOPMENT FUND (ADF)
ADF XI REPLENISHMENT MEETING
8–9 September 2011 Manila, Philippines

Preparing for and Responding to Crises

Asian Development Bank

August 2011

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ASEAN	–	Association of Southeast Asian Nations
ASEAN+3	–	ASEAN, the People’s Republic of China, Japan, and the Republic of Korea
CRED	–	Centre for Research on the Epidemiology of Disasters
CRF	–	crisis response facility
CSF	–	Countercyclical Support Facility
DEAP	–	Disaster and Emergency Assistance Policy
DMC	–	developing member country
DRM	–	disaster risk management
EAL	–	emergency assistance loan
ERD	–	Economic and Research Department
ERSP	–	economic recovery support program
GDP	–	gross domestic product
IDA	–	International Development Association
IDB	–	Inter-American Development Bank
IDRM	–	integrated disaster risk management
IMF	–	International Monetary Fund
JFPR	–	Japan Fund for Poverty Reduction
JSF	–	Japan Special Fund
Lao PDR	–	Lao People’s Democratic Republic
MDB	–	multilateral development bank
MDG	–	Millennium Development Goal
OCR	–	ordinary capital resources
OREI	–	Office of Regional Economic Integration
PBA	–	performance-based allocation
REDD	–	United Nations Collaborative Initiative on Reducing Emissions from Deforestation and Forest Degradation
RSDD	–	Regional and Sustainable Development Department
SDR	–	special drawing rights
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund
TFP	–	Trade Finance Program
UN	–	United Nations

GLOSSARY

- Crisis – Crises are events leading to unstable and/or dangerous conditions that affect an individual, a group or, as in the context of this paper, a significant fraction of the population in one or more developing member countries. Crises are driven by a variety of natural and/or “human-made” factors of diverse nature—including economic, political, and social factors; security threats (as in conflict situations); disaster events caused by natural hazards, and/or environmental causes. They are particularly disruptive when they occur abruptly, with little or no warning.
- Disaster – A disaster is 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 – The concept and practice of reducing disaster risks through systematic efforts to analyze and manage the causal factors of disasters, including through lessened exposure to hazards, lessened vulnerability of people and property, wise management of land and the environment, and improved preparedness for adverse events.
- Dzud – 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.

NOTES

- (i) In this report, “\$” refers to US dollars.
- (ii) Percentages may not total 100% because of rounding.

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

CONTENTS

	Page
EXECUTIVE SUMMARY	i
I. INTRODUCTION	1
II. IMPACT OF CRISES ON ADF COUNTRIES	1
A. Asia and the Pacific and ADF Countries Crises Record	1
B. Impact of Crises on ADF Countries	2
C. Government Responses	4
III. ADB'S EXPERIENCE PREPARING FOR AND RESPONDING TO CRISES	4
A. ADB's Financial Assistance to Crises	4
B. Lessons Learned	8
IV. ADB'S CAPACITY IN RELATION TO CRISES	8
A. ADB's Institutional Capacity	8
B. ADB's Financial Capacity	12
C. Approaches in other Multilateral Development Banks	13
V. FURTHER STRENGTHENING ADB'S CAPACITY	13
VI. ISSUES FOR DONORS' GUIDANCE	15
APPENDIXES	
1. ADF Hazard Map and Statistics	16
2. Summary of ADB's Crisis Assistance	18
3. Main Lessons from Crises	23
4. Special Funds Assisting in, Preparing for, and Responding to Disasters	25
5. Crisis Approaches and Interventions in Multilateral Development Banks	29

EXECUTIVE SUMMARY

Asia and the Pacific has a daunting crisis record characterized by high frequency and severe impact of natural hazards and economic shocks, which particularly affect the poor. With increasingly interdependent economies, changing climate patterns, and persistence of vulnerabilities, crises are expected to increase in number and intensity. Crises bring about not only immediate economic damage and loss of life, but can also have deep and lasting impacts on growth, poverty, and human development—both as a direct consequence and as a result of diverting development funds to replace lost social and economic infrastructure. The impact on more vulnerable Asian Development Fund (ADF) countries is severe, and affects the countries' momentum toward meeting Millennium Development Goal (MDG) targets.

The crisis assistance of the Asian Development Bank (ADB) to developing member countries (DMCs) has intensified and broadened from the recovery and reconstruction phase to early assistance for crisis prevention. In response to disaster events in Asia and the Pacific during 2005–2010, ADB provided \$7.62 billion (\$3.65 billion for ADF countries) for a total of 348 projects (133 projects for ADF countries). The main sources for financing crisis assistance in ADF countries were special dedicated funds and reallocation of savings and cancellation from existing loans. ADB's response was however delayed in some cases because of difficulties in mobilizing the required resources.

ADB also responded effectively to help its DMCs cope with the impacts of the global economic crisis. When regional growth dipped to its lowest level at 5.9% in 2009, ADB's total level of operations reached a historic high of \$16.1 billion. Assistance was made through upscaled operations, quick-disbursing program loans, guarantees, and the innovative use of existing instruments. For ADF-only countries, ADB released an additional \$400 million in ADF commitment authority and allowed DMCs to frontload 100% of their biennial allocation. Again, ADB's support to ADF-only countries was delayed and constrained by the lack of flexibility in mobilizing additional resources.

ADB's institutional capacity to help DMCs prepare for and respond to crisis has improved through the development of conducive policies and new lending instruments (only for eligible OCR borrowing countries though), the establishment of trust funds to supplement regular ordinary and concessional ADF resources, a moderate increase in dedicated crisis-related staff resources, and strengthening of knowledge and partnerships. Efforts nonetheless need to be scaled up not only to meet increasing demand but also to mainstream sound practice achieved in other multilateral development banks. However, for ADF-only countries, lack of flexibility in allocating additional resources is the key constraint.

This paper recommends further mainstreaming crisis management and prevention in ADB's operations and developing new instruments for crisis prevention and response, with a specific focus on ADF countries. In particular, it proposes the establishment of a dedicated funding mechanism—crisis response facility (CRF), available to ADF-only countries. This would significantly improve ADB's capacity to support DMCs, which are disproportionately impacted by adverse events. It will also increase transparency and expedite the delivery of emergency and recovery assistance. For DMCs, a CRF would increase predictability and prevent reallocation of long-term development expenditures. The proposal would not materially distort the performance-based allocation system, but would complement it.

The paper seeks donors' guidance on whether: (i) donors support the CRF concept; and (ii) they want ADB to develop the concept further for their discussion in the next ADF XI meeting?

I. INTRODUCTION

1. During the midterm review for the Asian Development Fund (ADF) X replenishment meeting in November 2010, donors expressed their interest in the preparation of a crisis response paper that would review Asian Development Bank (ADB) assistance in the frequently impacted Asia and the Pacific, and the ADF's role in supporting the most vulnerable countries. This paper responds to this request and proposes options to improve ADB's response capacity. Building on ADB's growing institutional capacity, yet constrained by financial resources, the paper seeks to obtain donors' support to initiate the development of (i) a crisis response facility (CRF) to finance crisis-related assistance, and (ii) new instruments to step up crisis prevention and preparedness in the region. The CRF would significantly improve ADB's capacity to support these ADF-only countries, increase transparency, and expedite the delivery of emergency and recovery assistance. Donors' guidance will help bring greater institutional clarity, coherence, and sustainability to ADB's crisis and disaster related planning and resource allocation to ADF borrowing developing member countries (DMCs).

II. IMPACT OF CRISES ON ADF COUNTRIES

A. Asia and the Pacific and ADF Countries Crises Record

2. Asia and the Pacific is exposed to all hazard categories—economic, sociopolitical (conflict), biological, environmental, geophysical, hydrometeorological, and technological.¹ The crisis record in Asia and the Pacific is extensive, in terms of type, frequency, and intensity. Since 2005, the region has seen 884 major disasters, of which 317 occurred in ADF countries (Appendix 1, Figure A1), including major pandemics (avian and pandemic influenza and severe acute respiratory syndrome [SARS]). In addition, a number of economic shocks, including food crises (2007–2008 and 2010–2011)² and a global economic crisis (2008–2009), have affected the region and ADF countries acutely during the same period. Furthermore, based on ADB's country performance assessment approach, 10 countries in the region were classified as being in fragile and conflict-affected situations in 2010.³ With increasingly interdependent economies, changing climate patterns,⁴ and persistence of vulnerabilities, crises are expected to increase in number and intensity.

3. ADF countries are particularly vulnerable to crises. While the frequency of emergency situations in ADF countries, at the onset, may not significantly differ from that of better-off neighboring countries, the magnitude of the impact on poorer countries is larger and their effect is felt over a longer duration. Moreover, ADF countries' capacity to adapt to these events (either at individual, community, or government level) is weaker. All of these translate into greater vulnerabilities. In crises, women are particularly vulnerable because of their often limited access to assets, education, knowledge, and power. Planning for disaster relief and recovery often excludes consideration of gender-based vulnerability and risks, even though women in developing countries bear the greatest responsibility for managing household resources.

¹ Given that other ADF papers already consider several crisis-related topics, this paper will focus on reporting impacts resulting from disasters caused by natural hazards and economic drivers.

² See also ADB. 2011. ADF Operations and Food Security. Paper prepared for the first ADF XI replenishment meeting, Manila, 8–9 September.

³ See also ADB. 2011. ADB Engagement in Fragile and Conflict Affected Situations. Paper prepared for the first ADF XI replenishment meeting, Manila, 8–9 September.

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

B. Impact of Crises on ADF Countries

4. The impact of a crisis is largely determined by the drivers of risk and the country's vulnerability. Crises bring about not only immediate economic damage and loss of life, but can also have deep and lasting impacts on long-term growth, poverty, and human development—both as a direct consequence and as a result of diverting development funds to replace lost social and economic infrastructure. For a DMC, a crisis may translate into the failure to realize the country's potential. Evidence shows that the poor and vulnerable, particularly in the poorer ADF countries, bear the worst risks and impacts of crises.

5. Direct and indirect socioeconomic impacts may potentially jeopardize accomplishment of the Millennium Development Goals (MDGs) because of higher levels of poverty and threats to standards of health, education, and access to essential infrastructure and services, including gender-differentiated access.⁵ Moreover, crises' drivers are becoming progressively interconnected, and their impacts are both converging and reinforcing. For example, recent food, fuel, and global economic crises have succeeded each other, interacting among them as triggers for crisis and creating a deeper compounded impact. Crises have direct macroeconomic impacts, such as physical damage to infrastructure and disruptions of essential services, inflation, loss of productive capital and stocks, or job losses; as well as indirect impacts resulting from losses in labor productivity, loss in confidence of local and international investors, and reduced tourism revenues or other service sector activities. Governments' responses generally translate into larger expenses for emergency goods and services, thereby increasing fiscal deficits and public external debt, and in the process diverting funds from essential infrastructure. Higher inflation or job losses also erode the purchasing power of households, especially those with low incomes, and can undermine poverty reduction and human development gains. Cuts in household and government budgets may put social protection programs at risk.⁶

6. **Disasters caused by natural hazards.** Asia is particularly vulnerable to natural disasters. Principal causes include (i) persistence of widespread urban and rural poverty, (ii) environmental degradation caused by mismanagement of natural resources, (iii) poor governance and public policies, and (iv) insufficient investments in infrastructure. These are particularly the case with ADF countries, where national economies are more sensitive and disaster risk management (DRM) programs are yet to be institutionalized, and consequently less able to cope with large losses.

7. The economic and social impact of natural hazard-induced disasters, which are immediate and intense in the case of severe disasters, continues to hamper development in Asia and the Pacific, particularly in less developed countries. During 2005–2010, Asia and the Pacific continued to dominate disaster impact categories across all regions of the world (Table 1), with economic losses caused by natural hazard impacts estimated at \$228 billion.⁷ Climate-related hazards dominated in the region in 2005–2010. Increased climate variability is likely to aggravate

⁵ United Nations International Strategy for Disaster Reduction. 2011. *2011 Global Assessment Report on Disaster Risk Reduction: Revealing Risk, Redefining Development*. Geneva; ADB, United Nations Development Programme, and United Nations Economic and Social Commission for Asia and the Pacific. 2010. *Achieving the Millennium Development Goals in an Era of Global Uncertainty: Asia-Pacific Regional Report 2009/10*. New York.

⁶ Reports have highlighted how crises affect low-income countries differently. Periods of sharp contraction have historically been extremely harmful for human development. Evidence suggests that deceleration of growth can cause key human indicators to plummet and significantly erode achievements. Social indicators tend to deteriorate rapidly during economic downturns and improve slowly during economic booms. (World Bank. 2010. *Global Monitoring Report 2010: The MDGs after the Crisis*. Washington, DC.).

⁷ ADB staff calculation based on the global disaster database (EM-DAT) maintained by the Centre for Research on the Epidemiology of Disasters (CRED), Université catholique de Louvain, Belgium.

this situation. At the same time, earthquakes are the deadliest and costliest type of disaster in the region. Since earthquake disasters are largely an urban phenomena, the global trend toward greater urbanization, often under weak regulatory and planning regimes, is likely to see an increase in earthquake-related consequences. Hazards and disasters in ADF countries have similar characteristics to those of the region as a whole. In ADF countries, water-related hazards constituted four of every five disasters and caused nearly 80% of the total economic damage, but only resulted in about 20% of total deaths. By comparison, while earthquakes were less than 10% of the total hazard events in ADF countries, they produced nearly 80% of all deaths and 20% of the disaster-related economic damage (see also Appendix 1).

Table 1: Relative Impacts of Hazards in Asia and the Pacific and ADF Countries, 2005–2010 (%)

Item	Number	Killed	Total affected	Damage ^a
Asia and the Pacific as % of global total ^b	32.9	32.2	89.8	33.2
ADF countries as % of global total	12.1	13.1	7.9	3.8
ADF countries as % of Asia and the Pacific	36.9	40.8	8.8	11.5

ADF = Asian Development Fund.

^a Damage figures are heavily influenced by the impact of Hurricane Katrina in the US in 2005.

^b Figures exclude Australia, Brunei Darussalam, Myanmar, New Zealand, Japan, Malaysia, Singapore, and South Korea. Figures therefore exclude the impact of tropical cyclone Nargis on Myanmar in 2008.

Source: Asian Development Bank staff calculations based on the global disaster database (EM-DAT) maintained by the Centre for Research on the Epidemiology of Disasters (CRED), Université catholique de Louvain, Belgium.

8. Many disasters in the region, however, go unreported, particularly the frequent low-intensity impacts, because governments in the region have neither the technical and human resources to capture them nor the management capacity to deal with them. This is particularly important among ADF countries. High frequency–low intensity impacts are just as damaging as low frequency–high intensity impacts, as they routinely cause injury and death, undermine livelihoods, and lead to chronic poverty.

9. **Exogenous shocks.** Many ADF countries are net importers (particularly of food and energy) and thus more vulnerable to fluctuations in commodity prices. As such, spillovers from economically driven crises disproportionately affect them. Particularly vulnerable are countries with narrow-based economies, where the government’s adaptive capacity is severely constrained. The effects of exogenous shocks are long-lasting and recovery requires coordinated policy-based solutions.

10. Ten years after the 1997 Asian financial crisis, the 2008–2009 collapse of global demand affected countries in Asia and the Pacific by reducing regional exports and capital flows. ADF countries, with less diversified economies and a larger trade sector share, experienced significant spillover impact from the global downturn, which was compounded by weakening regional consumption, and reductions in investments and private capital flows, tourism, and remittances. The global economic crisis effects translated into lower regional gross domestic product (GDP) growth rates—ADF countries declined from 7.6% in 2007 to 3.6% in 2009. For commodity exporters (such as the Kyrgyz Republic, the Lao People’s Democratic Republic, and Mongolia), the drop in commodity prices hurt both export performance and their fiscal balance.

11. The nature and severity of the impact of food price volatility has also been very significant in ADF countries, which are net importers of food and cash crops, fragile and conflict-affected

states, and debt-distressed economies.⁸ An ADB study⁹ suggested that the 10% rise in domestic food prices in developing Asia, seen in early 2011, could push an additional 64 million people into poverty (based on the \$1.25 a day poverty line). The impacts have been particularly felt by the numerically dominant small-scale farmers in ADF countries, who lack risk and crisis management structures to address the adverse effects of disasters on their crops and volatile food prices on cost of production and incomes.

C. Government Responses

12. ADF countries' crisis vulnerability derives from a limited capacity to prevent, prepare, and/or respond to crisis situations. Governments' responses are therefore often reactive and sometimes ineffective. Although responses to disasters caused by natural hazards differ from those to economic shocks (the former focuses on immediate emergency and rehabilitation while the latter requires coordinated macroeconomic policy responses), governments are generally constrained by inadequate access to financial resources and a lack of capacity. Such lack of capacity manifests itself through underdeveloped DRM and risk reduction capacities, infrastructure inadequacies, insufficient social protection programs, and shortcomings in economic management and structural policies. Gaps remain to manage crises effectively at national and local levels, which result in piecemeal approaches to addressing risks and consequences of crises. Examples include weak or absent surveillance systems and the lack of multisector coordination mechanisms (including business continuity planning for essential services), all of which are prominent in ADF countries.

13. Although experience has been mixed, policy coordination across countries in the face of a crisis remains frail. For instance, in the case of recent food crises, government responses were reportedly uncoordinated, as governments often view food security as a political and national public good. As a result—in the absence of international mechanisms to deal with associated risks—food self-sufficiency, short-term supply responses, and protectionist trade policies exacerbated food price volatility, and in ADF countries their fragile fiscal situation.¹⁰ In other cases, however, progress toward reaching coordinated global responses has been noted: an ADB review¹¹ showed that in line with policy recommendations made by the Group of Twenty (G20), the timely and decisive introduction by DMCs of coordinated fiscal and monetary policies, primarily through fiscal expansion packages to stimulate demand, was successful.

III. ADB'S EXPERIENCE PREPARING FOR AND RESPONDING TO CRISES

A. ADB's Financial Assistance to Crises

14. ADB has been an important partner to DMCs in their endeavor to reduce crisis vulnerability, decreasing the country's sensitivity (mainly through its long-term development program) and increasing adaptive capacity. ADB's support to DMCs has progressively broadened from ex-post crisis assistance (emergency assistance, reconstruction, and rehabilitation) to

⁸ Although much of the recent sharp increase in food prices has been due to production shortfalls caused by extreme weather events, and subsequent export bans by some food producing countries, persistent cyclical factors (e.g., rising oil prices and speculation) and structural factors (e.g., declining productivity, competing uses for food grains, shrinking available agricultural land, etc.) were the main drivers of the 2007–2008 and 2010–2011 food crises.

⁹ ADB. 2011. *Global Food Price Inflation and Developing Asia*. Manila.

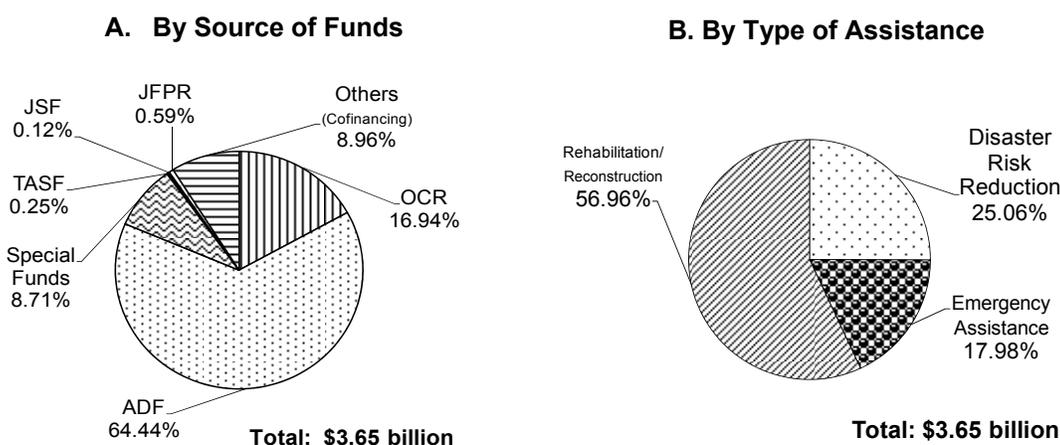
¹⁰ The impact of both food crises (on net importers) and abundance (on net exporters) adversely impacts economies, particularly in countries that are small and poor.

¹¹ ADB. 2011. *Special Evaluation Study: Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009*. Manila.

proactive crisis preparedness and disaster risk reduction.

15. **Disaster-related assistance.** In response to disaster events in Asia and the Pacific during 2005–2010, ADB provided \$7.62 billion (348 projects), including \$3.65 billion (133 projects) for ADF countries (\$2.57 billion in loans, \$1.05 billion for grants, and \$29 million in technical assistance [TA]).¹² As shown in Figure 1, disaster risk reduction interventions in ADF countries accounted for 25% of ADB’s disaster-related assistance. Out of the total allocation made to ADF countries, the majority was financed from the ADF. From 2005 to 2010, \$2.49 billion was allocated from ADF resources for disaster-related projects. This included \$1.95 billion for 31 ADF loans and \$462 million for 24 ADF grants, and \$74 million for 108 TA projects using the Technical Assistance Special Fund (TASF).

Figure 1: Disaster-Related Assistance in ADF Developing Member Countries, 2005–2010



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

Source: Asian Development Bank.

16. As shown in Appendix 2, ADB’s response to ADF countries has been predominantly in support of floods and water management, conflict/post-conflict situations, and earthquake impacts. During this period, ADB processed a total of 22 emergency assistance projects (\$2.88 billion) in response to disaster events. Of these, 16 projects (\$1.96 billion) were processed in 10 ADF countries—90% of the total was allocated to Group B (blend) countries and 10% to Group A (ADF-only) countries.¹³ While this represents an important effort, the total assistance represents only 7% of the needs estimated in the wake of disasters for all emergency assistance loans (EALs) and 4.5% of the total estimated in ADF disaster-struck countries.¹⁴

17. **Food security.** Emergency assistance in response to food price volatility during 2007–2008 included four ADF countries. Bangladesh and Cambodia received ADF loans amounting to \$187.5 million and \$2.1 million in TA.¹⁵ Mongolia and Pakistan received a combination of grants

¹² See also Appendix 2 for further statistical information on ADB-wide, ADF-countries, and ADF-financed projects.

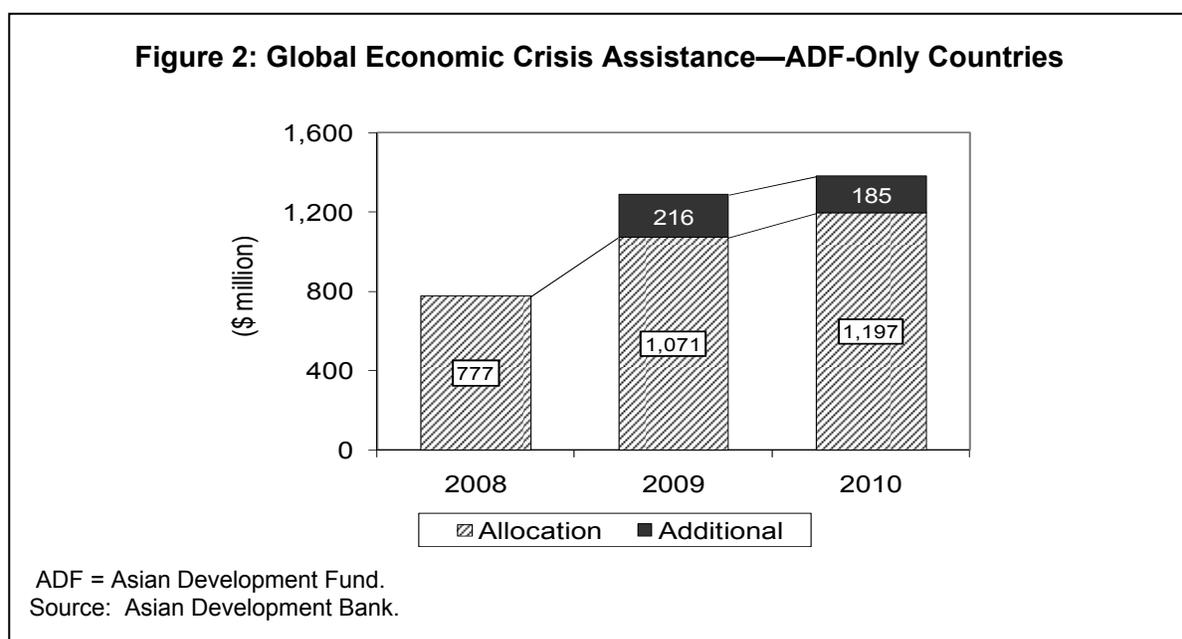
¹³ Out of the total emergency assistance financing for all ADF countries, 55% was in the form of ADF loans, 17% in ADF grants, 7% was allocated from grants in the Pakistan Earthquake Fund, 9% from the Asian Tsunami Fund, 3% from grants cofinancing, and 8% from ordinary capital resources.

¹⁴ This estimate is based on official needs assessments. Details are presented in Appendix 2, Table A.2.2.

¹⁵ In addition, ADB extended support for the (ASEAN+3) Integrated Food Security Framework (Japan Special Fund), agricultural development and trade facilitation in the Greater Mekong Subregion, and food security programs among the South Asian Association for Regional Cooperation countries.

and loans amounting to \$2.5 million and \$500 million, respectively.¹⁶ In addition, ADB provided supplementary allocations to DMCs as part of its programming exercise to combat the effects of the food crisis. However, this was marginal compared with the needs of these and other countries in the region. Since 2008, ADB has engaged with DMCs to achieve food security through a multisector approach. This is elaborated in its Operational Plan for Sustainable Food Security in Asia and the Pacific, approved in December 2009.¹⁷

18. **Global economic crisis assistance.** ADB's high level of assistance during the global economic crisis was made possible by the availability of un-programmed resources. Coinciding with the completion of its general capital increase and replenishment of the ADF, ADB significantly stepped up its regular assistance, acting as countercyclical support (see Figure 2). When regional growth dipped to its lowest level at 5.9% in 2009, ADB's total level of operations reached an historic high of \$16.1 billion. Assistance was made through regular project investments, quick-disbursing program loans, guarantees, and innovative use of existing instruments aimed at protecting the most vulnerable from the fallout of the crisis, maintaining long-term development programs, and sustaining potential for economic growth and job creation led by the private sector. More importantly, ADB's knowledge departments collaborated to produce the analytical work necessary to provide credible and reliable policy advice to ADB Management and DMCs (para. 27).



19. The Countercyclical Support Facility (CSF) provided budget support loans of up to \$500 million for eligible OCR borrowing countries, including blend ADF countries. In 2009, five CSF loans, each in the amount of \$500 million equivalent, were approved by ADB's Board of Directors, including one each for Bangladesh and Viet Nam. CSF loans have been fully disbursed. However, this instrument could not be made available to ADF-only countries, which severely limited ADB's response in these countries. To support low-income countries, which were among

¹⁶ Mongolia received an additional \$2.5 million grant from the Asia Pacific Disaster Response Fund following a multifaceted disaster in 2009–2010 that significantly affected the livelihoods of 24% of the country's population.

¹⁷ The operational plan puts emphasis on agricultural productivity, market connectivity, and resilience against shocks and climate change impacts as pillars to achieve sustainable food security. Food security related investments in 2010 resulted in \$2.8 billion in investments for food security, or 24% of the total ADB investment portfolio.

the most fiscally constrained in responding to the crisis, ADB released an additional \$400 million in ADF commitment authority in June 2009 for ADF-only countries.¹⁸ In addition, ADB allowed ADF countries to frontload 100% of their biennial allocation. This provided some, though limited, flexibility for ADF countries to respond to the immediate economic challenges of the crisis.

20. The global economic crisis also saw the collapse of trade and a sharp contraction in trade finance, particularly in developing countries. In response, ADB increased the exposure limit of its existing Trade Finance Program (TFP) in March 2009 from \$150 million to \$1 billion. In 2009, the TFP was most active in ADF countries such as Bangladesh, Nepal, Pakistan, Sri Lanka, and Viet Nam. Sixty percent of transactions went to small and medium-sized enterprises, which typically have difficulty accessing trade finance but are crucial to supply chains, job creation, and economic expansion in the region.

**Box 1: Impacts of the 2007–2008 Global Economic Crisis
(and ADB’s Response) for Selected ADF Countries**

Central Asian economies (Armenia, Georgia, Tajikistan). The global economic crisis brought a collapse in commodity export prices, a heavy reduction in remittance inflows, and sudden loss of external refinancing options in Armenia, Georgia and Tajikistan. To address rising unemployment and further deterioration of these economies, the respective governments in these countries adopted anti-crisis plans (countercyclical public expenditure policies and financial sector stability measures). Asian Development Bank (ADB) played an important role in supporting these plans by approving, in June 2009, the Georgia Growth Recovery Program Loan (\$80 million),^a the Armenia Crisis Recovery Program Loan (\$80 million),^b and the Tajikistan Crisis Recovery Program Grant (\$40 million).^c The programs were essential components of broader International Monetary Fund Standby Agreement Financing Plans. The crisis support interventions effectively and efficiently responded to urgent country needs and demonstrated the important role played by ADB during the recent macroeconomic crises in the region.

Pacific developing member countries (Samoa, Solomon Islands, Tonga). The global economic crisis hit the Pacific island countries hard, triggering a sharp decline in subregional growth. Merchandise export incomes fell with commodity prices. Remittances and tourism declined. In response, ADB approved several economic recovery support programs (ERSPs) for economies most at risk from the effects of the crisis. This included a \$26.8 million loan to Samoa (approved in April 2010). The Marshall Islands, Solomon Islands, and Tonga also received ERSPs from ADB. These ERSPs enabled governments to support economic activity through increased capital expenditure, and helped preserve the delivery of essential services by partially meeting the government’s overall budget financing requirements.

^a ADB. 2009. *Report and Recommendation of the President to the Board of Directors for Proposed Program Loans to Georgia for the Growth Recovery Support Program*. Manila.

^b ADB. 2009. *Report and Recommendation of the President to the Board of Directors for Proposed Program Loans to the Republic of Armenia for the Crisis Recovery Support Program*. Manila.

^c ADB. 2009. *Report and Recommendation of the President to the Board of Directors for Proposed Program Loans to the Republic of Tajikistan for the Crisis Recovery Support Program*. Manila.

Source: Asian Development Bank.

¹⁸ The additional ADF commitment authority was secured through the release of SDR270 million (about \$400 million) from the prudential minimum liquidity of the ADF, originally provided to cover the currency risks. The release could only be made possible because about 55% of the outstanding ADF legacy loans had already been converted to special drawing rights, reducing the currency risk.

B. Lessons Learned

21. Major lessons drawn from ADB's crises experience can be summarized as follows:¹⁹

- (i) **Crisis readiness.** Most DMCs, particularly in poorer and smaller ADF recipient countries, continue to respond reactively. Recovery strategies (and associated investments) should systematically integrate elements to improve country and regional preparedness, and in doing so cope better with any such future event. ADB's role in promoting integrated disaster risk reduction is critical to prepare for disasters, increase resilience, and improve response and recovery.
- (ii) **Resources.** In a crisis situation, making more resources available is essential. ADF countries are often most impacted. The establishment of crisis-specific funds, reprogramming, and cancellation and reallocation of savings can be time-consuming and disrupt the country's long-term planning process. The establishment of more flexible systems and the creation of a concessional crisis-response window that exclusively helps smaller and poorer countries is particularly important.
- (iii) **Financial instruments.** ADB has established a number of financial instruments. These instruments should be extended to include tools such as DMC catastrophe insurance.
- (iv) **Social protection and safety nets.** Social protection programs are attractive crisis-mitigating instruments for two reasons: (a) they have an inbuilt countercyclical bias; and (b) they protect the poor, who are the first to be affected by a crisis.²⁰

IV. ADB'S CAPACITY IN RELATION TO CRISES

A. ADB's Institutional Capacity

22. ADB is one of the largest and most proactive donors in Asia and the Pacific. Together with other development partners,²¹ ADB has played a leading role in responding to emergencies, assisting DMCs to conduct damage and needs assessments rapidly, and respond to crises with financial and knowledge assistance. For example, ADB played a crucial role responding to the December 2004 Indian Ocean Tsunami, the 2005 Pakistan Earthquake, the 2009 Samoa earthquake and tsunami, and post-conflict emergencies in Georgia in 2008 and Kyrgyzstan in 2010. ADB was also responsive to the global economic crisis. ADB is intensifying efforts to develop more comprehensive disaster and crisis management programs, with an increasing focus on risk identification and reduction and preparedness to complement post-crisis events. Living up to this challenge, ADB has over the last 5 years strengthened and/or developed new policies and tools, and undertaken a number of organizational initiatives. These are now to be put in full practice, subject to resources becoming available to fund them.

23. **Policies.** In May 2004, ADB approved the Disaster and Emergency Assistance Policy (DEAP).²² The policy established a series of objectives to (i) strengthen support for reducing

¹⁹ See Appendix 3 for further details.

²⁰ ADB has provided social protection programs as part of the countercyclical support facility. ADB's approach to social protection is captured in ADB. Social Protection: Challenges and Opportunities 1996–2008. Unpublished Report; and ADB. 2011. Social Protection Operational Plan, 2011–2020. Draft. Manila.

²¹ Principally the World Bank and the United Nations.

²² ADB. 2004. *Disaster and Emergency Assistance Policy*. Manila. ADB was the first multilateral development bank to have a disaster-specific policy. The 2004 policy supersedes ADB. 1987. *Rehabilitation Assistance to Small DMCs Affected by Natural Disaster*. Manila; and ADB. 1989. *Rehabilitation Assistance After Disasters*. Manila.

disaster risk in DMCs, (ii) provide rehabilitation and reconstruction assistance following disaster, and (iii) leverage ADB's activities by developing partnerships. In April 2008, ADB approved an action plan to enhance the implementation of the DEAP and a position paper²³ that updated the international context within which DRM was being pursued at the country level. ADB is also promoting an integrated DRM²⁴ (IDRM) model to guide DMCs in strengthening their capacities for effective DRM and fulfilling their international commitments on disaster risk reduction, including scaling up gender mainstreaming as part of the IDRM framework. The approach combines disaster risk reduction, elements of climate change adaptation, and disaster risk financing to provide support to member countries in developing their DRM capacities. An example is highlighted in Box 2.

Box 2: Helping Nepal Prepare for and Reduce Disaster Risk

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. The country's location in one of the world's most seismically active areas has resulted in a history of destructive earthquakes. Nepal's capacity to manage these risks is limited. Acknowledging this situation, the Nepal country partnership strategy, 2010–2012,^a approved in October 2009, includes pilot testing a Disaster and Climate Change Risks Screening Tool developed by Asian Development Bank's (ADB) Regional Sustainable Development Department to incorporate country's hazard challenges into ADB's operations. The risk screening tool, which is the first of its type, will help maximize the quality of projects. The checklist is designed to be used during implementation reviews to monitor 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 this tool is the increased understanding within project processing teams of the implications of climate change and disasters on their respective projects. Other development partners in Nepal have shown a strong interest. ADB's experience in the use of this tool will be valuable in mainstreaming disaster and climate risk reduction across all major infrastructure sector projects in Nepal.

Making schools disaster-safe in Nepal: Nepal's seismic record shows the return period for destructive earthquakes to be about 75 years. Ninety percent of the country's total building stock is non-engineered, and poor quality control of materials and construction practices make all sections of Nepal 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 address disaster and climate variability risks, the government adopted a National Strategy for Disaster Risk Management and a Climate Change Policy in 2010. Under these programs, the government has identified the safety of children in schools and raising disaster awareness as 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 for building safety to address multiple hazards and environmental extremes, and will help protect Nepal's citizens from disaster threat.

^a 2009. ADB. *Country Partnership Strategy: Nepal, 2010–2012*. Manila.
Source: Asian Development Bank.

²³ ADB. 2008. *Action Plan for Implementing ADB's Disaster and Emergency Policy*. Manila; and ADB. 2008. *Positioning ADB's Disaster and Emergency Assistance Policy in a Changing Regional Environment*. Manila.

²⁴ DRM is based on the premise that natural hazards do not necessarily lead to disaster, but can do so when they affect vulnerable populations. As the poorest are most vulnerable, the incorporation of DRM principles into poverty reduction strategies is becoming more widely accepted for countries where the hazard risk is high. It is also recognized that a proactive stance to reduce the effects of disasters in the region will require a comprehensive approach that emphasizes actions taken before a disaster rather than on post-disaster recovery. The key operational aspects of IDRM include (i) risk assessment, (ii) disaster risk education, (iii) disaster preparedness, (iv) disaster recovery, and (v) disaster risk financing.

24. **Tools and instruments.** Crisis management requires an array of instruments for providing speedy (yet quality-assured) support. The EAL modality is designed to alleviate immediate losses to priority assets, capacity, or productivity rather than to provide relief or comprehensive reconstruction. It emphasizes rapid approval of transitional loans or grants to help rebuild high-priority physical assets and restore economic, social, and governance activities after emergencies. Building from previous policies, the additional financing policy²⁵ recognizes that fast-tracking emergency assistance may be successfully pursued through existing projects. Additional financing may be provided to ongoing non-emergency projects in the face of an emergency, allowing for part or all of an ongoing project to be converted into emergency assistance.

25. In the wake of the global economic crisis, ADB established the CSF²⁶ to provide budget support loans to support countercyclical fiscal stimulus packages for governments in countries with access to ordinary capital resources (OCR), including blend countries. ADB's recently approved policy-based lending policy²⁷ provides for (i) mainstreaming of the CSF as ADB's crisis budget support instrument, (ii) the closer alignment of ADB's special policy-based loan with other international financial institutions' lending terms, (iii) emergency program loans, and (iv) coverage of the precautionary financing option under the policy.

26. **Organizational support for crisis cuts across ADB.** Dedicated staff resources are limited to a total of four dedicated international staff to support IDRM (two staff) and food security (two staff) in the Regional and Sustainable Development Department (RSDD), one international staff in the Pacific Department leading ADB's agenda on fragile and conflict-affected situations, and four international staff in the Office of Regional Economic Integration (OREI) responsible for financial and monetary surveillance in the region. Organizational direct support is otherwise extended on a needs basis through staff in (i) regional departments (mostly in the face of a crisis but to some lesser extent for disaster management, particularly when linked to climate change initiatives); (ii) knowledge departments, including the Economic Research Department (ERD), OREI, and RSDD; and (iii) other departments such as the Strategy and Policy Department. As ADB expands crisis management support to DMCs, additional dedicated staff resources should be engaged to work on strengthening institutions, planning and coordination, governance, DRM, and links with climate change.

27. **Knowledge and partnerships.** In addition to financial support, ADB recognizes the importance that knowledge and partnerships play in maximizing the impact of any crisis intervention. The Regional Economic Monitoring Unit (upgraded in 2005 to become the OREI) was established in 1999 after the 1997 Asian financial crisis, with a surveillance and knowledge mandate²⁸ that complemented the ERD's function. For the recent global economic crisis, ADB used its flagship publications, the *Asia Economic Monitor* and *Asian Development Outlook* (and its updates), to present its assessment of risks to Asia and the Pacific from the global crisis. This work was reinforced by various departments' (notably regional departments') own risk assessments and knowledge products for some DMCs.

28. The global economic crisis also offered opportunities for ADB to revisit existing partnerships—notably with its DMCs, the International Monetary Fund (IMF), and ASEAN+3 (ASEAN, the People's Republic of China, Japan, and the Republic of Korea); and to enhance

²⁵ ADB. 2010. *Additional Financing: Enhancing Development Effectiveness*. Manila.

²⁶ ADB. 2009. *Enhancing ADB's Response to the Global Economic Crisis—Establishing the Countercyclical Support Facility*. Manila.

²⁷ ADB. 2011. *Review of ADB's Policy-Based Lending*. Manila.

²⁸ The Regional Economic Monitoring Unit's functions were to (i) support the Association of Southeast Asian Nations (ASEAN) surveillance, (ii) provide knowledge inputs on financial crisis at various meetings and discussions, and (iii) operate the Asia Recovery Information Center.

donor coordination activities and engage in new initiatives, particularly with the private sector through the TFP. In addition to extensive collaboration with partners during the global economic crisis, ADB's response to disasters has been carefully coordinated with development partners (Table 2). This is institutionalized in the DEAP, which also emphasizes the need to leverage ADB's objectives by developing strategic partnerships²⁹ and to draw strength from complementarities. A good practical example is described in Box 3.

Table 2: Partnership Examples: Working Together to Respond to Crises, 2005–2010

Crisis	Principal Partners
2010 Pakistan Flood Rehabilitation	UN and World Bank
2008–2009 Global Economic Crisis	ASEAN+3, Australia, European Union, IMF, Japan, and World Bank
2009 Samoa Tsunami	Australia, European Union, New Zealand, and UN
2009 Nepal General Flood	Japan, DFID, United Nations, and World Bank
2009 Mongolia Dzud Disaster	IFRC, People's Republic of China, United Nations, and World Bank
2007 Floods and Cyclone (Sidr)	Canada, Japan, the Netherlands, United Nations, and World Bank
2005 Cook Islands Cyclone	Australia, France, IFRC, New Zealand, Pacific Forum, and UN
2005 Pakistan Earthquake	European Union, DFID, Japan, USAID, UN, and World Bank
2004 Indian Ocean Tsunami	European Union, DFID, Japan, USAID, UN, and World Bank

ASEAN = Association of Southeast Asian Nations; ASEAN+3 = ASEAN, the People's Republic of China, Japan, and the Republic of Korea; DFID = Department for International Development of the United Kingdom; IFRC = International Federation of the Red Cross; IMF = International Monetary Fund; UN = United Nations; USAID = United States Agency for International Development.

Source: Asian Development Bank.

Box 3: Prevention and Control of Avian Influenza in Asia and the Pacific

Building from the severe acute respiratory syndrome (SARS) experience, Asian Development Bank's (ADB) initiative to prevent and control avian influenza was designed to align with the long-term regional emerging infectious disease control strategies of the Food and Agriculture Organization (FAO), World Health Organization (WHO), the Association of Southeast Asian Nations (ASEAN) Secretariat, and the United States (US) Centers for Disease Control (CDC) and Prevention, and CDC Foundation Central Asia. This project^a was approved in 2006, financed by a \$25 million grant from the Asian Development Fund (ADF) IX and \$3 million from the technical assistance special fund (TASF) (other financing sources were \$10 million from the Japan Special Fund and \$4.2 million from Canada). The project was designed taking into consideration the priority needs of the region at appraisal, in the context of the regional public health threat of avian influenza, which required rapid strengthening of regional and developing member country (DMC) surveillance and response capacities.

To achieve the goal of reducing social and economic disruption caused by influenza outbreaks in Asia and the Pacific, the project positioned itself at the regional level, implementing activities through technical (WHO, FAO, and CDC [US and Central Asia]) and regional (ASEAN Secretariat) partners, while building capacities at the country level. Such arrangements enabled the project to leverage ADB's convening power to bring together its partners in the animal health and human health sectors. ADB enhanced intersectoral cooperation between ministries of health and agriculture by encouraging technical partners to meet regularly and develop joint strategies. Through the ASEAN Secretariat, the project facilitated regional coordination, including information sharing and resource pooling. It also brought forward broad cooperation with other partners. In coordination with the Central Asia Regional Economic Cooperation (CAREC) Secretariat, the project supported the strengthening of regional human resources for epidemiology in Central Asian countries.

^a ADB. 2006. *Proposed Grant Assistance for the Prevention and Control of Avian Influenza in Asia and the Pacific*. Manila.

Source: Asian Development Bank.

²⁹ Developing strategic partnerships for enhancing disaster and emergency assistance is reinforced in ADB's Strategy 2020 document. Refer to ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

29. **ADB's comparative advantage.** ADB's comparative advantage lies in its regional presence, good working relationship with its client countries, and well-established strategic partnerships with United Nations agencies (especially those based in Asia and the Pacific), specialized nongovernment organizations, regional bodies, and the private sector.³⁰ It allows for an integrated crisis management response that is multisectoral, fully aligned, and supportive of its DMCs' long-term developmental goals, and institutional and capacity building programs. ADB has a well-established reputation as a knowledge institution with strong analytical capabilities, and it is able to assist with the creation of regional monitoring bodies. In addition, ADB has a strong track record and established reputable mechanisms for mobilizing regional cooperation successfully when dealing with crises, particularly when a coordinated response is required for events with strong spillover effects. ADB has also demonstrated strengths pertaining to actively partnering with its DMCs to develop monitoring and surveillance capacities to deal with disasters, pandemics, and financial and economic crises.

B. ADB's Financial Capacity

30. ADB has significantly strengthened its institutional capacity for preparing for and responding to crises, but potential support remains constrained by available resources. Regular ADF (and OCR, for eligible countries) are typically drawn upon by DMCs for all stages of the crisis/disaster management cycle. For emergency and recovery phases, portfolio restructuring and use of loan savings is typically combined with re-programming of existing country level pipelines (Appendix 2, Table A2.2). However, no separate financial support is available for crisis response. Reprogramming, project restructuring, and reallocation of loan savings can be lengthy processes. In addition, this diverts resources from long-term development and poverty reduction activities.

31. For ADF countries, it is difficult to mobilize additional resources during crisis periods. The Performance-Based Allocation (PBA) system does not take into consideration crisis vulnerability or repeated exposure. The PBA system does not allocate additional resources to assist countries hit by a crisis (as could be the case for pools of common resources apportioned in support of a severely affected ADF country). To cope with these constraints, supplement resources, and thus alleviate the financial burden DMCs face when responding to crisis, ADB has established a number of separate trust funds financed with ADB's net income and/or multidonor contributions (Appendix 4). However, these trust funds (i) only cover natural hazard disaster,³¹ (ii) have been traditionally disaster-specific (e.g., the Asian Tsunami Fund and Pakistan Earthquake Fund); (iii) do not cover all phases of the crisis cycle, particularly risk reduction;³² (iv) cannot be prolonged through current approaches based on the difficulty of sourcing funds: most importantly, those based on the use of OCR net income, as these distort ADB's equity-to-loan ratio capital requirements; and (v) while they may be established in a timely manner, their access often includes conditionalities, which may delay much needed disbursements.

³⁰ These include, among others the International Fund for Agricultural Development (IFAD), the Food and Agriculture Organization (FAO), the World Health Organization (WHO), the United Nations Children's Fund (UNICEF), the Red Cross, and the Association of Southeast Asian Nations (ASEAN).

³¹ To help bridge the gap during the transition period (between preparedness and recovery), ADB created the Asia Pacific Disaster Response Fund (APDRF) in 2009. The fund is financed from the transfer of \$40 million from the Asian Tsunami Fund. The objective is to provide incremental grant resources to DMCs affected by disasters caused by natural hazards to help meet immediate expenses to restore life-saving services to affected populations following a declared disaster. Individual assistance is capped to a maximum of \$3 million.

³² Although limited to specific countries and/or themes, ADB currently provides some assistance through (i) a small number of thematic funds, which may indirectly finance facets of DRM (e.g., the Climate Change Fund and the Regional Cooperation and Integration Fund); and (ii) selected donor cofinancing. However, these only cover a small fraction of crises types and preparedness activities.

C. Approaches in other Multilateral Development Banks

32. All multilateral development banks (MDBs) have actively engaged in support of their member countries. In relation to almost all events, from flood response and earthquake impact recovery to the most recent economic crises, MDBs almost always began with a focus on relief and recovery. In recent years, however, activities have increasingly concentrated on developing more holistic approaches that rely on proactive interventions to tackle the drivers or risk; reduce vulnerability; focus on specific at-risk groups such as women; and enhance preparedness, financial and structural resilience.³³

33. MDBs' capacity to prepare for and respond to crisis episodes is largely determined by available resources. Preparedness can be aligned with planning and programming processes, and resources can be allocated accordingly. Response, on the other hand, requires flexibility to adapt and the ability to act rapidly. MDBs have established a number of facilities and/or funds either sourced from donor-specific contributions or ordinary resources net incomes. This approach is, however, generally time-consuming and not sustainable. Recognizing this, the World Bank established under the International Development Association (IDA) 16 a Crisis Response Window that supports responses to exceptionally severe natural hazard-induced disasters and economic crises caused by exogenous shocks.³⁴ Similarly, the Inter-American Development Bank (IDB) established a Contingent Credit Facility, a \$600 million standby emergency credit program, capable of providing quick liquidity to governments in support of immediate disaster relief requirements and a response facility that provides funds to address basic service restoration 3–6 months after disasters. In addition, the IDB and the World Bank Group have set up a number of disaster-related funds and launched important innovative disaster risk financing instruments, allowing both institutions to serve their clients with better-adapted responses.³⁵

V. FURTHER STRENGTHENING ADB'S CAPACITY

34. **Further expediting response.** Although crises differ widely in the trigger, scope, duration, and requisite actions, they all require speed, flexibility, and accountability, and also share the relative importance of risk and vulnerability assessments, early warning, mitigation, and preparedness. While significant progress has been made since 2005, as a result of the introduction of new policies, processing modalities, and financing instruments, there is space to expedite the processing and administration of emergency responses.³⁶ Some of these bottlenecks are (i) delays in identifying additional financing resources, including the processing of cancellations, reprogramming and/or the establishment of emergency funds; (ii) instrument limitations (e.g., the CSF is only available to countries with access to OCR); (iii) inadequate, sometimes overambitious, project design; and (iv) the need to mobilize staff with the requisite emergency response capabilities. As some studies highlight, speed must be balanced with quality,³⁷ and instruments and processes need to be flexible and capable of adapting to diverse and complex scenarios.

³³ For details, see Appendix 5.

³⁴ World Bank. 2010. Technical Note on the Establishment of a Crisis Response Window in IDA16. Washington DC.

³⁵ These include, among others, sovereign disaster risk financing activities (budget planning for natural disasters TA, contingent financing, sovereign catastrophe insurance pools, and insurance-linked securities); property catastrophe risk insurance (property catastrophe insurance pools and catastrophe risk supervision TA); agricultural insurance (index-based agricultural insurance and agricultural insurance pools); and disaster micro-insurance).

³⁶ Out of 33 emergency assistance loans/grants (for 22 projects), one-third needed one or two extensions during implementation.

³⁷ World Bank Group. 2009. *Evaluation Brief 8: The World Bank Group's Response to the Global Crisis—Update on an Ongoing IEG Evaluation*. Washington, DC.

35. **New tools for crisis prevention and response.** ADB's responsiveness to crises also depends on available instruments on offer to its DMCs. To improve effectiveness, ADB may need to increase and adapt business products. Building from lessons drawn internally, and externally, the following proposals need consideration: (i) extension of a budget support facility to ADF-only countries under appropriate lending terms to assist the recovery from an economic/financial crisis, and (ii) development of new disaster risk financing, including insurance products to assist DMCs to prepare for natural-hazard induced disasters.

36. **Crisis-related financial assistance.** ADB needs to step up financial assistance to its ADF countries for crisis and disaster risk reduction, and emergency assistance. Capital resources are needed to support all stages of the crisis management cycle. As crisis preparedness can significantly reduce DMCs' vulnerability, preventing a costly response, a balance must be struck between preparedness and response. Similarly, a trade-off between headroom utilization for crisis response and developmental purposes needs to be considered.

37. For the purpose of crisis preparedness, regular development program resources might be utilized, whether in the form of investments or TA. 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. These expenditures should be financed from regular developmental resources, and allocated according to existing performance-based criteria for ADF countries.³⁸ ADB's support to a regular low-intensity impact event may follow established reprogramming procedures. In the case of an extremely severe crisis event caused by an external shock, extraordinary resources are nonetheless necessary to support the response and put exceptional measures in place.

38. Intensifying crisis response would require additionality and thus the establishment of a dedicated funding mechanism. A CRF, available to ADF-only countries, would significantly improve ADB's capacity to support these DMCs, increase transparency, and expedite the delivery of emergency and recovery assistance. CRF responses would be closely coordinated with other institutions. A CRF would also provide for a sustainable and "replenishable" financing mechanism to cater for coping with crises in ADF countries, which may still be complemented with other funds if needed. For DMCs, a CRF would increase predictability and prevent diversion/reallocation of long-term development expenditures, thus complementing the existing PBA system. The proposal does not materially distort the PBA system. If there is no crisis, the proposed resources would go back to the PBA pool. However, in the case of a crisis, the proposed CRF would provide greater resources to ADF-only countries under distress. For donors, a CRF provides an efficient window to support emergency aid.

39. An effective crisis response requires collaborative efforts among development partners. Building from already well-established cooperation systems that are triggered in emergency conditions, ADB will seek to coordinate carefully, particularly with the World Bank, the utilization of CRF resources in ADF-only DMCs. In addition, ADB would carefully coordinate with organizations with complementary roles—the United Nations and the IMF.

40. A CRF is expected to represent a small fraction of the overall ADF IX envelope, possibly up to 5%,³⁹ and may be conceptualized following one of the models described in Table 3, which

³⁸ Elements of crisis preparedness and response may be evaluated as part of the analysis and evaluation of economic management and structural policies, and policies for social inclusion.

³⁹ This figure is based on historical crisis-response data for ADF-only countries for 2005–2010.

include ex-ante, ex-post and mixed models. As the need for funds cannot be predicted, ex-ante capital models can inherently have opportunity costs if funds remain unutilized for a considerable period of time. However, based on experiences during 2005–2010, this is an unlikely scenario. Alternatively, a solution to this issue may include (i) the annual apportionment of funds (rolled over on a needs basis) or (ii) the release of unutilized funds to the common pool after the ADF midterm review.

Table 3: Possible Crisis Response Facility Models

Model	Advantages	Disadvantages
<p>1. Ex-ante or up-front funding A fraction of ADF XI set-aside and available as received. Unutilized resources in the first 2-year period would be transferred to the PBA pool at the end of the 2-year period.</p>	<p>1. It would allow ADB to have resources available for immediate release upon a crisis occurring. 2. Greater resources to ADF-only countries.</p>	<p>1. Delayed utilization of headroom.</p>
<p>2. Ex-post or draw-down funding ADB would mobilize internal resources (OCR or net income) and based on either a ceiling or commitments, donors will replenish on allocation to a crisis event or as part of ADF XII replenishment.</p>	<p>1. All ADF funds utilized fully and on time. 2. It may be more attractive to donors constrained by tight budgets. 3. Greater resources to ADF-only countries.</p>	<p>1. Uncertainty regarding replenishment timing and availability of crisis funds.</p>
<p>3. A combination of 1. and 2. A combination of both could be undertaken based on a fractional basis and/or crisis nature and/or intensity basis.</p>	<p>1. Provides partial certainty and partial utilization of funds at all times. 2. More attractive to donors constrained by tight budgets. 3. Greater resources to ADF-only countries.</p>	<p>1. Partial uncertainty and unutilized funds. 2. Increased management and CRF operational complexity.</p>
<p>4. ADF Drawdown based on crises This approach would draw down a fraction of all available ADF resources at the time of a crisis, which would be subtracted from the overall envelope allocated under PBA.</p>	<p>1. All ADF funds utilized fully and on time. 2. Greater resources to ADF-only countries.</p>	<p>1. ADF resource envelope (allocated through PBA) uncertainty. 2. All ADF countries will see their allocation affected, potentially taxing those with greater developmental needs.</p>

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

Source: Asian Development Bank.

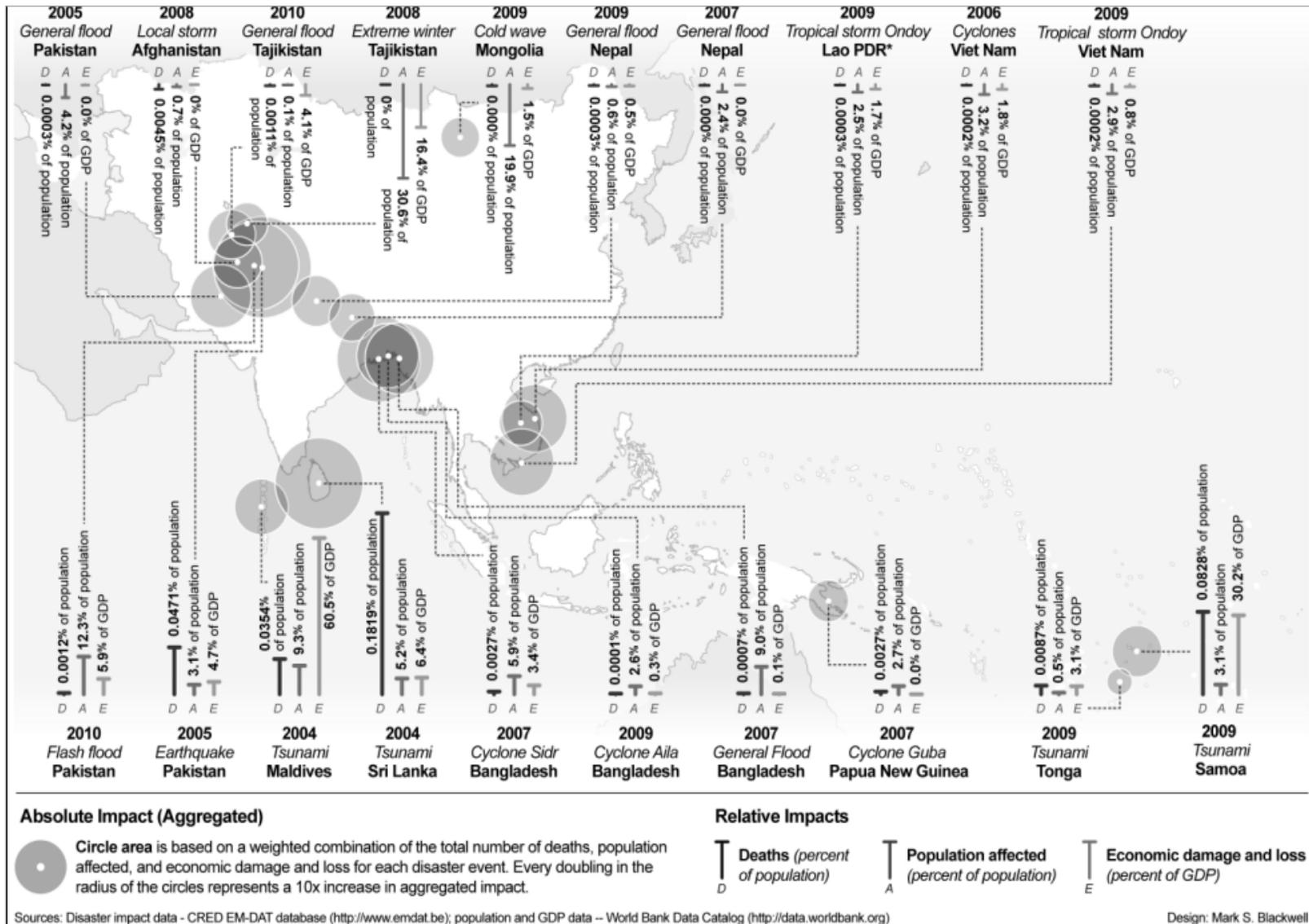
41. Triggers or criteria to release funds may need to consider carefully aspects such as (i) the selective prioritization of exceptional high-impact crises and associated indicators; (ii) eligible types of crisis (based on triggers such as economic, disaster events, etc.); (iii) the level of contribution for a single crisis; and (iv) the nature of the activities to be financed (recovery and reconstruction and/or emergency). Lastly, there is also a need to consider approaches to future replenishments. To maximize opportunities for a coordinated MDB response, it is proposed that criteria under the CRF could be harmonized with those of the IDA 16 crisis response window.

VI. ISSUES FOR DONORS' GUIDANCE

42. Do donors support the concept of a CRF with a size of about 5% of ADF XI resources and would donors want ADB to develop it further for their discussion in the next meeting?

ADF HAZARD MAP AND STATISTICS

Figure A1: Mapping Major Disasters in ADF Countries, 2005–2010



ADF = Asian Development Fund, GDP = gross domestic product.

Source: ADB staff calculations based on the global disaster database (EM-DAT) maintained by the Centre for Research on the Epidemiology of Disasters (CRED), Université catholique de Louvain, Belgium.

Table A1.1: ADF Countries Most Exposed to Multiple Hazards Based on Land Area

Name of Country	% of Total Area Exposed	% of Population Exposed	Number of Major Hazards
Vanuatu	80.8	75.6	3
Nepal	60.5	51.6	3
Viet Nam	45.1	38.7	3
Bangladesh	35.6	32.9	4
Cambodia	27.9	4.4	3
Tajikistan	23.2	9.5	3
Solomon Islands	22.8	16.6	3
Bhutan	20.1	29.2	4
Georgia	17.4	5.9	3
Lao PDR	15.2	12.6	3
Afghanistan	11.1	29.5	3
Kyrgyz Republic	8.3	5.8	2
Papua New Guinea	5.9	6.4	3
Pakistan	5.6	18.2	2
Armenia	3.1	1.5	3
Mongolia	2.8	0.7	2
Samoa	1.4	13.9	2

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

Source: World Bank. 2005. *Natural Disaster Hotspots: A Global Risk Analysis*. Washington, DC. p. 4.

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

Item	Number of Events	Number Killed	Total Affected	Estimated Damage
Conflict and/or Complex Disasters ^a	0.3%	0.0%	0.1%	0.0%
Drought and/or Food Security	2.2%	0.0%	4.6%	0.2%
Earthquake (incl. tsunamis)	6.6%	79.3%	5.8%	20.6%
Health and/or Epidemic	6.9%	1.3%	0.5%	0.0%
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%	0.0%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%
Total Value	317	93,108	90,707,282	\$26.15 billion

ADF = Asian Development Fund.

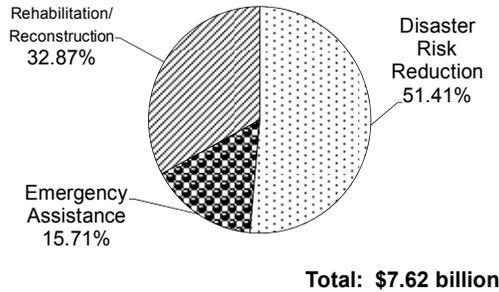
^a CRED EM-DAT (data does not include substantial statistics on the impacts of conflict in ADF countries).

Source: Asian Development Bank staff calculations based on the global disaster database (EM-DAT) maintained by the Centre for Research on the Epidemiology of Disasters (CRED), Université catholique de Louvain, Belgium.

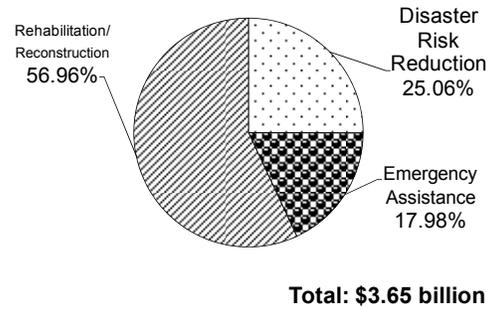
SUMMARY OF ADB'S CRISIS ASSISTANCE

Figure A2.1: Disaster-Related Projects (by Nature of Assistance)

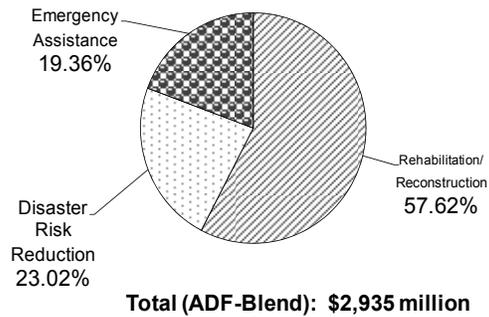
A. ADB-Wide, 2005–2010



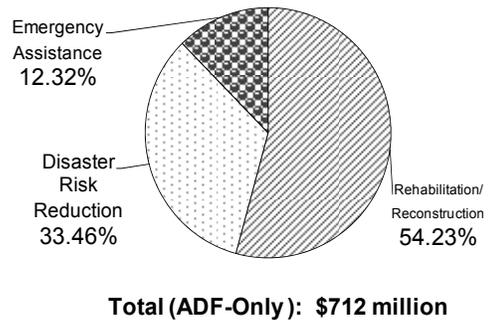
B. ADF Countries, 2005–2010



C. ADF-Blend Countries, 2005–2010



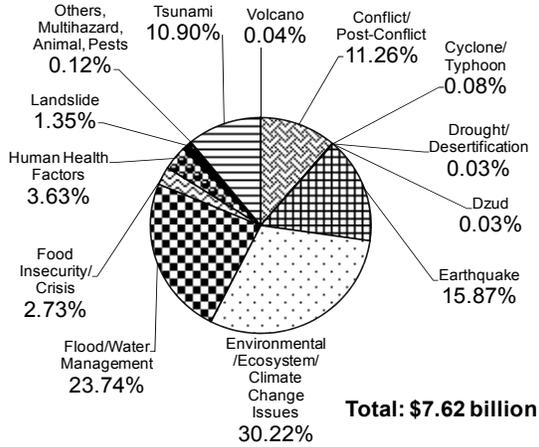
D. ADF-Only Countries, 2005–2010



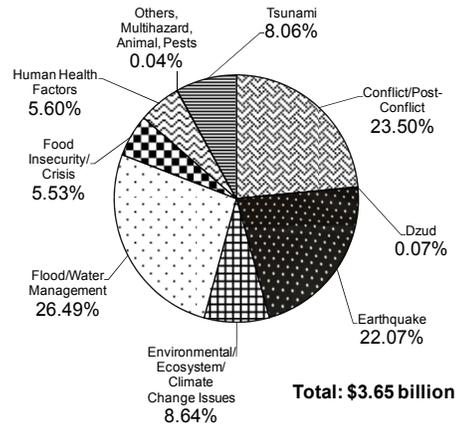
ADB = Asian Development Bank, ADF = Asian Development Fund.
 Source: Asian Development Bank estimates.

Figure A2.2: Disaster-Related Projects (By Type of Emergency)

A. ADB-Wide, 2005–2010



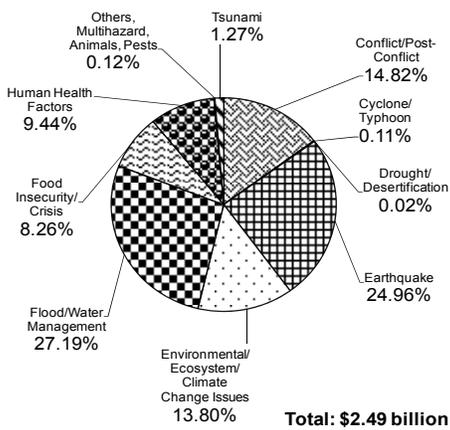
B. ADF Countries, 2005–2010



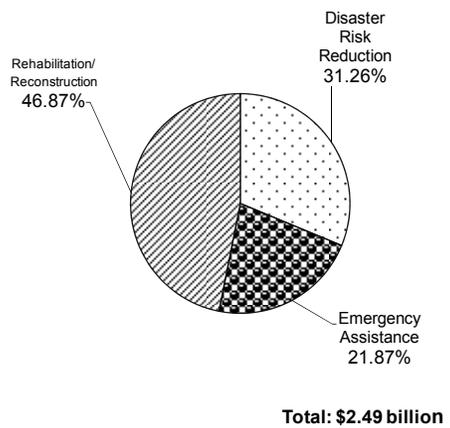
ADB = Asian Development Bank, ADF = Asian Development Fund.
 Note: Dzud is a multifaceted natural disaster characterized by a summer drought, in which insufficient fodder is available for stockpiling, followed by heavy winter snow and abnormally low temperatures.
 Source: Asian Development Bank estimates.

Figure A2.3: Disaster-Related Projects—Funded by the ADF/TASF

A. By Type of Emergency, 2005–2010

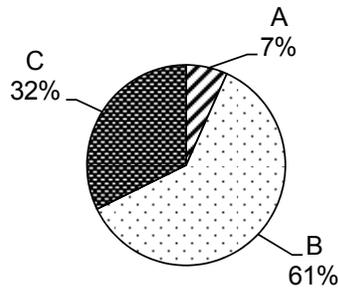


B. By Nature of Assistance, 2005–2010



ADF = Asian Development Fund, TASF = Technical Assistance Special Fund.
 Source: Asian Development Bank estimates.

Figure A2.4: Emergency Assistance Loans, by Group

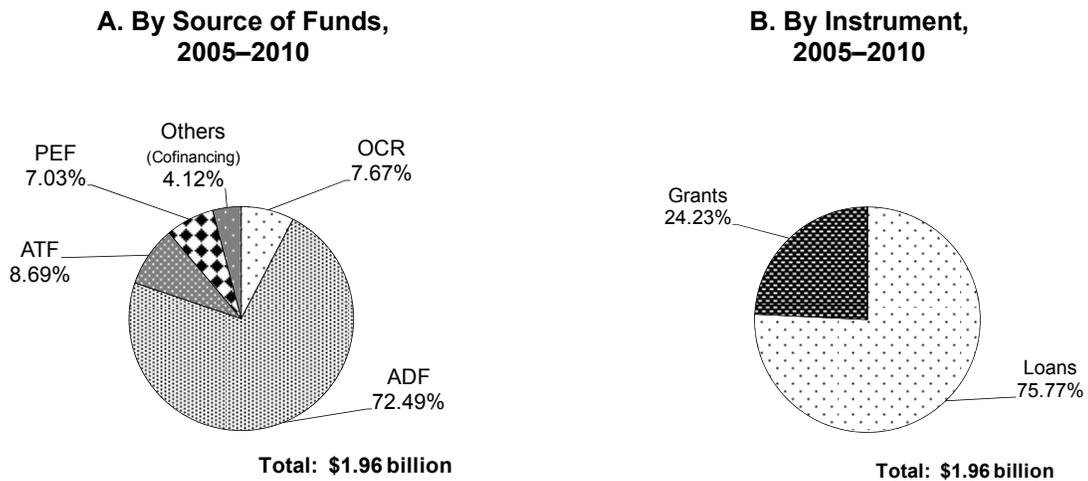


Note: Asian Development Bank (ADB) employs a classification system for its developing member countries (DMCs) to determine their eligibility to borrow from the Asian Development Fund (ADF) and their access to ordinary capital resources (OCR). Based on this classification system, ADB DMCs are grouped as follows:

1. Group A DMCs are eligible to borrow from ADF only, and includes the following DMCs: Afghanistan, Bhutan, Cambodia, Kiribati, Kyrgyz Republic, Lao People’s Democratic Republic, Maldives, Mongolia, Myanmar, Nauru, Nepal, Samoa, Solomon Islands, Tajikistan, Timor-Leste, Tonga, Tuvalu, and Vanuatu.
2. Group B DMCs are eligible to borrow from both ADF and OCR, and includes the following DMCs: Armenia, Azerbaijan, Bangladesh, Georgia, India, Marshall Islands, Federated States of Micronesia, Pakistan, Palau, Papua New Guinea, Sri Lanka, Uzbekistan, and Viet Nam.
3. Group C DMCs have access to OCR only, and includes the following DMCs: Cook Islands, People’s Republic of China, Fiji Islands, Indonesia, Kazakhstan, Malaysia, Philippines, Thailand, and Turkmenistan.

Sources: Asian Development Bank estimates; and ADB. 2010. Classification and Graduation of Developing Member Countries. *Operations Manual*. OM A1/BP. Manila.

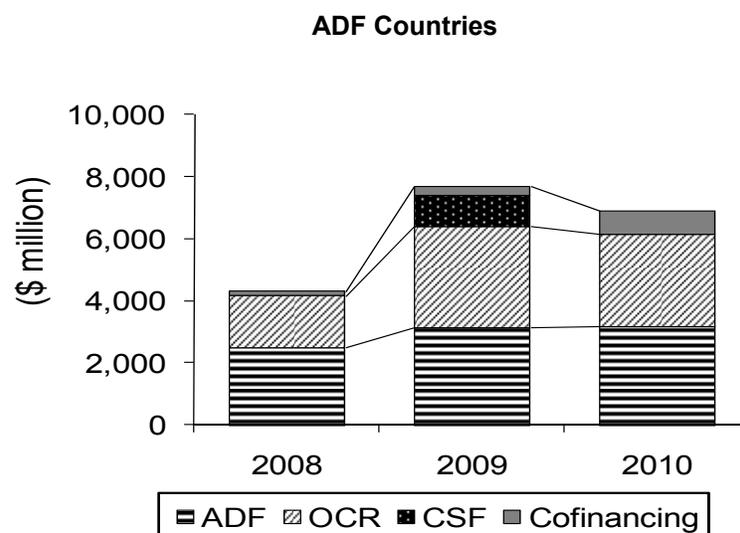
Figure A2.5: Emergency Assistance Loans in ADF Developing Member Counties



ADF = Asian Development Fund, ATF = Asian Tsunami Fund, OCR = ordinary capital resources, PEF = Poverty and Environment Fund.

Source: Asian Development Bank estimates.

**Figure A2.6: Global Economic Crisis Assistance,
2008–2010**



ADF = Asian Development Fund, CSF = Countercyclical Support Facility, OCR = ordinary capital resources.
Source: Asian Development Bank.

**Table A2.1: Emergency Assistance vs. Estimated Damage and Reconstruction
(ADF Countries)**

Crisis Event	Estimated Damages (\$ million)	Approved EAL (\$ million)	%
BAN: Emergency Flood Rehabilitation	2,300.00	152.30	7
BAN: Emergency Disaster Damage Rehabilitation (Sector)	3,000.00	120.00	4
NEP: Emergency Flood Damage	88.00	25.60	29
KGZ: Emergency Assistance for Recovery and Reconstruction	1,000.00	100.00	10
PAK: Earthquake Emergency Assistance	5,200.00	792.00	15
SOL: Emergency Assistance	40.00	8.95	22
SRI: North East Community Restoration and Development II	3,480.00	58.67	2
SRI: Conflict - Affected Region Emergency	2,680.00	151.50	6
VIE: Emergency Rehabilitation of Calamity Damage	1,065.00	50.97	5

BAN = Bangladesh, EAL = emergency assistance loan, KGZ = Kyrgyz Republic, NEP = Nepal, PAK = Pakistan, SOL = Solomon Islands, SRI = Sri Lanka, VIE = Viet Nam.

Notes:

1. Excludes the 2004 Asian Tsunami Emergency Assistance.

2. Excludes food assistance.

Source: Asian Development Bank estimates.

Table A2.2: Emergency Assistance—Selected Cases

	Estimated Overall Damage (In \$ million)	Funding Commitments						Other Cofinancing
		Special Funds		OCR		ADF		
		Amount	Source	Reprogramming	C&S	Reprogramming	C&S	
2004 Asian Tsunami	8,532.00	560.0	ATF	100.0	31.5	-	41.9	81.9
India	2,560.00	100.0		100.0	-	-	-	-
Indonesia	4,500.00	290.0		-	31.5	-	33.1	20.0
Maldives	472.00	20.0		-	-	-	1.8	-
Sri Lanka	1,000.00	150.0		-	-	-	7.0	61.9
2005 Pakistan Earthquake	3,500.00	80.0	PEF			220.0	105.0	97.0
2007 Bangladesh Floods and Cyclone	3,000.00	-	-	-	-	70.0	50.0	70.0

ADF = Asian Development Fund, ATF = Asian Tsunami Fund, C&S = cancellations and savings, OCR = ordinary capital resources, PEF = Pakistan Earthquake Fund.

Source: ADB. 2005. *From Disaster to Reconstruction: A Report on ADB's Response to the Asian Tsunami*. Manila.

MAIN LESSONS FROM CRISES

Type	Lessons
Resources	<p>Timeliness is critical to crisis response. Although ADB Management's planning of its response to a crisis may be swift, implementation is often delayed by its constraint on financial resources.</p> <p>Reprogramming, project restructuring, and reallocation of loan savings can be lengthy processes, diverting resources from long-term development and poverty reduction activities.</p> <p>Institutional readiness to assist in future crises should emphasize (i) the need to have capital headroom for contingencies, and (ii) the timeliness of assistance. There will be a trade-off between ADB's crisis response operations and its normal operations unless ADB augments its risk-bearing capacity to mount a crisis response when a crisis is imminent. To stay prepared, ADB could evaluate the options for possible crisis response size, the financing modalities and terms of such response, and their implications for normal lending operations as part of its medium-term planning.</p> <p>Most-affected countries may receive a lower share of additional ADB assistance than moderately and least-affected countries (e.g., global economic crisis). This was partly because (i) a concessional crisis-response window (exclusively for smaller and poorer countries) is absent, and (ii) the rigidity of ADF allocation and the difficulties in the use of regular program and project loans for such countries constrained ADB's response. A crisis response facility for ADF-only countries would have been useful.</p> <p>In a crisis situation, making more resources available through increasing disbursements is important.</p>
Instruments	<p>The CSF is a useful instrument for crisis response. However, it can be made more effective if it offers more flexibility in loan size and tenor to fit the diverse needs of different countries, and greater flexibility in disbursements. The CSF could be designated as a standby facility offering greater flexibility in disbursements. Blend countries would benefit from longer tenor where needed.</p> <p>A precautionary financing instrument (similar to the contingent loan provided to Indonesia during the global economic crisis) would be a useful instrument to respond to future crises, particularly to assist middle-income countries.</p> <p>The Trade Finance Program is a useful instrument during crises.</p>
Strategic	<p>Disaster responses have tended toward the reactive and tactical, when a proactive and strategic approach would have had longer-term benefits.</p> <p>ADB can play a strategic role in developing insurance capabilities in DMCs.</p> <p>Recovery strategies should be articulated from the onset and integrated into programs from the start.</p> <p>Disaster risk reduction should be integrated into the recovery process as early as possible to capitalize on available funding and political interest.</p> <p>Avoid rebuilding vulnerability</p> <p>Disaster risk management should be mainstreamed through country strategies and poverty reduction strategies.</p> <p>Surveillance of more countries and regions would enhance ADB's crisis response ability.</p>

Type	Lessons
	<p>More rigorous assessment of vulnerability and coping abilities, and paying attention to net resource transfers, would improve targeting.</p> <p>A medium-term focus on building social protection systems in DMCs collaboratively by development partners would enhance DMCs' resilience to crises.</p>
Coordination	<p>Intergovernmental coordination is vital. There should be clarity in the allocation of execution authority.</p> <p>Local capacity for disaster management must be developed. This includes support and empowerment of local governments and civil society to manage both risk reduction and post-impact requirements.</p> <p>Integrated and multisector programming is needed to facilitate planning and implementation significantly.</p> <p>Better internal coordination and collaboration at ADB among departments would have made the assistance more efficient.</p>
Social	<p>Recovery programming is not always focused on pro-poor and poverty reduction and is not systematically tracked, so poor people end up losing out.</p> <p>Developments in the aftermath of disaster may shift gender roles, so there may be a need to rethink social conditioning and the type of contributions household members make.</p> <p>Ensure that all interventions are gender-sensitive.</p>
Emergency Support	<p>By focusing on speed, openings can be missed and the quality of response compromised. Both need to be carefully weighed and balanced.</p> <p>An enlarged agenda will lengthen the time and resources required to recover and develop the wider region.</p> <p>Post-disaster conditions can skew costs and operating conditions.</p> <p>Procure and support local goods and services wherever possible (which requires examining the local economy and markets prior to making programming decisions).</p>

ADB = Asian Development Bank, ADF = Asian Development Fund, CSF = Countercyclical Support Facility, DMC = developing member country.

Sources: ADB. 2005. *Recommendations for Dealing with the Transition from Disaster Response to Recovery*. Manila; ADB. 2009. *International Experiences and Suggestions on Post-Disaster Rehabilitation and Reconstruction*. Manila; World Bank. 2006. *Hazards of Nature, Risks to Development: An IEG Evaluation of World Bank Assistance for Natural Disasters*. Washington DC; ADB. 2011. *Special Evaluation Study: Real-time Evaluation of Asian Development Bank's Response to the Global Economic Crisis of 2008–2009*. Manila.

SPECIAL FUNDS ASSISTING IN, PREPARING FOR, AND RESPONDING TO DISASTERS

Table A4.1: Summary Features of ADB Crisis-Related Multi-Donor and Special Funds

Special Fund	Features
Asia Pacific Disaster Response Fund (APDRF), 2009	<p>The APDRF was established in 2009 as a special fund to provide incremental grant resources to DMCs affected by disasters.</p> <p>It provides quick-disbursing grants, amounting up to \$3 million for each distinct declaration of a state of national disaster, to assist DMCs in meeting immediate expenditures for the restoration of life-preserving services to communities affected by disasters and in augmenting aid provided by other donors.</p> <p>All ADB DMCs are eligible for grant assistance from the APDRF.</p> <p>Initial ADB funding of \$40 million was made available (through a transfer made from the Asian Tsunami Fund). Once this initial contribution has been substantially committed, replenishment may be sought. Any request for replenishment will be based on a review of the APDRF, including an assessment of its effectiveness and the appropriateness of implementation arrangements.</p> <p>ADB would accept, on an untied grant basis, contributions (minimum of \$500,000 or equivalent) to the APDRF from bilateral, multilateral, and individual sources, including companies and foundations. Contributions have not actively been sought and there have been no contributions from other partners as yet.</p> <p>As of 31 May 2011, a total of \$18.7 million out of the total \$40 million available resources has been used and/or committed from the fund. A total of \$15.5 million has been disbursed.</p>
Climate Change Fund (CCF), 2008	<p>The CCF was established in 2008. To date, a total of \$50 million from ADB's resources (as an allocation from OCR net income) has been committed to this fund.</p> <p>The objective of the fund is to encourage greater investments in projects that will reduce greenhouse gas emissions, conserve biological diversity, and safeguard livelihoods against the effects of climate change. The CCF provides funding for mitigation, risk management and adaptation initiatives, and REDD projects.</p> <p>The CCF is to be a key mechanism to pool resources within ADB to address climate change through (i) TA, and (ii) grant components of investment projects, in the private and public sectors.</p> <p>The CCF prioritizes projects that will help ADB's DMCs transition to the use of clean energy technologies, restore and enhance natural ecosystems, and strengthen existing investments and livelihoods against climate change impacts.</p> <p>As of 31 May 2011, a total of \$31.8 million out of the \$50 million available resources has been used and/or committed from the fund. A total of \$8.3 million has been disbursed.</p>

Special Fund	Features
Regional Cooperation and Integration Fund (RCIF), 2007	<p>The RCIF, together with the Regional Cooperation and Integration (RCI) Trust Fund, was established in 2007 under an “umbrella” Regional Cooperation and Integration Financing Partnership Facility to enhance regional cooperation and integration in Asia and the Pacific by facilitating the pooling and provision of additional financial and knowledge resources to support RCI activities.</p> <p>ADB has committed \$50 million to date (as an allocation from OCR net income) and accepts, on an untied grant basis, contributions to the RCIF and RCI Trust Funds from bilateral, multilateral, and individual sources, including companies and foundations. The minimum contribution to the RCIF will be \$2 million equivalent but there have been no contributions from other partners, to date.</p> <p>As of 31 May 2011, a total of \$47.3 million out of the \$50 million available resources has been used and/or committed from the fund. A total of \$18.5 million has been disbursed.</p>
Pakistan Earthquake Fund (PEF), 2005	<p>ADB established the PEF as a special fund following the 2005 Pakistan earthquake to pool and deliver emergency grant financing promptly and effectively to Pakistan for investment projects and TA in support of immediate reconstruction, urgent rehabilitation, and associated development activities.</p> <p>The PEF was intended to provide an expedient means for other development partners (bilateral and other sources) to extend their own grant resources jointly with ADB.</p> <p>ADB’s initial contribution was \$80 million (allocated from OCR net income). The PEF was intended to pool contributions (minimum of \$200,000 or equivalent) from bilateral, multilateral, and individual sources, including companies and foundations. Total funds committed by partners include \$15 million from Australia, \$14.3 million from Belgium, \$12.3 million from Finland, and \$20 million from Norway.</p> <p>In June 2010, ADB’s Board of Directors approved the extension of the PEF until 30 June 2011.</p> <p>As of 31 May 2011, a total of \$141.8 million out of the \$145.8 million available cumulative resources has been used and/or committed from the fund. A total of \$115.3 million has been disbursed.</p>
Asian Tsunami Fund (ATF), 2005	<p>After the devastating tsunami on 26 December 2004, ADB created the ATF as a multi-donor grant fund to help meet the financing needs associated with the medium-term rehabilitation and reconstruction of the tsunami-affected areas.</p> <p>ADB capitalized the ATF from OCR surplus with an initial subscription of \$312 million from its own resources, followed by an additional \$288 million subscription, for a total of \$600 million.</p> <p>Contributions were received from Australia (\$3.8 million equivalent) for reconstruction work in Sri Lanka; and Luxembourg (\$1.0 million) to rehabilitate irrigation schemes in the Indonesian provinces of Aceh and North Sumatra.</p> <p>In November 2005, following the establishment of the PEF, unutilized ATF amounting to \$40 million was transferred back to OCR, and subsequently transferred to the PEF. Another \$10 million was returned to OCR in June 2006 and was committed as ADB’s contribution to the Java Reconstruction Fund in November 2008, to support post-disaster management, rehabilitation, immediate construction, and urgent vital development activities in Yogyakarta and Central Java in Indonesia. In May 2009, \$40 million was transferred to the APDRF, which was established to provide grant resources to DMCs affected by disasters.</p> <p>Applications for funding from tsunami-affected countries closed as of December 2005. The ATF was terminated on</p>

Special Fund	Features
	<p>31 December 2010 but remains open to complete the administration matters and finalize pending activities.</p> <p>As of 31 May 2011, a total of \$580.2 million out of the \$587 million available cumulative resources has been used and/or committed from the fund. A total of \$567.2 million has been disbursed.</p>
Japan Fund for Poverty Reduction (JFPR), 2000	<p>The JFPR was established in 2000 by the Government of Japan and ADB as an untied grant facility aimed at providing direct relief to the poorest and most vulnerable populations.</p> <p>From an initial contribution of \$90 million, the fund now stands at over \$445 million, of which \$335 million has been committed.</p> <p>Since 1 February 2010, the enhanced JFPR, which supports project grant and TA projects, has been accepting applications for TA funding previously provided by the Japan Special Fund (JSF).</p> <p>In 2011, the JFPR guidelines include project preparatory TA for projects on disaster risk management and mitigation among its special priorities for funding. The JFPR also provides project grants under exceptional circumstances, such as in the case of disaster response. A grant proposal of up to \$3 million may be submitted for consideration</p>
Trust Fund for East Timor (TFET), 1999	<p>In 1999, 12 donor countries, the European Commission, and the World Bank in 1999 pledged \$147 million for a TFET to provide grant assistance for reconstruction activities and economic development in Timor-Leste.</p> <p>The World Bank is the TFET trustee; ADB and the World Bank administer the projects. ADB took on responsibility for rehabilitation and development of transport, power, telecommunications, water and sanitation, as well as microfinance.</p> <p>The project completion report for the Emergency Infrastructure Rehabilitation Project (Phase I) is available.</p> <p>The TFET is closed.</p>
Japan Special Fund (JSF), 1988	<p>The JSF was established in 1988 with resources contributed by the Government of Japan. It provides grants to ADB's DMCs for project preparation and funding of technical or policy studies.</p> <p>Cumulative JSF TA approvals for 1988–2009 totaled \$1.11 billion for 1,726 TA projects.</p> <p>ADB and the Government of Japan are reviewing the JSF TA program. However, the enhanced JFPR, which will support project grant and TA projects, will accept applications for TA funding previously provided by the JSF until further notice.</p>

ADB = Asian Development Bank, DMC = developing member country, OCR = ordinary capital resources, REDD = United Nations Collaborative Initiative on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries, TA = technical assistance.

Source: Asian Development Bank.

Table A4.2: Key Milestones in Selected Crisis-Related Special Funds

Special Fund	Triggering Event	Key Milestones				Time Elapsed (Number of Days)		
		Date of Crisis	Board Approval	First Approved Funding Commitment	First Disbursement	From Crisis Event to Board Approval	From Approval to 1st Funding Commitment	From Funding Commitment to 1st Disbursement
Asian Tsunami Fund	Indian Ocean Tsunami	26 Dec 2004	17 Feb 2005	31 Mar 2005 ^a	6 Apr 2005 ^b	53	42	6
Pakistan Earthquake Fund	Pakistan Earthquake	8 Oct 2005	14 Nov 2005	13 Dec 2005 ^c	23 Feb 2006 ^d	37	29	72
Countercyclical Support Fund	Financial Crisis	15 Sep 2008 ^e	16 Jun 2009	24 Aug 2009 ^f	14 Sep 2009 ^g	274	69	21
Asia Pacific Disaster Response Fund	Natural Disasters in Asia/Pacific Region	-	1 Apr 2009	29 Sep 2009 ^h	5 Oct 2009 ⁱ	-	181	6

- = Not applicable.

^a Grant 0001: Maldives Tsunami Emergency Assistance with approved grant amount of \$20 million. An earlier SSTA 4565 (Preparing a Development Plan for the Tsunami-Affected Andaman Region) was approved for \$150,000 on 9 February 2005. See ADB. 2005. *Proposed Grant and Loan Tsunami Emergency Assistance Project (Maldives)*. Manila.

^b Under TA 4564 Preparing a Development Plan for the Tsunami Affected Andaman Region. See ADB. 2005. *Monthly Summary Report on Approved Small-Scale Technical Assistance Projects (as of 28 February 2005)*. Manila.

^{c,d} ADB. 2005. *Proposed Loan, Pakistan Earthquake Fund Grant, and Technical Assistance Grant—Earthquake Emergency Assistance Project (Pakistan)*. Manila.

^e Filing of bankruptcy by the Lehman Brother Holding, Inc. in the United States.

^f Loan 2538 Countercyclical Support for the Philippines with approved loan amount of \$500 million. See ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of the Philippines for Countercyclical Support*. Manila.

^g Loan 2538 Countercyclical Support for the Philippines with loan amount of \$500 million fully disbursed as a single tranche. See footnote f.

^{h,i} Grant 0162 Typhoon Ketsana (Ondoy) Project (Philippines) with total approved grant amount of \$3 million. See ADB. 2009. *Damages Due to Typhoon Ketsana—Request for ADB Financial Assistance from Asia Pacific Disaster Response Fund*. Unpublished. Manila. 29 September.

Source: Asian Development Bank.

CRISIS APPROACHES AND INTERVENTIONS IN MULTILATERAL DEVELOPMENT BANKS

	ADB	AfDB	IDB	World Bank
Crisis response window	No permanent separate crisis response window	No permanent separate crisis response window Discussed during African Development Fund12 replenishment	Contingent Credit Facility: a \$600 million standby emergency credit program, capable of providing quick liquidity to governments in support of immediate disaster relief requirements and response facility that provides funds to address basic service restoration 3–6 months after disaster. The Contingent Credit Facility program is expected to be mainstreamed in 2012 with increased limits.	The World Bank established a separate Crisis Response Window under the fifteenth replenishment of the International Development Association (IDA16). It supports responses to exceptionally severe disasters and economic crises caused by exogenous shocks.
Economic Crisis Policies/Strategies Resources Instruments	ADB’s regional and DMC level response to the 2008 economic crisis focused on (i) stabilizing financial and private sectors, (ii) managing fiscal challenges, (iii) securing long-term development, and (iv) mitigating social impacts. For middle-income countries, ADB established the Countercyclical Support Facility in May 2009 for a total of \$3 billion to provide more effective countercyclical support to its DMCs. To support low-income countries, ADB released an	In March 2009, the AfDB board adopted a policy paper on the “Bank’s Response to the Economic Crisis,” comprising four initiatives as part of its global crisis response: (i) an Emergency Liquidity Facility, (ii) a Trade Finance Initiative, (iii) a framework for accelerated transfer of resources to eligible countries, and (iv) enhanced policy advisory support. The AfDB adopted a flexible approach to	In November 2008, the IDB board approved the creation of a \$6 billion Liquidity Facility for Growth Sustainability under its emergency lending category. IDB also pursued a rapid expansion of its Trade Finance Facilitation Program. IDB addressed the more short-term poverty impacts of the crisis through conditional cash transfer programs. In December 2008, IDB created a multilateral investment fund to provide up to \$20 million to its	The World Bank Group’s strategy to respond to the crisis focused on (i) protecting the vulnerable, (ii) maintaining long-term infrastructure programs, and (iii) sustaining the potential for private-sector led growth and employment creation. To support the strategy, the World Bank Group used the following tools: (i) increased lending, particularly through the IBRD (from \$13.5 billion in 2008 to nearly \$33 billion in 2009); (ii) fast-tracking IDA funds (World Bank

	ADB	AfDB	IDB	World Bank
	<p>additional \$400 million in ADF commitment authority to ADF-only countries and allowed all ADF countries to frontload 100% of their biennial allocation.</p> <p>ADB also expanded its existing Trade Finance Program to \$1 billion. In addition, ADB made innovative use of existing program lending such as the contingent loan facility.</p> <p>Total ADB approvals increased to \$16.1 billion in 2009 and \$14.2 billion in 2010 (from \$11.3 billion in 2008).</p>	<p>frontloading resources and project restructuring. The Emergency Liquidity Facility and Trade Finance Initiative were established with \$1.5 billion and \$1.0 billion budgets, respectively. The AfDB's board of directors also approved the \$0.5 billion Global Trade Liquidity Program.</p> <p>AfDB's total loan, grant, and other approvals in 2009 amounted to 8.06 billion Units of Account (more than double the level of Units of Account 3.53 billion in 2008).</p>	<p>Emergency Liquidity Facility, established in 2004, to assist Latin American and Caribbean microfinance institutions better manage economic crises and disasters.</p> <p>Approvals in 2008 reached new levels at \$11.2 billion, in part because of the governors' quick ratification of the creation the Liquidity Facility for Growth Sustainability. This level was surpassed in 2009 at \$15.5 billion.</p>	<p>streamlined procedures and facilitated project restructuring through the IDA Financial Crisis Response Fast-Track Facility, funded by \$200 million from IBRD's allocable net income and \$1.8 billion IDA resources); and (iii) crisis response initiatives by IFC (for trade finance, infrastructure, bank capitalization, microfinance, and advisory services) and Multilateral Investment Guarantee Agency.</p>
<p>Disaster Risk Management</p> <p>Policies/Strategies</p> <p>Resources</p> <p>Instruments</p>	<p>ADB's Disaster and Emergency Assistance Policy, approved in 2004, provides a holistic approach to integrated disaster management cycle, from prevention and mitigation through preparedness and recovery.</p> <p>ADB's assistance instruments include (i) portfolio structuring and use of loan savings, (ii) emergency assistance loans, (iii) normal development loans, and (iv) technical assistance for disaster and emergency.</p>	<p>Rehabilitation and reconstruction operations are financed by regular loans. Procedures are in accordance with standard operational policies and guidelines. Supplementary loans are also used to provide additional funding to protect, reconstruct, or rehabilitate uncompleted components of projects under implementation, which are affected by disasters.</p> <p>Technical assistance</p>	<p>IDB Action Plan for Improving Disaster Risk Management, 2005–2008 outlines activities: (i) country planning and portfolio management, (ii) policies procedures and financial products, and (iii) developing an organizational approach that focuses on ex ante risk reduction. Revised Disaster Risk Management Policy, 2007 elevated ex ante measures and policies: (i) to strengthen IDB's effectiveness in</p>	<p>The general framework promoted by the World Bank after 2005 called for MDBs and international financial institutions to support more proactive disaster risk management policies and encourage member governments to reorient priorities from post-event disaster response and funding toward an integrated and comprehensive framework characterized by active risk management, risk reduction, preparedness,</p>

	ADB	AfDB	IDB	World Bank
	<p>The emergency assistance loan is designed to provide immediate short-term assistance, has a shorter completion period, and has a shorter processing time frame.</p> <p>In addition, ADB has established several special funds (such as the Asia Pacific Disaster Fund) to assist in preparing and responding to disasters (see Appendix 4).</p>	<p>emergency relief assistance is funded largely from the \$5 million annual budget provided for the Special Relief Fund established by the AfDB board of governors in 1974 as a Special Fund.</p>	<p>supporting borrowers to manage natural hazard risk systematically by identifying risk, reducing vulnerability, and preventing and mitigating disasters before they occur; and (ii) to facilitate rapid and appropriate assistance for disaster response.</p> <p>Disaster Prevention Fund (\$10 million) and the Multi-Donor Disaster Prevention Fund (\$9 million) funded by Canada, Japan, Republic of Korea, and Spain. A disaster prevention fund, created with resources from IDB's ordinary capital and capped at \$1 million per grant, finances prevention strategies.</p> <p>Specific disaster risk management financing initiatives include an offshore captive insurer to reinsure catastrophe risk into global markets and integrated disaster risk reduction and finance products. All programs integrate the Contingent Credit Facility.</p>	<p>and the incorporation of innovative risk finance techniques.</p> <p>Since 1999, the World Bank has undertaken numerous disaster risk finance initiatives, most notably the Caribbean Catastrophe Risk Insurance Facility; the Turkish Catastrophe Insurance Pool, which provides earthquake coverage; and the Pacific Catastrophe Risk Assessment and Financing Initiative.</p> <p>In 2006, the World Bank established a trust fund to create the Global Facility for Disaster Reduction and Recovery.</p> <p>In March 2008, the World Bank developed a new contingent credit of up to \$500 million to assist middle-income countries that have declared a state of emergency from natural disaster. The assistance is designed to be available before the arrival of emergency aid.</p> <p>In 2009, the World Bank launched the MultiCat</p>

	ADB	AfDB	IDB	World Bank
			IDB established the Emergency Reconstruction Facility to respond to disasters. The facility complements IDB's Operational Policy for Emergencies arising from disasters. The maximum amount of an individual Emergency Reconstruction Facility loan approved under the president's delegation may not exceed \$20 million for ordinary capital and \$10 million for concessionary financing for pre-established eligible activities. These include help in hastening the restoration of services, financing temporary repairs, and cleaning up in the aftermath of a disaster.	<p>Program as a platform to facilitate member country entry into the catastrophe bond market. The World Bank is also developing the South East Europe and Caucasus Catastrophe Insurance Facility Project for Europe and Central Asia, which is a catastrophe protection program for households, the commercial sector, and government agencies. Linked to this is the formation of a Europa Reinsurance Facility to facilitate the growth of member country risk insurance markets.</p> <p>The World Bank also has emergency reconstruction loans for assisting countries experiencing emergencies.</p>
Price Volatility/Food Security Resources Policies/Strategies Instruments	<p>Under its emergency assistance facility, ADB has approved about \$700 million in support of developing and implementing food safety nets in Asian countries that were adversely affected by the food price crisis of 2008. These include Bangladesh, Cambodia, Mongolia, and Pakistan.</p> <p>ADB is committed to funding</p>	<p>AfDB established the Africa Food Crisis Response initiative in 2008 to reduce food poverty and malnutrition in the short term and to ensure sustainable food security in the medium to longer term.</p> <p>The Africa Food Crisis Response is providing financial assistance to regional member countries</p>	<p>IDB provided \$500 million to help countries in Latin America and the Caribbean cope with rising food costs. The new program involves supporting conditional cash transfer schemes. The initiative would also allow countries to fund infrastructure projects, improve access to credit, and cover the costs of</p>	<p>The Global Food Crisis Response Program was set up in May 2008 to provide immediate relief to countries hard hit by high food prices. The World Bank's response has been articulated in coordination with the UN High-Level Task Force on the Global Food Security Crisis.</p> <p>On 16 April 2009, the World</p>

	ADB	AfDB	IDB	World Bank
	<p>\$2 billion a year for food security related investments.</p> <p>MDBs (ADB, AfDB, the European Bank for Reconstruction and Development, the World Bank, Inter-American Development Bank, and the Islamic Development Bank) are jointly developing a food and water security action plan to be launched at the annual meeting of the heads of the MDBs in September 2011.</p>	<p>amounting to UA472.0 million in the short term and UA1.4 billion in the medium to long term. These funds will focus on agricultural infrastructure, including water mobilization for irrigation, rural access roads, and facilities for reducing post-harvest losses.</p>	<p>technical assistance, particularly to boost agricultural and food production.</p>	<p>Bank's board endorsed a rise in the ceiling from \$1.2 billion to \$2 billion, but shortened the use of expedited processing by 1 year to 30 June 2010. In light of the recent rise in food prices again from June 2010, the board reinstated the initial time period for the use of expedited processing to June 2011. The money focuses on feeding and enhancing the nutrition of the most vulnerable groups.</p> <p>Grant funding has also been made available through several external-funded trust funds in support of Global Food Crisis Response Program interventions. A Multi-Donor Trust Fund has received contributions of A\$50 million from Australia, €80 million from Spain, W7.6 billion from the Republic of Korea, Can\$30 million from Canada, and \$0.15 million from IFC.</p> <p>The World Bank aimed to triple investments in safety nets and other social protection programs in</p>

	ADB	AfDB	IDB	World Bank
				<p>health and education to \$12 billion since 2009.</p> <p>The World Bank established an Agriculture Finance Support Facility in 2009 to expand rural finance through a \$20 million Bill & Melinda Gates Foundation contribution. The facility will increase access to financial services (e.g., savings, credit, payments, insurance).</p> <p>Driven by G8 and G20 commitments, the World Bank launched the Global Agricultural Food Security Program in 2010, a multilateral trust fund with funding of less than \$1 billion. A few eligible least developed Asian countries include Bangladesh, Cambodia, the Kyrgyz Republic, the Lao PDR, Nepal and Tajikistan. The majority of eligible countries are from Sub-Saharan Africa. ADB serves as supervising entity for Cambodia; for the rest, the World Bank supervises.</p>

	ADB	AfDB	IDB	World Bank
Pandemics Resources Policies/Strategies Instruments	<p>The Operational Plan for Improving Health Access and Outcomes under Strategy 2020 highlights ADB's commitment to address communicable/emerging infectious diseases and health security issues as a regional public good.</p> <p>ADB has been supporting its DMCs in the prevention and control of communicable/emerging infectious diseases: (i) prevention and control of avian influenza in Asia and the Pacific, financed by a \$42.2 million grant (ADF \$25 m, TASF \$3 million, Japan Special Fund \$10 million, Canadian International Development Agency \$4.2 million), covering containment of avian influenza outbreaks and improving preparedness for influenza pandemic; (ii) communicable disease control in the Greater Mekong Subregion: Cambodia, Lao PDR, Viet Nam, financed by a \$30 million grant from the ADF, instrumental in establishing a comprehensive national surveillance and response system, and integrating communicable disease control for vulnerable groups along transport corridors. The investments are aligned with the Asia and the</p>	<p>AfDB's health funding includes (i) institutional capacity building through assistance of policy/strategy formulation and implementation; (ii) human capital development to create an environment for the operation of national AIDS strategies through training and technical assistance support; (iii) HIV/AIDS multisectoral responses with emphasis on prevention and control interventions; (iv) advocacy to raise political commitment and leadership toward a collaborative effort in the fight against the pandemic among RMCs and development partners; and (v) partnership development to forge new alliances and revitalize existing collaboration on critical development concerns such as HIV/AIDS.</p>		<p>Health systems strengthening in the global fight against avian and pandemic influenza is central to the World Bank's 2007 Health, Nutrition, and Population Strategy. The World Bank applies a multisector ("One Health") approach to ward off infectious diseases. The World Bank has developed an extensive portfolio under its Global Program for Avian Influenza Control and Human Pandemic Preparedness Response. The World Bank has approved \$1.3 billion for projects in 60 countries. The World Bank-administered multi-donor Avian and Human Influenza Facility received pledges of \$127 million from 10 donors. The "One Health" approach is used to strengthen veterinary services, animal and human disease surveillance, and human health systems. The World Bank has supported a series of ministerial conferences on avian and pandemic influenza, starting in 2006, by analyzing for the international community the status of financing</p>

	ADB	AfDB	IDB	World Bank
	Pacific Strategy for Emerging Diseases.			needs and gaps.
Fragile and Conflict-Affected Situations Resources Policies/Strategies Instruments	<p>In 2007, ADB adopted a framework for guiding, planning, and implementing ADB's approach to engaging with fragile and conflict-affected situations, including a methodology for identifying them. The approach has two pillars: (i) selectivity, and (ii) strategic partnerships. It highlights the need for longer term commitments, flexible institutional responses and modalities, working with parallel institutions such as civil society groups, adjusting staffing levels, and strengthening incentives to enhance staff motivation to work and locate in fragile and conflict-affected situations.</p> <p>No specific resources; however, fragile Pacific DMCs benefit from higher allocations as 4.5% of the ADF has been earmarked for the Pacific. Afghanistan benefits from higher allocations because of its post-conflict status.</p>	<p>In 2008, AfDB adopted the Strategy for Engagement in Fragile States and Operating Guidelines of the Fragile States Facility. AfDB increased funding for eligible countries through three sources: the Fragile States Facility (UA535 million), regular performance-based allocations, and the regional operations envelope. By the end of the AfDB Fund-11 cycle, the amount of the Fragile States Facility, performance-based allocations, and regional operations resources committed to eligible fragile states is expected to total UA1,084 billion.</p> <p>AfDB has also enhanced engagement its engagement in country policy dialogue and its support for governance reforms. Additional efforts are being made to strengthen portfolio management.</p>	<p>IDB only considers Haiti as a fragile state.</p>	<p>The World Bank's classification of fragile states is based on IDA-eligible, low-income countries with a Country Policy and Institutional Assessment score of 3.2 or below, or no Country Policy and Institutional Assessment score.</p> <p>The World Bank provides state-building support to a large number of fragile and conflict-affected countries. The World Bank's assistance approach for fragility and conflict-affected countries has shifted from a focus on rebuilding infrastructure to a comprehensive approach and broader agenda.</p> <p>The World Bank provides significant resources to fragile states through the State and Peace-Building Fund, established in 2008 with a contribution of \$100 million for 3 years (FY2009–FY2011); and through single- and multi-country Multi-donor Trust Fund. The World Bank also has policies governing debt</p>

	ADB	AfDB	IDB	World Bank
				relief. For financing purposes, IDA groups fragile states into four categories: (i) countries receiving allocations based on IDA's performance-based allocation; (ii) countries receiving exceptional post-conflict allocations; (iii) countries receiving exceptional allocations upon reengaging with IDA after a prolonged period of inactivity, but which did not qualify for post-conflict assistance; and (iv) countries that do not receive any IDA financing because they are in arrears on IDA repayments.

ADB = Asian Development Bank, ADF = Asian Development Fund, AfDB = African Development Bank, DMC = developing member country, FY = fiscal year, G8 = Group of Eight, G20 = Group of Twenty, IBRD = International Bank for Reconstruction and Development, IDA = International Development Association, IDB = Inter-American Development Bank, IFC = International Finance Corporation, MDB = multilateral development bank, TASF = Technical Assistance Special Fund, UN = United Nations.

Source: Asian Development Bank.