Inter-American Development Bank

DRAFT
DISASTER RISK MANAGEMENT POLICY

December 21, 2005

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I) Introduction

This Disaster Risk Management Policy has been developed in the context of an increase in the number and seriousness of natural hazards resulting in disasters in Latin America and the Caribbean, and the awareness that disasters have significant bearing on the economic and social development of most countries in the region, affecting disproportionately the poorest countries and people.

This policy, which emphasizes risk reduction, is intended to improve the institutional and policy framework of the Bank to support disaster risk management in order to help protect the socioeconomic development of borrowing member countries and improve the effectiveness of the Bank's assistance.

A proactive stance to reduce the toll of disasters in the region requires a comprehensive approach with an emphasis on actions taken before a hazard results in a disaster rather than on post disaster recovery. This approach seeks to make disaster risk prevention an integral part of governance. It involves the following set of activities: risk analysis to identify the types and magnitude of potential impacts faced by member countries and that affect development investments; prevention and mitigation measures to address the structural and nonstructural sources of vulnerability; financial protection and risk transfer to spread financial risks over time and among different actors; emergency preparedness and response to enhance a country's readiness to cope quickly and effectively with an emergency; and post-disaster rehabilitation and reconstruction to support effective recovery, and to safeguard against future disasters.

The Bank recognizes that adequate institutional capacities are particularly important to manage risks related to natural hazards at the regional, national and local levels and for the successful achievement of this policy's objectives. The Bank will make an additional effort to take into account: the incentive structures and competing priorities influencing investment decisions for disaster risk management by national, regional or local governments; the increased role of private sector investment and public/private sector partnerships; improvements in the quality of and access to information through research and new technologies; and the growing importance of regional and global challenges and opportunities. The Bank acknowledges that development processes such as rapid urbanization and environmental degradation may influence vulnerability to natural hazards and that vulnerability is often gender and poverty specific.

[1] The companion paper to the proposed new policy provides background support and context for this document. It underscores the current state of disaster risk management in Latin American and the Caribbean and the need for reducing vulnerability. It also details the merits of the shift to disaster risk management that is embodied in the new policy.

II) Objectives

The purpose of the Bank's disaster risk management policy is to guide the Bank's efforts to assist its borrowers in reducing risks emanating from natural hazards and in managing disasters, in order to support the attainment of their social and economic development goals.

The policy has two interrelated specific objectives:

i) To strengthen the Bank's effectiveness in supporting its borrowers to manage risks related to natural hazards by reducing vulnerability, and by preventing and mitigating related disasters before they occur; and

ii) To facilitate rapid and adequate assistance by the Bank to its borrowing member countries in response to disasters in an effort to efficiently revitalize their development efforts.

III) Scope

Areas of Coverage

The Disaster Risk Management Policy applies to the Inter-American Development Bank (IDB), in both its public and private sector activities, and to the Multilateral Investment Fund (MIF).

Activities and instruments subject to this policy include the development and implementation of country strategies and country program dialogues, financial and nonfinancial products, public and private sector operations, financial intermediation, and relevant aspects of the Bank's project procurement practices.

This policy provides two lines of action addressing: (i) the <u>prevention and mitigation of disasters</u> that occur as a result of natural hazards, through programming and proactive project work; and (ii) <u>post disaster response</u> to the impacts of natural hazard events, and <u>physical damage</u> (such as structural collapse and explosions) resulting from technological accidents or other types of disasters resulting from human activity.

With respect to natural hazards, this policy covers two kinds of events: (i) *low frequency/high consequence hazards* and (ii) *high frequency/low consequence hazards*. Low frequency/high consequence hazards typically result in a "declared" disaster that exceeds the coping ability of the affected country or community using its own resources. When high frequency/low consequence hazards (such as frequent floods, forest fires or droughts) are poorly managed they can have significant cumulative impacts on a country's efforts to reduce poverty and attain social equity objectives, as well as on its economic development.

The Bank does not have a comparative advantage in the area of humanitarian assistance. Such assistance should only be addressed through emergency technical cooperations (as described in Directive B3) or through non-IDB sources.

To support this policy, Bank management will issue specific guidelines on how to apply the policy's principles and each of its directives. The guidelines may be updated by management from time to time as necessary to reflect lessons learned and emerging good practices. The guidelines and the companion paper to this policy will include a complete list of definitions.

Key Definitions

"Disaster," as used in this policy, refers to a serious disruption of the functioning of a society, community or project causing widespread or serious human, material, economic or environmental losses, which exceed the coping ability of the affected society, community or project using its own resources.

"*Natural hazard*" refers to natural processes or phenomena affecting the biosphere that may constitute a damaging event. Such hazards include: earthquakes, windstorms, hurricanes, landslides, tidal waves, volcanic eruptions, floods, freezes, forest fires and drought, or a combination thereof. Hazards emanating from climatic variations such as those linked to the El Niño phenomenon are covered by this policy.

"*Vulnerability*" is a condition determined by physical, social, economic and environmental factors or processes, which increase the susceptibility of a community to the impact of hazards.

"Disaster risk management" is the systematic process that integrates risk identification, mitigation and transfer, as well as disaster preparedness, emergency response and rehabilitation or reconstruction to lessen the impacts of hazards.

Areas Outside the Present Policy

The <u>prevention and mitigation</u> of disasters caused by social and political violence (also referred to as conflict-driven disasters) will be treated separately from this policy since the planning and application of policies, strategies and measures that identify and reduce risks associated with these events are very different than those necessary to prevent and mitigate natural hazards.

The prevention of technological hazards will be managed as part of the Bank's regular project design and implementation process in accordance with applicable sector policies. Environmental degradation, which may be an underlying reason for increased vulnerability to natural hazards, will be managed through the Bank's Environment and Safeguards Compliance Policy (2005 draft), which also provides safeguards to ensure that all Bank operations and activities are environmentally sustainable.

Epidemics and pandemics such as HIV/AIDS are outside the policy scope. These are covered by the Bank's Public Health Policy.

Risk management related to the Bank's personnel and installations is covered in the Bank's Business Continuity Plan.

Lending operations to address financial emergencies are treated through the Bank's Emergency Lending Guidelines.

IV) Directives

The following directives provide the principles that the Bank will follow to manage disaster risk related to programming and project work, and the Bank's response to a disaster.

IV-A) General Directives

A-1. Programming

Dialogue with borrowing member countries . The Bank will seek to include the discussion on proactive disaster risk management in the dialogue agenda with borrowing member countries. The Bank will give due consideration to vulnerability related to natural hazards and risk management in relation to the priority areas of intervention discussed and agreed with the borrowers for the development of country strategies and operational programs.

The Bank will identify countries according to their level of exposure to natural hazards based on existing indicators and Bank experience. For countries that are highly exposed to natural hazards the Bank will identify their potential vulnerability as a major development challenge and propose a country level disaster risk assessment. When the assessments identify that potentially important disruptions in the country's social and economic development could be caused by disasters resulting from natural hazards, the Bank will encourage the inclusion of disaster risk management activities in the country strategy and operational program agreed with the borrower. These may include policy reforms, specific institutional strengthening activities and investment projects conducive to reducing vulnerability at the national, regional and municipal levels. The Bank will promote the use of the Disaster Prevention Sector Facility described in Section V of this policy and other means it offers to finance the recommended actions resulting from the assessment process.

A.2 Risk and Project Viability

Identification and reduction of project risk. Bank-financed projects will include the necessary measures to reduce disaster risk to acceptable levels as defined by the IDB. The Bank will not finance projects that, according to its analysis, would increase the threat of loss of human life, significant human injuries, severe economic disruption or significant property damage related to natural hazards.

During the project preparation process project teams will identify if the projects have high exposure to natural hazards or show high potential to exacerbate risk. The findings will be reported to the Bank through the social and environmental project screening and classification process. Project teams should consider the risk of exposure to natural hazards by taking into account the projected distribution in frequency, duration and intensity of hazard events in the geographic area affecting the project.

Project teams will carry out a natural hazard risk assessment for projects that are found to be highly exposed to natural hazards or to have a high potential to exacerbate risk. Special care should be taken to assess risk for projects that are located in areas that are highly prone to disaster as well as sectors such as housing, energy, water and sanitation, infrastructure, and industrial and agricultural development, as applicable. In the analysis of risk and project viability, consideration should be given to both structural and non-structural mitigation measures. This includes specific attention to the capacity of the relevant national institutions to enforce proper design and construction standards and of the financial provisions for proper maintenance of physical assets commensurate with the foreseen risk.

When significant risks due to natural hazard are identified at any time throughout the project preparation process, appropriate measures should be taken to establish the viability of the project, including the protection of populations and investments affected by Bank financed activities. Alternative prevention and mitigation measures that decrease vulnerability must be analyzed and included in project design and implementation as applicable. These measures should include safety and contingency planning to protect human health and economic assets. Expert opinion and adherence to international standards should be sought, where reasonably necessary. In the case of physical assets, the Bank will require that, at the time of project preparation, the borrower establish protocols to carry out periodic safety evaluations (during construction as well as during the operating life of the project) and appropriate maintenance of the project equipment and works, in accordance with generally accepted industry norms under the circumstances.

The Bank's social and environmental project screening and classification process will evaluate the steps taken by project teams to identify and reduce natural hazard risk.

IV-B) Post Disaster Operations

In order to provide timely assistance at different stages after a disaster, the Bank may employ special procedures for processing and reformulating loans to streamline preparation and expedite execution, including the Bank's Special Procurement Procedures for Emergency Situations.

B-1. Loan Reformulation

<u>Redirecting resources from existing loans.</u> The Bank may approve the reformulation of existing loans in execution in response to disasters if: (i) a state of emergency or disaster has been officially declared by the government; (ii) the impact of the loan reformulation has been estimated taking into account the intended uses and project objectives of the loan or loans to be reformulated relative to the proposed use of the funds, thereby creating the conditions for more informed decisions on the part of the approving authorities; (iii) adequate

transparency and sufficient mechanisms for monitoring, auditing and reporting the use of the redirected funds is in place, while taking into account the need of a timely response given the nature of the situation; and (iv) a significant share of the redirected funds will be earmarked to reduce the borrower's vulnerability to future disasters and improve the country's capacity for comprehensive disaster risk management.[2]

B-2. Reconstruction

Avoiding rebuilding vulnerability. Operations that finance rehabilitation and reconstruction after a disaster require special precautions to avoid rebuilding or increasing vulnerability. These include the precautions mentioned in A-2, as well as correcting deficiencies in risk management policies and institutional capacity as reflected in A-1. A significant share of the new investment will be earmarked to reduce vulnerability to future disasters and improve the country's capacity for comprehensive disaster risk management.[3] Particular attention must be given to lessons learned from recent hazard events. The Bank will not assume that pre-disaster conditions persist in whole or in part in the affected area. Disaster risk assessment of the reconstruction project should be carried out taking into account the specifics of the area, the sector and the infrastructure concerned, as well as the current environmental, social and economic situation and any changes in the affected area as a result of the disaster.

B-3. Humanitarian Assistance

Limited Bank role. Humanitarian assistance with Bank funding may be granted only if a state of emergency or disaster has been officially declared by the government. This funding will be provided only through emergency technical cooperations, to be implemented during or immediately after a disaster. The resources should be administered by international or local aid organizations specialized in humanitarian assistance and should be used exclusively for relief activities. The Bank's representative, in coordination with the government of the beneficiary country, is responsible for identifying the aid organizations that will receive the funding and administer the assistance.

In the event that the Bank enters into a future agreement to administer resources provided by outside sources that include humanitarian assistance among the activities eligible for financing, this assistance should be designed in a manner that is consistent with the principles set out in the present policy.

V) Policy Implementation

This policy enters into effect six months after its approval by the Board of Executive Directors. This will allow sufficient time to implement administrative changes and proce-

[2] The guidelines for this policy will recommend the appropriate part of the total cost for investments that should be allocated to disaster prevention and mitigation measures for loan reformulation or reconstruction projects.
[3] Ibid.

dures within the institution. The policy will apply to operations that enter the Bank's pipeline[4] after the date the policy enters into effect.

The Bank will use its standard procedures including those of the environmental classification and screening process for monitoring performance and evaluating compliance with the directives set out in this policy. The Bank will have an independent evaluation carried out five years after the policy enters into effect, to assess its impact on Bank activities, particularly concerning the integration of disaster risk management in the programming process as outlined in A-1 and disaster risk management in the project cycle as outlined in A-2. The Bank will publicly report its experience with the implementation of this policy and the achievement of its objectives.

The Bank has several specialized instruments at its disposal that contribute to the implementation of this policy. These instruments may be used to assist its borrowing member countries in managing disaster risk, in addition to the Bank's regular lending and technical cooperation mechanisms. The Disaster Prevention Sector Facility provides financing for the identification, prevention or mitigation of risk, and preparation for disasters. Instruments for post disaster operations include the Immediate Response Facility, the Emergency Technical Cooperation, and the Special Procurement Procedures for Emergency Situations. The Bank may review existing instruments or establish new instruments to increase the efficiency of the implementation of the policy.

The policy cannot specifically encompass all circumstances, and consequently, it is conceivable that departures from one or more of the directives in the policy may need to be considered. In such circumstances, proposals advocating a departure in either programming activities or in project development and execution must demonstrate the exceptional characteristics of the situation that justify the departure. Project proposals with deviations from the policy should include the measures to mitigate the associated effects and formally request any specific exceptions to the policy.

VI) Relation to Other Policies

This policy will supersede OP-704 on *Natural and Unexpected Disasters*. This policy will be implemented in a manner that is consistent with all relevant Bank policies and strategies.

[4] Entering the Bank's pipeline means (i) after the signing of the mandate letter, for private sector operations, (ii) after the project number has been issued, for public sector and Multilateral Investment Fund operations, and (iii) for country strategy papers, those that have not yet been initiated (practice among the operational departments currently states that the country strategy process is considered initiated once an Annotated Outline, Issues Paper or Policy Dialogue Paper has been created).