Opportunities for Incorporating Natural Hazard Risk Management into Bank Operations and the Project Cycle

Operations Policy and Country Services (OPCS)
Enhancing Poverty Reduction through Disaster Risk Management

What is the Bank's Country Assistance Strategy (CAS)?

- Central tool of Bank Management and the Board to guide country programs
- Vehicle to agree on a program of support with the Government, in coordination with other partners
- Guide for Bank staff working with a country

Country-owned Vision and Strategy

- CAS starting point is
  - In IDA countries: a Poverty Reduction Strategy Paper
  - In IBRD-only countries: other national development strategy or Bank analysis of country conditions and major constraints to development
- Country strategy covers issues necessary for successful development:
  - Poverty assessment, structural, social, environmental, institutional, macroeconomic policies, and
  - Cross-cutting issues (gender, environment, private sector, financial sector, hazard risk management)
“Features of a Good CAS’
(excerpt from guidance, see website: OPCS > Country Economics > CAS)

2. Strategic Selectivity. A good CAS is the central vehicle for making strategic choices in country program design and Bank resource allocation, with the objective of maximizing development impact.


10. Risks. A good CAS thoroughly treats risks to the country (economic-financial, both domestic and external, political, social, and environmental) and to the Bank (exposure/financial as well as reputational), proposes risk mitigation measures, and candidly recognizes the risk to the Bank.

In a good CAS, the Bank’s Program

...reflects:
- Country’s priorities, needs, performance, and institutional capacity
- Bank Group’s institutional strategy, track record in country and comparative advantage (draws on findings of IEG evaluations and QAG assessments)
- The role the Government requests the Bank to take with respect to other partners

and the CAS identifies:
- risks to the country and to the Bank Group’s strategy
- rationale for mix of financing instruments
There are at least eight entry points for addressing Hazard Risk Management:

1. PRSP/National development strategy
2. Bank analysis of country conditions & constraints to development
3. CAS cross-cutting issues
4. Country’s priorities, needs, performance, and institutional capacity
5. Country-Bank dialogue
6. Bank’s comparative advantage, drawing on findings of Independent Evaluation Group (IEG) or QAG evaluations
7. Risks to the country
8. and others, including Economic and Sector Work (ESW), which feeds into many of the above items

ESW: The Bank’s Primary Analytic Product Line

Characteristics and objectives:

- ESW activities should be undertaken with the intent of influencing an external client’s policies and programs
- ESW sets the framework for discussion with clients (most often Governments)
- ESW helps clients identify their priority needs and develop policies/programs to meet them

ESW Resulting in Lending

Examples of ESW Resulting in Lending:

- Study on Managing Disaster Risk in Mexico → $400 million Natural Disaster Mitigation project
- Study on Flooding in Buenos Aires, Argentina → $200 million Flood Protection project
- Regional study on hazard risk management in ECA → ongoing dialogue with national governments & hazard risk mitigation projects in the pipeline for Romania and Kyrgyz Republic
Conclusions

- CAS is the main tool for encouraging strategic approaches
- HRM in the CAS gives a strong mandate for it to be included in projects
- Bank encourages preventive approach
- ESW is also important in itself, as well as in relation to CAS

Investment Lending

Project Cycle

Investment Lending Instruments

- Specific Investment Loan (SIL)
- Sector Investment and Maintenance Loan/Program (SIM/SIP) — “Sector Wide Approaches (SWAps)"
- Adaptable Program Loan (APL)
- Learning and Innovation Loan (LIL)
- Technical Assistance Loan (TAL)
- Financial Intermediary Loan (FIL)
- Emergency Recovery Loan (ERL)
- Additional Finance Loan (AFL)
Development Policy Lending

- Deferred Drawdown Option (DDO)
- DPL (PRSC in IDA countries)
- Supplemental Financing
- Debt and Debt Service Reduction

Responsibilities

**BORROWER**

- Identification (Joint)
- Preparation (Borrower)
- Appraisal (World Bank)
- Negotiations (Joint)
- Board Approval (World Bank)
- Signing & Loan Effectiveness (Joint)
- Implementation (Bor.)
- Supervision (WB)
- Project Evaluation (Joint)

**WORLD BANK**

Diagram of Project Cycle & Intervention Points

- Project Cycle, Documents, and NHRM Options

- CAS Process
- Identification
- Preparation (excl. GM)
- Appraisal

- ISDS
-Draft PAD for QER, RAP, RS
- PA, ISDS EA, RAP, RP, if needed

- TOR, other docs EA, RAP, RP
Project Concept Note (PCN): Objectives

- To flag risks and potential mitigation measures
  - What are the risks that might prevent the project development objective(s) from being achieved, including but not limited to political, policy-related, social/stakeholder-related, macro-economic, or financial?
  - What relevant risks have been identified through predecessor operations or from poverty, social, financial management and procurement assessments? How might they be addressed in the proposed project? Might any new assessments be needed?
  - Which safeguard policies might apply to the proposed project and in what ways? What actions might be needed during project preparation to assess safeguard issues and prepare to mitigate them?

Project Appraisal Document (PAD)

PROJECT DESCRIPTION

Section 4. Lessons learned and reflected in the project design
- How does the project design reflect the lessons from analytical work, ongoing and completed operations, and international best practices?
- Has past performance of projects in the sector been poor, according to ICRs, PPARs, and OED sector/thematic studies? If so, why, and how have past deficiencies been overcome?

Section 5. Alternatives considered and reasons for rejection
- Why was the proposed approach or design chosen?
- What alternative approaches/designs were considered and why were they rejected?
Project Appraisal Document (PAD)

IMPLEMENTATION SECTION

Section 4. Sustainability
• What other factors are critical to the sustainability of the project’s objectives?

Section 5. Environment
• Enhancing livelihoods of the poor through: (i) improved and transparent management of natural resources or (ii) reduced vulnerability to environmental change (e.g., natural disasters such as floods)
• Protecting people’s health from environmental risks and pollution

Section 6. Safeguards
• Any safeguards-related risks, perceived or substantive, and measures taken or proposed to be taken to address the risks.

Appraisal – Bank’s Responsibility

• **Economic**
  - Fitting with CAS and Project rationale
  - Strategic choices (private or public, possible options)
  - Benefit to Country (Focus on poverty)
  - Risk Analysis

• **Technical**
  - Review of designs, cost estimates, procurement arrangements
  - Implementation schedule

• **Institutional**
  - Capability to implement project
  - Training, staff needs

• **Financial Viability**
  - Environmental and Social Participatory Approach
  - Results

  - PAD and Draft Legal Documents
    - Covenants
    - Agreements (Loan/Guarantee)

Project Supervision and Evaluation

**Back-to-Office Reports, Aide Memoires, PSRs**
• Largest part of project cycle
• Requires minimum of 2 Project Status Reports per year

**Implementation Completion Report**
• Borrower/Bank responsibility
• Evaluation of implementation performance of parties including:
  - Achievement of project objectives
  - Cost/Benefit
  - Analysis of successes and failures
  - Sustainability
Results Orientation

- Results are sustained improvement in development outcomes at the country level (e.g., families lifted out of poverty)
- How do we get better results?
  - Start with a clear articulation of strategic goals and operational programs
  - Determine what are the strategic priorities and associated desired outcomes
  - Let the outcomes drive the strategy
  - Involve stakeholders
  - Improve results by increasing management attention to them:
    - understand causal relationships
    - measure inputs, outputs and outcomes

In Summary . . .

- NHRM is implicit in policies and objectives of sustainability and managing risk and explicit in OP 8.50 and OP 4.01
- NHRM should be discussed in CAS, PCN, PAD
- NHRM should increasingly be mainstreamed and thought about at strategic level before a crisis happens
- Make NHRM considerations a part of standard development projects and thinking
- NHRM is relevant to, among others, investments, human and environmental risk, and the Bank’s reputational risk

Proposed Bank Procedures
Investment Lending (OP/ BP 10.00)

- Normally only two management reviews
  - Concept Review to authorize project preparation, and
  - Decision Review to authorize project appraisal and/or negotiations
Proposed Concept Review

- Carried out at an early stage of project preparation and is based on a concise concept document.
- Management decides whether to proceed with project preparation.
  - If project preparation is authorized, then
    - Concept Review determines whether a quality enhancement process is needed (such process may include a Quality Enhancement Review or review by Peer/External Reviewers), and
    - Task Team finalizes and sends to the InfoShop a Project Information Document (PID) and an Integrated Safeguards Data Sheet (ISDS).

Proposed Decision Review

- Based on drafts of a project appraisal document and the legal agreement.
- Carried out when the Task Team considers project preparation has advanced to a point at which management may:
  - authorize project appraisal,
  - authorize negotiations following completion of project appraisal, or
  - confirm that appraisal has been completed and the project is ready to proceed to negotiations.
- PID and ISDS are updated as appropriate and sent to the InfoShop.

Proposed Corporate Review

- If Regional management decides that the project should be reviewed at either the regional or central level, such review is normally held in lieu of the Concept Review or Decision Review.
**Proposed** Negotiations and Approval

- Upon completion of appraisal by the Bank, the Borrower and the Bank hold negotiations at which agreement is reached on key aspects of the project and on the terms and conditions of the loan as set out in the legal agreement.

- Following conclusion of negotiations, all project documents are finalized (the Memorandum of the President, the final PAD, and the Statutory Committee Report), and the project is submitted to the Executive Directors or to another approval authority (RVP approves LILs, and RVP conditionally approves, subject to ED review period, subsequent phases of APLs).

**Proposed** Signing and Effectiveness

- Following project approval, legal agreement is signed, and steps taken to declare the loan/credit effective in accordance with the procedures set out in OP/BP 13.00, *Signing of Legal Documents and Effectiveness of Loans and Credits*