
APPENDIX A: BANK POLICY AND PRODUCTS

The Bank's emergency-related work has been governed by three successive policy statements that have reflected the evolution of Bank thinking on responding to natural disasters. Operational Policy Note (OPN) 10.07, *Guidelines for Bank Participation in Reconstruction Projects after Disaster*, was adopted in July 1984. This was superseded by Operational Directive (OD) 8.50, *Emergency Recovery Assistance*, in November 1989. And the OD was replaced in turn by Operational Policy (OP) 8.50, *Emergency Recovery Assistance*, in August 1995. The three policy statements differ in how they characterize emergencies and in several other areas as described below.

Evolution of Policy

The emergency lending procedures formalized in OPN 10.07 were based on an analysis of 40 reconstruction projects from the 1970s and early 1980s. The OPN details how to respond to natural disasters, but barely mentions war, though it refers to man-made disasters.¹ OD and OP 8.50 are more specific, describing an emergency as “an extraordinary event of limited duration, such as a war, civil disturbance, or natural disaster.”

Apart from the general definition, the policy statements have done little to restrict the kinds of emergency situations that would be eligible for Bank financing. Hence, the range of events that can be considered emergencies has grown. Each policy statement has had a slightly different list of natural disaster emergencies that are eligible for Bank response: the OPN names earthquakes, hurricanes, and droughts; the OD, earthquakes, floods, and hurricanes; and the current OP, cyclones, droughts, earthquakes, floods, forest fires, and tidal waves.

Owing to the lack of restriction, in recent years “emergencies” have included foot-and-mouth disease (Uruguay 2002), the decline in tourism in Caribbean countries after the September 11 attacks on the United States (St. Vincent and the Grenadines 2002; Dominica 2002; Grenada 2002; St. Kitts and Nevis 2002; and St. Lucia 2002), return-migration into Yemen during the Gulf Crises (Yemen 1991), the AIDS epidemic (Uganda 1988), and avian influenza (Vietnam 2005), among others.

The key provisions of the current OP are shown in table 1.1 in the main text. Table A.1, attached to this appendix, provides a detailed, comparative analysis of the three policy statements.

All three iterations of the emergency policy have instructed staff to see that projects are designed to restore assets and productivity levels after emergencies that seriously dislocate the economy. They focus on reconstruction, and agree that relief and consumption should never be financed. The prohibition is based on the argument that borrowing should be reserved for economically productive activities, and that relief is best provided by local groups, the governments concerned, bilateral relief programs, nongovernmental organizations, and specialized relief organizations.

The list of measures not to be financed by the Bank has been more detailed with each revision of policy. The OPN prohibits only temporary shelter, whereas the OD lists search and rescue, evacuation, health care, and food and water distribution. The OP adds temporary sanitation and restoration of access to transport. The policy statements generally guide the Bank away from financing any form of consumption or the immediate needs of disaster victims.

Forms of Bank Assistance after Emergencies

The Bank can respond to an emergency in several ways. A common response is to develop an Emergency Recovery Loan (ERL), but the Bank also can reallocate funds from an existing project or revise and hasten processing of a planned project. It can also develop a new investment loan for mitigation activities.

Emergency Recovery Loans

In 1970 and 1971, the Bank financed natural disaster reconstruction projects after an earthquake in Peru and a cyclone in Bangladesh.² In these projects, several shortcuts were taken to speed up the project appraisal process to meet the borrowers' urgent needs. These then became the model for a new instrument, which came to be called the Emergency Recovery Loan (ERL).

The three policy statements have not differed much in how they describe ERL features. As stated in the OPN, ERLs receive early clearance, convene an advisory group, prepare one document that is a combined appraisal report and memorandum of the president, and use simplified procedures.³ The emphasis on using this lending instrument has increased over time, accompanying the broadening scope of what constitutes an emergency. The main features of this instrument are described in the remainder of this section.

Limits on what reconstruction should do

All three policy statements draw limits around what reconstruction projects should do. The OPN suggests that projects limit themselves to the "rapid restoration of physical structures and productive activities." It discourages the creation of permanent new institutions for project implementation and advocates limited changes—for example, through disaster prevention and mitigation measures. According to the policy note, the aftermath of a disaster is the ideal time to reduce vulnerability.

The OD suggests limiting the number of sectors and objectives in an emergency project. ERLs are not intended to address long-term economic problems that require major policy adjustments. On the contrary, in the aftermath

of a disaster, a borrower tends to be overwhelmed by relief and reconstruction, so that it should not be burdened with complicated conditionality. Limited conditionality may be used, however, if it is linked directly to the emergency.

The OP calls for ERLs that do not reflect broad sectoral, structural, or institutional goals. It states: "Projects that are too complex, attempt to implement entirely new approaches, rely on an institutional support that in most cases is weak, and require detailed planning studies are not appropriate."

Short timeframe

All three policy statements aim to implement emergency projects within three years. The OPN and the OP recommend an even shorter implementation period of two to three years.

Recurrent events

All three policy statements agree that ERLs are not the right instrument for recurrent or long-term events such as annual flooding and drought, because these events have characteristics that are handled better by a normal investment project. Unlike the OPN and the OP, the OD lets the task manager decide whether slow-onset emergencies, such as drought, war, or civil disturbance, require the quick response of an ERL or the more thorough preparation of one or more normal investment projects.

Disaster-resistant design/studies/technical assistance

All three policy statements suggest that ERLs should use measures to reduce vulnerability, such as disaster-resistant construction standards. In addition, they note that ERLs should reinforce vulnerable structures, adjust building and zoning codes, and acquire hazard-reduction technology (for example, early warning systems). The OD and OP add the establishment of an adequate institutional and regulatory framework for prevention and mitigation to this list.

The policy statements differ, however, in the way these measures should be implemented. The OPN, for example, recommends not undertaking projects that require detailed planning studies. Yet later policy statements find

that without detailed planning studies, vulnerability is not reduced. Therefore, the OD recommends studies for vulnerability reduction as well as detailed preparation and record keeping of consultant services for these studies. The OP follows in a similar vein by calling for emergency-preparedness studies.

A shift in policy recommendations can also be found regarding technical assistance. While the OPN recommends that such assistance be provided by supervision missions, the OD and OP suggest having the assistance provided by consultants.

Procurement/disbursement/retroactive financing

The OPN allows for retroactive financing and advance contracting; the OD and OP stipulate that projects should “use no more than 20 percent of loan proceeds for retroactive financing.” Other ways of making funds available quickly are Project Preparation Facility and Balance of Payment (BoP) Loans, the latter to finance a positive list of imports immediately after a disaster.

Once a project is approved, however, all three policy statements agree that standard Bank operational policies on procurement, consultants, and disbursement apply. OD 11.00 (1989) and OP 11.00 (2004) on procurement also make provisions for emergencies that allow for more flexibility in procurement procedures (as recommended in IEG 1998). They permit direct contracting without competitive bidding (single source) when this is the most appropriate course of action.

Other Response Options

Loan reallocations

Not all emergency situations call for free-standing ERLs. Therefore, the Bank often uses loan reallocations to provide smaller amounts quickly after an emergency. All three policy statements recommend reallocations of existing loans. The advantage of this approach is that the projects are already approved, so funds can be quickly rededicated. Often those funds keep their broad sector dedication. For example, funds originally intended for school improvement have been reallocated to school reconstruction after an earthquake had de-

stroyed the schools. In other cases, projects have had slow-disbursing components that, after an emergency, have been reallocated to reconstruction purposes without regard to sector.

Redesign of projects not yet approved

Funds can also be made available after an emergency by redesigning projects not yet approved. All three policy statements propose redesigning projects to include components for disaster reconstruction.

Free-standing investment projects for mitigation

Another way to respond is through investments to prevent foreseeable disasters from occurring and/or limiting their destructive impact. Here, the three policy statements differ. The OPN discusses reducing vulnerability through investment and reconstruction projects, but it does not go as far as recommending free-standing mitigation projects. The OD also advocates including mitigation components in normal investment projects and ERLs, but goes one step further in proposing free-standing mitigation projects that are not to be processed as ERLs. The OP adheres to a similar approach.

Donor Coordination

All three policy statements discuss donor coordination. The OPN suggests that the Bank assist the borrower in coordinating donor efforts, especially in gathering information on damage assessment. It explains: “Coordination among government and international agencies is vital to avoid duplication of efforts, adoption of contradictory policies to guide reconstruction, neglect of areas that may be important to consider in the reconstruction strategy, and waste of resources.”

The OD emphasizes the Bank’s role in attracting and coordinating support from other donors. The UNDP and other international agencies as well as bilateral donors and local nongovernmental organizations are mentioned as potential partners. It notes that they should be involved in designing prevention and mitigation programs.

The OP recommends coordinating with the International Monetary Fund on quick-disbursing components. It also proposes collaboration with the organizations noted under the OD to

design a recovery assistance strategy and specific prevention and mitigation programs.

Disaster-Relevant Products

The Bank's Country Assistance Strategy (CAS) is supposed to synthesize the country situation, government priorities, Bank Group strategy, and Bank partner activities into a coherent program for future work together. For this study, CASs were reviewed to determine, for countries with significant disaster-related issues, whether these issues are reflected in their CASs.

A Poverty Reduction Strategy Paper (PRSP) is

required for a country to receive concessional assistance from the International Development Association (IDA) and the International Monetary Fund. The PRSP is also the basis for the provision of debt relief under the enhanced Heavily Indebted Poor Country (HIPC) Initiative. Since the PRSP process is based on poverty diagnostics, it might be expected that PRSPs for countries where the risk of natural disaster is high, and where disaster regularly makes the life of the poor more difficult, would consider disaster impacts and strategies for vulnerability reduction. The degree to which this happens is noted in Chapter 3.

Table A.1: Comparative Analysis of World Bank Policy Statements

Category	July 1984 Operational Policy Note, No. 10.07 – Guidelines for Bank Participation in Reconstruction Projects after Disaster	November 1989 Operational Directive, OD 8.50 – Emergency Recovery Assistance	August 1995 Operational Policy, OP 8.50 – Emergency Recovery Assistance
Policy applicability	Finance reconstruction activities after disasters. Destruction must affect national priorities or may seriously disrupt the development process.	Emergencies that seriously dislocate the economy and call for a quick response from the government and the Bank.	Emergencies that seriously dislocate the economy and call for a quick response from the government and the Bank.
Definition of "emergency"	Natural and man-made disasters.	An extraordinary event of limited duration such as natural disaster, civil disturbance, or war.	An extraordinary event of limited duration such as natural disaster, civil disturbance, or war.
Relief and consumption	The Bank is not equipped to provide assistance in the immediate post-disaster period. Relief is better done by others.	The Bank does not finance relief and consumption.	The Bank does not finance relief and consumption.
Immediate support for damage and needs assessment	Assist in defining appropriate reconstruction strategies; identify long-term implications of immediate response; quickly assess damage and needs.	Provide immediate support for (a) assessing damage and needs, (b) decision-making consistent with the recovery program, and (c) developing a recovery strategy.	Provide immediate support in assessing the emergency's impact and develop a recovery strategy.
Financing instruments	Reallocate existing loans, substitute future lending, and /or prepare a project-specific reconstruction loan.	Modify existing projects, modify projects under preparation, and/ or prepare a free-standing ERL.	Restructure the Bank's existing portfolio, redesign projects not yet approved, and/or prepare an ERL.
Financing instruments for mitigation	Introduce limited change in disaster reduction/mitigation: Assist countries to reduce vulnerability in regular projects as well as in reconstruction projects.	Inclusion of mitigation components in normal investment operations and ERLs and preparation of free-standing preparedness and mitigation projects.	In addition to emergency assistance, support free-standing investment projects for prevention and mitigation in countries prone to specific types of emergencies.

Table A.1: Comparative Analysis of World Bank Policy Statements (continued)

Category	July 1984 Operational Policy Note, No. 10.07 – Guidelines for Bank Participation in Reconstruction Projects after Disaster	November 1989 Operational Directive, OD 8.50 – Emergency Recovery Assistance	August 1995 Operational Policy, OP 8.50 – Emergency Recovery Assistance
Limited conditionality	Reconstruction projects, although closely related to the attainment of medium- and long-term development goals, should confine themselves to specific rebuilding activities and the rapid restoration of physical structures and productive activities.	ERLs are not intended to address long-term economic problems requiring macroeconomic policy adjustment. Conditionalities should be directly linked to the emergency.	ERLs do not attempt to address long-term economic, sectoral, or institutional problems, and do not include conditionality linked to macroeconomic policies.
Short timeframe	Complete projects within two to three years.	ERLs to be completed within three years.	Normally an ERL is fully implemented in two to three years.
Procurement/ disbursement	There is no need to depart from ordinary Bank lending mechanisms.	ERLs follow standard Bank Operational Policies including those on procurement, consultants, and disbursement.	Standard Bank Operational Policies, including those on procurement, consultants, and disbursement, apply to ERLs.
Recurrent events	Do not finance recurrent or long-term events such as annual floods or droughts.	ERLs respond to infrequent events, not recurrent events such as floods. Judgment is needed to decide whether slow-onset disasters, such as drought, war, or civil disturbance, require the quick response of an ERL, or the more thorough preparation of one or more normal investment projects.	ERLs are inadequate instruments for recurrent disasters such as floods and slow-onset disasters such as droughts.
Disaster-resistant design	Reconstruction projects use earthquake-resistant standards, flood control, and hurricane warning and response systems. They retrofit old structures and introduce an early warning system. Changes should be consistent with the local economy and traditions. Reconstruction projects also improve land use zoning and building codes.	ERLs use disaster-resilient reconstruction design standards and include measures for preventing and mitigating the impact of future disasters. They reinforce vulnerable structures, adjust building and zoning codes, and acquire hazard reduction technology. Attention should be given to early warning systems and other technologies for emergency preparedness.	ERLs use disaster-resistant construction standards, reinforce vulnerable structures, adjust building and zoning codes, and acquire hazard-reduction technology.
Institutional and regulatory framework		Establish an adequate institutional and regulatory framework for prevention and mitigation.	Establish an adequate institutional and regulatory framework for prevention and mitigation.

(Table continues on the following page.)

Table A.1: Comparative Analysis of World Bank Policy Statements (continued)

Category	July 1984 Operational Policy Note, No. 10.07 – Guidelines for Bank Participation in Reconstruction Projects after Disaster	November 1989 Operational Directive, OD 8.50 – Emergency Recovery Assistance	August 1995 Operational Policy, OP 8.50 – Emergency Recovery Assistance
<i>Donor coordination</i>	Bank experience may reinforce the government's capacity to coordinate efforts at all levels—local, national and international. Information gathering should be coordinated with the government and other donors. The Bank should avoid duplication of efforts, adoption of contradictory policies to guide reconstruction, neglect of areas that may be important to consider in the reconstruction strategy, and waste of resources.	The Bank can assist in attracting and coordinating reconstruction support from other donors. Collaboration with UNDP and relevant international agencies, local NGOs, and donors is often helpful in designing specific prevention and mitigation programs. The Bank can prepare a report to mobilize donor support.	Collaboration with the UNDP and other international agencies, local NGOs, and donors is often helpful in designing the recovery assistance strategy under an ERL and in designing specific prevention and mitigation programs