



Board of Executive Directors

For consideration

On or after 26 June 2018

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Original: English
Public
Simultaneous Disclosure

To: The Executive Directors
From: The Secretary
Subject: Bahamas. Proposal for a loan for the project "Contingent Loan for Natural Disaster Emergencies"

Basic Information: Loan type Contingent Credit Facility for Natural Disaster Emergencies (CCF)
Borrower Commonwealth of The Bahamas
Amount up to US\$100,000,000
Source Ordinary Capital

Inquiries to: Juan José Durante (extension 1639) or Fernando De Olloqui (extension 1523)

Remarks: This operation is being presented in accordance with the provisions set forth in document GN-2502-2, "Contingent Credit Facility for Natural Disaster Emergencies. Revised version", approved pursuant to Resolution DE-27/09.

This operation is included in Annex II of document GN-2915, "2018 Operational Program Report", approved by the Board of Executive Directors on 18 April 2018. However, its amount exceeds the ceiling established for Group C countries. Therefore, the operation does not qualify for approval by Simplified Procedure.

Reference: GN-1838-1(7/94), DR-398-17(1/15), AB-2890(8/12), AG-9/12, GN-2502-2(2/09), DE-27/09, GN-2667-2(6/12), GN-2915(2/18), PR-3466(10/09), DE-164/09, PR-3838(1/12), DE-5/12, PR-4519(10/17), DE-79/17

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COMMONWEALTH OF THE BAHAMAS

CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES

(BH-O0003)

LOAN PROPOSAL

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ELECTRONIC LINKS

REQUIRED

1. [Monitoring and Evaluation Plan](#)

OPTIONAL

1. [Economic Analysis](#)
2. [Operating Regulations](#)
3. [Automatic Redirection List](#)
4. [Article IV Consultation with The Bahamas, International Monetary Fund, 2017](#)
5. [Indicators for Disaster Risk and Risk Management, Bahamas, IDB-TN-790, IDB \(2011\)](#)
6. [Ex-Ante Economic Assessment of the Climate-Resilient Coastal Infrastructure and Management Program \(4363/OC-BH\), C. Landry](#)
7. [Assessment of the Effects and Impacts of Hurricane Matthew, The Bahamas, IDB & ECLAC](#)
8. [Assessment of the Effects and Impacts of Hurricane Joaquin, The Bahamas, IDB & ECLAC](#)
9. [Assessment of the Effects and Impacts of Hurricane Irma, The Bahamas, IDB & ECLAC](#)
10. [2016 Joint Report on Multilateral Development Banks' Climate Finance](#)
11. [Technical Annex: BH-O0003 Contribution to Climate Change Adaptation](#)

ABBREVIATIONS	
ARL	Automatic Redirection List
BEST	Bahamas Environment, Science and Technology Commission
CARICOM	Caribbean Community
CCF	Contingent Credit Facility for Natural Disaster Emergencies
CCRIF	Caribbean Catastrophic Risk Insurance Facility
CDEMA	Caribbean Disaster Emergency Management Agency
CDRMP	Comprehensive Natural Disaster Risk Management Program
CPD	Country Program Document
ECLAC	Economic Commission for Latin America and the Caribbean
ESF	Emergency Support Function
FFF	Flexible Financing Facility
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contributions
IRF	Immediate Response Facility
MOWT	Ministry of Works and Transportation
NDFRTP	Natural Disaster Financing and Risk Transfer Program
NDP	National Development Plan
NEMA	National Emergency Management Agency
NOAA	National Oceanic and Atmospheric Administration
NPV	Net Present Value
OPR	Operational Program Report
SPF	Safeguard Policy Filter
UNFCCC	United Nations Framework Convention on Climate Change
WAL	Weighted Average Life

PROJECT SUMMARY
COMMONWEALTH OF THE BAHAMAS
CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES
(BH-O0003)

Financial Terms and Conditions ^(a)				
Borrower: Commonwealth of The Bahamas			Flexible Financing Facility^(b)	
			Amortization Period:	25 Years ^(c)
Executing Agency: Ministry of Finance			Grace Period:	5.5 Years ^(c)
			Weighted Average Life (WAL):	15.25 Years ^(c)
Source	Amount (US\$)	%	Disbursement Period:	5 Years ^{(d) (e)}
IDB (Ordinary Capital - OC):	100 million	100	Interest rate:	LIBOR Based
			Commitment Fee:	^(f)
Total:	100 million	100	Inspection and supervision fee:	^(f)
			Currency of Approval:	Dollars of the United States of America
Project at a Glance				
<p>Project objective/description: The objective of the operation is to alleviate the impact that a severe or catastrophic natural disaster could have on the country's finances, by increasing the availability, stability, and efficiency of contingent financing to address emergencies. Additionally, the operation seeks to enhance the comprehensive disaster risk management of the country by fostering improvements in five main areas to be monitored through the Comprehensive Natural Disaster Risk Management Program (CDRMP): (i) disaster risk management governance; (ii) risk identification; (iii) risk reduction; (iv) preparation for emergency and response; and (v) financial protection and risk transfer.</p>				
<p>Special contractual condition for general eligibility to request disbursements: Approval and entry into force of the Operating Regulations (¶3.4).</p>				
<p>Special contractual conditions prior to each disbursement: (i) the Bank has verified the occurrence of an eligible event, as defined in the Operating Regulations; (ii) the CDRMP, previously agreed upon with the Bank, is being executed to the Bank's satisfaction; (iii) within 90 calendar days following the occurrence of an eligible event, the borrower has submitted one or more disbursement requests, indicating the amount(s) of the disbursement(s), if it/they will come from the regular loan program resources, from available resources of the Automatic Redirection List (ARL), or from a combination of both. In the case of ARL resources, the loans and the amount to be used will be identified; and (iv) the borrower has informed the Bank of the special account where the Bank will deposit the contingent loan proceeds (¶3.6).</p>				
<p>Exceptions to Bank Policies: None.</p>				
Strategic Alignment				
Challenges^(g):	SI <input type="checkbox"/>		PI <input type="checkbox"/>	EI <input type="checkbox"/>
Cross-Cutting Themes^(h):	GD <input checked="" type="checkbox"/>		CC <input checked="" type="checkbox"/>	IC <input type="checkbox"/>

^(a) Financial terms and conditions of the contingent loan in accordance with the Contingent Credit Facility for Natural Disaster Emergencies (GN-2502-2 (paragraph 4.7)) approved by the Bank's Board of Executive Directors pursuant to Resolution 27/09 and amended by Resolution DE-96/12 (GN-2667-2).

^(b) Under the flexible repayment options of the Flexible Financing Facility (FFF), changes in the grace period are possible as long the Original Weighted Average Life (WAL) and the last payment date, as documented in the loan agreement, are not exceeded.

^(c) Amortization periods, WAL, and grace periods begin on the date of each disbursement of the loan.

^(d) The resources availability period (disbursement period) may be extended for up to five additional years, at the Bank's discretion and upon the borrower's request. In the event of an extension, the timeframes for collecting the commitment fee will begin on the effective date of such extension.

^(e) When requested, loan disbursements are subject to the Bank having sufficient resources from the ARL or the Bank's regular lending program for The Bahamas, as applicable (¶2.5).

^(f) The commitment fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable provisions. The Bank will only charge a commitment fee on the amounts disbursed and charged to the resources from the regular lending program (i.e., resources other than those from the ARL). In that case, the commitment fee will accrue retroactively starting 60 calendar days after the date the loan contract BH-O0003 is signed and ending on the date of the respective disbursement(s); and will be calculated on the basis of the amount of the respective disbursement(s). For such purposes, the fee in effect on the date of the respective disbursement will apply.

^(g) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

^(h) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROGRAM DESCRIPTION AND MONITORING OF RESULTS

A. Background, Problem Addressed and Justification

1. The country's vulnerability to natural disasters and climate change

- 1.1 The Commonwealth of The Bahamas is highly exposed to natural hazards. The archipelago consists of 30 inhabited islands, 661 cays and more than 2,000 islets dispersed over 668,600 km² of maritime territory. The most severe and impactful hazards experienced are hurricanes. In the past 50 years, 18 hurricanes have hit the territory of The Bahamas.¹ In the last three years, three major hurricanes² have made passage through the country: (i) Hurricane Joaquin (2015) which affected southeastern islands having a relatively low population, causing damage and losses of US\$114 million;³ (ii) Hurricane Matthew (2016) which greatly impacted the country's major population centers in New Providence and Grand Bahama, as well as the district of North Andros, causing damage and losses of US\$519 million;⁴ and (iii) Hurricane Irma (2017) that affected the provision of basic services in Grand Bahama and which caused damage in Ragged Island, Acklins, Inagua and Bimini, with an estimated total damage and losses of US\$118 million.⁵
- 1.2 Disaster risk in the country is considered high due mainly to socioeconomic factors, such as the location of communities and infrastructure, mostly in coastal areas. These trends are likely to worsen as a result of climate change. With most of its territory a few meters above mean sea level, The Bahamas is highly vulnerable to sea level rise and storm surge associated with increasing intensity of extreme weather events due to the impacts of climate change.⁶ Likely impacts include coastal flooding and erosion, mangrove retreat, decreased seagrass bed productivity, and saltwater intrusion into existing small lenses of fresh groundwater.⁷ A study conducted by the IDB indicates that the probable flood exposed area in Nassau will expand 8% by 2050 due to the increasing precipitation caused by climate change.⁸
- 1.3 Vulnerability to the impacts of disasters varies across different population groups. For example, social and economic data suggests that the conditions of female-headed households place them at a clear disadvantage during a disaster event.⁹ Women and men with more restricted mobility, such as the elderly and the

¹ National Oceanic and Atmospheric Administration (NOAA) Historical Hurricane Tracks and Bahamas Department of Meteorology.

² Major hurricanes refer to events with intensity of at least Category 3 in the Saffir-Simpson scale.

³ [Assessment of the Effects and Impacts of Hurricane Joaquin. IDB, ECLAC \(2016\).](#)

⁴ [Assessment of the Effects and Impacts of Hurricane Matthew. IDB, ECLAC \(2017\).](#)

⁵ [Assessment of the Effects and Impacts of Hurricane Irma. IDB, ECLAC \(2017\).](#)

⁶ [The Bahamas: Intended Nationally Determined Contributions \(INDC\)](#) under the United Nations Framework Convention on Climate Change (UNFCCC).

⁷ Murray Simpson et al., "CARIBSAVE Climate Change Risk Atlas - The Bahamas." (Barbados: Department of International Development, Australia's Aid Program and The CARIBSAVE Partnership, 2012).

⁸ Environmental Resources Management. "Consulting Engagement 2 - Hazards and Risks: Sustainable Nassau Action Plan" IDB, 2016.

⁹ There is a higher incidence of poverty among female-headed households than male-headed households in the Bahamas, according to The Bahamas Household Expenditure Survey 2013 Report.

disabled face the greatest challenges. At the same time, evidence suggests that the active inclusion of women in local disaster preparedness contributes to resilience and can prevent loss of life.¹⁰

2. Financial vulnerability to severe and catastrophic natural disasters

- 1.4 The Bahamian economy is heavily dependent on natural resources for its tourism, fisheries, and other sources of revenue. The potential impacts of natural hazards and climate change on the natural resource base that supports tourism are a serious concern for future environmental, economic, and social sustainability in The Bahamas.¹¹ In 2016, Hurricane Matthew caused losses equivalent to 6.75% of Gross Domestic Product (GDP), with a resultant significant impact on tourism during 2016 and early 2017. Even when private investment has been important to rebuild the Bahamian economy after a natural disaster occurs, there are still structural challenges.
- 1.5 Historically, The Bahamas has relied on the accumulation of debt to absorb the cost of recovery, contributing to the rise of public debt.¹² The central government debt-to-GDP ratio increased to 67.8% at the end of 2017.¹³ Fiscal deficit is estimated to have reached 5.7% of GDP for 2017, up from 3.5% of GDP in 2016, due to post-hurricane cleanup and reconstruction spending, temporary tax reliefs, and disruptions in revenue collection, among others.¹⁴ Furthermore, reconstruction activities depend heavily on imports which could drain the country's international reserves. As of March 2018, The Bahamas' reserves stand at US\$1,597 million, covering approximately 6.4 months of total merchandise imports.¹⁵
- 1.6 The country's exposure and vulnerability to natural disasters and its current macroeconomic environment highlight the importance of implementing measures that can help increase The Bahamas' economic and fiscal resilience to disaster risk. Overall, it has been estimated that, for a maximum considered event with recurrence period of 1 in 100 years, average annualized losses would reach 8.5% of GDP. This number increases to almost 28% of GDP when considering an event with recurrence of 1 in 500 years.¹⁶

3. Natural disaster risk management in The Bahamas

- 1.7 Recognizing the need to more satisfactorily address the country's high exposure and vulnerability to hurricanes –exacerbated by climate change–, over the last years the Government of The Bahamas has initiated several policy, legal, and

¹⁰ Buvinic, M., et.al. "Hurricane Mitch, Women's Needs and Contributions", IDB, 1999.

¹¹ Vision 2040: National Development Plan (NDP) of The Bahamas.

¹² According to the IMF, the central government's debt-to-GDP ratio has been on a steady rise in the past six years, starting with a 45% during 2011 and reaching 68% during 2016. This upward trend is partly explained by the impact of natural disasters. It is expected that debt will peak at 73.3% of GDP in 2018. Article IV Consultation with The Bahamas, 2017.

¹³ See "2017 Annual Report & Statement of Accounts". The Central Bank of The Bahamas, 2018.

¹⁴ [Article IV Consultation with The Bahamas, International Monetary Fund \(IMF\), 2017.](#)

¹⁵ The typical coverage benchmark used in the assessment of reserve adequacy is three months. See "[Guidance Note on The Assessment of Reserve Adequacy and Related Considerations](#)". IMF, 2016.

¹⁶ Indicators for Disaster Risk and Risk Management: Program for Latin-America and The Caribbean: Bahamas. IDB-TN-790. December, 2011.

institutional actions that promote a proactive and comprehensive approach to Disaster Risk Management (DRM). As a member country of the Caribbean Community (CARICOM) and the Caribbean Disaster Emergency Management Agency (CDEMA), since 2001, The Bahamas has endorsed the regional strategy and framework for Comprehensive Disaster Management (CDM). The objective of this strategy is to strengthen national, sectoral and community level capacity for mitigation, preparedness and coordinated response and recovery to natural and technological hazards and the effects of climate change. Additionally, The Bahamas endorsed CDEMA's Enhanced CDM Framework 2016-2022, which includes four broad lines of actions: (i) the implementation of institutional strengthening for disaster risk management both at national and Caribbean regional levels; (ii) the establishment of effective mechanisms and programs for the administration of risk management knowledge; (iii) the mainstreaming of DRM at national levels and its incorporation into key sectors of national economies (including tourism, health, agriculture and nutrition); and (iv) the enhanced community resilience to mitigate and respond to the adverse effects of climate change and disasters.

- 1.8 The Bahamas' DRM national framework, includes: (i) endorsement in 2006 of the Disaster Preparedness and Response Act, clarifying the role of the National Emergency Management Agency (NEMA) as the governmental agency charged with the responsibility for the process of emergency preparedness and response; (ii) preparation by NEMA of the National Disaster Preparedness and Response Plan 2016-2018 mainly to guide how the government will assist disaster-stricken islands and areas, in coordination with the National Emergency Operations Centre and other 13 Emergency Support Function (ESF) Groups made up of government and non-government organizations; and (iii) approval in 2005 of a National Policy for the Adaptation to Climate Change, issued by the Bahamas Environment, Science and Technology Commission (BEST Commission) to instruct a holistic and coordinated approach for reducing climate risk and vulnerability of the country. The status of disaster risk management in The Bahamas is documented in the Comprehensive Natural Disaster Risk Management Program ([CDRMP, Annex II](#)) (¶2.7). The CDRMP includes a matrix identifying the activities necessary for the country to achieve progress in five key areas of DRM, which will be monitored through indicators established annually for this purpose. Current disaster risk management status and areas of future action are summarized in ¶1.9 to ¶1.13 below.
- 1.9 **Governance.** Governance refers to a framework of laws, norms, policies and institutional capacity to manage and reduce disaster risk. Even though important progress has been made (¶1.7 and ¶1.8), the Government of The Bahamas still considers that some additional planning instruments are required for effective sectoral and territorial-based DRM. These include: (i) sectoral disaster risk mitigation plans with climate change considerations; (ii) sectoral business continuity plans; and (iii) islands evacuation strategies. CDEMA's regional CDM strategy requires that all member countries have National Disaster Management Policies.¹⁷ The government has not yet developed a National Disaster Management Policy.

¹⁷ National Disaster Preparedness and Response Plan 2016-2018.

- 1.10 **Risk Identification.** Risk Identification refers to the technical and scientific research required to identify vulnerable areas and sectors. The Department of Meteorology (Met Office) is the primary institution mandated to conduct these activities. The Met Office monitors climate phenomena and hurricanes daily; and issues warnings/alerts proactively when hurricanes are approaching the country. The main challenges in risk identification include: (i) the acquisition of additional modern equipment (e.g., doppler climate radar) for further improving the scale, coverage and accuracy of weather forecasting and hurricane information services; (ii) the optimization of institutional coordination and networks for broader real time integrated hazard monitoring, including wave heights, energy, and storm surge in relation to community vulnerability; and (iii) the development of risk analysis studies, including probabilistic hurricane/flood risk assessments, as they are essential inputs for national development planning, disaster risk mitigation investments and to inform the country's financial risk management strategy.
- 1.11 **Emergency Preparedness and Response.** This refers to the emergency preparedness and response actions planned, coordinated, organized and performed by NEMA, Island Administrators and communities. NEMA has the principal coordination and oversight responsibility for these actions. A national mechanism for disaster preparedness and emergency operations is well established and organized (¶1.7 and ¶1.8). However, some lessons learned from the recent experience of hurricane Joaquin in 2015 have helped identify important challenges, which involve:¹⁸ (i) the need to enhance existing relief supplies distribution/logistic operations plans; (ii) the need to strengthen local island disaster committees; (iii) the inclusion of and support to vulnerable and at-risk communities, including women, the disabled, the elderly, single parents with children, and migrant population;¹⁹ and (iv) the need to enhance knowledge and skills of island-communities in community preparedness and response, as well as building resilience.
- 1.12 **Risk Reduction.** Risk reduction refers to the actions related to disaster risk mitigation, civil protection, resilient infrastructure and nature-based risk mitigation measures that public entities plan, implement and maintain. The Ministry of Works and Transportation (MOWT) is the primary institution with responsibility to conduct risk reduction activities. The government approved The Bahamas Building Code Third Edition in 2003 using as reference the Florida Building Code. The 2003 Code incorporates hurricane wind consideration for the design, construction and operation of housing, buildings and other public structures. The 2003 Code also contemplates flood events to include restrictions regarding the lowest floor allowable, which should be above any known flood level. The main challenges in risk reduction comprise the enforcement of the national building code in the construction of dwellings and the enforcement of the Land Use Planning and Zoning Laws in the construction of buildings, dwellings and installation of certain infrastructure facilities. As well, the Government of The Bahamas needs to strengthen its capacity related to manage disaster and climate change risk, especially in the coastal area.²⁰

¹⁸ National Disaster Preparedness and Response Plan 2016-2018.

¹⁹ NEMA. The Bahamas' performance self-evaluation under the Hyogo Framework for Action.

²⁰ The IDB's Climate Resilient Coastal Management and Infrastructure Program (4363/OC-BH) approved by the Bank in November 2017 for US\$35 million is expected to address these challenges.

- 1.13 **Financial Management of Disaster Risk.** Considering the high exposure and vulnerability of the country to climate-related risks, the development of a comprehensive financial risk management strategy and appropriate ex ante instruments to manage these public contingent liabilities is vital. The Bahamas has already taken steps in this direction, mainly through the purchase of insurance from the Caribbean Catastrophic Risk Insurance Facility (CCRIF), which provides up to US\$35 million coverage for catastrophic events of very high intensity but low probability of occurrence. Remaining challenges in this area are: (i) the need for the government to broaden and deepen its financial strategy to address and recover from disasters that do not trigger the insurance or produce financing needs that exceed the resources available from current budget allocations and the CCRIF insurance; and (ii) the need for the government to incorporate in its financial planning process the allocation of resources for proactive disaster risk prevention and mitigation measures.
- 1.14 This financial risk management strategy should include a combination of new and existing risk retention and risk transfer instruments that could help the government increase its immediate financial response capacity against natural disasters and better protect its fiscal balance. Based on a risk layering approach for events of varying frequency and severity, the strategy should help determine which instruments (e.g. reserve fund, contingent loans, risk transfer instruments) are more cost-effective for each risk layer.

4. Programs for financing and transferring risks of natural disaster emergencies

- 1.15 The Bank follows a comprehensive risk management strategy within the framework of the Bank Action Plan for Improving Disaster Risk Management (GN-2339-1); and in 2008 approved the finance approach of this strategy (GN-2354-7). The objective of this approach is to help borrowing member countries with the design and implementation of Natural Disaster Financing and Risk Transfer Programs (NDFRTPs). These programs include a combination of financial mechanisms and instruments that will improve prevention planning and provide broader and more stable and efficient coverage of the risk of extraordinary public financial outlays.
- 1.16 The NDFRTPs proposed by the Bank always assume that, because of budgetary and financial constraints, no single instrument can effectively cover, by itself, all layers of risk. For this reason, it is imperative that a variety of instruments that can be adapted to cover specific areas of risk be used, based on the probability of occurrence and the magnitude of the expected impact of the disasters.
- 1.17 In view of the above, the design of the NDFRTPs initiates by drawing on directly budgeted resources or on reserve funds created to cover public outlays resulting from disasters which occur more frequently and are less severe. As the likelihood of disasters decreases and their severity increases to a catastrophic level (and hence require higher extraordinary expenditures), the NDFRTPs first draw on other risk retention instruments, such as contingent loans, followed by risk transfer instruments, such as insurance and/or catastrophe bonds, since they are economically more efficient. Lastly, NDFRTPs also consider the possibility of extremely infrequent events for which ex ante financial coverage is too costly, as

the expense and losses they produce are extraordinarily high; in such cases, ex post financing is required.²¹

- 1.18 **Potential Benefits.** The benefits of focusing on this type of ex ante financing programs for the emergency phase are proven to be greater than their potential costs. NDFRTPs make it possible for countries to obtain more efficient coverage in terms of direct costs as well as the savings created by timely availability of resources, while reducing the liquidity gap that governments generally face during such events due to the combination of increased expenditures, lower revenues, and incremental constraints in terms of cost and access to debt.
- 1.19 In other words, providing ex ante financial coverage for the emergency phase in high magnitude disasters partially reduces the risk of even worse impact scenarios in terms of the disaster's impact on public accounts, since financing is quickly available to handle the emergencies. This has been verified in several studies conducted by the Bank²² and other multilateral organizations such as the International Monetary Fund (IMF).²³ These studies confirm that having the financial coverage to provide liquidity in case of severe events ensures greater stability in long-term economic growth compared to a scenario in which this type of coverage is not in place, since resources are readily available to meet the requirements of an emergency, which eliminates the need to finance extraordinary expenditures from public accounts that were not budgeted to accommodate such needs.

5. Operation's relation to the Bank's country and sector strategies

- 1.20 **Bank's Actions and Support in the Sector.** The Bank has supported the Government of The Bahamas in the disaster risk management sector through several technical cooperation projects, particularly aimed at improving their humanitarian assistance efforts by enhancing the response given to the population after emergencies caused by hurricanes (ATN/OC-16345-BH, ATN/OC-15790-BH, ATN/OC-15253-BH, and ATN/OC-13695-BH). Also, to build resilience to coastal risks, in November 2017, the Bank approved loan 4363/OC-BH for the Climate-resilient Coastal Management and Infrastructure Program to assist in the reduction of economic losses due to natural disasters and foster local economic activity through coastal resilience.
- 1.21 Additionally, several IDB's technical cooperation programs in execution will provide important inputs for enhancing the public sector's capacity on disaster risk management and contribute to CDRMP implementation (¶2.7). These operations include: (i) Development of the Country Disaster Risk Profile (ATN/KR-15652-RG); and (ii) Support for Preparedness, Resilience and Disaster Risk Management in the Caribbean (ATN/MD-16396-RG, ATN/OC-16397-RG), that includes support for enhancing ex ante country disaster financial risk management strategies. Additionally, the Bank, in coordination with the Economic Commission for Latin America and the Caribbean (ECLAC), supported the Government of The Bahamas in conducting the damage and loss evaluations to

²¹ IDB (April 2010). Natural Disasters Financial Risk Management: Technical and Policy Underpinnings for the Use of Disaster-Linked Financial Instruments in Latin America and the Caribbean, IDB-TN-175.

²² IDB (2002). Disaster Risk Management. Freeman, Mechler et al.

²³ IMF (2012). Natural Disasters: Mitigating Impact, Managing Risks. Laframboise and Loko.

extract lessons learned from the impacts of hurricanes Irma and Maria (2017), Matthew (2016) and Joaquin (2015), which will be used to identify priority areas for the CDRMP.

- 1.22 The IDB Group is actively engaged in post Irma and Maria responses in the Caribbean and remains committed to support the sustainable development of the region. As such, at the One Planet Summit in Paris on December 2017, the IDB Group, in partnership with the World Bank, the Caribbean Development Bank, the IMF, Caribbean governments and other institutions, launched a new public-private coalition to create the world's first "climate-smart zone." The Caribbean Climate-Smart Coalition²⁴ and Accelerator²⁵ aim to find a way to break through the systemic obstacles that prevent finance flowing to climate-smart investments.
- 1.23 **Good Practices and Lessons Learned.** With the approval of seven loans from the Contingent Credit Facility for Natural Disaster Emergencies (CCF), in the LAC region, the lessons learned during the preparation of each loan have been gradually incorporated, with the pertinent changes made in the design of new operations, a process that has also been used for this program. It should be noted that the principal changes and improvements made were in the development of coverage, the refinement of methodologies for calculating triggers to activate the loans, and the establishment of CCF Operational Guidelines (GN-2502-3), which include the general operating rules commonly applied to all current operations and ensure an efficient and effective supervision and execution process for these operations. All these improvements have been properly reflected in updates to the operating regulations of each loan.
- 1.24 Regarding the experience with CCF loan disbursements, in April 2016 Ecuador was the first country to receive a disbursement after it experienced an earthquake that impacted 7.4% of the country's population, dampened economic activity and increased pressure on public finances (loan 3670/OC-EC). The Bank disbursed US\$160 million five days after the occurrence of the event. As noted in Country Program Evaluation for Ecuador 2012-2017, prepared by the Office of Evaluation and Oversight,²⁶ among the main lessons learned from the implementation of the CCF are: (i) the IDB succeeded in transforming its financial strategy from a reactive one (ex post) into a preventive one (ex ante); (ii) the parametric design of the CCF was efficiently implemented as an estimate of financial needs linked to the eligible event was produced quickly and the crisis was successfully managed by the Bank's team, leading to the immediate disbursement of funds; (iii) as the first organization to respond to the earthquake, the Bank played an important role in the dialogue with the government and in coordinating the different sector agencies; and (iv) the Bank financed eligible public expenditures of an extraordinary nature in order to address the crisis and initial rehabilitation needs and also made available other complementary resources through the Immediate Response Facility (IRF), a multisector loan for reconstruction in the energy sector and early

²⁴ IDB (Dec. 11, 2017). [Caribbean leaders launch plan to make region a "climate-smart zone," with IDB support.](#)

²⁵ The Accelerator will serve as the technical and administrative secretariat for the work of the Caribbean Climate-Smart Coalition.

²⁶ Country Program Evaluation Ecuador 2012-2017. Office of Evaluation and Oversight, IDB, December 2017.

warning systems, and a technical cooperation to improve seismic resilience of infrastructure and strengthen institutional capacity.

- 1.25 The second experience was in the Dominican Republic. In 2017 US\$16 million were disbursed to the country due to the impact caused by Hurricane Maria (loan 4331/OC-DR). The disbursement was made quickly upon request, taking five working days from country's formal disbursement request until disbursement materialization. The Dominican Republic opted to take all the resources from the regular lending program.
- 1.26 **Strategic Alignment of the Operation.** The Project is aligned with the IDB Group Country Strategy with The Commonwealth of The Bahamas 2018-2022 (GN-2920-1), specifically with the cross-cutting issue of climate-resilience and disaster risk management, as the operation will provide a contingent financial protection instrument. The operation is included in the 2018 Country Program Document (CPD) with The Bahamas (GN-2915).²⁷ The operation as a whole will support the country's financial framework to adapt to climate change and reduce its financial vulnerability to extreme events. Therefore, 100% of loan resources are considered climate change adaptation finance, according to the joint MDB approach on climate finance tracking.²⁸ These resources contribute to the IDBG's climate finance goal of 30% of combined IDB and IDB Invest operational approvals by year's end 2020.²⁹
- 1.27 The operation is consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (AB-3008) and is aligned with the cross-cutting theme of climate change and environmental sustainability, by increasing the ex ante financial coverage available to the country in the event of a severe or catastrophic natural disaster, as part of the climate change adaptation strategy. Additionally, the operation is aligned with the cross-cutting theme of gender equality and diversity in that it gives priority to strengthening the support for women during an emergency and involving women in disaster preparedness and response (¶1.11).³⁰ As well, the operation is aligned to the Corporate Results Framework (CRF) 2016-2019 (GN-2727-6), as it specifically contributes to the auxiliary indicator "Countries that have improved disaster risk management". Furthermore, the operation is consistent with the Bank's Disaster Risk Management Policy (GN-2354-5) and with the Climate Change Sector Framework (GN-2835-3) by supporting the public sector's use of financial instruments, through the identification of practices that spread out the risk associated with the management of uncertainty within the public sector.

B. Objective, Components and Cost

- 1.28 The objective of the operation is to alleviate the impact that a severe or catastrophic natural disaster could have on the country's finances, by increasing the availability, stability, and efficiency of contingent financing to address

²⁷ Because the CCF is a contingent credit instrument, the IDB's Operational Program Report (OPR) 2018 (GN-2915) includes loan BH-O0003 in the CPD for The Bahamas but does not list it in its Annex III.

²⁸ [2016 Joint Report on Multilateral Development Banks' Climate Finance.](#)

²⁹ [Technical Annex: BH-O0003 Contribution to Climate Change Adaptation.](#)

³⁰ This activity will be included in the CDRMP, in the category "Preparation for emergency and response".

emergencies. Additionally, the operation seeks to enhance the comprehensive disaster risk management of the country by fostering improvements in five main areas to be monitored through the CDRMP: (i) disaster risk management governance; (ii) risk identification; (iii) risk reduction; (iv) preparation for emergency and response; and (v) financial protection and risk transfer.³¹

- 1.29 **Single Component.** The proposed operation contemplates a single component of US\$100 million to structure a stable and efficient ex ante financial coverage to afford, in a timely manner, any extraordinary public expenses that could arise in emergencies caused by severe or catastrophic natural disasters. To determine the country's financing needs to address emergencies caused by natural disasters, the Bank analyzed the exposure, vulnerability and historical impact of natural disasters in the country.³² The amount of the loan is within the limits established for the CCF (GN-2667-2). Potential beneficiaries are the entire population of The Bahamas, in general, and the affected population that receives emergency assistance under the proposed coverage, in particular.

C. Key Results Indicators

- 1.30 In line with the operation's objective, the expected outcomes are: (i) an improved country's financial risk management of natural disasters by increasing stable and efficient contingent financing to cover extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters; and (ii) an effective national policy for comprehensive natural disaster risk management that incorporates gender considerations.
- 1.31 To show improvement in the country's financial risk management, the following indicators will be monitored: (i) the increase in the amount of ex ante financial coverage available to the country provided by this operation; (ii) the change in the spread between the financial cost of this loan and the financial cost of The Bahamas' long-term sovereign external commercial debt; and (iii) the speed of access to resources if an eligible event occurs. As well, the effectiveness of the national policy for disaster risk management will be monitored through the satisfactory execution of the CDRMP, including the number of gender issues addressed therein.
- 1.32 **Economic Analysis.** The [Economic Analysis](#) of the project uses a cost effectiveness analysis methodology that evaluates a scenario in which the full amount of the contingent loan is used due to the occurrence of a catastrophic event. The Net Present Value (NPV) of the cost of financing the IDB loan was compared to the NPV of the cost of issuing bonds, under the following assumptions: (i) the LIBOR rate set for the IDB loan; and (ii) the bonds issued have a 10-year maturity and their rate is based on the country's current risk premium on the international sovereign debt market. Both NPVs were calculated using a discount rate of 12%. The results show that the contingent loan granted by the Bank is 72% of the cost of issuing debt, which makes it a much more efficient

³¹ Special attention will be given to addressing gender equality as a cross cutting issue in the CDRMP, particularly in the areas of DRM governance and emergency preparedness and response.

³² Evidence of high exposure and vulnerability to hurricanes can be appreciated in the last three years by the losses and damages generated by hurricanes Joaquin (2015), Matthew (2016) and Irma (2017). Matthew alone generated losses and damages of US\$519 million (6.75% of GDP).

option not only in terms of financial cost but also in terms of how quickly the resources are made available. Lastly, it shows that even in the event of minimally probable variations in the main indicators, there is a wide range of values in which the IDB loan alternative remains the most efficient.

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing Instrument

- 2.1 The proposed operation will be structured through a Bank investment loan, which will be granted through the Contingent Credit Facility for Natural Disaster Emergencies (CCF) (GN-2502-2 and GN-2667-2) for a total amount of US\$100 million. All disbursements made will be charged to the Bank's Ordinary Capital (OC) resources. The funds may either come from the regular lending program, available undisbursed balances of the investment loans already approved and identified in the Automatic Redirection List (ARL),³³ or a combination of these two options.
- 2.2 Contingent loans granted under the CCF have specific financial terms and conditions to provide adequate support to the country at the critical time of an emergency caused by severe or catastrophic events, when public finances are doubly affected by a combination of the need for additional resources to meet extraordinary expenses and unexpected shortfalls in revenues due to a decrease in economic activity. The specific terms and conditions include: (i) the amortization period and grace period are calculated from the date of each disbursement; (ii) the commitment fee will only be charged if a disbursement of resources from the regular lending program is actually made. In this case, the commitment fee will accrue retroactively beginning 60 days after the date the loan contract is signed to the date of the corresponding disbursement(s) and will be calculated based on the amount(s) thereof. For such purposes, the effective fee at the time of the corresponding disbursement will apply; and (iii) the period during which the resources are available for requesting disbursements is five years, which can be extended for up to five additional years at the borrower's request. In the event of an extension, the amortization, grace, and commitment fee collection periods will be calculated as of the effective date of this extension.
- 2.3 **Eligible events.** This loan will initially provide coverage for hurricanes based on the intensity and affected population criteria contractually agreed upon by the country and the Bank and detailed in the Coverage Model (Annex I of the [Operating Regulations](#)). However, in the future, at the borrower's formal request and in agreement with the Bank, the coverage of new hazards may be developed and incorporated into the Coverage Model. When defining the criteria for new hazards to be covered, hazard studies and maps, as well as the country's population distribution will be considered.³⁴

³³ The ARL is a feature of the CCF which includes the Bank's current investment loans with the country that have balances available for disbursements, which could be automatically redirected should an event occur. In consultation with the borrower, the ARL is periodically updated to include new loans.

³⁴ Floods caused by torrential rains not associated with hurricanes could severely impact the country, especially the densely populated islands. These types of events could be covered by the loan.

- 2.4 The Coverage Model will include the types of events eligible for coverage, as well as specific matters related to eligibility for disbursements and the methodology for calculating the maximum amount that may be disbursed, based on the intensity and percentage of the country's population affected by each eligible event.
- 2.5 Loan disbursements will be contingent upon the availability of sufficient resources from the ARL or resources allocated to the Bank's regular lending program with The Bahamas, as applicable, when the disbursement is requested. If sufficient resources are not available at the time of the disbursement request, the Bank may disburse up to the maximum amount of available resources. In the event no funds are available, the Bank will not be obligated to make any disbursements for as long as and to the extent that no resources are available. Once this situation has ended as determined by the Bank, it will notify the borrower.
- 2.6 **Disbursement limits per event.** The maximum disbursement amount that may be made for each eligible event will be subject to the lower of the following limits: (i) the available undisbursed balance of this contingent loan; and (ii) the maximum amount established for the type, location, and intensity of the event declared eligible.
- 2.7 **Comprehensive Natural Disaster Risk Management Program (CDRMP).** The CCF states that all borrowing member countries of the Bank are eligible to receive financing through the facility, provided that they have a current CDRMP in place to the Bank's satisfaction, with the objective of promoting the effective formulation of a national policy on the comprehensive management of disaster risks, thereby strengthening the general governance framework, improving the identification and reduction of such risks, and enhancing disaster management as well as the financial management of disaster risks. Progress indicators of the CDRMP have been agreed upon with the Government of The Bahamas during preparation of this operation and will be monitored throughout the disbursement period of the loan.³⁵ The CDRMP presented herewith includes the indicators to be applied to the first annual verification of the operation. For subsequent annual verifications, the CDRMP indicators will be updated as needed.

B. Environmental and Social Safeguard Risks

- 2.8 In accordance with Directive B.13 of the Environment and Safeguards Compliance Policy (GN-2208-20, Operational Policy OP-703), this operation does not require classification. Since the resources that could ultimately be disbursed under this loan may only be used to finance extraordinary public expenditures incurred during an emergency, and given that the Ministry of Finance, as the executing agency, ensures compliance with the country's environmental and social laws on the use of the resources, no adverse environmental or social impacts are expected. Moreover, the loan contract will include a negative list of the types of expenditures that may not be financed with the loan proceeds.

³⁵ These include indicators associated with the participation of women in disaster preparedness and response.

C. Fiduciary Risk

- 2.9 **Execution of resources during the emergency phase.** There is a medium risk that the government is overwhelmed by the extent of the damage caused by the disaster and therefore resources disbursed to cover expenditures for a given eligible event are not timely utilized to meet the CCF's rule that all disbursed resources must be executed within the emergency phase, set at 180 calendar days from the onset of the eligible event. The team anticipates that as a mitigation measure, the Bank will provide technical support to the Ministry of Finance to enhance execution capacity for both, preparedness enhancement and emergency response.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of Implementation Arrangements

- 3.1 The borrower will be the Commonwealth of The Bahamas, and the executing agency will be the Ministry of Finance. Under the coordination of the executing agency, the use of loan resources will be carried out by the government, through their public-sector institutions responsible for budget execution during emergencies such as the National Emergency Management Agency (NEMA) and the Ministry of Public Works and Urban Development, among others. As the public agency responsible for the process of emergency preparedness and response (¶1.8), NEMA has been appointed by the government for the overall coordination of the activities contained in the CDRMP.
- 3.2 **Disbursement requests.** In addition to the requirements described in detail in the Operating Regulations, requests for the disbursement of loan proceeds will be submitted within 90 calendar days after an eligible event has occurred, specifying the disbursement amounts requested. In the event the borrower chooses to use proceeds of the loans included in the [ARL](#) (see footnote 33), the requests will indicate which loans the resources will be taken from and the specific amounts required from each one. Each disbursement under this loan will be made in accordance with the financial terms and conditions set out in the Project Summary, regardless of whether the resources come entirely or partially from the loans included in the ARL or the regular lending program. Disbursements will be credited by the Bank to the government's Consolidated Fund Account, which will be approved in accordance with the special contractual conditions precedent to each disbursement.
- 3.3 **Conditions for disbursements.** Disbursements may be made under the Bank's loan whenever an eligible event occurs during the period when resources are available (disbursement period). Given the contingent nature of the operation, there are general eligibility conditions that must be met for the country to request disbursements.
- 3.4 **The special contractual condition for general eligibility to request disbursements will be the approval and entry into force of the [Operating Regulations](#).** This document contains all the operational provisions for both, the supervision and administration of the loan as well as for the request and

completion of disbursements and use of resources. In addition, the following documents are part of the Operating Regulations: (i) the Coverage Model, which includes the characteristics and functioning of the parametric triggers; and (ii) the CDRMP, including the indicators established for the monitoring of its progress.

- 3.5 In the case that the Bank finds progress in the execution of the CDRMP inadequate during the loan's disbursement period, the Bank will suspend the eligibility for disbursements under this operation if the country does not take the steps deemed necessary by the Bank in a timely manner. The Bank will carry out periodic monitoring and annual evaluations of the progress made in the execution of the CDRMP. If, as a result of these evaluations, the Bank determines that the CDRMP is not being satisfactorily executed, the borrower will be notified of the specific actions that need to be taken within a maximum period of 90 calendar days following the date of notification, in order to maintain its eligibility to receive disbursements under this operation. Once this timeframe passes, if the Bank should find that the recommended remedial actions were not completely and properly taken, it may, upon formal notification of the borrower, suspend the borrower's eligibility to receive loan disbursements until the shortcomings are properly remedied.
- 3.6 **Special contractual conditions prior to each disbursement. Specific contractual conditions that must be met for each disbursement will be: (i) the Bank has verified the occurrence of an eligible event, as defined in the Operating Regulations; (ii) the CDRMP, previously agreed upon with the Bank, is being executed to the Bank's satisfaction (¶2.7); (iii) within 90 calendar days following the occurrence of an eligible event, the borrower has submitted one or more disbursement requests, indicating the amount(s) of the disbursement(s), if it/they will come from the regular loan program resources or resources, from available resources of the ARL, or from a combination of both. In the case of ARL resources, the loans and the amount to be used will be identified; and (iv) the borrower has informed the Bank of the special account where the Bank will deposit the contingent loan proceeds.** These contractual conditions were set as standard for the execution of contingent loans in the CCF's Operational Guidelines approved by the Bank in 2014 (GN-2502-3).
- 3.7 **Eligible expenditures.** Loan proceeds may be used to finance extraordinary public expenditures incurred during emergencies caused by eligible events, which meet the following requirements: (i) they are not included in the negative list that will be part of the loan contract; (ii) they are legal under the laws of The Bahamas; (iii) they are directly related to the emergency caused by the natural disaster for which financing was provided; and (iv) they entail procurement and payments that are verifiable, documented, clearly recorded, and are considered appropriate in terms of amount and price. Examples of the types of expenditures that may be eligible are: (i) emergency health equipment; (ii) vaccines and medications; (iii) food for the affected population; (iv) facilities and equipment for temporary shelters; and (v) temporary rehabilitation of infrastructure and restoration of basic services. Eligibility of expenses is limited by a negative list and must follow national procurement procedures.

- 3.8 The Bank will recognize up to 100% of the amount of eligible expenditures incurred and paid by the borrower as of the date of the onset of the eligible event, and for a period of up to 180 calendar days immediately thereafter. In all procurement related matters, this operation will be governed by the provisions set forth in the document establishing the CCF (GN-2502-2). The borrower will use its national laws on the procurement of goods and the contracting of works and services applicable to extraordinary fiscal expenditures in cases of natural disasters (see Annex III).
- 3.9 **Rationale for using resources.** The borrower, through the Ministry of Finance, will substantiate the use of disbursed resources through a written declaration of appropriate use, to be submitted to the Bank within a period of 365 calendar days following the start date of the eligible event for which the Bank has disbursed the resources in question. If necessary, as provided in the document establishing the CCF (GN-2505-2), the Bank reserves the right to conduct ex post audits of the expenses incurred, the results of which may be used to support a potential request to reimburse any amounts found to be ineligible for financing.

B. Summary of Arrangements for Monitoring Results

- 3.10 During the loan disbursement period, the Bank will carry out periodic monitoring of progress made in executing the CDRMP to determine, based on the indicators established for this purpose, whether execution is proceeding satisfactorily (see [Monitoring and Evaluation Plan](#)). These evaluations will be conducted at least once a year. If the execution of the CDRMP is found to be unsatisfactory, the Bank, after having exhausted the preventive remedies recommended to the country in a timely manner, may notify the country that the Bank is temporarily suspending its eligibility to receive loan disbursements until the country demonstrates, to the Bank's satisfaction, that the shortcomings in question have been remedied. However, it should be noted that pursuant to the provisions of GN-2502-2, paragraph 4.25, once the Bank has granted initial eligibility to receive disbursements under this loan, this eligibility will remain in effect during the loan's disbursement period unless the Bank formally notifies the country of its temporary suspension.
- 3.11 Within a period of no more than two years following each disbursement, the Bank, at its sole discretion and at no cost to the borrower, may verify through independent external audits the appropriateness of the expenditures claimed as eligible. If, as a result of any such audits the Bank determines that the disbursed funds were used to finance ineligible expenditures, it may demand that the borrower immediately rectify the situation or reimburse the amounts in question. The monitoring and evaluation of the operation will be conducted in accordance with the Monitoring and Evaluation Plan.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Gender Equality and Diversity -Climate Change and Environmental Sustainability	
Country Development Results Indicators	-Countries that have improved disaster risk management (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2920-1	The operation is aligned with the cross-cutting issue of climate resilience and disaster risk management by providing contingent financial protection for natural disasters under the public sector effectiveness area.
Country Program Results Matrix	GN-2915	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		
3. Evidence-based Assessment & Solution	Evaluable	
3.1 Program Diagnosis	7.7	
3.2 Proposed Interventions or Solutions	3.0	
3.3 Results Matrix Quality	1.7	
3.3 Results Matrix Quality	3.0	
4. Ex ante Economic Analysis	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	2.2	
4.2 Identified and Quantified Benefits and Costs	3.3	
4.3 Reasonable Assumptions	1.0	
4.4 Sensitivity Analysis	2.2	
4.5 Consistency with results matrix	1.4	
5. Monitoring and Evaluation	8.5	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	6.0	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Low	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B.13	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, External Control, Internal Audit. Procurement: Information System, Comparison, Contracting Individual Consultant, National Public Bidding.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

The project is a Contingent Loan for Natural Disaster Emergencies. The objective of the operation is to alleviate the impact that a severe or catastrophic natural disaster could have on the country's finances, by increasing the availability, stability, and efficiency of contingent financing to address emergencies. Additionally, the operation seeks to enhance the comprehensive disaster risk management of the country by fostering improvements in five areas to be monitored through the Comprehensive Natural Disaster Risk Management Program (CDRMP).

The documentation is well structured, with a good diagnosis of the country's vulnerability to natural disasters and the negative effects these events have had on the country, its population and economy.

The proposed solution is clearly related to the magnitude of the problems identified. The results matrix reflects the objective of the program and captures a solid vertical logic. Output, outcome, and impact indicators are SMART and have baseline and target values and sources of information.

The project has an ex ante cost-effectiveness analysis and a monitoring and evaluation plan in line with DEM guidelines and the characteristics of contingent loans for natural disaster emergencies. The proposed evaluation seeks to assess the efficiency of the operation with an ex post cost-effectiveness analysis in the event of an occurrence of an eligible natural disaster. Given the nature of the operation, in the scenario where no resources are disbursed during the coverage period, a reflexive evaluation on selected indicators will be undertaken to evaluate the contingent loan.

The three risks identified in the risk matrix seem reasonable; two are classified as Low and one as Medium. The Medium risk includes mitigating actions and a compliance indicator.

RESULTS MATRIX

Project Objective:	The objective of the operation is to alleviate the impact that a severe or catastrophic natural disaster could have on the country's finances, by increasing the availability, stability, and efficiency of contingent financing to address emergencies. Additionally, the operation seeks to enhance the comprehensive disaster risk management of the country by fostering improvements in five main areas to be monitored through the Comprehensive Natural Disaster Risk Management Program (CDRMP): (i) disaster risk management governance; (ii) risk identification; (iii) risk reduction; (iv) preparation for emergency and response; and (v) financial protection and risk transfer.
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EXPECTED IMPACT

Indicators	Unit of Measure	Baseline		Year 1	Year 2	Year 3	Year 4	End of Project	Source/Mean of Verification	Observations ²
		Value	Year							
Expected impact: The impact of a severe or catastrophic natural disaster on The Bahamas' public finances is alleviated.										
Ex ante financial coverage as a percentage of maximum probable expenditure ¹ during emergencies caused by natural disasters of catastrophic magnitude.	%	15% ²	2018	59	58	56	55	54 ³	Ministry of Finance	The indicator measures The Bahamas' ex ante financial coverage as a percentage of maximum probable expenditure to respond to emergencies caused by natural disasters of catastrophic magnitude.

¹ Maximum probable emergency expenditure is based on the occurrence of a catastrophic event with recurrence of 1 in 100 years.

² The baseline for the impact indicator includes coverage provided by the insurance policy contracted with the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

³ This value assumes that a severe or catastrophic event does not occur in the period covered by the projection but includes estimates of variations in the growth of the affected population and expenditure value.

EXPECTED OUTCOMES

Indicators	Unit of Measure	Baseline		Year 1	Year 2	Year 3	Year 4	End of Project	Source/ Means of Verification	Indicator for Disbursement (Yes/No)	Observations
		Value	Year								
Expected outcome # 1: Improved financial risk management of natural disasters by increasing stable and efficient contingent financing to cover extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters.											
# 1A: Availability and stability: Increase in the country's total ex ante financial coverage to meet extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters.											
Amount of ex ante financial coverage available to the country.	US\$ million	35 ⁴	2018	135	135	135	135	135	Ministry of Finance	No	The indicator shows the total amount of ex ante financing available to the country to address emergencies caused by disasters.
# 1B: Financial cost: Available coverage is efficient in terms of financing cost.											
The spread over LIBOR for the IDB loan compared to the spread for The Bahamas' long-term sovereign external commercial debt.	Basis points	275 ⁵	2018	Diferential spreads	Diferential spreads	Diferential spreads	Diferential spreads	Greater than or equal to 190	IDB Finance Department Thomson Reuters Ministry of Finance	No	The financial cost of the IDB loan compared to the financial cost of The Bahamas' long-term sovereign external commercial debt will be monitored.

⁴ Amount of insurance coverage available to the country through the Caribbean Catastrophe Risk Insurance Facility (CCRIF).

⁵ See [Economic Analysis](#).

Indicators	Unit of Measure	Baseline		Year 1	Year 2	Year 3	Year 4	End of Project	Source/ Means of Verification	Indicator for Disbursement (Yes/No)	Observations
		Value	Year								
Cost of financing if an eligible event occurs: the spread over LIBOR for the IDB loan compared to the spread for The Bahamas' long-term sovereign external commercial debt. ⁶	Basis points	N/A ⁷	2018					Reduction of the financial cost of extraordinary emergency expenditures financed by contracting debt	IDB Finance Department Thomson Reuters Ministry of Finance	Yes	The financial cost of the IDB loan compared to the financial cost of The Bahamas' long-term sovereign external commercial debt will be monitored at the end of the months immediately before and after an eligible event.
# 1C: Speed of access: Available coverage is efficient in terms of how quickly the country can access to the resources to cover the potential emergency needs.											
Speed of access to resources if an eligible event occurs.	Days	90 ⁸	2018	30	30	30	30	30	IDB Finance Department Ministry of Finance	Yes	The indicator will measure the number of days between the date the country submits an eligibility verification request and the date on which the Bank notifies that loan resources are available for disbursement.

⁶ If market information is unavailable on the spread of The Bahamas' long-term sovereign external commercial debt, it will be estimated using the average interest rate based on the country's credit rating (Baa3, according to Moody's).

⁷ The baseline will be the difference in the cost of financing right before the occurrence of an eligible event, and it will be compared with the evolution of differential costs after the occurrence of the eligible disaster.

⁸ The baseline consists of the average time normally required to launch a sovereign bond issue in US dollars on the international market and is subject to adjustment based on the latest Bahamas' bond issuance.

Indicators	Unit of Measure	Baseline		Year 1	Year 2	Year 3	Year 4	End of Project	Source/ Means of Verification	Indicator for Disbursement (Yes/No)	Observations
		Value	Year								
Expected outcome # 2: An effective national policy for comprehensive natural disaster risk management.											
Comprehensive Natural Disaster Risk Management Program (CDRMP) is executed to the Bank's satisfaction	Execution status	Satisfactory	2018	Satisfactory	Satisfactory	Satisfactory	Satisfactory	CDRMP is executed to the Bank's satisfaction	Environmental, Rural Development and Disaster Risk Management Division (CSD/RND)	Yes	A satisfactory qualification entails that the country has made progress in achieving the annual milestones specified in the CDRMP and agreed upon by the Bank and the country every year.
Number of gender issues addressed in the CDRMP	Status	0	2018	1	1	1	1	Key gender issues are addressed in the CDRMP.	Environmental, Rural Development and Disaster Risk Management Division (CSD/RND)	No	The Bank will promote measures in the CDRMP to address gender issues. ⁹

OUTPUT

Indicator	Unit of Measure	Baseline	Year 1	Year 2	Year 3	Year 4	End of Project
Single Component: Bank's Contingent financing to cover extraordinary public expenses that could arise in emergencies caused by severe or catastrophic natural disasters.							
Financial coverage available	US\$ Millions	0	100	100	100	100	100

⁹ See [Monitoring and Evaluation Plan](#).

FIDUCIARY AGREEMENTS AND REQUIREMENTS

COUNTRY: Commonwealth of The Bahamas
PROJECT NO: BH-O0003
PROJECT NAME: Contingent Loan for National Disaster Emergencies
EXECUTING AGENCY: Ministry of Finance
FIDUCIARY TEAM: Mario Castaneda, VPC/FMP; and Rene Herrera, VPC/FMP

I. EXECUTIVE SUMMARY

- 1.1 The executing agency will be the Ministry of Finance. The project will be executed under the Contingent Credit Facility for Natural Disaster Emergencies (CCF) established pursuant to document GN-2502-2 dated 13 February 2009, which sets forth exceptions to the Bank's fiduciary policies.
- 1.2 Given the contingent nature of the operation, disbursements will only be made once the disbursement conditions stipulated in the loan contract have been met.

II. FIDUCIARY CONTEXT OF THE COUNTRY AND EXECUTING AGENCY

- 2.1 The Constitution of The Bahamas is based on the Westminster Model and dates back to 1973. The Cabinet constitutes the Executive Branch and has general direction of the government. The Constitution authorizes the National Assembly to make laws by passing bills, including approval of government's budget. In addition to its constitutional functions, the National Assembly has established a Public Accounts Committee to maintain oversight of the government's financial matters. The Constitution also establishes an Auditor General who is independent of both government and the National Assembly.
- 2.2 Public Financial Management is defined in the Financial Management and Audit Bill (2010 and 2013 amendment). The Bill outlines the functions of financial officials, budget administration, control over expenditures, bank accounts, accounts and audits, as well as the external control exercised by the Auditor General. The fiscal year is inter-annual, going from July 1st to June 30th.
- 2.3 In 2010, the country initiated a reform of the national public procurement system, undertaken by the Ministry of Finance. This reform effort is still underway, and the Ministry of Finance maintains a close oversight of project implementation by channeling all disbursement requests to the IDB and stays involved particularly in major issues regarding project implementation.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

- 3.1 The overall fiduciary risk associated to this operation is deemed low, given the context described in the previous section and the nature and flexibility of the project. While certain expenditures financed with loan proceeds could fail to meet the contractually stipulated eligibility criteria, making them unacceptable to the Bank, such events have a low probability of occurring considering that eligibility of expenses is basically limited only by a negative list and follow national procurement procedures. If necessary, as provided in the document establishing the CCF (document GN-2505-2), the Bank reserves the right to conduct ex post audits of the expenses incurred, the results of which may be used to support a potential request to reimburse any amounts found to be ineligible for financing.
- 3.2 There is also a low to medium risk that the government is overwhelmed by the extent of the damage caused by the emergency and therefore limit its execution capacity to use the funds made available during the 180 calendar days period. The team anticipates that as a precautionary measure, the Bank should closely work with the government and facilitate reinforcement of key personnel areas to maintain full control of the eligibility of expenses and/or expand execution capacity for both, preparedness enhancement and emergency response.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 4.1 **Procurement execution.** Pursuant to the provisions of document GN-2502-2 establishing the CCF, loans from the Contingent Credit Facility are granted a waiver with respect to the Bank's policies and procedures on the procurement of goods and the contracting of services. Instead, the borrower will apply its own rules and regulations with respect to the procurement of goods and contracting of services for extraordinary fiscal expenditures in the event of a natural disaster, in accordance with any applicable provisions of local administrative regulations and laws.
- 4.2 Loan proceeds under the CCF may only be used for expenditures deemed eligible for this operation (as defined in the loan contract). As part of the justification for the use of the disbursed resources, the borrower will submit a descriptive list of expenditures and events considered eligible for the operation, taking into account the following requirements: (i) they are not explicitly listed as expenditures excluded from eligibility for financing in the loan contract; (ii) they are legal under the laws of The Bahamas; (iii) they are directly related to the natural disaster emergency for which financing was provided; and (iv) they entail procurement and payments that are verifiable, documented, and clearly recorded, and are considered reasonably appropriate in terms of amount and price.

V. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 5.1 Financial management agreements and requirements are specified in document GN-2502-2 and are summarized as follows:
- 5.2 **Disbursement requests.** Requests for the disbursement of loan proceeds will be submitted within 90 calendar days following the occurrence of an eligible event, specifying the disbursement amounts requested. Pursuant to the provisions of the

document establishing the CCF, when an eligible event occurs, and at the country's choice, the amounts disbursed under the loan may come from the following sources of Bank financing: (i) funds from the regular lending program; (ii) resources from the undisbursed balances of loans on a list of investment loans previously approved by the Bank and identified and agreed upon with the country in the operation's loan contract (Automatic Redirection List - ARL);¹ or (iii) a combination of these two options.

- 5.3 **Disbursement mechanism.** Once the conditions for requesting a disbursement have been met,² the borrower may obtain up to 100% of the amount requested in the form of an advance of funds. The resources will be credited by the Bank to the Government's Consolidated Fund Account, which will be approved in accordance with the special contractual conditions precedent to each disbursement.
- 5.4 The executing agency will substantiate the use of the disbursed resources through a written declaration of appropriate use, to be submitted to the Bank within 365 calendar days following the onset of the event giving rise to the emergency.
- 5.5 The Bank will recognize up to 100% of the amount of the eligible expenditures actually incurred and paid by the borrower during the 180 calendar days following the date on which the emergency began.
- 5.6 **Audits.** Within a period of no more than two years after each disbursement, the Bank, at its sole discretion and at no cost to the borrower, may verify through independent audits the appropriateness of the expenditures claimed as eligible, as well as compliance with the rules and regulations of The Bahamas.

¹ The ARL will be updated periodically to include new loans.

² Defined in the loan contract, namely: (i) verification that an eligible event, as defined in the loan contract, has occurred; (ii) the execution of the CNDRMP, as previously agreed upon with the Bank, is being carried out in a manner satisfactory to the Bank; and (iii) submission of a disbursement request within 90 calendar days following the occurrence of an eligible event.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/18

Bahamas. Loan BH-O0003 to the Commonwealth of The Bahamas
Contingent Loan for Natural Disaster Emergencies

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Commonwealth of The Bahamas, as borrower, for the purpose of granting it a contingent loan for natural disaster emergencies. Such contingent loan will be for the amount of up to US\$100,000,000 from the resources of the Bank's Ordinary Capital, subject to the availability of resources from the regular loan program with the Commonwealth of The Bahamas or from the Automatic Redirection List, as the case may be, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on _____ 2018)