

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

THE BAHAMAS

CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES

(BH-00003)

PROJECT PROFILE

This document was prepared by the project team consisting of: Juan Jose Durante, IFD/CMF, Team Leader; Fernando De Ollolqui, Annabella Gaggero, Guillermo Collich, Rafael Rosillo, Andrea Teran, IFD/CMF; Hori Tsuneki, Yuri Chakalall, Chitrlekha Deopersad, CSD/RND; Maricarmen Esquivel, CSD/CCS; Syreta Roberts, Allan Wright, CCB/CBH; Javier Jimenez, LEG/SGO; Rene Herrera, VPC/FMP; and Mario Castaneda, VPC/FMP.

Under the Access to Information Policy, this document is subject to Public Disclosure.

PROJECT PROFILE

THE BAHAMAS

I. BASIC DATA

Project Name:	Contingent Loan for Natural Disaster Emergencies		
Project Number:	BH-O0003		
Project Team:	Juan Jose Durante, IFD/CMF, Team Leader; Fernando De Olloqui, Annabella Gaggero, Guillermo Collich, Rafael Rosillo, Andrea Teran, IFD/CMF; Hori Tsuneki, Yuri Chakalall, Chitralekha Deopersad, CSD/RND; Maricarmen Esquivel, CSD/CCS; Syreta Roberts, Allan Wright, CCB/CBH; Javier Jimenez, LEG/SGO; Rene Herrera, VPC/FMP; and Mario Castaneda, VPC/FMP.		
Borrower:	Commonwealth of The Bahamas		
Executing Agency:	Ministry of Finance		
Financial Plan:	IDB (OC):	US\$	100,000,000
	Total:	US\$	100,000,000
Safeguards:	Policies triggered:	B.01, B.07, B.13, B.17	
	Classification:	Not required	

II. GENERAL JUSTIFICATION AND OBJECTIVES

A. Background and Justification

- 2.1 **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\$105 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\$438.6 million;⁴ and (iii) Hurricane Irma (2017) that affected the provision of basic services in Grand Bahama and caused significant damage in Ragged Island, Acklins, Inagua and Bimini,⁵ with an estimated total damage and losses of US\$118 million.⁶

¹ 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 Caused by Hurricane Joaquin. IDB, ECLAC.

⁴ Assessment of the Effects and Impacts of Hurricane Matthew. IDB, ECLAC, FAO, PAHO.

⁵ Extensive economic impact assessment is currently underway.

⁶ Draft Assessment of the Effects and Impacts Caused by Hurricane Irma. IDB, ECLAC.

- 2.2 Vulnerability in the country is considered high due mainly to socio-economic factors, such as the location of communities and infrastructure, mostly in coastal areas, with high exposure to storm surge and flooding hazards along with inadequate construction practices. 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.⁷
- 2.3 **Climate change.** These trends are likely to worsen as a result of climate change. The Bahamas is highly vulnerable to sea level rise and storm surge associated with increasing intensity of extreme weather events. Likely impacts include coastal flooding and erosion, mangrove retreat, decreased seagrass bed productivity, and saltwater intrusion into existing small lenses of fresh groundwater.⁸ A recent IDB study indicates that the probable flood exposed area in Nassau will expand 8% by 2050 due to the increasing precipitation caused by climate change.⁹
- 2.4 **Financial vulnerability.** The Bahamian economy is heavily dependent on natural resources for its tourism, fisheries, mining industries, 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. In 2016, Hurricane Matthew caused losses equivalent to 6.75% of 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. Historically, The Bahamas has relied on the accumulation of debt to absorb the cost of recovery, contributing to the rise of public debt. The central government debt-to-GDP ratio is estimated to have increased to 73% in the fiscal year (FY) ending in June 2017.¹⁰ Fiscal deficit is estimated to have reached 5.7% of GDP for FY 2017, up from 3.5% of GDP in FY 2016, due to post-hurricane cleanup and reconstruction spending, temporary tax reliefs, disruptions in revenue collection and sharp increases in the wage bill.¹¹ Furthermore, reconstruction activities depend heavily on imports which requires the government to maintain an adequate level of international reserves. Since 2014, the level of international reserves has experienced a steady decline and it is expected to keep declining in the next couple of years. The country's 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.
- 2.5 **Natural disaster risk management.** Recognizing the need to more satisfactorily address the country's high exposure and vulnerability to hurricane events and additional risk imposed by climate change; over the last years the Government of

⁷ Indicators for Disaster Risk and Risk Management: Program for Latin-America and The Caribbean: Bahamas. IDB-TN-790. December, 2011.

⁸ Murray Simpson et al., "CARIBSAVE Climate Change Risk Atlas - The Bahamas." (Barbados: DFID, AusAID and CARIBSAVE, 2012).

⁹ Environmental Resources Management. "CE-2 Hazards and Risks: Sustainable Nassau Action Plan" IDB, 2016.

¹⁰ 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 FY 2011 and reaching 68% during FY 2016. It is expected that debt will peak at 73.3% of GDP in FY 2018. Article IV Consultation with The Bahamas, 2017.

¹¹ Article IV Consultation with The Bahamas, International Monetary Fund, 2017.

The Bahamas (GOBH) has initiated several policy, legal, and institutional actions that promote a proactive and comprehensive approach to Disaster Risk Management (DRM). These include, among others: (i) endorsement in 2007 of a Disaster Preparedness and Response Act, Comprehensive Disaster Management (CDM) strategy, 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 in the Bahamas; (ii) preparation by NEMA of a National Disaster Plan and Instructions for Emergency Situations 2016-2018 to clarify the procedures for activation of the National Emergency Operations Centre (NEOC); (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. Regarding financial management of natural disaster risks, The Bahamas has already taken steps for the implementation of ex ante financial instruments to face the extraordinary expenses of natural disaster emergencies, mainly through the purchase of insurance from the Caribbean Catastrophic Risk Insurance Facility (CCRIF) since 2007, providing a US\$35 million coverage that aims to complement the financial capacity of The Bahamas to cover extraordinary emergency expenses in the case of catastrophic events of very high intensity but low probability of occurrence.

2.6 While GOBH has made important advances, the implementation of a national agenda for DRM is still at an early stage. This is reflected in The Bahamas' Risk Management Index (RMI), a measure of the country's overall institutional and community performance on reducing climate risk and vulnerability, which in 2010 was determined to be at 29.76 out of a possible maximum of 100.¹² If it is to achieve acceptable levels of risk management performance in the short to medium term the country faces challenges to: (i) improve inventory and record keeping of disaster events at all scales, as well as to develop mechanisms to extract lessons; (ii) conduct a detailed vulnerability and risk assessment; (iii) improve building standards, their application and enforcement; and (iv) implement appropriate public works to better adapt to and mitigate climate hazard impacts including infrastructure and ecosystem based methods (e.g., mangrove planting). There is an opportunity to create a long-term comprehensive financial strategy that combines a set of different instruments and mechanisms, such as reserve funds, contingent financing and insurance, in order to provide an efficient and effective coverage for the country when natural disasters of different severity levels occur based on their magnitude and probability of occurrence.¹³ Also, the local insurance market needs to be further developed and improve penetration rates by making coverage more affordable to households and businesses.¹⁴

2.7 **Strategic alignment of the operation.** The operation contributes to the priority sector of coastal risk management and climate adaptation of the IDB Group Country Strategy with The Commonwealth of The Bahamas (2013-2017)

¹² Indicators for Disaster Risk and Risk Management: Program for Latin-America and The Caribbean: Bahamas. IDB, December 2011.

¹³ For a further description of how a multilayered financial coverage works see Natural Disasters Financial Risk Management. Technical and Policy Underpinnings for the Use of Disaster-Linked Financial instruments in Latin America and the Caribbean (IDB, 2010).

¹⁴ An estimated 60% of households are without insurance or underinsured. IMF, 2017.

(GN-2731), as it improves capacity for coastal risk management, particularly financial risk management by providing rapid availability of resources through a contingent financial protection instrument. The operation is consistent with the Update to the Institutional Strategy 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. 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. Objectives and Expected Results

- 2.8 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 deal with emergencies caused by events of this type.
- 2.9 The main expected results of the operation are: (i) in terms of output, the availability of additional liquid resources for The Bahamas to cover extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters; and (ii) in terms of outcome; an increase in cost-efficient contingent financing available to cover the aforementioned public expenditures.

III. TECHNICAL ISSUES AND SECTOR KNOWLEDGE

- 3.1 The proposed operation is structured as a Bank investment loan, which will be granted through the Contingent Credit Facility for Natural Disaster Emergencies (CCF), for a total amount of US\$100 million from the Ordinary Capital.¹⁵ The Ministry of Finance will be the Executing Agency. This loan will be available for disbursement for a period of 5 years, starting from the loan effectiveness date. The disbursement period may be extended for up to 5 additional years, at the Bank's discretion and upon the borrower's request.
- 3.2 The contingent loan will be designed to: (i) ensure a fast provision of liquid resources to finance extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters; and (ii) have an adequate amount of resources, within the limits established by the CCF, that can meet the foreseeable financing needs of The Bahamas when such disasters take place.
- 3.3 Given the contingent nature of the operation, loan disbursements will only be made: (i) if an event of specific location, type and magnitude, previously agreed between the country and the Bank, takes place and (ii) if at the time of disbursement, the Bank has sufficient resources from the sources mentioned in

¹⁵ To determine the country's financing needs to address emergencies caused by natural disasters, the project team analyzed the historical impact of natural disasters in the country. The amount of the loan is within the limit established by the IDB Contingent Credit Facility.

- 3.5. The eligible events that can trigger potential disbursements will be outlined between the country and the Bank in the Operating Regulations (OR) of the program. The loan will initially provide coverage for hurricanes. However, during loan implementation, at the borrower's formal request and once the Bank has developed the corresponding parametric triggers for the respective hazard, other relevant hazards for the country could be included under the loan's coverage through modification of the OR.
- 3.4 **Comprehensive Natural Disaster Risk Management Program (CNDRMP).** The CCF requires for all Bank borrowing member countries to have a CNDRMP in place and executed to the Bank's satisfaction in order to be eligible to receive financing through the CCF. The general objective of The Bahamas' CNDRMP must be to promote an effective DRM in a comprehensive manner that should include: (i) the development of improved DRM governance; (ii) the execution of science-based climate risk identification and analysis; (iii) the implementation of hazard protection public works including ecosystem or nature-based infrastructure; (vi) the establishment for effective preparedness for emergency; and (v) the realization of financial protection and risk transfer. Several IDB's technical cooperation programs in execution¹⁶ will provide important inputs for enhancing GOBH capacity on disaster risk management and contribute to the CNDRMP implementation.
- 3.5 **Disbursement mechanism.** According to the CCF, when an eligible event occurs, the country can decide if the funds to be disbursed under the loan will come from one of the following alternative sources of Bank resources: (i) funds from the regular lending program; (ii) funds from available undisbursed balances of investment loans in the country's active portfolio with the Bank (Automatic Reallocation List); or (iii) a combination of these two options.
- 3.6 **Eligible expenditures.** Resources disbursed from the contingent loan may only be used by the borrower to finance extraordinary public expenditures incurred during emergencies caused by eligible events. The Bank will recognize the eligible expenditures incurred and paid by the borrower for 180 calendar days following the date on which the disaster occurred. The types of eligible expenditures are broad and will only be limited by a negative list that will be part of the loan contract and agreed upon by the country and the Bank. Some examples of eligible expenditures are: (i) emergency health equipment; (ii) vaccines and medications; (iii) facilities and equipment for temporary shelters; (iv) food for the affected population; and (iv) temporary rehabilitation of infrastructure and restoration of basic services; among others.
- 3.7 **Sector knowledge.** The Bank has approved seven loans from the CCF throughout the region, with two successful disbursements in the last two years for a total US\$176 million (3670/OC-EC and 4331/OC-DR). During 2018, the Bank is set to

¹⁶ These technical cooperation programs include: (i) RG-T2758: Development of the Country Disaster Risk Profile; (ii) RG-T3133: Support for preparedness, resilience and disaster risk management in the Caribbean that includes support for enhancing ex-ante country disaster financial risk management strategies; and (iii) additionally, the Bank, in coordination with the Economic Commission for Latin America and the Caribbean (ECLAC), supported the GOBH to conduct the damage and loss evaluations to extract lessons learned from the impacts of hurricanes Irma and Maria (2017), Mathew (2016) and Joaquin (2015), which can be the basis to identify priority areas for the CNDRMP.

further expand the use of the CCF throughout five more countries in the region. Furthermore, the Bank has supported the Government of The Bahamas in improving their humanitarian assistance efforts through several technical cooperation projects aimed at 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, in order to build resilience to coastal risks, the Bank recently approved a loan (4363/OC-BH) to help in the reduction of economic losses due to natural disasters and foster local economic activity through coastal resilience.

- 3.8 The Bank is monitoring the development of donor initiatives for post Irma and Maria responses in the Caribbean by liaising with the Eastern Caribbean Donor Group. However, while a number of bilateral and multilateral pledges have been made, the full technical details of these initiatives are under development and have yet to be fully worked out. The Bank will continue to monitor the progress of such initiatives in order to identify synergies and ensure complementarity of its interventions. Moreover, the IDB Group itself is promoting a Caribbean Investment Partnership for Resilience, which is expected to coordinate initiatives with the Caribbean Development Bank, the World Bank, and the private sector.

IV. ENVIRONMENTAL SAFEGUARDS AND FIDUCIARY SCREENING

- 4.1. In accordance with directive B.13 of the Environmental and Safeguards Compliance Policy (GN-2208-20), this operation does not require classification.
- 4.1 Regarding fiduciary aspects, the operation will be adjusted to the specific requirements and procedures for fiduciary control established for the CCF (GN-2502-2 and GN-2502-3).

V. RESOURCES AND TIMETABLE

- 5.1 It is estimated that a budget of US\$72,510 will be required for the preparation of this operation. The distribution of the Proposal for Operation Development (POD) for the Quality and Risk Review (QRR) is scheduled for April 6, 2018 and the consideration of the Loan Proposal by the Bank's Board of Executive Directors is scheduled for June 27, 2018.

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¹ The information contained in this Annex is confidential and will not be disclosed. This is in accordance with the "Deliberative Information" exception referred to in paragraph 4.1 (g) of the Access to Information Policy (GN-1831-28) at the Inter-American Development Bank.



Safeguard Policy Filter Report

Operation Information

Operation		
BH-O0003 Contingent Loan for Natural Disaster Emergencies		
Environmental and Social Impact Category	High Risk Rating	
B13	{Not Set}	
Country	Executing Agency	
BAHAMAS		
Organizational Unit	IDB Sector/Subsector	
Env, Rural Dev & Disaster Risk	RISK FINANCING	
Team Leader	ESG Primary Team Member	
JUAN JOSE DURANTE	{Not Set}	
Type of Operation	Original IDB Amount	% Disbursed
Container	\$100,000,000	0.000 %
Assessment Date	Author	
16 Feb 2018	annabellag Operational Analyst	
Operation Cycle Stage	Completion Date	
ERM (Estimated)	30 Jan 2018	
QRR (Estimated)	6 Apr 2018	
Board Approval (Estimated)	{Not Set}	
Safeguard Performance Rating		
{Not Set}		
Rationale		
{Not Set}		



Safeguard Policy Filter Report

Potential Safeguard Policy Items

[No potential issues identified]

Safeguard Policy Items Identified

[B.1 Bank Policies \(Access to Information Policy– OP-102\)](#)

The Bank will make the relevant project documents available to the public.

[B.1 Bank Policies \(Disaster Risk Management Policy– OP-704\)](#)

The operation is in a geographical area exposed to [natural hazards \(Type 1 Disaster Risk Scenario\)](#). Climate change may increase the frequency and/or intensity of some hazards.

[B.7 Supervision and Compliance](#)

The Bank is expected to monitor the executing agency/borrower's compliance with all safeguard requirements stipulated in the loan agreement and project operating or credit regulations.

[B.13. Noninvestment Lending and Flexible Lending Instruments](#)

Ex-ante impact classification may not be feasible for this type of operation. This includes: policy-based loans, Financial Intermediaries (FIs) or loans that are based on performance criteria, sector-based approaches, and conditional credit lines for investment operations.

[B.17. Procurement](#)

Suitable safeguard provisions for the procurement of goods and services in Bank financed operations may be incorporated into project-specific loan agreements, operating regulations and bidding documents, as appropriate, to ensure environmentally responsible procurement.

Recommended Actions

Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PP (or equivalent) and Safeguard Screening Form to ESR.

Additional Comments

In accordance with directive B.13 of the Environmental and Safeguards Compliance Policy (GN-2208-20), this operation does not require classification.

ENVIRONMENTAL AND SOCIAL SAFEGUARD STRATEGY

- 1.1 The objective of the Contingent Loan for Natural Disaster Emergencies (BH-O0003) 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 deal with emergencies caused by events of this type. It is important to note that the type of eligible expenditures to finance with resources of the contingent loan is very broad and is only limited by a negative list to be agreed upon by the country and the Bank. Some examples of these eligible expenditures are: emergency health equipment; vaccines and medications; facilities and equipment for temporary shelters; food and fodder for displaced and distressed populations; cost of emergency personnel equipment; short-term rental of equipment and facilities for energy; transport and communications; storage spaces and temporary rehabilitation of housing and infrastructure.
- 1.2 Additionally, it should be noted that the granting and availability of the contingent loan is conditioned upon the execution, to the Bank's satisfaction, of the Comprehensive Disaster Risk Management Program (CDRMP) previously agreed upon between the country and the Bank. The CDRMP includes actions to prevent and mitigate risks associated with natural disasters.
- 1.3 Consequently, based on the foregoing, this operation is subject to the provisions established in Directive B.13 of the Environmental and Safeguards Compliance Policy (GN-2208-20) and, therefore, does not require classification or the preparation of an Environmental and Social Management Report.

SECTORAL WORK INDEX

Studies	Description	Dates	References and Links
IDB and other sources	2017 Article IV Consultation with The Bahamas, International Monetary Fund.	September 15, 2017	http://www.imf.org/en/Publications/CR/Issues/2017/10/06/The-Bahamas-2017-Article-IV-Consultation-Press-Release-and-Staff-Report-45310
	The Bahamas - Country Risk Profile, Caribbean Catastrophe Risk Insurance Facility.	August 2013	http://www.ccrif.org/sites/default/files/publications/Bahamas_CountryRiskProfile_2013.pdf
	Indicators for Disaster Risk and Risk Management, Bahamas, Technical Note No. IDB-TN-790, IDB	December 2011	https://publications.iadb.org/bitstream/handle/11319/7374/Indicators_Disaster_Risk_Risk_Management_Bahamas.pdf?sequence=1
	Ex-Ante Economic Assessment of the Climate-Resilient Coastal Infrastructure and Management Program (BH-L1043), C. Landry.	November 6, 2017	http://www.iadb.org/en/projects/project-description-title,1303.html?id=BH-L1043
	Assessment of the Effects and Impacts of Hurricane Matthew, The Bahamas, IDB & ECLAC.	November 2016	Pending publication.
	Assessment of the Effects and Impacts Caused by Hurricane Joaquin, The Bahamas, IDB & ECLAC.	December 2017	Pending publication.
	Hazard and Risk Study, Sustainable Nassau Action Plan, Environmental Resources Management, IDB.	June 2016	Draft.
	Country Disaster Risk Profile for the Bahamas, 1 st Progress Report, IDB.	October 31, 2017	Draft.
	The International Disaster Database (EM-DAT), Center for Research on the Epidemiology of Disasters (CRED).	November 2017	http://www.emdat.be/

Studies	Description	Dates	References and Links
Execution mechanism and fiduciary and control issues	Operating Regulations of the Contingent Loan, which is being designed by the Project Team	In preparation	
	Contingent Credit Facility for Emergencies caused by Natural Disasters. Operational Guidelines (GN-2502-3)	September 2014	
Risk analysis	Application of the Bank's methodology for risk analysis carried out by the team	June 2009	

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