

POLICY LETTER

Mr. Luis Alberto Moreno

President
Inter-American Development Bank
Washington, D.C., United States of America

Reference: BO-L1107 Disaster Risk Management Program II

Dear Mr. Moreno:

I am writing to express the commitment of the Government of the Plurinational State of Bolivia, as part of the development of comprehensive social and economic policies, to promote a comprehensive risk reduction policy for disasters caused by natural phenomena, thereby lessening the State's vulnerability.

In this context, we are developing the Disaster Risk Management Program ("the program") with the Inter-American Development Bank, which includes policy and institutional reform actions and commitments for the period 2015–2016. The program consists of programmatic loan operations and is divided into two components: (i) the first includes actions to modernize and develop the guiding framework for disaster risk management; and (ii) the second focuses on regulatory and institutional development as well as development of sector and subnational management tools. In particular, the program's second component addresses five lines of action: (1) risk identification; (2) risk reduction; (3) response preparedness; (4) post-disaster recovery planning; and (5) financial protection from risk.

Bolivia's economic situation is described below, followed by the program's objectives and the actions to be carried out in the context of the second programmatic operation.

A. Economic context

Bolivia's economic performance in recent years has been outstanding. GDP grew by an annual average of 5.1% between 2006 and 2014, preliminary estimates of growth in 2015 indicate a rate of 4.8%, and growth is expected to be among the highest in the region in 2016, at about 5%. Domestic demand continues to be the main engine of growth. The expansion of fiscal revenue in recent years made it possible to increase public investment and boost the population's consumption thanks to higher incomes. Per capita GDP rose from US\$1,228 in 2006 to US\$3,116 in 2014. The minimum wage increased and cash transfers were made to the population through social programs such as *Renta Dignidad*, *Bono Juancito Pinto*, and *Bono Juana Azurduy*.

Prudential management of the macroeconomic accounts led to a fiscal surplus in the period 2006-2014 that averaged 1.2% of GDP per year. The behavior of the trade balance, with a steady increase in exports, also allowed for a surplus in the balance of payments current account and a historic buildup of international reserves, which, at the end of 2015, amounted to US\$13.056 billion.

External debt levels are sustainable. The solvency indicator, measured as total external debt to GDP, was 17.9% in November 2015, and the liquidity indicator, measured as external debt service to exports of goods and services, was 6.4% in the same period, far below the international thresholds of 50% and 20%, respectively.

Significantly, this favorable macroeconomic context was achieved despite the fact that the country had to cope with external shocks and climate events. The latter had a negative effect

on growth: as a result of the 2006-2007 El Niño and the 2008 La Niña, GDP shrank by 0.84 percentage points and 0.80 percentage points, respectively. However, improvements in risk management in recent years are reflected in lower impact from events of this kind on growth. In terms of losses, the climate events of 2013-2014 had a negative impact of 0.23 percentage points even though their intensity was almost the same as the 2008 event.

B. Reforms associated with Disaster Risk Management Program II

The objective of the program is to improve the country's disaster risk management (DRM) governance and financial capacity by strengthening and modernizing the regulatory, institutional, and budgetary public policy framework for comprehensive DRM in line with Law 602 on Disaster Risk Management, which was passed in November 2014. Specifically, a series of reforms will be promoted to improve public policy conditions for: (i) risk identification; (ii) risk reduction; (iii) response preparedness; (iv) post-disaster recovery planning; and (v) financial protection.

b.1. Development of the guiding framework. The objective of this component is to develop and strengthen the general governance framework for DRM. The main policy commitments in this component are: (i) establishment of FORADE and the Madre Tierra Plurinational Fund (FPMT for ACC); (ii) creation of economic incentives to implement DRM actions at the sector and ETA levels; (iii) approval of Bolivia's comprehensive planning system of the State (SPIE) law and the Economic and Social Development Plan 2016-2020, including the DRM criteria; (iv) incorporation of the DRM and ACC approach into the State Investment Information System classifier (SISIN Web); (v) approval of at least one of the principal climate change planning instruments, incorporating DRM (Plurinational Climate Change Policy or Third National Climate Change Communication); (vi) adaptation of the sector planning of a ministry that sits on CONARADE in the context of its DRM mandate.

b.2. Development of regulations, institutions, and sector and subnational management instruments. This component complements the governance reforms by developing the following lines of action:

- a. **Risk identification.** The objective of this line is to improve public policy conditions for risk identification. Its main policy commitments are: (i) approving the regulations to assign responsibility for providing technical assistance and guidelines for incorporating risk analysis into development planning; (ii) including DRM into the SPIE information system (INFO-SPIE); (iii) undertaking a probabilistic study on floods to serve as a baseline for defining a risk analysis methodology; and (iv) approving regulations that identify the critical infrastructure in the hydroelectric sector. In addition, it would lay the foundations for the design of the Plurinational System for Comprehensive Monitoring and Information of Mother Earth and Climate Change (MTCC System), through the drafting of guidelines for the design.
- b. **Risk reduction.** The objective of this line is to improve public policy conditions for risk reduction. Its policy commitments are: (i) allocation of resources to key ministries and ETAs for risk reduction activities that can be verified through budget classification instruments; (ii) identification of acceptable risk benchmarks for two threats in the hydroelectric subsector; (iii) formulation of the preinvestment guide for the hydroelectric subsector, which incorporates DRM and ACC; and (iv) formulation of guidelines to assist sectors and ETAs in preparing regulations to reduce the vulnerability of critical infrastructure.
- c. **Response preparedness.** The objective of this line is to improve public policy conditions for response preparedness. The policy commitments include: (i) approval of methodological guidelines for the formulation of contingency plans at the different ETA levels; (ii) formulation of a protocol governing mutual assistance in the event of disasters; (iii) activation of a mechanism for civil society participation in response to a

declared emergency; and (iv) approval of the MMAyA's contingency plan for the El Niño Southern Oscillation.

- d. **Recovery planning.** The objective of this line is to improve public policy conditions for recovery planning. The policy commitments include: (i) definition of a strategic framework establishing, among other things, the duration of the phase to restore living conditions and infrastructure in the wake of a disaster, and a mechanism for participation by civil society in the recovery; (ii) formulation of regulations governing the evaluation, review, or updating the ETA development plans and land management plans after a disaster; and (iii) approval of the strategic guidelines and methodology for updating post-disaster development plans so they will not reproduce conditions of vulnerability.
- e. **Financial protection.** The objective of this line is to improve public policy conditions for financial protection. The policy commitments include: (i) the scaling of funding to cover the losses associated with catastrophic and recurrent events; and (ii) the definition of the optimum combination of instruments for risk reduction, containment, and transfer based on the aforementioned scaling of losses as an input for designing a comprehensive financial strategy for disaster risk.

C. Conclusion

As is clear from the foregoing, the Government of the Plurinational State of Bolivia is taking and will continue to take major steps to reduce the State's vulnerability to disasters, based on comprehensive and effective risk management. To that end, it is important to receive the continued support of the Inter-American Development Bank in the areas in question.

By virtue of the contents of this letter, the Government of the Plurinational State of Bolivia requests approval of "Disaster Risk Management Program II" for US\$100 million.

Sincerely,

[Signature]

René Gonzalo Orellana Halkyer
Minister
Ministry of Development Planning