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DOMINICAN REPUBLIC

CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES

(DR-X1011)

PROPOSAL FOR REFORMULATION OF LOAN DR-X1003 AND AMENDMENT OF RESOLUTION DE-164/09

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ELECTRONIC LINKS

REQUIRED

1. Development Effectiveness Matrix (DEM)
2. Monitoring and Evaluation Plan

OPTIONAL

1. Economic analysis of the project
2. Operating Regulations (Draft)
3. Automatic Reallocation List (ARL)
4. IDB (May 2010). Technical Note IDB-TN-119. Natural Disasters Financial Risk Management in the Dominican Republic
5. IDB (June 2015). Technical Note IDB/TN/795. Disaster Risk and Risk Management Indicators. Program for Latin America and the Caribbean. Dominican Republic
6. 2012-2016 Matrix of Progress Indicators for the Comprehensive Natural Disaster Risk Management Program
7. Request from the Ministry of Finance, Communication DM/6567

ABBREVIATIONS

ARL	Automatic Reallocation List
CCF	Contingent Credit Facility for Natural Disaster Emergencies
CNDRMP	Comprehensive Natural Disaster Risk Management Program
DRM	Disaster Risk Management
GAR	Global Assessment Report on Disaster Risk Reduction
iGOPP	Index of Governance and Public Policy in Disaster Risk Management
NDFRTP	Natural Disaster Financing and Risk Transfer Programs
NPV	Net present value
SNPMR	Sistema Nacional de Prevención, Mitigación y Respuesta a Desastres [National Disaster Prevention, Mitigation, and Response System]

PROJECT SUMMARY

DOMINICAN REPUBLIC
CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES. REFORMULATION OF LOAN DR-X1003 AND AMENDMENT OF RESOLUTION DE-164/09
(DR-X1011)

Financial Terms and Conditions[a]				
			Flexible Financing Facility[b]	
Borrower: Dominican Republic			**Amortization period:**	25 years[c]
			Original weighted average life:	15.25 years[c]
Executing agency: Ministry of Finance			**Grace period:**	5.5 years[c]
			Disbursement period:	5 years[d] [e]
Source	**Amount (US$)**	**Amended amount (US$)**	**Interest rate:**	LIBOR-based
IDB (Ordinary Capital)	100,000,000	300,000,000[f]	**Inspection and supervision fee:**	[g]
			Commitment fee:	[g]
Total:	100,000,000	300,000,000	**Currency of approval:**	U.S. dollars from the Ordinary Capital

Project at a Glance

Project objective/description: The objective of the operation is to help cushion the impact that a severe or catastrophic natural disaster could have on the country's public finances, by increasing the availability, stability, and efficiency of contingent financing to deal with emergencies caused by events of this type.

Special contractual general eligibility conditions to request disbursements: (i) approval and entry into effect of the Operating Regulations (paragraph 3.3).

Special contractual conditions precedent to each disbursement: (i) the Bank has verified the occurrence of an eligible event, as defined in the loan contract; (ii) the Comprehensive Disaster Risk Management Program 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), whether it/they will come from regular lending program resources or from the Automatic Reallocation List (ARL), indicating the ARL loan(s) in question and the respective amount to be used; and (iv) the borrower has informed the Bank of the special bank account where the Bank will deposit the contingent loan proceeds (paragraph 3.3).

Exceptions to Bank policies: None

Strategic Alignment			
Challenges:[h]	SI ☐	PI ☐	EI ☐
Crosscutting themes:[i]	GD ☐	CC ☑	IC ☐

[a] Financial terms and conditions of the contingent loan in accordance with the Contingent Credit Facility for Natural Disaster Emergencies (document 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 (document GN-2667-2).

[b] Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.

[c] Amortization periods, weighted average life (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 Dominican Republic, as applicable (paragraph 2.5).

[f] This amount includes the sum of US$100 million from loan DR-X1003, approved by the Bank's Board of Executive Directors pursuant to Resolution DE-164/09 dated 11 November 2009.

[g] 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 days after the date the contract amending loan contract DR-X1003 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.

[h] SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

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

I. PROJECT DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

1.1 The purpose of this document is to present the proposed reformulation of the Contingent Loan for Natural Disaster Emergencies (DR-X1003) for US$100 million, which was approved by the Bank's Board of Executive Directors on 11 November 2009 pursuant to Resolution DE-164/09, in order to increase the total amount of loan to US$300 million.

1.2 Loan DR-X1003 was structured under the Contingent Credit Facility for Natural Disaster Emergencies (CCF), which was established in 2009 pursuant to document GN-2502-2. The CCF is one of the main tools used by the Bank to help borrowing member countries improve the financial management of severe or catastrophic natural disaster risks.

1.3 In view of the magnitude of disaster risk exposure in the Dominican Republic, in early 2009, the government requested a contingent loan from the Bank for US$100 million, the maximum per-country amount established for the CCF in its initial implementation stage (2009-2012). This request was met by approval of loan DR-X1003, which took effect in December 2010, with a five-year disbursement period.

1.4 In October 2015, the Dominican Republic asked the Bank to extend the period during which the loan resources are available (disbursement period) for an additional five years, until December 2020. At the same time, the country requested that the loan amount be increased by US$200 million, so that the total amount of coverage would be US$300 million.[1] This would occur within the framework of the terms set out in the "Proposal to Establish Contingent Lending Instruments of the IDB" (document GN-2667-2) of July 2012, whereby the Bank increased the limits of the CCF's per-country financing to US$300 million or 2% of gross domestic product (GDP), whichever is less.

1.5 To address the country's request, in December 2015 the Bank approved the extension of the period during which resources of the loan DR-X1003 are available for an additional five years, until December 2020, or the effective date of new loan contract, whichever occurs first. In addition, by means of this proposed reformulation, the Bank will fulfill the country's request to increase the total amount of the contingent loan to US$300 million. It should be stressed that the original objective of the loan and the activities originally included in it will remain unchanged. To date, the Bank has not made any disbursements under loan DR-X1003.

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

1.6 The level of a country's disaster risk is determined by its exposure to natural threats and its vulnerability to the effects should this risk materialize. Because of its geographic location and various social, economic, and demographic factors (63% of the population is concentrated in cities), the Dominican Republic is exposed to a high number of natural threats such as earthquakes and hurricanes. It should be noted that the *Germanwatch Global Climate Risk Index 2015* ranks the Dominican Republic the eighth most affected country in terms of weather-related events (out of

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[1] See Request from the Ministry of Finance, Communication DM/6567 dated 16 October 2015.

183 countries), with a high level of economic losses, considering the large number of events that affect the country each year and its high degree of vulnerability.

1.7 Natural disasters have caused extremely significant human and material losses in the country. The most recent severe and catastrophic hydrometeorological events include Tropical Storm Olga and Hurricane Noel, which occurred in the latter part of 2007. Estimated losses caused by both storms totaled 0.6% of GDP. The total cost of Hurricane Jeanne in September 2004 was 1.6% of GDP, while the worst events in recent decades, Hurricane Georges (1998), Hurricane David, and Tropical Storm Federico (1979) resulted in costs totaling 16.1% and 18.4% of GDP, respectively.

1.8 In terms of seismic exposure, between 1973 and 2015 approximately 608 earthquakes were recorded in the Dominican Republic. Historic seismic events with the highest magnitude include the earthquake of 4 August 1946 with a magnitude of 8.0 on the Richter scale, which occurred in the province of Samaná, where 100 people lost their lives and more than 20,000 were left homeless; and the earthquake of 22 September 2003, which was recorded near the town of Puerto Plata, had a magnitude of 6.4 on the Richter scale, and affected more than 2,000.[2] According to United Nations estimates, the maximum probable loss caused by an earthquake with a 100-year recurrence interval could be as high as 8% of GDP.[3]

1.9 In view of this situation and the significant impact that natural disasters could have on the country's public finances, the Government of the Dominican Republic has been working with the Bank on the development of a disaster risk financial management strategy,[4] in order to design prevention, mitigation, and preparation mechanisms to deal with these risks and establish adequate coverage, which, through quickly accessible ex ante financing instruments will make it possible to effectively defray the extraordinary public expenditures caused by natural disasters in a timely manner.

2. Financial vulnerability to severe and catastrophic natural disasters

1.10 The Dominican Republic has experienced strong economic performance in recent years. In 2015, real GDP grew 7.0% (7.3% in 2014) and inflation remained at 2.34% (1.58% in 2014), which is below the lower threshold of the target range established in the Monetary Program of the Central Bank of the Dominican Republic (4% +/-1%). The medium-term growth outlook is generally favorable, and the country is expected to converge on its potential growth of 4.5% to 5.0%.

1.11 Regarding the country's fiscal performance, after a period of economic decline that culminated in 2012 with a Nonfinancial Public Sector (NFPS) deficit of 6.9% of GDP, the government implemented a series of adjustments to slowly trim the deficit, which resulted in a deficit of 2.4% of GDP by the end of 2015.[5] The combination of these

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[2] IDB (2012). Disaster Preparation and Risk Management Program. Assessment of Catastrophic Risk in the Dominican Republic.

[3] UN. Global Assessment Report on Disaster Risk Reduction (GAR) (2015). Country Risk Profile, Dominican Republic.

[4] For more information, see: (i) BID (2010). Natural Disasters Financial Risk Management in the Dominican Republic, Technical Note IDB-TN-119; and (ii) IDB (June 2015). Disaster Risk and Risk Management Indicators. Program for Latin America and the Caribbean. Dominican Republic, Technical Note IDB/TN/795.

[5] This figure does not include the Dominican government's purchase of debt associated with the PetroCaribe Agreement. If this repurchase operation is considered, the NFPS had a deficit balance of just 0.2% of GDP, based on Central Bank figures.

factors, along with strong growth of the Dominican economy, led to a contraction of public debt, from 37.2% of GDP in 2014 to 35.9% of GDP in 2015.

1.12 This positive scenario could be compromised if a major natural disaster were to occur. This risk is one of the country's main contingent fiscal liabilities. According to the Global Assessment Report on Disaster Risk Reduction (GAR), the Dominican Republic is among the group of countries that would not pass a stress test of fiscal resilience to a major natural disaster with a 100-year reoccurrence interval (UN, 2015). Furthermore, according to a study prepared by the Bank, in the event of an extreme weather event with a 100-year recurrence interval, the country's probable losses would be around 3.0% of GDP, and, in the case of extreme events recurring every 500 years or more, probable losses would be around 17.0% of GDP.[6] Given this situation, the public sector would not have the financial capacity to cover the losses caused by the emergency.[7]

3. Natural disaster risk management in the Dominican Republic

1.13 Initial efforts towards the formulation of a regulatory, institutional, and budgetary framework for Disaster Risk Management (DRM) in the Dominican Republic date back to the 1960s, under the auspices of the Civil Defense Service, based on an exclusively response-oriented management model. In the 1990s, under the impetus of international frameworks on this subject, efforts were made to move toward more comprehensive systemic approaches, but they never materialized. It was in the context of the response to impacts associated with Hurricane Georges that a process was promoted to formulate and pass Law 147-02 on DRM in September 2002, which introduced a comprehensive DRM approach in the country.

1.14 The enactment of Law 147-02 was to a certain extent limited until its implementing regulations were approved in 2009. These regulations expanded the roles and assigned more concrete responsibilities to coordination agencies and provided instruments for applying the policy framework introduced by the law. Despite this progress, there are still significant gaps in relevant crosscutting policies for DRM, such as water resource management, which have yet to establish objectives related to disaster risk management or climate change adaptation. Likewise, key processes for defining DRM responsibilities at the local level are still limited, due to the absence of a regulatory framework for land use management in the country.

1.15 The current regulatory framework establishes the Consejo Nacional de Prevención, Mitigación y Respuesta [National Prevention, Mitigation, and Response Council] as the high level body responsible for coordinating the Sistema Nacional de Prevención, Mitigación y Respuesta a Desastres [National Disaster Prevention, Mitigation, and Response System] (SNPMR) headed by the President of the nation. However, the Comisión Nacional de Emergencias [National Emergencies Commission] (CNE) acts as an operating unit of the Council, and is coordinated and headed by the Executive Director of Civil Defense. With these characteristics, and despite the comprehensive DRM approach introduced by Law 147-02 and its implementing regulations, in operational terms, the coordination of the DRM agenda in the country continues to be under the responsibility of the Civil Defense Service.

[6] IDB (June 2015). Technical Note IDB/TN/795.

[7] According to figures compiled by the Central Bank of the Dominican Republic, the GDP in 2015 was US$68,185,700,000. Therefore, 3% of GDP is equivalent to the sum of US$2,045,600,000 and 17% of GDP is equivalent to the sum of US$11,591,600,000.

1.16 Despite the above limitations, in recent years the country has made significant progress on the public policy framework for disaster risk management. The country's main long-term strategic planning document, the 2030 National Development Strategy, includes specific DRM and climate change adaptation targets. In addition, in 2013 the CNE updated the National Comprehensive Disaster Risk Management Plan in order to provide policy guidelines and basic principles that should be followed by public and private sector institutions and social organizations to carry out programs and activities aimed at reducing existing risks, ensuring better safety conditions for the population, and protecting the country's economic, social, environmental, and cultural heritage.

1.17 The national plan includes the following programmatic lines of action: (i) promote the generation of knowledge and assessment of risk, and disseminate this information to the public; (ii) strengthen the reduction and forecasting of risk factors; (iii) improve warning and response practices and mechanisms; (iv) provide human resource training, education, and instruction; and (v) build inter-agency risk management capacities.

1.18 In keeping with the National Plan and in connection with loan DR-X1003, the country has a Comprehensive Natural Disaster Risk Management Program (CNDRMP) (see paragraph 2.7), which includes actions in five main areas promoted by the Bank to address the above-mentioned limitations: (i) governance and development of the guiding framework; (ii) identification of and knowledge about risk; (iii) risk reduction; (iv) disaster management; and (v) financial risk management.

1.19 During the first five years of loan DR-X1003, the country, with the Bank's support, has been taking important steps to satisfactorily execute the CNDRMP.[8] However, challenges still remain to be addressed. The Dominican Republic's main areas of progress and challenges in key aspects of disaster risk management[9] are:

1.20 **Governance and development of the DRM guiding framework.** Although the country has included DRM in its long-term strategic plans and approved a National DRM Plan in 2013 (see paragraph 1.13), regulatory modernization is needed in order to: (i) raise the coordinating agency SNPMR to the ministry level; (ii) coordinate the DRM policy with other related crosscutting policies such as those on water resources and climate change adaptation; (iii) strengthen the financial management of the Disaster Prevention, Mitigation, and Response Fund; (iv) create a budget classifier in DRM; and (v) stipulate that DRM should be evaluated by government control agencies. In addition, the implementation of the SNPMR needs to be expanded at the local level, by organizing local prevention, mitigation, and response committees. The monitoring and evaluation system for the National DRM Plan must also be improved, in order to identify the most efficient and effective actions for reducing the country's vulnerability to natural disasters. The subindex of the Index of Governance and Public Policy on Risk Management (iGOPP[10]) for the component "General Governance Framework" is 43%. Although this corresponds to an appreciable level of regulatory, institutional, and budgetary conditions for DRM,

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8 See the 2012-2016 Matrix of Progress Indicators for the CNDRMP.

9 IDB (June 2015). Disaster Risk and Risk Management Indicators. Program for Latin America and the Caribbean. Technical Note IDB-TN-795.

10 On a scale from 0% (minimum) to 100% (maximum), the iGOPP measures whether a country has sufficient legal, institutional, and budgetary conditions to be able to implement a public policy on DRM. It was developed by the IDB in 2012-2014 and to date has been used in 14 countries.

it is below average in the Latin American region (52%) and far below the levels achieved by the leading countries in this public policy area, such as Colombia (88%), Costa Rica (84%), Peru (75%), Mexico, and Panama (both 71%).

1.21 **Disaster risk identification and knowledge.** With the support of loan 1708/OC-DR, studies on seismic and hurricane risk were conducted in two municipios (Santo Domingo and Santiago de los Caballeros), using a probabilistic methodology. Although it is very important to continue expanding these types of studies to cover other municipios and different sectors in the country where critical infrastructure is concentrated[11] (since these risk analyses are the basis for any mitigation intervention), it is equally important to have supporting regulations that specify an institutional stakeholder as responsible for defining methodologies and providing technical assistance for conducting these studies. In addition, in terms of education about risks, it is critical to continue the work done by the educational authorities in recent years regarding the training of teachers so that they can cover the topic of DRM in school curricula. The subindex of the iGOPP pertaining to this public policy component is just 26%, which is in the incipient range, below the regional average (32%), and far below the leading country in this component (Mexico: 83%).

1.22 **Disaster risk reduction.** The country's main progress in this DRM component includes the approval in 2013 of the Technical Rules for the National Public Investment System, which require the inclusion of a disaster risk analysis in the preinvestment phase of the project cycle. In the education sector, progress was made in the formulation of educational plans on DRM, particularly the structural reinforcement of schools exposed to various natural threats. The main challenges are: (i) approval of regulations that require a risk analysis in other phases of the project cycle besides the preinvestment phase; and (ii) channeling resources (e.g., from the Disaster Prevention, Mitigation, and Response Fund) to construct mitigation works in schools and other critical infrastructure. The subindex of the iGOPP pertaining to this public policy component is just 29%, which is in the incipient range, below the regional average (39%), and far below the leading country in this component (Colombia: 68%).

1.23 **Disaster management.** In terms of response preparation, the country's main progress in recent years has focused on updating the National Emergency Plan, as well as several sector emergency plans. The education sector has been particularly active in the formulation and testing of emergency drills in schools. The country's challenge is to expand its program of drills that test the response machinery of different sectors and areas of the country. With regard to post-disaster recovery planning, although Law 147 defines the government's responsibility and establishes institutional measures for coordinating this process, there are no existing regulations that require the formulation of recovery plans before a disaster occurs, which would facilitate a rapid and effective mobilization of national resources in the event of an emergency. The subindexes of the iGOPP pertaining to response preparations and recovery planning are just 37% and 21%, respectively, and are both in the incipient range, below the regional average (41% and 23%, respectively), and far below the respective leaders in these two components (Peru: 69% and Colombia: 46%).

[11] Infrastructure that must function in emergency situations.

1.24 **Financial management of risks.**[12] In recent years, the country has made progress in the financial management of contingent public liabilities associated with disaster risks. To move forward in this area, it must continue to develop a comprehensive financial management strategy and appropriate financial instruments for efficient implementation of the strategy (budget provisions, emergency reserve funds, contingent lines of credit, insurance, and catastrophe bonds). In this context, in 2002, by means of Law 147-02, the Government of the Dominican Republic created the National Disaster Prevention, Mitigation, and Response Fund as a risk management tool. However, it was not until 2011 that the fund management board, its regulations, and other requirements for the proper functioning of the fund were established, and at the present time, the fund only has about US$4.5 million, provided by international cooperation. In addition, the Organic Budget Act and Law 147-02 state that the country must consider a budget appropriation to cover contingencies arising from public disasters, funded by 1% of the estimated current revenues of the central government.

1.25 The other ex ante financial management instrument used by the country to finance extraordinary public expenditures during emergencies caused by severe or catastrophic disasters is loan DR-X1003, which is currently being reformulated. In terms of transferring risk, the government continues to study alternatives to improve coverage for catastrophic risks.

1.26 At the sector level, the country's regulations provide for insurance to protect critical infrastructure in the event of an earthquake. However, at this time the only insured public goods are those that are under concession (airports, ports, and highways), and scope of insurance coverage is determined by the concessionaire.

1.27 Given the country's vulnerability and the magnitude of its potential financing needs should a severe or catastrophic event occur (see paragraph 1.7), increasing the proposed contingent loan to US$300 million (approximately 0.5% of the country's GDP) is particularly important.

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

1.28 Since 2005, the Bank has been working on developing a comprehensive risk management strategy within the framework of the Bank Action Plan for Improving Disaster Risk Management 2005-2008 (document GN-2339-1). Thus, in 2008 the finance approach of this strategy was approved and began to be implemented.[13] 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.

1.29 The NDFRTPs proposed by the Bank always assume that because of budgetary and financial constraints, no single instrument can effectively cover all levels of risk. For this reason, it is inevitable that a variety of instruments that can be adapted to

[12] IDB (June 2015), op. cit.

[13] Integrated Disaster Risk Management and Finance Approach (document GN-2354-7).

cover specific areas of risk will need to be used, based on the probability of occurrence and the magnitude of the expected impact of the disasters.[14]

1.30 In view of the above, the design of the NDFRTPs should draw on directly budgeted resources or on reserve funds created to cover public outlays resulting from disasters that occur frequently and are less severe. At the same time, disasters that are less likely to occur but are of severe or catastrophic magnitude—which usually require much higher extraordinary expenditures—should be financed through long-term contingent debt and risk transfer instruments such as insurance and/or CAT (catastrophe) bonds, since they are economically more efficient. Lastly, it should be mentioned that these programs recognize that there are events for which ex ante financial coverage is fiscally unsustainable, since despite the fact that such events recur very infrequently, the losses they produce are extremely high, as is the financial cost of covering them on an ex ante basis.[15]

1.31 **Potential benefits.** The benefits of focusing on this type of ex ante financing program 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 loans.

1.32 In other words, providing ex ante financial coverage for the emergency stage 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 deal with the emergencies. This has been verified in several studies conducted by the Bank[16] and other multilateral organizations such as the International Monetary Fund (IMF),[17] which 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, in addition to eliminating the need to finance extraordinary expenditures from public accounts, which were not budgeted to accommodate such needs.

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

1.33 **Strategic alignment of the operation.** Although the program is not directly aligned with the IDB Country Strategy with the Dominican Republic (2013-2016) (document GN-2748), it does contribute to the crosscutting action area of vulnerability reduction and climate change adaptation and mitigation. The occurrence of a natural disaster could affect the attainment of the objectives stated in the strategy by creating an increase in financing needs, especially in terms of higher demand for external resources given the vulnerability of the Dominican economy to natural disasters.

1.34 In addition, the program is consistent with the Update to the Institutional Strategy 2010-2020 (AB-3008) and is aligned with the crosscutting area of climate change and environmental sustainability, by increasing the ex ante financial coverage

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[14] 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.

[15] World Bank. The Management of Catastrophe Risk Using Pooled Insurance Structures. Pollner, (2001).

[16] IDB (2002). Disaster Risk Management. Freeman, Mechler et al., inter alia.

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

available to the country in the event of a severe or catastrophic natural disaster, as part of the climate change adaptation strategy. Furthermore, the program is consistent with the Bank's Disaster Risk Management Policy (document GN-2354-5) and with the Climate Change Sector Framework (document 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.

1.35 **Bank actions and support in the sector.** The Bank has supported the Dominican Republic in the DRM sector through several technical cooperation projects,[18] as well as loan 1708/OC-DR financed by resources from the Disaster Prevention Facility in the amount of US$5 million. This loan financed the institutional strengthening of the Department of Land Use and Development in order to include DRM in its public policies. Innovative probabilistic studies were conducted on seismic and cyclone risk in two of the country's cities (Santo Domingo and Santiago de los Caballeros). Other actions included the preventive and preparatory measures implemented in numerous schools, and disaster mitigation works constructed in five highly vulnerable municipios. All of these goals were part of the CNDRMP that is part of this program (see paragraph 1.16). In addition to loan 1708/OC-DR, using nonreimbursable resources, the Bank applied a series of disaster risk management indicators, which made it possible to maintain an updated diagnostic assessment of the country's regulatory, institutional, and budgetary framework for DRM. The Ministry of the Presidency used this diagnostic assessment in 2014-2015 to formulate the preliminary draft of a bill on DRM that is in the final stages of formulation in the Executive Branch, prior to being forwarded to the Assembly for approval.

1.36 **Good practices and lessons learned.** With the approval of seven loans from the CCF, 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 (document 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 of these improvements have been properly reflected in updates to the operating regulations of each loan.

B. Objectives, components, and cost

1.37 The objective of the operation is to help cushion the impact that a severe or catastrophic natural disaster could have on the country's public finances, by increasing the availability, stability, and efficiency of contingent financing to deal with emergencies caused by events of this type.

1.38 The proposed reformulation includes a single component for US$300 million, which consists of providing quickly accessible liquid resources to structure stable and efficient ex ante financial coverage to defray any extraordinary expenses that could

[18] ATN/MD-11462-RG; ATN/MD-11427-RG; ATN/SU-11458-RG; ATN/OC-11896-DR; and ATN/OC-11906-DR.

arise in emergencies caused by severe or catastrophic natural disasters in a timely manner.

C. Key results indicators

1.39 In terms of outputs, this operation will provide contingent financing to the Dominican Republic to cover extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters. In keeping with the operation's objective, the expected outcomes are: (i) an increase in the total contingent financing available to the country to defray public expenditures caused by emergencies; and (ii) the additional coverage is financially efficient for the country. To demonstrate the efficiency of the loan's financial coverage, the change in the spread between the financial cost of the Bank's loan and the financial cost of the Dominican Republic's long-term sovereign external commercial debt will be monitored on an annual basis.

1.40 Given the contingent nature of the operation, loan disbursements will only be made upon verification of the occurrence of an eligible event during the period when the loan proceeds are available. In this case, the efficiency of the resources from this operation will be determined based on: (i) the speed of access to the resources, measured as the number of days between the date the country submits its disbursement request to the Bank, and the date on which the loan proceeds are made available to the borrower; and (ii) the financial cost per unit of extraordinary emergency expenditure financed by the loan proceeds, compared to the financial cost of the long-term sovereign external commercial debt of the Dominican Republic at the time the loan disbursement is made (if this information is not available, the interest rate will be estimated based on the country's credit rating [BB-, according to Standard & Poor's]).

1.41 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 62% of the cost of issuing debt, which makes it a much more efficient 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 (see Economic analysis).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

2.1 The proposed operation will consist of the reformulation of loan DR-X1003 financed through the CCF in order to increase the total amount of coverage to US$300 million. As with the original loan DR-X1003 approved in 2009, this operation will be structured through a Bank investment loan, in keeping with the specific terms established for this purpose in paragraphs 3.10 and 4.20 of the document Contingent Credit Facility for Natural Disaster Emergencies (document GN-2502-2).

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 Reallocation List (ARL),[19] or a combination of these two options.

2.2 It should also be recalled that contingent loans granted under the CCF have specific financial terms and conditions (described in the Project Summary) to sufficiently support 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 defray extraordinary expenses and unexpected shortfalls in revenues due to a decrease in economic activity.

2.3 **Eligible events.** This loan will initially provide coverage for earthquakes and hurricanes based on the intensity and affected population criteria contractually agreed upon by the country and the Bank. However, in the future, at the borrower's formal request and in agreement with the Bank, the coverage of new hazards such as floods may be developed and included. When defining the criteria for new hazards to be covered, hazard studies and maps and the country's population distribution will be taken into account.

2.4 The loan contract will include events eligible for coverage, and the Operating Regulations will include specific matters related to the triggering of 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 (see Operating Regulations. Coverage Terms and Conditions).

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 Dominican Republic, 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 in 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 (see paragraph 3.3).

2.7 **Comprehensive Natural Disaster Risk Management Program (CNDRMP).** The CCF states that all borrowing member countries of the Bank are eligible to receive financing through that facility, provided they have a current CNDRMP in place to the Bank's satisfaction. The objective of the current CNDRMP of the Dominican Republic, which was approved by the country in connection with loan DR-X1003, is to promote 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, disaster

[19] The ARL includes the Bank's current investment loans with the Dominican Republic that have balances available for disbursements, which could be automatically reallocated should an event occur. In consultation with the borrower, the ARL will be periodically updated to include new loans.

management, and the financial management of disaster risks. The most recent annual review of the CNDRMP's progress indicators took place in September 2015, with satisfactory results. For purposes of the proposed reformulation, the current progress indicators of the CNDRMP agreed upon with the government for the extension of loan DR-X1003 will apply to the first annual period of the operation. For subsequent annual periods, the CNDRMP indicators will be updated as needed based on the applicable maturity profile.

B. Environmental and social risks

2.8 In accordance with Directive B.13 of the Environment and Safeguards Compliance Policy (document 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.

C. Fiduciary risks

2.9 The fiduciary risk of the operation is considered low, given the legal and institutional reform of the State's financial administration that began in 2007 (see Annex III). Although it is possible that certain expenditures financed by the loan will not meet the contractually stipulated eligibility criteria and the Bank is therefore prevented from accepting them, the probability of these events occurring is low. If necessary, in accordance with the provisions set forth in the document establishing the CCF (document GN-2505-2), the Bank reserves the right to conduct ex post audits of the expenditures incurred, the results of which may be used to support a potential request to reimburse any amounts found to be ineligible for financing.

D. Other project risks

2.10 **Risk that eligibility for loan disbursements could be suspended.** There is a possibility that the Bank might find performance in the execution of the CNDRMP inadequate during the loan's disbursement period. In that case, the Bank could 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. To mitigate this risk, the Bank will carry out periodic monitoring and annual evaluations of the progress made in the execution of the CNDRMP. If, as a result of these evaluations, the Bank determines that the CNDRMP 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 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. The risk of suspending eligibility for disbursements during the loan's disbursement period is considered low, since the country has given indications of its commitment to continue to develop and implement comprehensive disaster risk management.

III. Implementation and Management Plan

A. Summary of implementation arrangements

3.1 The borrower will be the Dominican Republic, and the executing agency will be the Ministry of Finance. In view of the need to continue close coordination between the Ministry of Finance and the Ministry of Economy, Planning, and Development, the multidisciplinary technical team that was created to coordinate all matters related to the CNDRMP will remain in place.

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 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, 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 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. For each disbursement, there will be a special account for disbursed funds, administered by the National Treasury.

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 in order for the country to request disbursements, and, should an eligible event occur, there are also specific conditions that must be met in order for loan disbursements to be made. A special contractual general condition for requesting disbursements will be: (i) approval and entry into force of the Operating Regulations. **Special contractual conditions precedent to each disbursement will be: (i) the Bank has verified the occurrence of an eligible event, as defined in the loan contract; (ii) the Comprehensive Disaster Risk Management Program, previously agreed upon with the Bank, is being executed to the Bank's satisfaction (paragraph 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 program resources or resources from the ARL, indicating the ARL loan(s) in question and the respective amount to be used; and (iv) the borrower has informed the Bank of the special bank account where the Bank will deposit the contingent loan proceeds.**

3.4 **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 Dominican Republic; (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.

3.5 The Bank will recognize up to 100% of the amount of eligible expenditures actually incurred and paid by the borrower as of the date on which the eligible event occurred, 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 (document 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).

3.6 **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.

B. Summary of arrangements for monitoring results

3.7 During the loan disbursement period, the Bank will carry out periodic monitoring of progress made in executing the CNDRMP 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. In the event that execution of the CNDRMP 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 document 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.

3.8 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. The specific provisions on evaluation established for operations under the CCF (document GN-2502-2, paragraphs 4.27 and 4.28) will also be taken into account.

IV. Recommendation

4.1 Based on the analysis and information provided in this document, Management recommends that in accordance with the provisions of paragraph 3.29(c) of document DR-398-17, "Regulations of the Board of Executive Directors of the Inter-American Development Bank" and paragraph 6 of document CS-3953-2, "List of Matters to be Considered by the Board via Short Procedure," the Board of Executive Directors approve via Short Procedure the proposed resolution attached to this document, in order to increase the total amount of the Bank's financing for the Contingent Loan for Natural Disaster Emergencies to US$300 million, in accordance with the timeframes, financial terms, and special contractual conditions set forth in the Project Summary of this proposed reformulation of loan DR-X1003.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	**Aligned**		
Development Challenges & Cross-cutting Themes	**-Climate Change and Environmental Sustainability**		
Regional Context Indicators			
Country Development Results Indicators			
2. Country Strategy Development Objectives	**Not Aligned**		
Country Strategy Results Matrix			
Country Program Results Matrix		**The intervention is not included in the 2016 Operational Program.**	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		**Although the project is not aligned with the objectives of the Country Strategy, the occurrence of a natural disaster could affect the achievement of the results proposed in the Strategy. The occurrence of external shocks and natural disasters could lead to an increase in financing needs (especially increased demand for external resources), given the vulnerability of the Dominican economy to these events.**	
II. Development Outcomes - Evaluability	**Evaluable**	**Weight**	**Maximum Score**
	8.5		**10**
3. Evidence-based Assessment & Solution	**8.4**	**33.33%**	**10**
3.1 Program Diagnosis	**3.0**		
3.2 Proposed Interventions or Solutions	**2.4**		
3.3 Results Matrix Quality	**3.0**		
4. Ex ante Economic Analysis	**10.0**	**33.33%**	**10**
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	**4.0**		
4.2 Identified and Quantified Benefits	**2.4**		
4.3 Identified and Quantified Costs	**1.2**		
4.4 Reasonable Assumptions	**1.2**		
4.5 Sensitivity Analysis	**1.2**		
5. Monitoring and Evaluation	**7.2**	**33.33%**	**10**
5.1 Monitoring Mechanisms	**2.5**		
5.2 Evaluation Plan	**4.7**		
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, Accounting and Reporting, External control, Internal Audit.** **Procurement: Information System, Shopping Method, Contracting individual consultant, National Public Bidding.**	
Non-Fiduciary	**Yes**	**Strategic Planning National System, Monitoring and Evaluation National System.**	
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
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			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan			

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

The project is a contingent loan for natural disaster emergencies in the Dominican Republic. The project is a reformulation of DR-X1003, approved in 2010 for an amount of US $100 million. The reformulation constitutes of an increase in the total amount up to the sum up to US $300 million. Its objective remains to cushion the potential impact that a severe or catastrophic natural disaster might have on public finances of the country through an increase in the availability, stability and efficiency of contingent financing to attend to emergencies caused by these types of events.

The diagnosis clearly identifies, based on empirical evidence, the problem and the factors that determine it. The logic of the proposed intervention is clear. Impact, output and outcome indicators are SMART and have baselines, targets and sources of information.

The project has an ex ante cost-effectiveness analysis and a monitoring and evaluation plan in accordance with the DEM guidelines and the characteristics of contingent projects for natural disaster emergencies. The evaluation seeks to compare, ex post, the ex ante availability of financial funding versus no coverage availability (cost of borrowing for the country at the time of disaster), upon the occurrence of a disaster.

The risks identified have been classified as low and have mitigation measures.

RESULTS MATRIX

Project objective:	The objective of the operation is to help cushion the impact that a severe or catastrophic natural disaster could have on the country’s public finances, by increasing the availability, stability, and efficiency of contingent financing to deal with emergencies caused by events of this type.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline		Midterm measurements						Targets		Source/Means of verification	Observations
		Value	Year	Value	Year	Value	Year	Value	Year	Value	Year		
EXPECTED IMPACT: The impact of a severe or catastrophic natural disaster on the Dominican Republic’s public finances is cushioned.													
Ex ante financial coverage as a percentage of maximum probable expenditure during emergencies caused by natural disasters of catastrophic magnitude.	%	8%[1]	1	24%	2	23%	3	22%	4	21%[2]	5	Ministry of Finance	The indicator measures the Dominican Republic’s ex ante financial coverage as a percentage of maximum probable expenditure[3] to deal with emergencies caused by natural disasters of catastrophic magnitude.

[1] The baseline for the impact indicator includes the contingent financing currently available to the country through the Contingent Loan for Natural Disasters DR-X1003 for US$100 million.

[2] 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.

[3] Maximum probable emergency expenditure is based on the occurrence of an event that would affect more than 10% of the country’s population.

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline		Midterm measurements						Targets		Source/ Means of verification	Observations
		Value	Year	Value	Year	Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME 1: Availability and stability: Increase in the country's contingent financial coverage for dealing with extraordinary public expenditures during emergencies caused by severe and/or catastrophic natural disasters.													
Amount of contingent financial coverage available to the country.	US$ million	100[4]	1	300	2	300	3	300	4	300	5	Ministry of Finance	The indicator shows the total amount of contingent financing available to the country for dealing with emergencies caused by disasters.
EXPECTED OUTCOME 2: Efficiency: Available coverage is efficient in terms of financing cost and the speed of access to resources.													
The spread over LIBOR for the IDB loan compared to the spread for the Dominican Republic's long-term sovereign external commercial debt.	Basis points	503	1	Spread differen al	2	Spread different ial	3	Spread different ial	4	Greater than or equal to 200	5	IDB Finance Department Bloomberg Ministry of Finance	The financial cost of the IDB loan compared to the financial cost of the Dominican Republic's long-term sovereign external commercial debt will be monitored.
Speed of access to resources if an eligible event occurs.	Days	90	1	20	2	20	3	20	4	20	5	IDB Finance Department Ministry of Finance	The baseline consists of the average time normally required to launch a sovereign bond issue in U.S. dollars on the international market.
Cost of financing if an eligible event occurs: the spread over LIBOR for the IDB loan compared to the spread for the Dominican Republic's long-term sovereign	Basis points	N/A[6]	1	Cost differe ntial	2	Cost different ial	3	Cost different ial	4	Reductio n of the financial cost of extraordi nary emergen cy	5	IDB Finance Department Bloomberg Ministry of Finance	The financial cost of the IDB loan compared to the financial cost of the Dominican Republic's long-term sovereign external commercial debt will be monitored at the end of the months

[4] Amount of contingent financing currently available to the country through the Contingent Loan for Natural Disasters DR-X1003 for US$100 million.

Indicators	Unit of measure	Baseline		Midterm measurements						Targets		Source/ Means of verification	Observations
		Value	Year	Value	Year	Value	Year	Value	Year	Value	Year		
external commercial debt.[5]										expenditures financed by contracting debt.			immediately before and after an eligible event.

OUTPUTS

Output	Unit of measure	Baseline	Year 1	Year 2	Year 3	Year 4	Target
SOLE COMPONENT: Contingent financing by the Bank to deal with extraordinary public expenditures during emergencies caused by severe or catastrophic natural disasters.							
Available financial coverage	US$ million	100	300	300	300	300	300

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[5] If market information is unavailable on the spread of the Dominican Republic's long-term sovereign external commercial debt, it will be estimated using the average interest rate based on the country's credit rating (BB-, according to Standard & Poor's). In this case, the source of information would be Bloomberg, and the project team would be responsible for making the estimate.

[6] The baseline would be the cost differential prior to the eligible event, and thereafter it would be compared to the behavior following the occurrence of the event.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Project No:	DR-X1011
Project name:	Contingent Loan for National Disaster Emergencies. Reformulation of Loan DR-X1003 and Amendment of Resolution DE-164/09
Executing agency:	Ministry of Finance

I. EXECUTIVE SUMMARY

1.1 The executing agency will be the Ministry of Finance (MH). 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[1]

2.1 In early 2007, the Dominican government finalized the legal and institutional reform of the State Financial Administration, and enacted the following laws: Law 494-06, Organization of the Office of the Secretary of State for Finance (now the Ministry of Finance); Law 5-07, Integrated State Financial Administration System; Organic Law 423-06, Budget for the Public Sector; Law 567-05, National Treasury; Law 6-06, Public Credit; Laws 340-06 and 449-06, Public Procurement; Law 10-07, Office of the Comptroller General and Internal Control. Along with Law 126-01, Government Accounting Office, these laws comprise the reform of the new legal framework for the Public Treasury, i.e., legal principles aimed at enhancing and encouraging efficiency, transparency, and accountability in public management.

2.2 The results of this reform process were the outcome of the Integrated Financial Administration Program (PAFI) under the Ministry of Finance, financed by the IDB and other international organizations. The objective of this program is to establish a public administration with the ability to efficiently and effectively address the social, political, and economic demands of the community, and design, operate, maintain, and supervise the Financial Management Information System (SIGEF).

2.3 The principal milestones of this reform of the Public Treasury were the implementation of a financial management information system for the central government and the creation of the Office of the Secretary of State for Finance (now the Ministry of Finance), whose mission is to design and propose the

[1] Source: Ministry of Finance.

government's fiscal policy to the Executive Branch, and lead the execution and evaluation of the policy, thereby ensuring medium- and long-term fiscal balance and sustainability.

2.4 The new legal framework not only unifies the formulation and execution of fiscal policy in the Ministry of Finance, but also determines the design and implementation of the Integrated State Financial Administration System (SIAFE), which is comprised of the following systems: budget, public credit, cash management, and government accounting, as well as those related to planning and public investment, financial management of human resources, tax management, procurement, management of national assets, and internal control.

2.5 The changes introduced in Financial Administration are profound and are aimed at ensuring a public finance management system with efficient, effective, and transparent execution of public expenditure.

III. FIDUCIARY RISK EVALUATION AND MITIGATION ACTIONS

3.1 We believe that the level of fiduciary risk for the operation is low, given the reforms described in the preceding section. 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. 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.

IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

4.1 Not applicable.

V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

5.1 **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.

5.2 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 Dominican Republic; (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.

VI. Financial Management Agreements and Requirements

6.1 Financial management agreements and requirements are specified in document GN-2502-2 and are summarized as follows:

6.2 **Disbursement requests.** Requests for the disbursement of loan proceeds will be submitted within 90 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 Reallocation List); or (iii) a combination of these two options.

6.3 **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 Single Treasury Account in the Central Bank of the Dominican Republic, which will be approved in accordance with the special contractual conditions precedent to each disbursement.

6.4 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 start date of the event giving rise to the emergency.

6.5 The Bank will recognize up to 100% of the amount of the eligible expenditures actually incurred and paid by the borrower during the 180 days following the date on which the emergency began.

6.6 **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 Dominican Republic.

[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 days following the occurrence of an eligible event.

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/16

Dominican Republic. Loan DR-X1011 to the Dominican Republic
Contingent Loan for Natural Disaster Emergencies
(Amendment of Resolution DE-164/09)

The Board of Executive Directors

RESOLVES:

To amend Resolution 164/09, dated November 11, 2009, so as to read as follows:

"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 Dominican Republic, 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$300,000,000, from the resources of the Bank's Ordinary Capital, subject to the availability of resources from the Bank's regular lending program with the Dominican Republic 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 __ ____________ 2016)

LEG/SGO/CID/IDBDOCS#40556874
DR-X1011