

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

October 8, 2013

Report No.:

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Operation Name	CATASTROPHE DEFERRED DRAWDOWN OPTION (DPL with DDO)
Region	SOUTH ASIA
Country	Sri Lanka
Sector	Public administration- Financial Sector (50%); General finance sector (50%)
Operation ID	P147454
Lending Instrument	Development Policy Lending
Borrower(s)	MINISTRY OF FINANCE AND PLANNING
Implementing Agency	Ministry of Finance and Planning
Date PID Prepared	October 8, 2013
Estimated Date of Appraisal	February 7, 2014
Estimated Date of Board Approval	March 27, 2014
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

Sri Lanka is highly vulnerable to natural hazards. This was brought into sharp focus as a result of the Indian Ocean tsunami in 2004, which killed over 35,000 people in the country. Despite the enormity of this event, it is more routine flooding and drought that presents the most significant natural hazard threat to growth and development of Sri Lanka in the long term. This is particularly for northern and eastern provinces, but most of the country suffers significant exposure to multiple hazards. During the period 2000-10, floods cumulatively affected more than 8.5 million people, while droughts have affected more than 5 million¹ (Figure 1). In addition, landslides and high winds frequently destroy or damage thousands of houses every year. Though less frequent, cyclones have significant impacts. A cyclone in 1978 devastated the low-lying district of Batticaloa, killing more than 1000 people and displacing nearly one million. More recently, in 2000 a cyclone hit Trincomalee district and damaged or destroyed 83,000 houses in the country.

With the intensification and concentration of economic activity in vulnerable cities, the fiscal and economic impacts of disaster are likely to be high, and growing. Sri Lanka's Ministry of Disaster Management estimates annual fiscal loss from disasters to be in excess of US\$50 million². In some years, the fiscal loss is much greater. For example, the floods of December 2010 to February 2011 resulted in estimated direct damages of more than US\$600 million.³ Indirect

¹ Sri Lanka Disaster Information System

² Ministry of Disaster Management

³ National Planning Department

losses to the economy are unknown. While the 2011 flooding event had an important impact on the Government's fiscal position, the Ministry of Finance remains unclear as to the full economic and fiscal impact of the flooding. While, the country experienced flood events as well in 2003, 2006, 2008, 2010, 2011 and 2012, the damages and losses have not been measured. Therefore, a fiscal disaster risk assessment is ongoing, which should provide a clearer indication of the Annual Expected Loss and Probable Maximum Loss faced by the Government.

This operation is part of a broader strategy to help the GoSL shift to a more comprehensive, cross-government approach to the management of disaster risks. The Climate Resilience Program sets out an ambitious new wave of investment to identify and reduce climate-related hazard risks. This program will invest in risk analytics, and draw from this new evidence to prioritize short, medium and long term investment to improve the physical resilience of the country's infrastructure – particularly to flood and drought. This is in the context of the highest level of commitment by the Government to develop greater capacity for long term planning and investment.

II. Proposed Objective(s)

The development objective of the proposed operation is to enhance the financial resilience of the Government of Sri Lanka in the face of growing disaster risks, and to protect development gains. It will achieve this by providing immediate liquidity to the GoSL in the event of a disaster within a policy framework designed to improve the overall capacity of the GoSL to implement its DRM program.

III. Preliminary Description

The Development Policy Loan with a Catastrophe Deferred Drawdown Option (DPL with a CAT-DDO) is a relatively new financial product, which was approved by the Bank's Board of Directors on March 5, 2008. The DPL with a CAT-DDO can help meet Sri Lanka's need for immediate, liquid assets in the aftermath of a catastrophic disaster. The DPL with a CAT-DDO is a flexible and prompt financial tool to address risks to which the country is prone. It will enable the GoSL to focus on emergency response measures in the aftermath of a disaster rather than spend valuable time and resources trying to raise funds.

There are three proposed prior actions for this program that will improve the GoSL's ability to manage disaster and climate risks. The first is the adoption by Cabinet of National DRM Policy, as required under the framework of Sri Lanka Disaster Management Act, No. 13 of 2005. The second prior action, adoption by Cabinet of the Disaster Management Plan will provide a roadmap for relevant stakeholders to increase physical resilience to disaster. A third prior action, Cabinet adoption of a national spatial data infrastructure will enable data sharing throughout government, which will improve understanding of specific disaster risks across sectors.

Based on these prior actions, the proposed operation seeks to address the following policy areas:

- Policy Area 1 – Improved Institutional Capacity for Disaster Risk Management and financial protection
- Policy Area 2 – Increased physical resilience of infrastructure

- Policy Area 3 – Improve application of disaster information in policy making

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

The proposed operation is likely to have positive effects on the poor by providing support to the GoSL's policies that seek to alleviate poverty by strengthening DRM in Sri Lanka. In case of a declaration of a state of emergency, the activation of the DPL with a CAT DDO will help to ensure the continuity of development plans, targeted at alleviating the needs of the poor. It will also ensure that resources are quickly available to respond to the needs of the affected population as it has been the case in other countries.

Disasters triggered by natural events have a disproportionate impact on the poor. Improvements in national DRM and vulnerability reduction strategies are expected to benefit the poor. Ninety-nine percent of people affected by approximately 6,000 large-scale natural disasters registered worldwide between 1970 and 2002 were in developing countries. This is because the poorer segments of the population often live in the most vulnerable locations and in inadequately constructed housing.⁴ Disasters compound social exclusion and existing vulnerabilities, disproportionately taxing the poor, women, children, the elderly, the disabled, indigenous peoples, and other vulnerable groups.

In addition, disasters exacerbate the preexisting social, political, and economic factors that contributed to the vulnerability of the poor and marginalized before the disaster⁵. The poor have limited labor skills, fewer assets, and little or no savings. They have little opportunity for risk diversification and restricted access to credit. Because of this, they are less able to cope with the impacts on consumption or disruptions to income. Exogenous shocks can also increase poverty indirectly through the effects of lower economic growth, higher inflation (the poor are more vulnerable to inflation), and through consequential lower government spending for social services.⁶

Environment Aspects

The specific actions supported by this DPL are not expected to have significant effects on the environment, forests or other natural resources. They would instead strengthen and complement existing laws and regulations on environmental management, such as the National Environment Act (NEA), particularly in ensuring that investments take into account DRM and climate change adaptation measures.

The GOSL has undertaken major efforts to establish an adequate institutional and organizational framework for the sustainable management of the country's natural resources. In particular, Sri Lanka has made impressive strides in developing legislation on protection, management and

⁴ "Caribbean Economic Overview 2002: Macroeconomic Volatility, Household Vulnerability, and Institutional and Policy Response," World Bank Report No. 24165-LAC, World Bank, Washington, DC, 2003.

⁵ Margaret Arnold and Cynthia Burton. "Vulnerable Groups." World Reconstruction Conference. Geneva, May 10-13, 2011.

⁶ "Fund Assistance for Countries Facing Exogenous Shocks," International Monetary Fund, Washington DC, 2003; <http://www.imf.org/external/np/pdr/sustain/2003/080803.pdf>.

enhancement of the environment and on prevention, control and abatement of pollution as well as frameworks for environmental planning and environmental assessments or development projects, the most important legislation being the NEA. Efforts have resulted in broad environmental management capacity including project-specific environmental assessments. However, more effective environmental management requires progress with: (i) changes to the current system of Project Approving Agencies (PAA) for issuing environmental clearances to make the system more effective; (ii) promoting increased use of strategic and sectoral environmental assessments to mitigate any serious unanticipated environmental consequences; (iii) further strengthening of the capacity of Central Environment Authority (CEA) to supervise the implementation of environmental monitoring plans (EMPs), which is the weakest link in the Environmental Assessment system; and (iv) appointing an independent committee of stakeholders to monitor the compliance towards NEA and other related legislation.

V. Tentative financing

Source:	(\$m.)
Borrower	0
International Bank for Reconstruction and Development	102
Borrower/Recipient	
IBRD	
Others (specify)	
	Total

VI. Contact point

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Borrower

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