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Dominica Disaster Risk Management Development Policy Financing with a Catastrophe Deferred Drawdown Option (P177807)

Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 14-Apr-2022 | Report No: PIDA33977



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BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Dominica	P177807	Dominica Disaster Risk Management Development Policy Financing with a Catastrophe Deferred Drawdown Option (P177807)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
LATIN AMERICA AND CARIBBEAN	30-May-2022	Urban, Resilience and Land	Development Policy Financing
Borrower(s)	Implementing Agency		
Commonwealth of Dominica	Ministry of Finance		

Proposed Development Objective(s)

The development objective of the proposed operation is to support the Government of the Commonwealth of Dominica in: (a) strengthening the legal and institutional framework to increase climate and disaster resilience in priority sectors; and (b) improving national fiscal capacity to respond to disaster and climate-related risks.

Financing (in US\$, Millions)

SUMMARY

Total Financing	20.00
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DETAILS

Total World Bank Group Financing	20.00
World Bank Lending	20.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

To strengthen Dominica's disaster and climate resilience, a Disaster Risk Management (DRM) Development Policy Credit (DPC) with a Catastrophe Deferred Drawdown Option (Cat DDO) is proposed in the amount of US\$20 million. It supports: (a) the efforts of the Government of the Commonwealth of Dominica (the Government) in mobilizing resources in the aftermath of a disaster triggered by natural hazards, including public-health related events; and (b) the country's reform program to build comprehensive resilience to disaster and climate risks. Access to contingent financing mechanisms, such as the Cat DDO, plays a critical role in strengthening financial protection from disaster and climate change impacts, as well as health emergencies like the COVID-19 pandemic. Losses related to floods and hurricanes alone are estimated at approximately US\$30 million on average annually over the long-term, or 6.0 percent of Dominica's 2020 GDP. The region has also experienced slow and fast-onset impacts from climate change over the past few decades, and these impacts are projected to intensify in the future.

Dominica's macroeconomic policy framework is adequate for this DPC with a Cat DDO, despite risks related to the prolonged COVID-19 pandemic and ongoing war in Ukraine, as well as ever-present risks such as hydrometeorological and geo-physical hazards. In addition to the ongoing impact of the pandemic on tourism and remaining uncertainty associated with its evolution, Dominica is subject to vulnerability to climate disasters; exposure to volatile global oil prices; other external economic shocks and global recessions; and ongoing risks emanating from climate change such as floods and sea-level rise. The Government's macroeconomic policy framework is adequate, evident in recently approved fiscal consolidation measures and a strong commitment to further economic and fiscal reforms. These include improving growth prospects; consistently low and stable inflation supported by sound monetary policy; a forecasted decline in debt; and through the maintenance of primary budget surpluses over the medium term and the enshrinement of such targets in a Parliamentary-approved Fiscal Rules and Responsibility Framework.

Relationship to CPF

World Bank programming in Dominica is guided by the World Bank Group Regional Partnership Strategy (RPS) for the OECS for FY15-19, which was extended until FY20, and the Performance and Learning Review (PLR) of the RPS. The objectives of the RPS lay the foundations for sustainable inclusive growth through two areas of engagement: (i) Fostering Conditions for Growth and Competitiveness and (ii) Enhancing Resilience. This operation directly addresses the priorities noted in the RPS and the increased focus on macro-fiscal issues and resilience stated in the PLR. Reforms supported under this operation will contribute to the WBG's twin goals of ending extreme poverty and promoting shared prosperity. The operation also aligns with the 2022-2025 Regional Partnership Framework for the OECS currently under development, with the overarching objective to support green, resilient, and inclusive development and strengthen competitiveness as the OECS countries recover from the COVID-19 crisis, address their medium-term development priorities, and build resilience to climate change and other external shocks. The Cat DDO operation provides complementary financial resilience to ongoing World Bank operations, including the OECS Regional Health Project (P168539), the Emergency Agricultural Livelihoods and Climate Resilience Project (P166328), and the Housing Recovery Project (P166537). The Cat DDO operation is being prepared in parallel to the Dominica Second COVID-19 Response and Recovery DPC (P175847) which supports critical measures to bolster fiscal and debt resilience, facilitate a climate-resilient recovery, and complement the Government's efforts to build a fully climate-resilient economy.



C. Proposed Development Objective(s)

The development objective of the proposed operation is to support the Government of the Commonwealth of Dominica in: (a) strengthening the legal and institutional framework to increase climate and disaster resilience in priority sectors; and (b) improving national fiscal capacity to respond to disaster and climate-related risks.

Key Results

Results indicators under pillar 1 include: (i) the number of the Recipient's Annual Budget Statements that identify and explicitly quantify government contingent liabilities, (ii) the number of new FHP policy holders, (iii) the percentage of new FHP policy holders who are women, and (iv) the percentage of emergency responses (including simulations/drills) that include both health and emergency telecommunications plan.

Results indicators under pillar 2 include: (iii) the percentage of professionals participating in agriculture sector programs who are women; (iv) institutional arrangements established to support the development of forest-smart products; (v) the number of building professionals trained on code compliance.

D. Project Description

The operation contributes to the country's overall objective of enhancing resilience in a comprehensive manner, as stated in the National Resilience Development Strategy (NRDS). The plan specifically aims at building capacity for environmental sustainability, disaster risk reduction, and climate change adaptation, to enhance the country's environmental, economic, and social resilience. This Cat DDO operation aims at supporting the integration of disaster and climate risk considerations as a core element in the design and implementation of public policies (such as environment and risk reduction policies) that impact the sustainability of the country's natural resource base and social and development gains,

Policy Area I, which aims at strengthening the financing and response framework for disaster and climate resilience, includes the approval of a National Strategy for Disaster Risk Financing (PA1); approval of a parametric Flexible Hurricane Protection product (PA2); and the approval of an Emergency Health Preparedness Plan and the National Emergency Telecommunications Plan (PA3)

Policy Area II, which aims at enhancing the enabling environment for multi-sector resilience, includes Cabinet level approvals of the National Agriculture Policy and Blue Economy Roadmap (PA3); the National Forestry Policy (PA4); and revised Building Code regulations (PA5).

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Finance (MoF) will be responsible for coordinating actions by other relevant ministries and agencies, including the Ministry of Blue and Green Economy, Agriculture and National Food Security, The Ministry of Environment, Rural Modernization and Kalinago Upliftment, The Ministry of Health, Wellness and New Health Investment, The Ministry



of Housing and Urban Development, and The Ministry of Youth Development and Empowerment, Youth at Risk, Gender Affairs, Seniors' Security and Dominicans With Disabilities. The ministries noted above will be responsible for execution of various prior actions in and communication of results to the MoF, who is responsible for providing written progress reports to the WB. Monitoring and evaluation (M&E) of the reform program will be undertaken jointly by the Government and WB teams. Result indicators have been specifically selected to reflect available data sources in Dominica and build on lessons learned from earlier policy-based lending operations that recommend the use of simple and manageable results frameworks using available secondary sources of data.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The Prior Actions are expected to have neutral to positive social and poverty implications. For example, risk financing mechanisms for vulnerable populations will help alleviate the social and economic costs of disasters directly and protect the welfare of poor households during and after a crisis. Policies to boost climate resilience in agriculture and coastal systems can help to maintain and boost employment and wages, and consequently reduce poverty, vulnerability, and food insecurity. The climate-proofing of residential buildings will also prevent damages and alleviate the financial burden on the government and households in the event of a disaster but may come at a significant cost for low-income households; the retrofitting of home for climate resilience could potentially increase the cost of housing and rent for vulnerable populations, particularly for those in the bottom two quintiles of the income distribution.

Environmental, Forests, and Other Natural Resource Aspects

The policy reforms linked to the Cat DDO are not expected to have significant negative impacts on Dominica's environment, forests, and natural resources. None of the Prior Actions are expected to have negative impacts on the environment, forests, and natural resources. Instead, they are expected to have positive impacts by reducing deforestation, protecting natural capital used in productive sectors, and enhancing transparency. However, some of the regulations may lead to the construction or retrofitting of infrastructure, which has the potential to raise concerns regarding environmental impacts and how to effectively manage them. In this regard, Dominica has the legislative framework and institutional capacity to prepare environmental and social impact assessments, including those related to budget policies. Further, Dominica's Disaster Resilience Strategy aims to contain adverse environmental risks and impacts by integrating environmental planning into its public investments.

G. Risks and Mitigation

The risk associated with this operation is considered "moderate." Areas of particular concern include macroeconomic risk, institutional capacity, and environmental risks given exposure to climate shocks and natural disasters. Macroeconomic risks are considered high as considerable uncertainty remains regarding i) COVID-19 and ii) global impacts stemming from the war in Ukraine. These issues pose risk to the macroeconomic framework, as growth, fiscal, and debt outcomes could be significantly impacted depending on the pandemic's continued evolution. Furthermore, as a highly import dependent economy, oil price and commodity price trajectories also pose risks, and these remain highly uncertain at present. Bank engagement in these areas is expected to continue during the IDA19 period. Being a small island state, Dominica's institutional and human resource capacity is limited. Capacity to implement and sustain



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supported reforms relies on a small group of individuals, with decision-making and technical capacity for implementation concentrated in the hands of a few. Furthermore, natural disasters could seriously impact the achievement of the operation's objectives by disrupting economic activity, such as agriculture and tourism, and generating significant fiscal costs that could affect macroeconomic stability and particularly public debt levels.

CONTACT POINT

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APPROVAL

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Approved By

Country Director:	Ogo-Oluwa Oluwatoyin Jagha	30-Mar-2022
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