Budget Support

Guidance Note 14

Tools for Mainstreaming Disaster Risk Reduction *is a series of 14 guidance notes for use by development organisations in adapting programming, project appraisal and evaluation tools to mainstream disaster risk reduction into their development work in hazard-prone countries. The series is also of relevance to stakeholders involved in climate change adaptation.*

This guidance note addresses the issue of budget support, providing guidance on how to ensure that disaster risk and related options for reducing vulnerability are adequately and systematically examined in developing programmes of budget support. This guidance note is intended for use by development organisation staff involved in the design, implementation and evaluation of budget support.

1. Introduction

The term budget support is used to describe external assistance channelled directly to recipient governments using the governments' own allocation, financial management, procurement and accounting processes and systems. It is not linked to specific project activities but may be accompanied by related technical assistance and capacity building. Budget support encompasses a range of instruments, entailing varying forms of conditionality and policy dialogue and degrees of earmarking of resources. During the 1980s and 1990s, much of it was provided by international financial institutions (IFIs) in the form of structural adjustment finance, with the basic objectives of reducing external and internal imbalances and promoting economic growth. Provision of this form of budget support was conditional on the implementation of specific economic adjustments and reforms relating to factors such as deregulation, privatisation, inflation and public sector deficits. Since the late 1990s, a new form of budget support has emerged in support of the achievement of government-determined policies and programmes. This budget support is directly aligned with government initiatives, such as poverty reduction strategies (PRSs), and places particular emphasis on the development of effective underlying processes, including macroeconomic and budgetary management and good governance. Budget support has also been provided as far back as the post-Second World War Marshall Plan in the form of unconditional assistance programmes, such as balance of payments support and programme food aid, to meet temporary gaps in external financing or domestic budgetary resources.[1]

Budget support is provided by IFIs and bilateral agencies, sometimes acting jointly to fund a particular budget support programme, such as a PRS. It may be provided to sub-national entities such as provinces or states, as well as to national governments. Budget support can be in the form of general budget support, entailing the provision of overall budget financing. Alternatively, it can be in the form of sector budget support, under which funding is earmarked for use in a specific sector or sectors with any conditionality relating to these sectors.

There is an ongoing shift away from project-based assistance towards general and sector budget support as part of a broader effort to improve aid effectiveness. Budget support can increase government ownership of budgetary and policy processes, improve policy dialogue, enhance donor harmonisation and help ensure that external assistance is better aligned with national goals, strategies and systems. Over the medium term, the shift towards budget support is also expected to reduce transaction costs and improve the predictability of resource flows.[2]

1 See DFID (2004a); and IDD and Associates, *Joint Evaluation of General Budget Support: Inception Report.* Birmingham, UK: University of Birmingham, International Development Department, 2005. Available at: http://www.dfid.gov.uk/aboutdfid/performance/files/evd2-inception-report.pdf
2 See DFID (2004a).

The growth of budget support offers considerable potential for helping governments to strengthen their resilience to natural hazards, especially with the increasing emphasis on efforts to support underlying processes and good governance and on tailoring programmes of budget support to individual country circumstances. In particular:

- The development of more effective processes of medium-term macroeconomic and budgetary planning and management is intrinsic to improved disaster risk management, helping to ensure that risk reduction needs are not overshadowed by shorter-term, more immediate, but perhaps ultimately less important, concerns.
- Systems of prioritisation of expenditure – an element of good fiscal management – can play an important role in ensuring that key development programmes are protected from the possible reallocation of resources in the aftermath of a disaster.
- Efforts to ensure that recurrent maintenance budgets are adequate can help enhance hazard resilience of physical structures by ensuring that they remain in a good state of repair.
- Budget support implies a potentially more predictable flow of resources, an important factor in supporting effective decision-making in an immediate post-disaster context (although in practice commitments and flows of budget support funding have often been short term and unpredictable to date).
- Ongoing budget support implies that a country's performance is being closely monitored, providing early indications of difficulties emerging as a consequence of any disaster events and so helping to facilitate the provision of appropriate forms of external assistance that keep priority development policies and initiatives on track as well as meet humanitarian and reconstruction needs.

By the same token, increased provision of budget support also creates new challenges for development organisations in pursuing disaster risk reduction objectives. In particular:

- Although budget support creates opportunities for enhanced policy dialogue, objectives such as disaster risk reduction can get lost among other priorities in the shift from project to budget support, particularly where there is little political commitment to disaster risk reduction and where disaster risk reduction achievements are not captured in programme monitoring and evaluation.
- Efforts to respect and support country ownership can reduce the room for policy dialogue on difficult issues such as disaster risk reduction and the introduction of new approaches and thinking.
- Disaster risk reduction objectives can similarly get lost in attempts to harmonise donor priorities and limit donor micro-management of government policies and programmes.
- Budget support offers less automatic direct contact with vulnerable groups, creating additional challenges in addressing disaster risk reduction sensitively and appropriately.

However, these difficulties are not unique to the issue of disaster risk reduction and development organisations are developing different ways of working to overcome such problems, as discussed in further detail below. In more problematic cases, sector budget support or more traditional forms of aid may be more appropriate than general budget support. For instance, it may be easier to actively mainstream disaster risk reduction into sector budget support in areas where the need to address disaster risk is immediately obvious (e.g., road infrastructure). Sector budget support in support of specific disaster risk management policies and programmes could also be appropriate. Certain other aspects of disaster risk reduction, such as the strengthening of building codes and practice, will almost always be best supported through other aid instruments regardless of the country context. Technical cooperation can also be important in strengthening government capacity to monitor, analyse and address forms and levels of disaster risk and in enhancing the participation of marginalised vulnerable groups in this process.

Examining disaster risk and encouraging appropriate disaster risk management concerns, in turn, can be critical to the success of budget support. Disaster events can potentially undermine the implementation, performance, effectiveness and long-term sustainability of achievements of policies and programmes with which budget support is linked (see Box 1 and Section 2, Step 1). The specific nature of supported policies and programmes, in turn, can contribute to shifts in forms and levels of vulnerability to natural hazards at micro, meso and macro levels. The possibility and implications of such shifts also need to be explored.

Box 1 **Undermining achievements of budget support: Disaster shocks hurt**

A public sector reform programme in Honduras, supported by the Inter-American Development Bank (IDB) and the World Bank, which sought to modernise the public sector and remove structural imbalances contributing to recurrent fiscal imbalances, ran into certain difficulties as a consequence of Hurricane Mitch in 1998. In recognition of the substantial budgetary pressures caused by the hurricane, the second tranche of IDB budget support was released despite insufficient progress in the institutional and public sector management components of the programme. However, the envisaged sale of the state-owned telecommunications enterprise, originally valued at US$ 440 million, did not proceed because, in part due to physical losses suffered as a result of Hurricane Mitch, when the enterprise was put up for sale in 2001 the highest bid received only reached US$ 80m. This sale had previously been expected to result in a 50 per cent reduction in the enterprise's debt and a US$ 12.5m reduction in annual debt servicing.

Source: IDB. *Country Program Evaluation (CPE): Honduras.* RE – 263. Washington, DC: Inter-American Development Bank, Office of Evaluation and Oversight, 2002.

Current state of the art

Budget support is generally best suited to high aid-dependent countries with relatively good macroeconomic management and sector policy and good budget management.[3] Yet capacity to manage and reduce disaster risk is rarely considered in undertaking related assessments to determine whether, indeed, the quality of macroeconomic and budgetary management and related policies is sufficient to support effective programmes of budget support. Similarly, the potential hazard vulnerability implications of the policies and programmes to be supported through budget support, whether positive or negative, are rarely considered with a few notable exceptions (see Box 2), nor efforts made to maximise their disaster risk management benefits. In hazard-prone countries, this is a potentially significant oversight. Disaster risk must be explicitly considered in scoping programmes of budget support, agreeing terms and conditions and determining related technical assistance, and in subsequent implementation and evaluation.

Box 2 Potential benefits of budget support for disaster risk

Disaster risk is rarely considered in the preparation of programmes of budget support, other than in passing in the context of factors affecting recent economic performance where significant. However, there are a few exceptions. For instance, the loan policy document for a World Bank Development Policy Loan (DPL) for Mexico, which was approved in 2006 in support of financial sector policy reforms, commented that the operation could benefit efforts to lower the destabilising impact of disasters. The Bank and other donors had already been actively involved in providing technical assistance to the government on the use of financial instruments that could lower the fiscal impact of disasters. This assistance had included some technical studies on catastrophe bonds, which would provide liquidity to the government in the event of a disaster and generally enhance its ability to spread and hedge financial risks. As the DPL policy document noted, the reforms supported by the DPL would seek to facilitate the operation of the capital markets and ultimately its increase in liquidity, so creating a suitable environment for the issue of these catastrophe bonds.

Source: World Bank. *International Bank for Reconstruction and Development Program Document on a Proposed First Programmatic Finance and Growth Development Policy Loan in the Amount of US$501.26 million to the United Mexican States.* Report No. 34552-MX. Washington, DC: World Bank, 2006. Available at: http://www-wds.worldbank.org/external/default/main?pagePK=64193027&piPK=64187937&theSitePK=523679&menuPK=64187510&searchMenuPK=64187283&siteName=WDS&entityID=000090341_20060209093959

Advocated good practice

Four essential actions are required in developing programmes of budget support to ensure that disaster risks are adequately assessed and managed:

- An early assessment of vulnerability to natural hazards should be undertaken in hazard-prone countries. Ideally this will have already been undertaken as part of the national or sectoral policy or programme being supported.
- Development organisations should explore and encourage governments explicitly to address any shortcomings in their disaster risk management policies and strategies that could potentially jeopardise the implementation, performance, effectiveness or long-term sustainability of achievements of the policies and programmes supported. Ultimately, the quality of disaster risk management aspects of these policies and programmes will depend on the extent to which the principle of disaster risk reduction is integrated within them and the strength of government and civil society buy-in.

3 IDD and Associates (2006).

- Development organisations should consider the provision of accompanying technical assistance to strengthen disaster risk management in cases where weaknesses in existing practices could jeopardise the success of the policies and programmes supported.
- Deliberate steps should be taken to ensure that planned disbursements of budget support are not deferred or cancelled in the event of a disaster.

2. Basic steps in merging disaster risk considerations into budget support programmes

The scope and emphasis of budget support can vary considerably, between both development organisations and recipient counties. However, a broadly similar process is followed by all development organisations in preparing and implementing programmes of budget support. Measures required to ensure that disaster risk is adequately and systematically examined and addressed at each of these steps are outlined below and summarised in Figure 1. It should be noted that, in practice, some of these steps are likely to overlap, rather than be sequential. In particular, Steps 3 and 4 may be undertaken in conjunction with Step 2.

Step 1. Undertake background analysis

Consider disaster-related issues in undertaking analytical work to assess the capacity to use the budget support resources effectively and identifying any shortcomings.

In hazard-prone countries, the obvious first step is to establish the types, magnitude, geographical scale and probabilities of hazards faced and related forms and levels of risk. Ideally, an overall assessment of disaster risk will have already been completed in preparing the development organisation's country strategy (**see Guidance Note 4**).

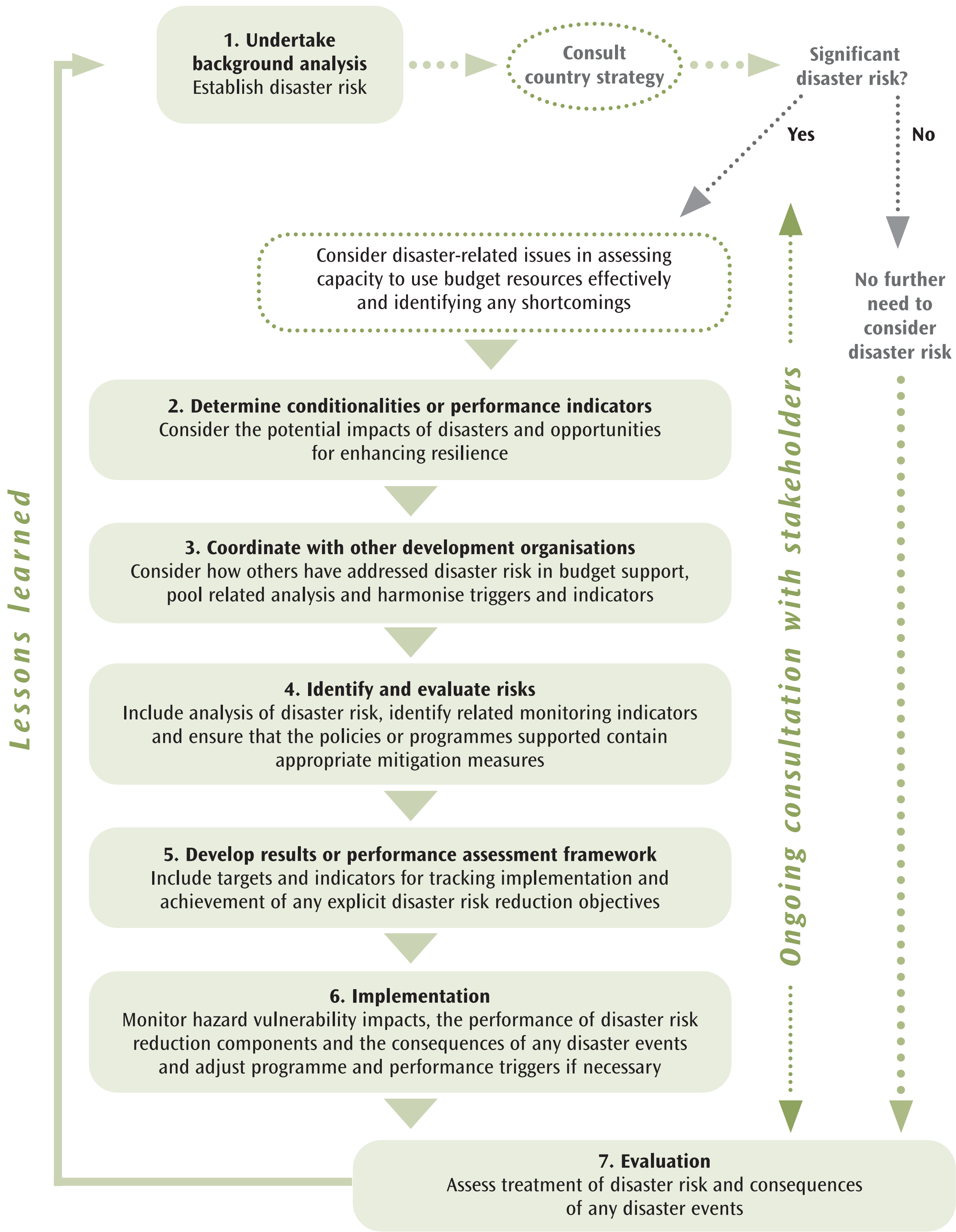
Particular regard should be paid to the national or sectoral policies and programmes against which the proposed budget support would be aligned and the extent to which disaster risk management principles and measures are integrated within these (**see also Guidance Note 3** with specific regard to PRSs). As already noted, the principle of disaster risk reduction needs to be firmly embedded within the government policies and programmes supported, rather than in budget support agreements, and linked to adequate budgetary allocations if it is to be effective. Development gains may be unsustainable if disaster risk is not adequately addressed.

In hazard-prone countries, disaster-related issues also need to be considered within the context of all other background analyses. The following provides an indicative list of assessments that may be consulted or undertaken and how each of these should examine and address disaster-related issues, ideally building on related analytical work already undertaken for country programming purposes (**see Guidance Note 4**):

- *Poverty and social impacts.* The likely impact of the policies and programmes supported on known hazard-vulnerable groups should be considered in exploring their poverty and social impacts. This analysis should consider both poor and non-poor vulnerable groups as disasters can force additional numbers into poverty. (**See also Guidance Notes 3, 9 and 11**.)
- *Macroeconomic policies, frameworks and management.* A substantial amount of budget support is directly aligned with macroeconomic policies and goals. The related assessment should consider the potential macroeconomic impact of major disaster shocks, whether government strategies to address disaster risk from a broad macroeconomic perspective are adequate and the implications of supported economic policies and strategies for future vulnerability. Major disasters can and do have severe negative short-run economic impacts. Disasters can also have negative longer-term consequences, particularly when they occur frequently. However, high macroeconomic exposure and related disaster-induced instability are not inevitable, even in the most hazard-prone countries. Vulnerability is determined by a complex, dynamic set of influences relating to factors such as economic structure, stage of development, prevailing economic conditions and the policy environment as well as the types of hazard experienced (see Box 3) and can be reduced.[4] In highly hazard-prone countries, macroeconomic policies and programmes may, therefore, need to be adjusted to balance disaster risk against socio-economic objectives. Economic forecasting exercises should also be extended to consider major disaster scenarios in high-risk countries (see Box 4). (**See also Guidance Notes 3 and 8**.)

4 For further discussion, see Benson, C. and Clay, E.J., *Understanding the Economic and Financial Impacts of Natural Disasters.* Disaster Risk Management Series No. 4. Washington, DC: World Bank, 2004. Available at: http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000012009_20040420135752

Figure 1 Integration of disaster risk concerns into budget support



Box 3 Bangladesh – the dynamics of vulnerability

The sensitivity of Bangladesh's economy to extreme monsoon flooding has declined significantly over the past three decades. This decline has been partly due to structural change in the agricultural sector, with a rapid expansion of much lower-risk dry season irrigated rice, and partly due to internal market integration and increased private food imports during disaster years. Hydrologically, the 1998 floods were a 1 in 50-year event. However, food grain production actually increased 5.6 per cent year on year in volume terms, substantially exceeding even the government's pre-flood forecast of 2.4 per cent growth. Initial post-flood assessments had anticipated a 10–11 per cent decline in annual output but underestimated the country's greatly enhanced capacity to increase dry season production when required.

Other influences increasing resilience include the spread of formal (including micro) credit and growing remittances from internal and international migrants. International remittance flows have increased further post disaster – for instance, rising by 18 per cent following the 1998 floods – providing a new form of coping mechanism. Change in the composition of productive activity has been another factor: export-oriented garment manufacturing has gradually expanded and to date has been relatively flood-proof. There has also been relative financial stability in recent years, in contrast to the hyperinflation that prevailed during the famine-haunted mid-1970s. However, the hydrologically less extreme 2000 and 2004 floods demonstrated that massive poverty-related vulnerability still persists, requiring more targeted measures for consumption smoothing and livelihood protection.

Source: ODI. *Aftershocks: Natural Disaster Risk and Economic Development Policy*; *ODI Briefing Paper.* London: Overseas Development Institute, 2005. Available at: http://www.odi.org.uk/publications/briefing/bp_disasters_nov05.pdf

Box 4 Modelling the impact of disasters on long-term growth

The International Institute for Applied Systems Analysis (IIASA), in conjunction with the World Bank, has developed a planning tool for incorporating future probabilistic losses resulting from natural hazards into macroeconomic forecasting models and quantifying the implications. In essence, this tool is based on a simple model focusing on the impact of disaster-related capital losses on rates of national economic growth. To illustrate its use and the nature of the findings that it can generate, the model was applied to three case studies (Argentina, Honduras and Nicaragua), under varying assumptions about the sourcing and adequacy of post-disaster relief and rehabilitation funding. It could be similarly used for macroeconomic forecasting exercises elsewhere.

Source: Freeman, P.K., Martin, L.A., Mechler, R. and Warner, K. with Hausmann, P. *Catastrophes and Development: Integrating Natural Catastrophes into Development Planning*. Disaster Risk Management Working Paper Series 4. Washington, DC: World Bank, 2002. Available at: http://www.proventionconsortium.org/themes/default/pdfs/cat_dev.pdf

- *Public expenditure management.* In the case of general budget support, the assessment should examine how disaster-related issues are taken into account in the allocation of public resources, considering whether there is sufficient expenditure on disaster risk reduction and adequate financial planning for future disaster events (**see Guidance Note 4**, Box 6 for a fuller discussion). In assessing both general and sector budget support, the likely consequences of a major disaster event for the policies and programmes supported should also be explicitly explored, including an examination of the likelihood of a reduction in funding due to the reallocation of budgetary resources for relief and reconstruction purposes. The assessment should also, more specifically, consider whether any disaster risk management activities included in the policies and programmes supported have been adequately budgeted for.
- *Procurement and financial accountability systems.* The implications of disaster events for capacity to adhere to country procurement procedures and financial reporting arrangements should be explored.
- *Institutional and legislative arrangements.* The assessment should cover disaster risk management institutional capacity, legislation and related expertise as relevant to the particular focus of the proposed budget support. It should explore whether existing arrangements are sufficient to ensure that budget support objectives will not be compromised in the event of a disaster and to support the exploitation of any opportunities to enhance resilience. Any shortcomings should be identified. Particular regard should be paid to building codes and land

use planning to help ensure that any related physical structures are built to acceptable standards (**see Guidance Note 12**). Institutional and legislative capacity to implement any specific disaster risk reduction policies and programmes with which provision of the budget support is aligned should also be examined, at the level of both national and local government if relevant.

- *Governance.* In addition to aspects of governance touched upon above, a few further disaster-related factors should be considered in examining the quality of governance, exploring its implications for the potential effectiveness of the proposed budget support and identifying any shortcomings. In particular, the level of long-term commitment to disaster risk reduction should be explored. Demonstrated capability to enforce land-zoning laws and building codes and standards and to ensure good quality of construction is also important, as corruption in the construction sector is particularly high in many countries,[5] exacerbating disaster-related damage and loss of life. Strong systems of land tenure and titles are similarly important as weak land security discourages investment in risk reduction and the uptake of insurance.
- *Environment and natural resources management.* The assessment should examine whether natural hazards, vulnerability and related measures to enhance resilience are adequately considered within the government's environmental policies, standards and assessment procedures as applied to the policies and programmes to be supported, and whether there is adequate hazard data available for assessment purposes. Development organisations' own environmental policies also often require them explicitly to assess any significant environmental impacts of the policies and programmes against which the budget support would be aligned and related government measures to reduce any adverse effects and enhance positive ones. This assessment should include examination of the implications of any environmental impacts for vulnerability to natural hazards, the potential impact of hazard events on the policies and programmes and required mitigation measures (**see also Guidance Note 7**, Box 4 on strategic environmental assessments (SEAs) and Box 3 on country environmental analysis (CEA)).

The disaster-related findings of these analyses will help inform the budget support agreement and related policy dialogue. They may also indicate the need for complementary project-based support or technical assistance to strengthen disaster risk management capacity and capabilities – for instance, to support the strengthening of relevant institutions and legislation, improve climatic forecasting and warning systems, provide training or construct structural mitigation measures.

Step 2. Determine conditionalities or performance indicators

Consider the potential implications of disaster events and opportunities for enhancing hazard resilience in determining the conditions of budget support, including output and outcome indicators and policy and institutional measures.

Conditionalities may be in the form of prior actions that must be taken before the initial disbursement of credit and of indicative triggers determining the release of further tranches of funding or new budget support actions. These conditionalities are increasingly based on a subset of the actions, targets and outcomes set by recipient governments themselves in the policies and programmes being supported. In other cases, release of tranches of budget support is based on a more general assessment of overall progress in key strategies, such as poverty reduction.

Disaster-related factors have not featured much, if at all, in budget support conditionalities to date, reflecting the relatively limited attention they receive in overall government policies and strategies. However, it is important to consider the impact that a potential disaster could have on the achievement of other selected conditionalities, both to emphasise the importance of permitting some relaxation of conditionalities post disaster and to encourage dialogue on ways of strengthening hazard resilience (see Box 5). In highly disaster-prone countries, it may be appropriate to run disaster scenarios and consider the potential implications of disasters both for the overall policies and programmes being supported and for specific performance triggers against which the budget support is attached. It may even be appropriate to set reduced performance triggers in the first place if major disasters occur with high frequency. More generally, a flexible set of conditionalities may be appropriate in hazard-prone countries, allowing lack of progress in particular areas to be offset by achievements in others.

The findings of the background analysis under Step 1, together with this examination of conditionalities, could also result in adjustments to the policies and programmes with which the budget support is aligned and the inclusion of related triggers as additional conditionalities. For instance, development of a comprehensive financial disaster risk management strategy could be required as part of efforts to help strengthen broader public financial and

5 Transparency International. *Global Corruption Report: Special Focus on Corruption in Construction and Post-Conflict Reconstruction.* London: Pluto Press, 2005. Available at: http://www.transparency.org/publications/gcr/download_gcr/download_gcr_2005

macroeconomic management. Release of budget support in favour of a PRS could be dependent upon revisions to the building code to require improved hazard resilience of related infrastructure investments. At a sectoral level, improved climatic forecasting capacity and dissemination, say, could be required as a conditionality on the provision of budget support to help strengthen agricultural performance.

Box 5 Disasters – a potential threat to the achievement of conditionalities

A major disaster event can have wide-reaching impacts, potentially threatening the successful achievement of a number of budget support conditionalities. Possible examples are indicated below:

Macroeconomic performance
- Overall and sectoral gross domestic product growth targets may not be achieved.
- Inflation may exceed the target rate.

Poverty reduction
- Targeted reductions in the percentage of the population below the poverty line may not be achieved (**see Guidance Note 3**).

Public financial management
- Budgetary resources may be reallocated to help finance the relief and rehabilitation efforts, implying that:
  - targeted improvements in the variation between planned and actual expenditure may not be achieved, either overall or by sector;
  - specific minimum resource allocation requirements for particular programmes or sectors (e.g., health, education) may not be met; and/or
  - particular initiatives may be under-funded.
- Targeted reductions in the budget deficit or the domestic borrowing requirement may not be achieved if additional resources are required to help finance relief and rehabilitation efforts.
- Targeted reductions in state enterprise deficits may not be achieved due to disaster-related damage and operating problems (see also Box 2).
- Tax revenue targets may not be met due to lower productivity and the possible temporary suspension of some forms of taxation to help foster recovery.
- Progress in implementing financial management and fiscal reforms may be delayed as attention is diverted.

Private sector development
- Targeted increases in rates of domestic and foreign direct investment may not be achieved if the disaster causes major infrastructural damage and harms investment climate perceptions.

Financial sector development
- Progress in expanding microfinance may be hindered if microfinance institutions have large portfolios of highly vulnerable clients, leading to post-disaster liquidity problems.

Education
- Targeted improvements in the pupil:classroom ratio may not be achieved due to the diversion of budgetary resources and loss of existing school buildings.
- Targeted increases in the percentage of school-age children attending school may be temporarily hindered if children are withdrawn from school to help support their families.

Agriculture and rural development
- Targeted improvements in marketing infrastructure, such as roads, may not be met due to disaster-related damage.

Step 3. Coordinate with other development organisations

Consider whether and how other development organisations have addressed disaster-related issues in their programmes of budget support, share and coordinate related analytical work and seek to harmonise relevant performance triggers and related monitoring and reporting requirements, ensuring that selected triggers take appropriate account of disaster risk and, if relevant, agreeing on any specific disaster risk management triggers. Donor harmonisation on realistic, relevant and appropriate disaster risk reduction objectives and related performance indicators is an important element in securing their successful achievement.

Step 4. Identify and evaluate risks

In hazard-prone countries include analysis of both disaster risk and the implications of potential disaster events for other forms of risk, drawing on the work already completed under Step 1. Ensure that appropriate mitigation measures are included in the policies and programmes against which the budget support is aligned (or covered under other initiatives) and identify indicators to monitor high-probability risks.

Fiduciary risk is often of particular concern to development organisations and can be exacerbated if there is inadequate financial planning for disasters, as budget support resources may be reallocated in the event of a disaster. Alternatively, budget support resources may be less effective than envisaged if they are used as intended but total funding for the policies and programmes supported is reduced post disaster. The threat of disasters can also exacerbate other forms of risk – including operational, developmental, macroeconomic and governance risk – and potentially undermine achievements at any level of the results framework (see below), hindering inputs from leading to desired activities, activities to outputs, outputs to outcomes or outcomes to impact (**see also Guidance Note 6**, Box 3).

Step 5. Develop the results or performance assessment framework

The results or performance assessment framework should include any explicitly intended disaster risk reduction outputs and outcomes and related monitoring and evaluation indicators, baseline data and data collection requirements, drawing directly on the results framework for the development organisation's country strategy (**see Guidance Note 4**) or, if significantly different, for the policies and programmes against which the budget support is aligned. As discussed under Step 2, in highly hazard-prone countries all conditionalities and performance indicators should be realistically set to reflect disaster risk. Specific indicators to monitor remaining disaster risk, as identified in Step 4, should also be included, together with any necessary indicators required to measure the impact of the supported policies and programmes on hazard-vulnerable groups (see Step 1).

Step 6. Implementation

In collaboration with the government, monitor the hazard vulnerability implications of the policies and programmes supported, the performance of any disaster risk reduction components (including whether related expenditure commitments are being met) and the impact of any actual disaster events. Any necessary adjustments should be encouraged, whether to the policies and programmes themselves or related performance triggers.

The results-based orientation of newer tools of budget support encourages modification of the programmes with which budget support is aligned and related performance indicators in the face of changing circumstances, in sharp contrast with the relatively inflexible adjustment lending programmes of the 1980s and 1990s. This is particularly beneficial in the event of a disaster, which can result in considerable short-term upheaval both destroying physical infrastructure and the normal functioning of a country and forcing potentially difficult policy decisions. For instance, a government could choose to expand overall credit availability to support productive recovery and refinance microcredit rather than tighten monetary growth to stem inflationary pressures of post-disaster food shortages and a construction boom, thereby failing to meet inflation targets. Alternatively, it could decide to remain within its existing budgetary envelope to satisfy budget support conditionalities when an expansionary fiscal policy might, in fact, be temporarily more appropriate.[6]

A reduction in budget support, its total cancellation and even deferment of disbursements should be avoided if possible in the aftermath of a disaster as this will only exacerbate financial difficulties and disruption to priority development initiatives. However, it should be appreciated that a government may face particular absorptive difficulties, reflecting the combined effects of potentially reduced capacity and a substantial increase in the flow of external resources. Provision of additional budget support specifically in response to a disaster requires careful design to ensure that disbursement is timely and that it helps strengthen disaster risk management practice and capabilities (see Box 6).

6 For further discussion, see Benson, C. and Clay, E. J., *Understanding the Economic and Financial Impacts of Natural Disasters.* Disaster Risk Management Series No. 4. Washington, DC: World Bank, 2004. Available at: http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000012009_20040420135752

Box 6 Responding to disasters with budget support

Some budget support is provided post disaster, primarily intended as quick-disbursing support to help meet immediate balance of payment and foreign exchange imbalances. For instance, the International Monetary Fund has provided disaster-related emergency assistance since 1962 to meet related foreign exchange financing difficulties arising as a consequence of a decline in export earnings and/or increased imports. Between 1995 and 2005, it extended 11 such loans, totalling US$ 980 million in nominal terms.[7]

However, a recent World Bank evaluation revealed that disbursement of the Bank's post-disaster balance-of-payment support lending has been much slower than intended. The World Bank has made a total of 15 such loans, aimed at providing quick-disbursing resources to stabilise macroeconomic conditions and facilitate recovery. The evaluation revealed that "despite its emphasis on the rapid disbursement of funds, balance of payment support took an average of about 7 months (214 days) to reach effectiveness and 2.4 years (860 days) to reach closing and therefore did not meet institutional intentions that it be an effective means to provide quick transfer of resources to affected countries".[8]

Much post-disaster budget support also appears to be extended without any related conditionalities supporting the strengthening of underlying disaster risk management, an apparently missed opportunity. However, the World Bank is currently developing a Contingent Hazard Recovery and Management loan, a specialised form of rapidly disbursing development policy lending which governments could access post disaster. In contrast to previous Bank post-disaster budget support operations, this lending would be linked to conditionalities relating to the development of risk management capacity, possibly accompanied with related technical assistance. Under Track III of the Global Facility for Disaster Reduction and Recovery (GFDRR), it is also intended to provide post-disaster budget support to low-income countries as part of a Standby Recovery Financing Facility. Recipient countries will have to meet certain conditions regarding ex-ante risk management. The World Bank and the United Nations International Strategy for Disaster Reduction launched the GFDRR in September 2006 (**see Guidance Note 1**).

Pre-negotiated post-disaster budget support could be another new option, offering opportunities for rapid disbursement and incentives for improved disaster risk management. For instance, a World Bank disaster risk management project approved in 2005 for Vietnam includes a rapid disbursement facility to fund post-disaster reconstruction of small-scale public infrastructure, supporting a recurrent financing gap in public resources and related strengthening of the budgetary management of disasters. In Phase II (2009–2012) of this project, if requested by the government, additional funds could be provided for post-disaster reconstruction following the government's disbursement mechanism for the State Contingency Budget, in effect as budget support.

Step 7. Evaluation

With the benefit of hindsight, explore:

- whether disaster risk and the vulnerability implications of the policies and programmes supported were adequately analysed and addressed;
- the benefits and achievements of any specific disaster risk reduction-related conditionalities;
- how any disasters occurring over the period of budget support affected its use, outcome and effectiveness and also the performance of underlying processes, including government monitoring activities and budgetary and macroeconomic management;
- whether the sustainability of achievements is potentially threatened by future disaster events; and
- the impact of the policies and programmes supported on vulnerability to natural hazards.

Repeated step: Ongoing consultation with stakeholders

Invite dialogue on disaster-related issues in determining the precise form and nature of the budget support and during subsequent implementation and evaluation. The new generation of budget support places increasing emphasis on policy dialogue with governments, offering opportunities to enter into discussion on disaster risk management and encourage good practice where relevant to the policies and programmes with which the budget support is aligned. These discussions should explore the feasibility of achievement of conditionalities and broader aims and

7 IMF. *IMF Emergency Assistance: Supporting Recovery from Natural Disasters and Armed Conflicts – Factsheet.* Washington, DC: International Monetary Fund, 2005. Available at: http://www.imf.org/external/np/exr/facts/conflict.htm

8 World Bank. *Hazards of Nature, Risks to Development - An IEG Evaluation of World Bank: Assistance for Natural Disasters.* Washington, DC: World Bank, Independent Evaluation Group, 2006, p. 32. Available at: http://www.worldbank.org/ieg/naturaldisasters/report.htmlAn

objectives of the policies and programmes supported in the event of a disaster and ways of promoting greater hazard resilience and sustainability of achievements, through either the policies and programmes themselves or complementary initiatives. The discussions should draw and build on relevant disaster-related consultations undertaken in preparing the development organisation's country strategy (**see Guidance Note 4**) and on relevant consultations undertaken by the government in preparing its PRS (**see Guidance Note 3**). The consultative process should also give a voice to poor and marginalised groups, who are often among the most vulnerable to natural hazards, and to other relevant stakeholders.

3. Critical factors for success

- *Development organisations need to accept greater accountability for disaster-related losses.* Lines around aid agency responsibilities appear to be ever-more blurred as external assistance is increasingly provided in the form of budget support and individual buildings and items of infrastructure cannot be linked to specific donors. However, development organisations are accountable for seeking to ensure that their resources are used as effectively as possible and, as such, have a responsibility for ensuring that recipient government building codes and practices are adequate and that disaster risk management practices, more generally, including financial risk planning arrangements, are appropriate.
- *Governments and civil society in hazard-prone countries need to prioritise disaster risk reduction.* As provision of budget support is increasingly directly aligned with national and sectoral development and PRSs, it is important that governments and civil society prioritise risk reduction as a critical development challenge in hazard-prone countries and develop related policies, capabilities and legislative and institutional arrangements. Development organisations need to explore incentives for encouraging governments in this process, support efforts to strengthen knowledge and understanding of hazard-related issues and undertake related advocacy work to promote the benefits of disaster risk reduction, including by facilitating and working with networks of committed champions in civil society.
- *Internationally recognised targets for disaster risk reduction need to be established.* There is a growing tendency towards greater coherence of key development targets, such as the Millennium Development Goals (MDGs), providing donors and governments a common focus. Establishment of similar targets for disaster risk reduction or explicit incorporation of disaster risk reduction concerns within the MDGs would play an important role in securing greater consideration of disaster risk (**see Guidance Note 3**) and in holding governments and development organisations to account. Such targets could be included in government and development organisation results-based management and performance assessment frameworks.
- *Agreements on principles of good practice in the provision of budget support should include disaster risk reduction objectives.* International initiatives to harmonise and coordinate donor approaches to budget support and related good practice – as, for instance, under way by the Organisation for Economic Co-operation and Development's Development Assistance Committee (DAC), the Strategic Partnership for Africa (SPA) and the Public Expenditure and Financial Accountability (PEFA) Program – should include good practice principles in the assessment of disaster risk and the support of related measures to strengthen hazard resilience.
- *Complementary projects and technical assistance may be required to support disaster risk reduction more directly.* It may be relevant to consider complementary project-based support and technical assistance to strengthen disaster risk management capacity and capabilities – for instance, to support the development of institutions, legislation or financial risk transfer arrangements, provide training, construct structural mitigation measures or retrofit existing structures. The use of other instruments is particularly important in countries with little commitment to disaster risk reduction and in countries with decentralised but ineffective systems of government where national commitment to disaster risk reduction may not be translated into local action.

Box 7 Hazard and disaster terminology

It is widely acknowledged within the disaster community that hazard and disaster terminology are used inconsistently across the sector, reflecting the involvement of practitioners and researchers from a wide range of disciplines. Key terms are used as follows for the purpose of this guidance note series:

A *natural hazard* is a geophysical, atmospheric or hydrological event (e.g., earthquake, landslide, tsunami, windstorm, wave or surge, flood or drought) that has the potential to cause harm or loss.

Vulnerability is the potential to suffer harm or loss, related to the capacity to anticipate a hazard, cope with it, resist it and recover from its impact. Both vulnerability and its antithesis, *resilience*, are determined by physical, environmental, social, economic, political, cultural and institutional factors.

A *disaster* is the occurrence of an extreme hazard event that impacts on vulnerable communities causing substantial damage, disruption and possible casualties, and leaving the affected communities unable to function normally without outside assistance.

Disaster risk is a function of the characteristics and frequency of hazards experienced in a specified location, the nature of the elements at risk, and their inherent degree of vulnerability or resilience.[9]

Mitigation is any structural (physical) or non-structural (e.g., land use planning, public education) measure undertaken to minimise the adverse impact of potential natural hazard events.

Preparedness is activities and measures taken before hazard events occur to forecast and warn against them, evacuate people and property when they threaten and ensure effective response (e.g., stockpiling food supplies).

Relief, rehabilitation and *reconstruction* are any measures undertaken in the aftermath of a disaster to, respectively, save lives and address immediate humanitarian needs, restore normal activities and restore physical infrastructure and services.

Climate change is a statistically significant change in measurements of either the mean state or variability of the climate for a place or region over an extended period of time, either directly or indirectly due to the impact of human activity on the composition of the global atmosphere or due to natural variability.

9 The term 'disaster risk' is used in place of the more accurate term 'hazard risk' in this series of guidance notes because 'disaster risk' is the term favoured by the disaster reduction community.

Further reading

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Tools for Mainstreaming Disaster Risk Reduction is a series of 14 guidance notes produced by the ProVention Consortium for use by development organisations in adapting project appraisal and evaluation tools to mainstream disaster risk reduction into their development work in hazard-prone countries. The series covers the following subjects: (1) Introduction; (2) Collecting and using information on natural hazards; (3) Poverty reduction strategies; (4) Country programming; (5) Project cycle management; (6) Logical and results-based frameworks; (7) Environmental assessment; (8) Economic analysis; (9) Vulnerability and capacity analysis; (10) Sustainable livelihoods approaches; (11) Social impact assessment; (12) Construction design, building standards and site selection; (13) Evaluating disaster risk reduction initiatives; and (14) Budget support. The full series, together with a background scoping study by Charlotte Benson and John Twigg on *Measuring Mitigation: Methodologies for assessing natural hazard risks and the net benefits of mitigation*, is available at http://www.proventionconsortium.org/mainstreaming_tools

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