



Report and Recommendation of the President to the Board of Directors

Project Number: 50028-001
November 2017

Proposed Policy-Based Loans, Policy-Based Grants, and Technical Assistance Grant Pacific Disaster Resilience Program

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
APDRF	–	Asia Pacific Disaster Response Fund
DMC	–	developing member country
DRM	–	disaster risk management
DRR	–	disaster risk reduction
GDP	–	gross domestic product
PCRAFI	–	Pacific Catastrophe Risk Assessment and Financing Initiative
TA	–	technical assistance

NOTE

In this report, “\$” refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 50028-001	
Project Name	Pacific Disaster Resilience Program (formerly Pacific Regional Disaster Risk Financing Facility)	Department /Division	PARD/PAUS
Country Borrower	REG, SAM, TON, TUV Regional, SAM, TON, TUV	Executing Agency	Ministry of Finance, Ministry of Finance and Economic Development, Ministry of Finance and National Planning
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Public expenditure and fiscal management		15.00
		Total	15.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	1.70
Environmentally sustainable growth (ESG)	Disaster risk management Global and regional transboundary environmental concerns	Climate Change impact on the Project	Low
Regional integration (RCI)	Pillar 4: Other regional public goods		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change Institutional development Institutional systems and political economy Organizational development Public financial governance	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Knowledge sharing activities Pilot-testing innovation and learning		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Regional	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG9, SDG11, SDG13		
6. Risk Categorization:	Complex		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		15.00	
Sovereign Stand-Alone Policy-Based Lending (Concessional Loan): Ordinary capital resources		6.20	
Sovereign Stand-Alone Policy-Based Lending (Grant): Asian Development Fund		8.80	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		15.00	
Note: An attached technical assistance will be financed on a grant basis by the Technical Assistance Special Fund (TASF-OTHERS) in the amount of \$500,000; Technical Assistance Special Fund (TASF-6) in the amount of \$1,500,000.			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) proposed policy-based loans to the Independent State of Samoa and the Kingdom of Tonga; and (ii) proposed policy-based grants to the Independent State of Samoa, the Kingdom of Tonga, and Tuvalu for the Pacific Disaster Resilience Program.¹ The report also describes the proposed technical assistance (TA) for the Pacific Disaster Resilience Program and, if the Board approves the proposed loans and grants, I, acting under the authority delegated to me by the Board, approve the TA.

2. The proposed program will improve the resilience of the participating countries to disasters triggered by natural hazards.² It will support policy actions in disaster risk management (DRM), and provide participating Asian Development Bank (ADB) Pacific developing member countries (DMCs) with a source of contingent financing for timely disaster response, early recovery, and reconstruction activities. The attached TA will support DRM in participating DMCs, and assess the options for, and potential costs and benefits from, a collaborative multi-country mechanism to provide contingent financing in the event of disasters triggered by natural hazards.

II. THE PROGRAM

A. Rationale

3. **Disaster risk in the Pacific.** Pacific DMCs are highly exposed to many different types of natural hazards, including tropical cyclones, earthquakes, storm surges, tsunamis, volcanic eruptions, floods, and droughts. The region also experiences a disproportionately high share of global disaster impacts relative to its economic and demographic size. Disaster risk is growing because of climate change, poor development planning, unplanned urbanization, and ecosystem decline. Climate change may increase the intensity of extreme weather events, including cyclones. Rising sea levels are speeding erosion rates, and increasing the risk of storm surges for cyclone-affected countries, and rising ocean temperatures and ocean acidification are destroying the coral reefs that form natural coastal barriers.

4. When disasters strike, Pacific DMCs face further challenges due to their remote location and geographical makeup. Many countries have relatively small populations that are widely dispersed over several islands, many of which are isolated and difficult to reach in times of a disaster. These factors contribute to the relatively high cost of disaster response. Due to the small size of their economies and limited access to international financial markets, most Pacific DMCs have limited resources and capacity to invest in disaster risk reduction (DRR), and to facilitate timely recovery and reconstruction after a disaster. Delays in response and recovery exacerbate the indirect economic and social costs of disasters, increasing their ultimate impact, and compromising long-term fiscal balances.

5. Disasters can erode many years of economic development gains by damaging critical infrastructure, disrupting social services, and diverting resources from development spending toward disaster response and reconstruction. Disasters in the Pacific reduced average trend growth in gross domestic product (GDP) from 3.3% in 1980 to 2.6% in 2014.³ Considering only the expected participating countries, examples of damage and loss caused by disasters in the region

¹ ADB discussed this program with a further two countries beyond the three covered here. Other countries may consider participating in a contingent financing program in the future.

² The program is included in ADB. 2017. *Regional Operations Business Plan: Pacific, 2018–2020*. Manila.

³ E. Cabezón et al. 2015. Enhancing Macroeconomic Resilience to Natural Disasters and Climate Change in the Small States of the Pacific. *International Monetary Fund Working Paper Series*. WP/15/125. Washington, DC.

include Tropical Cyclone Pam in 2015, which caused damage equivalent to 33% of GDP in Tuvalu; Tropical Cyclone Ian in 2014, which caused damage equivalent to around 11% of GDP in Tonga; and Tropical Cyclone Evan in 2012, which caused damage equivalent to around 29% of GDP in Samoa.

6. Building disaster risk resilience requires actions on many fronts, such as strengthening policy and institutional arrangements for DRM, including the capacity for post-disaster response and recovery; improving the disaster resilience of physical assets; and expanding disaster risk financing. Although Pacific governments have made significant gains in these areas, more effort is required, and they remain constrained by capacity and competing priorities. To establish their eligibility to access the contingent financing under the program, the governments have undertaken prior policy actions to support DRM.

7. **Governments' strategies.** To mitigate the economic risk posed by disasters, all participating DMCs have taken important steps to improve disaster resilience, and climate change and DRM objectives are generally well-defined within government policies and plans. All countries define legal responsibilities for DRM, including procedures for declaring a state of emergency; and have some financial arrangements in place for disaster response, including annual contingency budgets and, in some cases, sovereign disaster insurance.⁴ Pacific DMCs receive strong support from bilateral partners for immediate humanitarian aid after major events, and development partners, including ADB, provide financing to support reconstruction, which typically starts several months after a disaster. However, in the event of a significant disaster, governments typically have insufficient resources to meet immediate post-disaster financing needs, instead relying heavily on budget reallocations, which can take some time to secure and often redirect funds away from development priorities.⁵

8. **Layered approach to disaster risk financing.** The most cost-effective way of financing disaster response is through a range of tools in a common framework to address different layers of risk, as no single instrument is optimal for responding to all disaster events, which range from frequent, small-scale events to rare catastrophic events.⁶ The figure shows the range of potential financing tools, and the availability of these tools in the Pacific, from budget allocations that address low-impact, high-frequency events (such as stormwater overflow), to global bonds that address rare yet highly damaging events (such as high-magnitude earthquakes).

9. There is strong demand from Pacific DMCs for additional instruments to strengthen financial preparedness for disasters, and a clear need for this, given the rising incidence of disaster events. Ideally, a comprehensive disaster risk financing strategy would combine both *ex ante* (arranged ahead of a disaster occurring, such as disaster reserves, contingency budgets, contingent credit, and insurance) and *ex post* mechanisms (post-disaster budget reallocations, borrowing, and international assistance). The precise mix would depend on the relative cost-effectiveness of alternative instruments for specific layers of risk in individual country contexts.

10. Contingent financing is particularly cost-effective in addressing risks pertaining to events that would exhaust annual contingency budgets and any dedicated national reserves, but are too frequent to be covered cost effectively through insurance. Governments typically have contingency

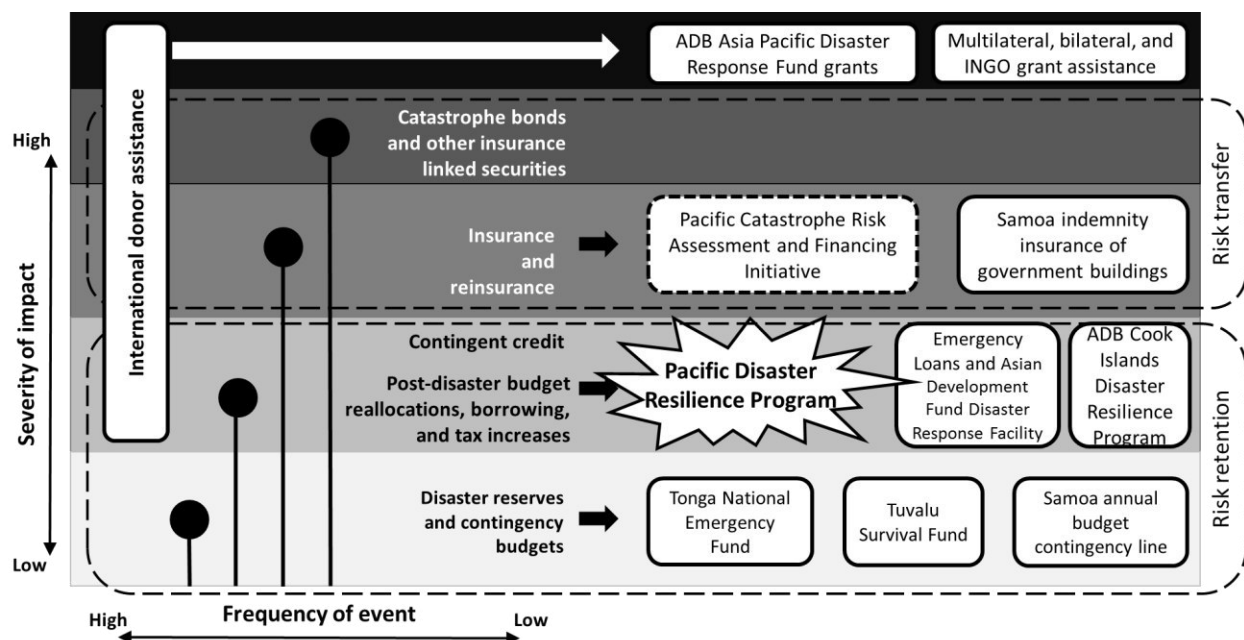
⁴ Disaster Risk Financing Arrangements (accessible from the list of linked documents in Appendix 2) describes the financial arrangements in place in each participating country to respond to disasters.

⁵ Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2).

⁶ D. Clarke et al. 2016. *Evaluating Sovereign Disaster Risk Financing Strategies: A Framework*. Washington, DC.

budgets and reserves to cover up to around 3-year return period events, such as the Tonga National Emergency Fund, the Tuvalu Survival Fund, and the contingency lines in the Samoa and Tonga annual budgets. The Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI)⁷ offers insurance cover starting from 10-year return period attachments per peril, covering the high-layer risks, together with any potential international assistance that the countries might receive. As such, there is a gap for medium-layer risks in most Pacific countries, with the exception of the Cook Islands, which has a contingent credit facility with ADB.⁸ The program intends to cover the medium-layer risks gap, as represented in the figure.

Disaster Risk Financing Layers and Existing Tools in the Pacific



ADB = Asian Development Bank, INGO = international nongovernment organization.

Source: ADB

11. **ADB engagement and lessons learned.** ADB attaches significant importance to DRM in the Pacific, and has provided considerable loans, grants, and TA for post-disaster disaster response, early recovery, and reconstruction. This support has progressively broadened from post-disaster assistance to proactive DRR through a range of financing mechanisms. ADB provides dedicated funding to its concessional assistance-only countries through the Asian Development Fund (ADF) 12 DRR financing mechanism to spur investment in DRR. ADB often plays a key role in post-disaster needs assessments. For the post-disaster humanitarian response phase, ADB's Asia Pacific Disaster Response Fund (APDRF), a dedicated quick-disbursing instrument, can provide grants up to \$3.0 million per event within a week of a disaster.⁹ Additional concessional funds can be accessed through the ADF Disaster Response Facility for the early recovery and reconstruction phase, although processing associated projects takes time.

12. Since 1987, ADB has offered an emergency assistance loan instrument with extended

⁷ World Bank. 2017. *PCRAFI: Furthering Disaster Risk Financing in the Pacific Project*. Washington, DC.

⁸ ADB. 2016. *Cook Islands: Disaster Resilience Program*. Manila.

⁹ Between the establishment of the APDRF in 2009 and September 2017, the Pacific has received 11 APDRF grants totaling \$7.4 million.

grace and repayment periods, increased retroactive financing, lower interest rates, and abbreviated processing requirements, facilitating the approval of fast-tracked assistance for early recovery purposes. However, emergency assistance loans can still take 3 months or more to process, and reconstruction loans processed under normal lending modalities can take significantly longer.

13. ADB has piloted contingent financing in the Cook Islands (footnote 8) as a mechanism to provide more timely disaster-response support, financed through a stand-alone, single-tranche policy-based loan from regular ordinary capital resources. To access the contingent financing, the Government of the Cook Islands has undertaken prior actions to strengthen policy and institutional arrangements for DRM, and the disbursement will be triggered when a state of disaster is declared. The program reflects the unique features of this support.

14. **The proposed approach.** The program provides Pacific DMCs with a source of financing for response, early recovery, and reconstruction activities for disaster events caused by all types of natural hazards. To support the development of effective and comprehensive DRM strategies and programs at the country level, the policy-based loan and policy-based grant modality will be used to agree on disaster resilience-related policy actions for each participating DMC. These policy actions will strengthen the resilience of institutions and communities in the participating DMCs. The proposed provision of financing contingent on a disaster is similar to the contingent credit facility provided to the Cook Islands (footnote 8). The attached TA will support and monitor progress toward achieving the governments' long-term DRM goals included in a program monitoring framework, and explore options for regional collaboration around contingent financing and a potential permanent regional contingent savings mechanism.

15. The proposed participating DMCs—Samoa, Tonga, and Tuvalu—face similar DRM challenges, and will benefit greatly from a regional approach under which good practices are shared. The program will support coordination and cooperation both between Pacific DMCs and with development partners on financing arrangements, policy reform discussions, and regional TA programs. The TA activities will include regional sharing of experiences and lessons on DRM, particularly on post-disaster financial management.

16. The program will complement existing disaster risk financing instruments available to Pacific DMCs (figure), including annual contingency budgets, national disaster funds, parametric disaster insurance, and traditional indemnity insurance. Its unique features are as follows: (i) it can make a payment quickly and use the funds flexibly with no additional requirements, beyond national public financial management requirements, to track and report on expenditures; (ii) the amount that can be released is significant in terms of immediate response needs; (iii) the amount is not dependent on any assessment of loss or measure of the intensity of the natural hazard; and (iv) funds are available for disaster events triggered by any type of natural hazard. The program is aligned with the Sendai Framework for Disaster Risk Reduction 2015–2030¹⁰ and the Framework for Resilient Development in the Pacific.¹¹

17. **Economic impact of the disaster resilience program.** The most fundamental benefit of the program to Pacific DMCs is strengthened financial preparedness for disaster events. The program will provide a timely and predictable source of post-disaster financing, facilitating rapid decision making and the implementation of priority actions. This will reduce the indirect economic and social consequences of direct physical losses.

¹⁰ United Nations Office for Disaster Risk Reduction. 2015. *The Sendai Framework for Disaster Risk Reduction, 2015–2030*. Geneva.

¹¹ Secretariat of the Pacific Community. 2016. *Framework for Resilient Development in the Pacific, 2017–2030*. Suva.

18. It will only be possible to quantify the full economic impact of the DRM activities supported through the policy actions and attached TA after a disaster, as the benefits or costs avoided will be determined by the scale and type of disaster and geographical area of impact. However, the following are indicative of the expected economic benefits:

- (i) fewer lives lost and injuries incurred during a disaster, reflecting improved DRM, response preparation, and public training;
- (ii) reduced damage and losses to public and personal property due to (a) improved DRM, response preparation, and public training; (b) strengthened building codes; and (c) more resilient critical public infrastructure and assets;
- (iii) reduced costs due to shorter business and public facility closures, and faster restoration of livelihoods and essential infrastructure and services;
- (iv) improved public safety and reduced risk of post-disaster health impacts due to a more effectively coordinated and better targeted response; and
- (v) reduced opportunity cost associated with government budget or aid program reallocations, and/or any financial costs associated with additional commercial or concessional borrowing that may be urgently needed to meet post-disaster costs.

19. **Partner support.** In the aftermath of disasters in the Pacific, major development partners, including the governments of Australia, the People's Republic of China, France, Japan, New Zealand, and the United States usually move quickly to mobilize immediate relief, including in-kind support and financing through humanitarian nongovernment organizations. The United Nations' Pacific Humanitarian Team mobilizes relief items and technical support from several offices in the region. Major development partners and regional organizations are also actively supporting the implementation of the Framework for Resilient Development in the Pacific (footnote 11).

20. The PCRAFI was originally established in 2007 as a joint initiative of the Pacific Community, the World Bank, and ADB. The World Bank launched a disaster insurance pilot as part of this initiative in 2012. Phase II of the PCRAFI program began in 2016, supported by the PCRAFI Multi-Donor Trust Fund with the World Bank as trustee. Phase II includes two core components: (i) the establishment of a PCRAFI Facility¹² as an insurance captive to provide Pacific island countries with catastrophe risk insurance coverage on competitive terms, and (ii) a TA program to support capacity building on disaster risk financing and the public financial management of disasters. Germany, Japan, the United Kingdom, and the United States have provided grant funding toward the establishment of the PCRAFI Facility, which issued its first insurance policies for the 2016–2017 season (the PCRAFI's fifth season) for the Cook Islands, the Marshall Islands, Samoa, Tonga, and Vanuatu. The World Bank's Pacific Resilience Program is carrying out complementary DRM work, and has secured some premium financing for PCRAFI insurance.¹³ The parametric nature of the insurance product and the small size of the payouts relative to total potential disaster losses highlight the need for Pacific DMCs to use a mix of several financial instruments to be adequately prepared for disaster events of varying severity.¹⁴

21. **ADB priorities and contributions.** ADB priorities in Samoa, Tonga, and Tuvalu are guided by the Pacific Approach, which serves as the country strategy for the 11 smaller DMCs in the Pacific.¹⁵ The Pacific Approach focuses on three strategic areas, one of which is managing risks.

¹² The PCRAFI Facility was established in the Cook Islands in 2016 as a foundation with a board of directors that owns a group captive insurer.

¹³ World Bank. 2015. *Pacific Resilience Program*. Washington, DC.

¹⁴ The proposed contingent financing will complement the PCRAFI insurance cover as it addresses more frequent, lower intensity events, as well as providing finance in response to disasters triggered by any type of natural hazards, including flooding, drought, and volcanic eruptions, which are not currently covered under the PCRAFI insurance.

¹⁵ ADB. 2016. *Pacific Approach, 2016–2020*. Manila.

The Pacific Approach also highlights the need to (i) expand ADB's work in climate change and DRM; (ii) introduce innovative solutions to strengthen disaster preparedness, address vulnerability, and build resilience; and (iii) pursue a more programmatic and regional approach to financing climate change and DRM initiatives in the Pacific region.

B. Impact and Outcome

22. The program is aligned with the following impact: strengthened resilience to climate change and disasters, as well as disaster preparedness, response, and recovery.¹⁶ The program will have the following outcome: strengthened DRM in participating countries.¹⁷

C. Outputs

23. **Output 1: Strengthened regional collaboration on disaster risk financing.** The program will support collaboration among the Pacific DMCs to strengthen disaster risk financing. Several countries have undertaken policy actions to strengthen disaster risk financing, including Tuvalu setting up the Climate Change and Disaster Survival Fund and Tonga making a financial commitment to their Emergency Fund in the current national budget. The participating DMCs have entered into a memorandum of understanding that will be the basis for collaboration among the participating countries in exploring, developing, and establishing the most suitable collaborative regional mechanism for contingent financing.¹⁸ The attached TA will support the participating DMCs to reach an agreement on the most suitable option. The participating DMCs are then expected to enter into an agreement to establish the agreed mechanism. The program will provide participating DMCs with quick-releasing finance to support response, early recovery, and reconstruction activities after disaster events triggered by natural hazards.

24. While the funds disbursed through the program can partially meet immediate post-disaster financing needs, pooling such resources through a regional contingent savings mechanism can bring certain advantages. Doing so would (i) allow for an increased return on funds, because part can be set aside in a nonliquid form as all participating countries are unlikely to experience disasters and require drawdown of all funds simultaneously; (ii) provide seed financing to attract other development partners to provide further financing for post-disaster response, (iii) provide a mechanism into which participating countries can transfer further savings without incurring the additional administrative burden of managing these funds themselves; and (iv) demonstrate the effectiveness of the contingent financing mechanism, so attracting the participation of a greater number of Pacific countries.

25. The attached TA will provide options for a sustainable regional mechanism to channel disaster contingent financing, allowing funds to be replenished, additional countries to join, and other donors to contribute to the contingent funds. The mechanism would need to provide fast and efficient payments to DMCs following an eligible disaster, and follow best practices of good governance and financial management. Within the Pacific region, there are various existing models of trust funds, in addition to the PCRAFI Facility,¹⁹ while ADB brings experience in the creation of

¹⁶ Goal 1: Strengthened Integrated Adaptation and Risk Reduction to Enhance Resilience to Climate Change and Disasters, and Goal 3: Strengthened Disaster Preparedness, Response and Recovery) of the Framework for Resilient Development in the Pacific. Under Goal 1, priority actions by regional organizations and other development partners include the following: "(i) Establish a regional facility to assist governments in disaster and climate change risk financing, including insurance."

¹⁷ The design and monitoring framework is in Appendix 1.

¹⁸ Memorandum of Understanding: Pacific Regional Collaboration for Disaster Risk Contingent Financing (accessible from the list of linked documents in Appendix 2).

¹⁹ An independent legal entity domiciled in the Cook Islands.

multidonor trust funds. These and other models will be assessed with support from the attached TA to identify a preferred approach for regional consideration.

26. **Output 2: Strengthened enabling framework for disaster risk management.** Each participating country must satisfy its country-specific policy actions to access contingent financing through the proposed policy-based loans and grants. These policy actions (included in the policy matrix) have strengthened policy, governance, and institutional arrangements for DRM. In Samoa, the Disaster Advisory Committee has endorsed the National Disaster Management Plan 2017–2020, while Tonga has completed a comprehensive consultation process under its second Joint National Action Plan on Climate Change Adaptation and Disaster Risk Management, and enacted the National Spatial Planning and Management Act. Policy actions have also supported improved DRM investment planning processes and tools. For example, (i) in Samoa, the Cabinet approved recommendations from the roads vulnerability assessment and climate-resilient roads strategy, the first 10 community-integrated management plans were submitted to the Ministry of Natural Resources and Environment, and climate-resilient building codes were updated and adopted; (ii) Tonga completed two district emergency management plans and trained government officers in post-disaster needs assessment; and (iii) in Tuvalu, the cabinet approved Tuvalu Climate Change and Disaster Survival Fund Regulations, and the National Disaster Committee approved national standard operating procedures for cyclone response.

27. All 5 policy actions for Samoa, 6 policy actions for Tonga, and 4 policy actions for Tuvalu, presented in the countries' respective policy matrixes, have been completed.²⁰ Each government has also agreed upon an ongoing monitoring framework to strengthen DRM performance further.

D. Development Financing Needs

28. The single-tranche program is estimated to cost \$15 million (Table 1), and will be supported by the attached TA.²¹ Post-disaster financing needs have been determined based on the likely fiscal impact of medium- to low-risk disasters, taking into account the resources likely available from domestic and international sources, the need to ensure that the countries maintain sustainable levels of debt, and the availability of concessional resources. As the proposed loan and grant funds are for contingent financing to support additional public spending associated with short-term post-disaster financing needs, the loan and grant amounts are not directly correlated to the cost of policy reforms. The financing per country ranges from 0.7%–8.0% of annual GDP, less than the cost of a typical medium-risk disaster in the Pacific.

29. The governments have requested loans of \$3.1 million (Samoa) and \$3.1 million (Tonga) from ADB's concessional ordinary capital resources to help finance the program. The loans will have a 24-year term, including a grace period of 8 years; an interest rate of 1.0% per year during the grace period and 1.5% per year thereafter; and such other terms and conditions set forth in the loan agreements. The governments have also requested grants not exceeding \$2.9 million (Samoa), \$2.9 million (Tonga), and \$3.0 million (Tuvalu) from ADB's Special Funds resources (ADF) to help finance the program. The indicative financing comprises resources from the concessional resources regional pool, as well as countries' concessional lending and grant allocations. The financing plan is in Table 1.

²⁰ The policy actions and areas of program monitoring are described in Appendixes 4, 6, and 8.

²¹ A conservative estimate of \$1.7 million (10% of total program amount, including the attached TA) was used for reporting climate change adaptation finance.

Table 1: Financing Plan

Source	Amount (\$ million)			Total	Share of Total ^a (%)
	Samoa	Tonga	Tuvalu		
Asian Development Bank					
COL PBA (loan)	1.1	1.1	0.0	2.2	14.7
COL regional pool (loan)	2.0	2.0	0.0	4.0	26.7
ADF PBA (grant)	0.9	0.9	1.0	2.8	18.7
ADF regional pool (grant)	2.0	2.0	2.0	6.0	40.0
Total	6.0	6.0	3.0	15.0	100.0

ADF = Asian Development Fund, COL = concessional ordinary capital resources loan, PBA = performance-based allocation.

^a Numbers may not sum precisely due to rounding.

Source: ADB.

E. Implementation Arrangements

30. The executing agencies will be the ministry of finance equivalents in each country,²² and the implementing agencies will include ministries and offices responsible for finance, planning, infrastructure, and disaster response. The policy actions were implemented from 1 January to 6 November 2017,²³ while the activities of the attached TA and the program will be completed on 31 December 2022. Each participating DMC has country-specific policy actions and separate loan and/or grant agreements. The implementing agencies will implement an agreed program monitoring framework with the support of country-level DRM or climate change committees²⁴ and attached TA resources.

31. **Disbursement of the policy-based loans and grants.** A country's eligibility to withdraw loan and grant proceeds will be based on its achievement of prior actions in the policy matrix. However, actual withdrawals will be deferred and only triggered after the government declares a state of disaster or emergency after a natural hazard event. In the event of a declared disaster, the government can withdraw the loan and grant proceeds partially or entirely, depending on the government's assessment of the disaster's severity and resultant need, and the government and ADB have agreed on the withdrawal amount. Any remaining funds at the end of the program period (para. 30) will be disbursed to the respective participating countries for strengthening disaster resilience. Funds are spent through national budget processes. Loan and grant proceeds will be withdrawn following ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). During TA implementation, ADB through the attached TA, will periodically monitor the continuing implementation of the agreed policy actions according to the program monitoring framework.

III. TECHNICAL ASSISTANCE

32. ADB, in consultation with the governments and other stakeholders, will support actions to strengthen DRM, including activities to improve disaster preparedness and reduce disaster risk, through the attached TA.²⁵ ADB will be the executing agency and will exercise overall responsibility for all TA activities. The TA will support (i) the exploration of options for a regional, collaborative, contingent financing mechanism for disasters; and (ii) priority DRM activities in participating

²² The Ministry of Finance of Samoa, Ministry of Finance and National Planning of Tonga, and Ministry of Finance and Economic Development of Tuvalu.

²³ Policy actions were identified and their implementation encouraged through policy dialogue, which has been ongoing since 2016 with some support from various ongoing TA.

²⁴ National DRM committees and councils typically only meet in the event of major impending disasters and their aftermath, but DRR is being increasingly covered by national climate change working groups or committees, which typically meet more frequently.

²⁵ Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2).

countries and at a regional level, including expanding engagement in the program output areas, building on the policy actions achieved to access policy-based financing, and supporting the implementation of a program monitoring framework to further strengthen DRM systems. This will include advisory and capacity development support for DRM planning and governance, the mainstreaming of DRM into sector policies, support for post-disaster public financial management, support for the enhancement of disaster risk financing strategies, and disaster preparedness measures.

33. The TA is estimated to cost \$2.0 million, and will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6 and TASF-other sources).

IV. DUE DILIGENCE

A. Economic and Financial

34. The envisaged impacts of the policy actions include (i) strengthened policy, governance, and institutional arrangements for DRM; (ii) improved DRM investment planning processes and tools that will strengthen the resilience of public and private physical assets; and (iii) expanded disaster risk financing to meet countries' needs during the immediate aftermath of and early recovery period following a disaster. The policy actions will improve the participating countries' ability to withstand and cope with the short- and longer term impacts of disasters and climate change.

B. Governance

35. All participating countries have some financial management arrangements in place for disaster events. However, coordinating disaster responses, including the support offered by donors and civil society organizations with competing requirements and procedures, can pose significant administrative challenges, and government absorption capacities are often stretched in the aftermath of disaster events. The policy actions and technical support have been identified based on a DRM gap and needs analysis in each country. The attached TA will prioritize capacity development focusing on financing and budgetary issues, including post-disaster budget allocation and execution, to ensure that all countries participating in the program have adequate systems in place to use program resources in an effective, accountable, and transparent manner.

36. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the governments and the Ministry of Finance of Samoa, Ministry of Finance and National Planning of Tonga, and Ministry of Finance and Economic Development of Tuvalu.

C. Poverty and Social

37. The policy actions will allow the participating governments to maintain greater fiscal stability in the event of a disaster and to initiate relief and recovery efforts with minimum delay, mitigating the immediate economic and social impacts of a disaster. Implementation of the policy actions is expected to continue to strengthen existing social protection arrangements, ensuring that communities and vulnerable households (including households headed by women) are able to reach safety in the event of a disaster, access sufficient relief supplies to meet immediate needs, and receive support to rebuild their lives and assets.

38. The program is classified as effective gender mainstreaming, and includes key policy actions that will equally benefit both women and men. This further ensures positive poverty and

social impacts through stronger and gender-inclusive DRM. The TA will also ensure that any tools and plans are gender-sensitive, and that women are included in building knowledge in key areas of DRM accountabilities, including post-disaster public financial management, and disaster preparedness measures. Sex-disaggregated data is included in planning tools and knowledge products, and women are involved in consultations and meetings related to the DRM activities.

D. Safeguards

39. In line with ADB's Safeguard Policy Statement (2009), the program is classified *category C* for the environment, involuntary resettlement, and indigenous peoples. Program activities will be confined to policy and institutional reforms and TA, and none of the activities will result in or lead to any physical works that could create environmental or social impacts, physical or economic displacement, of involuntary resettlement. The activities will not negatively affect indigenous peoples. Stakeholder dialogue was carried out during the program design and will continue during program implementation.

E. Risks and Mitigating Measures

40. Risks to program implementation are related to possible external shocks on the economies and capacity constraints of the government agencies, including constraints in public financial management systems. These risks will be managed partially through TA support for capacity development of government counterparts. Major risks and mitigating measures are summarized in Table 2 and described in detail in the risk assessment and risk management plan.²⁶

Table 2: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Insufficient action on the recommendations to improve financial management procedures for disaster response	The governments have already actively strengthened PFM more broadly, and the TA will provide support to address weaknesses identified in PFM during disasters.
External shocks (e.g., disasters and economic downturns) damage the economies.	Development partners help the governments build buffers to improve resilience to economic shocks.
Government agencies lack the capacity to implement the DRM actions.	The attached TA will develop the capacity of government counterparts. Regional monitoring and support from other partners also builds capacity and motivation.
Staff constraints or shifting priorities delay the implementation of DRM actions.	Periodic monitoring to assess and report on the progress of DRM actions is conducted, and TA will support the actions.

DRM = disaster risk management, PFM = public financial management, TA = technical assistance.

Source: Asian Development Bank.

V. ASSURANCES

41. The governments and the executing agencies have assured ADB that implementation of the program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan and grant documents. The governments have agreed with ADB on certain covenants for the program, which are set forth in the loan and grant agreements. No disbursement shall be made unless an occurrence of a qualifying disaster or end of the program as confirmed by ADB.

²⁶ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

VI. RECOMMENDATION

42. I am satisfied that the proposed policy-based loans and policy-based grants would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan of \$3,100,000 to the Independent State of Samoa for the Pacific Disaster Resilience Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1% per year during the grace period and 1.5% per year thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board;
- (ii) the loan of \$3,100,000 to the Kingdom of Tonga for the Pacific Disaster Resilience Program, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1% per year during the grace period and 1.5% per year thereafter; for a term of 24 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board;
- (iii) the grant not exceeding \$2,900,000 to the Independent State of Samoa, from ADB's Special Funds resources (Asian Development Fund), for the Pacific Disaster Resilience Program, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board;
- (iv) the grant not exceeding \$2,900,000 to the Kingdom of Tonga, from ADB's Special Funds resources (Asian Development Fund), for the Pacific Disaster Resilience Program, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board; and
- (v) the grant not exceeding \$3,000,000 to Tuvalu, from ADB's Special Funds resources (Asian Development Fund), for the Pacific Disaster Resilience Program, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Takehiko Nakao
President

23 November 2017

DESIGN AND MONITORING FRAMEWORK

Impact the Program is Aligned with			
Resilience to climate change and disasters, as well as disaster preparedness, response, and recovery strengthened (Goals 1 and 3, Framework for Resilient Development in the Pacific) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome DRM strengthened in participating developing member countries	By 2022: Available pre-disaster contingent financing increased to at least 0.5% of gross domestic product (2016 baseline: To be confirmed)	Ministries of finance, program reports	External shocks (e.g., disasters or economic downturns) damage the economy.
Outputs 1. Regional collaboration on disaster risk financing strengthened 2. Enabling framework for DRM strengthened	By 2019 (under the TA): 1a. Design options for a regional disaster contingent financing mechanism developed (2016 baseline: Not applicable) By 2018: 2a. At least one DRM policy reform approved in each participating country (2016 baseline: Not approved) 2b. DRM considerations mentioned in at least one national, local, or sector plan or policy in each participating country (2016 baseline: Not applicable) 2c. At least one policy action in each participating country includes gender considerations (2016 baseline: Not applicable) By 2022 (under the TA): 2d. At least two planning tools or knowledge products with gender considerations on incorporating DRM into	1a. Ministries of finance, TA reports 2a. Legislative and regulatory frameworks, TA progress reports 2b. National development plans, DRM action plan, post-disaster needs assessment reports 2c. Supporting documents as specified in the policy matrix 2d. Knowledge products on DRM, TA progress reports	Staff constraints or shifting priorities delay the strategic planning and/or implementation of DRM actions.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>policies and plans generated (2016 baseline: 0)</p> <p>By 2022 (under the TA):</p> <p>2e. At least 20 staff members (40% women) from government agencies in the participating countries report improved knowledge in key areas of DRM accountabilities, including post-disaster public financial management, disaster risk financing strategies, and disaster preparedness measures (2016 baseline: 0)</p>	2e. TA progress reports	
Key Activities with Milestones Attached Transaction Technical Assistance Activities 1. Recruit consultants starting from March 2018. 2. Undertake assessment of options for a multi-country contingent savings mechanism by 2019. 3. Prepare regional- and country-specific DRM implementation plans by 2019.			
Inputs Asian Development Bank: \$6.2 million (loan), \$8.8 million (grant) Technical Assistance Special Fund: \$2.0 million (\$1.5 million from TASF 6, and \$0.5 million from TASF-other sources) Government: To be confirmed			
Assumptions for Partner Financing Not applicable			

DRM = disaster risk management, TA = technical assistance, TASF = Technical Assistance Special Fund.

^a Pacific Community. 2016. *Framework for Resilient Development in the Pacific, 2017–2030*. Suva.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=50028-001-3>

1. Loan Agreement: Samoa
2. Grant Agreement: Samoa
3. Loan Agreement: Tonga
4. Grant Agreement: Tonga
5. Grant Agreement: Tuvalu
6. Sector Assessment (Summary): Public Sector Management
7. Contribution to the ADB Results Framework
8. Development Coordination
9. Attached Technical Assistance Report
10. Country Economic Indicators: Samoa
11. Country Economic Indicators: Tonga
12. Country Economic Indicators: Tuvalu
13. International Monetary Fund Assessment Letter: Samoa¹
14. International Monetary Fund Assessment Letter: Tonga
15. International Monetary Fund Assessment Letter: Tuvalu²
16. Summary Poverty Reduction and Social Strategy
17. Risk Assessment and Risk Management Plan
18. List of Ineligible Items

Supplementary Documents

19. Memorandum of Understanding on Pacific Collaboration for Regional Contingent Financing Mechanism
20. Disaster Risk Financing Arrangements

¹ On 23 September 2017, the International Monetary Fund (IMF) confirmed that the attached staff report may serve as the IMF assessment letter.

² On 23 September 2017, the IMF confirmed that the attached press release may serve as the IMF assessment letter.

DEVELOPMENT POLICY LETTER: SAMOA

Please address all correspondence to:
The Minister of Finance
Private Bag
Apia, Samoa



Government of Samoa

Telephone: (685) 34332
(685) 34183
Facsimile: (685) 21312

OFFICE OF THE MINISTER OF FINANCE

(Ministry of Finance; Central Bank of Samoa; Samoa National Provident Fund; Development Bank of Samoa; Samoa International Finance Authority; Samoa Life Assurance Corporation; Unit Trust of Samoa; Cabinet Development Committee; Tenders Board)

13 November 2017

Mr. Takehiko Nakao
President
Asian Development Bank
Manila
PHILIPPINES

Dear President Nakao,

Development Policy Letter: SAMOA – Pacific Disaster Resilience Program

Samoa experiences a wide range of natural hazards, including tropical storms, floods, earthquakes, tsunamis, volcanic eruptions, and droughts. The country's vulnerability to cyclones was demonstrated in 2012, when Tropical Cyclone Evan destroyed over 600 homes, killing 14 and displacing more than 7,500 people. The total economic damages and production losses were estimated to exceed \$210 million, equivalent to about 30% of the country's gross domestic product (GDP). In September 2009, Samoa was struck by a tsunami which killed 143 and injured 310 people. Over 12,000 people were affected by waves that wiped out large stretches of the south and south-east coasts of the main island of Upolu. Recent analysis undertaken under the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) indicates that the country faces an average annual loss of \$9.9 million from tropical cyclones, earthquakes and tsunamis alone, with probable maximum losses of \$109.8 million, \$152.9 million, and \$266.1 million from 1-in-50, 1-in-100 and 1-in-250 year events respectively, equivalent to 14.0%, 19.5%, and 33.9% of 2016 GDP.

The Government of Samoa has taken important steps to improve the country's disaster resilience, and climate change and DRM objectives are generally well defined within government policies and plans. The Strategy for the Development of Samoa, 2016/17 to 2019/20, identifies climate and disaster resilience as one of its 14 key outcomes. Guidelines on sector mainstreaming and a monitoring and evaluation framework have been developed, and climate change and disaster risk reduction is also identified as a priority theme for infrastructure development in the 2011 Samoa National Infrastructure Strategic Plan. The Government has also completed a Vulnerability Assessment and Climate Resilience Roads Strategy, and the development of new building codes incorporating disaster resilience components. At the sub-national level, Community Integrated Management (CIM) Plans are being prepared for all 41 districts. The plans provide a planning framework for climate and disaster strengthened resilience.

A new National Disaster Risk Management plan has been developed in 2017. The plan reaffirms the government's focus on the mainstreaming of disaster and climate change resilience across all sectors, and guides the role of sector agencies in post-disaster response. Streamlined procurement procedures can be applied following declaration of a state of disaster or emergency. The Disaster Management Office (DMO), located in Ministry of Natural Resources and Environment (MNRE), coordinates post-disaster relief operations, with development partners and civil society organizations working through the DMO. The national disaster advisory committee, comprised of heads of relevant government and other organizations, meets on a regular quarterly basis and as needed following disasters. The National Disaster Council, chaired by the Prime Minister, also meets in the aftermath of a disaster and provides broad DRM oversight.

The government has some existing financial arrangements for disaster response but recognizes the need to strengthen its fiscal resilience. The DMO has no immediate access to funds in the aftermath of a disaster. However, an annual secured appropriation of 3% of the total expenditure program allocation is allocated for unforeseen expenditure, including for disaster response. Some post-disaster budget reallocation is also permitted, while there is substantial reallocation of development partner assistance in the aftermath of a major disaster and a spike in new development assessment support. Sector agency maintenance budgets can also be used to support debris clearance and immediate repairs. The DMO maintains stockpiles of disaster relief supplies in Samoa as well. Samoa participates in the insurance pilot under PCRAFI, which currently provides the government insurance cover against tropical cyclones, earthquakes, and/or tsunamis with a 1-in-10 year attachment point and a 1-in-50 year exit point.

The government of Samoa commits to undertaking the following specific policy actions in advance of ADB Board consideration of the program, by 6 November 2017:

- (i) The National Disaster Management Plan 2017-2020, setting out the disaster risk management arrangements, endorsed by the Disaster Advisory Committee.
- (ii) Cabinet Development Committee approval of recommendations from roads vulnerability assessment and climate resilient roads strategy
- (iii) Climate-resilient building codes and standards updated and adopted by government, including provisions for disability access and gender considerations.
- (iv) First 10 Community Integrated Management plans completed and submitted to Ministry of Natural Resources and Environment for endorsement.
- (v) Memorandum of Understanding on Regional Collaboration for Disaster Risk Contingent Financing signed by the Government

These actions all form part of Samoa's broader disaster management efforts that will be built upon further in future years. The Government remains firmly committed to the program presented in the policy matrix to further strengthen the resilience of Samoa to disaster risks. The program will enable the participating countries, including Samoa, to rapidly access critical short-term, post-disaster resources should disaster strike the country. The Government looks forward to continued active engagement of its development partners, including the Asian Development Bank, in supporting Samoa's efforts to increase its resilience to disaster risks.

Yours sincerely,



Sili Epa Tuioti
Minister of Finance

POLICY MATRIX: SAMOA		
Policy Objectives	Policy Actions (by November 2017)	Program Monitoring Framework
1. Strengthen policy, governance, and institutional arrangements for DRM	1.1 The National Disaster Management Plan 2017-2020, setting out the disaster risk management arrangements, endorsed by the Disaster Advisory Committee.	<ul style="list-style-type: none"> Approval of national infrastructure asset management strategy, and implementation of recommendations in financial year 2019 budget.
	1.2 Cabinet Development Committee approval of recommendations from roads vulnerability assessment and climate resilient roads strategy	
2. Improve DRM investment planning processes and tools	2.1 Climate-resilient building codes and standards updated and adopted by government, including provisions for disability access and gender considerations. ¹	<ul style="list-style-type: none"> Registration requirements for building-related trades and regulations governing the building industry are updated and strengthened. Completion of Community Integrated Management plans for all 41 districts and identification of priority infrastructure upgrades and investments to foster climate resilience.
	2.2 First 10 Community Integrated Management plans completed and submitted to Ministry of Natural Resources and Environment for endorsement.	
3. Expand disaster risk financing	3.1 Memorandum of Understanding on Regional Collaboration for Disaster Risk Contingent Financing signed by the Government	

¹ Gender consideration includes requiring the number of sanitary compartments per building function provides sufficient number for personal hygiene based on the number, gender and particular needs of both men and women. Early childhood building and units must also provide one sanitary compartment with a flushable toilet for every fifteen children for both boys and girls and abilities.

DEVELOPMENT POLICY LETTER: TONGA

OFFICE OF THE MINISTER FOR
FINANCE & NATIONAL PLANNING
Reference: MF.178/14/149



MINISTRY OF FINANCE &
NATIONAL PLANNING
NUKU'ALOFA
TONGA

2nd November 2017

Mr. Takehiko Nakao
President
Asian Development Bank
Manila
PHILIPPINES

Dear President Nakao,

Letter of Development Policy: Tonga– Pacific Disaster Resilience Program

We are writing to set out to you our commitment to reform our disaster management and improve Tonga's resilience to disaster risks.

Tonga has been ranked second only to Vanuatu among the countries most at risk of disasters caused by natural hazards. Tonga is highly vulnerable to earthquakes and tsunamis, and is already experiencing the effects of climate change, as increasing variability in rainfall patterns is causing flooding and droughts in some locations, rising ocean temperatures have led to coral bleaching and destruction of natural coastal barriers, and sea level rise is contributing to coastal erosion. These changes are increasing Tonga's exposure to disasters caused by climatic events such as tropical cyclones and storm surges, which have inflicted significant losses on Tonga's economy.

Cyclone risk was highlighted in 2014 when Tonga experienced a national disaster following Cyclone Ian, the most powerful storm ever recorded in Tongan waters. The overall damage was \$45.4 million, equivalent to 11% of gross domestic product (GDP), significantly exceeding the government's ability to meet the costs of recovery and reconstruction. Previously, a cyclone in 2002 resulted in losses of \$60 million, and losses from another in 2010 reached \$22 million. Analysis undertaken under the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) indicates that Tonga faces an average annual loss of \$15.5 million from tropical cyclones, earthquakes and tsunamis alone, with probable maximum losses of \$140.2 million, \$225.3 million and \$345.6 million from 1-in-50, 1-in-100 and 1-in-250 year events respectively, equivalent to approximately 33%, 52%, and 80% of GDP.

Over the years, Government has taken important steps to improve the country's resilience to disaster risks, and climate change and disaster risk management (DRM) objectives are generally well defined within its policies and plans. DRM is highlighted in the Tonga Strategic Development Framework as a key threat to social, economic and cultural development. There is a specific climate change policy framework, and a Joint National Action Plan (JNAP) summarizes Tonga's priorities regarding climate change adaptation and DRM. The Government is currently finalizing the Second JNAP which is expected to be presented for Government endorsement before the end of December 2017. Also, the National Infrastructure Investment Plan (NIIP) highlights disaster risk management as responses to climate change, and the impact on environmental sustainability, climate change and disaster risk forms part of the NIIP's prioritization assessment.

Tonga's Emergency Management Act defines legal responsibilities for DRM, including procedures for the formal declaration of a state of emergency. A National Emergency Management Plan, required by the Act, identifies the essential organizational and procedural components for effective DRM. The Plan appoints the National Emergency Management Office responsible for the coordination of DRM activities in Tonga, and includes organizational structures such as the National Emergency Management

Committee (NEMC), the National Emergency Operations Committee, and the National Emergency Recovery Committee. The Emergency Management Act also describes the standard operating procedures for declaring a state of emergency.

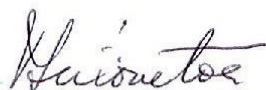
To enhance management of the fiscal risk associated with disasters, Government has established an Emergency Fund, which is legislated to be maintained with a minimal balance of at least TOP\$ 5.0 million in any particular year, for natural hazard and other emergencies. The Ministry of Finance and National Planning can authorize expenditures from the fund with the approval of the Cabinet, after consultation with the NEMC. The Government also has a contingency fund allocation of up to 5% of the Tongan Government fund of the annual budget (reduced to 0.5% in recent years to minimize contingent expenditures), which is available for range of contingent purposes, but in practice has not been used for post-disaster response in recent years. In addition, 10% of routine road maintenance budget is reserved for emergency repairs. Standard procurement regulations and processes can be varied following a declaration of emergency to support rapid response. The Tonga Government also participates in the insurance pilot under the PCRAFI. Despite the steps already taken by the government to strengthen fiscal buffers, in the event of a significant disaster event, the government is unlikely to have sufficient resources to meet immediate post-disaster needs.

The Government of Tonga commits to undertaking the following specific policy actions in advance of ADB Board consideration of the program, by 6 November 2017:

- i. The consultation process for the Second Joint National Action Plan on climate change adaptation and disaster risk management with gender considerations completed, including the assessment of 119 Community Development Plans to determine their alignment with the Climate Change Policy 2016, and the Joint National Action Plan;
- ii. 2012 National Spatial Planning and Management Act enacted by the King and the Legislative Assembly of Tonga;
- iii. Two district emergency management plans completed;
- iv. Capacity development training of government officers for post-disaster damage and needs assessment completed;
- v. Government budget committed to the Emergency Fund in the financial year 2018 budget; and
- vi. The Memorandum of Understanding on Regional Collaboration for Disaster Risk Contingent Financing approved by the Cabinet for submission to the Privy Council for approval and authorization to sign.

Despite the ongoing threat of disasters that will no doubt come our way, the Government is firmly committed to the above reform actions form part of Tonga's broader disaster management efforts that will be built upon further in future years. The Government remains committed to the program presented in the policy matrix to further strengthen the resilience of Tonga to disaster risks. The program will put in place a regional disaster contingent savings facility that will enable Tonga and the participating countries, to rapidly access critical short-term, post-disaster resources. The Government looks forward to continued active engagement of its development partners, including the Asian Development Bank, in supporting Tonga's efforts to increase its resilience to disaster risks.

Yours sincerely,



Dr. the Hon. Pohiva Tu'ionetoa
Minister for Finance and National Planning.



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Email:



POLICY MATRIX: TONGA		
Policy Objectives	Policy Actions (by November 2017)	Program Monitoring Framework
1. Strengthen policy, governance, and institutional arrangements for DRM	1 The consultation process for the Second Joint National Action Plan on climate change adaptation and disaster risk management with gender considerations completed, including the assessment of 119 Community Development Plans to determine their alignment with the Climate Change Policy 2016, and the Joint National Action Plan. ¹	<ul style="list-style-type: none"> Revision of 2007 Emergency Management Act and the National Emergency Management Plan 2011, including introduction of differentiated national and subnational declarations of states of emergency and greater emphasis on disaster resilience
2. Improve DRM investment planning processes and tools	2.1 The 2012 National Spatial Planning and Management Act enacted by the King and the Legislative Assembly of Tonga	<ul style="list-style-type: none"> Development of regulations supporting implementation of 2012 National Spatial Planning and Management Act; updating of National Land Use Policy, 2013; establishment of a National Spatial Planning Authority Development of Government hazard and disaster data sharing policy Revision of building codes reflecting higher levels of intensity of natural hazards and incorporating improved disaster resilience requirements approved Joint meetings of the National Environment and Coordinating Committee and the National Emergency Management Committee scheduled on a six-monthly basis Completion of district disaster risk management plans for all districts Capacity development for post-disaster damage and needs assessment; development of country-relevant methodology and reporting formats for public infrastructure and assets.
	2.2 Two district emergency management plans completed	
	2.3 Capacity development training of government officers for post-disaster damage and needs assessment completed.	
3. Expand disaster risk financing	3.1 Government budget committed to the Emergency Fund in the financial year 2018 budget	<ul style="list-style-type: none"> Continued commitment of government resources to the Emergency Fund and PCRAFI premium in future

¹ Gender considerations include addressing gender needs in developing a set of guidelines in mainstreaming climate resilience in sector plans and including gender analysis and gender-disaggregated data in undertaking data and information collection and analysis to support resilience building

	3.2 Memorandum of Understanding on Regional Collaboration for Disaster Risk Contingent Financing approved by the Cabinet for submission to the Privy Council for approval and authorization to sign	annual national budgets to ensure a cost-effective layered application financing instruments to support the fiscal management of disaster risk
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DEVELOPMENT POLICY LETTER: TUVALU



GOVERNMENT OF TUVALU
OFFICE OF THE MINISTER OF FINANCE AND
ECONOMIC DEVELOPMENT

Vaiaku, Funafuti, TUVALU

Phone: (688) 20408; Facsimile (688) 20210; Email: mtoafoa@gov.tv

13 November 2017

Mr. Takchiko Nakao
President
Asian Development Bank
Manila
PHILIPPINES

Dear President Nakao,

Draft Development Policy Letter: Tuvalu – Pacific Disaster Resilience Program

Tuvalu is at high risk of a wide range of natural hazards, including tropical cyclones and storms, droughts, extreme rainfall events and tsunamis. Tuvalu is one of the most vulnerable countries in the world to climate change, particularly sea level rise, as the average elevation in Tuvalu is one meter above mean sea level. Climate change will affect disaster risks in Tuvalu through changes in climate hazards, as more extreme weather events are likely to increase in the future. The implications of these risks are huge for a small atoll nation like Tuvalu. The country was severely impacted by Cyclone Pam in March 2015, as the cyclone affected 40 percent of the population and caused significant damage to agriculture and infrastructure, estimated at over \$15.0 million, or around 33 percent of the gross domestic product (GDP).

The government has taken important steps to improve the country's resilience to disaster risks, and climate change and DRM objectives are generally well defined within government policies, plans, budgets, and decision-making processes. The government has established a Climate Change Policy and Disaster Coordination Unit (CCPDCU) within the Office of the Prime Minister to integrate climate change resilience into national policies, including contingency planning, early warning systems and communication protocols. The CCPDCU acts as the Secretary to the Tuvalu Survival Fund (TSF) as well as the National Disaster Committee (NDC) and the National Advisory Council on Climate Change (NACCC). The NDC includes all Permanent Secretaries as members, and currently meets quarterly; while the NACCC operates at a Director level with monthly meetings, focusing mainly on resilience activities. Except for the Funafuti Falekaupule, an Island Disaster Committee is established on each island. Island disaster plans are currently being developed for all islands.

In 2015 the government adopted Te Kakeega III, the national strategy for sustainable development for 2016-2020, which focuses on twelve priority areas, including climate change, and highlights the “warming temperatures, sea level rise, and severe weather events”. The Te Kaniva: National Climate Change Policy is currently undergoing a review and update. The National Strategic Action Plan for Climate Change and Disaster Risk Management 2012–2016 (NSAP) was developed as the implementation plan for the Climate Change Policy, and a new NSAP will be prepared in 2018. The National Disaster Management Act from 2008 is also currently under review, and a new National Disaster Management Plan for the disaster management arrangements, is being developed.

The government has some existing financial arrangements for disaster response but recognizes the need to strengthen fiscal buffers for such purposes, as in the event of a significant disaster event the government is unlikely to have sufficient resources to meet immediate post-disaster needs. After Tropical Cyclone Pam in 2015, the government established the TSF through an Act, to finance recovery and rehabilitation from climate change impacts and disasters, as well as adaptation and resilience investments. The TSF Regulation was approved in 2017, formalizing the management arrangements for the TSF. The Fund currently has about \$5.5 million. The government is in the process formalizing arrangements for the TSF investments to be managed by the Tuvalu Trust Fund investment board. Tuvalu has also accessed climate change finance for example through the Green Climate Fund for improving outer-island coastal protection.

The government of Tuvalu commits to undertaking the following specific policy actions in advance of ADB Board consideration of the program, by 6 November 2017:

- (i) Tuvalu Climate Change and Disaster Survival Fund Regulation with a funding criteria to address social and gender inequality approved by Cabinet
- (ii) National Standard operating procedures (SOP) for Cyclone response approved by National Disaster Committee
- (iii) Terms of Reference for (i) the preparation and passage of the Building Act and announcement of the Building Regulations and (ii) the review and updating of the Tuvalu Building Code to include climate change and disaster risk management considerations, approved by the Tuvalu Building Code Task Force.
- (iv) Memorandum of Understanding on Regional Collaboration for Disaster Risk Contingent Financing signed by the Government

These actions all form part of Tuvalu’s broader disaster management efforts that will be built upon further in future years. The Government remains firmly committed to the program presented in the policy matrix to further strengthen the resilience of Tuvalu to disaster risks. The program will enable the participating countries, including Tuvalu, to rapidly access critical short-term, post-disaster resources should disaster strike the country. The Government looks forward to continued active engagement of its

development partners, including the Asian Development Bank, in supporting Tuvalu's efforts to increase its resilience to disaster risks.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Maatia Toafa', with a stylized flourish at the end.

Honorable Maatia Toafa
Minister of Finance and Economic Development

POLICY MATRIX: TUVALU		
Policy Objectives	Policy Actions (by November 2017)	Program Monitoring Framework
1. Strengthen policy, governance, and institutional arrangements for DRM	1.1 Tuvalu Climate Change and Disaster Survival Fund Regulation with a funding criteria to address social and gender inequality approved by Cabinet	New National Strategic Action Plan for Climate Change and DRM completed and submitted for cabinet approval (2018)
	1.2 National Standard operating procedures (SOP) for Cyclone response approved by National Disaster Committee	Revised National Disaster Management Act submitted for Cabinet approval Revised National Climate Change Policy submitted for cabinet approval New Disaster Management Plan (disaster management arrangements) submitted for Cabinet approval
2 Improve DRM investment planning processes and tools	2.1 Terms of Reference for (i) the preparation and passage of the Building Act and announcement of the Building Regulations and (ii) the review and updating of the Tuvalu Building Code to include climate change and disaster risk management considerations, approved by the Tuvalu Building Code Task Force	Islands Disaster Plans submitted for National Disaster Committee approval (early 2018) Implementation of Island disaster plans, and national drills. New Building codes with climate change and disaster risk management considerations incorporated
3. Expand disaster risk financing	3.1 Memorandum of Understanding on Regional Collaboration for Disaster Risk Contingent Financing signed by the Government	Strengthening operations of the Tuvalu Survival Fund, which will be managed by the Tuvalu Trust Fund investment board