



Project Concept Paper

Project Number: 51312-001
June 2018

Proposed Loan Philippines: City Disaster Insurance Pool Project

CURRENCY EQUIVALENTS

(as of 8 June 2018)

Currency unit	–	peso/s (₱)
₱1.00	=	\$0.01904
\$1.00	=	₱52.53

ABBREVIATIONS

ADB	–	Asian Development Bank
DOF	–	Department of Finance
DRFI	–	disaster risk financing and insurance
GSIS	–	Government Service Insurance System
PCDIP	–	Philippine City Disaster Insurance Pool
SPV	–	special purpose vehicle
TA	–	technical assistance

GLOSSARY

basis risk	–	The risk that an index measurement does not match an individual insured's actual losses. Basis risk can be negative or positive.
indemnity insurance	–	An insurance policy that pays claims based on the actual economic losses incurred by the policyholder.
parametric index product	–	A parametric insurance policy that pays out based on modelled loss resulting from realized hazard parameters in predefined geographical areas (e.g. windspeed, precipitation, peak ground acceleration).
(pure) parametric product	–	A parametric insurance policy that pays out when a pre-defined event occurs as confirmed by a verifiable independent agency (e.g. an earthquake in excess of Magnitude 7.2 with an epicenter within a predefined area, as confirmed by United States Geological Survey). Pure parametric insurance is simple and easy to understand but has a higher basis risk than the parametric index insurance.
parametric insurance	–	An insurance policy featuring a parametric trigger which defines when a contract will pay out. The trigger is designed to proxy actual loss.
reinsurance	–	Insurance that insurance companies purchase in order to smooth results over time, limit their exposure to individual risks, increase solvency, and spread risk more broadly among a greater number of market participants.
risk load	–	The cost of marginal capital needed to support the insurance contract.

NOTES

In this report, "\$" refers to United States dollars

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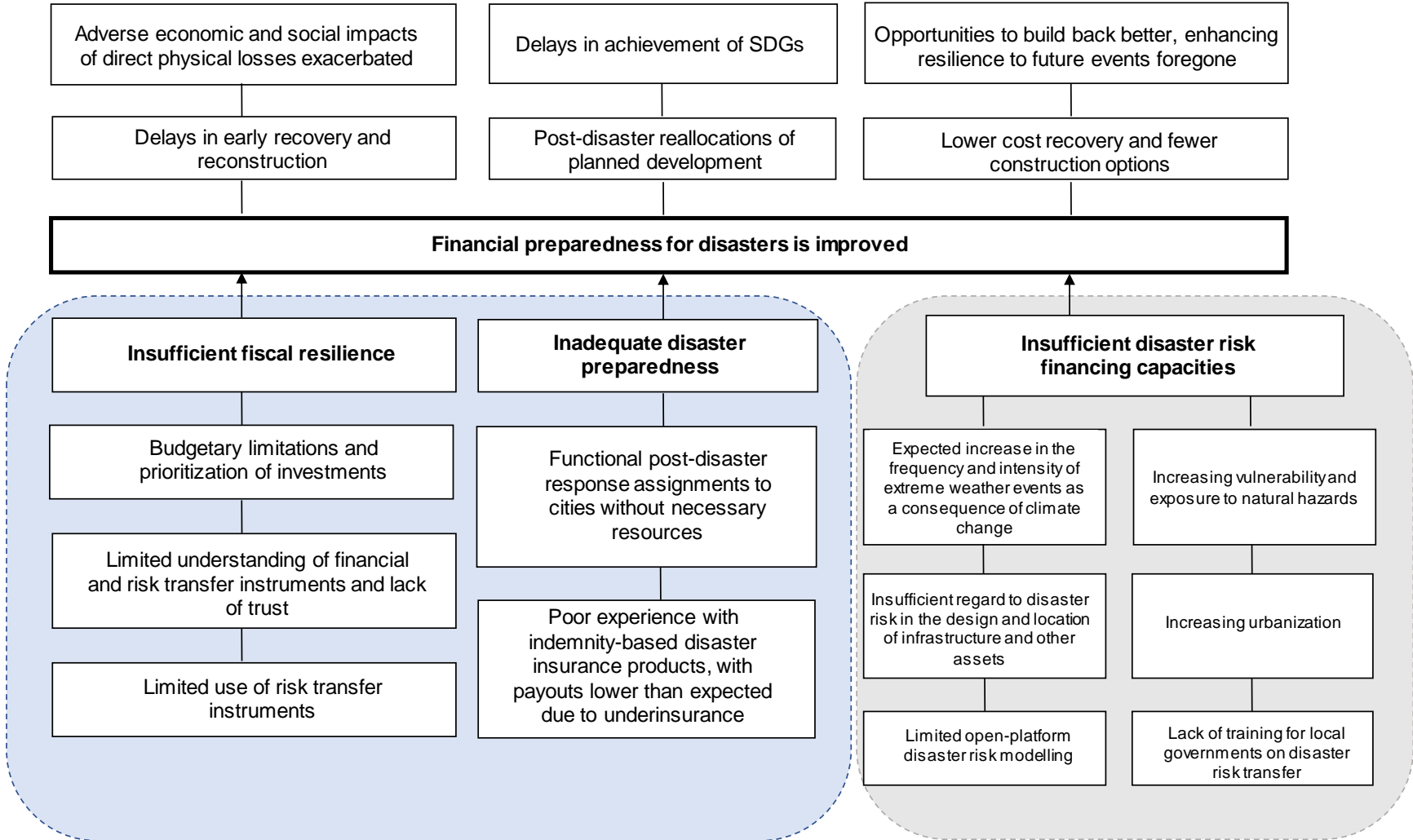
SUPPLEMENTARY APPENDIX

1.	Sector Assessment (Summary): Finance (Disaster Risk Management)	
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PROJECT AT A GLANCE

1. Basic Data		Project Number: 51312-001	
Project Name	City Disaster Insurance Pool Project	Department /Division	SERD/SEPF
Country Borrower	Philippines Government of the Republic of the Philippines	Executing Agency	Department of Finance
2. Sector		ADB Financing (\$ million)	
✓ Finance	Insurance and contractual savings		100.00
		Total	100.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 3: Extreme deprivation prevented and effects of shocks reduced (Social Protection)	Climate Change impact on the Project	Low
Environmentally sustainable growth (ESG)	Disaster risk management Urban environmental improvement		
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Client relations, network, and partnership development to partnership driver of change Civil society participation Institutional development Institutional systems and political economy	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Public financial governance Application and use of new knowledge solutions in key operational areas Knowledge sharing activities		
Partnerships (PAR)	Pilot-testing innovation and learning Bilateral institutions (not client government) Civil society organizations Implementation		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG9, SDG11		
6. Risk Categorization:	Low		
7. Safeguard Categorization		Environment: FI-C Involuntary Resettlement: FI-C Indigenous Peoples: FI-C	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		100.00	
Sovereign Project (Regular Loan): Ordinary capital resources		100.00	
Cofinancing		0.00	
None		0.00	
Counterpart		10.00	
Government		10.00	
Total		110.00	

PROBLEM TREE



Addressed by: Loan Technical assistance and grant

SDGs = sustainable development goals

I. THE PROJECT

A. Rationale

1. The Philippines is widely regarded as one of the world's most disaster-prone countries¹ and most likely to be economically impacted by disasters.² It is located along the Pacific "Ring of Fire" making it susceptible to earthquakes and volcanic eruptions. The country also experiences frequent tropical cyclones, floods, landslides and droughts. Average economic costs of these disasters are estimated at over \$3 billion annually (para 4). The Asian Development Bank (ADB) has extended significant disaster-related support to the Philippines dating as far back as 1989 for Typhoon Sisang and most recently \$0.9 billion in response to Typhoon Yolanda in 2013.

2. While critical, these loans and support rendered do not provide a sustainable disaster risk management solution. The proposed Philippine Disaster Insurance Pool Project (PCDIP) seeks to narrow the funding gap between available funds and post-disaster response costs at local government unit (LGU) level in the event of medium-to-high severity events. Most importantly, PCDIP will allow the cities to become self-sustaining in managing disaster risk and protecting and rehabilitating their assets and infrastructure in the event of damage. PCDIP aligns with the third strategic pillar in the forthcoming Philippines Country Partnership Strategy, 2018–2023, which focuses on investments promoting and protecting local economic development. It follows, inter alia, the principles, scope and implementation arrangements of the Disaster and Emergency Assistance Policy³ and is included in the Philippines Country Operations Business Plan, 2018–2020.⁴

3. PCDIP also corresponds with the Department of Finance's (DOF) Philippine Disaster Risk Financing and Insurance (DRFI) Strategy which aims to make a range of financial and risk transfer products available to the national government, local governments and individuals with a focus on the poor, vulnerable and small and medium-sized enterprises. In 2015, the government presented the DRFI Strategy at the Asia-Pacific Economic Cooperation (APEC) 13th Senior Finance Officials' Meeting and identified ADB as a partner for risk transfer solutions for LGUs. In March 2017, the Philippines was announced as co-chair of the APEC Technical Working Group on DRFI, alongside Japan.

4. **The development problem.** Up to 60% of the Philippine total land area is exposed, and 74% of the population is vulnerable to multiple natural hazards. The annual cost of disasters to the economy is estimated at between 0.7% and 1% of gross domestic product (GDP).⁵ Disaster risk modeling indicates that the country faces annual average losses of ₱43.5 billion (\$0.86 billion) and ₱133.2 billion (\$2.6 billion) due to earthquakes and tropical cyclones respectively alone.⁶ In November 2013, when category 5 Typhoon Yolanda (internationally known as Typhoon Haiyan) made landfall, it caused over 6,000 fatalities, affected more than 16 million people, and caused \$12.9 billion worth of damage and losses, equivalent to 4.7% of

¹ Verisk Maplecroft, 2012. *Natural Hazard Risk Atlas*. https://maplecroft.com/about/news/nha_2012.html.

² The United Nations Office for Disaster Risk Reduction's (UNISDR) *Global Assessment Report on Disaster Risk Reduction 2015*, the Philippines is ranked 5th among 15 most vulnerable countries, in terms of the impact of disaster risk seriously undermining its capacity to develop across multiple dimensions. https://www.preventionweb.net/english/hyogo/gar/2015/en/gar-pdf/GAR2015_EN.pdf.

³ ADB. 2004. Disaster and Emergency Assistance R71-04.; and ADB. 2015. Disaster and Emergency Assistance. *Operations Manual*. OM Section D7/BP. Manila.

⁴ ADB. 2017. *Country Operations Business Plan. Philippines 2018–2020*. Manila.

⁵ Government of the Philippines. National Disaster Coordination Council. ADB. UN. 2008. *National Assessment on the State of Disaster Risk Management in the Philippines*. Final Report. October. Manila.

⁶ AIR Worldwide. 2016. *Philippines Catastrophe Risk Model*. Boston.

2013 GDP.⁷ Yolanda was one of the strongest storms ever recorded to strike land and its level of intensity was in part attributed to global warming and elevated sea levels according to some research.⁸ Damage caused by these disasters have contributed to poverty, with provinces located along the eastern seaboard having among the highest poverty rates in the country.⁹

5. **Binding constraints.** While the magnitude of disasters is outside the control of any government, the scale and impact are dependent on the exposure and vulnerability of its economy and people.¹⁰ Key issues include: (i) insufficient fiscal resilience – primarily due to broader budgetary limitations and the prioritization of investments generating near-term positive flows of benefits; (ii) inadequate disaster preparedness – often due to limited resources for functional post-disaster response assignments; and (iii) rising disaster risk and insufficient disaster risk financing capacities of the cities – as evidenced by the limited use of risk transfer instruments. The Government Service Insurance System (GSIS) is a government-owned insurer that provides indemnity insurance of government assets. Under Republic Act no. 656,¹¹ GSIS is mandated as the administrator of the Government’s Property Insurance Fund, to indemnify the government for damage or loss of property due to fire, earthquake, storm or casualty. However, government assets are typically underinsured at book value rather than replacement cost.

6. **ADB sector experience and assistance.** ADB’s assistance has been primarily reactive, providing concessional finance and grants for rehabilitation and reconstruction of damaged public assets, amounting to a total present value of \$1.33 billion.¹² After Typhoon Yolanda, ADB increased attention to exploring viable risk transfer solutions for financing reconstruction. In 2015, ADB approved a technical assistance (TA) project which identified significant financing gaps for post-disaster response at city level and identified opportunities to strengthen financial resilience through enhanced use of risk transfer solutions.¹³ A subsequent TA, approved in 2017,¹⁴ extended this work and paved the way for PCDIP. The TA has four sub-outputs: (i) development of a city government disaster insurance pool;¹⁵ (ii) enhancement of government financial arrangements for post-disaster burden sharing; (iii) development of an exposure database; and (iv) awareness building and knowledge sharing. DOF is the executing agency for this TA. Ten cities were chosen to participate namely: Bacolod, Baguio, Butuan, Calocan, Daguapan, Davao, Iloilo, Marikina, Paranaque, and Quezon City.

7. **Development partners’ coordination for DRF.** The Government of the Philippines is leading development partner coordination through its DRFI Strategy. DOF is working with development partners such as ADB, the Government of Japan and the World Bank to develop disaster risk financing products. In addition to ADB’s Yolanda assistance of \$900 million, the World Bank provided a \$500 million development policy loan facility with a catastrophe deferred

⁷ National Economic Development Authority. 2013. *Reconstruction Assistance on Yolanda (RAY)*. Manila.

⁸ Trenberth, K. E., J. T. Fasullo, and T. G. Shepherd. 2015. Attribution of Climate Extreme Events. *Nature Climate Change*. 5. pp. 725–730.

⁹ Sector Assessment (Summary) Finance.

¹⁰ World Bank. 2010. *Philippines Discussion Note No. 18: Disaster Risk Management. Draft*. Manila.

¹¹ Government Service Insurance System. <http://www.gsis.gov.ph/general-insurance/general-insurance-mandate/republic-act-no-656/>.

¹² Nominal value adjusted for inflation, using U.S. Bureau of Labor Statistics March 2018 CPI data.

¹³ ADB. 2011. *Technical Assistance for Developing a Disaster Risk Financing Capability*. Manila.

¹⁴ ADB. 2016. *Major Change in Scope and Increase in TA Amount and Extension of Completion Date: Enhanced Use of Disaster Risk Information for Decision Making in Southeast Asia*. Manila.

¹⁵ In this paper, pool is used interchangeably with fund.

drawdown option (CAT DDO) in 2011 and another \$500 million CAT DDO in 2015.¹⁶ In 2014, a 50 JPY billion “Post-Disaster Stand-by Loan” was provided by the Japan International Cooperation Agency.¹⁷ The government launched a one-year pilot in August 2017, with technical support from the World Bank, to provide \$206 million in modeled loss parametric insurance coverage through GSIS against: (i) losses from major typhoons and earthquakes to national government assets (under the Department of Public Works and Highways and Department of Education); and (ii) losses from major typhoons for 25 provinces. Initial premiums have been fully met from a ₱1 billion (\$19.8 million) allocation in the 2017 General Appropriations Act (under the National Disaster Risk and Reduction Management Fund).

8. **The case for the PCDIP.** Successful insurance pool precedents have been set by similar national and regional structures around the world (New Zealand’s Natural Disaster Fund, the Caribbean Catastrophe Risk Insurance Facility, Pacific Catastrophe Risk Insurance Company). PCDIP brings innovation to the global industry as it will be the first of its kind on a city level. It will function as an insurance company from which policyholders—in this case the cities—purchase parametric insurance against earthquakes and typhoons and pay premiums commensurate with the level of cover. Parametric insurance products insure against a pre-defined disaster of specified intensity, which triggers a lump sum payout irrespective of actual damage incurred. Like most insurance companies in the industry, the first layer of loss would be borne by the pool, with higher levels of loss reinsured. The benefits of a pool arrangement are to: (i) reduce the cost of premiums by diversifying risk and absorbing the first layer of loss from pool reserves, thereby reducing the amount of reinsurance required; (ii) share administrative costs associated the pool’s creation and management; and (iii) allow for cross-learning of experience amongst participating cities. Furthermore, established reinsurers are seeking to diversify their risk, extending their exposure to new markets in developing Asia such as the Philippines where they currently have minimal exposure. PCDIP will complement the World Bank provincial facility. However, it goes beyond insurance cover by creating a pool which provides geographical and peril diversification, shared ownership and group purchasing power. The government could consider expanding the pool to cover provincial public assets or integrate both under a common framework in the medium term.

B. Proposed Solutions

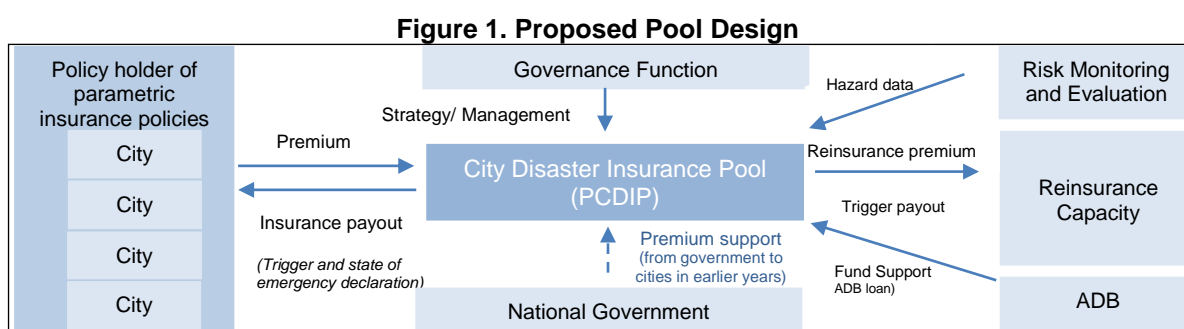
9. PCDIP will be structured as a dedicated insurance pool to provide cities with cost-effective, parametric insurance providing near-immediate¹⁸ payouts for post-disaster response. Each city will make premium contributions which reflect their risk profiles. There will be no cross-subsidization making it fair to all cities. However, premium payments may be partially supported by the government in the first few years. The (combined) premium contribution will build up reserves which will fund first losses. Large losses (excess aggregated losses) will be financed through global reinsurance markets. ADB’s project loan proceeds will support the financial sustainability of PCDIP as initial seed capital for reserves during the start-up period. Payouts and collection of premiums will be administered by GSIS based on pre-defined payout criteria which allows for transparent, predictable and fair payouts for cities within weeks of an event. The immediate cash provision provided by parametric insurance following a disaster will complement the existing Local Disaster Risk Reduction and Management Fund and indemnity insurance for public assets.

¹⁶ World Bank. 2011. *Disaster Risk Management Development Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO)*. Manila; World Bank. 2015. Philippines – *Disaster Risk Management Development Policy Loan with a CAT DDO*. Manila.

¹⁷ JICA. 2014. *Signing of Japanese ODA Loan Agreement with the Republic of the Philippines*. 19 March 2014.

¹⁸ A few days to weeks.

10. **Governance structure and administration of the pool.** A special purpose vehicle (SPV) within GSIS and promulgated by a Presidential executive order, is proposed. This model is preferred by the cities as they have existing relationships with GSIS, which administers other government-mandated insurance policies. PCDIP's assets will be ring-fenced, separating them from other GSIS assets. PCDIP will be governed by a Board of Trustees chaired by DOF and comprising GSIS, Insurance Commission, Department of Budget and Management, Bureau of the Treasury, National Economic and Development Authority, Department of Interior and Local Government and city representatives. The proposed pool design is shown in Figure 1.



ADB = Asian Development Bank, PCDIP = Philippine City Disaster Insurance Pool.

Source: Adapted from original Risk Management Solutions & Willis Towers Watson diagram.

11. **Insurance type and premiums.** A parametric¹⁹ insurance product is proposed for PCDIP.²⁰ Cities will determine and customize their cover based on attachment probability and maximum payout following informed discussion utilizing a disaster risk model. Notwithstanding the components of pricing and cover requirements, it is important to have an adequate balance of parameters so that pricing is as affordable as possible for the cities.

12. PCDIP will be aligned with the following impact: safer, adaptive and disaster resilient communities towards sustainable development enhanced.²¹ PCDIP will have two outputs which will result in the following outcome: financial preparedness for disasters is improved.²²

13. **Output 1: PCDIP established and made operational.** Key activities under this output include: (i) establishment and operation of PCDIP; (ii) establishment of requisite legal and institutional framework; (iii) the initial capitalization of the pool's reserve through the project loan proceeds to ensure the pool's long-term financial viability and sustainability; (iv) the articles of PCDIP include gender mainstreaming in line with Philippine Law, in determining the use of payouts; and (v) the 10 pilot cities join PCDIP with the number of participating cities increasing over time.

14. **Output 2: DRF capacity of cities increased.** PCDIP will cover a portion of the financing of damage from major disasters, focusing on public infrastructure. Under this output, capacity building support will be provided to the city governments for awareness building and knowledge sharing. This will significantly improve the capacity of the cities in disaster risk financing and management.

¹⁹ An insurance policy featuring a parametric trigger which defines when a contract will pay out. The trigger is designed to proxy actual loss.

²⁰ There are 4 possible models available to cover disaster risk: (i) Indemnity (already provided by GSIS); (ii) Modelled Loss Basis; (iii) Parametric Index; and (iv) (Pure) Parametric. The latter 2 products are being considered.

²¹ Government of the Philippines. 2011. *The National Disaster Risk Reduction and Management Plan*. Manila.

²² The design and monitoring framework is in Appendix 1.

C. Proposed Financing Plans and Modality

15. PCDIP is estimated to cost \$100 million equivalent from ADB's ordinary capital resources (regular loan) (Table 1). The financial intermediation loan proceeds will be used to fund the pool²³ as the initial seed capital to support its financial sustainability during the start-up period. A deferred drawdown option similar to a contingent facility may be considered. A \$3 million grant for capacity building to recruit additional cities after the 10 pilot cities, will be sought from the Asia-Pacific Climate Finance Fund and/or the Urban Climate Change Resilience Trust Fund.

Table 1: Indicative Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (Regular loan)	100.0	91.0
Government	10.0*	9.0
Total	110.0	100.0

Source: Asian Development Bank.

* indicative premium support

D. Implementation Arrangements

Table 2: Indicative Implementation Arrangements

Aspects	Arrangements
Indicative implementation period	June 2019–March 2022
Indicative completion date	31 March 2022
Management	
(i) Executing agency	Department of Finance (DOF)
(ii) Key implementing agencies	Government Service Insurance System (GSIS)

Source: Asian Development Bank.

II. PROJECT PREPARATION AND READINESS

16. Project due diligence will be conducted by using staff and existing TA resources, no project preparatory TA will be sought.

III. DELIBERATIVE AND DECISION-MAKING ITEMS

A. Risk Categorization

17. Low risk categorization is proposed as: (i) the loan amount does not exceed \$200 million; (ii) DOF has been a regular counterpart in financial sector projects and programs; (iii) ADB has a long-standing sound track record in disaster-related assistance in the Philippines; (iv) no integrity concerns; (v) no significant climate change risk; (vi) no waivers of applicable policies; (vii) no use of high level technology; (viii) the project does not warrant Management's closer scrutiny; and (ix) no significant safeguard issues are expected.

B. Project Procurement Classification

18. The project procurement classification recommendation is "B" as DOF is familiar with undertaking competitive procurement processes consistent with ADB Procurement Guidelines.

²³ Based on preliminary analysis of the Philippine cities' data, it is anticipated that there could be around a 3-times leverage, which means a total of \$300 million of risk can be written from \$100 million of initial capital (from the loan), assuming \$10 million of premiums and an additional \$100 million of reinsurance is pooled.

There will be no physical construction work under the project. The contracts will not be particularly complex and high-value.

C. Scope of Due Diligence

Due Diligence Outputs	To be undertaken by
Development coordination	Staff
Economic analysis	Staff, TA grant (footnote 14)
Financial management assessment, financial evaluation, and financial analysis	Staff, TA grant (footnote 14)
Safeguard screening and categorization results	Staff
Poverty, gender and social analysis	Staff
Project administration manual	Staff
Risk assessment and management plan	Staff
Safeguard documents on environment, involuntary resettlement, and/or indigenous peoples	Staff
Sector assessment	Staff
Summary poverty reduction and social strategy	Staff

TA = technical assistance.

Source: Asian Development Bank.

D. Processing Schedule and Sector Group's Participation

Table 3: Processing Schedule by Milestone

Milestones	Expected Completion Date
1. Fact-finding Mission	September 2018
2. Staff Review Meeting	November 2018
3. Loan Negotiations	April 2019
4. Board Consideration	June 2019
5. Loan Signing	July 2019

Source: Asian Development Bank.

E. Key Processing Issues and Mitigation Measures

Table 4: Issues, Approaches and Mitigation Measures

Key Processing Issues	Proposed Approaches and/or Mitigation Measures
<p>1. Pending issues</p> <ul style="list-style-type: none"> • Legal/institutional structure of PCDIP and final product design • Confirmation of governance structure • Confirmation of premium financing support • The amount of capitalization needed from ADB • Decide, in consultation with DOF, on earmarking loan proceeds and one of two possible disbursement approaches: <ol style="list-style-type: none"> a) One or more disbursements solely based on paid in/ paid-up capital requirements b) Disbursements linked to projected operating expenses namely: <ol style="list-style-type: none"> (i) activities required to set up the pool (first tranche will be made upon satisfaction of conditions precedent, linked to output 1), (ii) purchasing reinsurance, (iii) first loss payout, (iv) minimum paid-up capital required to establish the pool, and (v) final tranches as a deferred drawdown similar to a contingent facility and based on disaster triggers. 	<ul style="list-style-type: none"> • Continued close partnership with DOF and TA contractor (comprising infrastructure and asset data analysts, risk and economic modelers and financial structurers) and a proactive approach in addressing any questions. • ADB will engage local and international legal advisers to provide an opinion and options on the legal status of PCDIP (e.g. as a SPV under GSIS).

ADB = Asian Development Bank, DOF = Department of Finance, GSIS = Government Service Insurance System, PCDIP = Philippine City Disaster Insurance Pool, TA = technical assistance, SPV = special purpose vehicle.

PRELIMINARY DESIGN AND MONITORING FRAMEWORK

Impact of the project is aligned. Safer, adaptive and disaster resilient communities enhanced (The National Disaster Risk Reduction and Management Plan). ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<p>Outcome Financial preparedness for disasters is improved</p>	<p>a. For participating cities, the financial resources potentially available following a payout (based on insurance policy purchased) are higher compared with available resources before Philippine City Disaster Insurance Pool (PCDIP) insurance is purchased (2019 baseline: TBD)</p>	<p>a. Reports: (i) Independent evaluation reports financed by PCDIP, audited financial statements and (ii) Damage and loss reports provided by the national disaster management authority; and reports by development partners and third-party entities.</p>	<p>Major adverse changes on assumptions due to the progress of climate change and major low frequency catastrophic events during the implementation period</p>
<p>Outputs 1. PCDIP established and made operational</p>	<p>1a. Requisite legal and institutional framework including governance, operational, fiduciary, policies, procedures and systems are in place by Q2 2019 (2019 Baseline: 0)</p> <p>1b. PCDIP is fully staffed with a management team and technical staff (50% jobs for women), and a dedicated office established by Q3 2019 (2019 Baseline: 0)</p> <p>1c. A pool reserve fund of \$25 million (to be updated when financial structuring and modelling have advanced) is established by Q4 2019 (2019 Baseline: 0)</p> <p>1d. A functional insurance pool is set up with 10 participating cities, combined premiums of \$10 million (TBD when modelling and structuring are</p>	<p>1a. Progress report from Department of Finance (DOF)</p> <p>1b. Minutes of the PCDIP board meeting and periodic progress reports</p> <p>1c. Independent evaluation reports, audited financial statements and progress report from DOF.</p> <p>1d. Independent evaluation reports, audited financial statements and progress report from DOF.</p>	<p>National and city government commitment to PCDIP's changes over time due to political considerations and competing priorities in terms of buy-in and funding</p>

^a Government of the Philippines. 2011. *The National Disaster Risk Reduction and Management Plan*. Manila.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	<p>completed) and reinsurance cover is secured by Q4 2019 (2018 Baseline: 0)</p> <p>1e. Communication, disclosure, and public relations strategies by Q2 2019 (2018 Baseline: 0)</p> <p>1f. Annual operational plan is prepared and endorsed, and the rolling 3-year business plans are updated by Q2 each year during 2020–2022 by Q4 2019 (2019 Baseline:0)</p> <p>1g. Policy and processes are put in place to ensure decision about the use of payouts for post-disaster recovery adequately addresses gender and other cross-cutting concerns in accordance with Philippine laws. (Baseline: No policy)</p>	<p>1e. Progress report from DOF.</p> <p>1f. Progress report from DOF.</p> <p>1g. Progress report from DOF.</p>	
2. DRF capacity of cities increased.	<p>2a. Initial capacity development program (2019–2022) for cities is assessed by Q1 2020 (2019 Baseline: 0)</p> <p>2b. Initial capacity development program (2019–2022) for cities is designed by Q2 2019 (2017 Baseline: 0)</p> <p>2c. Initial capacity development program (2020–2022) for Government Service Insurance System and cities is implemented by Q4 2019 (2017 Baseline: 0)</p>	2a-c. PCDIP quarterly progress reports	

<p>Key Activities with Milestones</p> <p>1. PCDIP is established and made operational</p> <p>1.1 Recruit pool staff by Q2 2019</p> <p>1.2 Start fund management activities by Q4 2019</p> <p>1.3 Complete negotiation with international reinsurers by Q4 2019</p> <p>1.4 Approve annual operation plan, and fully operationalize pool by Q4 2019</p> <p>2. DRF capacity of cities increased.</p> <p>2.1 Staff capacity development team by Q2 2019</p> <p>2.2 Conduct needs assessment for capacity development by Q2 2019</p> <p>2.3 Launch and implement capacity development program by Q4 2019 and onwards (50% female staff)</p>
<p>Inputs</p> <p>ADB: \$100 million OCR loan (Regular loan)</p>
<p>Assumptions for Partner Financing</p> <p>Not Applicable</p>
<p>ADB = Asian Development Bank, DOF = Department of Finance, DRF = disaster risk financing, OCR = Ordinary Capital Resources, PCDIP = Philippine City Disaster Insurance Pool. Source: Asian Development Bank.</p>

PROJECT PROCUREMENT CLASSIFICATION

Characteristic	Assessor's Rating:
Is the procurement environment risk for this project assessed to be <i>high</i> based on the country and sector and/or agency risk assessments?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are multiple (typically more than three) and/or diverse executing agencies and/or implementing agencies envisaged during project implementation? Do they lack prior experience in implementation under an ADB-financed project?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are multiple contract packages and/or complex and high-value contracts (compared with recent externally financed projects in the developing member country [DMC]) expected?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Does the project plan to use innovative contracts (public-private partnership, performance-based, design and build, operation and maintenance, etc.)?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are contracts distributed in more than three geographical locations?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Are there significant ongoing contractual and/or procurement issues under ADB (or other externally) financed projects? Has mis-procurement been declared in the DMC?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Does the DMC have prolonged procurement lead times, experience implementation delays, or otherwise consistently fail to meet procurement time frames?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Do executing and/or implementing agencies lack capacity to manage new and ongoing procurement? Have executing and/or implementing agencies requested ADB for procurement support under previous projects?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> Unknown
Regional department's overall recommendation (B. Ainabe, Financial Sector Specialist (Capital Markets))	
Overall project categorization recommended	<input type="checkbox"/> Category A <input checked="" type="checkbox"/> Category B
DOF has a long history of undertaking project financed by ADB and other international development partners and implementing in accordance with related procurement guidelines. There will be no physical construction work under the project. The contracts will not be particularly complex and high-value.	
Lila Mallory, Senior Procurement Specialist, Procurement Division 2	
PPFD confirms the classification during interdepartmental circulation of the project concept paper	

ADB = Asian Development Bank, DMC = Developing Member Country, DOF = Department of Finance, PPFD = Procurement, Portfolio and Financial Management Department.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Philippines	Project Title:	City Disaster Insurance Pool
Lending/Financing Modality:	Financial Intermediation Loan (FIL) for (sub)project	Department/Division:	Southeast Asia Department/ Public Management, Financial Sector, and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The Philippine Development Plan (PDP), 2017–2022 intends to make growth more inclusive by lowering poverty incidence in rural areas, creating more jobs, making individuals and communities more resilient, driving innovation, and building greater trust in government and in society. It identifies disasters as one of the constraints preventing the poor from permanently exiting poverty that needs to be directly addressed. In particular, given the extent to which natural disasters reverse gains in development, it recommends that development plans must provide for investments in disaster risk management (and financing), due to the country's vulnerability to various risks associated with natural hazards. Furthermore, the PDP supports a National Spatial Strategy (NSS), which recognizes that while cities tend to be engines of growth, they also need appropriate infrastructure, affordable housing, and service systems. These are needed to manage growth and address the challenges of congestion, inadequate social services, and vulnerability to natural disasters. The project aligns with the third strategic pillar in the forthcoming Philippines Country Partnership Strategy (CPS), 2018–2023, which focuses on investments promoting and protecting local economic development. ADB will support the government in assessing options for setting up a city disaster insurance pool to proactively manage, reduce, and transfer disaster risks.

B. Poverty Targeting

General intervention Individual or household (TI-H) Geographic (TI-G) Non-income MDGs (TI-M1, M2, etc.)
The Project will support the establishment and operation of the City Disaster Insurance Pool (PCDIP) which provides participating cities in disaster-prone areas with quick post-disaster financial liquidity. Low income households will benefit from rehabilitation of public assets and efficient recovery of public services of cities.

C. Poverty and Social Analysis

- Key issues and potential beneficiaries. High incidence of natural hazard events and the country's considerable vulnerability is in part linked to significant poverty and environmental degradation. Disaster risk modeling indicates that the country faces annual average losses of ₱43.5 billion (\$0.86 billion) due to earthquake and of ₱133.2 billion (\$2.6 billion) due to tropical cyclones alone. The country also experiences tsunamis, volcanic eruptions, floods and droughts, and storm surge, placing significant contingent liability on government. Over the period 1997–2016, over 23,000 lives were lost as a consequence of disasters and 288 disaster events reported in the country. Disasters triggered by natural hazards affected 6.8 million people per annum on average over the same period and disaster events and related losses were recorded every year.
- Impact channels and expected systemic changes. The maintenance and quick recovery of public services and infrastructure provided by LGUs during times of natural disaster have an indirect, but strong link with reducing poverty and promoting community livelihoods.
- Focus of (and resources allocated in) the transaction TA or due diligence. Not applicable under this concept paper as TA is not immediately attached to the project, however, TA for capacity building to recruit additional cities after the ten pilot cities, will be sought from other sources.
- Specific analysis for policy-based lending. Not applicable.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector and/or subsector that are likely to be relevant to this project or program? Women's historically lower socio-economic status heightens their vulnerability to disasters, limiting their chances for survival and full recovery. This is demonstrated in the wake of Typhoon Yolanda, which displaced more women than men, left women and girls vulnerable to abuse and trafficking and caused heavier burdens on family care and household livelihood recovery. Other marginalized communities and groups (e.g. elderly, children, disabled, ethnic minorities) are also exposed to heightened risks because of similar pre-disaster disadvantages. This trend is also apparent in previous disasters that occurred in the Philippines. During Typhoon Washi in 2011, 80% of vulnerable groups (persons with disabilities, pregnant and lactating women, older people) were not given special attention. During Typhoon Bopha in 2012, gender-based violence was not addressed despite its rampant occurrence post-disaster. Children were particularly affected by Typhoons Washi and Bopha, with 19% of them being exploited and boys involved in "harsh and difficult work." Following Typhoon Washi, human trafficking in the affected areas increased by about 10%. In spite of this, gender and other social dimensions have not been fully taken into account in post-disaster response, programs and activities. This in turn leads to ineffective post-disaster actions, lack of long-term viability, and muted impacts of post-disaster financing.

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? Yes No
 The project will promote gender equality and empowerment of women through the following pro-active gender measures: (a) Policy and process are set for the use of payouts to ensure that gender mainstreaming considerations are adequately addressed in the decision-making process about the use of payouts for post-disaster recovery, in accordance with Philippine laws; and (b) targets for women in the employment and capacity development opportunities created under the project (following due diligence).

3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?
 Yes No

4. Indicate the intended gender mainstreaming category:
 GEN (gender equity) EGM (effective gender mainstreaming)
 SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.
 The main stakeholders and beneficiaries of the project will include cities including local communities in the disaster-prone areas. The proposed project will have positive impacts on people including the vulnerable and poor. Cities decide autonomously on what level of cover and how much premiums they want included in their parametric insurance policies.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded?
 The project seeks to narrow the funding gap between available funds and post-disaster response costs at local government unit (LGU) level in the event of medium-to-high severity events and, most importantly, allows the cities (including the vulnerable and poor) to become self-sustaining in managing disaster risk and take responsibility for protecting and rehabilitating their own assets and infrastructure in the event of damage.

3. What are the key, active, and relevant civil society organizations (CSOs) in the project area? What is the level of civil society organization participation in the project design?
 Information generation and sharing Consultation Collaboration Partnership
 Known national CSOs in the NDRRMC are World Vision, DRRNet Philippines, the Ateneo School of Government, Centre for Disaster Preparedness, Akyson Klima Pilipinas, Christian Aid and Oxfam. There is no participation of CSOs in the project design.

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? Yes No Please explain.
 Participation and decision-making of the cities (typically presided by the Mayors), is channeled through capacity building sessions, DRFI training, asset gathering and ADB and consultant-led workshops which introduce the PCDIP project and proposed financial structure and governance arrangements. The interests of the vulnerable and poor are represented and taken into account in the course of engagement with city officials.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No No physical construction is planned under this project.

2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?
 Resettlement plan Resettlement framework Social impact matrix
 Environmental and social management system arrangement None

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No

3. Will the project require broad community support of affected indigenous communities? Yes No
 Not especially.

4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?

- Indigenous peoples plan Indigenous peoples planning framework Social impact matrix
 Environmental and social management system arrangement None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

- Creating decent jobs and employment Adhering to core labor standards Labor retrenchment
 Spread of communicable diseases, including HIV/AIDS Increase in human trafficking Affordability (medium)
 Increase in unplanned migration Increase in vulnerability to natural disasters Creating political instability
 Creating internal social conflicts Others, please specify _____

2. How are these additional social issues and risks going to be addressed in the project design?

Affordability of premiums may be addressed by national government support/ subsidies in the first few years of operation of the pool.

VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified?

- Yes No.

No TA associated with this project immediately but above considerations will be made in externally-sourced TA.

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the transaction TA or due diligence? Not applicable for this project at present.