Public Disclosure Authorized

Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 20-Jun-2019 | Report No: PIDC27315

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
East Asia and Pacific	P170913		Southeast Asia Disaster Risk Insurance Facility (SEADRIF): Strengthening Financial Resilience in Southeast Asia (P170913
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
EAST ASIA AND PACIFIC	Sep 02, 2019	Sep 16, 2019	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	SEADRIF Trustee	SEADRIF Trustee, SEADRIF Insurance Company	

Proposed Development Objective(s)

The project development objective is to improve access to cost-effective, pre-arranged financing for responding to disasters in Southeast Asian countries.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	11.00
Total Financing	11.00
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	11.00
Southeast Asia Disaster Risk Insurance Facility (SEADRIF) Pr	11.00

Environmental and Social Risk Classification	Concept Review Decision
Moderate	Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **The Association of South East Asian Nations (ASEAN) countries, home to more than 650 million people with a combined GDP of almost US$3 trillion, are highly prone to disaster and climate events.** Floods, tropical storms, droughts, earthquakes and tsunamis all have left severe physical, economic and human impacts in the region, with more than 400 million of lives affected over the past 30 years[1] and annual regional average expected losses equivalent to greater than 0.3 percent of regional GDP.

2. **Disaster and climate events created a significant fiscal burden on many governments in the region.** In particular, the governments of Cambodia, Lao PDR, Myanmar, the Philippines, and Viet Nam could face average annual disaster response bills in excess of 0.5 percent of total public expenditure. Lao PDR, the Philippines, and Cambodia could experience bills totaling 18 percent or more of total public expenditure in the event of a 200-year disaster[2].

3. **ASEAN countries face different financing needs and challenges in the wake of disaster and climate shocks.** The countries are at different stages of economic development, have different socio-political structures, and differ by risk profiles, fiscal space, level of access to financial markets, all of which generate different funding needs following disaster and climate events.

4. **Smaller sized economies in ASEAN comprising Cambodia, Lao PDR and Myanmar are faced with potential short-term funding gap for emergency response.** The governments in Cambodia, Lao PDR and Myanmar have allocated contingency budgets and reserve funds to be used for emergency response, but all remain exposed to catastrophic events, relying heavily on international donor assistance for responses, relief, and recovery. Meanwhile, larger sized and disaster-prone economies such as Indonesia, the Philippines, and Vietnam face potential funding gaps for more severe but less frequent events (e.g., those occurring once every 10 years or less frequently), and often times for longer-term recovery and reconstruction.

5. **Pre-arranged risk financing can help governments manage the fiscal cost of disasters more efficiently.** Following a disaster, governments rely on ex-post financing instruments, including budget reallocation, raising debts and/or taxes, and international aid. However, various dimensions of these instruments including time, cost, availability and adequacy need to be considered to meet the funding needs for response, recovery and reconstruction. These

[1] EM-DAT data 2019
[2] World Bank 2012, Disaster Risk Finance and Insurance in ASEAN

instruments can be combined with pre-arranged risk financing instruments through a risk-layering strategy to provide governments with timely and cost-efficient access to funds and mitigate the negative impact of disasters on the economy and livelihood.

Sectoral and Institutional Context

6. **Confronted with narrowed fiscal space, ASEAN disaster prone economies seek to develop additional buffers to mitigate disaster and climate shocks.** Governments of the Philippines and Indonesia, for example, already developed and implemented a financial protection strategy against disaster and climate risks, while others including Lao PDR, Myanmar, Cambodia, Vietnam are in the process of development.

7. **The financial sector in ASEAN disaster prone economies has made important contributions to the countries' development, however, remain under-developed to shoulder part of the government's fiscal costs due to disaster and climate risks.** The insurance industry in Indonesia, Philippines, Thailand, and Vietnam have started providing insurance products for disaster and climate risks at the household levels with subsidies from the governments, however, these programs remain small scaled. Limited insurance products have been provided by local (re)insurers to the governments due to a variety of reasons including insufficient domestic (re)insurance capacity, limited availability of products and affordability.

8. **Pre-arranged risk financing options are available to the governments and are often most efficient when combined with ex-post risk financing instruments through a risk layering strategy.** In countries where financial protection strategies were underpinned by risk layering, pre-arranged financing instruments such as contingent credit or insurance are combined with other traditional funding such as budget or reserves because no single instrument can help the governments weather the storm in a sustainable manner and efficiency gains can be best achieved when the instruments work in complementarity to respond to post-disaster funding needs.

9. **ASEAN+3 Finance Ministers and Central Bank Governors have endorsed the establishment of the Southeast Asia Disaster Risk Insurance Facility (SEADRIF) as a platform to work together for better financial resilience of the ASEAN region against disaster and climate shocks.** The World Bank was requested to act as the Lead Technical Partner to SEADRIF to provide technical assistance to the beneficiary countries and advise on any proposed SEADRIF activities. Signatory countries to the SEADRIF MOU agreed to set up SEADRIF under a Trust structure, domiciled in Singapore jurisdiction. Lao PDR and Myanmar agreed in May 2018 to establish and join the first regional catastrophe risk pool under a dedicated SEADRIF sub-trust (Sub-Trust A), while Cambodia pended their decision subject to their feasibility studies.

10. **SEADRIF Insurance Company (the Company) will be established under Sub-Trust A to provide disaster risk financing and insurance products for the beneficiary countries, including a regional catastrophe risk pool for Lao PDR and Myanmar, with financial support from development partners.** Payouts triggered by an insured event is are designed to provide the affected governments with immediate post-disaster liquidity for disaster recovery. The World Bank was requested by development partners and beneficiary countries to transfer the funds from the World Bank administered MDTFs to support the capitalization and operationalization of the SEADRIF Insurance Company.

11. **This project builds on existing in-country operations and dialogues in various engagement with units across the WB playing complementary roles.** The project builds on the World Bank's experiences in the development of regional pools such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI). As a first phase, the proposed project will provide grants for the purpose of capitalization of and covering start-up and operating costs for the Company in its provision of disaster risk financing and insurance products for ASEAN beneficiary countries as. The first product of the Company will be a hybrid insurance product, providing payouts for small, medium and severe flood events. A detailed financial analysis of the Company was undertaken to ensure its sustainability. SEADRIF member countries will review the activities of the Trust, the Sub-Trusts and the Company three years after the commencement of the Company to ensure its performance and sustainability.

Relationship to CPF

12. **The proposed project contributes to the World Bank twin goals.** By providing quick liquidity in the aftermath of a disaster through the SEADRIF, the project helps alleviate the fiscal constraints faced by the countries in managing the impacts of disaster and climate shocks, thereby helping countries to prevent vulnerable populations from falling back into poverty and safeguarding the gains from development.

13. **The Project contributes to the WBG's Maximizing Finance for Development by crowding in the (re)insurance and capital markets to bridge the financial protection gap and support long-term development and open new markets and opportunities for private solutions.** The Company is expected to mobilize up to US$40 million of risk capital from the industry in case that 1-in-30 years events happen to both countries in one policy year under the first cat risk pool. The Company is also expected to crowd in expertise from insurance managers, asset managers, and technology companies to help deliver solutions to the beneficiary countries.

14. **The SEADRIF is consistent with the World Bank's strategy to promote innovative products to spread and manage risk.** It is also aligned to the World Bank Group Climate Change Action Plan and its priority on "Leave No One Behind", particularly paragraph 110 which states that the World Bank Group will "scale up sovereign disaster risk insurance". "Forward Look – A Vision for the World Bank Group in 2030" prepared by the WBG for the Development Committee Meeting of October 8, 2016, also focuses on Global Crisis Response Platform which highlights the importance of regional risk pool and accessing insurance markets. The project is fully aligned with the World Bank Group's East Asia Pacific Regional Strategy, presented to the Board in February 2016. The proposed project particularly links to the strategic priority of "Climate Change and Disaster Risk Management through resilient investments and Disaster Risk Financing and Insurance".

C. Proposed Development Objective(s)

The project development objective is to improve access to cost-effective, pre-arranged financing for responding to disasters in Southeast Asian countries.

Key Results (From PCN)

15. The achievement of the PDO will be measured through the following key indicators:
    - SEADRIF Insurance Company capitalized;

- SEADRIF Insurance Company operationalized;
- SEADRIF Insurance Company makes full insurance payout within 30 days of the occurrence of a covered (insured) event under parametric policies;
- The SEADRIF Insurance Company has capacity to make full payment for a 1-in-200 year insured loss to be assessed in each financial year.

D. Concept Description

16. **Flow of funds.** From preliminary legal analysis of the legal documents, the funds will flow from the WB administered MDTFs to **the Trustee as Grant Recipient** who would in turn transfer the funds to the Company. This would be further subject to confirmation by a Singapore qualified legal counsel on the soundness of the overall SEADRIF structure and the legal structure for the funds flow under Singapore's applicable law.

17. **The project consists of three components for execution by two implementing agencies.** This include (i) Grant financing for capitalization of the Company, and (ii) Set-up and operationalization of the Company, and (iii) Monitoring and evaluation of the project.

18. **Component 1. Grant financing for capitalization of the SEADRIF Insurance Company (US$10-20 million).** The purpose of the capitalization is, among other things, to enable the Company to:

(i) Make Insurance Payout rapidly and be partially reimbursed by the reinsurers;
(ii) Provide the ability to retain and manage a portion of the risk while the rest is passed to the reinsurance markets;
(iii) Provide the ability to earn income on investments of the capital;

19. **Component 2. Set-up and operationalization of the SEADRIF Insurance Company (US$ 500,000).** Provide financial support for the set-up and operationalization of the Company, including *inter alia* regulatory fees and other related fees in order to support the set-up and operations of the Company in providing insurance services to beneficiary countries and improve the affordability and quality of the insurance products. As the Government of Singapore will provide separate grants to cover part of the operating costs of the Company, the exact amounts and eligible expenditure will be ascertained at a later stage.

20. **Component 3. Monitoring and Evaluation of the SEADRIF insurance products and project (US$ 500,000).** Provide financial support for monitoring and evaluation of the use of funds transferred by the World Bank and insurance proceeds. This includes (i) monitoring and reporting of the use of the funds that the World Bank transfers to the Company, insurance payout process, funds execution process, and ex post reporting on the use of funds, and (ii) monitoring and evaluation of the project activities. Once this funding is exhausted, these costs will eventually be absorbed by the Company.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

Environmental and social risks and impacts are expected to be minimal since the main objective of this project will use the grants for capital and operating expenses of the new SEADRIF Insurance Company.

SEADRIF will produce / upgrade their Environmental and Social Management System (ESMS) to comply with good international practice. The ESMS will, among other functions, contain provisions on managing ES impacts during project implementation and on incorporating environmental and social standards and good practice into all project deliverables. An environmental and social management framework (ESMF) will be prepared to provide overall guidance on ES risks and opportunities for the SEARIF implementation and operation. Since SEADRIF Trustee and SEADRIF Insurance Company are based in Singapore, it will also be subject to national environmental assessment requirements.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document**.**

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APPROVAL

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