



# Report and Recommendation of the President to the Board of Directors

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Project Number: 50028-002  
September 2019

## Proposed Policy-Based Loan and Policy-Based Grants Pacific Disaster Resilience Program (Phase 2)

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Asian Development Bank

## ABBREVIATIONS

|        |   |                                                              |
|--------|---|--------------------------------------------------------------|
| ADB    | – | Asian Development Bank                                       |
| ADF    | – | Asian Development Fund                                       |
| DMC    | – | developing member country                                    |
| DRF    | – | Disaster Response Facility                                   |
| DRM    | – | disaster risk management                                     |
| DRR    | – | disaster risk reduction                                      |
| FSM    | – | Federated States of Micronesia                               |
| GDP    | – | gross domestic product                                       |
| NDC    | – | Nationally Determined Contribution                           |
| PCRAFI | – | Pacific Catastrophe Risk Assessment and Financing Initiative |
| PCRIC  | – | Pacific Catastrophe Risk Insurance Company                   |
| PFM    | – | public financial management                                  |
| PPPF   | – | post-program partnership framework                           |
| RMI    | – | Republic of the Marshall Islands                             |
| TA     | – | technical assistance                                         |

## NOTE

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

|                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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## PROGRAM AT A GLANCE

|                                                                                            |                                                                                                         |                                        |                                                                                                 |
|--------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------------------------------------------------|
| <b>1. Basic Data</b>                                                                       |                                                                                                         | <b>Project Number: 50028-002</b>       |                                                                                                 |
| <b>Project Name</b>                                                                        | Pacific Disaster Resilience Program (Phase 2)                                                           | <b>Department/Division</b>             | PARD/PASP                                                                                       |
| <b>Country Borrower</b>                                                                    | REG (FSM, RMI, SOL, TON)<br>FSM, RMI, SOL, TON                                                          | <b>Executing Agency</b>                | Department of Finance and Administration, Ministry of Finance, Ministry of Finance and Treasury |
| <b>2. Sector</b>                                                                           | <b>Subsector(s)</b>                                                                                     | <b>ADB Financing (\$ million)</b>      |                                                                                                 |
| ✓ <b>Public sector management</b>                                                          | Public expenditure and fiscal management                                                                |                                        | 24.00                                                                                           |
|                                                                                            |                                                                                                         | <b>Total</b>                           | <b>24.00</b>                                                                                    |
| <b>3. Strategic Agenda</b>                                                                 | <b>Subcomponents</b>                                                                                    | <b>Climate Change Information</b>      |                                                                                                 |
| Inclusive economic growth (IEG)                                                            | Pillar 2: Access to economic opportunities, including jobs, made more inclusive                         | Climate Change impact on the Project   | Low                                                                                             |
| Environmentally sustainable growth (ESG)                                                   | Disaster risk management<br>Global and regional transboundary environmental concerns                    | <b>ADB Financing</b>                   |                                                                                                 |
| Regional integration (RCI)                                                                 | Pillar 4: Other regional public goods                                                                   | Adaptation (\$ million)                | 9.60                                                                                            |
| <b>4. Drivers of Change</b>                                                                | <b>Components</b>                                                                                       | <b>Gender Equity and Mainstreaming</b> |                                                                                                 |
| Governance and capacity development (GCD)                                                  | Institutional development<br>Institutional systems and political economy<br>Public financial governance | Effective gender mainstreaming (EGM)   | ✓                                                                                               |
| Knowledge solutions (KNS)                                                                  | Application and use of new knowledge solutions in key operational areas                                 |                                        |                                                                                                 |
| <b>5. Poverty and SDG Targeting</b>                                                        |                                                                                                         | <b>Location Impact</b>                 |                                                                                                 |
| Geographic Targeting                                                                       | Yes                                                                                                     | Nation-wide                            | High                                                                                            |
| Household Targeting                                                                        | No                                                                                                      |                                        |                                                                                                 |
| General Intervention on Poverty                                                            | No                                                                                                      |                                        |                                                                                                 |
| SDG Targeting                                                                              | Yes                                                                                                     |                                        |                                                                                                 |
| SDG Goals                                                                                  | SDG1, SDG5, SDG10, SDG13, SDG17                                                                         |                                        |                                                                                                 |
| <b>6. Risk Categorization:</b>                                                             | Low                                                                                                     |                                        |                                                                                                 |
| <b>7. Safeguard Categorization</b>                                                         | <b>Environment: C Involuntary Resettlement: C Indigenous Peoples: C</b>                                 |                                        |                                                                                                 |
| <b>8. Financing</b>                                                                        |                                                                                                         |                                        |                                                                                                 |
| <b>Modality and Sources</b>                                                                |                                                                                                         | <b>Amount (\$ million)</b>             |                                                                                                 |
| <b>ADB</b>                                                                                 |                                                                                                         | <b>24.00</b>                           |                                                                                                 |
| Sovereign Stand-Alone Policy-Based Lending (Grant): Asian Development Fund                 |                                                                                                         | 21.00                                  |                                                                                                 |
| Sovereign Stand-Alone Policy-Based Lending (Concessional Loan): Ordinary capital resources |                                                                                                         | 3.00                                   |                                                                                                 |
| <b>Cofinancing</b>                                                                         |                                                                                                         | <b>0.00</b>                            |                                                                                                 |
| None                                                                                       |                                                                                                         | 0.00                                   |                                                                                                 |
| <b>Counterpart</b>                                                                         |                                                                                                         | <b>0.00</b>                            |                                                                                                 |
| None                                                                                       |                                                                                                         | 0.00                                   |                                                                                                 |
| <b>Total</b>                                                                               |                                                                                                         | <b>24.00</b>                           |                                                                                                 |
| <b>Currency of ADB Financing: USD</b>                                                      |                                                                                                         |                                        |                                                                                                 |

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed policy-based loan to Solomon Islands; and (ii) proposed policy-based grants to the Republic of the Marshall Islands (RMI), the Federated States of Micronesia (FSM), the Kingdom of Tonga, and Solomon Islands for the Pacific Disaster Resilience Program (Phase 2).

2. The proposed contingent disaster financing program will improve resilience of the participating Asian Development Bank (ADB) Pacific developing member countries (DMCs) to disasters triggered by natural hazards. It will support policy actions in disaster risk management (DRM) and provide a source of financing for timely disaster response and early recovery. The program is the second phase of the Pacific Disaster Resilience Program, approved in December 2017 for Samoa, Tonga, and Tuvalu.<sup>1</sup> It will provide a second round of contingent financing for Tonga and add three new countries (RMI, FSM, and Solomon Islands) to the program.<sup>2</sup>

## II. PROGRAM AND RATIONALE

### A. Background and Development Constraints

3. **Disaster risk in the Pacific.** ADB's 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 increasing because of climate change, poor development planning, unplanned urbanization, and ecosystem decline. Climate change can exacerbate disaster risk by increasing the intensity or frequency of extreme weather events. Rising sea levels are also speeding erosion rates and increasing the risk of more destructive storm surges. Rising ocean temperatures and ocean acidification are destroying the coral reefs that form natural coastal barriers.

4. 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. Pacific DMCs face further challenges due to their remote locations and geographical features. Many 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 and reconstruction. Delays in response and early recovery exacerbate the indirect economic and social costs of disasters, worsen their ultimate impacts, and compromise long-term fiscal balances. Disasters can erode many years of economic development gains by damaging critical infrastructure, disrupting services, and diverting resources from development spending to disaster response and reconstruction.

5. **Governments' strategies.** To mitigate the economic risks posed by disasters, all participating DMCs have taken important steps to improve disaster resilience. DRM objectives are generally well defined within these governments' policies and plans. All countries define legal responsibilities for DRM and procedures for declaring a state of emergency or disaster. All have some financial arrangements in place for disaster response, including annual contingency budgets or sovereign disaster insurance. Building disaster resilience requires actions on many fronts, however, and the countries remain constrained by capacity and competing priorities.

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<sup>1</sup> ADB. [Regional: Pacific Disaster Resilience Program](#).

<sup>2</sup> Tonga had contingent financing under Phase 1 that was already fully disbursed.

6. The governments recognize that more effort is required to strengthen the policy and institutional arrangements for DRM, including the capacity for post-disaster response and early recovery at national and local levels. National and local disaster management arrangements can be strengthened by defining roles, responsibilities, and standard operating procedures to follow during disasters. DRM capacity is particularly weak at local level, and regular capacity building or drills are required to ensure successful implementation of DRM plans during disasters. National DRM committees and councils typically meet only in the event of major disasters, but DRR increasingly is covered by climate change working groups or committees that typically meet more frequently. Coordination at national level can be further enhanced through regular joint meetings of the DRM and climate change committees.

7. The national disaster management offices are often underfunded and have limited capacity to respond to disasters. Improved access to and management of climate and disaster finance is critical for achieving the DMCs' strategic outcomes related to DRM and climate change adaptation. Prioritizing and expanding investments in DRM and climate change adaptation could be further strengthened through developing climate change strategies and action plans, further strengthening sector plans by incorporating climate- and disaster-resilience considerations, and improving the resilience of physical assets. Supporting better use of climate and disaster finance may require strengthening policies and plans, public financial management (PFM) and expenditure, institutions and human capacity, gender and social inclusion, and development effectiveness.

8. In the event of a significant disaster, governments typically have insufficient resources through budget contingency lines, reserves, and insurance to meet immediate post-disaster financing needs. Instead, they rely heavily on budget reallocations, which can take some time to secure and often redirect funds away from development priorities.

9. **Development partner support.** In the aftermath of disasters in the Pacific, major development partners, including the governments of Australia, the People's Republic of China, 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 and technical support from several offices in the region. Development partners, including ADB, also provide financing to support reconstruction. Major development partners and regional organizations are actively supporting implementation of the Framework for Resilient Development in the Pacific 2017–2030.<sup>3</sup>

10. The Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) was originally established in 2007 as a joint initiative of the Pacific Community, the World Bank, and ADB.<sup>4</sup> Building on the World Bank's catastrophe insurance initiative under the PCRAFI, the Pacific Catastrophe Risk Insurance Company (PCRIC) was established to provide disaster risk insurance to member countries in the Pacific region. PCRIC is a captive insurance company owned by the PCRAFI Foundation.<sup>5</sup> It was established by legal statute in the Cook Islands in 2016. Four countries currently have parametric sovereign disaster insurance cover through PCRIC: the Cook Islands, RMI, Samoa, and Tonga. The World Bank's Pacific Resilience Program is carrying out complementary DRM work and has secured some premium financing for PCRIC insurance.

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<sup>3</sup> Pacific Community. 2016. *Framework for Resilient Development in the Pacific, 2017–2030*. Suva.

<sup>4</sup> World Bank. 2017. *PCRAFI: Furthering Disaster Risk Financing in the Pacific Project*. Washington, DC.

<sup>5</sup> The Foundation is governed by a Council of Members that currently consists of the member countries and the four contributing donors (Germany, Japan, the UK, and the US).

11. ADB attaches significant importance to DRM in the Pacific, and it has provided considerable loans, grants, and technical assistance (TA) for post-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, and 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, a dedicated quick-disbursing instrument, can provide grants up to \$3.0 million per event within 1 week of a disaster.<sup>6</sup> Additional concessional funds can be accessed through the ADF Disaster Response Facility (DRF) for the early recovery and reconstruction phases.

12. Since 2004, ADB has offered an emergency assistance loans instrument with extended grace and repayment periods, increased retroactive financing, lower interest rates, and streamlined processing requirements, thereby facilitating the approval of fast-tracked assistance for early recovery purposes. Nevertheless, emergency assistance loans can still take 3 months or more to process, and reconstruction loans under normal lending modalities can take significantly longer. Therefore, ADB has piloted contingent financing for disasters in the Cook Islands and Palau, and through the first phase of the Pacific Disaster Resilience Program in Samoa, Tonga, and Tuvalu, as a mechanism to provide more timely post-disaster financing through stand-alone, single-tranche, policy-based loans and grants.<sup>7</sup> On 1 August 2019, ADB formally adopted contingent disaster financing as an option under its policy-based lending policy.<sup>8</sup>

13. **Pacific Disaster Resilience Program (Phase 1).** In December 2017, ADB approved the Pacific Disaster Resilience Program for Samoa, Tonga, and Tuvalu. Following Cyclone Gita in February 2018, Tonga drew down its available financing (\$6.0 million) within a few days following the disaster.<sup>9</sup> Cyclone Gita provided an immediate proof of concept for the program, and the lessons learned have been reflected in the design of Phase 2. The cyclone demonstrated that the various instruments can be complementary in responding to a single disaster event. In addition to the \$6.0 million under Phase 1, Tonga also received an insurance payout of \$3.5 million from PCRIC. It also accessed the Asia Pacific Disaster Response Fund (\$1.0 million)<sup>10</sup> and the ADF DRF. Of the \$8.8 million available for Tonga under the DRF, \$6.8 million was allocated for ADB's Cyclone Gita Recovery Project to reconstruct and climate- and disaster-proof the electricity network of Nuku'alofa.<sup>11</sup> Another \$2.0 million was allocated for this Phase 2 of the program.

14. Although the overall response to Cyclone Gita was a success, a notable obstacle to efficient cross-cluster response was the inefficient gathering of needs assessment information. Poor clarity of roles and responsibilities due to weak cluster standard operating procedures and terms of reference also created significant confusion, gaps, and overlap between the responses of individual clusters. Inefficiencies in prioritizing response needs and budget allocation highlighted the importance of effective PFM systems for disasters. Phase 2 policy matrixes and post-program partnership frameworks (PPPFs) include actions on strengthening post-disaster needs assessment capacities and PFM of disaster response and recovery.

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<sup>6</sup> From establishment of the APDRF in 2009 until March 2019, the Pacific has received 15 APDRF grants totaling \$10.1 million.

<sup>7</sup> ADB. [Cook Islands: Disaster Resilience Program](#); ADB. [Regional: Pacific Disaster Resilience Program](#); ADB. [Palau: Disaster Resilience Program](#).

<sup>8</sup> ADB. 2019. *Contingent Disaster Financing under Policy-Based Lending in Response to Natural Hazards*. Manila.

<sup>9</sup> The contingent financing for Samoa and Tuvalu under Phase 1 has not been disbursed and is still available.

<sup>10</sup> ADB. [Tonga: Tropical Cyclone Gita Emergency Response Project](#).

<sup>11</sup> ADB. [Tonga: Cyclone Gita Recovery Project](#).

15. Phase 1 includes attached regional TA that will be expanded to include the new countries under Phase 2 (pending approval of this program).<sup>12</sup> The TA has started country-level support to strengthen the policy environment and institutional arrangements for DRM through strengthening post-disaster budget execution capabilities, rapid resource mobilization, appropriation and disbursement in the event of a disaster, and effective prioritization of use of funds. Gender considerations are mainstreamed in the country-level support under the TA.

16. To supplement the available contingent disaster financing, options are being assessed under the TA attached to Phase 1 for a potential sustainable multi-country mechanism to provide contingent disaster financing. The potential regional mechanism would hold the countries' funds along with any additional development partner funds, and each country's share could be withdrawn quickly upon declaration of a state of emergency or disaster. The mechanism would allow funds to be replenished, additional countries to join, and other donors to contribute to the contingent funds. Linking the mechanism to an existing regional entity would offer several benefits, including economies of scale in funds management and the governance mechanism, strengthening regional ownership, and allowing countries to select optimal combinations of disaster financing instruments. This assessment is expected to continue over the next 12–24 months and involve extensive participation by all stakeholders.

17. **The proposed approach.** As with the first phase, Phase 2 of the program provides Pacific DMCs with a source of rapidly disbursing financing for response and early recovery activities following disaster events caused by natural hazards. Eligibility to withdraw loan and grant proceeds is based on achieving prior disaster resilience-related policy actions, but disbursements will be triggered when a state of disaster or emergency is declared. The country-specific policy actions have reduced the underlying disaster risk and enhanced disaster preparedness. Each government has also agreed upon an ongoing PPPF to strengthen DRM performance. The DMCs face similar DRM challenges and will benefit greatly from a regional approach whereby good practices are shared. The program will support coordination and cooperation both between Pacific DMCs and with development partners on disaster risk financing arrangements and policy reform discussions. The program will complement disaster risk financing instruments currently in use by the participating governments, including annual contingency budgets, national disaster funds, parametric disaster insurance, and traditional indemnity insurance.

18. The program is in line with ADB's Strategy 2030, specifically its operational priority C on Tackling Climate Change, Building Climate and Disaster Resilience, and Enhancing Environmental Sustainability, which supports strengthening DMCs' financial preparedness for disaster response through policy-based contingent financing.<sup>13</sup> The program is consistent with the objectives of the ADB Pacific Approach, 2016–2020, which serves as ADB's operational framework for the Pacific region, and the overall country partnership strategy for the 11 smaller Pacific DMCs, including RMI, FSM, Solomon Islands, and Tonga.<sup>14</sup> The Pacific Approach focuses on three strategic areas, one of which is managing risks, and highlights the needs 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.

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<sup>12</sup> ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Regional Policy-Based Loans, Policy-Based Grants, and Technical Assistance Grant for the Pacific Disaster Resilience Program*. Technical Assistance Report (accessible from the list of linked documents in Appendix 2). Manila.

<sup>13</sup> ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

<sup>14</sup> ADB. 2017. *The Pacific Approach, 2016–2020*. Manila.

## B. Policy Reform and ADB's Value Addition

19. Each participating DMC has satisfied its policy actions to strengthen the resilience of institutions and communities through three reform areas under Phase 2, as outlined below:<sup>15</sup>

20. **Reform area 1: Policy, governance, and institutional arrangements for disaster risk management strengthened.** All four countries have made significant progress in their policies and plans for climate change and DRM. RMI was the first country globally to submit new, binding climate targets to the United Nations in the Second Nationally Determined Contribution (NDC), including commitment to produce a National Adaptation Plan for climate and disaster resilience, and Adaptation Communications.<sup>16</sup> RMI has also recently approved a new Climate Change Strategy, with focus areas including coastal resilience; strengthening DRM in the outer islands; and contingency and emergency response.<sup>17</sup> FSM has finalized a national disaster and climate financing assessment that includes recommendations and an action plan on policies, PFM and expenditure, institutions and human capacity, gender and social inclusion, and development effectiveness. FSM also approved a country program strategy for climate change investments and strengthened its disaster office through significant increase in funding and staffing.<sup>18</sup>

21. In Solomon Islands, DRM arrangements have been strengthened at national and local levels through the approval of a new Disaster Management Plan, which sets the arrangements for DRM and establishes processes for implementation and capacity development.<sup>19</sup> It establishes a framework for climate- and disaster-resilient development within sector planning and reinforces government leadership in DRM while defining roles for communities, nongovernment organizations, and the private sector. Solomon Islands has also strengthened local arrangements for DRM by establishing provincial boards to support implementation of local plans. Since Phase 1's approval, Tonga has also made significant progress on DRM. The new actions under Phase 2 for Tonga include approval of a Second Joint National Action Plan on climate change adaptation and DRM, which includes specific objectives on mainstreaming resilience, research, monitoring, and regional cooperation.<sup>20</sup> A Cyclone Gita Lessons Learned Report examines the limitations of the overarching regulatory and policy framework and offers detailed recommendations and action plan within the cluster system.<sup>21</sup>

22. **Reform area 2: DRM investment planning processes and tools improved.** Countries have prepared new sector strategies or policies that have mainstreamed climate- and disaster-resilience actions within sector investment priorities, such as the Greater Honiara Urban Development Strategy and Action Plan<sup>22</sup> and the national urban policy for Solomon Islands, and the national and state level energy master plans for FSM. The National Environment Management Strategy for RMI includes targets on climate change and DRM,<sup>23</sup> and the RMI Environmental Protection Agency Strategic Plan considers resilient coastal zones as one of its focus areas.<sup>24</sup> RMI also developed an NDC implementation plan that outlines immediate actions on climate change and DRM, as well as fundamental cross-cutting areas, including gender.

<sup>15</sup> The policy actions and areas of program monitoring are described in Appendixes 4, 6, 8, and 10.

<sup>16</sup> Government of the Marshall Islands. 2018. *Nationally Determined Contribution*. Majuro.

<sup>17</sup> Government of the Marshall Islands. 2018. *Tile Til Eo, 2050 Climate Strategy*. Majuro.

<sup>18</sup> Government of the Federated States of Micronesia. 2019. *Country Program*. Majuro.

<sup>19</sup> Government of Solomon Islands. 2018. *National Disaster Management Plan*. Honiara.

<sup>20</sup> Government of Tonga. 2018. *Joint National Action Plan 2, 2018-2028*. Nuku'alofa.

<sup>21</sup> Government of Tonga. 2019. *TC Gita Emergency Preparedness and Response - A Comprehensive Review and Lessons Learnt*. Nuku'alofa.

<sup>22</sup> Government of Solomon Islands. 2018. *Greater Honiara Urban Development Strategy and Action Plan*. Honiara.

<sup>23</sup> Government of the Marshall Islands. 2018. *National Environment Management Strategy*. Majuro.

<sup>24</sup> Government of the Marshall Islands. 2018. *EPA Strategic Plan 2018-2012*. Majuro.

23. Participating countries have also completed national- or state-level tabletop exercises or specific disaster drills to develop capacities at all levels and help ensure successful implementation of DRM plans during disasters. FSM and Solomon Islands have strengthened the coordination between disaster and climate change committees through regular joint meetings. FSM has prepared community-level disaster plans. Tonga has approved a housing reconstruction strategy incorporating lessons learned from past disasters (in particular Cyclone Gita), revised its building codes to include higher standards of disaster resilience, and developed an emergency contingency plan covering DRM and PFM arrangements to enable both the national and subnational governments to provide timely and effective response to disasters.

24. **Reform area 3: Disaster risk financing expanded.** The most cost-effective way of financing disaster response is through a range of tools within a common framework addressing different layers of risk. The governments are committed to active contingency planning to cover different risk layers in their country contexts. All four countries have committed funds to national emergency or disaster funds for very low layers of risk and have procedures in place for some post-disaster budget reallocation. RMI and Tonga participate in the PCRAFI insurance scheme, which provides parametric insurance cover against higher risk layers involving tropical cyclones, earthquakes, and/or tsunamis, and they have committed government funds for the insurance premium. RMI has committed to a gender-sensitive climate budgeting process. Solomon Islands has set up a specific climate and disaster finance unit in its Ministry of Finance and Treasury to strengthen PFM of disasters and for activities related to climate and disaster resilience.

### **C. Impacts of the Reform**

25. The impact of the program is aligned with 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 2017–2030 (footnote 3). It will only be possible to quantify the full economic impact of the policy actions after a disaster, because the benefits or costs avoided will be determined by the scale and type of disaster and geographical area of impact. The program will provide a timely and predictable source of post-disaster financing, that will facilitate rapid decision making and implementation of priority actions and reduce the indirect economic and social costs of direct physical losses.

26. The policy actions will ultimately result in economic benefits. Under reform area 1, these will include reduced loss of lives and property, as well as reduced costs due to shorter business and public facility closures. These benefits will result from improved disaster planning and faster restoration of essential infrastructure and services. Under reform area 2, benefits will include reduced damage to property, improved public safety, and reduced negative post-disaster health impacts. These will result from improved sector planning; improved response, preparation, and public training; and more resilient infrastructure and assets. In reform area 3, there will be reduced opportunity costs associated with budget reallocations and financial costs associated with additional borrowing.

## D. Development Financing Needs and Budget Support

27. During the initial availability period covering 2020–2022, participating governments' overall development financing needs are estimated to range between 20.6% and 21.1% of gross domestic product (GDP) per annum, of which from 19.4% to 19.6% of GDP will be mobilized from external financing, predominantly as grants.<sup>25</sup> The post-disaster financing needs have been determined based on the likely fiscal impact of medium- to low-frequency disasters, taking into account 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. Although data on historical losses is incomplete, analysis undertaken under the PCRAFI indicates that average annual losses from tropical cyclones, earthquakes, and tsunamis alone are equivalent to 2.9% of GDP in FSM, 2.0% of GDP in RMI, 3.0% of GDP in Solomon Islands, and 4.3% of GDP in Tonga. In addition, the four countries experience frequent droughts, floods, storm surges, and, in some cases, volcanic eruptions. Examples of damage and loss from disasters in the participating countries include Cyclone Gita in 2018, which caused damage equivalent to 38% of GDP in Tonga; severe flooding in 2014, causing damage equivalent to 9% of GDP in Solomon Islands; Typhoon Maysak, causing losses equivalent to 4% of GDP in FSM; and severe drought in 2016 causing losses of 3% of GDP in RMI. The proposed financing per country under the program ranges from 0.5% to 3.0% of annual GDP, less than the cost of a typical medium-impact disaster in the Pacific.

28. The governments have requested (i) grants not exceeding \$6.0 million each for RMI, FSM, and Tonga and \$3.0 million for Solomon Islands from ADB's Special Funds resources (ADF); and (ii) a concessional loan of \$3.0 million for Solomon Islands from ADB's ordinary capital resources to help finance the program. The loan will have a 24-year term and a disbursement-linked repayment schedule, 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 as set forth in the draft loan agreement. The indicative financing comprises resources from the concessional resources regional pool, countries' concessional lending and grant allocations; and, in the case of Tonga, from the ADF DRF (see Table 1).

**Table 1: Financing Plan**

| Source                        | Amount (\$ million) |          |          |          | Total     | Share of Total (%) |
|-------------------------------|---------------------|----------|----------|----------|-----------|--------------------|
|                               | RMI                 | FSM      | SOL      | Tonga    |           |                    |
| <b>Asian Development Bank</b> |                     |          |          |          |           |                    |
| COL PBA (loan)                | 0                   | 0        | 1        | 0        | 1         | 4.2                |
| COL regional pool (loan)      | 0                   | 0        | 2        | 0        | 2         | 8.3                |
| ADF PBA (grant)               | 2                   | 2        | 1        | 0        | 5         | 20.8               |
| ADF regional pool (grant)     | 4                   | 4        | 2        | 4        | 14        | 58.3               |
| ADF DRF (grant)               | 0                   | 0        | 0        | 2        | 2         | 8.3                |
| <b>Total</b>                  | <b>6</b>            | <b>6</b> | <b>6</b> | <b>6</b> | <b>24</b> | <b>100.0</b>       |

ADF = Asian Development Fund, COL = concessional ordinary capital resources loan, DRF = Disaster Response Facility, FSM = Federated States of Micronesia, RMI = Republic of the Marshall Islands, PBA = performance-based allocation, SOL = Solomon Islands.

Source: Asian Development Bank.

<sup>25</sup> Fiscal deficit and external financing figures are gross national income-weighted averages for the four countries.

## E. Implementation Arrangements

29. Executing agencies will be the ministry of finance or equivalent in each country.<sup>26</sup> Implementing agencies will include ministries responsible for finance, planning, infrastructure, climate change, and DRM. Each participating DMC has country-specific policy actions and separate loan and/or grant agreements. The implementing agencies will implement the PPPF with the support of DRM or climate change committees. The policy actions were implemented after approval of the program's Phase 1, from 1 January 2018 to 31 May 2019.<sup>27</sup> The program will be completed on 31 March 2023, with a renewal option for a second 3-year period. Program renewal is subject to reconfirmation as to adequacy of the macroeconomic environment, including an updated International Monetary Fund assessment letter; DMCs' continued progress toward the PPPF; and an updated PPPF with mutually agreed objectives for the subsequent availability period. Renewal may also be affected by any changes to country classification during the program period.<sup>28</sup>

30. A withdrawal will be triggered after a government declares a state of disaster or emergency following a natural hazard event in accordance with applicable law or practice.<sup>29</sup> The government can withdraw the loan and grant proceeds partially or entirely, depending on its assessment of the disaster's severity and resultant need. Only a single withdrawal may be requested per disaster event, and the request should be received by ADB within 90 days of the declaration of a state of disaster or emergency.<sup>30</sup> Any unutilized funds at the conclusion of the grant and/or loan availability period can be disbursed to the respective participating countries under the deferred disbursement option, subject to ADB reconfirming the DMCs' continuation of policy actions and the PPPF through submission of a progress report. Funds will be spent through national budget processes for eligible items.<sup>31</sup> Proceeds of the policy-based loans and grants will be withdrawn in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time). ADB will periodically monitor continuing implementation of the policy actions and PPPF during the availability period.

## III. DUE DILIGENCE

31. The program is classified as category C for the environment, involuntary resettlement, and indigenous people. Program activities are confined to policy and institutional reforms, 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, or involuntary resettlement. The activities will not negatively affect indigenous peoples. Stakeholder dialogue was carried out during the program design and will continue during implementation. The policy actions will improve the participating countries' ability to maintain greater fiscal stability in the event of a disaster and to initiate relief and recovery efforts with minimum delay, thereby 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, helping to ensure that communities and vulnerable

<sup>26</sup> Ministry of Finance of RMI, Department of Finance and Administration of FSM, Ministry of Finance and Treasury of Solomon Islands, and Ministry of Finance of Tonga.

<sup>27</sup> Policy actions were identified and their implementation encouraged through policy dialogue, which has been ongoing since 2017 with some support from various ongoing TA.

<sup>28</sup> Footnote 8, paragraph 26.

<sup>29</sup> Government of RMI. 1987. *Disaster Assistance Act*. Majuro; Government of FSM. 2016. *National Disaster Response Plan*. Pohnpei; Government of Tonga. 2007. *Emergency Management Act*. Nuku'alofa; Government of Solomon Islands. 1989. *National Disaster Council Act*. Honiara.

<sup>30</sup> As the start date of a disaster event is often not clear (e.g., droughts, floods) and a declaration usually is issued very shortly after a natural hazard event turns into a disaster, the declaration is used as a proxy for disaster event.

<sup>31</sup> List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

households (including households headed by women) can reach safety in the event of a disaster, access sufficient relief supplies for immediate needs, and receive support to rebuild their lives and assets.

32. The program is classified as “effective gender mainstreaming.” Women are impacted by disasters in different and often overlooked ways. The program will directly benefit women by ensuring gender is a core component of key strategic and policy documents. National climate change strategies, emergency management plans, and sector policies (including the RMI National Environment Management Strategy, Solomon Islands Greater Honiara Urban Development Strategy and Action Plan, and the FSM National Energy Master Plan) include gender analysis and actions. National strategies outline the importance of women’s participation in DRM, include quotas to increase women’s participation in decision-making, and commit to incorporate gender analysis in all stages of DRM initiatives. Actions such as appointing women to the Solomon Islands provincial boards and ensuring women are involved in disaster and climate change committees and working groups will support women’s representation in decision-making roles. The program supports gender-responsive disaster risk financing by committing to gender-sensitive budgeting processes in NDC implementation plan (RMI) and ensuring that gender equity is a core guiding principle in strategies for accessing climate change financing (FSM).

33. Coordinating disaster responses, including the support offered by donors and civil society organizations with competing requirements and procedures, can pose significant administrative challenges. Therefore, government absorption capacities are often stretched in the aftermath of disaster events. The regional TA under Phase 1, which will be expanded to the new countries, is prioritizing capacity development focused 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.

34. Risks to program implementation are related to possible external shocks on the economies and capacity constraints of the government agencies, including constraints in PFM systems. These risks will be managed partially through 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.<sup>32</sup>

**Table 2: Summary of Risks and Mitigating Measures**

| <b>Risks</b>                                                                                                                   | <b>Mitigating Measures</b>                                                                                                                    |
|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| Insufficient action is taken on recommendations to improve financial management procedures for disaster response. <sup>a</sup> | The governments have actively strengthened PFM more broadly, and the Phase 1 TA will provide support to address weaknesses identified in PFM. |
| External shocks (e.g., disasters and economic downturns) damage the economies.                                                 | Development partners support the governments to improve resilience to economic shocks.                                                        |
| Government agencies lack capacity to implement the DRM actions.                                                                | The Phase 1 TA and support from other partners will develop the capacity of government counterparts.                                          |
| Staff constraints or shifting priorities delay implementation of DRM actions.                                                  | Periodic monitoring is conducted to assess and report on progress of the PPPF, and Phase 1 TA will support actions to further strengthen DRM. |

DRM = disaster risk management, PFM = public financial management, PPPF = post-program partnership framework, TA = technical assistance.

Source: Asian Development Bank

<sup>a</sup> Several completed plans or strategies under the reform areas include some recommendations on financial management procedures during disasters.

<sup>32</sup> Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

35. The Debt Sustainability Analysis for the Solomon Islands, the only country under Phase 2 accessing loan resources, indicates that the risk of external debt distress remains moderate, though it notes a high vulnerability to disasters triggered by natural hazards.<sup>33</sup> ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the governments and executing agencies.

#### **IV. ASSURANCES AND CONDITIONS**

36. The governments 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 agreements. No disbursement shall be made unless ADB is satisfied that a qualifying disaster event has occurred or that the conditions for deferred disbursement option have been met.

#### **V. RECOMMENDATION**

37. 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 grant not exceeding \$6,000,000 to the Federated States of Micronesia from ADB's Special Funds resources (Asian Development Fund) for the Pacific Disaster Resilience Program, Phase 2, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board;
- (ii) the grant not exceeding \$6,000,000 to the Kingdom of Tonga from ADB's Special Funds resources (Asian Development Fund) for the Pacific Disaster Resilience Program, Phase 2, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board;
- (iii) the grant not exceeding \$6,000,000 to the Republic of the Marshall Islands from ADB's Special Funds resources (Asian Development Fund) for the Pacific Disaster Resilience Program, Phase 2, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board;
- (iv) the loan of \$3,000,000 to Solomon Islands for the Pacific Disaster Resilience Program, Phase 2, 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; and
- (v) the grant not exceeding \$3,000,000 to Solomon Islands from ADB's Special Funds resources (Asian Development Fund) for the Pacific Disaster Resilience Program, Phase 2, 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

3 September 2019

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<sup>33</sup> International Monetary Fund Assessment Letters are accessible from the list of linked documents in Appendix 2.

## DESIGN AND MONITORING FRAMEWORK

| <b>Country's Overarching Development Objective</b><br>Resilience to climate change and disasters, as well as disaster preparedness, response, and recovery strengthened (Framework for Resilient Development in the Pacific, goals 1 and 3) <sup>a</sup> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                  |                                                                                                                                                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Results Chain</b>                                                                                                                                                                                                                                     | <b>Performance Indicators with Targets and Baselines</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>Data Sources and Reporting Mechanisms</b>                                                                                                                                                                                                                                                     | <b>Risks</b>                                                                                                                                      |
| <b>Effect of the Reform</b><br>DRM strengthened in participating developing member countries                                                                                                                                                             | Available pre-disaster financing increased to at least 0.5% of gross domestic product                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Finance ministries, program reports                                                                                                                                                                                                                                                              | External shocks (e.g., extreme disasters with impacts significantly larger than anticipated or unexpected economic downturns) damage the economy. |
| <b>Reform Areas</b>                                                                                                                                                                                                                                      | <b>Key Policy Actions</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                  |                                                                                                                                                   |
| 1. Policy, governance, and institutional arrangements for DRM strengthened                                                                                                                                                                               | <p>By May 2019:</p> <p>1.1. New disaster management plan with gender considerations approved (SOL) (2017 baseline: not applicable)</p> <p>1.2. Climate and Disaster Risk Financing Assessment completed, including assessment and recommendations on gender (FSM) (2017 baseline: not applicable)</p> <p>1.3. Gender-sensitive climate change country program strategies prepared (FSM, RMI) (2017 baseline: not applicable)</p> <p>1.4. Second Joint National Action Plan on climate change and DRM approved (TON) (2017 baseline: not applicable)</p> <p>1.5. Second Nationally Determined Contribution (NDC) with gender actions submitted to United Nations and NDC implementation plans prepared (RMI) (2017 baseline: not applicable)</p> | <p>1.1 Approved document from national disaster management offices</p> <p>1.2 Approved plan from government</p> <p>1.3 Approved document from national disaster management offices or committees</p> <p>1.4 Approved document from government.</p> <p>1.5 Approved document from government.</p> | 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 |  |
|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|-------|--|
| 2. DRM investment planning processes and tools improved                          | 1.6. Act for strengthening the disaster office through increased funding and/or staffing approved (FSM) (2017 baseline: not applicable)                                                                         | 1.6 Approved act from government.                                                                 |       |  |
|                                                                                  | 1.7. Provincial and local arrangements strengthened for DRM (provincial boards established) (SOL) (2017 baseline: not applicable)                                                                               | 1.7 Reports from provincial governments.                                                          |       |  |
|                                                                                  | 1.8. Lessons learnt report for DRM finalized, with gender considerations (TON) (2017 baseline: not applicable)                                                                                                  | 1.8 Approved reports from national disaster management office                                     |       |  |
|                                                                                  | By May 2019:                                                                                                                                                                                                    |                                                                                                   |       |  |
|                                                                                  | 2.1. Sector strategies or policies (e.g., urban, energy, environment) with climate- and disaster-resilience and gender analysis and actions approved by cabinet (RMI, FSM, SOL) (2017 baseline: not applicable) | 2.1 Approved documents from the relevant sector agencies                                          |       |  |
|                                                                                  | 2.2. Housing reconstruction strategy incorporating lessons learned from past disasters approved, and industry consultations on draft revised building codes completed (TON) (2017 baseline: not applicable)     | 2.2 Approved documents from relevant sector agencies                                              |       |  |
|                                                                                  | 2.3. Six national- or state-level tabletop exercise or drills on disaster response completed (RMI, FSM, TON) (2017 baseline: not applicable)                                                                    | 2.3 Approved reports from national disaster management office                                     |       |  |
|                                                                                  | 2.4. Joint meetings of disaster and climate change committees or working groups held once in 2018 (FSM, SOL) (2017 baseline: not applicable)                                                                    | 2.4 Approved minutes and reports from national disaster management and climate change committees. |       |  |
| 2.5. Emergency contingency plans developed (TON) (2017 baseline: not applicable) | 2.5 Approved document from national disaster management office                                                                                                                                                  |                                                                                                   |       |  |

| Results Chain                       | Performance Indicators with Targets and Baselines                                                                                                                                          | Data Sources and Reporting Mechanisms                  | Risks |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|-------|
| 3. Disaster risk financing expanded | 2.6 Five community disaster plans completed (FSM)<br>(2017 baseline: not applicable)<br><br>By May 2019:                                                                                   | 2.6 Community plan documents.                          |       |
|                                     | 3.1 Climate and disaster finance unit set up in finance ministry (SOL)<br>(2017 baseline: not applicable)                                                                                  | 3.1 Country program document from government           |       |
|                                     | 3.2 Government budgets committed to PCRAFI premium in financial year 2019 budget (RMI, TON)<br>(2017 baseline: not applicable)                                                             | 3.2 Government verification                            |       |
|                                     | 3.3 Government budgets committed to national emergency funds (RMI, FSM, SOL, TON)<br>(2017 baseline: not applicable)                                                                       | 3.3 Annual budget documents from ministries of finance |       |
|                                     | 3.4 Government commitment to gender-sensitive climate budgeting process published in Nationally Determined Contribution (NDC) implementation plan (RMI)<br>(2017 baseline: not applicable) | 3.4 Annual budget documents from ministries of finance |       |

### Budget Support

Asian Development Bank: \$24.0 million (\$3.0 million loan, \$21.0 million grant)

DRM = disaster risk management, FSM = Federated States of Micronesia, PCRAFI = Pacific Catastrophe Risk Assessment and Financing Initiative, RMI = Republic of the Marshall Islands, SOL = Solomon Islands, TON = Tonga.

<sup>a</sup> Secretariat of the Pacific Community. 2016. *Framework for Resilient Development in the Pacific: An Integrated Approach to Address Climate Change and Disaster Risk Management, 2017–2030*. Suva.

Source: Asian Development Bank.

### LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=50028-002-3>

1. Loan Agreement: Solomon Islands
2. Grant Agreement: Marshall Islands
3. Grant Agreement: Federated States of Micronesia
4. Grant Agreement: Solomon Islands
5. Grant Agreement: Tonga
6. Sector Assessment (Summary): Public Sector Management
7. Contribution to the ADB Results Framework
8. Development Coordination
9. Country Economic Indicators: Marshall Islands
10. Country Economic Indicators: Federated States of Micronesia
11. Country Economic Indicators: Solomon Islands
12. Country Economic Indicators: Tonga
13. International Monetary Fund Assessment Letter: Marshall Islands
14. International Monetary Fund Assessment Letter: Federated States of Micronesia<sup>1</sup>
15. International Monetary Fund Assessment Letter: Solomon Islands<sup>2</sup>
16. International Monetary Fund Assessment Letter: Tonga
17. Summary Poverty Reduction and Social Strategy
18. Risk Assessment and Risk Management Plan
19. List of Ineligible Items

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<sup>1</sup> The International Monetary Fund confirmed on 11 July 2019 that the attached press release for the FSM 2019 Article IV mission may serve as the IMF assessment letter.

<sup>2</sup> The International Monetary Fund confirmed on 18 April 2019 that the attached Solomon Islands 2018 Article IV Consultation reports may serve as the IMF assessment letter.

**DEVELOPMENT POLICY LETTER: MARSHALL ISLANDS**

**Republic of the Marshall Islands**  
**Ministry of Finance, Banking and Postal Services**

P.O. Box D, Majuro Marshall Islands 96960  
 Phone No. (692) 625-8311-8835

August 19, 2019

Mr. Takehiko Nakao  
 President  
 Asian Development Bank  
 No. 6 ADB Avenue  
 Mandaluyong City  
 1550 Metro Manila  
 Philippines

**DEVELOPMENT POLICY LETTER: MARSHALL ISLANDS**

The Republic of Marshall Islands (RMI) is one of the world's most vulnerable countries to climate change, mainly because of exposure to rising sea levels due to very low elevation (average 2 meters), and high dependency on rainfall for water supply. Droughts, floods, king tides, tropical cyclones, and erosion are the main hazards threatening RMI. The RMI comprises 29 atolls and five low-lying islands, which are separated by vast stretches of ocean. Due to RMI's isolation, communication, transportation and logistics during emergencies are challenging and expensive.

Examples of past disasters include severe droughts in 2013 and 2016, and a tropical storm in 2015. The drought of 2016 affected more than 53,000 people or around 7,800 households across the RMI. Analysis undertaken under the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) indicates that RMI faces an average annual loss from tropical cyclones, earthquakes, and tsunamis alone equivalent to 2.0% of gross domestic product; and probable maximum loss for a 1-in-50 year event, estimated only for tropical cyclones, earthquakes and tsunamis, of \$34.1 million.

The Government of RMI is committed to strengthening DRM capacity across the country. The National Action Plan for Disaster Risk Management 2008-2018 was developed in 2007, and in 2011 the government adopted the National Climate Change Policy Framework. National Strategic Development Plan 2015-2017 contains linkages to climate change and disaster risk management through its goal of environmental sustainability, and a new NSP is currently under preparation. The

National Infrastructure Investment Plan (NIIP) 2013-2023 recognizes the need for climate and disaster resilience measures.

The Tile Til Eo ("Lighting the Way") 2050 Climate Strategy was approved in September 2018, and in November 2018 RMI became the first country to submit new, binding climate targets to the United Nations in the Second Nationally Determined Contribution (NDC). Through the NDC, RMI also committed to producing a National Adaptation Plan (NAP) by the end of 2019 that sets out milestones to adapt to the impacts of climate change and transition to climate resilience, suggests implementation measures, and includes a plan to generate financing. RMI also developed an NDC Partnership Plan to accelerate on-the-ground implementation of its NDC, which outlines immediate actions for the next few years on mitigation, adaptation and fundamental cross-cutting areas including gender, human rights, and capacity building. The plan is linked to the 2050 Climate Strategy and second NDC, and is an open and evolving matrix to which respective ministries can continue to provide updates, and partners can continue to join in with new targeted support.

Under the Compact of Free Association with the United States, a Disaster Assistance Emergency Fund (DAEF), with an annual deposit of about \$240,000 by the Government of RMI, to be matched by a contribution of the same amount by the U.S. Government, was begun in 2005 and will end with a final contribution in 2023. The current balance of the DAEF is \$3.3 million. In addition, a contingency fund has been established under the control and supervision of the Ministry of Finance. The account maintains a minimum balance of \$200,000 at the commencement of each fiscal year. The World Bank's Pacific Resilience Program is also setting up a small contingency fund; and RMI participates in the Pacific Catastrophe Risk Insurance Company sovereign disaster insurance pool. In view of the limited financial arrangements for immediate disaster response, the government recognizes the need to strengthen financial preparedness for such purposes.

The Government of RMI commits to undertaking the following specific policy actions in advance of ADB Board consideration of the program, by May 2019:

- (i) The Tile Til Eo ("Lighting the Way") 2050 Climate Strategy, including gender considerations, approved;
- (ii) Second NDC, with gender considerations, and including commitments on National Adaptation Plan and Adaptation Communications, submitted to the United Nations Framework Convention on Climate Change;
- (iii) NDC Implementation Plan outlining immediate actions for 2019-2021 on mitigation, adaptation and fundamental cross-cutting areas including gender, human rights and capacity building approved;
- (iv) Environmental Protection Agency Strategic Plan 2018-2021 with disaster resilience considerations approved;
- (v) National environment management strategy 2017-2022 with climate and disaster resilience, as well as gender considerations approved;
- (vi) National tabletop exercise on disaster response completed;

- (vii) Contribution to the Disaster Assistance Emergency Fund included in 2019 budget;
- (viii) RMI contingency fund set aside included in 2019 budget;
- (ix) PCRIC insurance premium included in the 2019 budget.

These actions all form part of RMI's broader disaster risk 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 disaster resilience.

#### POLICY MATRIX: MARSHALL ISLANDS

| Reform Areas                                                                                | Policy Actions by May 2019                                                                                                                                                                                                                | Post program partnership framework                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Policy, governance, and institutional arrangements for disaster risk management improved | The Tile Til Eo ("Lighting the Way") 2050 Climate Strategy, including gender considerations, approved                                                                                                                                     | New National Strategic Plan developed; National Adaptation Plan prepared; Emergency Act of 1979 and Disaster Assistance Act of 1987 updated; Strengthening national government capacity for disaster risk management.                                                                                                                                                                                                                                                                                                                                                                     |
|                                                                                             | Second Nationally Determined Contribution (NDC), with gender considerations, and including commitments on National Adaptation Plan and Adaptation Communications, submitted to the United Nations Framework Convention on Climate Change. |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 2. DRM investment planning processes and tools improved                                     | NDC Implementation Plan approved outlining immediate actions for 2019-2021 on mitigation, adaptation and fundamental cross-cutting areas including gender, human rights and capacity building.                                            | Post-disaster procurement arrangements strengthened; All standard operating procedures for line ministries finalized; All TORs for clusters finalized; Community management plans prepared, and included in a centralized database; Tabletop exercise done for Ebeye; National Building codes, including climate and disaster considerations, approved by Cabinet; Regular meetings for climate change and DRM (including development partners) held at least annually; Zoning and land use master plan developed; Installing and maintaining climate-monitoring stations throughout RMI. |
|                                                                                             | Environmental Protection Agency Strategic Plan 2018-2021 with disaster resilience considerations approved                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                                                                                             | National environment management strategy 2017-2022 with climate and disaster resilience, as well as gender considerations approved;                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|                                                                                             | National tabletop exercise on disaster response completed                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 3. Disaster risk financing expanded                                                         | Annual contribution to the Disaster Assistance Emergency Fund in 2019 budget                                                                                                                                                              | Development of contingency plan and related capacity building focusing on financing and budgetary issues, including financing instruments for disaster response and post-disaster budget allocation, budget execution and expenditure reporting; DRM specified in national budgeting                                                                                                                                                                                                                                                                                                      |
|                                                                                             | RMI contingency fund set aside included in 2019 budget                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

|  |                                              |               |
|--|----------------------------------------------|---------------|
|  | PCRIC insurance premium included 2019 budget | expenditures. |
|--|----------------------------------------------|---------------|



Brenson S. Wase  
Minister of Finance, Banking & Postal Services

## POLICY MATRIX: MARSHALL ISLANDS

| Reform Areas                                                                                | Policy Actions by May 2019                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Post program partnership framework                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Policy, governance, and institutional arrangements for disaster risk management improved | <p>The Tile Til Eo (“Lighting the Way”) 2050 Climate Strategy, including gender considerations, approved</p> <p>Second Nationally Determined Contribution (NDC), with gender considerations, and including commitments on National Adaptation Plan and Adaptation Communications, submitted to the United Nations Framework Convention on Climate Change.</p>                                                                                                                                                                      | <p>New National Strategic Plan developed;<br/>National Adaptation Plan prepared;<br/>Emergency Act of 1979 and Disaster Assistance Act of 1987 updated;<br/>Strengthening national government capacity for disaster risk management.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 2. DRM investment planning processes and tools improved                                     | <p>NDC Implementation Plan approved outlining immediate actions for 2019-2021 on mitigation, adaptation and fundamental cross-cutting areas including gender, human rights and capacity building.</p> <p>Environmental Protection Agency Strategic Plan 2018-2021 with disaster resilience considerations approved</p> <p>National environment management strategy 2017-2022 with climate and disaster resilience, as well as gender considerations approved;</p> <p>National tabletop exercise on disaster response completed</p> | <p>Post-disaster procurement arrangements strengthened;<br/>All standard operating procedures for line ministries finalized;<br/>Terms of references for clusters finalized;<br/>Community management plans prepared, and included in a centralized database;<br/>Tabletop exercise done for Ebeye;<br/>National Building codes, including climate and disaster considerations, approved by Cabinet;<br/>Regular meetings for climate change and disaster risk management (including development partners) held at least annually;<br/>Disaster management center constructed;<br/>Zoning and land use master plan developed;<br/>Installing and maintaining climate-monitoring stations throughout RMI.</p> |
| 3. Disaster risk financing expanded                                                         | Annual contribution to the Disaster Assistance Emergency Fund in 2019 budget                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Development of contingency plan and related capacity building focusing on financing and budgetary issues, including financing instruments for disaster response and post-disaster budget allocation, budget execution and expenditure reporting; DRM specified in national budgeting expenditures.                                                                                                                                                                                                                                                                                                                                                                                                           |
|                                                                                             | RMI contingency fund set aside included in 2019 budget                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|                                                                                             | PCRIC insurance premium included 2019 budget                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |

## DEVELOPMENT POLICY LETTER: FEDERATED STATES OF MICRONESIA



Secretary of Finance  
&  
Administration

### GOVERNMENT OF THE FEDERATED STATES OF MICRONESIA Department of Finance and Administration

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August 28, 2019

Mr. Takehiko Nakao  
President  
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Philippines

### DEVELOPMENT POLICY LETTER: FEDERATED STATES OF MICRONESIA

The Federated States of Micronesia (FSM) is exposed to various natural hazards including storm surges, floods, tsunamis, tropical cyclones, droughts, earthquakes, and landslides. FSM is also vulnerable to climate change impacts, including rising sea levels, coastal erosion and shifting rainfall and storm patterns, which are increasing disaster risk further. FSM consist of over 600 islands and four states, spread over approximately 2900 kilometers. This presents a unique challenge to governance, service delivery, and communication in relation to disaster risk management (DRM), especially for remote outer island and lagoon communities.

Examples of past disasters include Typhoon Maysak, which passed though Yap and Chuuk in March 2015, causing fatalities and damaging houses, crops, and public infrastructure. In early 2016, the FSM was hit again by severe drought conditions, and in March 2018, Tropical Depression Jelawat brought heavy rainfall to Pohnpei State that resulted in flooding, landslides, damage to critical infrastructure. In February 2019, FSM declared a state of emergency due to Typhoon Wutip that passed through Yap and Chuuk. Analysis undertaken under the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) indicates that FSM faces an average annual loss from tropical cyclones, earthquakes, and tsunamis alone equivalent to 2.9% of GDP; and probable maximum loss for a 1-in-50 year event, estimated only for tropical cyclones, earthquakes and tsunamis, of \$75.3 million for FSM. The International Monetary Fund (IMF) in its 2017 staff report shaved off 0.5 percentage points of the long-term (2023–37) real GDP growth projections to reflect disaster risks, bringing it to 0.6%, compared with a non-disaster potential growth rate of 1.1%.

The responsibility for integrating disaster and climate related risks into development planning and budgetary processes rests largely on the states. Both the FSM Strategic Development Plan for 2004–2023, and the Infrastructure Development Plan, recognize the need for climate and disaster resilience measures. FSM developed a Multi-State Hazard Mitigation Plan in 2005, and in 2009 a national Climate Change Policy was adopted. The country developed a combined Policy for Climate Change Adaptation and Disaster Risk Management in 2013. This is being implemented

through State Joint Action Plans for Climate Change and Disaster Risk Management. A National Disaster Response Plan was developed in 2016 and, following this, state-level disaster response plans have been developed.

Under the Compact of Free Association with the United States, a Disaster Assistance Emergency Fund (DAEF), with an annual deposit of \$200,000 by the Government of FSM, to be matched by a contribution of the same amount by the U.S. Government, was begun in 2005 and will end with a final contribution in 2023. The current balance of the DAEF is \$3.6 million. In view of the limited financial arrangements for immediate disaster response, the government recognizes the need to strengthen fiscal buffers for such purposes.

The Government of FSM commits to undertaking the following specific policy actions in advance of ADB Board consideration of the program, by May 2019:

- (i) National Climate and Disaster Risk Financing Assessment completed, including assessment and action plan recommendations on gender;
- (ii) Department of Environment, Climate Change and Emergency Management strengthened through increased funding;
- (iii) Country program strategy for Green Climate Fund, including gender considerations, approved by the President;
- (iv) Tabletop exercises on disaster response completed for all 4 states;
- (v) Joint National Climate Change and DRM Platform convened once in 2018;
- (vi) 5 community disaster plans completed;
- (vii) National Energy Master Plans with disaster resilience considerations, as well as gender considerations including disaggregated data, approved;
- (viii) Contribution to the Disaster Assistance Emergency Fund included in 2019 budget.

These actions all form part of FSM's broader disaster risk 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 disaster resilience.

Yours sincerely



Senny Phillip  
Acting Secretary of Finance & Administration

**POLICY MATRIX: FEDERATED STATES OF MICRONESIA**

| <b>Reform areas</b>                                                                             | <b>Policy Actions by May 2019</b>                                                                                                              | <b>Post program partnership framework</b>                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Policy, governance, and institutional arrangements for disaster risk management strengthened | National Climate and Disaster Risk Financing Assessment completed, including assessment and action plan recommendations on gender.             | Strengthening national and state government capacity for disaster risk management;<br><br>Capacity building for post-disaster needs assessments at State level;<br><br>Updating of the Emergency Act.                                                                                                                                                                                                                                  |
|                                                                                                 | Strengthening of Department of Environment, Climate Change and Emergency Management through increased funding and staffing.                    |                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|                                                                                                 | Country program strategy for Green Climate Fund, including gender considerations, approved by the President.                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 2. DRM investment planning processes and tools improved                                         | Tabletop exercises on disaster response completed for all 4 states                                                                             | Preparation of national building code incorporating climate and disaster resilience considerations;<br><br>Maps of inundation risk and vulnerability and develop an inundation timeline that can inform state and national plans;<br><br>Master plan for zoning/land use at State level adopted;<br><br>Developing a national climate education program;<br><br>Installing and maintaining climate-monitoring stations throughout FSM. |
|                                                                                                 | Joint National Climate Change and Disaster Risk Management Platform convened once in 2018.                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|                                                                                                 | 5 community disaster plans completed.                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|                                                                                                 | National Energy Master Plans with disaster resilience considerations, as well as gender considerations including disaggregated data, approved; |                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| 3. Disaster risk financing expanded                                                             | Contribution to the Disaster Assistance Emergency Fund included in 2019 budget.                                                                | Development of contingency plan and related capacity building focusing on financing and budgetary issues, including financing instruments for disaster response and post-disaster budget allocation, budget execution and expenditure reporting.                                                                                                                                                                                       |

## DEVELOPMENT POLICY LETTER: SOLOMON ISLANDS

**MINISTER OF FINANCE AND  
TREASURY**



**MINISTRY OF FINANCE AND TREASURY  
P.O BOX 26, HONIARA  
SOLOMON ISLANDS**

**SOLOMON ISLANDS GOVERNMENT**

Ref: RF 459/11/39

Date: 28<sup>th</sup> August, 2019

Mr. Takehiko Nakao  
President  
Asian Development Bank  
6 ADB Avenue  
Mandaluyong, Metro Manila  
Philippines

Dear Sir,

**SUBJECT: DEVELOPMENT POLICY LETTER: SOLOMON ISLANDS**

Solomon Islands has been ranked sixth among the countries most at risk of disasters caused by natural hazards. The country experiences a wide range of natural hazards, including tropical cyclones, floods, drought, earthquakes, tsunamis, volcanic eruptions, and landslides. Climate change will affect disaster risks in Solomon Islands through changes in climate hazards, as more extreme weather events are likely to increase in the future.

Flooding has occurred frequently in Solomon Islands, inflicting significant losses on the economy. In 2014, prolonged heavy rainfall associated with a tropical depression caused severe flooding in Honiara and the surrounding Guadalcanal Province, disrupting agricultural product, causing significant damage to key economic infrastructure, and displacing one fifth of Honiara's population into emergency shelters. Total damage and losses were estimated at \$107.7 million, equivalent to 9.2% of Solomon Islands' gross domestic product (GDP).

Full data on historical losses is incomplete; however, recent analysis undertaken under the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) indicates that the country faces an average annual loss of \$20.5 million from tropical cyclones, earthquakes and tsunamis alone, with probable maximum losses of \$189.6 million, \$280.6 million and \$426.2 million from 1-in-50, 1-in-100 and 1-in-250 year events respectively, equivalent to approximately 15.8%, 23.3%, and 35.5% of GDP. The International Monetary Fund in its 2017 staff report shaved off 0.3 percentage points of the long-term (2023–37) real GDP growth projections to reflect disaster risks, bringing it to 3.2%.

The government has taken important steps to improve the country's resilience to disaster risks. The 2016-2035 National Development Strategy (NDS) includes DRM in its key objectives, and identifies medium-term strategies focusing on disaster risk management and climate change. The 2013 National Infrastructure Investment Plan

(NIIP) recognizes the importance of reducing exposure and vulnerability to natural hazards and strengthening effective response mechanisms, and climate risk management is incorporated in all transport projects under the National Transport Plan (NTP). The Infrastructure Management Bill is being revised to trigger a review of the country's building code, integrating climate and disaster risk considerations in building standards. A new National Disaster Management Plan (NDMP), approved in February 2018, simplifies the preparedness and post-disaster processes by delivering preparedness and response through the sectors and provincial and local arrangements.

The government has limited existing financial arrangements for disaster response but recognizes the need to strengthen fiscal buffers for such purposes. Unsecured recurrent and investment resources are available for unforeseen events, including natural hazards, via the contingency warrant. The National Disaster Management Office also receives a small annual budget allocation for relief purposes and is included in the provision for contingency warrants; and a disaster contingency allocation is included under the National Transport Fund (NTF) to address quick infrastructure response needs. Solomon Islands participated in the first few years of the PCRAFI insurance pilot, but subsequently withdrew after both the 2011 earthquake and 2014 floods failed to trigger payouts. Despite the steps already taken by the government to strengthen fiscal buffers, in the event of a significant disaster the government is unlikely to have sufficient resources to meet its immediate post-disaster needs, including recovery and reconstruction of damaged infrastructure like roads, bridges or buildings.

The Government of Solomon Islands commits to undertaking the following specific policy actions in advance of ADB Board consideration of the program:

- a) New Disaster Management Plan, with gender considerations, approved by the Cabinet;
- b) Provincial Boards for implementing the Town and Country Planning Amendment Act 2017 established for 8 provinces;
- c) Greater Honiara Urban Development Strategy and Action Plan, with gender considerations, approved by Cabinet;
- d) Consultations completed for the new National Urban Policy with climate and disaster resilience considerations;
- e) National Climate Change Working Group convened once in 2018;
- f) Government disaster relief budget maintained or increased in 2019, including dedicated funds for gender-based violence and social protection;
- g) Climate and disaster finance unit set up in Ministry of Finance and Treasury.

These actions all form part of Solomon Island's broader disaster risk management and reform 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 disaster resilience.

Yours Sincerely,




Honorable Harry D Kuma, MP  
Minister of Finance and Treasury

**POLICY MATRIX: SOLOMON ISLANDS**

| <b>Reform Areas</b>                                                                             | <b>Policy Actions by May 2019</b>                                                                                                             | <b>Post program partnership framework</b>                                                                                                                                                                                                                                                                                                                                                                      |
|-------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Policy, governance, and institutional arrangements for disaster risk management strengthened | New Disaster Management Plan, with gender considerations, approved by the Cabinet                                                             | Preparation of National Adaptation Plan;<br>Capacity building for city councils on using and implementing the land use plans;<br>Development of a resettlement policy, including climate and disaster considerations;<br>Strengthening provincial government capacity for DRM;<br>Approval of provincial disaster management plans;<br>Preparation for provincial standard operating procedures for disasters. |
|                                                                                                 | Provincial Boards for implementing the Town and Country Planning Amendment Act 2017 established for 8 provinces                               |                                                                                                                                                                                                                                                                                                                                                                                                                |
| 2. DRM investment planning processes and tools improved                                         | Greater Honiara Urban Development Strategy and Action Plan, with gender considerations, approved by Cabinet                                   | Preparation of national building code incorporating climate and disaster resilience considerations;<br>Localization of post-disaster needs assessment data collection process.<br>Revised draft Infrastructure Management Bill, mandating a national building code, approved by Cabinet<br>National Joint warning and emergency operations center established.                                                 |
|                                                                                                 | Consultations completed for the new National Urban Policy with climate and disaster resilience considerations.                                |                                                                                                                                                                                                                                                                                                                                                                                                                |
|                                                                                                 | National Climate Change Working Group convened once in 2018                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                |
| 3. Disaster risk financing expanded                                                             | Government disaster relief budget increased or maintained in 2019, including dedicated funds for gender-based violence and social protection. | Development of contingency plan and related capacity building focusing on financing and budgetary issues, including financing instruments for disaster response and post-disaster budget allocation, budget execution and expenditure reporting.                                                                                                                                                               |
|                                                                                                 | Climate and disaster finance unit set up in Ministry of Finance and Treasury.                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                                |

## DEVELOPMENT POLICY LETTER: TONGA

OFFICE OF THE MINISTER FOR FINANCE



MINISTRY OF FINANCE, NUKU'ALOFA  
TONGA

27 August, 2019

Mr Takehiko Nakao  
President of the Asian Development Bank  
6 ADB Avenue, Mandaluyong,  
Metro Manila  
Philippines

Dear Sir,

**Re: “Development Policy Letter – Kingdom of Tonga” - Pacific Disaster Resilience Program, Phase 2**

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 increased 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.

Cyclone risk was highlighted recently in February 2018 when the country experienced a national disaster following Cyclone Gita. The destructive winds, storm surges and flooding brought down power lines, damaged and destroyed schools, destroyed crops and fruit trees, and damaged public buildings, and private houses. The government led post-disaster rapid assessment estimated the total value of effects caused by the cyclone to be about \$164.3 million, equivalent to nearly 38% of the nominal 2017 gross domestic product in Tonga. The total recovery and reconstruction cost is estimated at \$148.7 million, significantly exceeding the government's ability to meet the costs of recovery and reconstruction. Previously, a cyclone in 2002 resulted in losses of \$60.0 million, and losses from another one in 2010 reached \$22.0 million. Tropical Cyclone Ian in 2014 resulted in total damage and losses of about \$50.0 million. Tonga is also located within the Pacific “ring of fire,” which is associated with extreme seismic activity.

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. In the next 50 years, Tonga has a 50% chance of experiencing a loss exceeding \$175 million and casualties higher than 440 people, and a 10% chance of experiencing a loss exceeding \$430.0 million and casualties higher than 1,700 people. These figures could increase if the impacts of climate change are considered.

The 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 government policies and plans. DRM is highlighted in the Tonga Strategic Development Framework, and a recently approved Second Joint National Action Plan (JNAP 2) summarizes Tonga's priorities regarding climate change adaptation and DRM. Also, the National Infrastructure Investment Plan highlights disaster risk management as responses to climate change.

P.O. Box 87, Vuna Rd, Nuku'alofa

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Email: [minister@finance.gov.to](mailto:minister@finance.gov.to)

**Fellow Chartered Accountant of Australia and New Zealand (FCA, ANZ)  
Member of Parliament of Tongatapu 10**

To enhance management of the fiscal risk associated with disasters, the government has established an Emergency Fund, and committed to maintain at least TOPS 5.0 million in any particular year, for natural hazard and other emergencies. The government also has a contingency fund of up to 5% of the annual government budget, which is available for range of purposes including Government response to disasters caused by natural hazards. In addition, 10% of routine road maintenance budget is reserved for emergency repairs. The Government of Tonga also participates in the PCRIC sovereign disaster insurance pool.

In December 2017, ADB approved the first phase of the Pacific Disaster Resilience Program, providing disaster contingent financing for Samoa, Tonga and Tuvalu. Following Cyclone Gita, Tonga withdrew all the available disaster contingent financing (\$6.0 million) under the program. The funds were released within 24 hours of receiving the government's withdrawal application. Tonga also accessed the Asia Pacific Disaster Response Fund (\$1.0 million for humanitarian response) and the Disaster Response Facility (DRF) of the Asian Development Fund. Of the \$8.8 million available for Tonga from the DRF, \$6.8 million was allocated for the Cyclone Gita Recovery Project, to reconstruct and climate and disaster proof the electricity network of Nuku'alofa; and \$2.0 million was proposed to be used for the proposed second phase of the Pacific Disaster Resilience Program.

Given that Tonga's disaster contingent financing under the first phase of the program was fully withdrawn, and 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.

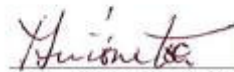
The Government of Tonga commits to undertaking the following specific policy actions in advance of ADB Board consideration of the program, by September 2019:

- (i) Second Joint National Action Plan on climate change adaptation and disaster risk management, with gender considerations, approved by Cabinet;
- (ii) Cyclone Gita lessons learnt report, with gender considerations, published;
- (iii) Housing reconstruction strategy incorporating lessons learned from Cyclone Gita approved;
- (iv) Industry consultations on the draft revised building codes completed;
- (v) National tsunami drill conducted once in 2018;
- (vi) Emergency contingency plan approved;
- (vii) Financial resources committed to the Emergency Fund through the FY2019/20 budget.
- (viii) Financial resources committed to the PCRAFI insurance premium through the FY2019/20 budget.

These actions all form part of Tonga's broader disaster risk 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 disaster resilience of Tonga.

I wish to avail myself this opportunity to renew to your good office the assurances of my highest consideration.

Yours sincerely,



Hon. Dr. Pohiva Tu'i'onetoa  
Minister for Finance



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Member of Parliament of Tongatapu 10

### POLICY MATRIX: TONGA

| Reform Areas                                                                                    | Policy Actions by May 2019                                                                                                                   | Post program partnership framework                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Policy, governance, and institutional arrangements for disaster risk management strengthened | Second Joint National Action Plan on climate change adaptation and disaster risk management, with gender considerations, approved by cabinet | Standard operating procedures for emergencies approved;<br>Revised Emergency management act and Emergency Management Plan, including the cluster structure, approved by the Cabinet;<br>Development of regulations supporting implementation of 2012 National Spatial Planning and Management Act, including climate and disaster resilience criteria;<br>Review of National Land Use Policy;<br>Completion of district disaster risk management plans for all districts;<br>Development of government hazard and disaster data sharing policy.                                                                                                                                                             |
|                                                                                                 | Cyclone Gita lessons learnt report, with gender considerations, finalized.                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 2. DRM investment planning processes and tools improved                                         | Housing reconstruction strategy incorporating lessons learned from Cyclone Gita approved                                                     | Revised building codes approved by the cabinet.<br>Capacity building to implement the building codes carried out;<br>Data preparedness to allow efficient data collection following disasters (to plan immediate response and recovery);<br>Development of Standard Operating Procedures for Public Financial Management to support timely post- disaster budget execution;<br>Post-disaster damage and needs assessment capacity building;<br>Development of country-relevant methodology and reporting formats for public infrastructure and assets.<br>Regular joint meetings of the National Environment and Coordinating Committee and the National Emergency Management Committee scheduled and held. |
|                                                                                                 | Industry consultations on the draft revised building codes completed                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                                                                                 | National tsunami drill conducted once in 2018.                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|                                                                                                 | Emergency contingency plan developed                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 3. Disaster risk financing expanded                                                             | Financial resources committed to the Emergency Fund through the FY2018/19 budget                                                             | Continued commitment of government resources to the Emergency Fund and PCRAFI premium in future annual national budgets to ensure a cost-effective layered application financing instruments to support the fiscal management of disaster risk;<br>Tonga climate change fund bill tabled to parliament.                                                                                                                                                                                                                                                                                                                                                                                                     |
|                                                                                                 | Financial resources committed to the PCRAFI insurance premium through the FY2018/19 budget                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |