



# Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 16-Dec-2016 | Report No: PIDISDSC20420



**BASIC INFORMATION**

**A. Basic Project Data**

Country Pacific Islands	Project ID P161533	Project Name PCRAFI : Furthering Disaster Risk Finance in the Pacific	Parent Project ID (if any)
Region EAST ASIA AND PACIFIC	Estimated Appraisal Date 08-Dec-2016	Estimated Board Date 31-Jan-2017	Practice Area (Lead) Finance & Markets
Lending Instrument Investment Project Financing	Borrower(s) SECRETARIAT OF THE PACIFIC COMMUNITY, Pacific Islands Forum Secretariat, Pacific Catastrophe Risk Insurance Company, Pacific Catstrophe Risk Insurance Foundation	Implementing Agency Pacific Islands Forum Secretariat, Secretariat of the Pacific Community, Pacific Catastrophe Risk Insurance Company, Pacific Catastrophe Risk Insurance Foundation	

Proposed Development Objective(s)

The project development objective is to improve access to post-disaster rapid response finance to Pacific Island Countries.

Components

- Establishment and Operations of PCRIC and PCRIF
- Capitalization of PCRIC
- Institutional Capacity Building on Disaster Risk Finance and Insurance
- Development of Disaster Risk Insurance Products
- Monitoring and Evaluation

**Financing (in USD Million)**

Financing Source	Amount
Pacific Catastrophe Risk Assessment and Finance Initiative	29.73
<b>Total Project Cost</b>	<b>29.73</b>

Environmental Assessment Category

C - Not Required



Decision

The review did authorize the preparation to continue

Other Decision (as needed)

## A. Introduction and Context

- 1. Pacific Island Countries (PICs) are highly exposed to adverse natural events, including tropical cyclones, earthquakes, volcanic eruptions, and tsunamis**, which can result in disasters affecting their entire economic, human, and physical environment. These events impact the PICs long-term development agendas. From 1950 to 2009, storm and earthquake damage cost PICs an estimated US\$7.2 billion (World Bank 2010). A tsunami that hit Samoa in September 2009 generated damage and losses in excess of US\$120 million, or 22 percent of gross domestic product (GDP); and a tropical cyclone hitting the country four years later caused damage and losses in excess of US\$195 million, or 35 percent of GDP (Government of Samoa, 2010 and 2014).
- 2. Four of the five PICs currently involved in the Pacific Disaster Risk Financing and Insurance (DRFI) Program— the Marshall Islands, Samoa, Tonga, and Vanuatu— are in the top 30 countries most vulnerable to natural disasters**, ranked according to annual expected disaster losses scaled by GDP. Of the five, Vanuatu and Tonga experience the largest annual expected disaster losses of 6.6 and 4.4 percent, respectively.
- 3. Critical challenges confront PIC governments in the aftermath of a disaster including securing access to short-term immediate financing for emergency response and maintenance of essential government services until additional resources become available.** PICs are restricted in their options for raising quick liquidity at the onset of a disaster because of their small size, limited borrowing capacity, and limited access to international insurance markets. The small size of PICs also tends to rule out geographic diversification of risk: subsidizing affected regions using revenues from unaffected regions is nearly impossible. High transaction costs, the inability to spread risk over a large territory, and the relatively small size of local economies keep insurance penetration in the region to a minimum. In the absence of easy access to debt and well-functioning insurance markets, a large proportion of the economic losses stemming from adverse natural events is borne by governments and households.

## B. Sectoral and Institutional Context

- 4. The PICs decided to establish the Pacific Catastrophe Risk Insurance Company (PCRIC) as a legally independent entity to manage the PCRAFI Insurance Program on October 29, 2015.** At the 2015 Forum Economic Ministers Meeting (FEMM) in Cook Islands, the Finance Ministers of the PICs agreed to establish an independent PCRAFI PCRIC to provide disaster and climate risk insurance to the region. During the twenty first Conference of Parties (COP21) as part of the G7-championed InsuResilience initiative (which aims to see 400 million people with access to insurance against climate and disaster related insurance) the PICs with support from the World Bank were able to secure several pledges to support the operationalization and operations of the PCRAFI PCRIC. This



marks a significant scale up in the work on increased financial resilience and country ownership of the disaster risk financing agenda by the PICs.

- 5. The optimal structure of the PCRAFI PCRIC was found to be a Foundation with a special purpose vehicle of a captive insurance company.** Several options for the management structure were analyzed in a technical background paper including legal due diligence on the domicile of the PCRIC. The best fit was found to be a Foundation, created for the purposes of establishing a collective which then owns a captive insurance company. A captive insurance company, while a legally independent entity, only exists to serve the insurance needs of its members, in this case the PICs. Such companies have special legislation and the Cook Islands was found to have the strongest regulatory framework within the region for hosting such company. This means that the highest governance is the Council of Members of the PCRAFI Foundation which will then oversee the decisions made by the Board of the PCRIC (see Annex 2 for the Governance Structure).
- 6. The PCRAFI Multi-Donor Trust Fund (TF072622) will finance the PCRAFI project that will support the operationalization and capitalization of the PCRAFI PCRIC.** The operationalization of the PCRIC, a dedicated entity to provide disaster and climate related insurance to the Pacific island countries will build capacity in both the private and public sector while helping to minimize the cost of premiums. In this regard the PICs called upon the World Bank to continue to provide technical assistance to support the operationalization of the PCRAFI PCRIC. The Multi-Donor Trust Fund (MDTF) has three components; (i) support to the PCRAFI project to operationalize the PCRAFI PCRIC; (ii) support to the PCRAFI project to deliver technical assistance to build capacity of the Ministries of Finance, regional organizations and that of the PCRIC; and (iii) support to associated project management costs. The Pacific Resilience Program (PREP) (via P154839, P154840, P155256 and P155257 for Samoa, Tonga, Vanuatu and Marshall Islands, respectively), a regional program launched in 2015, will also provide financing for premiums for the PICs.
- 7. This project builds on an earlier phase of the program that was launched in 2007.** A priority of the prior engagement has been to provide the PICs with disaster risk assessment and financing tools for enhanced disaster risk management and climate change adaptation. One of the key outputs of the previous phase of engagement was the development of the Pacific Risk Information System (PacRIS) which contains information on the hazard, exposure and vulnerability of fifteen PICs. This includes a database of over 5 million buildings and their attributes, the largest of its kind in the Pacific. PacRIS has been used to inform urban planning as well as support the development of the PCRAFI insurance Program.
- 8. The PCRAFI insurance pilot program was launched in January 2013 and helps reduce the financial vulnerability of PICs to natural disasters by use of parametric insurance** as a mechanism to inject immediate cash following a major tropical cyclone and/or earthquake/tsunami. The PCRAFI insurance program has made two payouts, one to Tonga, who received US\$1.3 million following Tropical Cyclone Ian in January 2014 and one to Vanuatu of US\$1.9 million following Tropical Cyclone Pam in March 2015. Both payouts were among the first injections of cash each received within ten days of the occurrence of the disaster.



9. For the purposes of this project the PICs initially selected to participate are the Cook Islands, Marshall Islands, Samoa, Tonga and Vanuatu. It is expected this will grow over the lifespan of the project as additional products are developed.

### C. Proposed Development Objective(s)

The project development objective of the PCRAFI project is to improve access to post-disaster rapid response finance for Pacific Island Countries.

#### Key Results

10. The achievement of the PDO will be measured through the following key indicators:
  - PCRIC operationalized
  - PCRIC makes full insurance payout within 30 days of the occurrence of a covered (insured) event
  - The claims paying capacity of the PCRIC is enough to sustain a 1-in-200 year insured loss

### D. Project Description

11. **The project consists of five components for execution by four recipients.** These include (i) establishment and operations of the PCRIC and the PCRIF; (ii) Capitalization of the PCRIC; (iii) Institutional Capacity Building on Disaster Risk Financing and Insurance; (iv) Development of Disaster Risk Insurance Products; and (v) Monitoring and Evaluation. It will be executed by the Pacific Catastrophe Risk Insurance Company (PCRIC), the Pacific Catastrophe Risk Insurance Foundation (PCRIF), Secretariat of the Pacific Community and the Pacific Islands Forum Secretariat.
12. **Component 1. Establishment and Operations of the PCRIC and the PCRIF (US\$1.3 million):** Provision of technical and financial support for establishment and operations of the PCRIC and the PCRIF, including *inter alia* professional service fees, registration fees audit costs, executive recruitment firm and other related fees, in order to:
  - (i) Provide disaster and climate-related risk insurance for the Beneficiary Countries;
  - (ii) Improve affordability of high quality sovereign catastrophe risk transfer associated with earthquakes and climate-related events.
13. **Component 2. Capitalization of the Pacific Catastrophe Risk Insurance Company (PCRIC) (US\$20.1 million):** This component supports the capitalization of the PCRIC through two sub components as follows;
  - a. **Shareholder capital of the PCRIC:** Financing to the Foundation to subscribe share capital in the PCRIC (US\$0.1 million). The provision of a minimum shareholder capital of NZ\$100,000 was a condition of the Captive insurance license for the PCRIC stipulated by the FSC and ensures compliance with the Captive Insurance Act 2013. The PCRIC must hold the capital amount set by the FSC. However, the Constitution set this amount to be higher and issued one share with a value of US\$100,000. Note that as the payment for such share subscription has already been made, the Grant funding under this sub-component will be used by the Foundation to reimburse the pre-financing of such payment.



- b. **Capitalization Funds for the PCRIC:** Financing the “capitalization funds”, which is to be provided to PCRIC in the form of a grant and recognized as income of PCRIC for accounting purposes. The capitalization funds under this sub-component will be used to earn investment income and in extreme years support insurance payouts as they fall due. The finance for this sub-component will be provided in phases, agreed upon with the PCRAFI MDTF Steering Committee (SC) and it was agreed that the amounts to be provided will be determined by the actuarial business needs of the PCRIC. The financing under this component is only for the purposes of enabling the PCRIC to:
- (i) Invest and generate income for the Company to finance its operations;
  - (ii) Make Insurance Payout rapidly and be partially reimbursed by the reinsurers;
  - (iii) Provide the ability to retain and manage a portion of the risk while the rest is passed to the reinsurance markets.

It is recognized by all that the capitalization funds provided for this may need to be used to help the PCRIC meet the costs of payouts in an extreme year where retained earnings are not sufficient to cover the insurance loss payout, but if this occurs the funds used are to be replenished from future years retained earnings to be maintained at the amount provided by donors. To minimize the likelihood of this occurring, funding requirements have been estimated to ensure that payouts from events with a frequency of 250 years can be met, after allowing for recoveries from the reinsurance arrangements the PCRIC is expected to put in place. The likelihood of such an extreme year occurring is less than 0.5% (See Annex 6).

The initial disbursement shall be for **US\$6 million** – upon issuance of the Company’s captive insurance license by the FSC in the Cook Islands.

The second disbursement of capitalization funds will be transferred based upon actuarial analysis, which will be prepared as part of the Business Plan and Budget, and submitted to the Bank for review and approval by no later than August 30, 2017.

**14. Component 3. Institutional Capacity Building on DRFI (US\$2.3 million):** This component supports the institutional capacity building on DRFI through two sub components as follows:

(a) Strengthening the institutional capacity of the PCRIC, national and regional level organizations and the ministries of the Pacific Island Countries on disaster risk financing and insurance, including provision of trainings on (i) post-disaster public financial management and post disaster budget execution, mobilization and reporting and (ii) hazard exposure database which underpins the parametric insurance model.

(b) Strengthen the institutional capacity of the PCRIC, the national and regional level organizations and the relevant ministries of the Pacific Island Countries on disaster risk financing and insurance, including convening of regional workshops and forums for (i) promoting peer to peer learning exchange, (ii) engaging high-level dialogue on disaster risk financing solutions and (iii) ensuring regional representation at global events on disaster risk finance.

**15. Component 4. Development of Disaster Risk Insurance Products (US\$5.5 million):** This component supports the development of disaster risk insurance projects through two sub components as



follows:

- (a) Conduct a program of activities for the development, refinement and implementation of geophysical and climate-related risk insurance products, including:
  - (i) Parametric geophysical insurance to support the PCRIC to design and/or modify insurance products to provide coverage against major geophysical events and associated sub-hazards.
  - (ii) Parametric climatic insurance to support the PCRIC to design and/or modify insurance products to provide coverage against major hydro-meteorological events and associated sub-hazards.
  - (iii) Mutual disaster risk insurance to support the PCRIC to design mutual disaster risk insurance products (such as hybrid disaster risk insurance product to cover medium sized disasters).
- (b) Update the hazard exposure database which underpins the insurance transaction.

**16. Component 5. Monitoring and Evaluation (US\$0.53 million):** In the event of an Insurance Payout countries will be required to report on the use of funds. This will cover monitoring the Insurance Payout process, the budget execution process, and ex post reporting on the use of funds. A process will be developed to ensure that countries report on how any payouts received were used and should this not be done to a level that satisfies the members of the PCRIC an independent auditor can be requested by the Council of Members (CoM) to produce additional reports. Once this funding is exhausted these costs become the responsibility of PCRIC. This item will also include the monitoring and evaluation of the project activities.

## E. Implementation

- 17. Project ownership:** The PCRIF and the PCRIC are established for the benefit of the PIC member countries, and they are governed by the PIC member countries in conjunction with contributing donors. The Foundation was established for the purpose of creating a collective ownership structure to own the group captive insurer.<sup>1</sup>
- 18. Project design considerations:** The PCRIC shall use and maintain insurance payout contracts with the PICs and agreements with the reinsurers which are satisfactory to the WB. The PCRIC is furthermore obligated to invest capitalization funds in accordance with the criteria, selection, and process of investments stipulated in the project operations manual of PCRIC.
- 19. Project implementing agencies:** The PCRIC will be the main counterpart for the project for components 1, 2(b), 4(a) and 5, and it will enter into a grant agreement with the Bank to receive grant funds for the implementation of such components. The PCRIF will enter into a separate grant agreement with the Bank to receive grant funds under component 2(a) to finance its subscription of

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<sup>1</sup> Such insurers exist to serve the insurance needs of their members only.



share capital in the PCRIC to satisfy the share capital requirements stipulated by the FSC, and PCRIF will undertake in the grant agreement to carry out its various functions prescribed under the Pacific Catastrophe Risk Insurance Facility Act 2016 of the Cook Islands, the Foundation Rules and the Constitution of PCRIC to ensure proper implementation of the Project by PCRIC. SPC will play a role in implementation of components 3(a) and 4(b) and PIFS will implement component 3(b). SPC and PIFS will each enter into separate grant agreements with the Bank to receive the grant funds for their implementation of the respective components. In addition, under components 3 and 4 the project will use the project management units that were established as part of the PREP in PIFS and SPC where possible to help ensure that there is a coordinated approach to disaster risk management more broadly.

- 20. Governance structure of the PCRIF:** The PCRIF and PCRIC were established by legal statute under the Pacific Catastrophe Risk Insurance Facility Act (2016) of the Cook Islands. The PCRIF will be governed by the Foundation Rules (see Annex 7) which stipulate the decision making processes of the Council of Members which currently consists of the five member countries (Cook Islands, Marshall Islands, Tonga, Samoa and Vanuatu) and the four contributing donors (Germany, Japan, UK and US). The inclusion of donors was requested as a means to mitigate any political pressure that may not be in the commercial interests of the company. The CoM represents the highest level of decision making across the two entities. The Board of the PCRIC will report to the CoM for their endorsement of operational decisions. The PCIF holds the sole share of the PCRIC that was issued on June 10th, 2016.
- 21. Governance structure and institutional arrangements of the PCRIC:** PCRIC will maintain qualified and experienced management and staff in adequate numbers, including an Insurance Manager and a Chief Executive Officer (CEO) at all times throughout the implementation of the Project. The Insurance Manager has been appointed and the CEO will be appointed by no later than the end of the interim period described in paragraph 43 below. On a day-to-day basis the PCRIC oversight will be managed by the CEO who will report in to the Board of Directors that shall be comprised of industry and regional experts to ensure a balance of regional and commercial expertise to best service the insurance needs of the region.
- 22. Interim Arrangements for the PCRIC:** As the PCRIC is being operationalized a series of interim arrangements have been detailed in section 57 of the PCRIC constitution. These state that Financial Secretary of Ministry of Finance and Economic Management of the Cook Islands shall act as an interim Director with the resident Director. This is to enable the PCRIC to commence key operations such as the appointment of an insurance manager and auditor while the Board of Directors are being recruited. The interim period will cease on April 30, 2017 at which time the CEO are expected to be in place and the five Board of Directors are expected to be appointed by the PCRIF and their appointments to take effect under the Cook Islands law and the PCRIC Constitution. The Bank and the donors contributing to the MDTF agreed to this interim solution given the need for rapid action. It is expected that these arrangements cease on April 30, 2017 or upon such date as the Board of



Directors is recruited, whichever falls first<sup>2</sup>. Under the interim arrangements an Insurance Manager was appointed on October 27th, 2016 who will be responsible for the FM of the PCRIC.

- 23. Governance structure of the Secretariat of the Pacific Community (SPC) Geosciences Division:** SPC will be governed by their policies and procedures. The SPC were instrumental in the development of the PacRIS and will play a valuable role in updating the exposure database which underpins the loss calculation which determines the payout. This work will commence in Fiscal year 2018. This work will be carried out in coordination with the project management unit that was established under PREP in SPC.
- 24. Governance structure of Pacific Islands Forum Secretariat (PIFS) Economic Governance and Political & Security Programs:** PIFS will be governed by their policies and procedures. If necessary, international experienced consultants can be engaged to complement the capacity of PIFS to provide the needed TA and the budget can be amended via a restructuring to reflect this. This work will be carried out in coordination with the project management unit that was established under PREP in SPC.
- 25. Regulation:** As the Facility (Foundation and Company) is domiciled in the Cook Islands, it will be regulated by the Cook Islands FSC who conducted due diligence on the interim Board and granted its captive insurance license. The Cook Islands Financial Supervisory Commission stipulates the minimum capital requirements (this was set at NZ\$100,000). However, the Council of Members set a higher share capital ratio of US\$0.1 million to be held in the form of one share (see Annex 8) as per the Captive Insurance Act 2013 and the Pacific Catastrophe Risk Insurance Act 2016 (See Annex 5) that stipulate the associated reporting requirements. The Foundation is governed by the Foundation Rules
- 26. It should be noted that there are no physical investments proposed under this project and there will be no studies that will lead to future physical investments.**

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<sup>2</sup> Although April 2017 is the expected timeline which the interim period will end under the PCRIC constitution, November 1, 2017 is specified as the timeline which such interim period is expected to end in the legal agreements as this is when the next insurance season will start and all appointments should have been made.



**F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)**

**G. Environmental and Social Safeguards Specialists on the Team**

Ross James Butler

**SAFEGUARD POLICIES THAT MIGHT APPLY**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

**KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT**

**A. Summary of Key Safeguard Issues**

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:
2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.



4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

## **B. Disclosure Requirements**

## **C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)**

### **The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank's Infoshop?

NA

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

NA

### **All Safeguard Policies**

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

NA

Have costs related to safeguard policy measures been included in the project cost?

NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

NA



## CONTACT POINT

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**APPROVAL**

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**Approved By**

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Country Director:	Michel Kerf	06-Jan-2017

