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Contingent Disaster Financing under Policy-Based Lending in Response to Natural Hazards

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
Cat DDO	–	catastrophe deferred drawdown option
CDF	–	contingent disaster financing
COL	–	concessional ordinary capital resources lending
DEAP	–	Disaster and Emergency Assistance Policy
DMC	–	developing member country
EAL	–	emergency assistance loan
GDP	–	gross domestic product
IDA	–	International Development Association
IMF	–	International Monetary Fund
OCR	–	ordinary capital resources
PBL	–	policy-based lending/loan
PPPF	–	post-program partnership framework
RAC	–	resources available for commitment

NOTE

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

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EXECUTIVE SUMMARY

Climate change and disasters threaten the long-term sustainability of development in the Asia and Pacific region. The region is experiencing a significant increase in the number, intensity, and impact of extreme weather events such as tropical cyclones, floods, droughts, and heat waves. Geophysical hazards, including earthquakes and tsunamis, have also caused significant loss of lives and economic damage.

Strategy 2030 sets the course for the Asian Development Bank (ADB) to respond more effectively to the region's changing needs. This includes a comprehensive approach to building disaster resilience and strengthening the financial preparedness of development member countries (DMCs) for disaster response.

In line with this objective, this paper proposes to introduce contingent disaster financing (CDF) as a financing option under ADB's policy-based lending to expand ADB's toolkit for stepping up disaster preparedness and response. CDF will provide a quick-disbursing and flexible source of financing for DMCs impacted by disasters triggered by natural hazards until funds from other sources become available. CDF will also support ADB's efforts to scale up the policy dialogue with DMCs on disaster preparedness and risk management.

This proposal builds on the experience in providing contingent financing for natural hazards for the Cook Islands in 2016; the Pacific Regional Disaster Resilience Program, covering Tonga, Samoa, and Tuvalu, in 2017; and Palau in 2018. It will clarify the scope, requirements, and business processes for CDF operations to mainstream this instrument across ADB.

A key feature of CDF is that it enables loan processing and essential policy dialogue and reforms to be completed before a disaster triggered by a natural hazard occurs, with disbursements made upon satisfaction of pre-agreed disbursement condition(s). Such an arrangement enables ADB to engage in up-front and in-depth policy dialogue on disaster resilience and preparedness in collaboration with partner governments, and quickly provide necessary budgetary resources as post-disaster response.

The rapid provision of liquidity is often necessary in the immediate aftermath of natural disasters to relieve fiscal constraints to urgent relief and early recovery, and to avoid large disruptive fiscal reallocations from ongoing national budget programs. Where necessary, CDF disbursements can be succeeded by follow-up assistance through ADB's other emergency or regular lending instruments in support of recovery and reconstruction.

The proposal is aligned with the operational priority of tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability of ADB's Strategy 2030, and with ADB's commitment to support the Sendai Framework for Disaster Risk Reduction by strengthening support for the integration of disaster risk management into DMCs' development plans and budgets.

I. INTRODUCTION AND BACKGROUND

1. Asia and the Pacific is the world's most natural-hazard-prone area. From 2014 to 2017, countries in this region suffered 55 earthquakes, 217 storms and cyclones, and 236 cases of severe flooding, affecting 650 million people and causing the deaths of nearly 33,000 people.[1] Between 1970 and 2016, Asia and the Pacific lost an estimated $1.3 trillion in assets because of disasters caused by natural hazards.[2] Disasters have had particularly devastating economic consequences in the developing member countries (DMCs) of the Asian Development Bank (ADB).[3] For example, and as shown in the table below, the damage and losses from a 2011 flood in Thailand totaled about $47 billion, equivalent to 12% of the country's gross domestic product (GDP); and those from a 2015 earthquake in Nepal were equivalent to about one-third of the national GDP. The severity of disasters in the region underscores the importance for ADB to make continual efforts to enhance its capacity to support disaster preparedness and to respond more efficiently and effectively to natural disaster events in its DMCs.

Selected Disasters triggered by Natural Hazards in ADB Developing Member Countries

Country	Year	Disaster	Estimated Disaster Impact	
			($ billion)	(% of GDP)
Indonesia	2004	Earthquake and tsunami	4.45	2.0
Maldives	2004	Tsunami	0.47	62.0
Bangladesh	2007	Cyclone	1.67	2.8
Myanmar	2008	Cyclone	4.13	21.0
Philippines	2009	Typhoon	4.38	2.7
Samoa	2009	Earthquake and tsunami	0.12	22.0
Pakistan	2010	Floods	10.05	5.8
Pakistan	2011	Floods	3.73	1.6
Thailand	2011	Floods	46.50	12.0
Samoa	2012	Cyclone	0.20	28.0
Fiji	2012	Cyclone	0.10	2.6
Philippines	2013	Typhoon	12.90	0.9
Solomon Islands	2014	Floods	0.10	9.2
Nepal	2015	Earthquake	7.06	33.0
Vanuatu	2015	Cyclone	0.45	64.1
Myanmar	2015	Floods and landslide	1.51	3.1
Fiji	2016	Cyclone	0.90	20.0
Tonga	2018	Cyclone	0.16	38.0
Indonesia	2018	Earthquake and tsunami	2.20	0.22

GDP = gross domestic product.
Note: The table includes a sample of events for which post-disaster damage, loss, and needs assessments have been completed by affected developing member countries.
Source: Post-disaster damage, loss, and needs assessments by governments and development partners (all references are available upon request).

2. This paper proposes to introduce contingent disaster financing (CDF) as a financing option under ADB's policy-based lending (PBL) policy[4] to expand ADB's toolkit for stepping up disaster

[1] United Nations. 2018. *Global Humanitarian Overview: 2019*. New York. p. 15.
[2] United Nations Economic and Social Commission for Asia and the Pacific. 2018. *Asia-Pacific Disaster Report: Leave No-one Behind.* Bangkok.
[3] Six of the 10 countries most severely affected by extreme weather events across the globe during 1996–2015, in terms of both fatalities and economic losses, are ADB DMCs (Bangladesh, Myanmar, Pakistan, Philippines, Thailand, and Viet Nam). S. Kreft et al. 2016. *Global Climate Risk Index 2017: Who Suffers Most from Extreme Weather Events? Weather-related Loss Events in 2015, and 1996 to 2015*. Bonn: Germanwatch e.V.
[4] ADB. 2011. *Review of ADB's Policy-Based Lending*. Manila; and ADB. 2016. *Review of ADB's Lending Instruments for Crisis Response*. Manila.

preparedness and response.[5] CDF envisages that loan[6] processing and essential DMC policy dialogue and reforms are completed before a natural hazard occurs, with disbursements made upon satisfaction of pre-agreed disbursement condition(s). Such an arrangement enables ADB to engage in up-front and in-depth policy dialogue on disaster preparedness with the DMC government, and quickly provide necessary budgetary resources as post-disaster response. The proposal is aligned with ADB's operational priority of tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability under its Strategy 2030;[7] and its commitment to support the Sendai Framework for Disaster Risk Reduction[8] by helping DMCs to fully integrate disaster risk management into their development plans and budgets. The proposal is also aligned with ADB Management's agreement to formalize CDF as per the recommendation made by the Independent Evaluation Department in Corporate Evaluation Study on Policy-Based Lending: 2007–2018.[9]

3. The World Bank first introduced a contingent financing mechanism called catastrophe deferred drawdown option (Cat DDO) in 2008 for its nonconcessional development policy lending at the International Bank for Reconstruction and Development.[10] In 2017, it also introduced Cat DDO for concessional assistance at the International Development Association (IDA).[11] The prerequisites for a borrowing client include an adequate macroeconomic policy framework and a satisfactory disaster risk management program in place (or under preparation), which the World Bank will monitor periodically. Funds become available for disbursement once the drawdown trigger—typically the member country's declaration of a state of emergency—is met. The standard lending terms of the International Bank for Reconstruction and Development are applicable, except that Cat DDO has a revolving function, whereby the amount repaid before loan closing will become available again for drawdown. Cat DDO may be renewed (with a fee) four times up to 3 years each time, for a total deferral of 15 years. Cat DDO for concessional assistance offers a 50% top-up to the country's concessional core IDA allocation, with the balance financed by IDA's overall resources. Upon drawdown, IDA concessional rates apply. The drawdown period is 3 years, which may be renewed once for a maximum of 6 years. To ensure harmonization across multilateral development banks operating in the Asia and Pacific region, most features of the proposed CDF are aligned with those of Cat DDO.

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[5] To date, the ADB Board of Directors has approved three policy-based lending operations with contingent disbursement conditions for natural disasters, and two for countercyclical fiscal support. ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to the Republic of Indonesia for the Public Expenditure Support Facility.* Manila; ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to the Republic of Indonesia for the Precautionary Financing Facility.* Manila; and: ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to Cook Islands for the Disaster Resilience Program.* Manila; ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan for the Pacific Disaster Resilience Program*. Manila; and ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to Palau for the Disaster Resilience Program.* Manila.

[6] Refers to both loan and grant financing, as the context requires.

[7] ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

[8] United Nations Office for Disaster Risk Reduction. 2015. *Sendai Framework for Disaster Risk Reduction 2015–2030*. Japan.

[9] ADB. 2018. *Policy Based Lending 2007–2018: Performance, Results, and Issues of Design*. Manila.

[10] World Bank. 2008. *Proposal to Enhance the IBRD Deferred Drawdown Option (DDO) and to Introduce a DDO Option for Catastrophe Risk.* Washington, DC.

[11] World Bank. 2017. *Addition to IDA Resources: Eighteenth Replenishment*. Washington, DC.

II. ADB'S RESPONSE TO NATURAL HAZARDS

A. Current Modality for Emergency Assistance

4. In 2004, ADB introduced the emergency assistance loan (EAL) under the Disaster and Emergency Assistance Policy (DEAP).[12] These loans help rebuild high-priority physical assets and restore economic, social, and governance activities after emergencies. For ADB's emergency response, the DEAP allows the processing of EALs through shortened business processes, including Board consideration within 1 week after circulation of the report and recommendation of the President. ADB's procurement policies may also be interpreted flexibly, and quick-disbursing components may be included as an integral part of the EAL design. With these features, EALs have played an important role in ADB's emergency response. Since 2005, DMCs have benefited from 40 EAL projects totaling $6.7 billion.

5. However, the processing of an EAL occurs only after a disaster event and involves a delivery time of up to 12 weeks. Thus, the loan is not yet committed when the disaster strikes, leaving an inevitable time lag that could be critical at the time of emergency. Also, the DEAP clarifies that EALs are not program loans—a term subsequently revised to policy-based lending[13]—and limits the use of quick-disbursing components.[14] By implication, this limits the rapid provision of flexible liquidity support that the PBL modality allows.

6. Another gap in the EAL approach is the limited time allowed for a medium-term policy dialogue with the DMC during loan processing. The DEAP provides the possibility of including loan conditions related to the underlying causes of emergencies that are directly linked to disaster preparedness measures. However, the depth of policy dialogue achieved in the immediate aftermath of a disaster, while the EAL is being processed, is limited. When possible, the essential policy dialogue on disaster preparedness should be completed earlier, before an emergency occurs. In principle, conditions should be designated as prior actions that can be completed when ADB and the DMC government have sufficient time for an in-depth policy dialogue.[15]

B. Need for Contingent Budget Support

7. The most cost-effective way of financing disaster response is through a set of different tools in a common framework that suit different layers of risk—no single instrument can optimally respond to all disaster events, which range from frequent, small-scale events to rare catastrophic events.[16] Box 1 illustrates the variety of potential financing tools, from budget allocations suitable for low-impact, high-frequency events (such as stormwater overflow), to contingent credit lines for medium-severity events but where the DMC retains the financial risks. More sophisticated risk-transfer insurance products such as catastrophe bonds can then be used to deal with rare but highly damaging events that a DMC could not manage with its own financial capacity, as may be the case after high-magnitude earthquakes.

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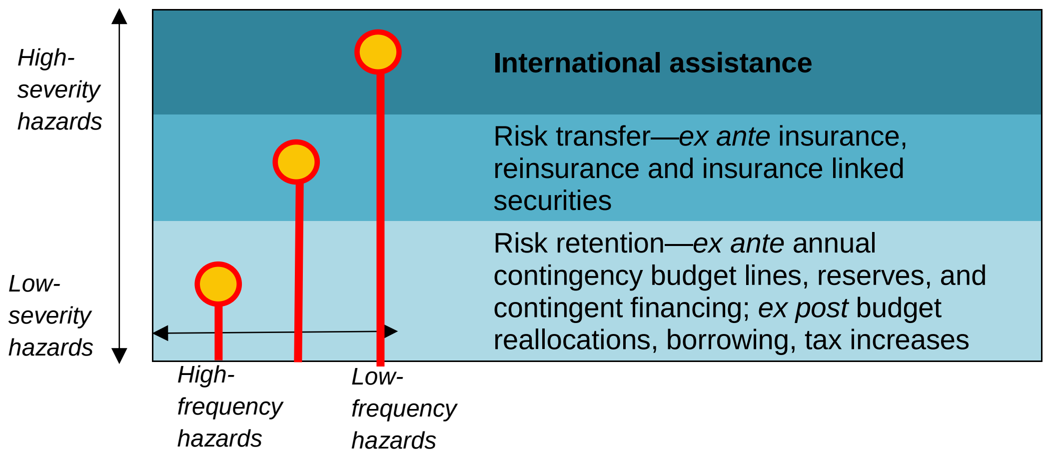
[12] ADB. 2004. *Disaster and Emergency Assistance Policy.* Manila. Review of the policy is ongoing.
[13] "Program lending" was renamed "policy-based lending" as part of the PBL policy review in 2011 (ADB. 2011. *Review of ADB's Policy-Based Lending*. Manila).
[14] Under the DEAP, the use of a quick-disbursing component is allowed only to finance a list of imports identified as necessary for an effective recovery program.
[15] Policy dialogue may cover many facets of disaster preparedness and response, e.g., strengthening the capacity of emergency response systems, enhancing financial and budget management mechanisms, improving national building codes and their implementation, promoting risk-sensitive land use planning, and bolstering public expenditure management for disaster-resilient public infrastructure.
[16] D. Clarke et al. 2016. *Evaluating Sovereign Disaster Risk Financing Strategies: A Framework.* Washington, DC.

Box 1: Risk Layering as a Strategic Approach to Disaster Risk Financing

Governments can choose from several disaster risk financing instruments that support stronger financial preparedness for disasters. In line with recognized good practice, the Asian Development Bank advocates a risk-layered approach to ensure the optimal bundling of instruments. Risk layering breaks disaster risk down according to the frequency or probability of a hazard event occurring, and associated levels of loss for each layer of risk, and determines the most cost-effective instruments for each layer.

Layered Approach to Disaster Risk Financing



Source: Asian Development Bank.

These instruments begin with risk retention tools for more frequent, less damaging events and include annual contingency budget allocations, disaster reserves, and contingent financing arrangements, all of which are put in place before a disaster strikes. In the aftermath of a disaster, governments can also re-allocate budgets, increase borrowing, and raise taxes to provide additional resources. Risk transfer solutions are typically a more cost-efficient source of financing for medium-level risks that generate higher levels of loss but occur less frequently. They include insurance and insurance-linked securities, such as catastrophe and resilience bonds, and are taken out in anticipation of potential disasters, with associated premium and coupon payments spreading the cost of disaster response over time. In the event of major disasters, governments also appeal to the international community for assistance. To maximize the effectiveness of this approach, governments also need to establish strong and effective recovery planning and post-disaster budget execution capabilities to ensure that available resources can be utilized quickly and effectively. An example of how the risk-layering approach has been applied to several Pacific DMCs can be found in Appendix 1.

Source: Asian Development Bank.

8. Assistance at the inception phase of emergency response could take the form of contingent budget support to complement other forms of interventions.[17] For ADB to respond immediately after a disaster strikes, all loan processing works, including policy dialogue with the DMC

[17] In addition to EALs as a financing modality, ADB also has several resource windows related to disaster risk management. For instance, the Disaster Response Facility provides resources to assist concessional assistance-only countries in responding to natural hazards. Disaster risk reduction grants under the Asian Development Fund 12 help spur investment in concessional assistance-only countries by strengthening disaster resilience and encouraging further investment in this area (ADB. 2016. *Concessional Assistance Policy.* Manila). The Asia Pacific Disaster Response Fund provides quick-disbursing grants of up to $3 million per disaster event to assist DMCs in meeting the immediate expenses needed to restore life-saving services to affected populations (ADB. 2009. *Establishment of the Asia Pacific Disaster Response Fund*. Manila).

government and the requisite reform work, should be completed up front, leaving only disbursement to be triggered at the time of emergency. Such an approach should take the form of general budget support to allow the flexible use of ADB's financial assistance. The rapid provision of liquidity is often necessary in the immediate aftermath of natural disasters to relieve the DMC government's fiscal constraints to urgent relief and early recovery, and to avoid large disruptive fiscal reallocations from ongoing national budget programs. In 2016, the Board of Directors approved a PBL for the Cook Islands to serve this purpose,[18] effectively making it ADB's first contingent financing in response to potential natural hazards (Box 2). The Board of Directors subsequently approved the Pacific Regional Disaster Resilience Program[19] in 2017, which provided contingent financing for Tonga, Samoa, and Tuvalu, followed by the Palau Disaster Resilience Program[20] in 2018.

9. **Lessons.** The preparation of these three disaster resilience programs in the Pacific demonstrated the potential for CDF to support ADB's up-front and in-depth policy dialogue on disaster resilience and preparedness. These operations allowed ADB to assist DMC governments in strengthening their financial preparedness for disaster response, better integrating disaster risk management into development plans and budgets, undertaking targeted capacity development, and accessing the latest knowledge on mitigating risks from natural hazards. On the other hand, the implementation of past disaster resilience programs highlighted several policy gaps that need to be bridged to ensure that the approach can be effectively mainstreamed across ADB DMCs. This involves (i) clarifying the eligibility, scope, and coverage of proposed CDF operations; (ii) specifying clearer requirements for preparing a disaster-resilience-focused policy matrix; (iii) establishing procedures for renewing a CDF program at the end of its initial availability period;[21] (iv) specifying eligible disbursement conditions; and (v) setting appropriate ADB-wide contingent loan ceilings as well as financial terms and conditions.

10. **Integration with Disaster and Emergency Assistance Policy.** While implementing the DEAP (2004), ADB introduced various financing instruments, special and trust funds, and modified lending mechanisms to make it easier to implement a more systematic approach to disaster preparedness and response (Appendix 2). These complementary instruments were devised to provide cost-effective financing for different layers of risk in line with ADB's risk-layering approach (Box 1). CDF will play a critical role in further strengthening ADB's disaster preparedness and response toolkit as part of the revised DEAP, planned for approval in 2019. In addition to providing a larger, quicker, and more flexible source of financing until funds from other sources become available, CDF will support ADB efforts to scale up the policy dialogues with DMCs on disaster preparedness and risk management. Through this process and the accompanying prior actions, CDF will bolster long-term disaster resilience in ADB DMCs by tackling underlying disaster risk as well as providing post-disaster liquidity (Appendix 3). CDF will also enable greater use of existing disaster and emergency assistance trust funds thanks to the DMCs' ability to access available disaster risk reduction resources to support the identification and implementation of reform measures, subject to eligibility requirements.

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[18] ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to Cook Islands for the Disaster Resilience Program.* Manila.
[19] ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loans for the Pacific Regional Disaster Resilience Program.* Manila.
[20] ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loan to Republic of Palau for the Disaster Resilience Program.* Manila.
[21] Availability period for the purposes of CDF operations means the period commencing from the date of signing of the legal agreement(s) or renewal thereof.

Box 2: Disaster Resilience Program for Cook Islands

The Asian Development Bank (ADB) provided a policy-based loan of NZ$13.95 million (about $10 million) from its ordinary capital resources to fund the Cook Islands Disaster Resilience Program, which will make financing in the event of a disaster rapidly available.

The Disaster Resilience Program was the first time ADB provided contingent disaster financing through an innovative use of policy-based lending. The program supports the implementation of the government's National Sustainable Development Plan, through the achievement of critical actions in the areas of strengthening policy and institutional arrangements for disaster risk management, building resilient infrastructure, and expanding disaster risk financing.

Government efforts included integrating disaster resilience into infrastructure priorities, pre-contracting the private sector for post-disaster recovery activities, preparing local disaster plans, and improving public sector coordination on disaster risk management. By completing the set of 12 priority actions, the government is eligible to access the contingent credit provided through the policy-based loan to meet short-term post-disaster budgetary needs.

The loan funds will initially be available for a 3-year period and are drawable as needed if a state of disaster is declared by the government, as defined by its 2007 Disaster Risk Management Act. The funds can be used flexibly to support short-term post-disaster activities that the government deems necessary. The ADB financing complements the government's own disaster trust fund, which is its first line of response, and insurance through the Pacific Catastrophe Risk Assessment and Financing Initiative, which would be activated in the event of an infrequent but highly destructive disaster. Having different layers of financing is an integral part of the Cook Islands' preparedness for disasters.

Source: Asian Development Bank.

III. PROPOSED CONTINGENT DISASTER FINANCING UNDER POLICY-BASED LENDING

A. Contingent Disaster Financing

11. In the immediate aftermath of a disaster, time and flexibility are of the essence, and CDF is expected to serve as an effective tool to provide immediate budgetary support for DMCs' use. Unlike other forms of conventional PBL operations that involve broader structural reforms,[22] the policy framework required for CDF should specifically focus on legal, institutional, and policy constraints to more effective disaster preparedness and response programs. In principle, PBL conditions should be designated as prior actions,[23] rather than post-disaster actions, to ensure that funding is available in the event of a disaster triggered by a natural hazard. Disbursements, either full or partial, are triggered after an actual disaster is confirmed by the DMC's declaration of a state of emergency, or its equivalent depending on the DMC's legislation or practice (Appendix 4). The criteria and process for declaring a state of emergency, or equivalent, should be discussed with ADB as part of the policy dialogue, mutually agreed upon during the fact-finding mission, and recorded in the memorandum of understanding or aide-mémoire of this fact-finding mission. Where necessary, CDF disbursements can be succeeded by follow-up assistance through an EAL or regular investment lending for longer-term reconstruction. Given that CDF will follow most of the

[22] Conventional PBL comprises all types of ADB PBL except for crisis response PBL such as the countercyclical support facility and special PBL. ADB. 2011. *Review of ADB's Policy-Based Lending.* Manila.

[23] Even after completion of prior actions, the policy dialogue between ADB and the DMC government should continue and be guided by the priorities established in a post-program partnership framework (PPPF). The implementation of the agreed PPPF should be monitored regularly during the extended loan availability period (para. 26) to ensure its quality and continuity. Following a DMC's request for loan renewal, a progress report should be prepared, and a revised PPPF should be agreed to cover the extended period of up to 3 years.

processing steps of regular PBL, staff time and administrative costs to process CDF operations are not expected to be greater than those for conventional PBL operations.

B. General Terms and Conditions

12. The general terms and conditions of conventional PBL that will be applied to CDF are outlined below:

13. **Access criteria.** CDF operations should be based on comprehensive sector analyses and policy dialogue with the DMC government to determine the legal, institutional, and policy reforms required to boost disaster resilience. The program must have the full commitment of the DMC government, be consistent with ADB's country partnership strategy and country operations and business plan for the DMC concerned, correspond with the DMC's development plans and priorities, and be closely coordinated with other major development agencies.

14. Policy changes that improve the growth prospects based on considerations of economy and efficiency are the basis for PBL to a DMC, including CDF. Such policy reform along with the development expenditure program should be set forth in a policy statement by the DMC government in the form of a development policy letter to the President of ADB. The program outlined in the letter should be the focus of ADB's support.[24] Policy reforms may cover multiple facets of disaster preparedness and response (footnote 15).

15. **Macroeconomic and debt sustainability.** The macroeconomic policy dialogue and assessment should be a key feature of CDF. ADB should secure an assessment letter from the International Monetary Fund (IMF) confirming the soundness of the DMC government's macroeconomic management and other policies before the Board of Directors considers the proposed assistance. The soundness of macroeconomic policy, including an updated IMF assessment letter, should be reconfirmed every 3 years during loan renewal (para. 25). Also, the borrower's debt sustainability, including potential impacts of the prospective CDF assistance, should be confirmed. Relevant indicators may be based on the debt sustainability analysis by the IMF and the World Bank, or a similar assessment where such joint analysis is not conducted.

16. **Policy matrix.** As with conventional PBL, the policy matrix should summarize key legal, institutional, and policy reforms required to achieve the intended program impacts and confirm that they were substantively achieved. The policy matrix should address critical reforms necessary to enhance disaster preparedness and response, or to strengthen disaster resilience. The following good practice principles should be applied in the design and implementation of the policy matrix: (i) policy actions should reinforce country ownership, (ii) these actions should be agreed with the DMC government and linked closely to national development strategies, (iii) only a minimum number of actions critical for removing or mitigating binding constraints should be selected, and (iv) transparent progress reviews that contribute to predictable and performance-based financial support should be conducted regularly. The CDF policy matrix should include a post-program partnership framework (PPPF), which presents medium-term reform objectives that will be supported by ADB. The PPPF will be used as a means of monitoring program performance during the CDF availability period and justifying the loan renewal (para. 25). ADB should clearly demonstrate its value addition in supporting the reforms.

17. **Environmental and social safeguards.** Standard requirements for environmental and social safeguards described in ADB's Safeguard Policy Statement (2009) on program lending

[24] All types of conventional policy-based loans as well as guarantees require a policy matrix, which presents actions that are crucial for policy reforms and addresses any problems that have been identified.

should apply.[25] Given the close links between disaster resilience, environmental management, and social vulnerability, particularly close attention should be given to the potential impact of the program on the poor and other vulnerable groups, including women and girls. Where possible, prior actions that help reduce the impact of natural hazards on vulnerable groups should be emphasized in the policy matrix and program description.

18. **Loan amount.** The total available financing amount should be justified with a discussion of the overall development financing needs of the DMC government.[26] The discussion may also include an explanation of the past fiscal costs of major natural hazards and any forecasts of expected future fiscal or economic costs as a result of climate change or other factors.[27]

19. **Fiduciary arrangement.** Since general budget support under PBL is absorbed into a DMC's public expenditures, knowledge of the public financial management environment in the country should be backed by up-to-date diagnostic work. Where applicable, risk assessments, as mandated by the Second Governance and Anticorruption Action Plan,[28] should support the evaluation of public financial management, procurement, and corruption issues. If available analysis points to weaknesses in the borrower's budget management system, ADB should identify the additional steps needed to secure sound fiduciary arrangements for PBL. In such a case, the policy matrix may designate prior actions to improve budget performance, with an emphasis on those actions related to delivering reforms to strengthen disaster resilience.

20. **Reporting and monitoring.** The reporting and monitoring of CDF operations will follow standard PBL requirements. The program evaluation will assess the extent to which policy actions contributed toward reforms that boosted the DMCs' preparedness for disasters triggered by natural hazards, and the extent to which they resulted in the achievement of the development outcomes outlined in the design and monitoring framework. A program completion report will be prepared after financial closure (Project Administration Instructions 6.07a).

C. Special Terms and Conditions

21. Special terms and conditions applicable to CDF but not applicable to conventional PBL are outlined below.

22. **Coverage.** CDF will cover disasters triggered by natural hazards as defined in the DEAP, e.g., typhoons, floods, earthquakes, droughts, and tsunamis. The program and policy matrix should clearly demonstrate how policy reforms will enhance preparedness for and response to disasters triggered by these natural hazards.

23. **Disbursement.** Following the Board of Directors' approval, disbursement of CDF is available if pre-specified disbursement condition(s) linked to a disaster caused by natural hazard—typically the DMC's declaration of emergency or the equivalent—have been met. Disbursement condition(s) should be discussed and agreed during the fact-finding mission, and recorded in the memorandum of understanding or aide-mémoire of the fact-finding mission. These condition(s) will

[25] ADB Operations Manual (OM) Section F1 (Safeguard Policy Statement).

[26] As appropriate, development financing needs—as reflected in the key macroeconomic indicators, such as the budget deficit—should be referenced.

[27] To supplement concessional resource availability, DMCs may make separate applications for additional concessional funds such as the Disaster Response Facility (which is available for group A countries), or other relevant funding sources, as eligible.

[28] OM Section C4 (Governance).

then be specified in the legal agreement(s).[29] Up to the full commitment amount is available for disbursement at any time during the CDF availability period. DMCs may avail of either a full or partial disbursement of the approved amount; however, only a single disbursement may be requested per disaster event. The respective regional department should confirm satisfaction of disbursement condition(s) with the borrower. Undisbursed amounts will continue to be available during the availability period for subsequent disaster events. The DMC government's disbursement request should be received by ADB within 90 days from the occurrence of the disaster and clearly state the requested financing amount, and be confirmed against the DMC's annual resources available for commitment (RAC) by the relevant regional department (Appendix 4).

24. **Deferred disbursement option.** Having met all the requirements for a conventional PBL, CDF allows for deferred PBL disbursement. If no disaster event occurs, or if funds are not fully disbursed, the DMC may elect to have the undisbursed CDF amount disbursed at the conclusion of the CDF availability period. The deferred disbursement option is available only at the conclusion of the standard availability period and may be extended as part of the renewal process (para. 25). The option to include deferred disbursement as an additional CDF condition at the conclusion of the availability period should be clearly explained in the report and recommendation of the President and specified in the legal agreement(s). Prior to ADB approving a disbursement request, the regional department will be responsible for reconfirming the DMC's continued adoption of policy actions and the PPPF approved under the program through a progress report. All other regular PBL disbursement procedures will apply.

25. **Renewal.** Subject to approval criteria, the initial CDF availability period of up to 3 years could be extended up to four times for an additional 3-year period each, for a maximum of 15 years of regular ordinary capital resources (OCR) lending. For concessional OCR lending (COL) and Asian Development Fund (ADF) financing, the CDF availability may be extended once, for a maximum of 6 years. An extension request may be approved by the director general of the respective regional department and circulated to ADB Management for information. Approval of the CDF extension will be based on the submission of a progress report that (i) reconfirms the adequacy of the macroeconomic environment, including an updated IMF assessment letter; (ii) demonstrates continued progress toward the CDF's PPPF; (iii) updates the PPPF with mutually agreed objectives for the subsequent availability period; and (iv) attaches a CDF extension request from the DMC government.

26. If a DMC's country classification changes during the CDF availability period, removing its eligibility for ADF resources, then ADF-financed CDF operations will continue to be available to that DMC only up to the end of the current availability period—which will not be renewed. If a DMC's country classification changes during the availability period from COL-OCR blend (Group B) to regular OCR only (Group C), then COL-financed CDF operations will continue to be available only up to the end of the current availability period—which will not be renewed. If a DMC's country classification changes during the availability period from ADF-COL blend (Group A) to COL-OCR blend (Group B), any approved COL-financed CDF operation may be renewed once, with COL terms and conditions applicable as of the date of signing of the renewal of the CDF operation.

27. **Cancellation and recommitment.** If at the conclusion of the initial CDF availability period, funding has not been fully disbursed, no deferred disbursement option has been exercised, and no renewal has been approved, the committed but unutilized funds will be cancelled through

[29] As the scope and procedures for declarations of emergency vary from country to country, the disbursement condition(s) would be defined on a case-by-case basis, taking into consideration the borrower's national hazard risk management framework and practice. Thus, ADB will need to undertake a careful study of the borrower's legal and regulatory rules for emergencies before formulating and agreeing on the disbursement condition(s).

standard procedures and returned to the respective savings and cancellation pool. The return of funds to the ADB-wide pool or recommitment to the respective DMC will be done using regular procedures.

28. **Pricing, fees, and fund commitment.** For all CDF operations, standard PBL lending terms and conditions will apply.[30] For ADF-financed CDF operations, ADB will fully commit the CDF amount and make this amount available for disbursement immediately after a disaster occurs. For regular OCR and COL-financed operations, DMCs may avail of one of the two resource commitment and pricing options outlined below. The selected option will initially be agreed during fact-finding and be incorporated into the legal agreements. The selected option will be fixed during the life of the loan, including any renewal periods.[31] The two options are:

(i) **Option 1: Committed capital.** Upon loan effectiveness, the committed CDF amount will be available for disbursement immediately after a disaster occurs. In the case of regular OCR-financed CDF operations, in lieu of the standard commitment charge of 0.15% payable per annum on the undisbursed loan amounts during the loan availability period, the DMC will pay a front-end fee of 0.25% of the committed loan amount, which may be financed out of the loan proceeds. If the undisbursed loan amount is renewed for an additional 3-year loan availability period (up to four times), the DMC will pay each time a fee of 0.25% of the renewal amount (up to the undisbursed loan balance), which may be financed out of the loan proceeds. COL-financed CDF operations could be renewed once for a 3-year loan availability period but will not be subject to any fees prior to disbursement.

(ii) **Option 2: Unallocated capital.** ADB will approve a maximum CDF amount requested by the borrower from its RAC but will not allocate it. Approved but unallocated CDF amounts for both regular OCR and COL will remain available for regular country programming allocations. To meet the financing needs for CDF in the event of a disaster and subsequent disbursement request, the borrower will be required to allocate resources from within its existing available resources for that year. If a DMC’s RAC has been fully allocated that year and no additional resources are available, the DMC may elect to delay projects that are under preparation but not yet approved and allocate available funds for CDF commitment and disbursement. The allocation of available DMC resources to the CDF would be described in the disbursement request, submitted by the borrower to ADB following a disaster. The regional department should confirm the resource availability with the borrower. For regular OCR-financed CDF operations, subsequent to the disaster, at the time of fund commitment, the borrower would pay a front-end fee of 0.10% of the committed loan amount, which may be financed out of the loan proceeds. If the committed funds are not fully disbursed, the undisbursed loan

[30] OM Section D1 (Lending Policies for Sovereign and Sovereign-Guaranteed Borrowers [Ordinary Capital Resources]) and OM Section D2 (Lending and Grant Policies [Asian Development Fund]). The pricing of conventional PBL, which may be updated from time to time, should be applicable to CDF. Conventional PBL from regular OCR has a 15-year maturity, including a 3-year grace period; ADB’s London interbank offered rate (LIBOR)-based lending terms; and a commitment charge of 15 basis points per year levied on undisbursed balances beginning 60 days after the applicable legal agreement is signed and accruing when the loan becomes effective. PBL financed by COL for Group A countries has a fixed-term 24-year maturity, including a grace period of 8 years; a 1.0% interest charge during the grace period and 1.5% during the amortization period; and equal amortization. PBL financed by COL for Group B countries has a fixed-term 25-year maturity, including a grace period of 5 years; a 2.0% interest charge throughout the loan maturity; and equal amortization.

[31] Subject to individual DMC circumstances, borrowers may also elect to have a portion of their regular OCR or COL-financed CDF to be allocated as option 1 and the remaining portion allocated to option 2. The portion of approved CDF under option 1 would be subject to the fees and charges explained in para. 28 with a front-end fee of 0.25% of the committed loan amount. Likewise, the portion allocated to option 2 would be subject to the front-end fee of 0.10% at the time of fund commitment.

amount[32] could be renewed for a 3-year availability period (up to four times), each time with a fee of 0.25% of the renewal amount (up to the undisbursed loan balance), which may be financed out of loan proceeds. COL-financed CDF operations could be renewed once for a 3-year loan availability period but will not be subject to any fees prior to disbursement.

29. **Legal agreements.** Following the Board of Directors' approval, ADB will enter into legal agreement(s) with the borrower. The legal agreement(s) will specify the conditions of effectiveness and disbursement of the CDF and the borrower's decision, if any, to exercise the deferred disbursement option (para. 24). In case of option 1 set out in para. 28(i) above, the loan agreement will specify the actual CDF amount. In case of option 2 set out in para. 28(ii) above, ADB and the borrower will enter into a CDF facility agreement that will specify the maximum CDF amount that the borrower may request from its RAC. Following the occurrence of a natural disaster, ADB and the borrower will enter into a short-form agreement that will specify the actual loan amount requested by the borrower. Upon signing, ADB will commit the requested CDF amount.

30. **Disbursement-linked repayment schedules.** Given CDF's contingent nature, both regular OCR and COL-financed CDF operations will utilize disbursement-linked repayment schedules, with the grace period and principal repayment period to be calculated at the time of disbursement based on the amount actually disbursed; this is opposed to commitment-linked disbursement, where the repayment schedule is fixed at the time of loan negotiation based on the total approved loan amount. For regular OCR and COL-financed CDF operations, standard applicable PBL terms will apply (footnote 30). Loan terms, including pricing for regular OCR-financed CDF operations, will be determined at the time of each fund disbursement.

31. **Special ceilings.** ADB's corporate ceiling on conventional PBL, presently capped at 20% of total sovereign lending on a 3-year rolling average basis, is intended to limit the allocation of ADB resources for regular budgetary support in DMCs. Given its contingent nature, and its focus on providing resources for post-disaster liquidity, CDF will be exempted from existing ceilings on regular OCR operations.[33] The corporate ceiling on COL and ADF-financed PBL, presently capped at 22.5% of concessional lending on a 3-year rolling average basis, will continue to be applied, pending further consultations with ADF donors.

32. Special ceilings will be designated separately for CDF operations. The volume of ADB's regular OCR-financed CDF will be limited to 0.50% of the country's GDP or $500 million, whichever is lower. For COL and ADF-financed CDF, a country limit will be set at a maximum of $250 million or 0.50% of GDP, whichever is lower. On account of special challenges faced by small countries,[34] DMCs with an access limit below $20 million should be accorded the flexibility of access to up to $20 million, so as to secure an adequate level of financing, subject to available resources.[35]

33. An ADB-wide ceiling of $3 billion in regular OCR-financed CDF and $1 billion in COL and ADF-financed CDF will initially be applied, subject to review 3 years after the Board of Directors' approval (Appendix 5).

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[32] The undisbursed amount refers to (i) the undisbursed portion from the original committed amount and (ii) any undisbursed funds that are committed after a disaster event but are not fully disbursed.

[33] This approach is consistent with the countercyclical support facility and special PBL, which are also exempt from the ceilings for regular OCR PBL operations.

[34] ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila. The IMF reports that, on average, the annual cost of disasters for small states is nearly 2% of GDP, four times that for larger states. IMF. 2016. *IMF Policy Paper: Small States' Resilience to Natural Disasters and Climate Change – Role of the IMF*. Washington, DC.

[35] The proposed floor of $20 million is aligned with the Cat DDO for IDA clients at the World Bank. World Bank. 2017. *Addition to IDA Resources: Eighteenth Replenishment*. Washington, DC.

34. Unless stated otherwise (paras. 11–33), all of ADB’s operational policies applicable to conventional PBL are applicable to CDF.

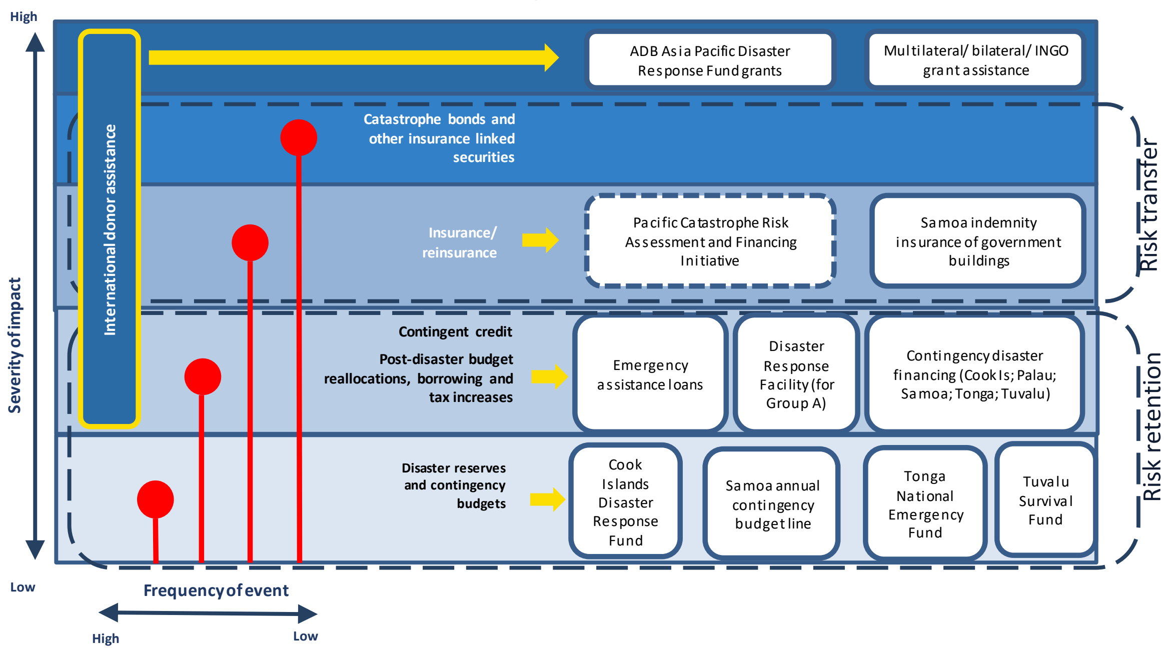
IV. RECOMMENDATION

35. The President recommends that the Board of Directors of the Asian Development Bank approve the proposed contingent disaster financing as described in paras. 11–34 of this paper.

EXAMPLE OF DISASTER RISK LAYERING IN SELECTED PACIFIC DEVELOPING MEMBER COUNTRIES

In the Pacific, contingent disaster financing has proven particularly cost-effective in addressing risks pertaining to events that would exhaust annual contingency budgets and dedicated national reserves but are too frequent to be covered cost-effectively by risk transfer through insurance products. The figure below illustrates the range of potential financing tools, and the availability of these tools in the Pacific, from budget allocations that cover low-impact high-frequency events (such as stormwater overflow) to global bonds and catastrophe bonds for rare yet highly damaging events (such as high-magnitude earthquakes). Governments typically have contingency budgets and reserves to cover up to around 3-year return-period events, such as the Tonga National Emergency Fund, the Tuvalu Survival Fund, and the contingency lines in the Samoa and Tonga annual budgets. The Pacific Catastrophe Risk Assessment and Financing Initiative offers insurance cover starting from 10-year return-period attachments per peril, covering the high-layer risks, together with any potential international assistance the countries might receive. As such, there is a gap for medium-layer risks in most Pacific countries, which contingent disaster financing bridges.

Disaster Risk Layering in Selected Pacific DMCs



ADB = Asian Development Bank, DMCs = developing member countries, INGO = international nongovernment organization.

Source: ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Program Loans for the Pacific Regional Disaster Resilience Program*. Manila.

DISASTER AND EMERGENCY ASSISTANCE TRUST FUNDS

The Asia Pacific Disaster Response Fund (APDRF) was established as a special fund in 2009 to provide fast-tracked grants of up to $3 million to any developing member country (DMC) of the Asian Development Bank (ADB) for life-saving purposes in the immediate aftermath of a major disaster triggered by a natural hazard.[1] Grants are approved within a targeted 72 hours once eligibility criteria are satisfied. The funding can be used flexibly, subject to use for humanitarian purposes and subsequent submission of supporting documentation. Initial funds of $40 million were transferred from the residual balance in the Asian Tsunami Fund to establish the APDRF. The fund received a $20 million replenishment in 2015 from ADB's 2014 net income and a further replenishment of $20 million in 2017 from ADB's 2016 net income.

In 2013, the Asian Development Fund (ADF) Disaster Response Facility (DRF) was established as a pilot under ADF 11 (2013–2016) to further enhance access to resources for disaster response in ADB's poorer DMCs, providing a more flexible, predictable, and systematic approach to disaster response and reducing the need for post-disaster reprogramming. The facility was regularized under ADF 12 (2017–2020).[2] Concessional assistance-only (CA-only) countries can access up to an additional 100% of their annual final country allocation through the DRF for use in response to disasters triggered by natural hazards, with the level of risk of debt distress determining the proportion of grants received. The DRF can be used to support emergency assistance, restoration, rehabilitation, and reconstruction. The terms follow those for ADF grants and concessional ordinary capital resources and/or other relevant provisions, such as for emergency assistance loans, as appropriate. Projects are processed either as emergency assistance loans or as regular loans and grants.

For the ADF 12 period (2017–2020), ADF donors also agreed to allocate up to $200 million in grants for disaster risk reduction (DRR) to CA-only countries. The DRR financing mechanism is intended to complement the DRF by strengthening underlying disaster resilience and helping spur further investment in DRR, in turn contributing to sustainable, inclusive development in ADB's poorest DMCs. The grant financing has been allocated across all CA-only countries in accordance with their pro-rata shares in the performance-based allocation, subject to a 50% portion of their pro-rata share in the performance-based allocation for countries at low risk of debt distress and a cap of $20 million per country. Additional lending resources from concessional ordinary capital resources were made available, and matching financing requirements were set to encourage countries to invest in and mainstream DRR into their broader expenditure.

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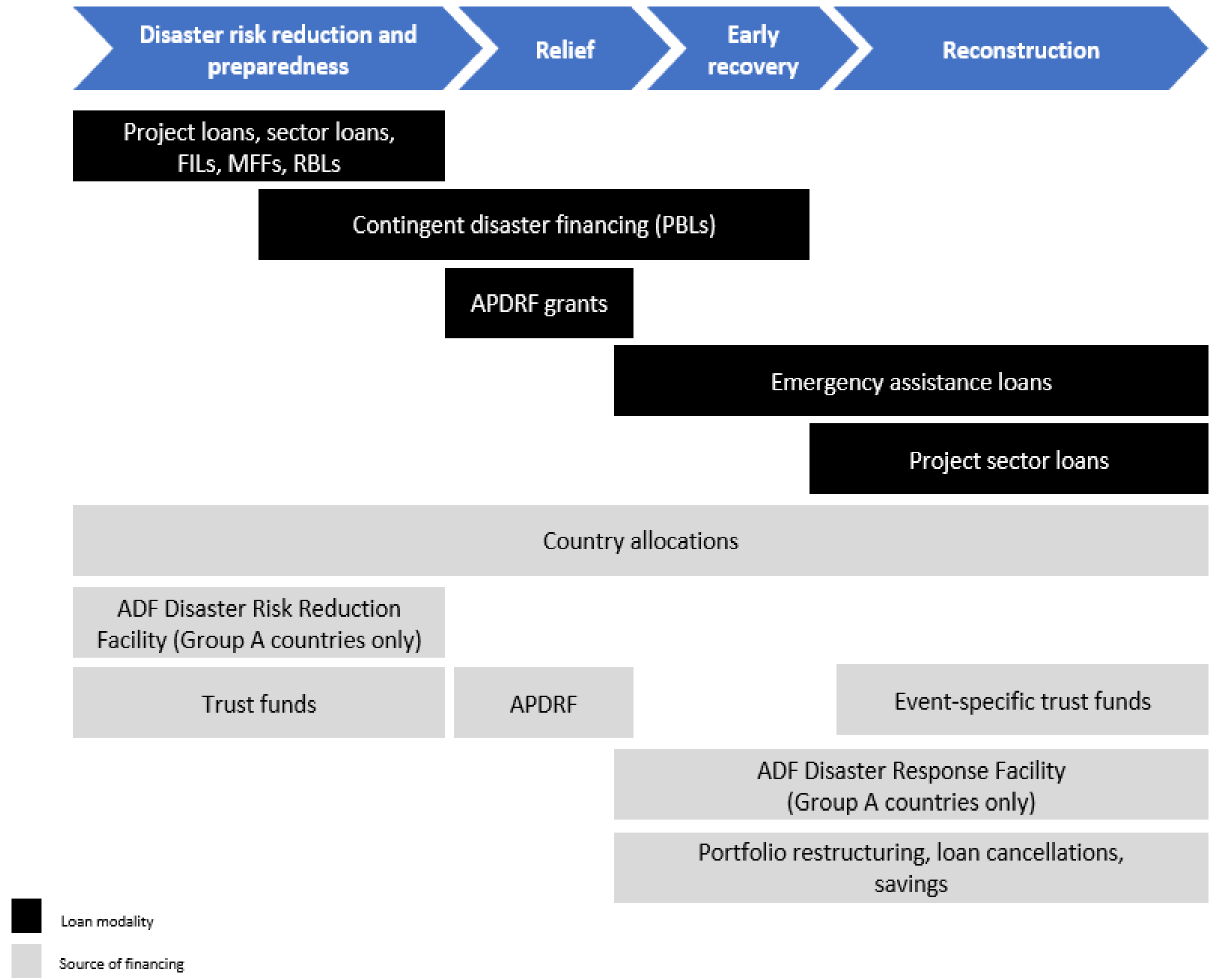
1 ADB. 2009. *Establishment of the Asia Pacific Disaster Response Fund*. Manila.

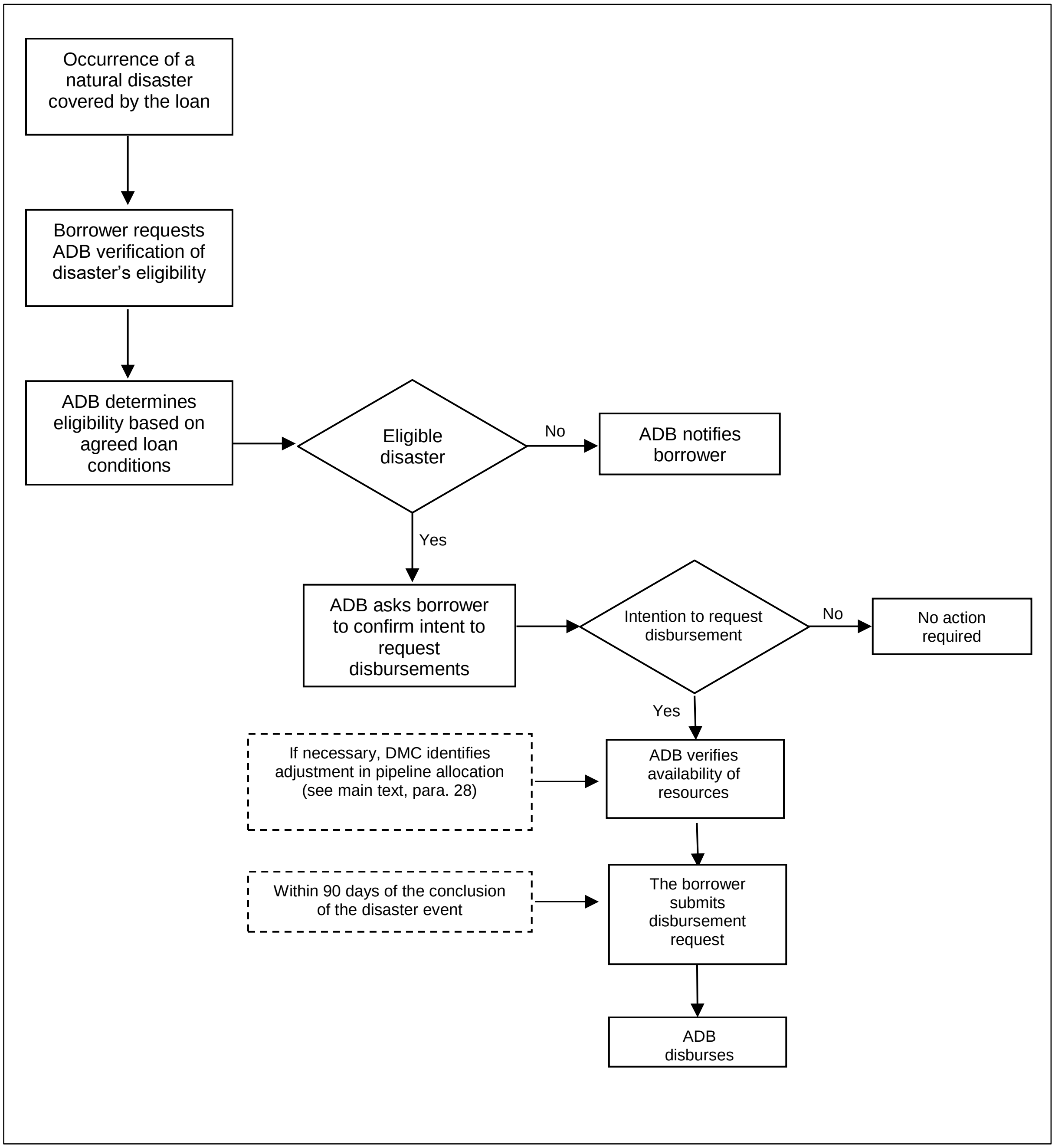
2 ADB. 2016. *Asian Development Fund 12 Donors' Report: Scaling Up for Inclusive and Sustainable Development in Asia and the Pacific*. Manila.

ADB FINANCING MODALITIES AND SOURCES FOR DISASTER RISK MANAGEMENT



ADB = Asian Development Bank, ADF = Asian Development Fund, APDRF = Asia Pacific Disaster Response Fund, FIL = financial intermediation loan, MFF = multitranche finance facility, PBL = policy-based loan, RBL = results-based loan.
Source: Asian Development Bank.

PROCEDURES FOR DISBURSEMENT OF RESOURCES FOR CONTINGENT DISASTER FINANCING



ADB = Asian Development Bank, DMC = developing member country.
Source: Asian Development Bank.

SUMMARY OF KEY TERMS AND CONDITIONS

Eligibility	All of ADB's DMCs upon meeting approval criteria.
Approval criteria	Existence of an adequate macroeconomic policy framework and debt sustainability, including an IMF assessment letter. Satisfactory completion of a set of substantive legal, institutional, and policy reforms to disaster risk management (captured in a policy matrix, based on prior actions). A DPL outlining the government's commitment to development expenditure program to enhance resilience to natural hazards.
Coverage	The CDF modality will be available to cover only natural hazards as defined in ADB's Disaster and Emergency Assistance Policy, e.g., typhoons, floods, earthquakes, droughts, and tsunamis. The policy matrix should be linked to measures that enhance preparedness for these natural hazards.
Policy matrix	The policy matrix will include a set of substantive legal, institutional, and policy reforms to disaster risk management aimed at enhancing the DMC's resilience to natural hazards. ADB should demonstrate its value addition in supporting the reforms. The policy matrix should include a detailed PPPF, itemizing future reforms as well as ADB policy and technical support priorities.
Justification of loan size	The loan amount should be justified in a discussion of the overall development financing needs of the government. Included in this discussion may be an explanation of the past fiscal costs of major natural hazards and any forecasts of expected future costs as a result of climate change or other factors.
Maximum amounts	Each DMC can mobilize an amount equal to 0.50% of GDP, up to a maximum of $500 million if financed by regular OCR or a maximum of $250 million if financed by COL/ADF. Small DMCs whose 0.50% of GDP is less than $20 million may avail of up to $20 million, subject to their available resources. CDF allocations are counted against each DMC's regular resource allocation.
Fees and charges	See main text (para. 28) and Appendix 6.
Renewal and repayment terms	Standard PBL terms and conditions for regular OCR and COL/ADF apply, unless stated otherwise. The initial availability period of the CDF for regular OCR, COL, and ADF is 3 years. Regular OCR-financed CDF can be renewed up to four times for a maximum of 15 years, while COL and ADF-financed CDF can be renewed once for a maximum of 6 years. Each renewal is for a period of up to 3 years. Repayment schedules will be calculated on a disbursement-linked basis for both regular OCR and COL-financed CDF.
Renewal requirements	At the end of the 3-year period, a CDF closing extension request may be approved by ADB. Approval of the CDF extension is based on the submission of a progress report that (i) reconfirms the adequacy of the macroeconomic environment, including an updated IMF assessment letter; (ii) demonstrates continued progress toward the PPPF; (iii) updates the PPPF with mutually agreed objectives for the subsequent CDF availability period; and (iv) attaches a CDF extension request from the DMC government.

Disbursement condition	Disbursement is available only if pre-specified condition(s) linked to a disaster caused by natural hazard—typically the DMC's declaration of a state of emergency, or its equivalent—have been met. Additional disbursement conditions are mutually agreed at the time of negotiation and reflected in legal agreements.[a] Up to the full allocated amount is available for disbursement at any time within 3 years of signing the legal agreement(s).
Deferred disbursement option	Having met all the requirements for a conventional PBL, the CDF allows for deferred disbursement. If no disaster event occurs, or if funds are not fully disbursed, the DMC may elect to have the approved CDF amount disbursed at the conclusion of the availability period. The deferred disbursement option is available only at the conclusion of the standard availability period and may be extended as part of the CDF renewal process.
Cancellation and reallocation	If funding has not been disbursed by the conclusion of the CDF availability period (and no CDF extension request has been received), unutilized regular OCR, COL, and ADF will be cancelled. Reallocation of these funds to the relevant DMC will be done using regular procedures from their respective saving and cancellations pool.
Ceilings	CDF operations financed by regular OCR will fall outside the existing PBL cap of 20% on a 3-year moving average basis for ADB-wide operations. CDF operations financed by COL/ADF will remain within the 22.5% ADB-wide cap, subject to further consultations with ADF donors. An ADB-wide ceiling of $3 billion in regular OCR-financed CDF and of $1 billion in COL and ADF-financed CDF will initially be applied, subject to review after 3 years.

ADB = Asian Development Bank, ADF = Asian Development Fund, CDF = contingent disaster financing, COL = concessional ordinary capital resources, DMC = developing member country, DPL= development policy letter, GDP = gross domestic product, IMF = International Monetary Fund, OCR = ordinary capital resources, PBL = policy-based lending, PPPF = post-program partnership framework.

[a] As the scope and procedures for declarations of emergency vary from country to country, the disbursement condition would be defined on a case-by-case basis, taking into consideration the borrower's legal and policy framework for national hazard risk management. Thus, the project team, in consultation with the Office of General Counsel, needs to undertake a careful study of the borrower's legal and regulatory framework for emergencies before formulating the disbursement condition.

Source: Asian Development Bank.

COMPARISON OF TERMS AND FEES

	Asian Development Bank					World Bank	
	Regular OCR	**Regular OCR**	**Regular OCR**	**COL**	**ADF**	**IBRD**	**IDA**
	Standard PBL	**Proposed CDF PBL (Committed capital)**	**Proposed CDF PBL (Unallocated capital)**	**Proposed CDF PBL**	**Proposed CDF PBL**	**Cat DDO**	**Cat DDO**
Eligibility[a]	Regular OCR-only and OCR blend	Regular OCR-only and OCR blend	Regular OCR-only and OCR blend	COL-only and ADF blend	ADF-only and ADF blend	All IBRD-eligible DMCs, including blend countries	All IDA-eligible DMCs, including blend countries
Currency	Regular OCR terms	Regular OCR terms	Regular OCR terms	SDR, USD, EUR, JPY, and GBP	USD	EUR, JPY, and USD	SDR, USD, EUR, JPY, and GBP
Renewal	Nil	Availability period may be extended four times, for a total of 15 years	Availability period may be extended four times, for a total of 15 years	Availability period may be extended once, for a total of 6 years	Availability period may be extended once, for a total of 6 years	Availability period may be extended four times, for a total of 15 years	Availability period may be extended once, for a total of 6 years
Repayment terms[b]	Regular OCR terms	Regular OCR terms	Regular OCR terms	Regular COL terms	Nil	Regular IBRD terms	Regular IDA terms
Upfront fee	Nil	0.25% of the allocated loan amount (where allocation precedes the disaster)	0.10% of the allocated loan amount (where allocation follows a disaster)	Nil	Nil	0.50% of undisbursed loan amount	Nil
Renewal fee	Not applicable	0.25% of undisbursed loan amount	0.25% of undisbursed loan amount[c]	Nil	Nil	0.25% of undisbursed loan amount	Nil
Commitment fee	0.15% of undisbursed loan amount	Nil	Nil	Nil	Nil	Nil	Nil

ADF = Asian Development Fund, Cat DDO = catastrophe deferred drawdown option, CDF = contingent disaster financing, COL = concessional ordinary capital resources lending, DMC = developing member country, EUR = euro, GBP = British pound, IBRD = International Bank for Reconstruction and Development, IDA = International Development Association, JPY = Japanese yen, OCR = ordinary capital resources, PBL = policy-based lending, SDR = special drawing right, USD = United States dollar.

[a] See Appendix 7 for applicable DMC eligibility.

[b] Calculated at time of fund disbursement.

[c] This would be applicable if a DMC committed the approved loan amount following a disaster but did not fully disburse the amount and subsequently elected to renew remaining available funds.

Source: Asian Development Bank.

INDICATIVE FINANCING ELIGIBILITY BY DEVELOPING MEMBER COUNTRY

Country	Country Classification (as of April 2019)	Financing Type (as of April 2019)	Regional Department	0.50% of 2018 Nominal GDP ($ million)
Afghanistan	Group A	ADF-only	CWRD	106.6
Armenia	Group C	Regular OCR-only	CWRD	62.1
Azerbaijan	Group C	Regular OCR-only	CWRD	234.7
Georgia	Group C	Regular OCR-only	CWRD	81.6
Kazakhstan	Group C	Regular OCR-only	CWRD	852.7[a]
Kyrgyz Republic	Group A	ADF blend	CWRD	40.5
Pakistan	Group B	OCR blend	CWRD	1,562.6[a]
Tajikistan	Group A	ADF-only	CWRD	37.6
Turkmenistan	Group C	Regular OCR-only	CWRD	221.0
Uzbekistan	Group B	OCR blend	CWRD	252.5
China, People's Republic of	Group C	Regular OCR-only	EARD	67,857.8[a]
Mongolia	Group B	OCR blend	EARD	65.2
Cook Islands	Group C	Regular OCR-only	PARD	1.8[b]
Fiji	Group C	Regular OCR-only	PARD	25.3
Kiribati	Group A	ADF-only	PARD	1.0[b]
Marshall Islands	Group A	ADF-only	PARD	1.1[b]
Micronesia, Federated States of	Group A	ADF-only	PARD	1.9[b]
Nauru	Group A	ADF-only	PARD	0.6[b]
Palau	Group B	OCR blend	PARD	1.5[b]
Papua New Guinea	Group B	OCR blend	PARD	124.9
Samoa	Group A	ADF-only	PARD	4.3[b]
Solomon Islands	Group A	ADF blend	PARD	6.1[b]
Timor-Leste	Group B	OCR blend	PARD	8.1[b]
Tonga	Group A	ADF-only	PARD	2.3[b]
Tuvalu	Group A	ADF-only	PARD	0.2[b]
Vanuatu	Group A	ADF blend	PARD	4.5[b]
Bangladesh	Group B	OCR blend	SARD	1,370.6[a]
Bhutan	Group A	COL-only	SARD	13.2[b]
India	Group B	Regular OCR-only[c]	SARD	13,634.4[a]
Maldives	Group A	ADF blend	SARD	26.8
Nepal	Group A	COL-only	SARD	144.1
Sri Lanka	Group C	Regular OCR-only	SARD	443.2
Cambodia	Group A	COL-only	SERD	122.3
Indonesia	Group C	Regular OCR-only	SERD	5,210.5[a]
Lao PDR	Group A	COL-only	SERD	91.3
Malaysia	Group C	Regular OCR-only	SERD	1,771.7[a]
Myanmar	Group A	COL-only	SERD	343.4
Philippines	Group C	Regular OCR-only	SERD	1,654.2[a]
Thailand	Group C	Regular OCR-only	SERD	2,525.0[a]
Viet Nam	Group C	Regular OCR-only	SERD	1,152.9[a]

ADF = Asian Development Fund, COL = concessional ordinary capital resources lending, CWRD = Central and West Asia Department, DMC = developing member country, EARD = East Asia Department, Lao PDR = Lao People's Democratic Republic, OCR = ordinary capital resources, PARD = Pacific Department, SARD = South Asia Department, SERD = Southeast Asia Department.

Note: In 2019, the ADB Board of Governors approved the membership of Niue as the bank's 68th overall member and 49th from the Asia and Pacific region.

[a] Financing eligibility capped at $500 million for regular OCR or $250 million for COL.

[b] Financing eligibility of up to $20 million, subject to resource availability.

[c] India has no access to concessional assistance. Asian Development Bank. 2019. *Classification and Graduation of Developing Member Countries. Operations Manual*. OM Section A1. Manila.

Sources: ADB. 2019. *Classification and Graduation of Developing Member Countries. Operations Manual*. OM Section A1. Manila; and Asian Development Outlook 2019 database, Asian Development Bank.