PUBLIC DISCLOSURE AUTHORISED

SUPPORT FOR HAITI TO MEET COMMITMENT TO CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY FOR THE 2019-2020 HURRICANE SEASON NOTIFICATION OF APPROVAL BY THE BOARD OF DIRECTORS

Board of Directors – Approval of a Paper without a Meeting
August 21, 2019

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<u>SEPTEMBER 2019</u>

PUBLIC DISCLOSURE AUTHORISED

CARIBBEAN DEVELOPMENT BANK

TWO HUNDRED AND EIGHTY-SEVENTH MEETING OF THE BOARD OF DIRECTORS

TO BE HELD IN BARBADOS

SEPTEMBER 26, 2019

PAPER BD 69/19 Add.1

SUPPORT FOR HAITI TO MEET COMMITMENT TO CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY FOR THE 2019-2020 HURRICANE SEASON NOTIFICATION OF APPROVAL BY THE BOARD OF DIRECTORS

In accordance with Section 15A(a)(i)(which permits decisions by the Board of Directors (BOD) without a Meeting) of the By-Laws of the Caribbean Development Bank (CDB), BOD considered Paper BD 69/19, entitled "Support for Haiti to Meet Commitment to Caribbean Catastrophe Risk Insurance Facility for the 2019-2020 Hurricane Season" attached hereto and approved a Grant to the Government of Haiti (GOH) in an amount not exceeding the equivalent of USD 3 million, to contribute towards the cost of Haiti's premium payment (USD 5,645,820) to the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC), on the terms and conditions set out and referred to in paragraph 7 of the said Paper. The insurance premium covers the period June 1, 2019 to May 31, 2020.

2. Under section 15A (c) (i) of the By-Laws a decision shall be deemed as having been given if there are no objections by BOD upon the expiration of the period specified by the President, unless during that period BOD has communicated non-approval of the matter.

3. As of August 21, 2019, the date of expiry of the period specified by the President, there were no objections by BOD.

4. BOD is therefore asked to note the approval by BOD without a formal meeting, of a Grant to GOH to contribute towards the cost of Haiti's premium payment to CCRIF SPC for the period June 1, 2019 to May 31, 2020, on the terms and conditions set out and referred to in paragraph 7 of Paper BD 69/19, entitled "Support for Haiti to Meet Commitment to Caribbean Catastrophe Risk Insurance Facility for the 2019-2020 Hurricane Season".

PUBLIC DISCLOSURE AUTHORISED

CARIBBEAN DEVELOPMENT BANK

BOARD OF DIRECTORS – APPROVAL OF A PAPER

WITHOUT A MEETING

AUGUST 21, 2019

PAPER BD 69/19

SUPPORT FOR HAITI TO MEET COMMITMENT TO CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY FOR THE 2019-2020 HURRICANE SEASON

1. BACKGROUND

1.01 In the Caribbean, adverse climatic conditions have affected over 1.5 million (mn) people directly and caused over USD52 billion in total damage from 148 disasters over the last three decades, highlighting the vulnerability of the Borrowing Member Countries (BMCs) of the Caribbean Development Bank (CDB). Among the 20 most vulnerable countries globally, more than half represent small island states across the Caribbean and Pacific Regions. These 20 countries bear average losses between 20.1 percent (%) and 2.1% of their respective gross domestic product (GDP) every year. The countries in the Caribbean that are referenced include Belize, Jamaica, The Bahamas, and St. Vincent and the Grenadines, all of which are BMCs. The impact of these events has been profound. National income is lost through destruction of infrastructure, and loss or damage to productive assets, with a resulting loss of production capacity and disruption of social services with severe consequences for low-income persons. The losses do not only affect employment and personal income, but have adverse implications for government revenues and expenditures, with significant impact on the balance of payment positions.

1.02 The Caribbean continues to experience a disproportionately high share of global disaster impacts relative to its economic and demographic size. Potential risk of catastrophic events is growing because of poor development planning, unplanned urbanisation, degradation of ecosystems and the impacts of climate change (CC) and sea level rise. In the immediate aftermath of these events, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) established in 2007, has been playing a significant role in providing financial assistance for response and recovery.

2. CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY

2.01 CCRIF was launched in 2007, as the first regional, not-for-profit risk pool in the world. CCRIF was developed by the World Bank (WB) and other partners including CDB, with a grant from the Government of Japan. It was capitalised through contributions to a Multi-Donor Trust Fund by CDB, the European Union, the WB and the Governments of Bermuda, Canada, France, Ireland, and the United Kingdom, as well as through membership fees paid by participating governments. In 2007, CCRIF was registered as a fully capitalised independent legal entity in the Cayman Islands, and commenced operations. It was incorporated as a captive special purpose vehicle, the main purpose of which is the sale of insurance coverage to participating countries within the Caribbean Community. On May 27, 2014, CCRIF was re-registered with the Cayman Register of Companies as a Segregated Portfolio Company (SPC) to facilitate expansion into new products and geographic areas. The new structure, in which products are offered through a number of segregated portfolios, allows for a total segregation of risk. In 2017, CDB, with resources provided by Mexico, approved a grant to CCRIF SPC to provide enhanced insurance coverage to the Bank's BMCs that insure through CCRIF against tropical cyclone (TC), earthquake (EQ) and excess rainfall (XSR) risks. The grant also allowed CCRIF to increase its reserves and capital, helping its long-term sustainability, as well as to finance urgently required activities to carry out refinement of the XSR product, support the development of new products, including an XSR run-off product suitable for the larger BMCs such as Guyana, Jamaica and Suriname and an agricultural drought product.

2.02 CCRIF has become a proven/reliable instrument for some BMCs as part of their risk management strategy. It forms part of a financial protection strategy that combines a number of instruments that addresses different layers of risk. CCRIF has afforded Caribbean states a shield against extreme weather at a significantly reduced price and represents a cost-effective way to pre-finance short-term liquidity to begin recovery efforts for an individual government after a catastrophic event, thereby filling the gap between immediate response aid and long-term redevelopment. Whilst payouts are relatively small compared to the overwhelming cost of rebuilding, the rapid infusion of liquidity helps to address immediate priorities. CCRIF SPC was not designed to cover all the losses on the ground, but rather to allow governments to reduce their budget volatility and to guarantee sufficient capital for emergency relief thereby, reducing post-disaster resource deficits.

2.03 The membership of the CCRIF SPC has continued to expand over the years. At the commencement of operations on June 1, 2007, initial membership was 16 countries[1]. In April 2015, CCRIF SPC signed a Memorandum of Understanding with the Council of Ministers of Finance of Central America, Panama and the Dominican Republic to enable Central American countries to formally join the facility. Subsequent to that signing, Nicaragua became the seventeenth member of CCRIF SPC in 2016.

2.04 In the aftermath of the devastating hurricane season of 2017, the British Virgin Islands and Montserrat joined. In 2019, the membership further expanded with Sint Maarten and Panama as the newest members. Total membership now stands at 21-19 Caribbean and 2 Central American.

2.05 CCRIF is scaling up and is expanding the number of products being offered to members. This relates not only to developing new parametric insurance products such as a drought product but it has also expanded its scope to do so by investing in creating its own set of custom built risk models and risk visualisation platforms for the region. On July 1, 2019 CCRIF issued the Caribbean Oceans and Aquaculture Sustainability Facility (COAST) fisheries parametric insurance policy to two of its member governments – Grenada and Saint Lucia. The COAST insurance policies provide coverage for fisher folk and other players in the fisheries industry to enable them to recover quickly after weather-related events. The COAST product provides coverage for losses caused by "bad weather" on fisher folk and for direct damage caused by TCs (wind and storm surge) to fishing vessels, fishing equipment and fishing infrastructure. Like CCRIF's other parametric insurance products, COAST insurance also is parametric, whereby payouts are made based on a pre-defined level of wave height, rainfall, wind or storm surge and their impact

2.06 As of June 1, 2019 all Caribbean members of CCRIF SPC completed the selection of their CCRIF insurance portfolio for 2019/20, with nine Caribbean governments increasing their level of coverage for at least one of their policies, and one country purchasing cover for an additional peril, TC, that it did not have last year. Since the inception of CCRIF in 2007, the facility has made 38 payouts to 13 member governments on their TC, EQ and XSR policies totalling almost USD139 million (mn) for 18 different events. All payments were made within 14 days of the event. The 38 payouts consisted of 14 payouts on

[1] Member Countries at 2007: Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, Bermuda, Cayman Islands, Dominica, Grenada, Haiti, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, Turks and Caicos Islands.

TC policies, 4 on EQ and 20 on XSR. CCRIF SPC has also made seven payments totalling almost USD700,000 under member governments' Aggregated Deductible Cover (ADC). The largest single payout to date has been to the Government of Haiti (GOH) in the amount of USD20,388,067. This was on its TC policy following Tropical Storm Matthew in 2016.

3. HAITI: VULNERABILITY AND DISASTER RISK MANAGEMENT PROGRAMMING

3.01 The GOH has been a member of the CCRIF SPC since it commenced its operations. The first two years of Haiti's annual premium payments to CCRIF SPC, were met by a Grant from the International Development Association (IDA), a member of the WB Group. IDA also provided financial assistance to Haiti to meet half of the cost of its CCRIF premium for the period June 1, 2009 to May 31, 2010 whereas the Government of Canada (GOC) provided financial assistance to meet the other half of the cost of the premium. CDB and the GOC provided support for the premium payments for 2011 and 2012. CDB has provided grants for full payment of Haiti's CCRIF SPC premiums since May 2013. In 2018, for the first time since membership, GOH took the decision to increase its coverage and assumed responsibility for partial payment (32%) of its CCRIF premium, USD1.81 mn of the total amount of USD4.81 mn.

3.02 Haiti has received four payouts: one for the 2010 earthquake (USD7.7 mn), two for Hurricane Matthew in October 2016 (USD20.39 mn for TC and USD3.02 mn for XSR), and one in 2017 for Hurricane Irma, (USD162,000) under the ADC. The funds were a significant aspect of the recovery and response programmes post disaster. The payouts were used to provide food and shelter to displaced persons, financed emergency repairs to social and physical infrastructure such as schools, churches, courthouses, cleaning and clearing of roads and drains, and repairs to main roads.

3.03 Given Haiti's fragility and high vulnerability to natural hazards, CDB committed, in the Country Strategy Paper for Haiti 2017-2021 to continue to support the payment of Haiti's annual CCRIF SPC premiums. Further, in the Special Development Fund (SDF) ninth negotiations, contributors agreed that there should be a continuation of the grant-supported programme of assistance for Haiti, with the main areas of assistance being technical and vocational education, agriculture, disaster risk reduction (DRR) and capacity building.

3.04 Haiti has prioritised disaster risk management (DRM) in its work programme and has been implementing a range of initiatives with the support of the development community, in alignment with the Region's Comprehensive Disaster Management Strategy and Framework. GOH is in the process of enacting disaster management legislation including (a) the Establishment, Organisation and Functions of the Directorate General for Civil Protection (the National Disaster Office) and (b) the Establishment, Organisation and Functions of the National System for DRM. This legislation is already approved by the Cabinet and currently before Parliament for review and approval. The legislation will provide a robust institutional framework to strengthen the National Disaster Office to implement efficiently the national disaster management policy and programmes. Recently, GOH has also updated the National Plan for DRM (2016-2030), which puts an emphasis on risk reduction in addition to disaster management.

3.05 GOH continues taking steps with the support of its development partners to design and implement development projects that incorporate natural hazard risk reduction and adaptation to CC as core elements of these initiatives. Since October 2016**,** at the national level, United Nations Development Programme is providing technical assistance to the Ministry of Planning and External Cooperation to evaluate the country's needs after the disaster, reinforcing interventions and communication capacities of the Directorate of Civil Protection and continues to support the Ministry of Environment as well as the Ministry of Interior and Local Government. In May 2019, the WB approved the "Strengthening DRM and Climate Resilience" project for Haiti. It will support the design of a national early warning system and improve emergency response and evacuation capacity of targeted municipalities in high climate risk-prone areas. It will also reinforce infrastructure such as schools and community centres to serve as emergency shelters, provide technical training, and support for strengthening the building codes. The project is financed by a USD35 mn grant from IDA.

3.06 GOH sees its membership of the CCRIF SPC as a key element of its DRR programme and a key component of its ex-ante risk financing strategy. In 2014, the GOH purchased for the first time the XSR product and it remains a part of its coverage. For the 2019 season, GOH has increased the coverage limit for each of the three perils compared to last year and this has resulted in a premium increase moving from approximately USD4.81 mn to USD5.65 mn. Coverage limit (the maximum payout) has increased for TC and EQ coverage, and has decreased for XSR. GOH has assumed responsibility for the increase in premium payment and has requested CDB's continued support for the remainder. GOH has reaffirmed its commitment that it intends to continue its efforts to undertake increased responsibility for its premium payments in the coming years. In 2018, GOH paid 38% of the premium cost and for 2019 have increased its portion to 46%.

3.07 By letter dated to CDB May 15, 2019, the GOH requested grant assistance of an amount not exceeding USD3 mn to assist in the payment of its CCRIF SPC premiums for EQ, TC and XSR policies for the period June 1, 2019 to May 31, 2020. GOH will be providing counterpart contribution of an amount not less than USD2,645,820 to pay for its premium coverage. CCRIF SPC has agreed to provide continuing coverage on all policies to GOH, by way of a Premium Payment Waiver, valid to November 30, 2019.

3.08 A summary of premiums for GOH's 2019-2020 period is provided below.

SUMMARY OF PREMIUMS 2019-2020
(USD)

Premium	Tropical Cyclone	Earthquake	Excess Rainfall	TOTAL
Net Premium	2,565,000	1,155,000	1,925,820	5,645,820

4. PROPOSAL

4.01 It is proposed that CDB make a Grant to GOH of an amount not exceeding the equivalent of USD3 mn to assist in meeting the cost of Haiti's CCRIF SPC premium for the period June 1, 2019 to May 31, 2020. GOH shall provide counterpart contribution of an amount not less than USD2,645,820. It shall be a condition precedent to disbursement of the Grant, that GOH shall have paid the counterpart contribution.

4.02 The proposal is consistent with the theme of the Ninth Cycle of the SDF of promoting environmental sustainability and CC resilience, and with CDB's Corporate Priority of promoting environmental sustainability.

5. JUSTIFICATION

5.01 Amongst the BMCs, Haiti is one of the most vulnerable to natural hazards. CC, the rapid growth of unplanned settlements, ecosystem degradation and decline have helped to significantly increase the exposure of a large percentage of the population to multiple hazards, especially in cities. Throughout its history, Haiti has been hit by numerous natural disasters. Its location in the Caribbean puts it in prime hurricane and tropical storm territory. Since 1998, Haiti has been hit by ten hurricanes and other tropical storms, causing widespread loss of life and flooding with every landfall. From 1975 to 2012, disasters associated with extreme hydro-meteorological events have caused annual damage and losses estimated at approximately 2% of the GDP. The earthquake of January 12, 2010 killed 250,000 people, injured 300,000 and displaced 1.5 mn people. Damage and losses from that event amounted to 120% of GDP[2]

5.02 It is well established that delays in response and recovery exacerbate the indirect economic and social costs of disasters, increasing their ultimate impact, and compromising long-term fiscal balances. GOH officials have indicated that despite pledges from the international community of humanitarian relief, much of this assistance has not always materialised or not arrived as quickly as needed. Haiti has therefore come to value the immediacy of CCRIF's "payouts" after disaster events and its importance to their response and recovery efforts. For example, the historic 2016 payout was of significant assistance to the recovery process following the impact of Hurricane Matthew. GOH is therefore committed to maintaining financial risk transfer as an important element of their DRM Strategy. It has demonstrated it is committed to maintaining DRR as a priority in its development work programme. Increasing its responsibility for risk transfer instruments such as CCRIF insurance coverage by expanding the perils covered and increasing coverage levels. It has doubled its EQ coverage under CCRIF SPC since 2010 and in 2014 bought the new XSR insurance policy being offered by CCRIF SPC.

6. COST, FINANCING AND FUNDING SOURCE

6.01 The total cost of Haiti's CCRIF SPC premium for the period June 1, 2019 to May 31, 2020 is estimated at USD5,645,820. It is proposed that CDB provide a Grant to GOH in an amount not exceeding the equivalent of USD3 mn from its Special Funds Resources (SFR) - Haiti Allocation to contribute towards paying part of Haiti's CCRIF SPC premium. CDB's contribution is eligible for financing from CDB's SFR. Funds are available within existing resources. GOH shall pay to CCRIF SPC the sum of USD2,645,820 being the remainder of the cost of the premium.

7. RECOMMENDATION

7.01 It is recommended that CDB approve a Grant to GOH of an amount not exceeding the equivalent of USD3 mn from its SFR, to contribute towards the cost of GOH's premium payment to CCRIF SPC for the period June 1, 2019 to May 31, 2020, on CDB's standard terms and conditions, and on the following terms and conditions:

1. **Disbursement**

    (a) Except as CDB may otherwise agree, disbursement of the Grant shall be made by CDB directly to CCRIF SPC in a bullet payment on satisfaction of the conditions precedent set out below by GOH without the necessity for a request or further instructions from GOH.

    (b) Payment of the Grant shall be made to CCRIF SPC by December 2019 or such later date as CDB may specify in writing.

2. **Conditions Precedent to Disbursement:**

    GOH shall have furnished or caused to be furnished to CDB:

    (a) one or more legal opinions, satisfactory to CDB, of a legal practitioner, acceptable to CDB, showing that:

[2] http://www.undp.org/content/undp/en/home/crisis-response/on-going-crises/haiti.html

(i) GOH has complied with all the necessary requirements under the constitution of Haiti and the laws and regulations in force in Haiti in order to enter into the Grant Agreement; and

(ii) the Grant Agreement has been duly authorised by and executed and delivered on behalf of GOH and constitutes a valid and binding obligation of GOH in accordance with its terms;

(b) proof satisfactory to CDB, that the person who signed the Grant Agreement on behalf of GOH was legally empowered to do so; and

(c) proof satisfactory to CDB that the balance of the premium payment in an amount not less than USD2,645,820 mn has been paid by GOH to CCRIF SPC.