

PUBLIC DISCLOSURE AUTHORISED

CARIBBEAN DEVELOPMENT BANK

**SUPPORT FOR HAITI TO MEET COMMITMENT TO
CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY
FOR THE 2014-2015 HURRICANE SEASON**

This Document is being made publicly available in accordance with the Bank's Information Disclosure Policy. The Bank does not accept responsibility for the accuracy or completeness of the Document.

Considered at the Two Hundred and Sixty-Third Meeting of
the Board of Directors on October 16, 2014

<i>Coordinator (Ag.)</i>	-	<i>Cheryl Dixon</i>
<i>Environmental Sustainability Unit (ESU)</i>		
<i>Disaster Risk Management Specialist, ESU</i>	-	<i>Yuri Chakalall</i>

OCTOBER 2014

Any designation or demarcation of, or reference to, a particular territory or geographic area in this Document is not intended to imply any opinion or judgment on the part of the Bank as to the legal or other status of any territory or area or as to the delimitation of frontiers or boundaries.

CARIBBEAN DEVELOPMENT BANK

TWO HUNDRED AND SIXTY-THIRD MEETING OF THE BOARD OF DIRECTORS

TO BE HELD IN BARBADOS

OCTOBER 16, 2014

PAPER BD 66/14

**SUPPORT FOR HAITI TO MEET COMMITMENT TO
CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY
FOR THE 2014-2015 HURRICANE SEASON**

1. BACKGROUND

1.01 The Borrowing Member Countries (BMCs) of Caribbean Development Bank (CDB) are among the most vulnerable in the world to economic shocks and natural hazards. The Region has suffered a significant number of natural disasters in the last decade, the most frequent of which has been the repeated incidence, in some countries, of tropical storms and hurricanes. 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 hurricane seasons of 2004 and 2005 were particularly devastating with most of the BMCs impacted by one event, and in some instances, several events. In 2005, the Caribbean Community (CARICOM) requested assistance from the World Bank (WB) with gaining access to affordable and effective catastrophe insurance.

2. CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY

2.01 In response to the request from CARICOM, WB together with other partners, including CDB, developed the Caribbean Catastrophe Risk Insurance Facility (CCRIF). In 2007 CCRIF 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. On May 27, 2014 CCRIF was re-registered with the Cayman register of companies as a segregated portfolio company (SPC). CCRIF SPC has its own Board of Directors comprising of a representative from the donor countries, a representative from the participating countries, a financial and an insurance specialist. The CCRIF SPC is wholly owned by a commercial trust (the CCRIF Trust) also registered in the Cayman Islands. The sole purpose of the CCRIF Trust is to establish and own the CCRIF SPC. The beneficiaries of the CCRIF are the participating countries that buy insurance policies from the CCRIF SPC. As at May 31, 2014 the total net assets of CCRIF SPC stood at one hundred and fifteen million three hundred thousand United States dollars (USD115.3 mn).

2.02 CCRIF is the world's first regional insurance fund. It is a parametric insurance facility, owned, operated and registered in the Caribbean for Governments in the Region. CCRIF insures government risk and is designed to limit the financial impact of catastrophic hurricanes and earthquakes to Caribbean Governments by quickly providing short-term liquidity when a policy is triggered. Insurance coverage for excess rainfall is also now available. CCRIF allows CARICOM Governments to purchase coverage akin to business interruption insurance, which provides them with a rapid cash payment after a catastrophic earthquake, hurricane or excess rainfall event of sufficient magnitude to impact the national economy. CDB contributed USD5 mn to the CCRIF Reserve Fund in 2007 and represents the donors on CCRIF's Board. CCRIF has paid out over USD32 mn in seven years of its operation. No payouts were made during 2011-2013.

2.03 Claims payment under CCRIF depends on parametric triggers, i.e. the occurrence of a pre-defined event of a specific intensity, rather than an assessment of actual damage on the ground. This determination is made remotely by an independent agency resulting in quick processing of claims. Participating countries receive compensation proportional to the losses from the pre-defined events, depending on the level of coverage agreed to in the insurance contracts. Since payouts are processed quickly, the insurance is particularly useful in financing immediate post-disaster recovery needs, allowing the affected Government time to seek funds from other sources for long-term reconstruction.

2.04 Caribbean Governments through CCRIF are breaking new ground in demonstrating their ability to recognise and manage catastrophe risk. The benefits of CCRIF result from risk pooling and can only be achieved if a sufficiently large number of countries participate. At present, Bermuda together with 15 of CDB's BMCs are members of CCRIF, with the exception being British Virgin Islands, Guyana and Montserrat.

2.05 CCRIF allows participating countries to pool their country-specific risks to, better diversify the portfolio and thereby reduce premium costs. A high level of enrolment in CCRIF is critical for it to efficiently diversify its portfolio and thus access reinsurance on better terms. When CCRIF began on June 1, 2007 countries paid an entrance fee equal to their first premium to join CCRIF, as well as their first year's premium. Premiums, which vary typically from USD200,000 to USD4,000,000, for payouts ranging from USD10-50 mn, are paid for the most part from national budgets.

2.06 Haiti's annual premium payments to CCRIF, for the first two seasons (June 1, 2007 to May 31, 2009) 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 that country's CCRIF premium for the period June 1, 2009 to May 31, 2010. The Government of Canada (GOC) provided financial assistance to meet the other half of the cost of Haiti's CCRIF premium for the period June 1, 2009 to May 31, 2010. GOC provided further financial assistance to the Government of Haiti (GOH) in the amount of USD1,750,000, to meet part of the cost of the June 1, 2010 to May 31, 2011 CCRIF premium payment through a financial transfer arrangement with CDB. CDB provided financial assistance to GOH to pay the balance (USD1,000,000) of CCRIF's premium for the period June 1, 2010 to May 31, 2011. For the June 1, 2011 to May 31, 2012 season, Haiti's CCRIF premium was USD2,570,000. This premium payment was met in part by GOC in the amount of USD2,020,000 and by CDB in the amount of USD550,000. The GOC contribution was made through a financial transfer arrangement with CDB. Haiti's CCRIF premium of USD2,570,000 for the period June 1, 2013 to May 31, 2014 was approved for payment by CDB's Board of Directors on July 18, 2013 and has been paid in full.

2.07 On July 1, 2014, CDB received a letter of request from GOH to provide grant assistance in the amount of USD2,570,000 to cover its traditional CCRIF premium, for the period June 1, 2014 to May 31, 2015 for earthquake and tropical cyclone hazard coverage. The letter of request for premium cover also

identified that the excess rainfall hazard would now be included under GOH's policy cover for the 2014/2015 period. On the basis that Haiti had no claims in the 2012-2013 period, CCRIF offered a rebate of USD1,285,000 on its traditional premium of USD2,570,000. GOH has elected to use the value of the rebate to secure policy coverage for the additional hazard of excess rainfall now on offer by CCRIF. For the traditional premium amount of USD2,570,000 Haiti will now receive cover for earthquake, tropical cyclone and excess rainfall hazards. No other agency/institution will be assisting GOH with CCRIF premium coverage for these hazards, over this period.

3. PROPOSAL

3.01 It is proposed that CDB make a grant to GOH of an amount not exceeding the equivalent of USD2,570,000, to assist with meeting the cost of Haiti's CCRIF premium for the period June 1, 2014 to May 31, 2015.

3.02 The proposal is consistent with the theme of the eighth cycle of Special Development Fund of promoting environmental sustainability and climate change, and with CDB's Corporate Priority of promoting environmental sustainability. CDB, in its Country Strategy for Haiti (2013-2016) indicated that the Bank would continue to provide support to the country to meet its CCRIF premiums.

4. JUSTIFICATION

4.01 In the aftermath of a natural disaster BMCs generally see significant declines in their revenue generation and sharp increases in expenditure. Their access to credit may be dramatically reduced at the time when they need it most, thus placing limits on their capacity to respond to emergencies. The limited funds that are available take time to materialise, and in many cases may increase debt burdens once the disaster relief stage is over. BMCs have generally relied on extensive financing from international donors to address post-disaster needs but, given the time factor involved, the availability of short-term liquidity to maintain essential Government services becomes a critical factor. CCRIF is intended to address this challenge through its insurance coverage.

4.02 It is recognised that the payment of premiums is a recurrent expenditure and should normally be provided for in national budgets. In view of the current social, economic and fiscal challenges being faced by the people of Haiti, GOH will not be able to make its payment to CCRIF. Insurance coverage for Haiti, triggered on a parametric basis will provide some level of financial protection to a country already decimated by recent disasters.

4.03 One of the most active faults in the western hemisphere occurs within Haiti's borders. On January 12, 2010 a catastrophic magnitude 7.0 earthquake was generated along this fault line. The event caused significant mortality and infrastructural damage. At that time, for its earthquake premium of USD385,500 a payout of USD7,753,579 was received by Haiti, for this event. Since then Haiti has doubled its earthquake coverage under CCRIF. Prior to the 2010 earthquake, the country also suffered the ravages of four tropical storms within a 21 day period in 2008. As a result of four days of torrential rainfall and flooding from the outer bands of Hurricane Sandy (October 2012), 60 people were killed and more than 18,000 homes were damaged or destroyed. The event did not however trigger a payout under the terms of GOH's tropical cyclone policy coverage. In June 2013, six persons were killed and 6,600 families were affected as a result of flooding in Haiti's Artibonite, Nord-ouest and Centre departments. There is a concern over future response effectiveness of the Government and its humanitarian partners as a result of the potential for future shortages in critical aid supplies, given the demand pressures generated by such events, on strategic emergency stocks.

5. COST, FINANCING AND FUNDING SOURCE

5.01 The total cost of Haiti's CCRIF premium for the period June 1, 2014 to May 31, 2015 is estimated at USD2,570,000. It is proposed that CDB provide a Grant to GOH in an amount not exceeding USD2,570,000 (100% of total) from its Special Funds Resources (SFR). CDB's contribution is eligible for financing from CDB's SFR. Funds are available within existing resources.

6. RECOMMENDATION

6.01 It is recommended that CDB approve a grant to GOH of an amount not exceeding the equivalent of USD2,570,000 from its SFR, to meet the cost of GOH's premium payment to CCRIF SPC for the period June 1, 2014 to May 31, 2015, 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 one payment on satisfaction of the conditions precedent without the necessity for a request or further instruction from GOH.
- (b) Payment of the Grant shall be made by March 30, 2015 or such later date as CDB may specify in writing.

2. Conditions Precedent to Disbursement:

GOH shall furnish or cause to be furnished to CDB:

- (a) one (1) or more legal opinions, satisfactory to CDB, of a legal practitioner, acceptable to CDB, showing that:
 - (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;
 - (ii) the Grant Agreement has been properly executed on behalf of GOH;
 - (iii) 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; and
- (b) proof, satisfactory to CDB that the person or persons who signed the Grant Agreement on behalf of GOH was/were legally empowered to do so.