

CARIBBEAN DEVELOPMENT BANK

**SUPPORT FOR HAITI TO MEET COMMITMENT TO
CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY
FOR THE 2012-2013 HURRICANE SEASON**

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Considered at the Two Hundred and Fifty-Second Meeting of the Board of Directors on July 18, 2012.

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JULY 2012

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TWO HUNDRED AND FIFTY-SECOND MEETING OF THE BOARD OF DIRECTORS

TO BE HELD IN BARBADOS

JULY 18, 2012

PAPER BD 68/12

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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 production 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). CCRIF commenced operations in 2007 and is an independent legal entity, registered as a fully capitalised legal entity in the Cayman Islands. It is incorporated as a captive special purpose vehicle (SPV), the main purpose of which is the sale of insurance coverage to participating countries. CCRIF has its own Board of Directors comprising a representative of the donors, a representative of the participating countries, a financial and an insurance specialist. The SPV 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 SPV. The beneficiaries of the CCRIF are the participating countries that buy insurance policies from the SPV.

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 the Region's Governments. 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 has now been developed for the 2012-2013 hurricane season. The CCRIF allows CARICOM Governments to purchase coverage akin to business interruption insurance that provides them with a rapid cash payment after the occurrence of a catastrophic earthquake, hurricane or excess rainfall event of sufficient magnitude to impact the entire national economy. CDB contributed five million (mn) United States dollars (USD5,000,000) to the CCRIF Reserve Fund in 2007 and represents the donors on CCRIF's Board. CCRIF has paid out over USD32 mn in four years of its operation. No payouts were made in 2011.

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 speedily, 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, the exceptions are British Virgin Islands, Guyana and Montserrat.

2.05 CCRIF allows participating countries to pool their country-specific risks into one, better diversified portfolio thereby reducing their 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 the 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 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 the CCRIF 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.

2.07 By letter dated May 25, 2012, CDB received a request from the GOH to provide grant assistance to cover its CCRIF premium, for the period June 1, 2012 to May 31, 2013. For the period of cover, CCRIF has offered Haiti a twenty-five percent discount on their annual premium of USD2,570,000 for earthquake and hurricane hazards. The value of the discount proposed by CCRIF, will enable Haiti to benefit from excess rainfall coverage, in addition to the traditional level of coverage procured for earthquake and hurricane hazards. No other agency/institution will be assisting GOH with CCRIF premium coverage for this period.

3. PROPOSAL

3.01 It is proposed that CDB make a grant to GOH of an amount not exceeding the equivalent of two million five hundred and seventy thousand United States dollars (USD2,570,000) to assist with meeting the cost of Haiti's CCRIF premium for the period June 1, 2012 to May 31, 2013.

3.02 The proposal is consistent with CDB's Strategic Objective of "Supporting Environmental Sustainability and Disaster Risk Management", and is in keeping with the corporate priority of "Promoting Disaster Risk Management and Climate Change Mitigation and Adaptation".

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.

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. Insurance coverage for Haiti, triggered on a parametric basis will provide some level of financial protection to a country already decimated by recent disasters.

5. COST, FINANCING AND FUNDING SOURCE

5.01 The total cost of Haiti's CCRIF premium for the period June 1, 2012 to May 31, 2013 is estimated at two million, five hundred and seventy thousand United States dollars (USD2,570,000). It is proposed that CDB provide a Grant to GOH in an amount not exceeding two million, five hundred and seventy thousand United States dollars (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 for the period June 1, 2012 to May 31, 2013, 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 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 November 30, 2012 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.