

CARIBBEAN DEVELOPMENT BANK

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**SUPPORT FOR HAITI TO MEET COMMITMENT TO
CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY
PREMIUM PAYMENT FOR THE 2021-2022 POLICY PERIOD**

1. BACKGROUND

1.01 The Borrowing Member Countries (BMCs) of the Caribbean Development Bank (CDB) by virtue of geography, are highly exposed to several natural hazards, including hurricanes (TC), earthquakes (EQ), storm surges, tsunamis, volcanic eruptions, floods, and droughts. Disasters resulting from these natural hazards seriously threaten the Caribbean's progress towards sustainable development. In an International Monetary Fund (IMF) 2016 report, it is stated that 9% of disasters in small states result in damage of more than 30% of Gross Domestic Product (GDP). In comparison, larger states have damage of less than 1% of GDP in disasters. Greater exposure to disasters has important and varied macroeconomic effects on small states, resulting in lower investment, lower GDP per capita, higher poverty, and a more volatile revenue base¹. The Caribbean region continues to experience a disproportionately high share of global disaster impacts relative to its economic and demographic size.

1.02 The threat of extreme weather events and the impacts of the ongoing COVID-19 Pandemic have necessitated BMCs to access additional financial resources to adequately prepare for the hurricane season and respond to the impacts of the virus. In this context, the financial resources provided via the parametric insurance products of the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC), in the event of a disaster, can be crucial in ensuring that the affected BMC is better able to manage the fiscal impacts associated with natural disasters.

2. CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY - SEGREGATED PORTFOLIO COMPANY

2.01 In 2007, CCRIF was formed as the first multi-country risk pool in the world and was the first insurance instrument to successfully develop parametric policies backed by both traditional and capital markets. On May 27, 2014, CCRIF was re-registered with the Cayman Register of Companies as a SPC to facilitate expansion into new products and geographic areas. The new structure, in which products are offered through several segregated portfolios, allows for a total segregation of risk. CCRIF SPC limits the financial impact of natural hazard events to Caribbean and Central American governments by quickly providing short-term liquidity when a policy is triggered. CCRIF offers parametric insurance products to these governments including TC, EQ, excess rainfall (XSR), fisheries and electric utilities policies.

¹ "Small States Resilience to Natural Disasters and Climate Change—Role for the IMF", IMF Policy Paper, December 2016.

2.02 CCRIF has enabled BMCs to purchase parametric catastrophe risk insurance at 40-50% less than the cost they would have paid had they approached the insurance market individually. This coverage has become a key element of BMCs' disaster risk financing strategy and has afforded BMCs a shield against extreme weather and earthquakes. The rapid infusion of liquidity post disaster helps to address immediate priorities for response and recovery efforts.

3. MACRO ECONOMIC CONTEXT

3.01 Haiti is the poorest country in the Western Hemisphere and suffers from recurrent episodes of institutional and political instability. The GDP annual growth averaged only 1.3% over the past two decades, barely keeping up with population growth, and resulting in a stagnation of real income per capita. The economy was expected to contract by 0.7% in 2020-2021. The rebound in COVID-19 cases in July 2021 (re-establishment of the state of emergency conditions) and devastating 7.2 magnitude earthquake in August 2021, has further dampened the growth forecast for 2020-2021 to 1.1%. Since financial year (FY) 2019-2020, fiscal revenue was strained due to poor overall economic performance and weak internal revenue administration. The fiscal deficit is expected to widen in FY 2020-2021 to 6.2% of GDP from a pre COVID-19 forecast of 3%, due to a significant decline in tax revenue and an increase in operational expenses, in part to tackle the pandemic. This limited fiscal space further constrains the government's capacity to invest in more productive and growth enhancing sectors such as education and health, social protection, and disaster risk mitigation.

3.02 Haiti's COVID-19 cases continue to grow. Haiti reported its first case of the novel coronavirus on March 19, 2020, and as of November 15, 2021, the Ministry of Public Health and Population reported 24,710 cases and 711 deaths. COVID-19 is expected to lead to significant economic losses and could set back poverty reduction efforts, as the country was already reeling from the persistent political crisis and social unrest. According to the World Bank (WB 2021), the COVID-19 Pandemic is expected to have long lasting effects on household welfare as well as consequences for the health care system, poverty, and the economy. Policy measures introduced by the Government of Haiti (GOH) in response to the pandemic will result in an increase in government spending, a fall in revenues and a widening of the fiscal deficit. The extent of such impacts will depend on the severity of the pandemic, as well as on its duration. Over the medium term, the fiscal deficit is forecast to stabilise at around 3% of GDP.

4. HAITI: VULNERABILITY AND DISASTER RISK MANAGEMENT PROGRAMMING

4.01 Haiti is ranked among the world's most hazard prone countries, exposed to a wide array of natural hazards including hurricanes, storms, floods, droughts, earthquakes, and landslides. The country has been affected by multiple major natural disasters, and between 1971 and 2018, experienced a significant natural hazard impact almost every year. Between 1976 and 2020, the annual average economic losses from extreme weather events alone were estimated at almost 2% of annual GDP, and nearly 75% of households are economically impacted by at least one shock annually. The 2010 earthquake resulted in damage and losses of USD7.8 billion (bn) (120% of GDP)². Haiti was then impacted by Hurricane Matthew in 2016, causing substantial loss of life and severe damage to property, infrastructure, and agriculture. Total damage and losses were estimated at USD1.9 bn (23% of GDP). Haiti suffered its latest disaster on August 14, 2021, with the occurrence of a 7.2 magnitude earthquake, epicentred in the southwest peninsula, close to Les Cayes. The event resulted in the deaths of 2,248 persons, 12,763 casualties and 329 persons missing. 52,953 houses were destroyed, and 77,006 houses damaged in the three most affected departments Sud, Grand Anse and Nippes. In total, some 690,000 persons were displaced. This event triggered the largest single payout by CCRIF mentioned earlier.

² Haiti Earthquake Post Disaster Needs Assessment: Assessment of damage, losses, general and sectoral needs: GOH/WB Bank 2010.

4.02 The physical, social, economic, and environmental conditions in Haiti create a challenging cycle that renders it one of the most vulnerable countries in the world. Climate change is expected to further exacerbate the risk of natural hazards by increasing the frequency and/or intensity of extreme climate related events³. Based on available information⁴, maximum temperatures will likely see an increase by 0.7°C during 2011–2040 and by 1.7°C during 2041–2070, while minimum temperatures are projected to decrease by 0.7°C and 1.1°C, respectively, over the same period. In addition to claiming lives, climate-related hazards are likely to take an increasing toll on all sectors of the Haitian economy, thus reinforcing the need for improved climate and disaster risk reduction (DRR) measures to ensure sustainable development.

4.03 Haiti has remained committed to the ongoing development and growth of its disaster risk management (DRM) programmes and policies, in alignment with the Region's Comprehensive Disaster Management (CDM) Strategy and Framework. Haiti is a Participating State of the Caribbean Disaster Emergency Management Agency (CDEMA) and has developed its draft CDM based Country Work Programme for DRR and is currently finalising the programme with support from CDEMA to ensure its compliance with regional standards.

4.04 Haiti has been a member of the CCRIF SPC since it commenced operations in 2007. Due to the high vulnerability of the country and its disaster history, the GOH considers this insurance coverage as a key element of the country's DRR programme and risk financing strategy. Haiti's annual premium payments to CCRIF, for the first two seasons were met by a grant from the International Development Association (IDA), a member of the WB Group. For the period June 1, 2009 to May 31, 2010, IDA and the Government of Canada (GOC) provided financial assistance to meet the cost of Haiti's CCRIF premium. In 2011 and 2012 CDB and GOC financed the premium payments for those periods. Over the period 2010-2017, CDB provided grants for full payment of Haiti's CCRIF premiums.

4.05 In 2018, the GOH assumed responsibility for partial payment of its CCRIF premiums, paying 32% of the total amount of USD4.81 million (mn). In 2019, GOH increased its coverage limit and ceding percentage for all perils and its premium costs amounted to USD5,645,820. GOH met 46% of this cost. The discounted premium cost for the 2020-2021 period was USD4,609,469. GOH's counterpart payment of USD1,609,469 constituted 35% of the total cost. For the 2021-2022 period, GOH wrote to CDB on June 15, 2021 requesting USD3 mn to assist in the payment of the premium. However, due to the ongoing COVID-19 impact and heightened political unrest caused by the death of the President on July 7, 2021, the GOH is unable to contribute to the payment of the CCRIF premium for this policy year. By letter to CDB dated July 21, 2021, the GOH requested financial assistance of USD6,930,946 to cover the total annual premium payment of its CCRIF SPC premiums for EQ, TC and XSR policies for the period June 1, 2021, to May 31, 2022. In discussions with Ministry of Finance officials, GOH has confirmed that this request for 100% financing of its CCRIF premium is a one-off request due to the current situation and that it intends to resume partial payment in the future, specifically for next renewal. This discussion was confirmed in writing with a senior official in the Ministry of Finance, via email of August 5, 2021. Subsequent to this discussion, the earthquake of August 14, 2021, occurred and further exacerbated the fiscal situation, as scarce resources had to be diverted to the response effort and impacting GOH's ability to pay the CCRIF premium. CCRIF SPC has agreed to provide continuing coverage on all policies to GOH by way of a Premium Payment Waiver. This waiver is in place until March 2022.

4.06 A summary of premiums for GOH's 2021-2022 policy period is provided below.

³ Climate change projections indicate that average annual temperatures could increase by 2.3°C by mid-century. Rainfall variability is also expected to result in more extreme droughts in the dry season and more intense rainfall in the wet season. Sea level rise is projected to reach 0.56 metres by 2090.

⁴The Second National Communication of Haiti for the United Nations Framework Convention on Climate Change, 2013.

SUMMARY OF PREMIUMS 2021-2022
(USD)

Item	Gross Premium	CCRIF Discount 5%	Net Premium
EQ	1,297,631	n/a	1,297,631
TC	3,670,650	240,098	3,430,552
XSR	2,202,763	n/a	2,202,763
Total Invoice	7,171,044	240,098	6,930,946

5. PROPOSAL

5.01 The total cost of Haiti's CCRIF SPC premium for the period June 1, 2021, to May 31, 2022, is estimated at USD6,930,946. It is proposed that CDB make available to GOH by way of a grant an amount not exceeding the equivalent of USD6,930,946 from its Special Funds Resources (SFR) - Haiti Allocation to meet the full cost of Haiti's CCRIF SPC premium for the policy period June 1, 2021, to May 31, 2022. Funds are available within existing resources.

5.02 The proposal is consistent with the Bank's commitment to Haiti under the 2017-2021 Haiti Country Strategy Paper, to continue to support the payment of Haiti's annual CCRIF SPC premium. It is also in alignment with the theme of the Tenth Cycle of the Special Development Fund of building environmental resilience, with CDB's Corporate Priority of promoting environmental sustainability and with the GOH's development priorities on DRM.

6. JUSTIFICATION

6.01 Haiti continues to face serious challenges due to the combined shocks of the COVID-19 Pandemic, climate change, political instability, and the heightened insecurity in several parts of the country, leading to deepened fiscal challenges. As a result, the short-term economic outlook remains weak and is unlikely to improve, except a reasonably stable political and security environment is achieved. Considering this situation, GOH requires additional budgetary resources to respond to security concerns, to continue the fight against COVID-19 and maintain a minimum supply of public services, including the strengthening of DRM programmes.

6.02 Therefore, it is of utmost importance that GOH maintains and increases its CCRIF SPC insurance coverage levels, to provide an additional buffer in case of hazard impacts. The immediacy of CCRIF SPC payouts in the event of a disaster will be critical to GOH's response and recovery efforts especially in this COVID-19 period. 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. Haiti has therefore come to value the reliability of CCRIF "payouts" after disaster events and its importance to their response and recovery efforts. The GOH is therefore committed to maintaining financial risk transfer as an important element of their DRM strategy.

7. DISBURSEMENT

7.01 The Grant shall be disbursed in a bullet form directly to CCRIF SPC by December 31, 2021, or such later date as the Bank may specify in writing, upon receipt of evidence from GOH that the condition(s) precedent to disbursement of the Grant have been satisfied. The Bank's "Disbursement Guidelines for CDB-Financed Projects" published in January 2019, shall not apply to the Grant.

8. PROCUREMENT

8.01. The Bank's Procurement Policy for Projects Financed by CDB (November 2019) and the Bank's Procurement Procedures for Projects Financed by CDB (January 2021) shall not apply to the Grant.

9. RECOMMENDATION

9.01 It is recommended that CDB approve a Grant to the GOH of an amount not exceeding the equivalent of six million nine hundred and thirty thousand nine hundred and forty-six United States dollars (USD6,930,946) (the Grant) from its SFR, to meet the cost of GOH's premium payment to CCRIF SPC for the period June 1, 2021, to May 31, 2022, on CDB's standard terms and conditions, and on the following terms and conditions:

TERMS AND CONDITIONS

No.	Subject	Terms and Conditions of the Grant
1.	Parties	<u>Bank</u> : Caribbean Development Bank <u>Beneficiary</u> : Government of Haiti
2.	Amount of Grant	The Bank agrees to make available to the Beneficiary by way of a Grant an amount not exceeding the equivalent of six million nine hundred and thirty thousand nine hundred and forty-six United States dollars (USD6,930,946) (the Grant) comprising: <u>Special Funds Resources:</u> Six million nine hundred and thirty thousand, nine hundred and forty-six United States dollars (USD6,930,946).
3.	Purpose	The purpose for which the Grant is being made to meet the cost of the Beneficiary's premium payment to CCRIF SPC for the 2021-2022 policy period (the Project).
4.	Disbursement	Except as the Bank may otherwise agree, disbursement of the Grant shall be made by the Bank directly to CCRIF SPC in a bullet payment on satisfaction of the conditions precedent to disbursement set out in paragraph 6 below. The Bank's "Disbursement Guidelines for CDB-Financed Projects" published in January 2019, shall not apply to the Grant.

No.	Subject	Terms and Conditions of the Grant
5.	Period of Disbursement	The Grant shall be paid directly to CCRIF SPC by December 31, 2021, or such later date as the Bank may specify in writing.
6.	Conditions Precedent to Disbursement	<p>The Beneficiary shall have furnished or caused to be furnished to the Bank:</p> <p>one (1) or more legal opinions, satisfactory to the Bank, of a legal practitioner, acceptable to the Bank, showing that:</p> <ul style="list-style-type: none"> (i) the Beneficiary has complied with all the necessary requirements under the constitution of the Project country and the laws and regulations in force in the Project country 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 the Beneficiary and constitutes a valid and binding obligation of the beneficiary in accordance with its terms; and <p>(a) proof satisfactory to the Bank, that the person who signed the Grant Agreement on behalf of the Beneficiary was legally empowered to do so.</p>
7.	Procurement	The Bank's Procurement Policy for Projects Financed by CDB (November 2019) and the Bank's Procurement Procedures for Projects Financed by CDB (January 2021) shall not apply to the Grant.

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