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CARIBBEAN DEVELOPMENT BANK

SUPPORT FOR HAITI TO MEET COMMITMENT TO CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY FOR THE 2016-2017 HURRICANE SEASON

Considered at the Two Hundred and Seventy-First Meeting of the Board of Directors on May 16, 2016

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TWO HUNDRED AND SEVENTY-FIRST MEETING OF THE BOARD OF DIRECTORS

TO BE HELD IN JAMAICA

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1. BACKGROUND

1.01 The Borrowing Member Countries (BMCs) of the 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 has been tropical storms and hurricanes, and increasingly, the Region is also being adversely affected by droughts. 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.

2. CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY

2.01 In 2005, the Caribbean Community (CARICOM) requested assistance from the World Bank (WB) with gaining access to affordable and effective catastrophe insurance. In response to the request from CARICOM, WB together with other partners, including CDB, developed the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the first multi-country risk pool in the world, and the first insurance instrument to successfully develop parametric policies backed by both traditional and capital markets. In 2007, CCRIF registered as a fully capitalised independent legal entity in the Cayman Islands, and commenced operations thereafter. It was incorporated as a 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), to facilitate expansion into new products and geographic areas. CCRIF SPC has its own Board of Directors comprising 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. In April 2015, CCRIF signed a Memorandum of Understanding with the Council of Ministers of Finance of Central America, Panama and the Dominican Republic (COSEFIN) to enable Central American countries to formally join the facility.

2.02 CCRIF insures government risks and is designed to limit the financial impact of catastrophic hurricanes and earthquakes on governments' finances by quickly providing short-term liquidity when a policy is triggered. The insurance coverage purchased is akin to business interruption insurance, and provides a rapid cash payment after a catastrophic earthquake, hurricane or excess rainfall event of sufficient magnitude to impact the national economy.

2.03 CCRIF is the world's first regional fund utilising parametric insurance. Regional governments are given the unique opportunity to purchase earthquake, hurricane and excess rainfall catastrophe coverage with the lowest-possible pricing. The product offerings are now provided through the following SPs:

(a) CCRIF SPC on behalf of Caribbean Earthquake-Tropical Cyclone (TC-SP); and

(b) CCRIF SPC on behalf of Caribbean Excess Rainfall (XSR SP).

2.04 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 proportionate 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. 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, are paid from national budgets. Since the inception of CCRIF in 2007, the facility has made 13 payouts for hurricanes, earthquakes and excess rainfall event to 8 member governments totaling approximately USD38 mn to 8 member countries.[1] All payouts were transferred to their respective governments within 14 days. To date Haiti has received one payout of USD7,753,579 in 2010 for the earthquake event.

2.05 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. 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 and the Government of Canada (GOC) provided financial assistance to meet the other half. CDB and the GOC provided support for the premium payments for 2011 and 2012, respectively. CDB has provided grants for full payment of Haiti's CCRIF premiums since May 2013. Given its fragility and high vulnerability to natural hazards, CDB committed, in the Country Strategy Paper for Haiti 2013-2016, to continue to pay Haiti's annual CCRIF premiums and support efforts related to emergency disaster response and recovery, and to provide support to Haiti through other mechanisms aimed at building resilience to the impact of natural hazards. Haiti received a payout of USD7,753,579 from CCRIF following the catastrophic magnitude 7.0 earthquake of 2010.

2.06 By letter dated April 12, 2016, the Government of Haiti (GOH) requested grant assistance of USD3,500,000 to cover its CCRIF premiums for earthquake, tropical cyclone and excess rainfall policies for the period June 1, 2016 to May 31, 2017. No other agency/institution will be assisting GOH to pay for its CCRIF premium coverage for these hazards, over this period. A summary of premiums including

[1] The Government of the Commonwealth of Dominica received the most recent payout of EC6.5 million under the Excess Rainfall Programme following Tropical Storm Erica which impacted that island in September 2015.

discounts[2] that have been applied by CCRIF for GOH's premiums for the 2016-2017 period is provided below:

Summary of Discounts Applied by CCRIF	
	USD
Annual Premium 2016/17 Tropical Cyclone Peril	1,800,000
Annual Premium 2016/17, Earthquake Peril	770,000
Annual Premium 2015/16, Excess Rainfall Peril	1,285,000
Contribution from CCRIF – Premium Rebate	(642,500)
Sub-Total	**3,212,500**
Contingency[3]	**287,500**
Total	**3,500,000**

3. PROPOSAL

3.01 It is proposed that CDB make a grant to GOH from Special Funds Resources (SFR Haiti Allocation) of an amount not exceeding the equivalent of USD3,500,000, to meet the cost of Haiti's CCRIF premium for the period June 1, 2016 to May 31, 2017.

3.02 The proposal is consistent with the theme of the Eighth Cycle of the Special Development Fund of promoting environmental sustainability and climate change resilience, and with CDB's Corporate Priority of promoting environmental sustainability.

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 Haiti still remains vulnerable to earthquake events, and the effects of the 2010 event that caused over 300,000 deaths, displaced over three million people and made more than one million homeless still remains prevalent. As of January 2016, 45,000 Haitians still live in tents and make-shift shelters[4] often

[2] CCRIF has offered a general discount of 25% on the gross premium for TC and EQ down from 50% offered last year.

[3] A contingency amount has been allocated because CCRIF has not yet finalised the XSR premiums and have presented an estimate so the contingency has been provided to cover any potential increase on the final figure.

[4] Source: International Organisation for Migration, United States Agency for International Development and Center for Economic and Policy Research.

assembled from bed sheets, tarpaulin, wooden sticks and string, with little or no access to water and sanitation. Haiti's earthquake premium of USD385,500 in 2010, resulted in a payout of USD7,753,579. Since 2010 Haiti has doubled its earthquake coverage under CCRIF and in 2014 bought the new excess rainfall insurance policy being offered by CCRIF. However, according to the CCRIF, there remains a significant post event disaster financing gap. For the earthquake threat, the financing gap is caused by the relatively low return period of the exhaustion point of only 70 years chosen by the Government. In the case of Haiti, this is very important as the modeled losses still increase steeply with the return period beyond the chosen exhaustion points. CCRIF has been encouraging members to ideally buy cover for a return period of up to 200-250 years.

4.04 In the case of the Tropical Cyclone coverage, there is also a significant post disaster financing gap. This is caused by the low cession percentage of only 12.3%, which means that for each dollar modeled loss in excess of the attachment point, CCRIF would pay the GOH 12.3 cents in case of a triggering event. CCRIF normally encourages countries to have a cession percentage of at least 20% in the long term. This is of concern as the 2016 Atlantic hurricane season forecasts so far suggest more activity in the Atlantic tropics than seen in recent years, as the transition to La Niña and warmer sea surface temperatures near the United States coast and in the Gulf, may influence increased hurricane activity. Early predictions indicate the formation of 12 named storms, 6 hurricanes and 2 major hurricanes in the 2016 Atlantic hurricane season, an increase on the 10 named storms, 3 hurricanes and 2 major hurricanes experienced in the Atlantic basin in 2015.

4.05 CDB will be working with the support of the Caribbean Disaster Emergency Management Agency (CDEMA), to support efforts to improve emergency disaster response and recovery, and improve Haiti's technical capacity to address building resilience to the impact of natural hazards and climate change. CDEMA is currently seeking to develop a country work programme for Haiti as the first step to assisting them in identifying priority programmes for their three year work programme. The first stage is to conduct a comprehensive disaster management audit to ascertain the country's status of their CDM framework, and the Bank has been approached by CDEMA to assist in the conduct of the audit.

5. <u>COST, FINANCING AND FUNDING SOURCE</u>

5.01 The total cost of Haiti's CCRIF premium for the period June 1, 2016 to May 31, 2017 is estimated at USD3,500,000. It is proposed that CDB provide a Grant to GOH in an amount not exceeding USD3,500,000 from its SFR Haiti Allocation. CDB's contribution is eligible for financing from CDB's SFR. Funds are available within existing resources.

6. <u>RECOMMENDATION</u>

6.01 It is recommended that CDB approve a grant to GOH of an amount not exceeding the equivalent of USD3,500,000 from its SFR, to meet the cost of GOH's premium payment to CCRIF SPC for the period June 1, 2016 to May 31, 2017, on CDB's standard terms and conditions and on the following terms and conditions:

1. **<u>Disbursement</u>**

   (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 set out below without the necessity for a request or further instruction from GOH.

(b) Payment of the Grant shall be made by December 31, 2016 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.