Public Disclosure Authorized

Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 22-Dec-2020 | Report No: PIDC30896

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Latin America	P175616		Second Central America and Caribbean Catastrophe Risk Insurance Project (P175616)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
LATIN AMERICA AND CARIBBEAN	Jan 18, 2021	Apr 30, 2021	Urban, Resilience and Land
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Caribbean Catastrophe Risk Insurance Facility – Segregated Portfolio Company (CCRIF SPC),	Caribbean Catastrophe Risk Insurance Facility – Segregated Portfolio Company (CCRIF SPC)	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve affordability of high quality sovereign catastrophe risk transfer associated with earthquakes and climate-related events for CCRIF Participating Countries.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	22.30
Total Financing	22.30
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	22.30
Free-standing Single Purpose Trust Fund	22.30

Environmental and Social Risk Classification	Concept Review Decision
Low	Track I-The review did authorize the preparation to continue

B. Introduction and Context

Regional Context

1. **Countries in Central America and the Caribbean are highly vulnerable to the adverse effects associated with earthquakes, hurricanes and other major hydro-meteorological events such as excessive rainfall.** Without appropriate fiscal management strategies, major catastrophic events jeopardize efforts to end extreme poverty and boost shared prosperity and reverse hard-won development gains. In the immediate aftermath of disasters, countries in Central America and the Caribbean have experienced significant macro-economic instability and major public sector budget variability. These macro-economic and budget impacts lead to reduced access to, and quality of public services as well as higher debt levels incurred and transferred onto future generations. Typically, when disasters hit, the poor (including farmers, fishers, and informal sector workers) and vulnerable (children, women, Indigenous Peoples, and the elderly) are disproportionally affected.[1]

2. **Disaster and climate events created a significant fiscal burden on many governments in Central America and the Caribbean.** In the past decades, disaster events in Central America and the Caribbean have caused substantial human and economic losses, with strong adverse impacts on gross domestic product per capita, income, and poverty reduction. Between 1970 and 2015, disasters associated with earthquakes, hurricanes and floods caused accumulated damages and losses of more than US$80 billion. In 1998, Hurricane Mitch, for example, caused about 14,600 deaths, directly affected around 6.7 million people, and resulted in more than US$8.5 billion in damages in Nicaragua, Honduras, Guatemala and El Salvador. In the Caribbean, damage from Hurricane Maria, which passed over the center of Dominica in 2017, resulted in total economic damages and losses of US$380 million, equivalent to 226 percent of 2016 Gross Domestic Product (GDP). These large-scale catastrophic events resulting in severe damages to public and private assets in the health, education, water, transport, and infrastructure sectors often incur the majority of damages associated with catastrophic events - subsequently contributing to large fiscal deficits and debt accumulations requiring public debt restructuring.

3. **After several years of slow growth, the Central America and the Caribbean economy is facing a new setback because of the COVID-19 pandemic, impacting fiscal and financial systems at national levels, which may limit the region's capacity to better prepare and respond to future disasters**. Parts of Central America and the Caribbean have become hotspots of the pandemic, exacerbated by weak infrastructure and limited medical and financial resources. This will result in the worst recession in the region in a century. At the same time, the region is facing the additional social and economic impact of catastrophic storms of the 2020 hurricane season, such as tropical cyclones Eta and Iota[2], with an impact comparable to 1998's Hurricane Mitch. It is expected that there will be an increase in vulnerability, in light of the

[1] Ishizawa Escudero, Oscar Anil, Montero Miranda, and Jose Juan. 2016. "Weathering Storms: Understanding the Impact of Natural Disasters on the Poor in Central America." Policy Research Working Paper WPS 7692, World Bank, Washington, DC.

[2] Both storms developed slowly in the western Caribbean Sea and made landfall at nearly the same location south of Bilwi, Nicaragua, as Category 4 hurricanes (Iota having reached Category 5 few hours earlier), with catastrophic impacts on local populations, critical infrastructure, crops, and private assets from southern Mexico to northern Colombia. Over 7 million people are estimated to be directly affected, of whom over 500,000 were evacuated and 150,000 still in public shelters as of the end of November.

social and economic fragility that would be exacerbated in countries that still have active COVID-19 measures, producing severe fiscal impacts, displacement, infrastructure damage and service interruption caused by storms, particularly in coastal areas.

Sectoral and Institutional Context

4. **Governments throughout Central America and the Caribbean have made significant institutional advances to improve their disaster risk management capabilities and capacities but remain fiscally vulnerable to disasters.** Most countries have passed legislation, developed policies, and created institutions to enable more efficient emergency management; and procedures are in place to help provide early warnings to citizens prior to a disaster. As a result, fewer lives are lost today per hazard event than in past decades. However, the economic value of damages to property and livelihoods continues to rise in both sub-regions due to the high level of vulnerability and rising exposure.

5. **The limited ability to absorb fiscal shocks associated with natural hazard impacts is related to limited capacity for external borrowing and budget allocation for many Central American and Caribbean countries**. In the Caribbean, current high levels of government debt are partly due to recovery costs associated with past disasters, as well as the fact that Caribbean economies are too small to absorb the shock of catastrophic events. Consequently, borrowing in private markets to finance reconstruction efforts has proven too costly or impossible for many Caribbean governments. In Central America, while countries are able to distribute disaster risk over a wider geographic area and are therefore able to maintain greater borrowing capacity for reconstruction purposes, some catastrophic shocks still exceed the capacity of national economies. Disaster response frameworks continue to rely heavily on ad hoc budget reallocations, emergency calls for donor assistance, and on simply not replacing or repairing damaged capital stock.

6. **Catastrophe risk pooling at the regional level is a cost-efficient way for Central American and Caribbean countries to enable access to quick liquidity following a catastrophic event**. Insurance would mobilize additional capital from outside the country, which could contribute to the overall reduction of the gap between a government's contingent liability to catastrophic events and the amount of readily available resources within governments that can be mobilized. Effectively transferring part of their disaster risk to re/insurance markets can help solve a significant portion of countries' immediate liquidity needs in the aftermath of a disaster. This risk transference to insurance markets further complements and helps to influence wider decision-making involving national emergency budget allocation and fiscal planning systems so as to achieve greater disaster resilience.

7. **The world's first multi-country catastrophe risk pooling mechanism is the Caribbean Catastrophe Risk Insurance Facility – Segregated Portfolio Company (CCRIF SPC), established in 2007, restructured into a segregated portfolio company (SPC), and renamed CCRIF SPC in 2014**. Since its creation, CCRIF SPC has continued to innovate with other types of parametric (triggering event) insurance products. For the 2007-2020 period, CCRIF SPC made 45 payouts to 14 member countries, totaling almost US$165 million. All payments were made within 14 days of the end of the qualifying event. By providing quick liquidity to a government when a triggering event occurs, CCRIF SPC has been able to mitigate the short-term cash flow problems that small developing economies in the region suffer after major geophysical and climate-related disasters. Governments and donors, having witnessed first-hand the aftermath of extreme geophysical and climate events throughout the past decade, particularly in the latter months of 2017, have been encouraged by CCRIF SPC's rapid response and payouts.

Relationship to CPF

8. **The proposed project contributes to the World Bank twin goals**, by assisting the Caribbean Community

(CARICOM) and the Council of Ministers of Finance of Central America and the Dominican Republic (COSEFIN) achieve their priority of better managing the fiscal impacts of catastrophic shocks arising from tropical cyclones, earthquakes, and/or excess rainfall. Improving affordability of sovereign catastrophe risk transfer options will provide ministries of finance with an option for better fiscal management of these shocks and will help mitigate macro-economic and budget impacts that otherwise lead to reduced access to, and quality of, public services as well as higher debt levels that are transferred onto future generations.

9. **The Second Central America and the Caribbean Catastrophe Risk Insurance Project is consistent with the World Bank's longstanding approach to promote financial resilience through innovative products to diversify and manage disaster risk**. The project is aligned with the WBG's Climate Change Action Plan 2020-2025, which aims to increase financing for climate adaptation and support increased systemic climate action at the country level, particularly committing to "scale up sovereign disaster risk insurance." The project is also aligned with CCRIF SPC member countries' WBG Country Partnership Frameworks (CPF) where strengthening resilience, including financial resilience, against climate and disaster risks are important pillars and contributes to the implementation of their national socio-economic development plans and disaster risk finance strategies. While complementing the Sendai framework for disaster risk reduction (2015-2030)[3], the project enhances governments' capacities to manage and access post-disaster financing which is also a critical objective.

10. **The project builds on the World Bank's experience in the development of regional sovereign catastrophe risk pools[4] and the first Caribbean Catastrophe Risk Insurance Facility Project (P149670).** The Bank has supported countries in the Caribbean and the Pacific in establishing sovereign catastrophe risk pools that have evolved into full-service regional mechanisms through which the governments can transfer risk more efficiently to financial markets, and investments can be made in regional public goods and political coordination. Governments rely on the World Bank's intricate knowledge of its member countries, its in-house expertise, and its reputation for impartiality with the countries and the international capital and reinsurance markets.

C. Proposed Development Objective(s)

11. The Project Development Objective (PDO) is to improve affordability of high-quality sovereign catastrophe risk transfer associated with earthquakes and climate-related events for CCRIF Participating Countries.

Key Results (From PCN)

12. Expected outcomes of the project include:

(a) access of COSEFIN countries to lower premium rates than the simulated price for comparable earthquake risk insurance and climate risk insurance purchased individually in the market (number);
(b) access of CARICOM countries to lower premium rates than the simulated price for comparable climate risk insurance purchased individually in the market (number); and
(c) quick access to liquidity for participating countries with catastrophe risk coverage after the occurrence of an eligible triggering event, with payment within a month of the event (number of days).

[3] The Sendai Framework for Disaster Risk Reduction 2015-2030 (Sendai Framework) was the first major agreement of the post-2015 development agenda and provides Member States with concrete actions to protect development gains from the risk of disaster. More information on the Sendai framework is available at https://www.undrr.org/implementing-sendai-framework/what-sendai-framework

[4] Southeast Asia Disaster Risk Insurance Facility (SEADRIF) – approved in 2020 and the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI) – approved in 2016.

D. Concept Description

13. **The proposed project will support the expansion of CCRIF SPC to Central America and the Caribbean countries, thereby increasing the ability of member governments to reduce the negative impacts of natural hazards on their economies and societies.** CCRIF SPC expansion includes increasing country membership or the development and improvement of new products for member countries.[5] The proposed project will also finance the strengthening of CCRIF's technical assistance (TA) program, which supports continuous capacity building for disaster risk management in the Caribbean and Central America.

14. **Component 1: Parametric Earthquake Risk Insurance for COSEFIN Participating Countries (US$4.0 million)**. This component will finance the main costs associated with providing COSEFIN countries with earthquake risk coverage. This will enable CCRIF SPC to retain more of the capital it generates from premium payments, which will in turn help CCRIF SPC to build its reserves more quickly to underwrite earthquake risk coverage. By increasing its risk-absorption capacity for the COSEFIN portfolio during project implementation, CCRIF SPC will be able to offer lower premiums in relative terms for the earthquake product by the end of the project period.

15. **Component 2 Parametric Climate Risk Insurance for COSEFIN Participating Countries (US$7.0 million)**. This component will enable CCRIF SPC to provide tropical cyclone and excess rainfall coverage to COSEFIN members to enable them to better adapt to climate change. Specifically, this component will cover the main costs of CCRIF SPC's risk transfer with regard to tropical cyclone, excess rainfall and other climate-related events of participating COSEFIN countries. While the tropical cyclone and excess rainfall models for COSEFIN countries are already available, there is still a need for technical design work on the drought product, including: (i) preparation of a country-risk assessment model; (ii) calibration of current models; (iii) actuarial analysis; and (iv) design of country-specific insurance based on these parameters.

16. **Component 3: Parametric Climate Risk Insurance for CARICOM Participating Countries (US$11.3 million)**. This component will enable CCRIF SPC to provide excess rainfall coverage to CARICOM member countries to enable them to better adapt to climate change. Specifically, this component will cover the main costs of the CCRIF SPC's risk retention and transfer with regard to excess rainfall or other climate-related events of participating CARICOM countries.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

17. **The overall environmental and social risk of the project is low.** The project finances support for improving the affordability of high-quality, sovereign catastrophe risk transfer associated with earthquakes and climate-related events for CCRIF SPC participating countries, and hence no direct physical works and procurement of goods or equipment is

[5] Countries who use more disaster risk financing instruments and efficiently implement risk-layered strategies, tend to be wealthier, less indebted, and more likely to enjoy higher government capacity than peers who deploy fewer instruments. They also experience fewer economic and human losses from disasters and traditionally receive less humanitarian aid per capita than those countries that deploy fewer instruments. (World Resources Institute, 2019).

anticipated. The project is intended to have positive impacts on the most vulnerable who are disproportionately affected by the impacts of disasters by enabling governments to implement emergency activities and provide critical services in the aftermath of catastrophes. The project will include assistance to the participating countries as emergency support through financing of parametric earthquake risk insurance for COSEFIN participating countries and financing parametric climate risk insurance for COSEFIN and CARICOM participating countries. The project will cover associated expenses o participation fee, annual reinsurance premia of CCRIF SPC for components 1-3 listed above and technical assistance, which include developing a range of communication products, tools, and capacity development programs. The project activities are not expected to have any adverse impact on human population or the environment.

18. **Labor and stakeholder associated risks are considered low.** The project will rely on CCRIF SPC's existing staff and consultants could be hired if needed. Stakeholder engagement will build on CCRIF SPC's existing and extensive stakeholder outreach to the governments of participating countries. Measures will be reflected in the Environmental and Social Commitment Plan to address associated risks to labor and stakeholder engagement as described under the Environmental and Social Standard on Labor and Working Conditions (ESS2) and Stakeholder Engagement and Information Disclosure (ESS10). A standalone Labor Management Procedure (LMP) will also be developed to address labor risks. Related labor measures include: training, occupation health and safety (OHS), labor code of conduct, project level Grievance Mechanism, Grievance Mechanism for project workers; activities for consultation, information disclosure, use of inclusive language, project-related reporting, and COVID-19 requirements during stakeholder engagement and in accordance with the Technical Note: "Public Consultations and Stakeholder Engagement in WB-supported operations when there are constraints on conducting public meetings March 20, 2020."

E. Implementation

Institutional and Implementation Arrangements

19. **The proposed project will be implemented by the CCRIF SPC**[6] which has provided its members with parametric insurance against tropical cyclones, earthquakes and excess rainfall, and has secured reinsurance contracts and made timely payouts to participating countries after eligible catastrophes over the past 13 years. In addition to its success in managing risks, CCRIF SPC also has experience implementing WB-funded projects as the implementing agency of the ongoing Central America and Caribbean Catastrophe Risk Insurance Project (P149670)[7] and the Caribbean Ocean and Aquaculture Sustainability Facility (COAST) Project (P171321) in St. Lucia and Grenada.

20. **The implementation of the project will rely on CCRIF SPC, which has a Board of Directors and is managed by an executive management team of four full time staff supported by six service providers** in the areas of risk management, asset management, insurance management, communications and technical assistance.[8] The proposed project builds on CCRIF's extensive experience as a regional insurance entity to guarantee the quality of service required for new members. CCRIF is licensed and operating, with institutional arrangements established, service providers in place, and parametric risk transfer instruments already active, so new members will be joining a mechanism that is tried and tested.

21. **As a regulated entity, CCRIF SPC must comply with reporting and audit requirements established by the Cayman Island Monetary Authority.** In addition, CCRIF SPC's various functions are governed by its Operations Manual, including those related to financial management (planning, payment procedures, accounting, and reporting for internal, statutory

[6] CCRIF SPC members include 19 CARICOM and 3 Central America countries. CARICOM countries are: Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Bermuda, Cayman Islands, Dominica, Grenada, Jamaica, Haiti, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, Turks and Caicos Islands, Montserrat, the British Virgin Islands, and Sint Maarten. Central America countries are Nicaragua, Panama and Guatemala.

[7] Since 2015.

[8] Information on the CCRIF SPC service providers is available here: https://www.ccrif.org/aboutus/ccrif-team

and regulatory purposes), which are carried out by Sagicor. Its financial management (FM) staff are experienced and qualified. The Bank's FM Team will carry out an assessment of the proposed FM arrangements.

CONTACT POINT

World Bank

Rashmin Gunasekera, Mirtha Liliana Escobar Saenz
Senior Disaster Risk Management Specialist

Borrower/Client/Recipient

Caribbean Catastrophe Risk Insurance Facility – Segregated Portfolio Company (CCRIF SPC),

Implementing Agencies

Caribbean Catastrophe Risk Insurance Facility – Segregated Portfolio Company (CCRIF SPC)
Isaac Anthony
Chief Executive Officer
ccrif.ceo@gmail.com

Gillian Golah
Chief Operating Officer
ccrif.coo@gmail.com

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: http://www.worldbank.org/projects

APPROVAL

Task Team Leader(s):	Rashmin Gunasekera, Mirtha Liliana Escobar Saenz

Approved By

Practice Manager/Manager:		
Country Director:	Oyebimpe Olufunmilayo Adepoju	22-Dec-2020