PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA3954

Project Name	Central America & Caribbean Catastrophe Risk Insurance Project (P149670)
Region	LATIN AMERICA AND CARIBBEAN
Country	Latin America
Sector(s)	Non-compulsory pensions and insurance (100%)
Theme(s)	Other Financial Sector Development (50%), Other Private Sector Development (50%)
Lending Instrument	Investment Project Financing
Project ID	P149670
Borrower(s)	Caribbean Catastrophe Risk Insurance Facility
Implementing Agency	Caribbean Catastrophe Risk Insurance Facility
Environmental Category	C-Not Required
Date PID Prepared/Updated	25-Mar-2014
Date PID Approved/Disclosed	26-Mar-2014
Estimated Date of Appraisal Completion	01-Apr-2014
Estimated Date of First Grant Approval	01-May-2014
Decision	

I. Project Context

Country Context

Countries in Central America and the Caribbean are highly vulnerable to the adverse effects associated with earthquakes, tropical cyclones, and other major hydro-meteorological events such as excessive rainfall. Without adequate fiscal management strategies, major catastrophic events can jeopardize efforts to end extreme poverty and boost shared prosperity and reverse hard-won development gains. Significant macroeconomic instability and major public sector budget variability often result in the immediate aftermath of a disaster, leading to reduced coverage and quality of public services (particularly for the poorest) and higher debt levels transferred onto future generations.

Since 1980, nine countries in Central America and the Caribbean have experienced a disaster event with an economic impact above 50 percent of their annual GDP (for the year of the impact). Public and private assets in the agriculture, education, health, housing, infrastructure, transport, and water sectors often incur the majority of damages associated with catastrophic events – subsequently contributing to large fiscal deficits and debt accumulation requiring public debt restructuring. World Bank research has also shown that catastrophic events have led to significant drops in household consumption per capita, compelling individuals to decrease calorie consumption, sell vital assets, work longer hours and pull children out of school. The adverse impacts of disasters can also be disproportionate by gender. Women often experience higher rates of mortality, morbidity, and diminishment in livelihoods post-disaster.

In the Caribbean, between 1990 and 2008, the damages and losses associated with large-scale catastrophic events have been estimated to total at least US$23 billion; in the same period, the comparable figure for Central American countries is close to US$21 billion. While earthquakes are associated with the highest probable maximum loss per event in Central American and some Caribbean states, extreme rainfall events caused the greatest accumulated losses to countries in both sub-regions. Hydro-meteorological disasters are the most frequent, with associated damages and losses equivalent to more than one percent of national GDP per year for 14 countries in Central America and the Caribbean.

Sectoral and institutional Context

Governments throughout Central America and the Caribbean have made significant institutional advances to improve their disaster risk management (DRM) capacities but remain fiscally vulnerable to disasters. Most countries have passed legislation, developed policies, and created institutions to enable more efficient emergency management and early warning systems. 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 increasing exposure.

The limited ability to absorb fiscal shocks associated with natural hazard impacts is often related to a restricted capacity for external borrowing and budget reallocation. In the Caribbean, economies are too small to absorb the shock effect of many catastrophic events and high levels of government debt partly stem from recovery costs associated with past disasters. Consequently, borrowing 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 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 simply not replacing or repairing damaged capital stock.

Catastrophe risk pooling at the regional level is a cost-efficient means to enable Central American and Caribbean countries access to quick liquidity following a catastrophic event. Insurance would mobilize additional capital from outside the country and contribute to the overall reduction of the gap between a government’s contingent liability to catastrophic events and the amount of readily available resources that can be mobilized in the aftermath of a disaster. Engaging private capital and reinsurance markets would also influence wider decision-making involving national emergency budget allocation and fiscal planning systems so as to be more disaster resilient.

The Caribbean Catastrophe Risk Insurance Facility (CCRIF) is the world’s first multi-country catastrophe risk pooling mechanism and has covered 16 Caribbean Community (CARICOM) states with tropical cyclone (wind and storm surge) and earthquake (ground shaking) risk insurance since 2007. The CCRIF is the first multi-country facility that transfers sovereign disaster risk to the international reinsurance market and provides governments with liquidity immediately after disaster events. The CCRIF enables the aggregation of national risk into larger, more diversified portfolios, collectively building up risk retention capacity, and cheaper access to international reinsurance markets, resulting in more affordable premiums. Expanding CCRIF membership to Central America and the Dominican Republic would further diversify the CCRIF's risk pool, improve the sustainability of the CCRIF, lead to cheaper premiums for existing CCRIF members, and allow new members access to the same benefits.

II. Proposed Development Objectives

The Project Development Objective (PDO) is to improve affordability of high quality sovereign catastrophe risk transfer associated with tropical cyclones, earthquakes, and/or excess rainfall for COSEFIN and CARICOM member countries.

III. Project Description

Component Name

Component 1: Finance Parametric Earthquake Risk Insurance for COSEFIN countries within CCRIF

Comments (optional)

Activities will be financed under this component until donor contributions to the MDTF Component 1 have been exhausted.

Component Name

Component 2: Finance Climate Risk Insurance for COSEFIN countries within CCRIF

Comments (optional)

Activities will be financed under this component until donor contributions to the MDTF Component 2 have been exhausted.

Component Name

Component 3: Finance Climate Risk Insurance for CARICOM countries within CCRIF

Comments (optional)

Activities will be financed under this component until donor contributions to the MDTF Component 3 have been exhausted.

IV. Financing *(in USD Million)*

Total Project Cost:	53.01	Total Bank Financing:	0.00
Financing Gap:	0.00		

For Loans/Credits/Others	Amount
Borrower	0.00
Free-standing Single Purpose Trust Fund	53.01
Total	53.01

V. Implementation

The proposed Project will be implemented over four years as donor contributions to the proposed Central America and Caribbean Catastrophe Risk Insurance Program Multi-Donor Trust Fund (MDTF) permit, with CCRIF as a recipient of funds. The CCRIF conducts its operations in line with a detailed Operations Manual, which is subject to annual review and amendment by the CCRIF Board as necessary. The Bank approved the original Operations Manual and amendments made thereto during the life of the first CCRIF project. A Grant Agreement will be signed between the Bank and CCRIF authorizing CCRIF to receive funds on behalf of client countries. Contractually, the client countries will be required to pay their entrance fee to CCRIF and sign Participation Agreements to join the CCRIF. Countries will subscribe to insurance policies annually for each peril they wish to have coverage for and pay the corresponding premiums. According to the desired coverage and the percentage of risk transferred to the markets, the reinsurance will be quoted and the needed amounts requested from the MDTF to be paid.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		✕
Natural Habitats OP/BP 4.04		✕
Forests OP/BP 4.36		✕
Pest Management OP 4.09		✕
Physical Cultural Resources OP/BP 4.11		✕
Indigenous Peoples OP/BP 4.10		✕
Involuntary Resettlement OP/BP 4.12		✕
Safety of Dams OP/BP 4.37		✕
Projects on International Waterways OP/BP 7.50		✕
Projects in Disputed Areas OP/BP 7.60		✕

Comments (optional)

VII. Contact point

World Bank

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Borrower/Client/Recipient

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Implementing Agencies

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VIII. For more information contact:

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