Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 15-Jun-2022 | Report No: PIDA34149

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Latin America	P178710	AF to the Second Central America and Caribbean Catastrophe Risk Insurance Project	P175616
Parent Project Name	**Region**	**Estimated Appraisal Date**	**Estimated Board Date**
Second Central America and Caribbean Catastrophe Risk Insurance Project	LATIN AMERICA AND CARIBBEAN	20-Jun-2022	25-Aug-2022
Practice Area (Lead)	**Financing Instrument**	**Borrower(s)**	**Implementing Agency**
Urban, Resilience and Land	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) Parent

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

Components

Component 1: Parametric Geophysical risk insurance for COSEFIN Participating Countries
Component 2: Parametric Climate Risk Insurance for COSEFIN Participating Countries
Component 3: Parametric Climate Risk Insurance for CARICOM Participating Countries and selected Overseas Countries and Territories (OCTs)

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	20.77
Total Financing	20.77
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing	
Trust Funds	20.77
Free-standing Single Purpose Trust Fund	15.00
Global Facility for Disaster Reduction and Recovery	5.77

Environmental and Social Risk Classification

Low

B. Introduction and Context

Regional Context

1. **Central America and Caribbean countries are highly vulnerable to the adverse impacts of major geophysical and hydro-meteorological events, including excessive rainfall, cyclones, flooding, earthquakes, and drought.** Without appropriate fiscal risk management strategies, such events will continue to jeopardize efforts to end extreme poverty and boost shared prosperity. In the immediate aftermath of disasters, countries in the region have experienced significant macroeconomic instability and public sector budget shortfalls. These impacts have led to reduced access to and quality of public services, as well as higher debt levels, which will be transferred to future generations. When disasters hit, the poor (including farmers, fishers, informal sector workers) and vulnerable (children, women, Indigenous Peoples, the elderly) are disproportionally affected.[1]

2. **Among the ten countries in the world most affected by disasters between 1996 and 2019, three are in Central America.[2]** In 1998, Hurricane Mitch caused about 14,600 deaths, directly impacted around 6.7 million people and resulted in more than US$8.5 billion in damage in Nicaragua, Honduras, Guatemala and El Salvador. In the Caribbean, Hurricane Maria hit Dominica in 2017 and resulted in economic damage and losses totaling US$380 million, equivalent to 226 percent of the country's gross domestic product (GDP) in 2016.[3]

3. **Central American and Caribbean economies are also still struggling to overcome the fiscal impacts of the COVID-19 pandemic,[4] which has compounded the effects of multiple years of slow growth and may limit the region's capacity to prepare for future disasters**. Weak infrastructure and limited medical and financial resources have resulted in the worst recession in the region in a century.[5] Disasters caused by natural hazards

[1] Ishizawa Escudero, Oscar Anil and Jose Juan Montero Miranda. 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] These are Honduras (number 1), Nicaragua (number 4), and Guatemala (number 9). Global Climate Risk Index 2019.
[3] Post-Disaster Needs Assessment Hurricane Maria September 18, 2017. https://reliefweb.int/sites/reliefweb.int/files/resources/dominica-pdna-maria.pdf
[4] Prior to the pandemic, the region's development model was facing severe structural limitations: high inequality, balance-of-payments constraints, debt crises, low growth, high informality and poverty, and high vulnerability to climate change and natural disasters. United Nations, 2021.
[5] United Nations Sustainable Development Group, 2020. *Policy Brief: The Impacts of COVID-19 on Latin American and the Caribbean*. (July). https://unsdg.un.org/resources/policy-brief-impact-covid-19-latin-america-and-caribbean

have not stopped during the COVID-19 pandemic; countries in both subregions are at high risk of suffering from compound shocks. To finance the containment and mitigation measures for COVID-19, governments in the region are using all available financing options, including disaster risk financing (DRF) instruments (e.g., contingent lines of credit, emergency funds, budget reallocations). These undertakings have drastically reduced the availability of resources to respond to another disaster, not only increasing governments' financial exposure, but also limiting access to liquidity to support already overloaded emergency systems. Countries are gradually shifting toward more sustainable measures to finance recovery. In the meantime, however, governments are looking for viable solutions to strengthen their ability to respond to disasters more quickly and cost effectively.

Sectoral and Institutional Context

4. **Governments throughout Central America and the Caribbean have made significant institutional advances to improve disaster risk management (DRM) but remain fiscally vulnerable.** 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. However, the economic value of damage to property and livelihoods continues to rise in both subregions due to the high level of vulnerability and rising exposure.

5. **This project supports an innovative DRF instrument known as catastrophe risk pooling. This regional-level instrument provides a cost-effective way for Central American and Caribbean countries** to quickly access liquidity following a disaster by transferring part of their disaster risk to the reinsurance and insurance markets.

6. **International experience has shown that countries that make greater use of DRF instruments other and risk-layered strategies tend to experience fewer economic and human losses** from disasters and traditionally need less humanitarian aid per capita than those countries that deploy fewer instruments.[6] Countries with risk strategies also tend to be wealthier, less indebted, and more likely to enjoy higher government capacity than peers that deploy fewer instruments.

7. **Through sovereign catastrophe risk pools,[7] countries can spread risk across a diversified portfolio, retain some risk through joint reserves and capital, and transfer excess risk to the reinsurance or even capital markets.**[8] In addition, multi-country risk pooling potentially allows significant savings for members. Members of the Council of Ministers of Finance of Central America, Panama and the Dominican Republic (COSEFIN) that join the Caribbean Catastrophe Risk Insurance Facility – Segregated Portfolio Company (CCRIF SPC)[9] facility will pool their risk in a separate portfolio from countries belonging to the Caribbean Community (CARICOM); however, both subregions will approach the reinsurance market jointly. Accessing the reinsurance market with a diversified risk pool and adequate reserves allow its members to benefit from a reduction in premium costs, in comparison

[6] World Resources Institute, 2019.
[7] Risk pooling does not reduce the underlying risk (which should be reduced through appropriate risk mitigation measures), but rather allows for improved spreading of risk, leading to potentially significant reductions in the cost of risk, particularly for severe events.
[8] Since it is highly unlikely that several countries will be hit by a major disaster within the same year, the diversification among participating countries creates a more stable and less capital-intensive portfolio, which is cheaper to reinsure.
[9] The CCRIF SPC was established in 2007 as the world's first multi-country catastrophe risk-pooling mechanism. CCRIF SPC members include 19 CARICOM and 5 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, and Turks, Caicos Islands, Monserrat, the British Virgin Islands, and Sint Maarten. Central American countries are (Nicaragua, Panamá, Guatemala, Honduras and El Salvador).

to the indicative commercial premium for individually purchasing catastrophe insurance on the open market.[10]

C. Proposed Development Objective(s)

Original PDO

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

Current PDO

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 SPC Participating Countries.

Key Results

8. Expected outcomes of the project include:

(a) access of the 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 the 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).

D. Project Description

9. **The proposed AF would maintain the original three components**: Component 1: Parametric Geophysical risk insurance for COSEFIN Participating Countries; Component 2: Parametric Climate Risk Insurance for COSEFIN Participating Countries; and Component 3: Parametric Climate Risk Insurance for CARICOM Participating Countries and selected Overseas Countries and Territories (OCTs). The AF would scale up the project's impact by allocating additional funds to existing components. The additional resources will be used to (i) continue support for participation fees to enable access to CCRIF SPC; (ii) continue the support of reinsurance premia payments and payouts of insurance claims; (iii) include additional options for climate-related products (e.g., improved risk modeling for cyclones or droughts); (iv) support the development, modification and implementation of earthquake or other geophysical risk products; and (v) provide training and other capacity building activities to member countries.

10. **By offsetting these specific expenses, the AF will enable the CCRIF SPC to retain more of the capital generated from premium payments**, thereby generating a strong reserve base and contributing to the goal of providing participating countries with efficient access to catastrophe insurance. This indirect capitalization support will help the CCRIF SPC to extend access to premium discounts while achieving long-term financial sustainability.

[10] Caribbean and Central American Partnership for Catastrophe Risk Insurance. World Bank. 2014.

Legal Operational Policies

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

Summary of Assessment of Environmental and Social Risks and Impacts

The Environmental and Social risk of the AF is considered Low, consistent with the parent project. The proposed AF will provide additional resources to the existing components of the parent project, thereby continuing WB support for affordable, high-quality, sovereign catastrophe risk transfer associated with earthquakes and climate-related events for CCRIF SPC participating countries. The AF is intended to continue the project's positively impacts on the most vulnerable populations, by enabling governments to implement emergency activities and provide critical services in the aftermath of catastrophes. Like the parent project, the AF will not support any physical works or procurement of goods.

The AF will rely on the CCRIF SPC´s existing staff, and a few consultants will be hired mainly for the purpose of training government partners. The CCRIF SPC has designated a permanent staff member as the focal point for implementing the environment and social (E&S) instruments and is in the process of hiring a part-time E&S specialist (consultant) with adequate skills and experience. This E&S specialist will support preparation of a report on implementation of the Environmental and Social Commitment Plan (ESCP), by reviewing the voluntary reporting by participant countries on E&S activities under the parent project. These activities include payouts, capacity building on E&S issues, implementation of the Labor Management Procedures (LMP) and Stakeholder Engagement Plan (SEP), and responses to grievances specific to environmental and social issues. Measures and actions to comply with the World Bank's Environmental and Social Standard (ESS). The following ESS[11] are relevant for the project: ESS1. Assessment and Management of Environmental and Social Risks and Impacts; ESS2. Labor and Working Conditions; and ESS10. Stakeholder Engagement and Information Disclosure. ESS10 are included in the ESCP in terms of when to consult, what to publish, use of inclusive language, availability of a grievance mechanism, project-related reporting, and adherence to COVID-19 requirements during stakeholder engagement.[12] The CCRIF SPC will provide consultation opportunities for recipients of the insurance, including feedback through their website, and will make available other uptake channels for those without internet connectivity.

The ESCP includes actions to address project-related labor issues to be implemented by CCRIF SPC for workers related to the project, as defined under ESS2, including training, occupational health and safety (OHS), Code of Conduct, and provision of a grievance mechanism for project workers. The AF will utilize the Labor Management Plan (LMP) prepared under the parent project, which includes requirements on training, OHS, the Code of Conduct for project workers and a grievance mechanism for project workers. The grievance mechanism will include provisions for the handling of sexual exploitation, abuse sexual harassment and gender-based violence complaints.

[11] Environmental and Social Standards are public documents. More details can be found here: https://www.worldbank.org/en/projects-operations/environmental-and-social-framework/brief/environmental-and-social-standards

[12] These requirements include adherence to the Technical Note: Public Consultations and Stakeholder Engagement in WB-supported operations when there are constraints on conducting public meetings, March 20, 2020; Good International Industry Practice (GIIP); and any national-level COVID-19 transmission prevention protocols.

The AF will utilize the operations manual (OM) of the parent project. A negative list of project activities that will not be considered post-disaster recovery activities is included in the OM. The OM will be updated no later than 60 days after project effectiveness to include the E&S requirements noted above.

E. Implementation

Institutional and Implementation Arrangements

Implementation arrangements would remain unchanged under the proposed AF. CCRIF SPC will be the Recipient of the additional grant financing from the CCRIF Program Multi-Donor Trust Fund (MDTF) and the Caribbean Regional Resilience Building Facility. Countries will be required to sign participation agreements to join CCRIF and to pay a participation fee, which will be financed by the project. Depending on risk profile and priority needs, countries will have the option to select the amount of insurance coverage for each type of risk on an annual basis.

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APPROVAL

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