Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 26-Apr-2021 | Report No: PIDA28765

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Jamaica	P173012	Jamaica Catastrophe Bond for increased Financial Resilience to Natural Disasters and Climate Shocks	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
LATIN AMERICA AND CARIBBEAN	27-Apr-2021	30-Jun-2021	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance and Public Service	Ministry of Finance and Public Services	

Proposed Development Objective(s)

To expand Government of Jamaica's financial protection against losses arising from tropical cyclones-wind.

Components

Design, structuring and placement of a CAT bond for the benefit of Jamaica.

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	16.52
Total Financing	16.52
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Counterpart Funding	0.15

Borrower/Recipient	0.15
Trust Funds	16.37
Global Facility for Disaster Reduction and Recovery	16.37

Environmental and Social Risk Classification

Low

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

Jamaica is highly exposed to natural disasters that pose substantial developmental risks. Jamaica is the third most exposed country in the world to multiple hazards, with over 96 percent of the country's gross domestic product (GDP) and population at risk from two or more hazards. Jamaica is highly exposed to natural hazards, including tropical cyclones, earthquakes, droughts, floods, and landslides, which occur frequently and at varying intensities.[1] Between 1993 and 2003, 26 natural disasters have resulted in total losses of US$2.22 billion, or 1.5 percent of Jamaica's average annual GDP over the period, same amount as the total GDP growth during the period. The World Bank estimates that, under current temperatures, Jamaica's contingent liabilities related to tropical cyclones and floods average US$121 million annually (J$17 billion) or 0.8 percent of 2020 GDP[2]. This is equivalent to 1.9 percent of total government expenditures in 2020. With an annual probability of 0.4 percent (i.e., events occurring once every 250 years), contingent liabilities would amount to at least 22.7 percent of Jamaica's GDP. Natural disasters continue to increase Jamaica's sovereign debt level, prompting the need for loans and/or tax increases to finance unplanned post-disaster expenditures. Natural disasters also have important welfare impacts. The average damaging hurricane reduces Jamaican per capita consumption by approximately 1.1 percent, and more destructive events can cause reductions multiple times this amount.[3] This proposed Jamaica Catastrophe Bond for increased Financial Resilience to Natural Disasters and Climate Shocks operation, in the amount of US$16.52 million, will expand the Government of Jamaica's (GoJ's) financial protection against losses arising from tropical cyclones'

[1] High exposure is attributed to the country's location in the Atlantic Hurricane Belt, the geophysical orientation of its low-lying coastal zones, and its mountainous topography. The Jamaican territory is also crossed by five major fault lines, including the Plantain Garden Fault Zone, which triggered the 2010 Haitian earthquake.

[2] World Bank, 2018. Advancing Disaster Risk Finance in Jamaica. Average annual GDP growth for the 1993-2003 period was 1.5 percent.

[3] Henry M, Spencer N, Strobl E (2019). The impact of tropical storms on households: evidence from Panel data on consumption. Oxf. Bull Econ Stat 82:1–22. https://doi.org/10.1111/obes.12328.

winds.

Natural disasters pose a significant threat to Jamaica's hard gained macroeconomic stability, already affected by the COVID-19 pandemic. Prior to the COVID-19 crisis, the GOJ in 2013 – with the support of its multilateral partners – embarked on a program aimed at stabilizing the economy, reducing debt, and fueling growth. The program, which enjoyed broad public support, was a remarkable success, exceeding all expectations. The GOJ sustained primary surpluses above 7 percent of GDP and prudent liability management led to a 50 percentage points decline in public debt to 94 percent of GDP by March 2020. Low and stable inflation was achieved during this period. Unemployment fell to its lowest levels and reserves were comfortably above 6 months of imports. The poverty rate for 2018 was reported to be 12.6 percent, the lowest recorded in 10 years**.** The local stock exchange was rated as the world's best performing stock index in 2018 and in 2019, and the major rating agencies upgraded the country's sovereign rating. Within six months of the completion of a precautionary Stand-By Arrangement with the IMF in November 2019, the country was confronting a severe economic crisis caused by the COVID-19 pandemic. While the health impact of the pandemic in Jamaica has not been as severe as in some other countries, the associated socio-economic impact has been significant, pushing the economy into a deep recession. This is expected to result in a GDP contraction of 10.1 percent in FY2020/21. Impacts are likely to be uneven across the population, which will exacerbate inequality.

Sectoral and Institutional Context

The GoJ, with the support of the World Bank, has embarked upon a comprehensive strategy toward developing 360-degree resilience to natural disasters and climate shocks. The reforms cover financial, physical, and social resilience and are being supported by the World Bank through various instruments, including Development Policy Financing (DPF), Investment Policy Financing (IPF), and technical assistance (TA). The reforms are at varying stages of completion.

The National Public Financial Management Policy Framework and the National Disaster Risk Financing Policy underpin the financial resilience aspects of the GoJ's 360-resilence approach. The National Public Financial Management Policy Framework for Natural Disaster Risk Financing was approved by Jamaica's Cabinet in November 2018. A National Disaster Risk Financing Policy, drawing from the framework, is expected to be submitted to parliament by end June 2021. The policy framework provides the state's vision and sets out the enabling environment needed to ensure that adequate resources are available to address ex post financing requirements through a mix of instruments. The policy framework considers cost-effectiveness, timeliness, and sound administrative arrangements for reducing the fiscal impact of natural disasters by proposing a risk-layering strategy that combines risk retention and risk transfer instruments. Several efforts are ongoing toward implementation of the forthcoming policy framework, including World Bank TA.

While GoJ has been improving its financial protection, existing financial instruments are insufficient and leave Jamaica exposed to losses resulting from natural disasters. The GoJ has three main ex ante financial instruments available to finance public expenditures post-disaster. These are: (i) a Contingencies Fund for Natural Disasters (US$16 million)[4]; (ii) an Inter-American Development Bank (IDB) Parametric Contingent

[4] In March 2019 the GoJ recognized the need to increase its budget for frequent low-intensity events, allocating an additional US$15 million to the Contingencies Fund. It is expected that this will become the country's National Disaster Reserve Fund.

Credit line (US$285 million) that can be activated in case of earthquakes (measured in the Mercalli scale) and tropical cyclones (measured in terms of precipitation and wind intensity) and after a certain number of people are affected; and (iii) Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC) insurance policies against earthquakes, tropical cyclones, and excess of rain. There is also a National Disaster Fund, which is a small fund managed by the Ministry of Local Government and Rural Development which received small annual budget allocations (US$0.35 million was allocated for fiscal year 2021/2022). This fund is used for smaller non-national level disasters. Analysis conducted by the World Bank shows that for tropical cyclone (wind intensity events) (TC-W) related post-disaster emergency expenditure only, the financing gap ranges from zero, for small and frequent events, to at least US$1,449 million for less frequent and more severe events. The CAT bond will be complementary to other instruments as part of the risk layering strategy that is being pursued by the GoJ.

C. Proposed Development Objective

The proposed operation will expand Government of Jamaica's financial protection against losses arising from tropical cyclones winds.

Key Results

The CAT bond will provide financial coverage against tropical cyclones. Cat-Bonds are specifically designed to provide a quick payout, so the GoJ would have access to additional financial resources to attend to the initial expenditures (emergency or relief), without having to divert resources planned for other social and development purposes. The poor and vulnerable, which are disproportionally affected by disasters, will ultimately benefit from the rapid response of the government supported by the insurance payout. This project will also benefit indirectly other small Caribbean islands and small states that may be interested in sponsoring similar financial instruments, providing an opportunity to test market risk appetite as this would be the first CAT bond for a Caribbean state.

D. Project Description

The project will pay the risk premium and transaction costs of the CAT bond, a risk transfer instrument issued by the World Bank through its Treasury (TRE) for the benefit of Jamaica. Jamaica would enter into an agreement with the World Bank to pass the catastrophe risk of Jamaica (the "Risk Transfer Agreement", RTA) to the World Bank. Contemporaneously with this, the World Bank would intermediate the transfer of Jamaica's catastrophe risk to capital market investors by issuing a CAT bond. CAT bond payouts are not covered by the project.

The World Bank has secured donor support to cover the CAT bond risk premium and associated transaction costs (US$16.365 million) from GRiF funds (Global Risk Financing Facility, a multi-donor Trust Fund administered by the World Bank. The GoJ will cover standard World Bank intermediation fee with its own budgetary resources.

(NDRF), with an additional annual allocation of US$4 million a year for the next three years.

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 Bank has assessed the environmental and social risk of the project as "Low". The project will not directly support any physical works or procurement of goods or activities that are expected to have any adverse impact on human population and the environment. Given the limited focus of the project on designing, structuring, and placement of a CAT Bond and management of the premium and related transaction costs, the project is assessed as Low Risk under the World Banks' Environmental and Social Policy.

Labor risks are minimal. The World Bank will intermediate the transaction through World Bank Treasury. A limited number of government workers will be assigned to the project who will retain the terms of their positions. The ESS2, Labor and Working Conditions, will apply to the civil servants of the Ministry of Finance and Public Services (MoFPS) assigned to work on the project with respect to its launch and placement on the market. Where civil servants are working in connection to the project, they will remain subject to the terms and conditions of their existing public sector employment agreement. Only the provision of ESS2 that relates to Occupational Health and Safety (OHS) will apply. Given the very limited number of civil servants expected to work on the project, no separate Labour Management Plan (LMP) will be prepared. The project, through the Environmental and Social Commitment Plan (ESCP), will be required to confirm that the Government of Jamaica's National OHS requirements are undertaken in accordance with the requirements established in ESS2 (Labor and Working Conditions and the Labor Laws in Jamaica) within 90 days of project effectiveness.

The MoFPS has prepared and will disclose prior to appraisal a draft Stakeholder Engagement Plan (SEP) that will include the proposed stakeholder engagement activities throughout the project's life cycle and a feedback mechanism. The MoFPS has an experienced Communication Department led by a Manager of Corporate Relations to oversee the SEP implementation in Jamaica. The stakeholders in Jamaica include the general public, the Office of Disaster Preparedness and Emergency Management, the National Disaster Committee, National Environment and Planning Agency (NEPA), Ministry of Economic Growth and Job Creation, Ministry of Health and Wellness, and the relevant ministries and general public.

E. Implementation

Institutional and Implementation Arrangements

The MoFPS will be the recipient and implementing entity for this operation. During project implementation, the MoFPS role will be to maintain monitoring and evaluation arrangements that allow proper reporting and submitting withdrawal requests to the World Bank. There will be no contracts for goods, works, consulting and non-consulting services by the MoFPS.

As requested by the GoJ, the World Bank, through its Treasury (TRE), will intermediate the risk transfer transaction. The GoJ has requested the support of the Bank in structuring, marketing, and intermediating the risk transfer transaction, as the World Bank has a long history of bringing successful transactions to the market at prices below the market average.[5] CAT bonds issued by the World Bank have to date provided clients with US$3.4 billion of insurance cover against disasters. The proceeds of the Grant will be disbursed from the Grant Account to TRE according to the terms and conditions of the risk transfer legal documentation. After the CAT bond design is approved by the GoJ, World Bank TRE will announce the CAT bond to the market and issue the bonds to investors.

CONTACT POINT

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[5] No SPV is required for World Bank issued CAT bonds due to the World Bank's issuance of the CAT bond off its regular debt issuance platform.

APPROVAL

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Approved By

Practice Manager/Manager:		
Country Director:	Kathryn Ann Funk	26-Apr-2021