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R2007-0049

IDA/R2007-0044

March 7, 2007

Closing Date: Friday, March 16, 2007

FROM: The Acting Corporate Secretary

Proposed Trust Fund for the Caribbean Catastrophe Risk Insurance Facility

1. Attached is a Memorandum from the President entitled "Proposed Trust Fund for the Caribbean Catastrophe Risk Insurance Facility".
2. In the absence of objection (to be communicated to the Vice President and Corporate Secretary by close of business on **Friday, March 16, 2007**), the recommendations contained in paragraph 10 of the Memorandum, will be deemed approved and be so recorded in the minutes of a subsequent meeting of the Executive Directors.
3. Questions on this document may be referred to Mr. Ghesquiere (ext. 81964).

Distribution:

Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

THE WORLD BANK
Washington, DC 20433
U.S.A.

Office of the President

March 6, 2007

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Proposed Trust Fund for the Caribbean Catastrophe Risk Insurance Facility

1. The purpose of this memorandum is to propose the establishment of a multi-donor trust fund (the Caribbean Catastrophe Risk Insurance Facility Trust Fund or the CCRIF Trust Fund) to channel financial support to the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which aims to provide Caribbean Community (CARICOM) member or associate member countries¹ with a better mechanism for dealing with earthquake and hurricane risks. The Memorandum to the Executive Directors dated February 14, 2007 has been submitted for discussion at the Board on March 8, 2007, requesting the Executive Directors' approval of the draft report recommending that the Board of Governors authorize a transfer of US\$10.0 million to the CCRIF Trust Fund, with the transfer being contingent on the Executive Directors' approval of the resolution for the establishment of the CCRIF Trust Fund². If authorized by the Board of Governors, this transfer of IBRD surplus would be made to the proposed CCRIF Trust Fund.

2. Natural disaster risk is increasingly of global concern, and there is a growing acknowledgement for the need to promote the development of financial risk-sharing mechanisms, particularly insurance and reinsurance against disasters, to reduce vulnerabilities of the poor and help the sustainability of development. The issue is particularly relevant to the Caribbean region because of the frequency of occurrence of major natural disasters and the smaller size of states in the region.

3. Following the devastation caused by natural disasters in the Caribbean in 2004, the CARICOM Heads of Government asked the World Bank for assistance to gain access to affordable and effective disaster risk financing. In response, the IBRD and IDA have been assisting CARICOM countries with the development of the CCRIF. The CCRIF is a pooled facility that would allow Caribbean countries to purchase insurance coverage for natural disaster risks at a significantly reduced cost. It is designed to help participating countries affected by major natural disasters to quickly jumpstart their recovery efforts by providing immediate financial liquidity, giving the affected countries time to mobilize additional resources for longer-term reconstruction activities. By acting as a financial intermediary between participating

¹ The Caribbean Community and Common Market or CARICOM was established by the Treaty of Chaguaramas which came into effect on August 1, 1973. Members to CARICOM include Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat (UK), Saint Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Suriname (NL), Trinidad and Tobago. Associate Members include Anguilla, Bermuda, British Virgin Islands (UK), Cayman Islands (UK), Turks and Caicos Islands.

² *Proposed Transfer of IBRD Surplus to Support a Caribbean Catastrophe Risk Insurance Facility*, (R2007-0024), February 14, 2007.

countries and the international financial markets, the CCRIF will pool natural disaster risks, reduce the cost of insurance and ensure swift payment using a parametric system of claims determination. The CCRIF is being established as an independent legal entity under the Cayman Islands laws to provide insurance coverage in time for the upcoming hurricane season starting in June 2007. Further details of the structure of the CCRIF are described in the above mentioned Memorandum to the Executive Directors for IBRD surplus transfer.

The IDA Support to the CCRIF

4. The Association has been playing a key role in assisting the Caribbean countries in the development of the CCRIF. The CCRIF was designed with financial assistance from the Government of Japan which contributed US\$1.8 million under the Japan Policy and Human Resources Development (PHRD) Fund. In addition, two IDA operations, the OECS Catastrophe Risk Insurance Project³ and the Haiti Risk Insurance Project⁴ were submitted for discussion at the Board on March 8, 2007. These operations, for a total of US\$23.2 million equivalent, will support the participation of Haiti, Dominica, Grenada, St. Lucia and St. Vincent and the Grenadines in the CCRIF.

5. The Association is also well positioned to use its convening power to leverage donor resources to support the CCRIF. To this end, it is proposing to establish the CCRIF CCRIF Trust Fund supported by a suggested transfer of US\$10.0 million from IBRD surplus. Furthermore IDA, in collaboration with CARICOM, organized a pledging conference in Washington, DC on February 26, 2007, seeking donor contribution to fund the establishment and first few years of operation of the CCRIF. At the conference, donors made pledges totaling approximately US\$37 million⁵ which would complement the proposed transfer of US\$10.0 million from IBRD surplus.

The Proposed Trust Fund

6. To facilitate the channeling of funds from donors to the CCRIF, it is proposed that IDA establish the CCRIF Trust Fund. The proposed CCRIF Trust Fund will provide financing to cover establishment costs and operating expenses, including insurance payouts of the CCRIF. Such financing will provide an injection of funds during the initial period of the CCRIF, and help ensure its financial viability and long-term sustainability. The CCRIF is expected to become self-sustainable within five years, by which time funding support from the CCRIF Trust Fund is expected to cease.

7. While the Association will not sit on the Board of the CCRIF, it will retain certain control over operations of the CCRIF through grant agreement(s) to be entered between the CCRIF and IDA as administrator of the CCRIF Trust Fund. The grant agreements would set out the terms and conditions for disbursement of grant funds to the CCRIF for establishment costs and operating expenses. Financing will be contingent upon satisfactory review by IDA of a corporate structure and an operational manual of the CCRIF. The CCRIF will be required to provide IDA with periodical financial and operational reports, including annual audited financial statements. All disbursements will be on a grant basis.

³ Report No: 38539-LAC

⁴ Report No: 38540-HT

⁵ Detailed pledges were as follows, France (Euro 5.0 million), Canada (C\$20.0 million), Bermuda (US\$0.5 million), United Kingdom (US\$7.5 million), the Caribbean Development Bank (US\$5 million).

8. This trust fund proposal has substantial risk. The CCRIF is a limited liability company and in case of dissolution, any residual financial risk would be limited to the amount of its paid-in-capital. Nevertheless, the risk of default in insurance coverage poses a high reputational risk to the Association. This risk is mitigated by the design of the CCRIF, which is based on international best practice, with an annual probability of default below 0.05%; i.e., the CCRIF could sustain a 1-in-200-year event. Should the CCRIF's claims-paying capacity be insufficient to pay all insured losses, claims will be pro-rated based on the remaining available funds in the CCRIF. Further, a reinstatement clause in the reinsurance contract, allowing the CCRIF to access more reinsurance capacity if the initial reinsurance capacity is exhausted, would be explored for the first years of implementation. Reputational risk could also arise from the different stakeholders' understanding of the risks that the CCRIF will cover and how it will pay claims (since the payout does not match the actual loss). To mitigate this, the limitations of the coverage provided have been continuously underscored to participating countries and donors, and will continue to be highlighted when discussing individual policies with client countries. Reputational risk by association related to the CCRIF governance structure could also arise, even though the Association will not participate in the CCRIF's Board. However, the Association will mitigate such risks by retaining partial control in the initial phase of the CCRIF's operations through the grant agreement as discussed above.

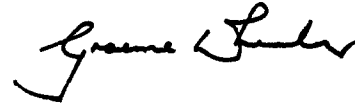
9. As discussed in the Memorandum to the Executive Directors for IBRD surplus transfer, the Executive Directors' approval of the establishment of the CCRIF Trust Fund is being sought on the basis that the membership of the CCRIF may be expanded in future to other countries, including non-Association members, and thus funding to the CCRIF may indirectly support activities in non-Association member countries. Although the CCRIF is being developed as an instrument for CARICOM members and associate members, this pilot program is expected to benefit other countries, such as Pacific and Indian Ocean countries, by way of expansion. An expansion of the CCRIF membership, including to non-Association member countries, would also allow for further diversification of its risk portfolio resulting in lower premium costs for participating countries. Therefore, in Management's view, development of the CCRIF through expansion of its membership, both to Association member and non-Association member countries, will have clear benefits for the members of the Association. This is consistent with the mechanisms developed in the past to allow the Association, in exceptional cases, to provide assistance to non-Association members while at the same time acting within the Articles' mandate.⁶

⁶ See the various legal analyses presented in the legal memorandum by the Acting Vice President and General Counsel, entitled "World Bank Assistance to East Timor," dated September 30, 1999 (SecM99-666).

Recommendation

10. I recommend that the Executive Directors approve the establishment of the proposed Caribbean Catastrophe Risk Insurance Facility Trust Fund and for IDA to be the Trustee of the proposed Trust Fund by adopting the attached resolution.

Paul Wolfowitz
President

A handwritten signature in black ink, appearing to read "Graeme Wheeler". The signature is written in a cursive style with a large initial 'G' and a distinct 'W'.

By Graeme Wheeler
Managing Director

Attachment
Draft Resolution of the Executive Directors

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

INTERNATIONAL DEVELOPMENT ASSOCIATION

RESOLUTION NO. _____.

RESOLUTION NO. IDA _____.

**THE CARIBBEAN CATASTROPHE RISK INSURANCE FACILITY
TRUST FUND**

WHEREAS:

(A) It is desirable to promote the purpose of the International Bank for Reconstruction and Development (the Bank) and the International Development Association (the Association) by establishing a multi-donor trust fund for the Caribbean Catastrophe Risk Insurance Facility, the Caribbean Catastrophe Risk Insurance Facility Trust Fund (the Trust Fund), in order to support establishment and operations of the Caribbean Catastrophe Risk Insurance Facility (the Program), which aims to provide a better mechanism for dealing with catastrophic risks in the Caribbean region;

(B) The Executive Directors of the Association have proposed to the Board of Governors of the Association to adopt a resolution authorizing the transfer from surplus of US\$10 million to the Trust Fund by way of a grant;

(C) Other donors have also expressed their interest in contributing to the financing of the Program and to this effect to provide funds to the Trust Fund in support of the Program;

(D) The Association is prepared to establish the Trust Fund, to be trustee thereof and administer it on the terms and conditions set forth in this Resolution;

NOW THEREFORE it is hereby resolved that:

A. Establishment of the Trust Fund

1. The Trust Fund is hereby established as a trust fund of the Association, constituted of the funds which shall from time to time be contributed in accordance with the provisions of this Resolution, and any other assets and receipts of the Trust Fund.

2. The Association shall hold and administer such funds, assets and receipts in trust (in such capacity, the Trustee), and the Trustee shall manage and use such funds, assets and receipts only for the purpose of, and in accordance with, the applicable provisions of the Articles of Agreement of the Association and the provisions of this Resolution, keeping them separate and apart from the assets of the Bank and the Association, but may commingle them with other trust fund assets maintained by the Bank or the Association.

3. The Trustee is authorized to accept contributions to the Trust Fund from the Association and other donors (collectively, the Contributors). The Trustee shall enter into a trust fund administration agreement (the Trust Fund Administration Agreement) with each such other Contributor, in form and substance satisfactory to the Trustee, whereby each such other Contributor shall agree to provide grant(s) to the Trust Fund in accordance with the terms of this Resolution.

4. All contributions to the Trust Fund (collectively, Contribution Funds) will be accounted for as a single trust fund.

5. The Trustee shall be responsible only for performing those functions specifically set forth in this Resolution and the relevant Trust Fund Administration Agreement, and shall not be subject to any other duties or responsibilities to the Contributors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. The privileges and immunities accorded to the Association shall apply to the property, assets, archives, operations and transactions of the Trust Fund.

B. Payment of Contributions to the Trust Fund

6. Contributions to the Trust Fund shall be denominated in United States dollars or other currencies acceptable to the Trustee; provided, however, that the Trustee shall, upon receipt, convert contributions made in currencies other than in United States dollars into United States dollars for the purpose of the Trust Fund.

7. Payment of each contribution to the Trust Fund shall be made as follows:

(a) Payment shall be made in the form of cash to the Association, as Trustee of the Trust Fund.

(b) Payment of each contribution shall be made at such time and in such manner as shall be agreed by the Trustee.

C. Administration of the Trust Fund

8. The Trustee may invest the Contribution Funds pending their disbursement in accordance with the Association's policies and procedures for the investment of trust funds administered by the Association. The Trustee shall credit all income from such investment to the Trust Fund to be used for the same purposes as the Contribution Funds.

9. The Contribution Funds may be freely exchanged by the Trustee into other currencies as may facilitate their administration and disbursement.

10. In order to assist in the defrayment of costs and expenses of administering the Trust Fund, the Trustee may recover its costs from Contributors other than the Association, and following deposit of contribution by each such other Contributor, deduct from such funds and retain for the Trustee's own account an amount equal to two percent (2%) of the contribution.

11. The Trustee shall establish and maintain appropriate records and accounts to identify the resources of the Trust Fund, the commitments to be financed out of the Trust Fund, and the receipts and disbursements of funds in the Trust Fund.

12. Within ninety (90) days of each March 31, June 30, September 30 and December 31, the Trustee shall furnish to each of the Contributors an unaudited cash-based statement of receipts, disbursements and fund balance in United States dollars with respect to the Contributions. Within six (6) months of the final disbursement date specified in paragraph 17 of this Resolution, the Trustee shall furnish to the Contributors a final unaudited cash-based statement of receipts, disbursements and fund balance in the United States dollars with respect to the Contribution Funds.

13. In addition to reporting obligations provided in paragraph 12 above, the Trustee shall, as soon as practical after the end of each fiscal year of the Trustee, furnish to each of the Contributors: (i) a report on the activities financed from the Trust Fund; and (ii) a management assertion together with an attestation from the Association's external auditors concerning the adequacy of internal control over cash-based financial reporting for trust funds administered by the Association as a whole. The costs of such attestation shall be borne by the Trustee.

14. If a Contributor wishes to request, on an exceptional basis, a financial statement audit by the Trustee's external auditors of the Trust Fund, the Contributor and the Trustee shall first consult as to whether such an external audit is necessary. The Trustee and the Contributor shall agree on the most appropriate scope and terms of reference of such audit. Following agreement on the scope and terms of reference, the Association shall arrange for such external audit. The costs of any such audit, including the internal costs of the Trustee with respect to such audit, shall be paid by the Contributor.

D. Operations of the Trust Fund

15. Except as otherwise provided in this Resolution, all amounts credited to the Trust Fund shall be used by the Trustee exclusively for the purpose of making grants out of the resources of the Trust Fund to recipients for activities approved by the Trustee in support of an establishment and operations of the Program, including, but not limited to:

- (a) establishment costs of the Facility, including professional service fees, administrative fees, banking initiation fees and registration fees;
- (b) operating expenses of the Facility, including administrative fees, professional fees, audits costs, exchange rate costs, banking fees, reinsurance premia, and remuneration and travel expenses of board members of the Facility; and
- (c) insurance payouts of the Facility.

16. Grants shall be subject to the following:

- (a) each grant shall be administered in accordance with the applicable procedures of the Association and subject to the Regional Vice President's approval;
- (b) each grant shall be evidenced by a separate agreement between the recipient and the Association (the Grant Agreement), setting forth the terms and conditions on which such grant shall be provided and indicating in particular that the resources have been provided from the Trust Fund;
- (c) the Grant Agreements shall provide that the Contributions shall be used by the recipient to finance expenditures for goods and services, as the case may be, in accordance with the World Bank's Guidelines on "Procurement under IBRD Loans

and IDA Credits” and, as the case may be, the World Bank’s Guidelines on the “Selection and Employment of Consultants by World Bank Borrowers,” as in effect on the date of the Grant Agreements;

- (d) The Trustee shall be solely responsible for the supervision of project activities under the Grant Agreements; and
- (e) grants shall be denominated in United States dollars.

E. Disbursement Deadline and Cancellation of Contributions under the Trust Fund

17. It is expected that the Contribution Funds will be fully disbursed by the Trustee in accordance with the provision of this Resolution by May 15, 2012. After such date, the Trustee shall only disburse Contribution Funds for the purpose of this Resolution with the written approval of all Contributors.

18. Any Contributor or the Trustee may, upon three (3) months’ prior written notice, cancel all or part of the Contributor’s pro rata share of any remaining balance of the Contribution Funds that is not committed pursuant to any agreements entered into between the Trustee and any consultants and/or other third parties for the purposes of this Agreement prior to the receipt of such notice, including the Grant Agreements. In such event of the cancellation, the Trustee shall return such cancelled balance to the Contributor

19. Upon the final disbursement date specified in paragraph 17 above, except as each Contributor and the Trustee may otherwise agree, the Trustee shall promptly return to each other Contributor and, in the case of contributions from the Bank, the Association, any remaining balance of Contribution Funds on a pro rate basis.

20. The Trustee shall, within six (6) months of the final disbursement date specified in paragraph 17, furnish to the Executive Directors of the Bank and the Association and all other Contributors a final report on the operations financed from the Trust Fund.

F. Effective Date

21. This Resolution will enter into effect on the date of its adoption by the Executive Directors of the Association and the Bank.