REPORT NO.: RES37073

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

NICARAGUA CATASTROPHE RISK INSURANCE PROJECT

APPROVED ON JUNE 18, 2014

TO

REPUBLIC OF NICARAGUA

URBAN, DISASTER RISK MANAGEMENT, RESILIENCE AND LAND GLOBAL PRACTICE

LATIN AMERICA AND CARIBBEAN

Regional Vice President:	Axel van Trotsenburg
Country Director:	Yaye Seynabou Sakho
Regional Director:	Anna Wellenstein
Practice Manager/Manager:	Ming Zhang
Task Team Leader:	Mirtha Liliana Escobar Saenz, Rashmin Gunasekera

ABBREVIATIONS AND ACRONYMS

ADC	Aggregate Deductible Cover
CCRIF	Caribbean Catastrophe Risk Insurance Facility
COSEFIN	The Council of Ministers of Finance of Central America and the Dominican Republic
IDA	International Development Association
PDO	Project Development Objective
RSIC	Reinstatement of Sum Insured Cover
SORT	Systematic Operations Risk-rating Tool
SPC	Segregated Portfolio Company

BASIC DATA

Product Information

Project ID	Financing Instrument
P149895	Investment Project Financing
Original EA Category	Current EA Category
Approval Date	Current Closing Date
18-Jun-2014	30-Jun-2021

Organizations

Borrower	Responsible Agency
Republic of Nicaragua	Republic of Nicaragua

Project Development Objective (PDO)

Original PDO

The Project Development Objective is to enable the access of Honduras and Nicaragua to efficient sovereign risk insuranceassociatedwith tropical cyclones, earthquakes, and/or excess rainfall.

Current PDO

The Project Development Objective is to enable access of Nicaragua to efficient sovereign risk insurance associated with geophysical and climate-related events.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-55300	18-Jun-2014			18-Jan-2017	12.00	0	10.54
IDA-55310	18-Jun-2014	11-Jul-2014	01-Jun-2015	30-Jun-2021	12.00	7.10	3.86

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

This Restructuring Paper seeks approval to: increase the percentage of expenditures to be financed under Category 2 to enable the project to finance 80% of the payment for insurance premiums in Year 5 and 70% in Year 6 of project implementation; and to update the disbursement estimates. This is the second restructuring of the project. The first restructuring was approved on April 19, 2017 mainly to: (i) reflect the withdrawal of the Credit offer to the Republic of Honduras (Credit No. 55300-HN): (ii) adjust the Project Development Objective (PDO); and (iii) extend the Credit closing date from June 30, 2019 to June 30, 2021.

A. **Project Background.** A Credit in the amount of SDR7.8 million (equivalent to US$12 million) to the Republic of Nicaragua for the Nicaragua Catastrophe Risk Insurance Project (Credit No. 55310-NI) was approved on June 18, 2014 and became effective on June 1, 2015. The current PDO of the project is to enable access of Nicaragua to efficient sovereign risk insurance associated with geophysical and climate-related events. To achieve this objective, the project aims to support Nicaragua in accessing regional risk insurance through membership in the Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC). The project comprises two components: Component 1 is the payment of the entrance fee to the CCRIF for Nicaragua; and Component 2 is the payment of annual insurance premiums to the CCRIF for Nicaragua. The closing date for the project is June 30, 2021.

B. **Safeguard Policies and Fiduciary Requirements.** The project does not trigger any safeguard policies. The recipient is not required to conduct annual audits as project funds are not channeled through government accounts.

C. **Status of Project Implementation.** The Financing Agreement for Credit No. 55310-NI was signed on July 11, 2014 and the Credit was declared effective on June 1, 2015. Nicaragua was the first member country of the Council of Ministers of Finance of Central America and the Dominican Republic (COSEFIN) to join CCRIF SPC through the signing a Participation Agreement on April 15, 2015. It purchased insurance coverage that same year and has done so every year since.

D. **Disbursements.** Over the life of the project, Nicaragua has used Credit proceeds to make the following payments to CCRIF SPC: (i) the entrance fee (US$1 million) in August 2015; and (ii) the annual insurance premiums for earthquake and tropical cyclone coverage for the 2015/2016 policy year (US$1 million) in July 2015, for the 2016/2017 policy year (US$1.5 million) in June 2016, for the 2017/2018 policy year (US$2.3 million) in June 2017, and for the 2018/2019 policy year (US$2.3 million) on June 2018. As of June 1, 2019, approximately US$7.1 million (or 64.7%) of Credit proceeds have been disbursed toward the purchase of catastrophe risk insurance.

E. **Payouts.** Under the insurance policies, CCRIF SPC has made two payouts to Nicaragua. These include: (i) US$500,000 on June 23, 2016 following a magnitude 6.1 earthquake that occurred on June 9, 2016; and (ii) US$1.1 million on December 9, 2016 following Hurricane Otto, which hit Nicaragua on November 25, 2016. No payouts were triggered under the 2018/19 policies (which remained in effect until May 31, 2019).

F. **Results.** The two payouts were transferred to Nicaragua within 14 days of the respective events, contributing to the achievement of the PDO indicator. The project is also on track to achieve its two intermediate indicators: (i) CCRIF SPC premiums continue to be lower than the simulated price for a comparable coverage that could be purchased individually on the market; and (ii) compared to the baseline values in the 2017/18 policy year, the policies purchased for the 2018/19 policy year resulted in an increase in insurance coverage (for a constant amount of premium) for earthquake, tropical cyclone, and excess rainfall. In addition, for the policy year that started on June 1, 2019 CCRIF SPC offered two additional benefits under the policies at no cost to Nicaragua for 2019/20, namely, the Aggregate Deductible Cover (ADC) and Reinstatement of Sum Insured Cover (RSIC). The ADC provides a minimum payment for events that are objectively not enough to trigger a CCRIF policy because the modeled loss is below the attachment point (or deductible). The RSIC provides access to coverage during a policy year even after the maximum coverage limit is reached in order to prevent a situation where the insurance cover is exhausted early in the policy year, thereby leaving a country exposed until the policy renewal date of June 1 the following year. These two benefits contribute directly to providing increased insurance coverage for Nicaragua at the same premium level.

G. **Renewal of Policies for 2019/20.** The government of Nicaragua has acquired insurance coverage from CCRIF SPC for four consecutive policy years (2015/16, 2016/17, 2017/18 and 2018/19), with all premiums financed at a 100% out of Credit proceeds. For policy year 2019/20, which started on June 1, 2019, the government decided to renew its earthquake, tropical cyclone, and excess rainfall policies. At the current level of financing (50%), the IDA credit would cover US$1.15 million (50% of the total premium amount of US$2.3 million). However, because of fiscal constraints, the government has been able to budget only US$500,000 to pay for the insurance premiums, which leaves a gap of US$0.65 million dollars. To finance this gap, the Ministry of Finance has requested that the World Bank amend the Financing Agreement to increase the percentage of financing from 50% to 80% for Year 5 and from 50% to 70% for Year 6. Taking into consideration that the premiums during the first two years of project implementation were lower than originally estimated, the Credit has available funds to respond to this request. CCRIF SPC has offered Nicaragua a payment extension until July 31, 2019 to ensure that coverage is provided from the inception date of June 1, 2019.

H. **Rationale for Restructuring.** As part of the renewal processs, Nicaragua conducted a review of the policies offered by CCRIF SPC to: (i) select parameters allowing it to balance affordability and frequency of payouts; (ii) limit insurance coverage to a fraction of its potential losses, using CCRIF SPC as a safety net, rather than full insurance; and (iii) ensure that parametric contracts clearly explain the terms of the insurance policy provided. In parallel, CCRIF SPC's technical assistance helped Nicaragua to fully understand the risk models, products, policy benefits and limitations, particularly that the policies are not meant to cover entire losses faced, but rather to guarantee a minimum level of liquidity in the case of a major adverse natural event. As agreed during appraisal, the Ministry of Finance has allocated funds from the national budget towards a portion of the premium; however, Nicaragua is unable to cover the required 50% of the premium for the selected insurance policies. Without an increase in the percentage financed from Credit proceeds, the Ministry of Finance would have to reduce coverage and/or limit the number of policies purchased from the funding available under the IDA Credit.

II. DESCRIPTION OF PROPOSED CHANGES

Change in the Percentage of Expenditures to be Financed under the Disbursement Categories. The percentage of expenditures to be financed from the Credit is proposed to be modified to allow for financing of 80% of premiums during Year 5 and 70% during Year 6 based on the remaining funds available under the Credit. Accordingly, the disbursement estimates are proposed to be revised; the original and revised disbursement estimates are shown in the tables below.

Original Disbursement Estimates for Nicaragua[1] in US$

Year 1 (FY15)	Year 2 (FY16)	Year 3 (FY17)	Year 4 (FY18)	Year 5 (FY19)	Year 6 (FY20)
No disbursement	$1m (Entry Fee)				
	$1m (Premium 15/16) (100% payment for premium) $1.5m (Premium 16/17) (100% payment for premium)	$1.30 m (Premium 17/18) (with a credit of $1 million for the participation fee paid in FY16) (100% payment for premium)	$2.30 m (Premium 18/19) (100% payment for premium)	~$1.1 m (Premium 19/20) (50% payment for premium)	~$1.1m (Premium 20/21) (50% payment for premium)

Revised Disbursement Estimates for Nicaragua [2] in US$

Year 1 (FY15)	Year 2 (FY16)	Year 3 (FY17)	Year 4 (FY18)	Year 5 (FY19)	Year 6 (FY20)
No disbursement	$1m (Entry Fee)				
	$1m (Premium 15/16) (100% payment for premium) $1.5m (Premium 16/17) (100% payment for premium)	$1.30 m (Premium 17/18) (with a credit of $1 million for the participation fee paid in FY16) (100% payment for premium)	$2.30 m (Premium 18/19) (100% payment for premium)	~$1.8 million (Premium 19/20) (80% payment for premium)	~$1.99 million (Premium 20/21) (70% payment for premium)

The revised disbursement estimates were calculated, assuming a constant premium of US$2.3 million for years five and six. In case there is an increase in the premium during year six, the amount available to finance the premium costs would be limited to undisbursed balance the Credit account at the time of payment. Any difference will be covered with government budget allocations.

[1] The original disbursement estimates were based on the exchange rate as of April 19, 2017, when the project was restructure (1 SDR=1.364 US$).

[2] Revised estimates are based on the SDR – US dollar exchange rate on July 18, 2019 (1 SDR= 1.381 US$)

I. SUMMARY OF CHANGES

	Changed	Not Changed
Disbursements Arrangements	✓	
Disbursement Estimates	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Results Framework		✓
Components and Cost		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Implementation Schedule		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates
Yes

Year	Current	Proposed
2014	0.00	0.00
2015	0.00	0.00
2016	3,500,000.00	3,500,000.00
2017	1,300,000.00	1,300,000.00
2018	2,300,000.00	2,300,000.00
2019	2,300,000.00	2,300,000.00
2020	1,300,000.00	1,800,000.00
2021	1,300,000.00	1,995,827.16