



# GEF-6 REQUEST FOR PROJECT ENDORSEMENT/APPROVAL

PROJECT TYPE: Full-sized Project

TYPE OF TRUST FUND: Special Climate Change Fund

For more information about GEF, visit [TheGEF.org](http://TheGEF.org)

## PART I: PROJECT INFORMATION

Project Title: Southeast Europe and Central Asia Catastrophe Risk Insurance Facility			
Country(ies):	Kazakhstan	GEF Project ID: <sup>1</sup>	6915
GEF Agency(ies):	WB (select) (select)	GEF Agency Project ID:	P152230
Other Executing Partner(s):	Europa Re	Submission Date:	2015-12-04
GEF Focal Area (s):	Climate Change	Project Duration (Months)	33
Integrated Approach Pilot	IAP-Cities <input type="checkbox"/> IAP-Commodities <input type="checkbox"/> IAP-Food Security <input type="checkbox"/>	Corporate Program: SGP <input type="checkbox"/>	
Name of Parent Program	[if applicable]	Agency Fee (\$)	475,000

## A. FOCAL AREA STRATEGY FRAMEWORK AND OTHER PROGRAM STRATEGIES<sup>2</sup>

Focal Area Objectives/Programs	Focal Area Outcomes	Trust Fund	(in \$)	
			GEF Project Financing	Co-financing
(select) CCA-1 (select)		SCCF-A	5,000,000	15,000,000
(select) (select) (select)		(select)		
(select) (select) (select)		(select)		
(select) (select) (select)		(select)		
(select) (select) (select)		(select)		
(select) (select) (select)		(select)		
(select) (select) (select)		(select)		
(select) (select) (select)		(select)		
<b>Total project costs</b>			5,000,000	15,000,000

## B. PROJECT DESCRIPTION SUMMARY

**Project Objective: To assist Kazakhstan with developing a modern catastrophe insurance market infrastructure that will support the launch of affordable, innovative catastrophe insurance products covering the risks of extreme weather variability.**

Project Components/ Programs	Financing Type <sup>3</sup>	Project Outcomes	Project Outputs	Trust Fund	(in \$)	
					GEF Project Financing	Confirmed Co-financing
Funding of technical assistance to expand SEE CRIF program to Kazakhstan	TA	Increased market access to catastrophe risk insurance for homeowners, farmers and SMEs, as well as a new insurance market infrastructure made available to local insurance companies in support of catastrophe risk insurance products.	The launch of compulsory and optional climate insurance products for households and SMEs by local insurance companies, as well as increased consumer awareness of disaster risk, catastrophe insurance and its benefits.	SCCF-A	5,000,000	15,000,000

<sup>1</sup> Project ID number remains the same as the assigned PIF number.

<sup>2</sup> When completing Table A, refer to the excerpts on [GEF 6 Results Frameworks for GETF, LDCF and SCCF](#).

<sup>3</sup> Financing type can be either investment or technical assistance.

	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
				Subtotal	5,000,000	15,000,000
				Project Management Cost (PMC) <sup>4</sup>	(select)	
				<b>Total project costs</b>	5,000,000	15,000,000

**C. CONFIRMED SOURCES OF CO-FINANCING FOR THE PROJECT BY NAME AND BY TYPE**

Please include evidence for co-financing for the project with this form.

Sources of Co-financing	Name of Co-financier	Type of Cofinancing	Amount (\$)
Donor Agency	SECO	Grants	3,000,000
GEF Agency	World Bank	Loans	12,000,000
(select)		(select)	
<b>Total Co-financing</b>			15,000,000

**D. TRUST FUND RESOURCES REQUESTED BY AGENCY(IES), COUNTRY(IES) AND THE PROGRAMMING OF FUNDS**

GEF Agency	Trust Fund	Country Name/Global	Focal Area	Programming of Funds	(in \$)		
					GEF Project Financing (a)	Agency Fee <sup>a)</sup> (b) <sup>2</sup>	Total (c)=a+b
WB	SCCF-A	Kazakhstan	Climate Change	(select as applicable)	5,000,000	475,000	5,475,000
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
(select)	(select)		(select)	(select as applicable)			0
<b>Total Grant Resources</b>					5,000,000	475,000	5,475,000

a ) Refer to the Fee Policy for GEF Partner Agencies

<sup>4</sup> For GEF Project Financing up to \$2 million, PMC could be up to 10% of the subtotal; above \$2 million, PMC could be up to 5% of the subtotal. PMC should be charged proportionately to focal areas based on focal area project financing amount in Table D below.

## E. PROJECT'S TARGET CONTRIBUTIONS TO GLOBAL ENVIRONMENTAL BENEFITS<sup>5</sup>

Provide the expected project targets as appropriate.

Corporate Results	Replenishment Targets	Project Targets
1. Maintain globally significant biodiversity and the ecosystem goods and services that it provides to society	Improved management of landscapes and seascapes covering 300 million hectares	<i>hectares</i>
2. Sustainable land management in production systems (agriculture, rangelands, and forest landscapes)	120 million hectares under sustainable land management	<i>hectares</i>
3. Promotion of collective management of transboundary water systems and implementation of the full range of policy, legal, and institutional reforms and investments contributing to sustainable use and maintenance of ecosystem services	Water-food-ecosystems security and conjunctive management of surface and groundwater in at least 10 freshwater basins;	<i>Number of freshwater basins</i>
	20% of globally over-exploited fisheries (by volume) moved to more sustainable levels	<i>Percent of fisheries, by volume</i>
4. Support to transformational shifts towards a low-emission and resilient development path	750 million tons of CO <sub>2e</sub> mitigated (include both direct and indirect)	metric tons
5. Increase in phase-out, disposal and reduction of releases of POPs, ODS, mercury and other chemicals of global concern	Disposal of 80,000 tons of POPs (PCB, obsolete pesticides)	<i>metric tons</i>
	Reduction of 1000 tons of Mercury	<i>metric tons</i>
	Phase-out of 303.44 tons of ODP (HCFC)	<i>ODP tons</i>
6. Enhance capacity of countries to implement MEAs (multilateral environmental agreements) and mainstream into national and sub-national policy, planning financial and legal frameworks	Development and sectoral planning frameworks integrate measurable targets drawn from the MEAs in at least 10 countries	<i>Number of Countries:</i>
	Functional environmental information systems are established to support decision-making in at least 10 countries	<i>Number of Countries:</i>

## F. DOES THE PROJECT INCLUDE A “NON-GRANT” INSTRUMENT? No

(If non-grant instruments are used, provide an indicative calendar of expected reflows to your Agency and to the GEF/LDCF/SCCF Trust Fund) in Annex D.

## PART II: PROJECT JUSTIFICATION

### A. DESCRIBE ANY CHANGES IN ALIGNMENT WITH THE PROJECT DESIGN WITH THE ORIGINAL PIF<sup>6</sup>

<sup>5</sup> Update the applicable indicators provided at PIF stage. Progress in programming against these targets for the projects per the *Corporate Results Framework* in the [GEF-6 Programming Directions](#), will be aggregated and reported during mid-term and at the conclusion of the replenishment period.

<sup>6</sup> For questions A.1 –A.7 in Part II, if there are no changes since PIF, no need to respond, please enter “NA” after the respective question.

A.1. *Project Description*. Elaborate on: 1) the global environmental and/or adaptation problems, root causes and barriers that need to be addressed; 2) the baseline scenario or any associated baseline projects, 3) the proposed alternative scenario, GEF focal area<sup>7</sup> strategies, with a brief description of expected outcomes and components of the project, 4) [incremental/additional cost reasoning](#) and expected contributions from the baseline, the GEFTF, LDCF, SCCF, and [co-financing](#); 5) [global environmental benefits](#) (GEFTF) and/or [adaptation benefits](#) (LDCF/SCCF); and 6) innovativeness, sustainability and potential for scaling up.

1. ADAPTATION PROBLEMS THAT NEED TO BE ADDRESSED: Kazakhstan is vulnerable to natural hazards including floods, mudflows, landslides and steppe winds. In the plains, spring floods fed by rain and snowmelt occur and mountainous regions suffer mudflows triggered by rainfall or breaches of glacial lakes. About 13% of the country's area containing over 26% of its population is prone to mudflows. Analysis of disaster data shows that the country also suffers from frequent flooding. Flood events include the June 1993 flood in the Embinskyi-Kzylkoginskyi region, which killed 10 people, affected 30,000 others and caused an economic loss of \$36.5 million. The April 2000 flood in the Denisovsky-Zhitikarinsky region affected 2,500 people and caused an economic loss of \$1.5 million and the March 2005 flood in the Shiyeli-Syr Dariya region affected 25,000 people and caused an economic loss of \$7.6 million. The March 2004 landslide in the Talgar district reportedly killed 48 people.

Climate change is expected to exacerbate hydro-meteorological disasters, adversely affecting homeowners, small and medium business (SMEs), and farmers. With a total area of agricultural land of 222.6 million hectares, agriculture plays a prominent role in the national economy and makes the country highly vulnerable to the risk of climate change. In 2012, for instance, the country experienced a 54% fall in wheat production due to an unprecedented drought.

Despite the high vulnerability to natural disasters and climate change, catastrophe and weather insurance for homeowners, farmers and SMEs is currently underdeveloped in Kazakhstan. The existing catastrophe insurance products are either not viable in terms of price and quality of coverage or restricted only to selected clients as companies ration the availability of catastrophe coverage through higher prices or simply decline to cover weather and earthquake related risks. As a result, less than 2 percent of insurable properties are currently insured and even fewer SMEs. To address the problem of the worsening impacts of climate change on the national economy, the government is introducing a national program of compulsory catastrophe insurance for homeowners and SMEs. To this effect, the Bank is assisting the government with the preparation of a Law on Compulsory Catastrophe Insurance and development of actuarially sound premium rates for catastrophic risk to be covered by the program under a separate multi-sectoral TA program. Yet the establishment of a proper national catastrophe insurance program requires a highly advanced catastrophe insurance market infrastructure comprising innovative weather risk insurance products, automated underwriting and pricing insurance services, advanced insurance IT systems to support sales and claims management, public awareness of catastrophe and weather risk, and risk based insurance solvency regulations, which are currently not in place.

2. BASELINE PROJECT: The proposed project – Southeast Europe and Central Asia Catastrophe Insurance Facility (SEECA CRIF) – aims to provide comprehensive technical support to the government of Kazakhstan and the local insurance market in addressing the adverse effects of climate change on the national economy through the development of an advanced insurance market infrastructure that will support mass sales of compulsory and non-compulsory catastrophe insurance products by local insurance companies.

To address the impact of climate change and other natural disasters on homeowners, SMEs, and the national economy at large, the Kazakhstan government is preparing a new Law on Compulsory Catastrophe Insurance. Technical assistance for the draft law is currently underway through a separate World Bank program financed by FIRST, GFDRR and JERP, however, this technical assistance mainly focuses on the preparation of the law and supporting insurance regulations and not the implementation of the law.

The proposed project will directly address this gap in the ongoing World Bank program of technical assistance to the Kazakhstan government by providing a comprehensive package of insurance market infrastructure in support of

---

<sup>7</sup> For biodiversity projects, in addition to explaining the project's consistency with the biodiversity focal area strategy, objectives and programs, please also describe which [Aichi Target\(s\)](#) the project will directly contribute to achieving.

catastrophe insurance products for climate related hazards to be offered by local insurers under the proposed national compulsory catastrophe insurance scheme, as well as outside the scheme. The insurance products to be developed and offered under the project will cover the risks of flood, steppe wind and catastrophic drought. Coverage of the latter will be of main benefit for the country's agriculture sector as the current crop insurance scheme in Kazakhstan requires a major overhaul to improve the quality of insurance coverage to deal with adverse effects of extreme weather events in the sector. Europa Reinsurance Facility Ltd. (Europa Re), a catastrophe reinsurance company incorporated under Swiss Law in Zug, Switzerland, will act as the SEECA CRIF project implementation agency.

The proposed project will heavily draw from World Bank experience in designing national and regional catastrophe and weather-risk insurance programs. In 2011, the World Bank jointly with the Swiss Secretariat for Economic Affairs (SECO) and GEF, launched a catastrophe and weather risk reinsurance program known as the Southeast Europe Catastrophe Insurance Facility (SEE CRIF). The main rationale of SEE CRIF has been to promote the development of local catastrophe and weather risk insurance markets in disaster prone emerging economies with the view to increasing access of local businesses and population to reliable and fairly priced catastrophe and weather risk insurance products that cannot be found in the commercial insurance market. In cooperation with country stakeholders, SEE CRIF has already invested in the development of catastrophe insurance market infrastructures for Albania, Serbia, and Macedonia, where consumers can now buy innovative catastrophe products developed under the program either from affiliated insurance partners of Europa Re or online.

**3. GEF FOCAL AREA WITH EXPECTED OUTCOMES AND COMPONENTS:** The proposed project activities support GEF's focus on climate change and more specifically, GEF's objectives on climate change adaptation. By increasing access to sound catastrophe and weather risk insurance products for millions of people in Kazakhstan, SEECA CRIF is also in line with the GEF strategy on adaptation. By supporting proper catastrophe risk management and risk transfer, SEECA CRIF reduces economic losses at both local and national levels from extreme weather related events, thereby reducing economic vulnerability and contributing toward increased climate resilience at the national level.

**4. INCREMENTAL/ADDITIONAL COST REASONING AND EXPECTED CONTRIBUTIONS FROM THE BASELINE:** In the case of the SEECA CRIF program for Kazakhstan, the proposed project funding of US\$5.0 million will be used for procuring insurance services and systems that will (i) pave the way for the successful launch of innovative compulsory and optional climate insurance products developed under the program by the local insurance companies; (ii) support the development of a sustainable insurance framework for the agricultural sector through development of innovative insurance solutions and modern technologies. Inter alia, the activities will include but are not limited to the acquisition of high-resolution weather risk data, design of catastrophe risk models and high-resolution risk maps, acquisition of an automated web-based IT platform to support web-based insurance sales platform with automated pricing, risk underwriting capabilities and claims settlement, public information campaigns, assistance to the national insurance regulators, interactive web-based consumer education tools, and professional training of insurance agents and insurance loss adjusters.

Catastrophe risk transfer is a pillar of disaster risk management; it enables to mitigate financial consequences of natural disasters on governments, enterprises, and households. For households, affordable catastrophe insurance is often the only financial safety net available after catastrophic events. Developing a modern catastrophe insurance infrastructure will lead to a stronger catastrophe insurance market, which will in turn free up scarce budgetary resources and enable governments to channel resources to the truly needy in the aftermath of natural disasters. In addition, a catastrophe insurance market will enable the government to purchase natural disaster insurance protection for public infrastructure and buildings and possibly ensure its own financial obligations to the public in the aftermath of natural disasters.

It is envisioned that after the catastrophic insurance infrastructure is developed, the local insurers will be able to offer affordable insurance policies to most homeowners and business owners. Moreover, through a government support program, vouchers will be provided to those who cannot afford disaster insurance, ensuring that all socially vulnerable have coverage. It is important to note that SCCF funding will not be used to subsidize any of the insurance premiums.

In addition, by assisting Kazakhstan with developing a modern catastrophe insurance market infrastructure, SEECA CRIF will reduce the government's fiscal exposure to natural disasters and enable Kazakhstan to allocate more of post-disaster assistance to the poor. Moreover, through public education and by improving disaster data collection for catastrophe insurance products, SEECA CRIF will be increasing the public and government awareness of disaster risk among the general public, and particularly the poor.

**5. ADAPTATION BENEFITS:** This project will support the provision of affordable and accessible catastrophe and weather-event insurance products, enabling those at risk of climate change to adapt to more severe and frequent weather events.

In both the immediate and long-term, SEECA CRIF will result in numerous adaptation benefits. First, because risk will be transferred from the public to the private sector, on the national level, it will reduce the financial risk that Kazakhstan is currently exposed to and strengthen the country's ability to respond and recover from extreme weather events.

Second, on the local level, it will provide a financial safety net to the public for the adverse affects of climate change. By assisting Kazakhstan with developing a modern catastrophic insurance market infrastructure, households, SMEs, and farmers exposed to weather-related risks and geological hazards will receive greater access to affordable disaster insurance that will serve as a financial safety net following catastrophic events. After a disaster, catastrophe insurance will help restore some of homeowners' lifetime savings embedded in home equity. The SMEs will be able to protect their earnings from adverse weather events, thus better adapting to climate change, reducing the cost of borrowing, and improving their equity valuations and access to credit.

Third, SEECA CRIF will also encourage long-term disaster mitigation to protect against climate change. By revealing the cost of risk through actuarial pricing of catastrophe and weather risk insurance, the program will contribute to better informed and less risky consumer and production decisions, choices and behaviours.

**6. INNOVATION, SUSTAINABILITY AND POTENTIAL FOR SCALING UP:** The main design features of SEECA CRIF closely follow the previous prototypes of national and regional catastrophe and weather-risk programs developed with direct technical and capital assistance from the Bank – the Turkish Catastrophe Insurance Pool, the Romanian Catastrophe Insurance Pool and the Caribbean Catastrophe Risk Insurance Facility. However, the program contains several innovations. These include (i) the development of innovative catastrophe insurance products, which combine traditional indemnity coverage with parametric index-based elements; (ii) establishment of prudent risk management and market conduct requirements embedded in highly automated systems, (iii) development of innovative image-based claims management systems ensuring a swift return to normal life or continuation of business activities in the aftermath of a natural disaster; (iv) introduction of risk based supervision of catastrophe insurance in line with best international practices, (v) development of innovative public awareness and educational mechanisms, including highly interactive web-based IT applications and (vi) ensuring dedicated reinsurance capacity for innovative insurance products developed under the program and sold by local insurers.

SEECA CRIF sustainability and success will depend on strong government commitment to increase demand for catastrophe insurance among the population by creating an enabling regulatory and legal framework. When the Kazakhstan Parliament will have enacted the new law on compulsory catastrophe insurance (currently envisaged in the early 2017), SEECA CRIF sustainability will be fully attained.

Program sustainability also depends on homeowner and enterprise sector willingness to purchase optional catastrophe risk insurance policies. Creation of modern catastrophe insurance infrastructure envisaged under the project, will provide millions of consumers with easy access (including online) to affordable catastrophe and weather risk insurance products.

To ensure an ongoing policy dialogue with key government agencies involved in formulating and legislating climate change adaptation policies, the project will support a series of workshops for government officials and insurance executives on climate change risks and climate change adaptation tools. The sustainability of climate change adaptation

education for decision-makers will be achieved by involving in the development of this program the Nazarbaev University (currently the most advanced, westernized public education establishment in the country), which will continue offering such training after the completion of the project.

To strengthen the project's sustainability, Europa Re will act as the SEECA CRIF project implementation agency. Over the last 4 years, in the course of implementing the GEF and SECO grants under the SEE CRIF program in Albania, FYR of Macedonia and Serbia, Europa Re developed in-depth expertise in managing a complex program of technical assistance in insurance services in accordance with World Bank procurement and financial management guidelines. In the case of SEE CRIF, the GEF and SECO grants in the amount of \$10 million were used to develop innovative catastrophe insurance products and underlying hazard risk models; procure a web-based automated pricing, underwriting and policy origination platform, as well as a claim management system; and provide regulatory support to local insurance regulators. Both grants were implemented in accordance with the original project implementation schedules and to satisfaction of both donors and country clients. In the case of SECO, due to the high quality of project management, at the end of 2015, the donor replenished its initial contribution and extended the grant by 3 more years. Given the importance of providing reinsurance capacity to local insurance companies involved in sales of catastrophe insurance products developed under the SEECA CRIF program, Europa Re also will stand ready to provide, if required, reinsurance support to the Kazakh insurance companies involved in sales of innovative climate insurance products.

Although the project has been designed specifically for Kazakhstan, it can be easily replicated in other countries of the region that are adversely affected by climate change through the extension of insurance market infrastructure and insurance services to be developed for Kazakhstan to other markets of the region.

A.2. *Child Project?* If this is a child project under a program, describe how the components contribute to the overall program impact.

A.3. *Stakeholders.* Identify key stakeholders and elaborate on how the key stakeholders engagement is incorporated in the preparation and implementation of the project. Do they include civil society organizations (yes  /no )? and indigenous peoples (yes  /no )?<sup>8</sup>

SEECA CRIF activities are cross-cutting and collaborative, ensuring the engagement of major stakeholders in Kazakhstan, including the Ministry of Economic Development and Planning, the National Bank, and the Insurance Association. Moreover, because much of the technical work will be focused on establishing complex catastrophe insurance infrastructure and systems, stakeholders will gain the requisite skills and knowledge to better understand catastrophe risk and effectively adapt to such risks and climate change. Furthermore, public awareness of climate change and the benefits of catastrophe and weather risk insurance will be raised through information campaigns and the public discussion of the new Law on Compulsory Catastrophe Insurance, resulting in increased demand for catastrophe and weather risk insurance products. The project also aims to provide national and local governments as well as private individuals with the up-to-date actionable information on the risk of natural disasters faced by their communities and certain segments of national economy. The information will be delivered to the decision makers in the form of workshops, risk maps and through interactive education tools available on-line.

During the project appraisal stage, the project team conducted extensive public consultations on the subject of compulsory catastrophe insurance with the Ministry of Economic Development and Planning (responsible for the preparation of Disaster Insurance Law), National Bank of Kazakhstan (the country's insurance regulator); Presidential Administration and the Association of Kazakhstan Insurers. As the final draft of the Law is yet to be finalized by the end of 2017, in the early implementation stage the project will assist the government with incorporating the views of the private sector and consumer organizations in the text of the Law. In designing other more locally oriented catastrophe insurance products at a later stage of the project implementation, the project intends to include professional or community-based organizations (e.g. Association of Farmers) into the insurance product design process.

---

<sup>8</sup> As per the GEF-6 Corporate Results Framework in the GEF Programming Directions and GEF-6 Gender Core Indicators in the Gender Equality Action Plan, provide information on these specific indicators on stakeholders (including civil society organization and indigenous peoples) and gender.

A.4. *Gender Equality and Women's Empowerment.* Elaborate on how gender equality and women's empowerment issues are mainstreamed into the project implementation and monitoring, taking into account the differences, needs, roles and priorities of women and men. In addition, 1) did the project conduct a gender analysis during project preparation (yes  /no)?; 2) did the project incorporate a gender responsive project results framework, including sex-disaggregated indicators (yes  /no)?; and 3) what is the share of women and men direct beneficiaries (women 0%, men 0%)?<sup>9</sup>

The project cannot ensure specific targeting to certain vulnerable social groups or specifically female farmers and homeowners and therefore it is unlikely to have any gender related impacts. Nevertheless, the project will have certain indirect and positive social impacts on vulnerable groups, as it is helping shift more people to the market-based mechanisms of post-disaster compensation and hence releasing more government budget to target socially vulnerable groups. In addition, due to a considerably higher life expectancy of women in Kazakhstan (73 vs. 63 years for men), poor women are likely to be the majority of insurance voucher program beneficiaries.

A.5 *Risk.* Elaborate on indicated risks, including climate change, potential social and environmental risks that might prevent the project objectives from being achieved, and, if possible, the proposed measures that address these risks at the time of project implementation.(table format acceptable):

The overall risk rating is moderate. The decision has already been taken by the government of Kazakhstan to develop the national compulsory catastrophe insurance program, whereas the introduction of new weather risk related products for agriculture is in sync with the country's strategic priorities for this important sector of economy. The World Bank technical support, along with its involvement in the preparation of the draft Disaster Insurance law and Europa Re technical oversight of insurance work financed under the project, provide sufficient assurances that the project will be effectively implemented.

The success of the project ultimately depends upon (a) the enactment of the law on national compulsory catastrophe insurance; (b) proper cooperation among the main stakeholders during the implementation of the project; and (c) timely and quality delivery of main elements of market insurance infrastructure envisioned under the program. Hence, the main risks faced by the project are as follows:

(a) Delays with enactment of the Law on Compulsory Property Catastrophe Insurance by the Parliament or removal of important technical provisions of the draft law in the process of Parliamentary hearings. This risk is considered moderate as it is mitigated by the strong government commitment to present the draft law to the Parliament in December 2016, as well as the ongoing TA that will be providing the government with technical guidance and support during the process of Parliamentary hearings of the Law. Finally, the proposed 4 year time-frame for project implementation should provide a sufficient risk buffer for potential delays with the enactment and implementation of the law.

(b) Failure of key project stakeholders to coordinate their actions in the process of project implementation that results in the lack of adequate government ownership for the project. This risk is considered moderate as the government already assigned the task of preparing the law to the Ministry of Economic Development and Planning, which is now the main counterpart of the Bank under a separate ongoing TA project in support of the national catastrophe insurance program. The government also has created the Intergovernmental Working Group on the Law on Compulsory Property Insurance that consists of main program stakeholders, including the National Bank of Kazakhstan and the World Bank. The design of the program's governance also envisages the representation of all key project stakeholders at the Board of Directors of the national catastrophe insurance pool.

---

<sup>9</sup> Same as footnote 8 above.

(c) Failure of timely and quality delivery of main building blocks of market infrastructure required for the launch of the national catastrophe insurance program. This operational risk can be considered low despite the extensive and complex scope of preparatory technical work required for the program launch, as the project will be managed by a highly experienced in catastrophe insurance project implementation agency – Europa Re – which already delivered on time and within budget, a similar technical program of technical assistance to three countries of Southeast Europe.

*A.6. Institutional Arrangement and Coordination.* Describe the institutional arrangement for project implementation. Elaborate on the planned coordination with other relevant GEF-financed projects and other initiatives. As numerous technical activities financed by the project require highly specialized insurance and reinsurance expertise to ensure their completion on time and to the specifications, it is crucial that the implementation of the project is carried out by an experienced and technically competent (in insurance and reinsurance) project implementation agency. In addition, to achieve satisfactory compliance with the World Bank project implementation guidelines in the areas of procurement, disbursement and financial management, it is also essential that the project implementation agency has the established successful track record in managing similar Bank projects in the past.

To this effect, the project will be managed by Europa Re, which will act as the recipient of the SCCF grant and its implementing agency. It will also act as the main Bank and government counterpart for the purposes of project coordination and execution. Europa Re, a specialized catastrophe reinsurance company established under the Swiss law with extensive technical support from the World Bank, is currently owned by the governments of Albania, FYR of Macedonia and Serbia. Since 2012, Europa Re has been successfully acting as the project implementation agency for the US\$ 5.5 million GEF and US\$ 4.5 SECO grants under the SEEC CRIF program, which financed the development of a catastrophe insurance market infrastructure in Southeastern Europe. In 2015, the SECO grant managed by Europa Re was increased by the additional US\$ 3 million and extended by another 3 years. Since the inception of the project Europa Re has been invariably receiving satisfactory ratings for the high quality of its financial management and procurement operations. Europa Re employs a tested cadre of procurement and financial management professionals that ensure full compliance with the Bank Procurement and Financial Management Guidelines and procedures.

In its capacity of the project implementation agency (PIU) Europa Re will prepare technical specifications for technical services essential for the successful launch of the Kazakh national catastrophe insurance program and development of innovative catastrophe insurance products to be sold by local insurance companies. Europa Re's insurance and reinsurance professionals will then provide day-to-day oversight over the implementation of all technical activities financed under the grant by external project consultants and vendors to ensure their timely and successful performance.

Additional Information not well elaborated at PIF Stage:

*A.7 Benefits.* Describe the socioeconomic benefits to be delivered by the project at the national and local levels. How do these benefits translate in supporting the achievement of global environment benefits (GEF Trust Fund) or adaptation benefits (LDCF/SCCF)?

Insurance is an efficient means to mitigate natural disaster-generated economic losses to vulnerable populations in emerging market economies. Natural disasters affect national productive capacity by destroying physical and human capital. Replacing that capital is costly and time-consuming, especially for infrastructure. Quick access to financial resources for reconstruction can help more rapidly restore the national economic base. Typically, in the aftermath of major catastrophic events, governments struggle to find additional resources on short-notice for disaster relief and reconstruction. Most of financial resources are borrowed, often at high interest rates, and smaller amounts may come as grants. The insurance sector can finance reconstruction ex-post or can gather and price the risks ex-ante through risk transfer schemes. Therefore, in the aftermath of a disaster, a well-developed insurance sector may substantially reduce government need for high-cost financing, reduce fiscal risks, and safeguard resources for social services provision.

Countries with higher private insurance penetration sustain lower economic losses and fiscal costs after natural disasters. Comparing real consequences of natural disasters, a world Bank study found that countries with relatively low insurance penetration suffer larger output declines after climatic and geological disasters than countries with high insurance penetration. At the same time, fiscal deficits escalate in countries with low insurance penetration. Furthermore, in countries with high insurance penetration, government expenditures and revenues tend to move together, thus causing only a slight widening in fiscal deficits following major catastrophic events. Countries with low insurance penetration increase their government deficit after disasters and fail to reduce the magnitude of disaster consequences as much as countries with high insurance penetration do. In countries with high insurance penetration, the economy can quickly allocate resources from existing insurance schemes to recover productive capacity lost due to natural disasters and little fiscal effort is required to offset the negative macroeconomic consequences of catastrophic events. Fiscal resources can then be devoted to immediate relief, and the simultaneous increase in expenditures and revenues suggests that the fiscal effort is mainly redistributive (e.g., provides relief to those affected by increasing revenues from those not affected by the disaster).

In the absence of higher-level financial sector development to cope with disasters, the widespread use of insurance helps finance disasters more efficiently. Domestic capital market development helps mitigate real consequences of natural disasters. Moreover, developing an insurance market is preferable to developing a debt market to reduce fiscal costs after natural disasters. Countries that focus on development of ex ante insurance schemes are likely to be better fiscal performers than countries that emphasize readily available debt financing to mitigate economic losses after natural disasters. Countries with highly developed financial sectors and countries with high insurance penetration suffer relatively less from disasters in terms of output declines. Countries with high levels of insurance penetration can deal with a disaster's real macroeconomic consequences without deficit financing of expenditures. It seems, therefore, that while countries with a higher overall level of financial sector development can better cope with disasters, the prevalence of insurance helps to finance disasters more efficiently.

*A.8 Knowledge Management.* Elaborate on the knowledge management approach for the project, including, if any, plans for the project to learn from other relevant projects and initiatives (e.g. participate in trainings, conferences, stakeholder exchanges, virtual networks, project twinning) and plans for the project to assess and document in a user-friendly form (e.g. lessons learned briefs, engaging websites, guidebooks based on experience) and share these experiences and expertise (e.g. participate in community of practices, organize seminars, trainings and conferences) with relevant stakeholders.

In terms of knowledge management, the SEECA CRIF program benefits from extensive hands-on experience learned from developing national and regional insurance programs, both disaster-related such as SEE CRIF, TCIP and PAID, and non-disaster related such as ATI and the GIIF (a joint WB/IFC project). The main lessons learned and their reflection in project design can be summarized as follows:

Lesson 1: The first lesson is that acquisition of new, customized insurance technologies and supporting IT systems is fraught with potential delays and shortfalls in the expected quality of implementation. To address the problem of potential delays and quality of technical deliverables by external vendors, the project will be implemented by Europa Re, a highly experienced project implementation company specialized in insurance project, which accumulated valuable extensive expertise in retaining and successfully managing specialized vendors of insurance related IT services.

Lesson 2: The second lesson is the importance of government in creating demand for catastrophe insurance products. Currently, citizens are unaware of the benefits that catastrophe insurance products can provide to them. Therefore, governments must stimulate demand through a variety of methods such as public awareness campaigns to educate people about the need for insurance, through economic policies that reward more proactive behaviors among companies and individuals in adopting disaster risk mitigation strategies, and through introduction of a compulsory disaster insurance mandate. This issue is addressed by linking the project to the national program of compulsory catastrophe insurance which is currently under preparation by the government. Under SEECA CRIF, the project will assist the government to create easy access to compulsory insurance for consumers, to educate the public about the aims of the program, its products and ways to claim payments in case of a disaster.

Lesson 3: The third lesson has to do with the affordability of catastrophe insurance products, which must be designed to fit the budget of most homeowners and SME owners. To address the affordability concern, the project envisions that the pricing of compulsory catastrophe risk products can be made affordable by the introduction of innovative automated pricing and underwriting technologies; launch of an extensive national customer base that allows to broadly distribute the fixed administrative costs among millions of policyholders; and through the introduction of government financed insurance vouchers that can be used by socially vulnerable segments of population to pay for compulsory catastrophe insurance.

The World Bank is committed to learning from previous programs and applying lessons learned to new projects. As seen in the application of lessons learned from previous catastrophe insurance programs, experiences from SEECA CRIF implementation will assist the design of future catastrophic insurance projects to be undertaken in Central Asia and around the world.

**B. DESCRIPTION OF THE CONSISTENCY OF THE PROJECT WITH:**

**B.1 Consistency with National Priorities.** Describe the consistency of the project with national strategies and plans or reports and assessments under relevant conventions such as NAPAs, NAPs, ASGM NAPs, MIAs, NBSAPs, NCs, TNAs, NCSAs, NIPs, PRSPs, NPFE, BURs, etc.:

Yes, the project is consistent with Kazakhstan's strategy to reduce the impact of catastrophic disasters. In order to address the impact of natural disasters on homeowners and SMEs, the government is introducing a new Law on Compulsory Catastrophe Insurance. Preparations for the draft law are currently underway under a separate program of World Bank technical assistance. The project is also in line with the Country Programming Strategy, UNDAF, and Second National Communication to the UNFCCC.

**C. DESCRIBE THE BUDGETED M & E PLAN:** Europa Re will produce annual technical reports about progress made with implementation of numerous technical activities envisaged by the project and will provide annual audited financial statements on the utilization of donor trust funds. Although the reporting will be annual, the results of project activities will be monitored and evaluated by Europa Re on a daily basis as part of its project implementation mandate. Individual insureds data (e.g. stripped of personal information) will be provided by the private insurance companies distributing the insurance policies in local markets. Europa Re will aggregate collected information and provide it to the World Bank. Tracked data will be linked directly to the program results framework (see Annex I). The M&E reports will be used to continuously assess SEECA CRIF effectiveness and introduce necessary corrective measures, if needed.

**PART III: CERTIFICATION BY GEF PARTNER AGENCY(IES)**

**A. GEF Agency(ies) certification**

**This request has been prepared in accordance with GEF policies<sup>10</sup> and procedures and meets the GEF criteria for CEO endorsement under GEF-6.**

<b>Agency Coordinator, Agency Name</b>	<b>Signature</b>	<b>Date (MM/dd/yyyy)</b>	<b>Project Contact Person</b>	<b>Telephone</b>	<b>Email Address</b>

---

<sup>10</sup> GEF policies encompass all managed trust funds, namely: GEFTF, LDCF, and SCCF  
GEF6 CEO Endorsement /Approval Template-Dec2015

**ANNEX A: PROJECT RESULTS FRAMEWORK** (either copy and paste here the framework from the Agency document, or provide reference to the page in the project document where the framework could be found).  
Project Results Framework can be found on Page 26 of the IBRD Project Appraisal Document for the Kazakhstan: Southeast Europe and Central Asia Catastrophe Risk Insurance Facility (SEECA CRIF).

**ANNEX B: RESPONSES TO PROJECT REVIEWS** (from GEF Secretariat and GEF Agencies, and Responses to Comments from Council at work program inclusion and the Convention Secretariat and STAP at PIF).

Comments from the US Government and Project Team Responses

December 30, 2015

The United States appreciates this innovative effort to support and improve insurance mechanisms to increase resilience to the impacts of climate change. We encourage the World Bank and its partners to consider scaling-up and sustainability strategies for the project, including the potential for capturing lessons and best practices that could be applied in additional areas and regions. Additionally, as the World Bank prepares the draft final project document for CEO endorsement, we urge the Bank to:

- Provide more information on how the project will monitor and report on progress made towards the goal of “increasing catastrophe and weather-risk insurance penetration among homeowners and enterprise sector in Kazakhstan from the current 1-2 percent to 60 percent over the next 5 years”;

A: The team revised the Project Monitoring Framework by making it more detailed and transparent. Please see changes made in the PAD on p. 9 and p. 25.

- Include consideration in the design of the insurance mechanism to incentivize disaster risk reduction practices and disincentivize maladaptation; and,

A: To achieve improved risk reduction practices at the level of households, SMEs and government entities the project will support the development of an online disaster risk assessment tool – the CatMonitor, which will be enable users to assess their risk exposures to catastrophe risk and will advise them on how to undertake certain first risk reductions measures. In addition, the project intends to support government and private insurance market efforts to educate the population about natural catastrophe risk through public information campaigns.

To disincentivize maladaptation (that may arise due to insurance coverage of non-viable economic activities), the project will support risk-based pricing of insurance that would signal the insured that engage in maladaptation activities. As insurance pricing will rely on historic claims records and future looking probabilistic pricing models, insureds engaging in maladaptation will have to pay extremely high premium rates thus making their insurance coverage uneconomical. This in turn will signal to the government which segments of the economy (or specific industries) are no longer viable due to the risk of climate change – and hence should be no longer supported through government industrial policies (e.g. subsidies to certain types of crops and farms).

To make these important points clear we have also introduced an amendment to the PAD on p. 14.

- Elaborate on the program’s innovations from other insurance pools, in particular how the parametric index-based elements will be combined with traditional indemnity coverage and the introduction of risk based supervision of catastrophe insurance.

A: The project intends to build on insurance innovations developed under previous World Bank insurance programs as well as explore the latest technological developments in the field of insurance innovation from other more developed markets. For instance, in the case of flood risk, which will be covered under the mandatory catastrophe insurance coverage, we envisage the application of highly innovative mass claim settlement approaches that rely on the combination of aerial photography, sample loss surveys and reliance on pre-existing databases of risk exposure. In the case of agro-products, to increase the transparency and confidence of farmers in the insurance coverage we intend to develop a new generation of parametric insurance products that would rely on crop yield data provided by independent providers of aerial imagery and crop samplings in areas affected by disasters.

Introduction of risk-based pricing for catastrophe risk insurance will be supported by the extensive technical assistance to the National Bank of Kazakhstan (NBK) – the insurance market regulator. The TA will enable the NBK to develop modern risk-based regulations and supporting them risk-based supervision tools that would ensure universal market compliance with the risk-based regulatory requirements through risk-based pricing, reserving and reinsurance practices.

We have added additional clarifications on the subject on p. 14

In addition, we expect that the World Bank in the development of its full proposal will:

- Provide more information on how beneficiaries, including women, have been involved in the development of the project proposal and will benefit from this project;

A: As we have clarified on p.24 of the PAD, the project cannot ensure specific targeting to certain vulnerable social groups or specifically female farmers and homeowners and therefore, it is not likely to have any gender related impacts. Nevertheless, the project will have certain indirect and positive social impacts on vulnerable groups, as it is helping shift more people to the market-based mechanisms of post-disaster compensation and hence releasing more government budget to target socially vulnerable groups. In addition, due to a considerably higher life expectancy of women in Kazakhstan (73 vs. 63 years for men), poor women are likely to be the majority of insurance voucher program beneficiaries.

- Engage local stakeholders, including community-based organizations, environmental non-governmental organizations and the private sector in both the development and implementation of the program;

A: During the project appraisal stage, the project team has conducted extensive consultations on the subject of compulsory catastrophe insurance with the Ministry of Economic Development and Planning (responsible for the preparation of Disaster Insurance Law), National Bank of Kazakhstan (the country's insurance regulator); Presidential Administration and the Association of Kazakhstan Insurers. As the final draft of the Law is yet to be finalized by the end of 2017, the project will assist the government with incorporating the views of the private sector and consumer organizations in the text of the Law. In designing other more locally oriented catastrophe insurance products at a later stage of the project implementation, the project intends to include professional or community-based organizations (e.g. Association of Farmers) into the insurance product design process. We have added a respective clarification on p. 24 of the PAD.

- Expand on how the implementing agency and its partners will ensure the sustainability of climate change adaptation education for decision-makers at the national and local level; and,

A: To ensure an ongoing policy dialogue with key government agencies involved in climate change adaptation efforts, the project will support a series of workshops for government officials and insurance executives on climate change risks and climate change adaptation tools. The sustainability of climate change adaptation education for decision-makers will be achieved by involving in the development of this program the Nazarbaev University (currently the most advanced, westernized public education establishment in the country), which will continue offering such training after the completion of the project. See p. 10 of PAD for a respective clarification.

Clarify on how the implementing agency and its partners will communicate results, lessons learned and best practices identified throughout the project to the various stakeholders both during and after the project.

Thank you again for the opportunity to provide feedback on this important PCN. We look to seeing our feedback incorporated in the project proposal at the CEO endorsement stage of the process.

---

Comments from STAP and SEECA CRIF Team Responses

December 30, 2015

STAP welcomes the World Bank's proposal on "Southeast Europe and Central Asia Catastrophe Risk

GEF6 CEO Endorsement /Approval Template-Dec2015

Insurance Facility". In the full proposal, STAP would welcome a complete description of the components and adaptation benefits, so the contributions of the SCCF grant to the World Bank weather risk insurance program are better understood.

A: As mentioned on page 11 of PAD, the proceeds of the GEF/SCCF grant will finance the costs of technical services incurred in connection with carrying out the preparatory work needed for the development and launch of a catastrophe risk insurance market in Kazakhstan. Such preparatory technical activities include but are not limited to acquisition of weather risk data, design of catastrophe risk models and high-resolution risk maps, acquisition of an automated web-based IT platform to support efficient insurance sales and claims settlement, public information campaigns, assistance to the national insurance regulators, consumer education on disaster insurance and professional training of insurance agents and insurance loss adjusters. A more detailed line by line description of activities financed by the project is provided in the Project Procurement Section on pp. 17-22.

Although design of individual insurance products will constitute an important project activity, the main objective of the grant goes well beyond designing specific insurance products. As has been stated in the PAD, the PDO is assist Kazakhstan with developing a modern catastrophe insurance market infrastructure that will support the launch of affordable, innovative catastrophe insurance products covering the risks of weather extremes. In this context, the choice of specific climate risk insurance products to be designed under the project and supported by the insurance market infrastructure country wide will be made in the course of the project implementation based on extensive consultations with all relevant stakeholders, including local insurance companies, the governments, and consumers. The project team is well aware of the risks involved in designing insurance products apriori without considering local demand for such products, the existing product alternatives offered by the market or through government schemes and climatic conditions. Hence, in the view of the team a detailed discussion of the type of products to be developed under the program is not feasible at this stage of project development due to many unknowns. Inter alia, these include weather risk models, a detailed demand assessment of weather risk management needs of customer segments to be insured, and policy inputs from the government on the type of climate risk insurance that would fit best the country's needs.

Notwithstanding the above, we must point out that the main catastrophe insurance product that is likely to be supported under the program will be a comprehensive indemnity style catastrophe risk insurance policy covering homeowners and SMEs against the risks of flood, wind, and earthquake. The coverage will compensate real estate property owners against damages caused to their properties by the aforementioned perils. The specific product features, including sum insured and terms and conditions will be set out in the Law on Compulsory Catastrophe Property Insurance.

In addition, the team has conducted a preliminary feasibility assessment for the Area Index Insurance Product (AYII) that would target commercial farms. The feasibility work on further development of the AYII product will continue in the course of project implementation.

With regard to the adaptation benefits to be realized from this project, as stated on p. 4 of PAD, by developing a modern catastrophe insurance market infrastructure supporting sales of affordable, innovative disaster insurance products, homeowners, farmers, enterprises and local government will be in a better position to recover after a catastrophic event and better adapt to climate change risks. The project will also promote a culture of mitigation and prevention, which is critical to sustainable economic growth and poverty reduction by supporting the construction of financial mechanisms that can help citizens and enterprises protect their assets while reducing the fiscal vulnerability of the government.

STAP notes that this project is intended to complement the Bank's on-going TA related to disaster / catastrophe insurance by focusing on climate-related risks. In this regard, STAP notes that there are a variety of climate-related risks for which insurance products may be appropriate as risk management measures. At the present moment, the proposal seems to consider a rather wide range of target segments, including catastrophe insurance and weather insurance. Clarity on the different approaches for the different segments would be helpful.

A: As described above, although the project team cannot provide a detailed technical description of specific insurance products that will be supported by the insurance market infrastructure (to be developed under the project) country-wide,

the most likely product to be supported is a property catastrophe insurance product covering property owners against property damages caused by flood, wind and earthquake to their homes and business assets (for SMEs).

In addition, STAP suggests addressing the following points during the development of the project:

STAP notes that there are a number of approaches for designing weather insurance products, including index-based insurance and yield-based insurance. During the course of project development, STAP recommends consideration of the evidence regarding the effectiveness and design of these products. See, for example: Bokusheva, Raushan, and Gunnar Breustedt. "The effectiveness of weather-based index insurance and area-yield crop insurance: How reliable are ex post predictions for yield risk reduction?." *Quarterly Journal of International Agriculture* 51.2 (2012): 135.

A: Although, as has been explained above, the comment is not relevant at the current stage of project development, the team has reviewed the referenced publication and concurs with the authors' main finding that both index-based and yield-based insurance products may result in the considerable basis risk for farmers by underestimating the correlation between the actual farm's yields and those predicted by the weather index reference in the product. A somewhat similar problem occurs in the case of Area Yield Index Insurance products (AYII) where the actual insured yield on a given farm and the reported area yield are not the same. Although the authors employ a new empirical testing method in estimating the (limited) effectiveness of aforementioned insurance products in reducing the insured's risk, their findings are of limited practical value for insurance practitioners who often struggle to design such products with limited historical data sets and often conflicted methodology used by national meteo-services and statistical agencies in compiling historic data sets. In addition, in the case of AYII, farmers always have the option to choose a lower insured yield reduction trigger which will greatly help to reduce the basis risk.

2. Along the same lines, STAP suggests evaluation of the use of plant growth stages for insurance period determination, rather than fixed dates. For example, a study based in Kazakhstan indicates that including plant growth stages, and accounting for the differences in plant growth throughout different phases, can strengthen the protection of weather insurance, and reduce financial risks for farmers. (Refer to Conradt, S., Finger, R., Sporri, M. "Flexible weather index-based insurance design". *Climate Risk Management*. In press.)

A: The project team is well aware of the limitations of weather-based insurance products. See above.

3. STAP also recommends consideration of the ability of farmers to adopt insurance products, for example, through a demand analysis for the insurance for each type of recipient, and how the proposed insurance will meet their needs. This analysis should take into account farmers' awareness (and other insurance recipients) of crop insurance, and their experiences with it, so that the development of the insurance market in Kazakhstan reflects their priorities and experiences. The following paper can provide a source of information on the factors affecting farmers' perceptions on their use of weather insurance: Ghazanfar, S., et al. "Farmers' perceptions and awareness and factors affecting awareness of crop insurance as a risk coping mechanism evidence in Pakistan". *Journal of Northeast Agricultural University*. Volume 22, Issue 1, January 2015, Pages 76-82.

A: The team thanks the STAP reviewers for the helpful literature reference on the design of weather risk insurance products. We fully concur with the recommendation that a demand analysis for any insurance products and an assessment of how the proposed insurance will meet insureds' needs should underlie feasibility studies for any insurance product.

4. Given the interest in insurance as an adaptation measure, the project could consider contributing to the evidence base in this regard.

A: The SEECA CRIF program intends to build a body of evidence on the effect of climate risk insurance on adaptation experience of insured and the government industrial policies (particularly for the agriculture).



**ANNEX C: STATUS OF IMPLEMENTATION OF PROJECT PREPARATION ACTIVITIES AND THE USE OF FUNDS<sup>11</sup>**

A. Provide detailed funding amount of the PPG activities financing status in the table below:

PPG Grant Approved at PIF:			
<i>Project Preparation Activities Implemented</i>	<i>GEF/LDCF/SCCF Amount (\$)</i>		
	<i>Budgeted Amount</i>	<i>Amount Spent To date</i>	<i>Amount Committed</i>
<b>Total</b>	0	0	0

<sup>11</sup> If at CEO Endorsement, the PPG activities have not been completed and there is a balance of unspent fund, Agencies can continue to undertake the activities up to one year of project start. No later than one year from start of project implementation, Agencies should report this table to the GEF Secretariat on the completion of PPG activities and the amount spent for the activities. Agencies should also report closing of PPG to Trustee in its Quarterly Report.

**ANNEX D: CALENDAR OF EXPECTED REFLOWS (if non-grant instrument is used)**

Provide a calendar of expected reflows to the GEF/LDCF/SCCF Trust Funds or to your Agency (and/or revolving fund that will be set up)