



# PROJECT IDENTIFICATION FORM (PIF) <sup>1</sup>

PROJECT TYPE: Full-sized Project

TYPE OF TRUST FUND:SCCF

## PART I: PROJECT IDENTIFICATION

Project Title:	Southeastern Europe and Caucasus Catastrophe Risk Insurance Facility (SEEC CRIF)		
Country(ies):	Albania Macedonia Serbia	GEF Project ID: <sup>2</sup>	
GEF Agency(ies):	WB (select) (select)	GEF Agency Project ID:	P117347
Other Executing Partner(s):	Europa RE	Submission Date:	2011-03-31
GEF Focal Area (s):	Climate Change	Project Duration (Months)	48 months
Name of parent program (if applicable): ➤ For SFM/REDD+ <input type="checkbox"/>		Agency Fee (\$):	550,000

### A. FOCAL AREA STRATEGY FRAMEWORK<sup>3</sup>:

Focal Area Objectives	Expected FA Outcomes	Expected FA Outputs	Trust Fund	Indicative Grant Amount (\$)	Indicative Co-financing (\$)
CCA-1 (select)	Diversified and strengthened livelihoods and sources of income for vulnerable people in targeted areas.	Vulnerable physical, natural and social assets strengthened in response to climate change impacts, including variability.	(select)		5,000,000
CCA-2 (select)	Strengthened adaptive capacity to reduce risks to climate-induced economic losses.	Adaptive capacity of national and regional centers and networks strengthened to rapidly respond to extreme weather events.	SCCF	2,500,000	9,500,000
CCA-2 (select)	Increased knowledge and understanding of climate variability and change-induced threats at country level and in targeted vulnerable areas.	Risk and vulnerability assessments conducted and updated.	SCCF	2,000,000	4,500,000
CCA-2 (select)	Strengthened awareness and ownership of adaptation and climate risk reduction processes at local level.	Targeted population groups participating in adaptation and risk reduction awareness activities.	SCCF	500,000	1,000,000
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)			(select)		
(select) (select)	Others		(select)		
Sub-Total				5,000,000	20,000,000
Project Management Cost <sup>4</sup>			(select)	<b>500,000</b>	1,500,000

<sup>1</sup> It is very important to consult the PIF preparation guidelines when completing this template.

<sup>2</sup> Project ID number will be assigned by GEFSEC.

<sup>3</sup> Refer to the reference attached on the [Focal Area Results Framework](#) when filling up the table in item A.

<sup>4</sup> GEF will finance management cost that is solely linked to GEF financing of the project.

<b>Total Project Cost</b>		5,500,000	21,500,000
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**B. PROJECT FRAMEWORK**

<b>Project Objective: To reduce the economic vulnerability of homeowners, the enterprise sector and government agencies to the adverse impact of climate change.</b>						
<b>Project Component</b>	<b>Grant Type</b>	<b>Expected Outcomes</b>	<b>Expected Outputs</b>	<b>Trust Fund</b>	<b>Indicative Grant Amount (\$)</b>	<b>Indicative Cofinancing (\$)</b>
Component 1: Develop underlying regulatory and technical work required to develop insurance products	Inv	1. Development of catastrophe insurance policy and regulatory framework.  2. Ability to collect weather data, assess risk, forecast, and develop climate models and weather risk indices in order to develop catastrophe insurance products.	1. Necessary budget allocations and measures at national level to implement framework.  2. Production of metadata, country risk assessments, weather indices for temperature and precipitation at selected locations, climate change forecasts and models.  3. Provision of catastrophe and weather risk insurance products.  4. Regulatory reforms to support implementation of framework and to prevent economic loss from climate change.	SCCF	5,000,000	15,000,000
Component 2: Country participation in SEEC CRIF.	Inv	Provide reinsurance support and develop required market infrastructure for catastrophe insurance.	Increased demand for catastrophe and weather-risk insurance products.	(select)		5,000,000
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
	(select)			(select)		
Sub-Total					5,000,000	20,000,000
Project Management Cost <sup>5</sup>				(select)	500,000	1,500,000
<b>Total Project Costs</b>					<b>5,500,000</b>	<b>21,500,000</b>

**C. INDICATIVE CO-FINANCING FOR THE PROJECT BY SOURCE AND BY NAME IF AVAILABLE, (\$)**

<b>Sources of Cofinancing</b>	<b>Name of Cofinancier</b>	<b>Type of Cofinancing</b>	<b>Amount (\$)</b>
GEF Agency	World Bank	Hard Loan	15,500,000

<sup>5</sup> Same as footnote #3.

Bilateral Aid Agency (ies)	Swiss State Secretariat for Economic Affairs (SECO)	Grant	4,500,000
GEF Agency	UNISDR, World Bank, RCC, GFDDR	Grant	1,500,000
(select)		(select)	
(select)		(select)	
(select)		(select)	
(select)		(select)	
(select)		(select)	
(select)		(select)	
(select)		(select)	
<b>Total Cofinancing</b>			21,500,000

**D. GEF/LDCF/SCCF RESOURCES REQUESTED BY AGENCY, FOCAL AREA AND COUNTRY<sup>1</sup>**

GEF Agency	Type of Trust Fund	Focal Area	Country Name/Global	Grant Amount (a)	Agency Fee (b) <sup>2</sup>	Total c=a+b
WB	SCCF	Climate Change	Albania Macedonia Serbia	5,500,000	550,000	6,050,000
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
(select)	(select)	(select)				0
<b>Total Grant Resources</b>				5,500,000	550,000	6,050,000

<sup>1</sup> In case of a single focal area, single country, single GEF Agency project, and single trust fund project, no need to provide information for this table

<sup>2</sup> Please indicate fees related to this project.

## **PART II: PROJECT JUSTIFICATION**

### **A. DESCRIPTION OF THE CONSISTENCY OF THE PROJECT WITH:**

#### **A.1.1 the GEF focal area/LDCF/SCCF strategies:**

The proposed activities under the Southeastern Europe and Caucasus Catastrophe Risk Insurance Facility (SEEC CRIF) multi-country project are strongly aligned with the current GEF strategy on adaptation. SEEC CRIF's aim is to provide affordable catastrophe and weather risk insurance products in order to decrease the financial risk that countries are exposed to due to climate change. SEEC CRIF will do this by engaging both the public and private sector in carrying out the underlying technical and regulatory work required for a well-functioning catastrophe and weather risk insurance market.

SEEC CRIF activities support GEF's focal area on climate change and more specifically, GEF's objectives on climate change adaptation. By increasing access to catastrophe and weather risk insurance products and transferring weather risk to the private sector, SEEC CRIF is also in line with the GEF strategy on adaptation. By transferring risk, SEEC CRIF reduces economic losses at both the local and national levels, thereby reducing economic vulnerability and creating a more climate resilient country. Furthermore, SEEC CRIF will also incorporate long-term climate change adaptation with its insurance products. By revealing the true cost of risk through actuarial pricing and by incorporating incentives to mitigate against weather events, the program's catastrophe and weather risk insurance products will contribute to more informed and less risky consumer and production decisions, choices and behaviours. For all member countries, in the long-term, SEEC CRIF will result in reduced physical and financial vulnerability to natural disasters and the lasting ability to adapt to climate change.

SEEC CRIF activities are also cross-cutting and collaborative. Because the program is initially owned and governed by participating governments, it ensures the engagement of major stakeholders. Moreover, because much of the technical work will be in establishing systems to collect and synthesize weather data, stakeholders will gain the requisite skills and knowledge to better understand weather risk and to adapt to climate change in their respective countries. Furthermore, public awareness of climate change and the benefits of catastrophe and weather risk insurance will be raised through information campaigns and new regulations, resulting in increased demand for catastrophe and weather risk insurance products.

#### **A.1.2. For projects funded from LDCF/SCCF: the LDCF/SCCF eligibility criteria and priorities:**

Currently, the countries that have joined SEEC CRIF include Albania, Macedonia, and Serbia. Countries that have expressed intent to join include Bosnia and Herzegovina (BiH), Georgia, and Montenegro. All are developing countries that are parties to the United Nations Framework Convention on Climate Change (UNFCCC) and thus are eligible to receive SCCF financial support for adaptation interventions.

The proposed SEEC CRIF activities directly support SCCF's priority to develop

capacity building measures such as strengthening institutional capacity to mitigate the negative effects of disasters related to climate change. SEEC CRIF is also aligned with SCCF's specific intent to make vulnerable countries more climate-resilient by using fiscal measures such as government supported insurance programs. By assisting in the collection of weather-related data, which can then be used in forecasting and predictive modeling, SEEC CRIF also indirectly supports other program priorities in water resources management, land management and agriculture.

**A.2. National strategies and plans or reports and assessments under relevant conventions, if applicable, i.e. NAPAS, NAPs, NBSAPs, national communications, TNAs, NIPs, PRSPs, NPFE, etc.:**

SEEC CRIF activities are not only complementary to many of the national strategies, plans and reports already being prepared in the Southeastern Europe and Caucasus (SEEC) countries, but can also enhance these reports with better data and modeling capabilities. For example, in the National Communications reports, SEEC CRIF activities can build upon and refine each country's 'Vulnerability and Adaptation Assessments' by providing digitalized, reconciled, historical weather data and country risk assessments.

Moreover, many of these national reports and strategies identify requirements needed to adapt to climate change. The proposed SEEC CRIF activities will be able to fulfill many of these requirements. For example, in Albania's Technology Needs Assessment (TNA), priority coastal adaptation technologies for climate and water sectors include the need for flood warning and emergency response systems, meteorological automatic stations, and predictive climate modeling. Proposed SEEC CRIF activities, such as the purchase of hydromet stations and developing weather-related indices, will support these programmatic needs and benefit multiple initiatives.

**B. PROJECT OVERVIEW:**

**B.1. Describe the baseline project and the problem that it seeks to address:**

SCCF funding will enable participating countries to expand upon the existing baseline project by supporting additional activities that will not only assess climate change in the context of catastrophes and weather-risk, but also develop insurance products to help those at risk to adapt and become more resilient to climate change. SCCF funds will also help develop insurance products that will encourage the public to further reduce their risk of climate change by offering lower product prices for those who have undertaken adaptation activities.

Baseline: SEEC countries are highly vulnerable to natural hazards. Ninety percent of Southeastern Europe is located within trans-boundary river basins, which makes the region highly prone to floods. Due to climate change, the SEEC region is experiencing an increase in weather variability; new extreme values of temperatures and precipitation; and an increase in the frequency and severity of hydro-meteorological disasters.

The adverse economic effects of climate change are particularly felt in the SEEC region because weather-dependent agricultural exports are a large part of each country's GDP. Moreover, after a disaster, the SEEC governments have very limited

financial capacity to assist their populations in regaining assets and productive capacity. In addition to the government's inability to assist, homeowners, enterprises and farmers carry little to no catastrophe insurance and weather risk coverage. Currently, only 1- 2 houses out of 100 have private catastrophe insurance coverage and only 1 out of 100 farmers has a crop insurance policy. As a result, the SEE region is largely exposed to fiscal risk caused by natural disasters, which are becoming more frequent and severe due to climate change.

The main underlying cause for this fiscal exposure is that the region has been unable to transfer the financial risk of disasters from the public to the private sector because of an undeveloped catastrophe and weather risk insurance market, which lacks both supply and demand for catastrophe and parametric weather risk insurance products. The reasons for this are two-fold. First, consumers often do not understand the need for catastrophe or weather risk insurance, believing that the government or donations will cover their losses in case of a natural disaster. Second, local insurers have been reluctant to offer catastrophe or weather risk insurance since individual countries have relatively small markets with little premium volume and undiversified risks; reinsurance for catastrophe and weather risk is not readily available at a price supported by the local market; and risk modeling and development of catastrophe and weather risk insurance products is time-consuming, expensive and often beyond the technical capabilities of local insurers. Therefore, the catastrophe and weather risk insurance products that do exist are either not viable in terms of price and coverage or restricted only to selected clients as companies ration the availability of catastrophe coverage through higher prices or simply decline to cover weather related risks.

To financially adapt to greater weather risks created by climate change, governments, businesses, farmers and homeowners need to transfer their risk to the private sector. With the aim of increasing the number of insured against weather related risks, jointly with the Regional Cooperation Council for South Eastern Europe (RCC) and UNISDR, the World Bank is establishing a catastrophe and weather risk reinsurance program entitled Southeastern Europe and Caucasus Catastrophe Risk Insurance Facility (SEEC CRIF).

The main rationale of SEEC CRIF is to promote the development of local catastrophe and weather risk insurance markets that will enable local businesses and populations to buy affordable catastrophe and weather risk insurance products which currently cannot be found in the commercial market. The Facility targets the entire SEE region, but with a focus on the Balkans and the Caucasus first. Countries become Facility members by providing equity contributions that are financed by the World Bank. Albania became a member of the Facility last year and World Bank staff recently completed negotiations with FYR Macedonia and Serbia and received Board approval to finance the two countries' equity contributions on March 3, 2011. Negotiations with Bosnia and Herzegovina (BiH), Montenegro, and Georgia are expected in the spring of 2011.

Under SEEC CRIF, Europa Reinsurance Facility Ltd. (*Europa RE*), a non-profit government owned organization established as a specialized regional reinsurer for the purposes of project execution, will act as the executing agency and the main project counterpart for member countries, the Bank, and other stakeholders.

Funding provided jointly by the World Bank, GFDRR, UN ISDR, and RCC, for a total of US\$1.5 million, has been supporting the development of the CRIF framework. The World Bank is providing \$12.5 million in IBRD loans and IDA credits to finance country membership contributions in SEEC CRIF for Serbia, Macedonia, and Albania. The Bank is also financing over \$3 million to strengthen Albania's national hydrometeorological service and disaster management system. All other country specific technical work required for the launch of the program will be financed from donor grant funds. To this end, the Bank has secured a US\$4.5 million grant from the Swiss State Secretariat for Economic Affairs (SECO) to assist the CRIF in carrying out some of the necessary technical activities in Albania, BiH, Macedonia, Montenegro, and Serbia. US\$5 million from the SCCF is also being sought to provide additional technical and regulatory assistance required to develop new insurance products that will increase participating countries resilience to climate change.

Adaptation Alternative: SCCF funding will support the provision of affordable and accessible catastrophe and weather-event insurance products (including climate variability and change), enabling those at risk of climate change to adapt to stronger and more frequent weather events. SCCF funding will assist in the development of catastrophe and weather-event insurance by providing additional regulatory and technical support that is currently not being funded under the baseline project and is required to help those at risk of climate change become more resilient.

SCCF resources will be used to create the building blocks for a robust catastrophe and weather-event insurance system including collection, analysis and mapping of weather data to assess the risk of weather-events, catastrophes, and climate change. Based on this data, SCCF funds will enable the development of temperature and precipitation indices, indices that will be used to develop and launch adequately priced and underwritten weather risk products that address climate change in the context of weather-events and catastrophes. The main perils covered under this project will include flood, hail, drought and fluctuations in temperature and precipitation.

SCCF resources are being requested to fund the first phase of this multi-country project, which will cover the technical and regulatory work needed for Albania, Macedonia, and Serbia. Because other countries have expressed intent to join, there is a possibility that SCCF support will be requested for additional countries in a future, second phase.

- B. 2. incremental /Additional cost reasoning: describe the incremental (GEF Trust Fund) or additional (LDCF/SCCF) activities requested for GEF/LDCF/SCCF financing and the associated global environmental benefits (GEF Trust Fund) or associated adaptation benefits (LDCF/SCCF) to be delivered by the project:**

**Technical and Regulatory Activities.** \$5million of SCCF funding would fund the technical and regulatory work required to develop catastrophe and weather risk insurance products. With World Bank supervision, SEEC CRIF's implementing agency, *Europa RE*, and participating countries will undertake the following activities:

- Risk Assessments. The successful start-up of SEEC CRIF is contingent upon the completion of extensive risk assessment studies in member states. Among the key elements of this work are actuarial and probabilistic country weather risk assessments which will serve as the basis for devising pricing guidelines for local insurance companies as well as for the risk management decisions of *Europa RE*. The risk assessments include the collection and digitization of hydromet data. Across the SEEC region, historical weather data is in paper format and stored in different datasets. Data from the last 40-50 years needs to be reconciled and reconstructed, often from different countries and government agencies. Using this data, *Europa RE* can then develop historical, digital, metadata sets for temperature and precipitation; determine historical averages to be used in weather modelling; and create a unified, digital database.  
This activity will also include the updating of existing flood maps as well as multi-hazard risk mapping for landslides, hail and floods. The average costs for these risk assessments are estimated at roughly US\$0.8 million for multiple perils.
- Regulatory Frameworks. To ensure the compliance of catastrophe and weather risk insurance products with local insurance laws and regulations, *Europa RE* plans to work with the local insurance regulators to develop adequate terms and conditions for such policies as well as ensure the admittance of *Europa RE* as a reinsurer into the local markets. US\$0.2 million is sought.
- Weather Reporting Stations. To receive timely and accurate readings of temperature and precipitation in locations covered by parametric weather risk contracts underwritten by *Europa RE*, the facility will have to acquire and install a network of automated weather stations. The stations will be managed by an independent contractor and will supplement the weather reporting capabilities of national hydromet services by reporting hydromet data to a publically available website. To this effect, US\$0.8 million is sought.
- Risk Maps. Based on the outcomes of the probabilistic country risk assessments for different perils, the selected perils will be mapped in terms of severity for a range of different frequencies. Once converted into a digital (GIS) format, users of such maps (such as homeowners, SMEs, farmers) will be able to receive immediate disaster risk assessments of their properties, assets, and crops through a designated website by simply typing in the address of the insured risk. US\$1.2 million is sought.
- Temperature and Precipitation Indices and Parametric Weather Risk Insurance. The purpose of this activity is to enable *Europa RE* to offer parametric weather risk insurance coverage to all businesses and individuals with weather risk exposure in all participating countries. The work will involve selection and compilation of such indices for hundreds of key locations, which can then be used as index reference points by future buyers of weather risk insurance products. The indices will have to be constantly maintained through hourly updates as well as regularly verified by an independent third party. The indices will be then used to develop and launch adequately priced and underwritten weather risk products that adequately address the risk management needs of the local client base. Some of these products are likely to be unique (e.g. weather hedges for hydro power stations and wind farms) and thus costly to develop and underwrite. US\$1.5 million is sought.
- Public Awareness. One of the key constraints to climate resilient behaviour is the lack of public awareness of hazards, costs and trade-offs. To boost demand for



insurance products supported by *Europa RE*, considerable effort will be required by member countries to educate the public about its disaster risk exposure, climate change and its impact, the benefits of catastrophe and weather risk insurance and ways to acquire it. This activity is planned for at least 2-3 years and will require US\$0.5 million. The money will be used to finance public information campaigns in the local media, schools and universities.

**Executing Agency.** SEEC CRIF has already been registered in Switzerland under the name of Europa Reinsurance Facility (*Europa RE*), a non-profit organization owned by member states. *Europa RE* will act as the recipient of the SCCF grant and its executing agency. It will also act as the main Bank and government counterpart for the purposes of program execution.

Results of the activities will be monitored and evaluated by *Europa RE* as part of its statutory activities, with the monitoring costs absorbed by the reinsurance company. Data on individual countries (e.g. insurance penetration rates) will be provided on a regular basis by the private insurance companies distributing the insurance policies in the local markets. The collected information will be aggregated by *Europa RE* and provided to its Board of Directors, country shareholders and the Bank. The tracked data will be directly linked with the program results framework. The monitoring and evaluation (M&E) reports will be used for the continuous assessment of *Europa RE* and the introduction of any corrective measures, if needed.

*Europa RE* will produce quarterly technical reports about (a) the level of insurance coverage achieved in each member country; (b) advancements in numerous technical areas of preparatory work essential for the launch of catastrophe and weather risk insurance products in member countries; (c) reports on the financial management and implementation of donor trust funds.

**Implementation Arrangements.** The World Bank will assume the overall supervision and coordination role for this project. Over the next four years, the Bank will support supervision missions both to *Europa RE* and to participating countries. Two key indicators that the Bank will use to gauge the success of the project is first, an increase in catastrophe and weather risk insurance penetration from the current 1 percent to 15 percent by the end of the project. A second indicator will be the number of countries implementing the regulatory and policy frameworks required for CRIF, with all countries having implemented a minimum set of required regulatory reforms by the end of the project.

**How Activities Address Identified Problems.** A strong catastrophe and weather risk insurance market is contingent on many factors. First, the development of actuarial and probabilistic country risk assessments is a key element in devising pricing guidelines for local insurance companies and in making risk management decisions. Currently, the SEEC region does not have the in-depth country weather risk assessments needed to develop appropriate insurance products and pricing and donor funding is being sought to develop these assessments. Second, because the SEEC countries do not have a well-developed catastrophe and weather risk insurance market, there are also no regulations to ensure compliance of catastrophe and weather risk insurance products. Donor funding will assist in the development of these regulations, which in turn will increase

demand for catastrophe and weather risk insurance. Third, when there is a weather event, current, reliable, accessible, and affordable weather data has to be produced in order to determine if the insured weather event requires a payout. Because the national hydromet systems in the SEEC region are not currently able to produce the level of data resolution required for complex weather risk modeling, donor funding is initially needed for the purchasing of automated weather stations. Fourth, to examine the changes in weather patterns and climate change, there needs to be a historical baseline of temperature and precipitation. Currently, SEEC CRIF member countries have much of this historical data stored on paper and in different datasets. To reconstruct and reconcile this data, donor funding is needed to digitalize and produce metadata (the ‘cleaning’ and adjustment of historical data for influential factors). Lastly, demand for catastrophe and weather risk insurance in the SEEC region is extremely low. To ensure that the public is aware of changes in regulations as well as potential insurance products that can protect businesses and homeowners from economic loss, governments need to launch public awareness campaigns.

**Why Activities are Complementary to GEF Activities.** In developing catastrophe and weather risk insurance products to help countries adapt to climate change, SEEC CRIF is strongly aligned with the GEF mission to help countries become resilient to climate change. The proposed activities under SEEC CRIF are also complementary to some of the activities that GEF has recently supported. Recently, GEF, jointly with UNEP, commissioned a study to look at the legal and financial feasibility of implementing index-based weather coverage for the wind energy sector in Mexico. GEF’s International Waters Learning Exchange and Resource Network (IW:LEARN) also embarked on an activity to work with insurance and financial institutions to address climate variability in transboundary water basins and identify measures to address these risks such as risk financing. GEF is also supporting a similar project with *insurance4renewables*, which provides insurance to cover lost revenues for declines in energy production due to lack of sun or changes in wind.

SEEC CRIF is built on the same weather-hedging principles and is complementary to the GEF mission to reduce the risks of climate change by involving the private sector and civil society. By funding weather-hedging activities, GEF shows that it is at the forefront of supporting ground-breaking, financial methods to help countries adapt to climate change.

**Long-term Sustainability of Europa RE.** To ensure that *Europa RE* will ultimately be a financially sustainable reinsurance Facility that can operate without donor or government subsidies, long-term sustainability is incorporated into its design. First, to prevent the possibility of political interference in its management, *Europa RE* retained an independent professional Board of Directors and, upon completion of initial capitalization, will have a professional insurance services company managing its operations. Second, to stimulate domestic demand for catastrophic insurance products, participating governments are expected to launch public information campaigns; make catastrophe insurance compulsory for all mortgage borrowers residing in disaster prone areas; limit the amount of post-disaster aid to a fraction of average insurance coverage afforded under the program; and change the insurance market regulations to incentivize private insurers to increase the volume of catastrophe insurance premium written. In

fact, to guarantee that the participating countries accomplish the above activities, *Europa RE* was designed to ensure that it was in the government's financial interest to do so. For the first five years of operations, participating governments own *Europa RE* and upon expiration of this period, government shares are privatized. Third, to avoid the risk of underpricing and under-reserving, all insurance products to be supported (reinsured) by *Europa RE* will be underwritten and priced based on state-of-the-art probabilistic and actuarial risk models that will be developed for *Europa RE*.

**Maximizing Positive Effects.** Developing a catastrophe and weather risk insurance market in the region will only maximize the positive effects in the future. With the growth of the market and improvements in the quality of risk models and data, the price of insurance products will decrease overtime. Moreover, secondary effects will be felt in other areas. First, the weather data needed for insurance products will also be used to develop real-time weather forecasts. Second, this same weather data will also be used to better understand the effects of climate change over time.

**Global Application.** Although the design of SEEC CRIF incorporates the experiences learned from similar catastrophe insurance programs in other countries such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the unique innovations that SEEC CRIF made in its design (see details below) provide an excellent basis for observation, comparison of programs, and discussion of elements that can be applied in other regions of the world.

Moreover, because SEEC CRIF is a regional program, operations may be expanded to other countries in the region that would like to join. Furthermore, because the design of the program is not unique to a specific location, the program may also be replicated in other parts of the world that are exposed to the hazards of climate change.

**Appropriateness of Funding.** Because of ongoing activities funded by the SECO grant, the Bank team has been able to better gauge the true cost of the technical and regulatory work required to develop catastrophe and weather risk products. For example, data collection, risk modeling, actuarial reviews and risk pricing can be lengthy, complex undertakings. Current SECO activities allow the Bank team to better estimate the appropriate funding levels for the proposed SCCF activities.

**Environmental/Adaptation Benefits.** In both the immediate and long-term, SEEC 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 the SEEC region is currently exposed to and strengthen a country's ability to respond and recover from weather events that are increasing in frequency and severity due to climate change.

Second, on the local level, it will provide a financial safety net for the adverse affects of climate change. Homeowners, farmers and businesses will be able to reduce their financial exposure by purchasing economical insurance products, which in a weather event will provide quick payouts, thereby improving the ability of the population to recover.

Third, SEEC 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 more informed and less risky consumer and production decisions, choices and behaviours. Moreover, built into insurance products will be incentives to mitigate. For example, insurance premium rates will be lowered for buildings that underwent retrofitting to withstand high waters. Both of these factors will result in the reduced physical vulnerability to natural disasters and a long-term ability to adapt to climate change for all member countries.

**Cost-Effectiveness of Program.** SEEC CRIF demonstrates its cost-effectiveness in both the actual design of the Facility as well as in the insurance products it will ultimately provide through its implementing agency, *Europa RE*. SEEC CRIF's overall design is cost-effective because by pooling the risks and resources across a larger region: (a) investments in insurance risk modeling become more effective; (b) there is a larger potential market for catastrophe and weather risk insurance products; (c) the risks are diversified, making the provision of such products both less expensive for consumers and more attractive to insurers; (d) insurance risk can be more easily aggregated for coverage by the global reinsurance market; and, finally, (e) *Europa RE* will operate as a non-profit organization hence further reducing the cost of insurance coverage for buyers of weather risk insurance products in the member countries.

Making SEEC CRIF even more cost-effective is the fact that SEEC CRIF accounts for the lessons learned from similar catastrophe insurance programs in other countries – lessons that highlight more productive approaches. First, to ensure that it is in the government's interest to stimulate demand for insurance products, participating countries own *Europa RE* for the first five years. Second, to ensure the products long-term financial sustainability, there is a built-in provision that after five years, government shares will be privatized. Third, all insurance products to be supported (reinsured) by *Europa RE* will be underwritten and priced based on the state-of-the-art probabilistic and actuarial risk models that are currently being developed for *Europa RE*. The cost of risk capital provided by the member countries will also be factored into the reinsurance rates charged by *Europa RE* for providing reinsurance coverage.

Furthermore, not only is the program design cost-effective, but *Europa RE's* insurance products will also be affordable due to its unique business model. To determine the exact pricing of insurance policies, *Europa RE* will develop detailed catastrophe and weather risk models that will enable it to set actuarially sound premium rates and the level of deductibles that will make catastrophe and weather risk insurance coverage affordable. The premium prices will vary from country to country based on risk exposure (frequency/severity), vulnerability of insured assets or income to natural disasters, and the level of insurance deductibles. Based on the experience from other countries and the fact that the risk will be diversified across the pool, the premium rates are expected to be highly competitive and affordable for most of the population.

Furthermore, weather-indexed insurance is inherently cost-effective because it eliminates moral hazard and the need to monitor individual insurance contracts, thereby reducing administrative costs and the cost of insurance products. It also allows for a quick payout, thereby improving the agility of a population to recover from weather events.

**B.3. Describe the socioeconomic benefits to be delivered by the Project at the national and local levels, including consideration of gender dimensions, and how these will support the achievement of global environment benefits (GEF Trust Fund) or adaptation benefits (LDCF/SCCF). As a background information, read [Mainstreaming Gender at the GEF](#)."**

***Socioeconomic Benefits on the National Level.*** On the national level, a well-developed catastrophe and weather risk insurance market is extremely beneficial for multiple reasons. Natural disasters typically affect a country's productive capacity by destroying physical and human capital. Replacing that capital is costly and may take time (especially in the case of damages to infrastructure). Obtaining quick access to financial resources will reduce the time it takes to reconstruct a country's economic base. Typically, as governments are hard pressed to come up with additional resources for disaster relief and reconstruction on a short-notice in the aftermath of major catastrophic events, a large part of financial resources comes from borrowing, often at high interest rates, while smaller amounts may come in the form of grants. Therefore, having a well-developed insurance sector that can finance the reconstruction ex-post or that can gather and price the risks ex-ante through risk transfer schemes may substantially reduce the need for government financing in the aftermath of a disaster, reduce fiscal risks, and safeguard resources for the provision of social services.

In addition, the Facility will enable governments to purchase insurance protection against natural disasters for public infrastructure and buildings as well as receive immediate insurance payouts into the budget in case of adverse weather events pre-defined in parametric weather risk contracts. In the aftermath of natural disasters, the proceeds from such insurance coverage will be made immediately available to provide assistance to the poor.

At the industry level, SEEC CRIF contributes to the financial sector deepening in the SEEC region by providing a strong boost to the national insurance industries (e.g. new clients, additional premium income, and improved access to global reinsurance markets) and more specifically to the development of national catastrophe and weather risk insurance markets.

***Socioeconomic Benefits at the Local Level.*** On the local level, the most important benefit of SEEC CRIF will be the increased access to affordable catastrophe and weather risk insurance for millions of people in the region. In the case of households, farmers, SMEs and all other businesses exposed to weather related risks, access to affordable disaster insurance will serve as an important financial safety net that will help millions to protect their lifetime savings embedded in their house equity as well as to secure their livelihoods from weather related losses and hence avoid personal financial ruin. For businesses, access to weather risk insurance supported by the facility will also reduce the adverse impacts of natural hazards on their earnings, and thus reduce the cost of borrowing, resulting in improved equity valuations and access to credit.

**B.4 Indicate risks, including climate change risks that might prevent the project objectives from being achieved, and if possible, propose measures that address these risks to be further developed during the project design:**

**Key Risks and Mitigation Measures.** The success of the program ultimately depends upon the financial viability of the Facility's business model, which has proven itself elsewhere but is untested in the target countries and could be made vulnerable in case of the following:

- *Low demand for catastrophe and weather risk insurance products.* To address this risk, member countries will be required to enact programs of policy and regulatory actions aimed at increasing demand for catastrophe and weather risk insurance. This risk is considered medium due to impact.
- *Corporate governance failures which allow political interference.* To address this risk, the project provides for a clear separation of ownership and management functions. The Facility will have an independent professional Board of Directors and professional technical staff that will be competitively selected. This risk is considered low.
- *Ineffective supervision could underestimate the Facility's risk exposure.* The mitigating factor is that *Europa RE* is domiciled in Switzerland and hence will be subject to Swiss Insurance law, which commencing in 2011, will be based on risk-based supervision, the most stringent and advanced in the world. This risk is considered low due to impact.

**B.5. Identify key stakeholders involved in the project including the private sector, civil society organizations, local and indigenous communities, and their respective roles, as applicable:**

**Role of Governments.** Due to the critical importance of governments in creating and supporting demand for catastrophe and weather risk insurance among homeowners and SMEs, for the first five years, *Europa RE* will be owned and governed by member countries. This ownership will ensure that the initial design and implementation of project activities will take into account the participating country's major stakeholders such as community and local groups and the private sector, and ultimately increase a participating country's accountability for the project outcome.

Member states will play a fundamental part in ensuring SEEC CRIF success by providing the financing for the Facility as well as participating in its governance through shareholders meetings and through the policy Advisory Board. Although the expected government policy support for the program may vary from country to country, it is likely to include the following actions:

- Creating enabling regulatory and legal frameworks for *Europa RE* operations;
- Carrying out extensive public information and awareness campaigns about the availability and benefits of catastrophe and weather risk insurance products;
- Implementing policies that will encourage sound disaster risk management practices by homeowners and companies, including linking mortgages in disaster prone areas to catastrophe insurance and limiting post-disaster aid to a defined amount or a fraction of the insured limit; and
- Insuring through *Europa RE* accredited insurers all government owned housing stock against the risk of natural disasters;

**Role of the Private Sector.** Locally licensed private insurance companies in participating countries will issue catastrophe and weather risk insurance policies to homeowners, farmers and the enterprise sector, and will settle claims. Claims from weather-related events covered under parametric weather risk contracts will be settled automatically by *Europa RE*. To transfer catastrophe and weather risk assumed in the process of selling these products, primary insurers will then enter into a reinsurance contract with *Europa RE*, which will cover a major, if not all, part of the risk under these insurance policies. Reinsurance coverage will be provided automatically for all insurance policies issued by insurers in accordance with the recommended risk underwriting and pricing guidelines of *Europa RE* and administered through a web-based underwriting platform. Local insurers will be compensated by receiving insurance commissions for their distribution services. In addition, those insurers who will choose to retain a part of risk under the catastrophe and weather risk policies reinsured with *Europa RE* will also receive a part of the risk premium.

**B.6. Outline the coordination with other related initiatives:**

SEEC CRIF is developed in coordination with the South Eastern Europe Disaster Risk Mitigation and Adaptation Program (SEEDRMAP). SEEDRMAP is a joint initiative developed by the World Bank and the United Nations International Strategy for Disaster Reduction (UNISDR), together with the European Commission, the Council of Europe, the Council of Europe Development Bank, the World Meteorological Organization, the Finnish Meteorological Institute and other partners.

SEEDRMAP's objective is to reduce the vulnerability of the countries of South Eastern Europe to the risks of disasters. SEEDRMAP has three focus areas: (i) hydrometeorological forecasting, data sharing and early warning; (ii) coordination of disaster mitigation, preparedness and response; and (iii) financing of disaster losses, reconstruction and recovery, and of disaster risk transfer (disaster insurance). For more information, please go to <http://www.unisdr.org/europe/eu-gfdr-r/gfdr-r-eu.html>.

**C. DESCRIBE THE GEF AGENCY'S COMPARATIVE ADVANTAGE TO IMPLEMENT THIS PROJECT:**

Over the last three decades, the World Bank has assisted countries in reducing their vulnerability to natural hazards and recovering from catastrophes. From 1984 to 2006, the Bank financed 528 projects that addressed natural disasters, representing more than \$26 billion in lending. Traditionally, reconstruction assistance is provided in the aftermath of disasters. However, in recent years, the focus has shifted to increasing support to countries in disaster preparedness and mitigation, and catastrophe risk financing. Over time, the Bank has developed specialized expertise and knowledge in the area of hazard risk management. Some key policy tools and knowledge products were developed by the Bank in partnership with other organizations, such as post-disaster damage and needs assessment, hazard and vulnerability assessment and risk transfer instruments. Moreover, the Bank has over 12 years of global experience in designing national and regional catastrophe risk insurance programs.

**C.1 Indicate the co-financing amount the GEF agency is bringing to the project:**

Thus far, SEEC CRIF co-financing totals \$21.5 million. The World Bank, UNISDR,

RCC, and GFDDR have been supporting the development of the SEEC CRIF framework with US\$1.5 million. The Bank is also financing participating country's membership contributions, which currently stand at a total of \$12.5million in IBRD loans and IDA credits. Upon signing the shareholders agreements, countries will be expected to disburse the borrowed funds into the Facility's account in a one tranche operation in exchange for shareholding ownership certificates. The World Bank is also financing \$3M to carry out risk management activities and strengthen hydrometeorological services in Albania. All other country specific technical work required for the launch of the program will be financed from donor grant funds such as the SECO grant, which has provided \$4.5M for technical, regulatory, and underwriting work.

**C.2 How does the project fit into the GEF agency's program (reflected in documents such as UNDAF, CAS, etc.) and staff capacity in the country to follow up project implementation:**

Of the Country Partnership Strategies (CPS) for the countries of the SEEC region, disaster management and/or climate change was either identified as a government priority or a key issue to consider in programming or addressed in an active/pipeline project. Moreover, catastrophe risk insurance is one of the pillars of the Bank Group's Disaster Risk Mitigation Strategy.

In terms of staff capacity, for all participating SEEC CRIF countries, there will be a Task Team Leader (TTL) at the Bank assigned to supervise the implementation of the grant by Europa Re; the program will also receive in-country oversight support from local staff of the World Bank offices located in each participating country. Europa Re will also institute a special position of Grant Implementation Officer who will be directly in charge of ensuring successful implementation of the grant.




**PART III: APPROVAL/ENDORSEMENT BY GEF OPERATIONAL FOCAL POINT(S) AND GEF AGENCY(IES)**

- A. RECORD OF ENDORSEMENT OF GEF OPERATIONAL FOCAL POINT (S) ON BEHALF OF THE GOVERNMENT(S):** (Please attach the [Operational Focal Point endorsement letter\(s\)](#) with this template. For SGP, use this [OFP endorsement letter](#)).

NAME	POSITION	MINISTRY	DATE (MM/dd/yyyy)

**B. GEF AGENCY(IES) CERTIFICATION**

<b>This request has been prepared in accordance with GEF/LDCF/SCCF policies and procedures and meets the GEF/LDCF/SCCF criteria for project identification and preparation.</b>					
Agency Coordinator, Agency name	Signature	DATE (MM/dd/yyyy)	Project Contact Person	Telephone	Email Address
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