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The World Bank

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Report No:

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

FROM

THE SPECIAL CLIMATE CHANGE FUND
(ADMINISTERED BY THE GLOBAL ENVIRONMENT FACILITY)

IN THE AMOUNT OF

US$5.5 MILLION

TO

EUROPA REINSURANCE FACILITY (EUROPA RE)

FOR THE

SOUTHEAST EUROPE AND CAUCASUS
CATASTROPHE RISK INSURANCE FACILITY

September 13, 2011

CURRENCY EQUIVALENTS

(Exchange Rate Effective {Date})

Currency Unit	=	US$
Euro	=	US$1
US$	=	SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ATI	Africa Trade Insurance Facility
CAC DRMI	Central Asia and Caucasus Disaster Risk Management Initiative
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CRIF	Catastrophe Risk Insurance Facility
ECA	Europe and Central Asia
EM-DAT	Emergency Events Database
FAV	Finance and Accounting Vendor
FINMA	Swiss Financial Market Supervisory Authority
FM	Financial Management
FMM	Financial Management Manual
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GNP	Gross National Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
MMI	Modified Mercalli Intensity Scale
PAID	Romanian Catastrophe Risk Insurance Pool
PDO	Project Development Objective
PPP	Public Private Partnership
SECO	Swiss State Secretariat for Economic Affairs
SEE DRMAP	Southeast Europe Disaster Risk Mitigation and Adaptation Program
SEEC	Southeast Europe and the Caucasus
SME	Small- and Medium-sized Enterprises
SST	Swiss Solvency Test
TCIP	Turkish Catastrophe Insurance Pool
UN ISDR	United Nations International Strategy for Disaster Reduction

Regional Vice President:	Philippe Le Houèrou
Country Director:	Jane Armitage
Sector Director:	Peter Thomson
Sector Manager	Wael Zakout
Task Team Leader:	Eugene Gurenko /Alison Cave

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PAD DATA SHEET

Europe and Central Asia
Southeast Europe and the Caucasus Catastrophe Risk Insurance Facility

PROJECT APPRAISAL DOCUMENT

Europe and Central Asia Region
Sustainable Development Department
Urban, Water Supply and Sanitation, and Disaster Risk Management Unit

Date: September 1, 2011 Country Director: Jane Armitage Sector Director: Peter Thomson Sector Manager: Wael Zakout Team Leader(s): Eugene Gurenko / Alison Cave Project ID: P123896 Lending Instrument: Specific Investment Loan	Sector(s): Non-compulsory pensions, insurance and contractual savings (100%) Theme(s): Other financial and private sector development (50%); Natural disaster management (30%); Climate change (20%) EA Category: C

Project Financing Data:

Proposed terms:

GEF/SCCF Grant in the amount of US$5.5 million

[ ] Loan [ ] Credit [X] Grant [ ] Guarantee [ ] Other:

Source	Total Amount (US$M)
Total Project Cost:	27.0
Parallel financing:	6.0
Borrower/Recipient:	
Total Bank Financing:	21.0
• Global Environment Facility (GEF)/Special Climate Change Fund (SCCF)	5.5

Borrower/Recipient: Europa Reinsurance Facility Ltd (Europa Re)

Responsible Agency: Europa Reinsurance Facility Ltd (Europa Re)

Contact Person: Heinz Vollenweider
Telephone No.: +41 44 380 50 90
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Email: Heinz.Vollenweider@Europa-Re.com

Estimated Disbursements (Bank FY/US$ m)					
FY	2012	2013	2014	2015	2016
Annual	1.0	1.5	1.5	1.0	0.5
Cumulative	1.0	2.5	4.0	5.0	5.5

Project Implementation Period: January 1, 2012 – December 31, 2015
Expected effectiveness date: December 1, 2011
Expected closing date: December 31, 2015

Does the project depart from the CAS in content or other significant respects?	○ Yes ● No
If yes, please explain:	

Does the project require any exceptions from Bank policies?	○ Yes ● No
Have these been approved/endorsed (as appropriate by Bank management?	○ Yes ○ No
Is approval for any policy exception sought from the Board?	○ Yes ○ No
If yes, please explain:	

Does the project meet the Regional criteria for readiness for implementation?	● Yes ○ No
If no, please explain:	

Project Development objective
The Project Development Objective (PDO) is to enable Europa Re, a catastrophe and weather-risk re-insurance facility, to develop new weather risk insurance and reinsurance products, automate insurance underwriting, pricing and claims settlement processes for such products, and increase public awareness of weather risk in participating countries.

Project description: Under this project, funding from the GEF-administered Special Climate Change Fund (GEF/SCCF) of US$5.5 million will provide additional technical and regulatory assistance required to develop new insurance and reinsurance products that will increase participating countries' resilience to climate change. GEF/SCCF funding will enable participating countries (currently, Albania, FYR Macedonia and Serbia) to expand upon the existing SEEC CRIF program by supporting additional activities that will not only quantify 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. GEF/SCCF funds will also enable insurance companies to offer lower coverage prices for those who have undertaken climate adaptation activities.

Component 1 – Technical Assistance ($5.0 million). The proceeds of the GEF/SCCF grant will finance the costs of equipment and technical services incurred in connection with carrying out the preparatory work needed for the development of weather risk insurance markets in Albania, FYR Macedonia and Serbia. Such preparatory technical activities include but are not limited to acquisition of weather risk stations, public information campaigns, regulatory assistance, and development of catastrophe risk models and weather risk indexes.

Component 2 – Project Management ($0.5 million). GEF/SCCF will also provide some funding to cover the costs of project management incurred by Europa Re in connection with implementation of the grant.

Safeguard policies triggered?	
Environmental Assessment (OP/BP 4.01)	○ Yes ● No
Natural Habitats (OP/BP 4.04)	○ Yes ● No
Forests (OP/BP 4.36)	○ Yes ● No
Pest Management (OP 4.09)	○ Yes ● No
Physical Cultural Resources (OP/BP 4.11)	○ Yes ● No
Indigenous Peoples (OP/BP 4.10)	○ Yes ● No
Involuntary Resettlement (OP/BP 4.12)	○ Yes ● No
Safety of Dams (OP/BP 4.37)	○ Yes ● No
Projects on International Waterways (OP/BP 7.50)	○ Yes ● No
Projects in Disputed Areas (OP/BP 7.60)	○ Yes ● No

Conditions and Legal Covenants:

Financing Agreement Reference	Description of Condition/Covenant	Date Due

	Appointment of a consultant with adequate experience in financial management under Bank-financed projects implementation to be in charge of Financial Management and Disbursement under the grant.	By effectiveness date
	Development of a Financial Management Manual for the grant implementation.	By effectiveness date

I. Strategic Context

A. Regional and Country Context

Countries of Southeast Europe and the Caucasus (SEEC) are highly vulnerable to natural hazards. Ninety percent of Southeast Europe is located within trans-boundary river basins, which makes the region highly prone to floods. Due to climate change, the frequency and severity of natural disasters, particularly those of hydro-meteorological origin, are rising in all SEEC countries.

Natural disasters in the Europe and Central Asia (ECA) Region exact severe human, physical and economic losses to both governments and populations – particularly the poor. Globally, economic losses from climate-related and geological perils are rising, averaging US$100 billion per annum over the last decade. In the first six months of 2011, the economic losses caused by natural disasters amounted to US$265 billion out of which insured losses were only US$60 billion.[1] In addition to the economic toll, natural disasters have been the source of death, disability, and loss of physical and productive assets. .

The individual natural disaster risk profiles of the countries that are part of this proposed project are summarized below based on the studies carried out in recent years.

Albania. Albania is vulnerable to floods, earthquakes, landslides, drought, extreme temperatures, windstorms, and heavy snowfalls, including avalanches. According to the Emergency Events Database (EM-DAT)[2], during the period 1974–2006, floods accounted for the major share of disaster events (32 percent). Occurrence of different perils over these years shows that 62 percent of them are of hydro-meteorological origin. Incidence of catastrophic events in Albania indicates a steady increase in number and economic losses brought by disasters. The September 2002 flood alone affected 16,971 families, inundated 30,000 ha of agricultural land, damaged 494 houses (126 heavily damaged) with reported losses of US$17.5 million. The 1989–1991 droughts affected almost the entire nation, i.e., 3.2 million people were affected.

FYR of Macedonia. Macedonia is vulnerable to floods and earthquakes. In regards to flooding, the country’s geography tends to concentrate and discharge surface water rapidly, resulting in flash flooding. The capitol, Skopje, is exposed to flood waves from three rivers: Vardar, Treska, and Lepenec, mostly due to heavy rainfall and snow melting. In years 1989–2006, floods constituted 44 percent of both natural and technological disasters. Data for this period show a steadily increasing trend of natural disaster incidence over the last 20 years, in particular in terms of flood severity and intensity. Macedonia has estimated about US$400 million in losses in the last 33 years from floods and earthquakes alone.[3] In addition, due to climate change, the country periodically suffers from droughts.

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[1] Munich Re NatCatService, 2011.
[2] The USAID's Office of U.S. Foreign Disaster Assistance (OFDA) and WHO Collaborating Centre for Research on the Epidemiology of Disasters (CRED) International Disaster Database (http://www.em-dat.net)
[3] Southeast*ern Europe Disaster Mitigation and Adaptation Initiative. Risk Assessment for* Southeast*ern Europe.*; World Bank/ISDR/UN; 2008

Serbia. The key hazards posing risk to the population and property in Serbia are floods, earthquakes and landslides. The valleys of larger watercourses, in which the largest settlements and the best farmland, infrastructure, and industry are located, are highly prone to floods. The floods occur mostly along the river courses of Sava, Drina, Velika Morava, Juzna Morava and Zapadna Morava. Human activity has accelerated soil erosion, increasing the landslide risk.

B. Sectoral and Institutional Context

Governments in the region have very limited financial capacity to assist their populations in regaining assets and productive capacity destroyed by natural disasters. An illustrative example of this is the 1994 Macedonia floods, which caused damage worth 77 times the amount allocated by the government.[4] For this reason, one of the basic tenets of disaster risk mitigation is the transfer of the financial risk of disasters from the public to the private sector.

Catastrophe insurance and weather risk coverage among homeowners, farmers, small- and medium-size enterprises (SMEs) is currently almost non-existent in the region. Only 1- 2 houses out of 100 currently have private catastrophe insurance coverage. The catastrophe insurance products that do exist are either not viable in terms of credit quality or scope 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 related risks.

Relying on 12 years of global experience in designing national and regional catastrophe and weather-risk insurance programs, with the aim of increasing the number of insured against weather related risks, jointly with the Regional Cooperation Council for Southeastern Europe (RCC) and the United Nations International Strategy for Disaster Reduction, (UNISDR), the World Bank is establishing a catastrophe and weather risk reinsurance program entitled Southeast 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.

C. Higher Level Objectives to which the Project Contributes

Of the current Country Partnership Strategies (CPS) for all three countries, disaster management was either included as a project during the CPS period or identified as a government priority or a key issue to consider in programming. Moreover, catastrophe and weather-risk insurance is one of the pillars of the Bank Group's Disaster Risk Mitigation Strategy. The Kyoto Protocol, the UN Framework Convention on Climate Change and the Bali Action Plan all call for risk sharing and transfer mechanisms such as insurance as a means of protecting populations from the adverse effects of climate change.

The proposed activities under SEEC CRIF multi-country program are strongly aligned with the current GEF strategy on adaptation. SEEC CRIF activities support GEF's focal area on climate change and more specifically, GEF's objectives on climate change adaptation. By increasing

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[4] *Mitigating the Adverse Financial Effects of Natural Hazards on the Economies of* Southeaster*n Europe. A Study of Disaster Risk Financing Options*; Eugene Gurenko and Wael Zakout; World Bank/UN ISDR; 2008

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.

II. Project Development Objectives

A. PDO

The Project Development Objective (PDO) is to enable Europa Re, a catastrophe and weather-risk re-insurance facility, to develop new weather risk insurance and reinsurance products, automate insurance underwriting, pricing and claims settlement processes for such products, and increase public awareness of weather risk in participating countries.

SEEC CRIF activities are 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 synthesize and analyze 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.

1. Project Beneficiaries

The key beneficiaries of SEEC CRIF are homeowners, farmers, the enterprise sector, government organizations and agencies that will be able to purchase dependable catastrophe insurance coverage and/or index-based parametric weather risk insurance contracts at competitive prices. Direct beneficiaries also include local insurance companies in participating countries that will be able to expand and deepen their insurance business in this complex and capital intensive line of business.

Specifically, the SEEC CRIF will benefit the following social groups:

- *Households, farmers, SMEs, and other businesses* exposed to weather-related risks will have access to affordable disaster insurance providing a financial safety net following catastrophic events. In the event of a major flood or drought, the program will directly protect some of homeowners' lifetime savings embedded in home equity while indirectly protecting the banking and mortgage industries. The enterprise sector will be able to access disaster insurance supported by the Facility to protect their earnings from adverse weather, thereby adapting to climate change, reducing the cost of borrowing, and improving equity valuations and access to credit.

- *The financial sector in the SEEC region* will be strengthened by the SEEC CRIF, which will boost national insurance industries—creating new clients, additional premium income, improved access to global reinsurance markets—and, most importantly, to developing national catastrophe and weather risk insurance markets.
- *The SEEC region governments* will experience many economic and fiscal benefits from investing in the development of a market-based disaster risk-protection system such as Europa Re. The system will reduce government contingent fiscal liabilities due to natural hazards and mitigate adverse impacts of natural hazards on fiscal stability and economic growth. The program will free up fiscal resources that governments can target to post-disaster aid for the neediest citizens, because government will no longer have to provide disaster compensation to citizens who can afford to insurance coverage.
- *Member countries to the* Facility will be strengthened through the aggregate effect of better consumer and production decisions, and behaviours that will reduce the overall vulnerability to climate change by revealing the actual cost of risk through actuarial pricing of catastrophe insurance.

2. PDO Level Results Indicators

The most important results of the proposed operation are to (i) increase the penetration of catastrophe insurance in participating countries; (ii) implement the minimum policies and regulations required for CRIF; (iii) increase the CRIF capital amount; (iv) mobilize additional grant funding; (v) and to put in place the necessary technical infrastructure required for the launch of weather risk insurance markets in facility member states. This includes the development of a web-based underwriting platform, country-specific insurance designs, actuarial analyses, country-risk assessment models, reinsurance platform and regulatory reforms.

III. Project Description

SEEC CRIF is a catastrophe and weather-risk re-insurance program with the objective to increase the number of homeowners, farmers, enterprises and government organizations insured against weather-related risks and climate change. The main design features of SEEC 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 both traditional indemnity type catastrophe insurance products and parametric index-based weather risk hedging contracts; (ii) private management and governance of the Facility; (iii) a sunset clause for the duration of government participation in the program; and (iv) the openness of the Facility to a wider range of clients, inclusive of households, farmers, government agencies and the enterprise sector exposed to weather risk.

To implement the SEEC CRIF program, Europa Reinsurance Facility Ltd. (Europa Re), a non-profit, government-owned organization, has been established as a specialized regional reinsurer for the purposes of program execution. Europa Re was incorporated under Swiss Law in Zug, Switzerland in November 2009 and will provide reinsurance, pricing, underwriting and claims settlement services to private insurers in member countries for standardized catastrophe and weather-risk insurance products.

The Facility targets the entire SEEC region, but with a focus on the Balkans and the Caucasus first. The World Bank is supporting SEEC countries' efforts to join the Facility by financing their membership contributions. 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 and Montenegro are expected in the spring of 2012.

To help establish the SEEC CRIF program, the World Bank, the Global Facility for Disaster Reduction and Recovery (GFDRR) and UN ISDR have jointly funded a total of US$1.5 million to develop the CRIF framework. The World Bank is also providing US$12.5 million in IBRD loans and IDA credits to finance country membership contributions in SEEC CRIF for Serbia, FYR Macedonia, and Albania. The Bank is also financing over US$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, Macedonia, Montenegro, and Serbia. However, the initial cost estimates for some technical activities funded under the SECO grant have been optimistic. For instance, the original estimated costs of developing risk models for flood and earthquake models in the SEE region already have been exceeded by 125 percent due to the innovative nature of the work and the world-class quality of the providers. The SECO grant also does not cover some activities such as the public information campaigns and public information tools (such as interactive weather risk maps) which will be funded by the GEF.

A. Project components

Under this project, funding from the GEF-administered Special Climate Change Fund (GEF/SCCF) of US$5.5 million will provide additional technical and regulatory assistance required to develop new insurance products that will increase participating countries' resilience to climate change. The project will consist of two components. Component 1 in the amount of US$5.0 million will cover the costs of technical preparation work (inclusive of consulting services and equipment) required for the launch of Europa Re program in member states. Component 2, in the amount of US$0.5 million, will cover the costs of project management incurred by Europa Re in connection with implementation of the grant.

GEF/SCCF funding will enable participating countries (currently, Albania, FYR Macedonia and Serbia) to expand upon the existing SEEC CRIF program by supporting additional activities that will not only quantify 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. GEF/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. The proceeds of the GEF/SCCF grant will finance the costs of equipment and technical services incurred in connection with carrying out the preparatory technical work needed for the development of weather risk insurance markets in Albania, FYR Macedonia and Serbia. Such preparatory technical activities include but are not limited to acquisition of weather risk stations, public information campaigns, regulatory assistance, and development of weather risk models.

B. Project Financing

1. Lending Instrument

The project will be financed by a Special Climate Change Fund (SCCF) Grant, administered by the Global Environmental Facility (GEF) of US$5.5 million, with an implementation period of four years.

The GEF/SCCF grant supports the SEEC CRIF operation which is designed as a horizontal Adaptable Program Lending (APL) operation that will provide funding for individual countries to participate in Europa Re. APL-1 presented the financing plan for the first round of SEEC CRIF member countries in the form of a horizontal lending program, in an amount which ensures the minimum capitalization requirements for SEEC CRIF to begin its operations, for the initial countries joining the pool (Albania joined Europa Re in the spring of 2010).[5] The first phase finances individual country membership contributions to the Facility of US$5.0 million each in the form of IBRD loans to FYR Macedonia, and Serbia.[6] Subsequent phases of the APL will follow as additional countries of the region are ready to claim their membership in Europa Re. Although the program focuses on the countries of Southeast Europe and Caucasus, which have active World Bank portfolios, membership in Europa Re is open to other countries in the ECA region that are exposed to risks from climate change and geological hazards. Project preparation is currently underway for an APL-2 lending operation, which is expected to include loans to enable the membership contributions of Bosnia and Herzegovina, and Montenegro.

2. Project Cost and Financing

A schematic breakdown of project costs is presented below (see project procurement plan in Annex 3 for more details). The project, structured as a Specific Investment Grant, will be financed by a US$5.5 million GEF/SCCF grant.

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[5] Albania has secured the financial contribution and membership fee in the SECE CRIF through the ongoing World Bank-financed Disaster Risk Mitigation and Adaptation Project.

[6] The APL1 operation was approved by the Executive Directors in March 2011 and the loan agreement with Serbia was signed on July 12, 2011, but is not yet effective. The government of FYR Macedonia submitted the project specific legislation to the Legal Committee for review and is expected to approve the loan agreement by the end of October 2012.

Project Costs by Components Financed by the GEF Grant (US$ million)

Project Components	Project cost	GEF/SCCF Grant Financing	% Financing
1. Technical Assistance	5.0	5.0	100%
(a) Regulatory assistance	0.2	0.2	
(b) Weather risk models	0.8	0.8	
(c) Weather stations	0.8	0.8	
(d) Risk maps	1.2	1.2	
(e) Weather insurance products	1.5	1.5	
(f) Public awareness	0.5	0.5	
2. Project Management	0.5	0.5	100%
Total	5.5	5.5	100%

C. Lessons Learned and Reflected in the Project Design

The design of the grant in support of the SEEC CRIF program incorporates international experience in developing catastrophe insurance programs such as the Turkish Catastrophe Insurance Pool (TCIP), the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the African Trade Insurance Facility (ATI), the Romanian Catastrophe Risk Insurance Pool (PAID), and the Index Re (a joint WB/IFC project).

The main lessons learned and their reflection in program design can be summarized as follows:

- *Lesson I:* Upfront investment in upgrading insurance market infrastructure is an essential prerequisite of the program’s success. The project provides for investments in the cutting edge insurance production systems thus guaranteeing minimum production costs per issued insured policy.

- *Lesson II:* Regulatory framework and institutional capacity often cannot cope with complex new insurance products and additional risk taking. The program envisages the strengthening of local insurance regulatory bodies through provision of technical assistance, regulatory tools and staff training to ensure adequate risk-based supervision of catastrophe risk to be underwritten by local insurers through the program.

- *Lesson III:* Public risk awareness and understanding of insurance products is a key driver of demand for catastrophe insurance coverage. The project will invest in developing interactive web-based consumer education tools on catastrophe risk management and will assist governments and insurers in member states to design and manage effective public information campaigns.

IV. Implementation

A. Institutional and Implementation Arrangements

Program Implementing Agency. Europa Re 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 execution. To implement the project Europa Re will retain a dedicated team of project consultants (including financial management and disbursement consultant) that will manage and oversee the implementation of the work. Unless the recruitment of FM and disbursement specialist is completed by the grant effectiveness date, the lack of such a specialist will remain a major financial management (FM) risk.
Europa Re will provide underwriting, pricing, risk management and reinsurance support to the local primary insurers, as well as regulatory and technical support to countries' insurance regulators and government decision-makers. To ensure that the management of Europa Re is immune from potential political pressures that may adversely affect its operational and financial performance, one of the key elements envisaged by the business plan is a clear separation of the company's business operations from the government ownership of the Facility. To this effect, Europa Re has an independent professional board of directors consisting of reputable insurance/reinsurance professionals with a well-established track record in the industry. Overall strategic oversight and policy advice will remain with the company's shareholders (the Ministries of Finance of the member countries) and exercised through the Annual Meetings of Shareholders and the Advisory Policy Board.

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 exclusively by member countries' governments as shareholders. This ownership structure will ensure that the initial design and implementation of project activities will take into account the participating countries' major stakeholders, such as community and local groups and the private sector, and ultimately increase the participating countries' accountability for a successful project outcome, as well as adherence to the accomplishment of the global environmental objectives mandated by the GEF/SCCF.[7]
The shareholders' agreement for Europa Re envisages that government shareholders will be able to sell up to 30 percent of their shares in 3 years from the commencement of SEEC CRIF operations, and up to 100 percent within 5 years, to private investors.

Member states will play a fundamental part in ensuring Europa Re's success by providing the financing for the Facility, as well as by 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

[7] As part of project preparation, endorsement letters were obtained from each of the three first-phase participating countries' representatives, indicating these member countries' consent to the objectives of the GEF Project and the amount of resources to be committed to Europa Re through the GEF/SCCF grant.

- 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 part, if not all, 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. Results Monitoring and Evaluation

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 annual 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; and (c) the financial management and implementation of donor trust funds.

C. Sustainability

The SEEC CRIF program sustainability will depend upon continuous Europa Re solvency (see Economic and Financial Analysis Section for details). To ensure that the company business model is sustainable, the following design features were included:

(i) Europa Re will be subject to the Swiss insurance regulation, the most rigorous and far-reaching risk-based insurance supervision regime in the world (Swiss Solvency Test);

(ii) Europa Re will reinsure up to 95 percent of its own risk exposures with at least “A-” rated reinsurers, achieving a global risk spread.

(iii) Europa Re will rely on customized risk pricing and accumulation control models developed exclusively for markets in which it will operate; and

(iv) Europa Re will employ a high-caliber professional management team.

However, SEEC CRIF sustainability and success will ultimately depend on strong government commitment to increasing demand for catastrophe insurance through creating an enabling regulatory and legal framework for program operations. The participating governments of Albania, FYR Macedonia, and Serbia have committed to the program and their representatives will be active in program governance through shareholder meetings and policy advisory board.

Program sustainability also depends on homeowner and enterprise sector willingness to purchase catastrophe risk insurance policies developed and reinsured by Europa Re. Since Europa Re can benefit from regional risk diversification, economies of scale, and the ability to retain more risk during periods of "hard reinsurance market," Facility coverage must be competitive and affordable.

V. Key Risks and Mitigation Measures

The success of the project ultimately depends upon the financial viability of the Facility's business model, which has proven itself elsewhere but is untested in the target countries.

The main risks that this project faces are:

- *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 2011, is based on risk-based supervision, the most stringent and advanced in the world. This risk is considered low due to impact.

VI. Appraisal Summary

A. Economic and Financial Analysis

Economic Analysis. *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 slow, especially for infrastructure. Quick access to financial resources for reconstruction can 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 the 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 recent study[8] 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. Although countries with low insurance penetration increase their government deficit after disasters, they fail to reduce the magnitude of disaster consequences as much as countries with high insurance penetration. 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, but 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. In countries with developed financial systems, governments can finance disaster relief expenditure and increased deficits at lower interest rates by borrowing from domestic capital markets. Countries with high levels of insurance penetration can deal with the disasters' 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.

ECA countries tend to enforce fiscal discipline even after disasters, which sustains fiscal balance but undermines support to the national economy, thereby hampering economic recovery and discouraging private sector disaster responses. Increasing the level of catastrophe insurance penetration among low-income households and the enterprise sector, and increasing the share of catastrophe insurance products in the gross premium written by insurers would protect national economies from the effects of reduced revenues and the need to increase spending following a disaster.

[8] Melecky, Martin and Raddatz, Claudio. 2010. "Natural Disaster Shocks and Fiscal Stability." World Bank Working Paper.

Financial Analysis. Program financial sustainability depends on Europa Re ability to comply with the regulatory risk-based solvency margin requirements under the Swiss Solvency Test (SST) by FINMA, the Swiss Financial Market Supervisory Authority. To this effect, the team prepared financial projections for the first three years of company operations, which were the main input for the Europa Re business plan. In 2009, FINMA reviewed and approved the plan. Below, is a summary financial analysis (see Europa Re Financial Analysis for details).

For all risks in the table below, Swiss Insurance Regulations require any insurance or reinsurance entity to reserve a sum of risk capital[9] equal to the Swiss Solvency Test minimum risk-based solvency requirements.[10] All parts of required capital were calculated for Europa Re for a modelled SEEC region risk portfolio. The following table summarizes the resulting target capital and solvency ratios for the first three business years of Europa Re operations. It demonstrates that the Facility will have a comfortable capital cushion over and above the minimum capital requirement prescribed by the regulator.

Swiss Solvency Test (SST)

(Currency M CHF)

Designation	1st business year (beginning of year)	2nd business year (beginning of year)	3rd business year (beginning of year)
Insurance Risk and Market Risk	8.57	8.91	9.13
Credit Risk	0.23	0.34	0.47
Risk Margin	0.20	0.21	0.22
Target Capital	**9.00**	**9.47**	**9.81**
Risk Bearing Capital	**12.25**	**12.26**	**12.27**
[%] Risk Bearing / Target Capital	**136.0%**	**129.5%**	**125.0%**

As the analysis shows, the requirements of the Swiss Solvency Test are fulfilled for each of the first three business years at a comfortable level of 120-130 percent, even for the initial equity capitalization of US$12.25 million. However, upon acceptance of five more countries to the program, the expected capitalization of the Facility will reach at least US$27 million, which will further improve the SST ratio.

B. Technical

The proposed grant will be made available to Europa Re to finance: (i) extensive country risk assessments for climate hazards, including flood, hail, freeze, excessive snowfall and drought; (ii) regulatory assistance work; (iii) high-resolution interactive digital risk maps available through a website; (iv) temperature and precipitation indices in selected locations; (v) weather risk hedges and other disaster risk insurance and reinsurance products; (vi) demand studies for catastrophe and weather insurance; (vii) automated weather reporting stations, remote sensing claims settlement technologies and supporting services; (viii) public information campaigns and (ix) project management costs.

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[9] Calculated by a specialized internal company risk model, vetted by the regulator.

[10] The sum of total risk capital allocated against all company risks such as the Insurance, Market, and Credit risk assumed by the entity at any point in time, and the risk margin.

C. Financial Management

The financial management (FM) arrangements under the GEF grant will be different from SEEC CRIF program. Particularly a consultant with adequate experience in FM under Bank-financed projects will be appointed to be in charge of the grant FM and disbursement arrangements, including budgeting, accounting, financial reporting, funds flow; designing and enforcing internal controls; and providing the required support during external audit. Upon appointment of the FM/Disbursement consultant the implementing entity will develop a Financial Management Manual for the grant. So far, the Facility retained an outside auditor and an accountant. The company has also adopted an Operations Manual, approved by the Bank, with rules for company financial controls. When capitalization is complete in 2011, FM functions of the Facility will be outsourced to a finance and accounting vendor (FAV), while the FM/disbursement consultant involved under the grant will be retained until the grant closing (including the grace period). The company employs an Executive Management Board, headed by Executive Chairman, who oversees all financial aspects of the company operations.

D. Procurement

A procurement assessment of the capacity of the Europa Re to undertake project procurement was conducted in August 2011 using Skype as a communication channel. The assessment report is included in the project files. The assessment is also on the web-based Procurement Risk Assessment Management System (P-RAMS). Europa Re currently employs a Procurement Specialist under the Grant funds provided by the Swiss State Secretariat for Economic Affairs (SECO) who will also be responsible for implementation of procurement activities under the Grant in accordance with the Bank Procurement Guidelines of January 2011. The procurement specialist will report to the Executive Chairman of the Board, who chairs the Board Procurement Committee consisting of 3 Board Members. The procurement plan covering the full duration of project implementation has been prepared and sent to the Bank for its approval. It will be updated at least annually (or as required) to reflect project implementation needs. A brief summary of the procurement capacity assessment and project procurement arrangements are provided in Annex 3.

E. Social (including safeguards)

Catastrophe risk transfer is a pillar of disaster risk management; it enables mitigation of natural disaster financial consequences on governments, enterprises, and households. For households, affordable catastrophe insurance is often the only financial safety net available after catastrophic events. The SEEC CRIF will enable governments in Facility member states to better target post-disaster subsidies to the truly needy because the Facility will target the competitively priced, dependable catastrophe insurance products to middle and low-middle income populations and the enterprise sector. In addition, the Facility will enable governments to purchase natural disaster insurance protection for public infrastructure and buildings; governments will receive immediate insurance payouts into the budget during adverse weather events pre-defined in parametric weather-risk contracts. In the aftermath of natural disasters, insurance proceeds will be available immediately to assist the poor.

Europa Re insurance policies are expected to be affordable due to the unique business model. To determine exact pricing of insurance policies, the Facility will develop detailed catastrophe risk models that will be used to set actuarially sound premium rates and deductible levels that will make catastrophe insurance coverage affordable. Insurance premium prices will vary by country based on risk exposure frequency and severity, vulnerability level of insured assets or income to natural disasters, and insurance deductible levels. Nevertheless, based on other country experience and the risk diversification across the pool, premium rates should be highly competitive and affordable for most citizens. Potential pricing level indications are found in established catastrophe risk insurance pools supported by the World Bank in Turkey and Romania (see Box below).

Catastrophe Risk Insurance Premium Rates

Since 2000, the Turkish Catastrophe Insurance Pool (TCIP) has been providing stand-alone earthquake risk insurance coverage to millions of Turkish households and SMEs at affordable and actuarially sound rates. The average premium rate of is equivalent to US$47 per US$35,000 of insured value with the deductible of 2 percent, or US$1.34 per US$1000 of coverage.

The Romanian Catastrophe Insurance Pool (PAID), which began in July 2010, offers stand-alone flood and earthquake insurance coverage for homeowners and SMEs at the flat rate of €20 per €20,000 of coverage, with no deductible. Although the pool is expected to add a small deductible of 2-3 percent and will increase the premium rate by about 20 percent next year, Romanian households will be paying only €1.2 per €1000 of insurance coverage.

F. Environment (including safeguards)

The program was classified as environmental category C as no environmental impact is expected from the proposed operation.

Annex 1: Results Framework and Monitoring

EUROPE AND CENTRAL ASIA
Southeast Europe and Caucasus Catastrophe Risk Insurance Facility
Results Framework

Project Development Objective (PDO):
To enable Europa Re, a catastrophe and weather-risk re-insurance facility, to develop new weather risk insurance products, automate insurance underwriting, pricing and claims settlement processes for such products, and increase public awareness of weather risk in participating countries.

PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values**					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				YR 1	YR 2	YR3	YR 4	YR5				
Indicator One: Increase in catastrophe insurance penetration.	☐	Insurance penetration %	2%	0%	0%	3%	5%	10%	Quarterly reports	Cumulative report from policies distribution insurance companies.	Europa Re	% of homeowners, farmers, enterprises, and government entities holding *catastrophe* insurance policies.

INTERMEDIATE RESULTS													
PDO Level Results Indicators	**Core**	**Unit of Measure**	**Baseline**	**Cumulative Target Values**					**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Description (indicator definition etc.)**
				YR 1	**YR 2**	**YR3**	**YR 4**	**YR5**				
Intermediate Result (Component One): Technical and Regulatory Assistance												
Intermediate Result Indicator One: Number of countries that implement the minimum regulatory and policy framework required for CRIF	☐	Country regulatory and policy framework	0	0	0	2	3		Quarterly reports	Country surveys	Europa Re	# of countries that successfully implemented the regulatory and policy framework required for program operation.
Intermediate Result indicator Two: Grant Funding Mobilized	☐	US$ million		$4.5	$10.0				Annual	Progress Reports	Europa Re	Amount of grant funding for technical work.
Intermediate Result indicator Three: Fulfillment of technical preconditions for launch of products (per country)	☐	# of countries for which technical design work completed.	0	0	0	2	3		Annual	Progress Reports	Europa Re	Package of technical actions including: (i) web-based underwriting platform; (ii) country-specific insurance designs; (iii) actuarial analyses; (iv) country-risk assessment models and (v) regulatory reform.

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Annex 2: Detailed Project Description

SEEC CRIF is a catastrophe and weather-risk re-insurance program with the objective to increase the number of homeowners, farmers, enterprises and government organizations insured against weather-related risks and climate change. The main design features of SEEC 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 both traditional indemnity type catastrophe insurance products and parametric index-based weather risk hedging contracts; (ii) private management and governance of the *Facility*; (iii) a sunset clause for the duration of government participation in the program; and (iv) the openness of the Facility to a wider range of clients, inclusive of households, farmers, government agencies and the enterprise sector exposed to weather risk.

To implement the SEEC CRIF program, Europa Reinsurance Facility Ltd. (Europa Re), a non-profit, government-owned organization, has been established as a specialized regional reinsurer for the purposes of program execution. Europa Re was incorporated under Swiss Law in Zug, Switzerland in November 2009 and will provide reinsurance, pricing and underwriting services to private insurers in member countries for standardized catastrophe and weather-risk insurance products.

The Facility targets the entire SEEC region, but with a focus on the Balkans and the Caucasus first. The World Bank is supporting SEEC countries' efforts to join the Facility by financing their membership contributions. 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 Montenegro and Georgia are expected in the spring of 2012.

To help establish the SEEC CRIF program, the World Bank, GFDRR, and UN ISDR, have jointly funded a total of US$1.5 million to develop the CRIF framework. The World Bank is also providing US$12.5 million in IBRD loans and IDA credits to finance country membership contributions in SEEC CRIF for Serbia, FYR Macedonia, and Albania. The Bank is also financing over US$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, Macedonia, Montenegro, and Serbia. However, the initial cost estimates for some technical activities funded under the SECO grant have been optimistic. For instance, the original estimated costs of developing risk models for flood and earthquake models in the SEE region already have been exceeded by 125 percent due to the innovative nature of the work and the world-class quality of the provider. The SECO grant also does not cover some activities such as the public information campaigns and public information tools (such as interactive weather risk maps) which will be funded by the GEF.

Under this project, GEF/SCCF funding of US$5.5 million will provide additional technical and regulatory assistance required to develop new insurance products that will increase participating countries' resilience to climate change. The project will consist of two components. Component 1 in the amount of US$5.0 million will cover the costs of technical preparation work (inclusive of consulting services and equipment) required for the launch of Europa Re program in member states. Component 2, in the amount of US$0.5 million, will cover the costs of project management incurred by Europa Re in connection with implementation of the grant.

GEF/SCCF funding will enable participating countries (currently, Albania, FYR Macedonia and Serbia) to expand upon the existing SEEC CRIF program by supporting additional activities that will not only quantify 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. GEF/SCCF funds (from the GEF-administered Special Climate Change Fund) 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. The proceeds of the GEF/SCCF grant will finance the costs of equipment and technical services incurred in connection with carrying out the preparatory work needed for the development of weather risk insurance markets in Albania, FYR Macedonia and Serbia. Such preparatory technical activities include but are not limited to acquisition of weather risk stations, public information campaigns, regulatory assistance, and development of catastrophe risk models.

With World Bank supervision, SEEC CRIF's implementing agency, Europa Re, and participating countries will undertake the following activities:

- *Risk Assessments (US$0.8 million).* 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.

- *Regulatory Frameworks (US$0.2 million).* 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.

- *Weather Reporting Stations and Remote Sensing Technologies (US$0.8 million).* 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. In addition, to ensure timely and effective claims settlement the Facility would have to invest in developing remote sensing claims settlement technologies.

- *Risk Maps (US$1.2 million).* 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.

- *Temperature and Precipitation Indices and Parametric Weather Risk Insurance (US$1.5 million).* 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.

- *Public Awareness (US$0.5 million).* One of the key constraints to climate resilient behavior 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.

- *Project Management (US$0.5 million).* GEF/SCCF will also provide some funding to cover the costs of project management incurred by Europa Re in connection with implementation of the grant.

Catastrophe Insurance Products Supported by the Europa Re

Europa Re will provide reinsurance, pricing and underwriting services to private insurers in member countries that will utilize the following standardized catastrophe insurance products.

Insurance product	**Type of coverage***	**Insured perils**	**Scope of coverage**	**Target clients**
Earthquake insurance	Indemnity	Earthquake and fire following; landslide following earthquake	Property and contents	Homeowners, SMEs and governments
Flood insurance	Indemnity	Flood; landslide following flood	Property and contents	Homeowners, the enterprise sector, farmers, and governments
Hail insurance	Indemnity and parametric	Hail	Crops and property	Agro-business, farmers
Extreme temperature	Parametric	Drought and freeze	Not applicable	Agro-business, utilities, resorts, airports, agro-lenders, governments
Extreme precipitation	Parametric	Deficient and excessive rainfall	Not applicable	Agro-business, utilities, resorts, airports, agro-lenders, governments

Notes:
* Indemnity type insurance compensates insured parties based on an assessment of insured damages carried out by a specialist loss adjuster. Once the loss assessment has been completed and agreed upon, the insured party receives an indemnity payout from the insurer up to the full amount of insurance coverage provided under the policy.
* Under a parametric index-based insurance scheme, losses resulting from extreme weather events are covered on a pre-defined basis agreed prior to the occurrence of an insured event, using an index. When the value of the index deviates by a specified percentage from the historic average of a chosen weather parameter (e.g., temperature or precipitation), the insured party receives an insurance payment according to the pre-defined payment formula. For instance, insurance payment will be made in the event of drought as a result of less-than-anticipated rainfall. Parametric financial protection against extreme weather aims to compensate businesses whose operational income is expected to drop in case of extreme weather events. This innovative approach to provision of insurance means that policyholders qualify for payouts when the value of an index reaches a parameter predefined in the contract, rather than having to wait for claims to be settled in the traditional way. The parametric insurance will pay if the index is triggered, irrespective of the actual loss.

The index-based approach to insurance has been successfully piloted by several World Bank pilot projects, including World Bank Group initiatives in Malawi, India, and Mongolia.

Minimum Regulatory and Policy Actions expected of Europa Re Member Countries

Upon joining the Facility, every new member country will be expected to carry out a minimum program of regulatory and policy changes essential for the successful operation of the Facility (see Annex 7 for specific information on country implementation arrangements). These are as follows:

Regulatory and Policy Actions

Type of regulatory or policy action expected from new CRIF member countries	Level of priority	Expected timeframe	Responsible government agency
Enactment of model insurance regulation that introduces a risk-based supervision of catastrophe risk and ensures adequate reinsurance practices.	Essential	First year of membership or before	Insurance supervisory office
Enactment of standard terms and conditions of coverage for a stand-alone earthquake and flood policy that will be used by the local market	Essential	First year of membership	Insurance supervisory office
Enactment of regulations enabling sale of standard parametric insurance products supported by the Facility, local insurers or banks	Essential	First year of membership	Insurance supervisory office or Central Bank
Enactment of model banking regulation that requires all mortgage lenders to demand multi-year catastrophe insurance coverage from borrowers residing in disaster-prone areas	Highly desirable	1st-2nd years of membership	Central Bank or Banking Supervisory Agency
Enactment of model regulation on registration of real estate transactions that will require all buyers of real estate to buy catastrophe insurance coverage	Highly desirable	1st-2nd years of membership	Ministry of Finance and Ministry of Emergency
Enactment of model regulation on insuring all or essential government owned assets against the risk of natural disasters	Highly desirable	1st-5th years of membership	Ministry of Finance and Ministry of Emergency
Implementation of public information campaigns in mass media on the benefits of insurance	Highly desirable	1st-5th years of membership	Ministry of Finance and Ministry of Emergency
Enactment of government policy to limit post-disaster subsidies to a fraction of insured limits provided under the SEEC CRIF program	Highly desirable	1st-5th years of membership	Ministry of Finance

Governance and program management requirements*

Actions required of Governments	Level of priority	Expected Time-frame	Agencies responsible
Designate lead Government counterpart agency for SEEC CRIF program	Essential	Prior to Negotiations	Ministry of Finance
Appoint the Head of SEEC CRIF Working Group who will be the focal person responsible for implementation and interaction with the Facility, the World Bank and the local insurance market.	Essential	No later than November 31, 2011	Ministry of Finance and Insurance supervisory office
Convene SEEC CRIF Working Group, comprising technical staff of key government agencies and consultants to carry out the TORs delineated below.	Essential	Within 3-6 months of project effectiveness	Head of SEEC CRIF Working Group
Appoint a person representing the country on the company's Policy Advisory Board and Annual shareholder meetings.	Essential	Not later than 30 days after loan effectiveness	Ministry of Finance and Insurance supervisory office

**Notes: See indicative Terms of Reference for Government Working Group below*

Government Working Group in Support of Southeast Europe and Caucasus Catastrophe Insurance Facility (SEEC CRIF) -- Draft Terms of Reference

Objectives: The main objective of the government SEEC CRIF Working Group (SEEC CRIF WG) is to enable SEEC Member country governments to implement prerequisite regulatory and policy actions for successful operation of Europa Reinsurance Facility Ltd. (Europa Re) in the local insurance market. A list of standard policy and regulatory reforms to be implemented in member states, which can be modified as needed by each country, is in Attachment I.[11]

Scope of work: The SEEC CRIF WG is expected to carry out technical consultations and technical preparation of government regulations and policy actions under the national SEEC CRIF operation. The SEEC CRIF WG will rely on a cadre of professional technical consultants that will be retained and paid by the Facility out of donor funds. The SEEC CRIF WG will also oversee and coordinate reforms necessary in all related sectors and ensure coherence in the public awareness campaigns needed for catastrophe risk insurance.

Composition of SEEC CRIF WG: It is expected that the SEEC CRIF WG will consist of government ministry and agency representatives whose activities relate to disaster risk financing and management, likely to include the Ministries of Finance, Economy, Agriculture; the Central Bank, Office of Insurance Regulator, National Hydrometeorology Service, Seismic Research Institute, and private sector groups such as Association of Insurers, and Chambers of Commerce.

Chairmanship of SEEC CRIF WG: The Working Group Chair will be a representative of the Government Ministry/Agency responsible for overall implementation of the World Bank Loan or IDA Credit Agreement. The WG Chair may represent a country, or at least attend the Policy

[11] See above for purposes of the PAD.

Advisory Board and the Annual Shareholders Meetings. The Chair shall request, as needed, representatives of other agencies to address issues that may arise during SEEC CRIF implementation. The Chairman will be the main SEEC CRIF interlocutor at the technical level and will be responsible for daily interactions with Europa Re staff and consultants, World Bank, government agencies, and local insurance companies. The Chairman will report directly to the head of the Government Ministry/Agency responsible for overall SEEC CRIF implementation. The Head of SEEC CRIF WG shall hold the rank of a senior civil servant, no less than a Department Director.

Annex 3: Implementation Arrangements

Program Implementing Agency. Europa Re 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 execution. For the purposes of managing project implementation, Europa Re will retain the project implementation team (including financial management/disbursement specialist) responsible for day-to-day management of technical activities financed by the grant. Specifically, the project implementation team will be responsible for

- Preparing terms of reference for consultants and technical specifications;
- Procuring goods and hiring consultants;
- Administering consultant contracts, including facilitating payment of consultants' fees and expenses;
- Monitoring the project timetable and deliverables;
- Supervising technical quality of consultants' work;
- Reporting on project outputs and results to the Executive Chairman; and
- Managing the project's budget following Bank procedures.

The project implementation team will employ a full-time Project Manager, who will report to the Executive Chairman of the Board.

To ensure that the management of Europa Re is immune from potential political pressures that may adversely affect its operational and financial performance, one of the key elements envisaged by the business plan is a clear separation of the company's business operations from the government ownership of the Facility. To this effect, Europa Re has an independent professional board of directors consisting of reputable insurance/reinsurance professionals with a well-established track record in the industry. Overall strategic oversight and policy advice will remain with the company's shareholders (the Ministries of Finance of the member countries) and exercised through the Annual Meetings of Shareholders and the Advisory Policy Board.

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. Government shareholders will be able to sell up to 30 percent of their shares in 3 years from the commencement of SEEC CRIF operations and up to 100 percent within 5 years to private investors.

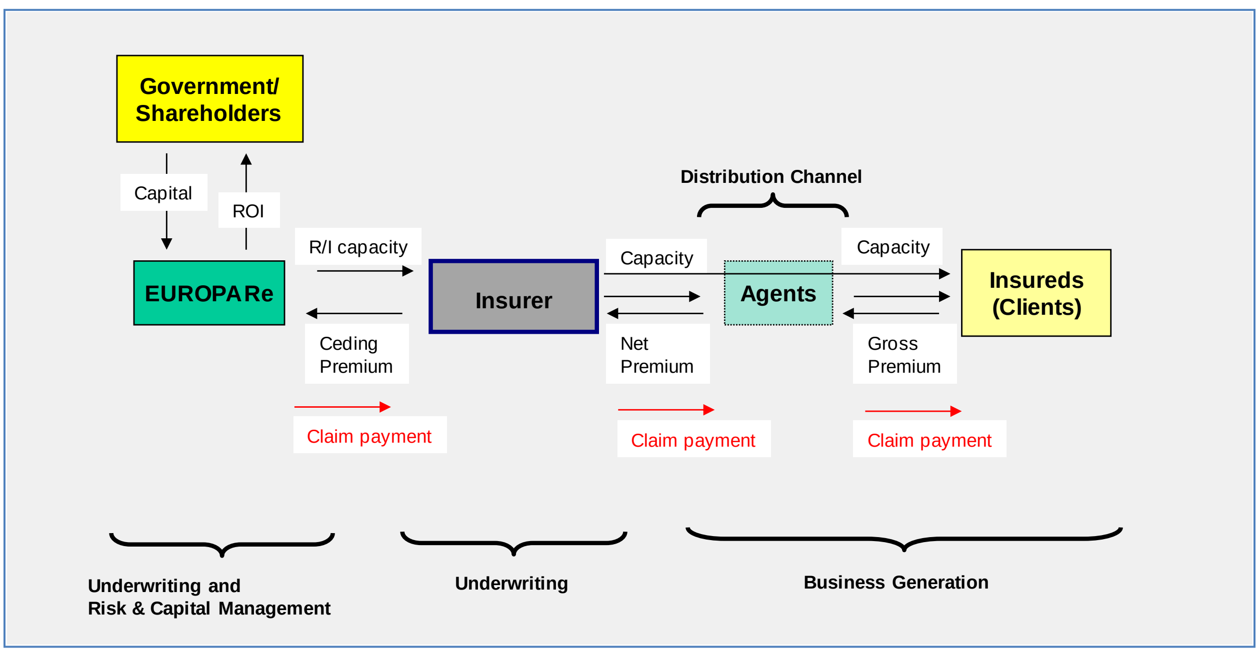
Member states will play a fundamental part in ensuring Europa Re's success by providing the financing for the Facility as well as participating in its governance through shareholders meetings and through the policy Advisory Board. Although the expected government policy support for the program may vary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

- Creating enabling regulatory and legal frameworks for Europa Re operations;

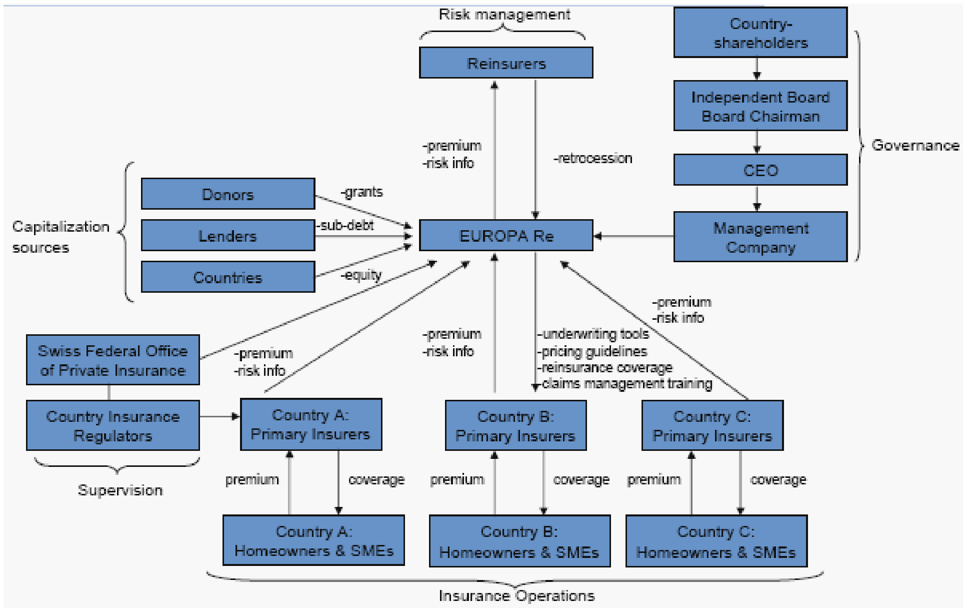
- Carrying out extensive public information and awareness campaigns about the availability and benefits of catastrophe and weather risk insurance products;
- Implementing policies that will encourage sound disaster risk management practices by homeowners and companies, including linking mortgages in 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 part, if not all, 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.

Business Model of Europa Re



Europa Re at a Glance



Financial Management

The financial management (FM) arrangements under the GEF grant will be different from SEEC CRIF program. Particularly a consultant with adequate experience in FM under Bank-financed projects will be appointed to be in charge of the grant FM and disbursement arrangements, including budgeting, accounting, financial reporting, funds flow; designing and enforcing internal controls; and providing the required support to external audit. Upon appointment of the FM/Disbursement consultant the implementing entity will develop a Financial Management Manual for the grant. The Financial Management (FM) function under SEEC CRIF program will be outsourced to Financial and Accounting Vendor (FAV) upon completion of Europa Re capitalization and licensing, while the FM/disbursement consultant involved under the GEF grant will be retained until the grant closing (including the grace period). The FAV selection and appointment has been postponed as it would incur substantial costs and the FM function is needed only after Europa Re capitalization and licensing. The assessment of main program FM arrangements to be carried out by the FAV will be conducted prior to the FAV appointment, and key FAV requirements will be reflected in the Request for Proposals. The assessment will determine whether the anticipated FAV internal controls and FM arrangements are adequate. *Inter alia*, the FAV will be expected to review and finalize existing FM arrangements of the program in the Operational Manual. To this effect, the FAV will develop the FM Manual (FMM) for the program and seek agreement with the World Bank. The Management Company may also act as a FAV. For now, Europa Re has a limited FM function, which has been outsourced to a bookkeeper. At the time of grant appraisal FM arrangements had not yet been established including appointment of the FM/Disbursement consultant; therefore the overall FM risk is rated as Substantial before and Medium after mitigation measures. Both mitigation measures, i.e. appointment of the experienced FM/Disbursement specialist (who was already selected) and development of the FMM, will be completed by the grant effectiveness date.

Budgeting for the grant will be undertaken by FM/Disbursement consultant. It is anticipated that the consultant will prepare detailed cost tables in consultation with the Management Company to be approved by Europa Re CEO, and thereafter annually by the Board of Directors. The CEO and the Board must explain and endorse any substantial deviations.

Accounting. The FM/Disbursement consultant will need to maintain an adequate accounting system for the GEF grant. Cash Basis International Public Sector Accounting Standards (IPSAS) will be used for accounting purposes under the grant. The accounting system should be computerized; however, considering a limited number of contracts and transactions involved under the grant (around 20-30 contracts to be executed during 4 years period) there is no requirement for implementation of a separate accounting software. MS Excel or similar package could be used instead for accounting and financial reporting under the GEF grant.

Staffing for the FM function will comprise a FM/Disbursement specialist to be appointed with at least five years of relevant experience in FM and disbursement under Bank-financed projects (the consultant was already selected). The FM staff Terms of Reference (including qualifications and experience) was reviewed by and agreed with the Bank. The FM/Disbursement specialist will probably work remotely providing the required support and implementing its function from home office. The communication with Europa Re will be done via internet tools (e-mail, skype, adobeconnect, etc.), and phone.

Internal Control System in Europa Re is nascent. Because there are so few staff, complete segregation of duties is impossible. To mitigate this weakness in the interim, until the FAV hiring is completed, the Board established a Procurement Committee that now approves all expenditures and has implemented the Internal Procurement Procedures reflected in the company Operational Manual. The FMM to be developed must ensure sufficient approval and authorization controls over payments, and duties should be segregated to the extent possible also considering the remote operation of the FM/Disbursement consultant. Europa Re has no internal audit function and will outsource or hire a qualified and experienced internal auditor, after Europa Re capitalization. The ideal internal auditor candidate would have international qualifications, a minimum of three years managerial experience in a similar organization, and should report directly to the Board or to the Audit Committee, when it is established. The internal auditor must conduct annual risk-based internal audit reviews of Europa Re activities.

Interim Un-audited Financial Report (IFRs). The Europa Re will prepare and submit semiannual IFR for the grant within 45 days after the end of the relevant calendar semester. The IFR will consist of a statement of funding sources and uses by expenditure categories; and actual and budgeted expenditures by activity within each component, with explanations of any variances, for each semester and cumulatively for the GEF grant. The IFR format will be agreed between Europa Re and the Bank in the FMM, which will specify the form, content, and periodicity of IFRs. The first semiannual IFR will be submitted for the semester when the initial disbursement under the grant occurs.

Annual audit of the grant will be carried by an audit firm acceptable to the Bank. Europa Re will submit the GEF grant audited financial statements and management letters to the Bank, participating countries, and other donors within the stipulated six-month period after the end of

Europa Re financial year. The audit Terms of Reference (TORs) will be agreed between the Bank and Europa Re and incorporated into the FMM. The grant financial statements will be prepared by FM/Disbursement specialist following Cash Basis International Public Sector Accounting Standards (IPSAS). The annual audit will be conducted by an independent private external auditor, appointed by Europa Re, according to International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC). Europa Re will publish on its website the above audited financial statements within two months after receipt of the audit reports. After formal receipt of these reports from Europa Re, the Bank will make them available to the public according to World Bank Policy on Access to Information.

Procurement

Procurement Risk and Mitigation Measures. A procurement capacity assessment of the Europa Re to undertake procurement was conducted in August 2011. The overall project risk remains moderate after mitigation. The table below summarizes the project procurement risks, the mitigation measures proposed and the oversight and monitoring arrangements for procurement.

Perceived Procurement Risks	Mitigation Measures	Timeframe
Europa Re established in 2009 with skeleton staff (3 Board Members and 1 Procurement Specialist (PS) working remotely).	PS to visit Europa Re at least bi-annually or more often in case of business need. Management Company (MC) TOR to include managing all IC's hired under the project, which will include preparing the TORs, evaluation, contract negotiations and monitoring.	During Project Implementation
Delay in preparation of Bidding Documents/Evaluation of bids and contract negotiations may become a challenge.	Training on Procurement Guidelines to be provided during Project Launch and SPN missions to PS/MC and Board Members as needed, as they are part of the Procurement Committee.	Project Launch and during Supervision Missions
Operational Manual not updated with written procedures and guidelines for all procurement activities.	Update the OM last prepared June 2010 and as and when needed. Discuss anticorruption guidelines and include provisions related to disclosure of conflict of interests, code of ethics for evaluation committee members in the OM. Implementation of the procurement plan will be closely monitored by the Bank's task team.	Responsibilities and Accountabilities to be clearly stated in the OM by Effectiveness.

Applicable Guidelines. All procurement for the Grant will be carried out in accordance with the World Bank's "Guidelines for Procurement under IBRD Loans and IDA Credits" dated January 2011 (The Guidelines); and "Guidelines on Selection and Employment of Consultants by Bank Borrowers" dated January 2011 (the Consultant Guidelines) and the provisions stipulated in the Grant Agreement (GA). Anti-Corruption "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" dated October 15, 2006 and revised in January 2011 will apply.

Procurement Plan. An initial procurement plan for the project implementation has been prepared. The Bank will review and approve the procurement plan during Negotiations. This plan will be updated annually or as required to reflect the latest circumstances. A summary of the initial procurement plan for the whole project is included below.

Summary of the Procurement Plan

A. Goods/Works

Description	Estimated Cost US$m	Procurement Method	Domestic Preference (yes/no)	Review by Bank (Prior/ Post)	Comments
Summary of contracts that will be let under ICB (i) Web-based application for weather risk pricing and underwriting; (ii) Risk maps - GIS web-based applications and (iii) Acquisition of weather stations	0.800	ICB	No	Prior	

Legend: Although these procurement methods are not foreseen, they are permitted.
ICB = International Competitive Bidding (in accordance with section 2 of the Guidelines)
For goods contracts valued at or more than >US$200,000
NCB = National Competitive Bidding (in accordance with section 3.3-3.4 of the Guidelines)
For goods contracts valued less than ≤US$200,000
DC= Direct Contracting (in accordance with section 3.7-3.8 of the Guidelines)
SH = Shopping (in accordance with section 3.5 of the Guidelines)
For goods contracts valued at or less than ≤US$100,000.
No Domestic Preference will apply.

Prior review

For Goods contracts: All ICB contracts; NCB: First two contracts; Shopping: First contract and Direct Contracting: All

B. *Consultancy Services*

Description of Assignment	Estimated Cost US$m	Selection Method	Review by Bank (Prior / Post)	Comments
Summary of number of contracts that will be under IC method: (i) Project Management, (ii) Weather Risk Modelling (3), (iii) Insurance Regulatory Work, (iv) Risk Maps (5), (v) Weather risk insurance products (8), (vi) Public awareness campaign (3), (vii) Development of dedicated weather stations data web-site (3) and (viii) Weather stations density and location survey.	4.200	IC	Post	
Summary of number of contracts that will be under CQ method: (i) Integration of weather stations readings with remote sensing technologies.	0.300	CQS	Prior	

Legend Although these procurement methods are not foreseen, they are permitted.

QCBS = Quality and Cost-based Selection (in accordance with sections 2.1 - 2.31 of the Consultant's Guidelines)

FBS= Fixed Budget Selection (in accordance with section 3.5 the Consultant's Guidelines)

CQS= Consultants Qualifications (in accordance with section 3.7 of the Consultant's Guidelines) contracts valued at or less than ≤ US$300,000

LCS = Least-Cost Selection (in accordance with section 3.6 of the Consultant's Guidelines)

SSS= Single source selection (in accordance with section 3.8-11 of the Consultant's Guidelines)

IC = Individual Consultant (in accordance with section V of the Consultant's Guidelines)

Prior Review

For firms: All contracts equal to USD 100,000 or more. First CQ contract. All SSS contracts and all TORs.

For individual consultants: First three contracts regardless of value and contracts equal to USD 100,000 equivalent or more. All SSS contracts and all TORs.

Post review and Frequency of Procurement Supervision. In addition to the prior review supervision mission to be carried out by the Bank team, the capacity assessment of Europa Re recommends post reviews on at least one in ten (10%) of the contracts subject to post review during the review period. Supervision reports will include the findings of the Bank's Team in its post review. It is expected that a supervision mission in the field will be conducted once a year during which post reviews will be conducted.

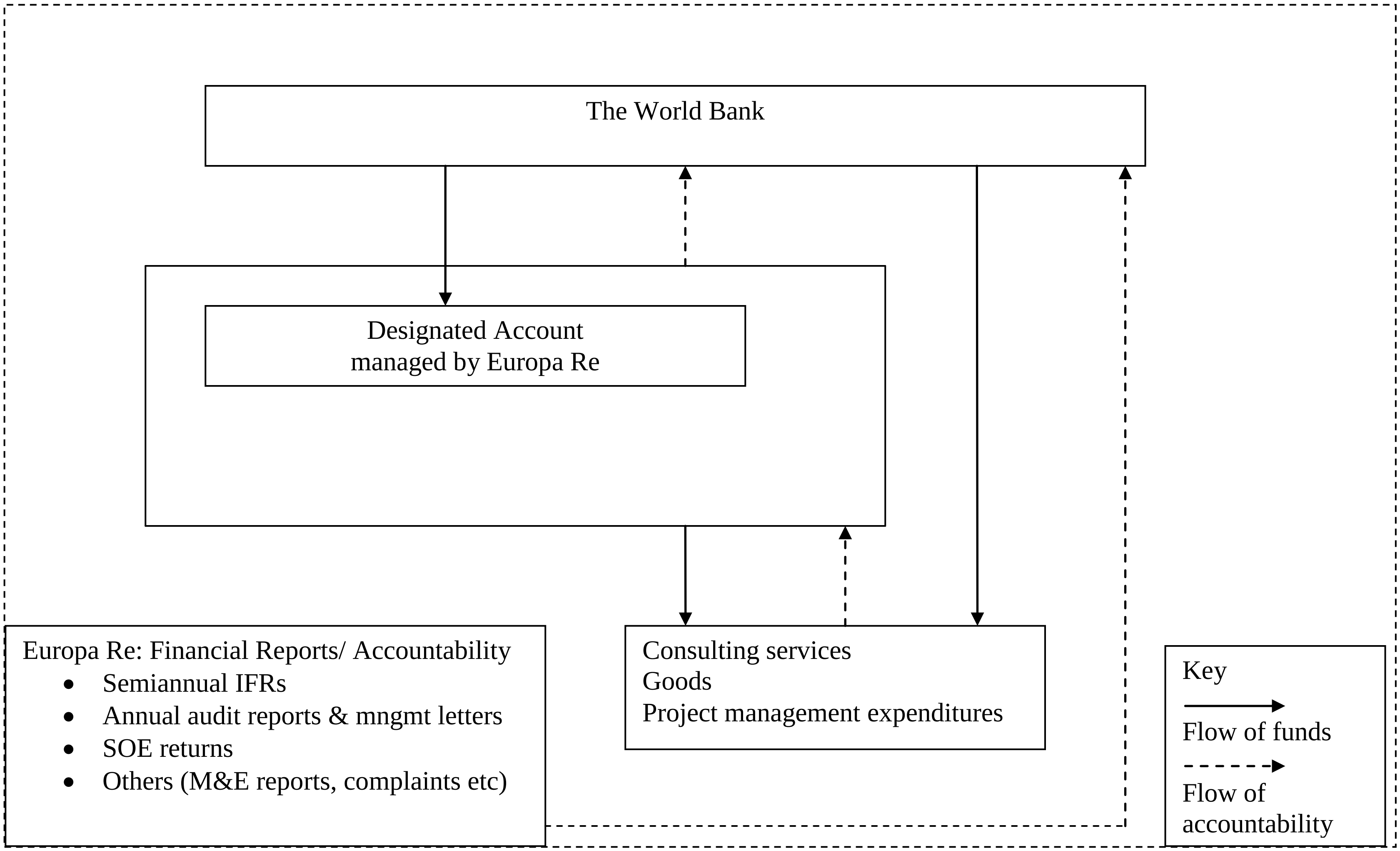
1	2	3		4	5	6	7	8 (Estimated Time Schedule)							
Package No.	**Description**	**Type**		**Estimated Cost (US$'000)**	**Procurement Method**	**Number of Packages**	**Review Method (Prior-/Post) (#c)**	**Expected (REOI) Date**	**RFP Issue Date**	**Expected Proposal Submission Date**	**Submission of Bid Evaluation Report (BER) Date**	**BER No-Objection Letter (NOL) Date**	**Expected Contract Signing Date**	**Expected Completion Time**	**Consultant / Contract Name**
1	**Technical Assistance**		Original	**5,000**											
(a)	Regulatory work (GEF)	CS	Original	200	IC	1	Prior	1-Dec-11	8-Dec-11	15-Dec-11	31-Dec-11	15-Jan-12	30-Jan-12	31-Dec-15	
(b)	Weather risk models (GEF)		Original	800											
(b)-i	Weather risk Models - Individual Consultants	CS	Original	500	IC	4	Prior	1-Dec-11	n/a	15-Dec-11	22-Dec-11	3-Jan-12	15-Jan-12	31-Dec-15	
(b)-ii	Web-based application for weather risk pricing and underwriting	G	Original	300	ICB	1	Prior	15-Mar-12	15-Apr-12	15-May-12	25-Jun-12	9-Jul-12	30-Jul-12	31-Dec-13	
(c)	Automated weather stations (GEF)		Original	800											
(c)-i	Acquisition of weather stations	G	Original	300	ICB	1	Prior	1-Dec-13	15-Jan-14	14-Feb-14	16-Mar-14	30-Mar-14	29-Apr-14	31-Jul-14	
(c)-ii	Development of dedicated weather stations data web-site	CS	Original	100	IC	3	Prior	5-Dec-13	Dec-13	15-Dec-13	15-Jan-14	22-Jan-14	6-Feb-14	31-Dec-15	
(c)-iii	Integration of weather stations readings with remote sensing technologies	CS	Original	300	CQS	1	Prior	5-May-13	19-Jun-13	10-Jul-13	7-Aug-13	21-Aug-13	20-Sep-13	31-Dec-13	
(c)-iv	Weather stations density and location survey	CS	Original	100	IC	1	Prior	12-Dec-12	20-Dec-12	20-Dec-12	20-Jan-13	27-Jan-13	11-Feb-13	31-Dec-15	
(d)	Risk maps (GEF)		Original	1,200											
(d)-i	Risk maps - individual consulting services	CS	Original	1,000	IC	5	Prior	1-Dec-11	8-Dec-11	15-Dec-11	31-Dec-11	15-Jan-12	30-Jan-12	31-Dec-15	
(d)-ii	Risk maps - GIS web-based applications	G	Original	200	ICB	1	Prior	15-Jul-12	15-Aug-12	15-Sep-12	30-Oct-12	13-Nov-12	20-Dec-12	31-Dec-13	
(e)	Weather insurance products (GEF) - Consultants	CS	Original	1,500	IC	5	Prior	1-Dec-11	8-Dec-11	15-Dec-11	15-Jan-12	22-Jan-12	6-Feb-12	31-Dec-15	
(f)	Public awareness campaign (GEF)		Original	500											
(f)-i	Consultants	CS	Original	400	IC	2	Prior	1-Dec-11	8-Dec-11	15-Dec-11	15-Jan-12	22-Jan-12	6-Feb-12	31-Dec-15	
(f)-ii	Publications/Events	CS	Original	100	IC	1	Prior	1-Dec-13	8-Dec-13	15-Dec-13	5-Jan-14	12-Jan-14	27-Jan-14	28-Feb-15	
2	**Project Management**		Original	**500**											
(a)	Program Manager	CS	Original	300	IC	1	Prior	1-Dec-11	n/a	15-Dec-11	22-Dec-11	3-Jan-12	15-Jan-12	31-Dec-15	
(b)	PMU Recurrent Costs (rents/travel, office	OC	Original	200	RC	tbd	Post	15-Jan-12	tbd	15-Jan-12	tbd	tbd	tbd	tbd	
	Total GEF			**5,500**											

PROCUREMENT METHOD		**Prior Review Threshold**	
ICB -	International Competitive Goods	ICB	All
CQS -	Selection Based on Consultants Qualifications	NCB	First two contracts
IC -	Individual Consultant	Shopping	First contract
CS -	Consultant Services	DC	All
G -	Goods	Firms	Contracts above US$ 100,000
OC-	Operating costs	CQS	First contract
		SSS	All
		Individuals	First three contracts regardless of value and all contracts above US$ 100,000

Flow of Funds and Disbursement Arrangements

1. ***Disbursement Method:*** Disbursement under the Grant will be made using traditional disbursement procedures (direct payment, SOE and advances (i.e. a Designated Account). It is expected that the DA will be opened with HSBC, Switzerland, with a ceiling of USD 500,000.
2. ***Funds Flow Diagram****:* The process can be depicted diagrammatically as follows:

GEF Grant Funds Flow



Annex 4
Operational Risk Assessment Framework (ORAF)

Appraisal and Post Appraisal Package Version[12]

Project Development Objective(s)	
The Project Development Objective (PDO) is to enable Europa Re, a catastrophe and weather-risk re-insurance facility, to develop new weather risk insurance products, automate insurance underwriting, pricing and claims settlement processes for such products, and increase public awareness of weather risk in participating countries.	
PDO Level Results Indicators:	1. Increase in catastrophe insurance penetration.
	2. Number of countries that implement the minimum regulatory and policy framework required for CRIF.
	3. Increase in CRIF capital amount and grant funding mobilized.
	4. Fulfillment of technical preconditions for launch of products (per country).

Risk Category	Risk Rating[13]	Risk Rating Explanation	Risk Description	Proposed Mitigation Measure	Status[14]
1. Project Stakeholder Risks					
1.1 Stakeholder	Low	There is some possibility that this will happen but this would not affect the PDO for participating countries. Other countries can join once the Facility is privatized. Involvement of other donors and support from participating governments makes this a multilateral initiative.	Initial shareholder Governments may object to addition of future shareholders – particularly if there are poor relations between countries.	Emphasize the benefits of increased participation in terms of diversifying risks, improving data and cost-sharing. After 5 to 7 years, governments will sell their shares and will no longer be able to block participation. The Management Company will be competitively selected.	

[12] This is the version that should be used for Appraisal stage for Track 2 as well as for seeking clearance by management for Track 1 to move forward with negotiations.
[13] Ratings: L=low; H=high; Medium-L=medium driven by likelihood; Medium-I=medium driven by impact.
[14] Status: C=completed; O=ongoing; NYD=not yet due; N/A=not applicable.

Risk Category	Risk Rating[13]	Risk Rating Explanation	Risk Description	Proposed Mitigation Measure	Status[14]
		Existing reinsurance companies support establishment of Europa Re.	Europa Re may be perceived to be a World Bank-backed monopoly.		
2. Operating Environment Risks					
2.1 Country	Medium-I	Since catastrophe and weather-risk insurance is a new concept in the participating countries, lack of Government commitment and action to promote such insurance would significantly slow, but not stop, progress on PDO.	General risk is lack of Government commitment to support catastrophe and weather-risk insurance.	Government participation as shareholders and through CRIF Advisory Board. Donor financed technical cooperation for regulatory changes and awareness campaigns.	
		Albania: The Government committed to SEEC CRIF under the AL-DRMAP project and has been working on revising its regulatory framework *Politics and Governance.* Albanian politics continues to be very polarized with deep divisions between the two main political parties. However, the current system of Government is well accepted, making the prospect of protests to transform the system relatively remote. Both parties are committed to movement toward EU accession, which has wide popular support. Legal	Albania: *Politics and Governance.* Major shift in Government policy or reverse in trend toward more secure and predictable property rights.	Albania: *Politics and Governance.* The Bank has adopted an even-handed approach in developing its program, keeping both the Government and opposition apprised of the program and soliciting inputs as warranted. It is also consciously engaging relevant local government, civil society and private sector actors in the design of specific operations. Finally, close cooperation with the EU and maintenance of an "EU" perspective with respect to policy support also helps to maintain momentum.	

Risk Category	Risk Rating[13]	Risk Rating Explanation	Risk Description	Proposed Mitigation Measure	Status[14]
		framework for property rights generally complies with inter-national standards but in practice needs greater predictability. Slow progress in processing restitution claims further complicates the land regularization process.			
		Macedonia: The Government has been seeking catastrophe and weather-risk insurance and is especially keen to see the program succeed. They will need technical cooperation on regulatory policy. Sound fiscal management allowed Gov't to embark on stimulus. Add'l measures taken to mitigate impacts of the crisis such as supporting access to finance for SMEs, credit line from EIB, payroll reform. National Bank tightened foreign exch. policies to protect currency peg. In late 2009, EC noted significant FYRM progress on meeting key priorities, particularly on governance and stability.	Macedonia: *Macro.* Slow macroeconomic growth due to global financial crisis and threat of contagion from Greece and Euro zone. *Politics and Governance.* Government stability expected, but risks remain on pace of EU membership linked to resolving name issue with Greece. Inter-ruption in progress towards membership could weaken public support for reforms. Unemployment is persistent and high – which could under-mine support for Government and increase social tensions. Parts of civil service politicized and ability to retain high quality Government staff is limited.	Macedonia: Government committed to reform, including FY11 DPL. The Government is actively engaged in negotiations with Greece and has achieved EU "candidate" status. Judicial, public adm. and health reforms were pillars of PDPL series. New public procurement law under preparation.	

Risk Category	Risk Rating[13]	Risk Rating Explanation	Risk Description	Proposed Mitigation Measure	Status[14]
		Serbia: There is an established insurance culture and the Government is solidly behind the idea of catastrophe and weather-risk insurance. The likelihood is considered low.	Serbia: *Politics and Governance.* Inefficient and slow administration of justice remains a key constraint to protecting property rights and ensuring rule-based governance. Serbia's policy-making and coordination system, critical for EU integration, is still fragmented.	Serbia: Gov't will continue reforms envisaged in comprehensive National Judiciary Reform Strategy developed with Bank assistance. Bank will also support reform through MDTF and eventual judicial sector project. Gov't will strengthen policy coordination and set up new Planning and Monitoring Sector to coordinate policy and monitor progress.	
2.2 Institutional Risk (sector & multi-sector Level)	Medium-I	Most of the sectors and actors have a common interest in working together but the impact of lack of cooperation/ coordination would be high.	Varying levels of commitment and involvement across sectors and actors in catastrophe and weather-risk insurance (Agriculture, Energy, DRM, Water, Environment, Hydromets, Transport, Finance, Insurance Regulator, insurance companies) resulting in inter-agency rivalries and program implementation stalemate.	The program is designed to encourage cooperation among sectors/actors involved – the .	
3. Implementing Agency Risks (including FM & PR Risks)	Medium-I	The risk likelihood is low, given the means by which the management company will be selected, but the impact on the PDO would be high if the risk did occur.	Weak operational management due to the lack of professional staff in the company. Mismanagement of countries' capital contributions by the Facility (particularly with regard to financial management and procurement).	See Below	

Risk Category	Risk Rating[13]	Risk Rating Explanation	Risk Description	Proposed Mitigation Measure	Status[14]
3.1 Capacity	Medium-I	There is documented interest of large primary and reinsurance companies in the Program and a strong and experienced Facility manager should be easily recruited. Lack of Financial Management and Disbursement staff experienced in Bank-financed projects FM.	Weak operational management Lack of staffing experienced in Bank FM policies and procedures.	Competitively selected private manager for Facility. Appointment of an experienced FM/Disbursement consultant and development of a FMM for the grant.	
3.2 Governance	Low	There is limited scope for shareholders to make political decisions since the Facility will be run by a private sector operator and a professional Board.	Government shareholders may make political decisions.	Shareholder agreements set the scope of Government involvement.	
3.3 Fraud & Corruption	Low	There is little likelihood that this risk will materialize (see mitigating measures). The Swiss Solvency Test requires adequate reinsurance of risk, so the impact would be low as well.	Bank funds (country contributions) are misused. GEF funds for technical assistance are misused.	Countries' capital contri-butions financed by the Bank will be managed according to the rules and procedures established in the company's Operations Manual (which was approved by the Bank) and that the company will be subject to an annual external audit. GEF funds will be subject to the same Operations Manual.	
4. Project Risks					
4.1 Design	Medium-I	FINMA has been pro-active during Program preparation already and will continue so; risk unlikely to occur but would have high impact if it does. Experience in other countries has shown latent demand for	Underestimation of risk exposure Low demand for catastrophe and weather-risk insurance products	Europa Re has a professional Board and is subject to the Swiss Solvency Test. Demand studies being conducted as part of program preparation.	

Risk Category	Risk Rating[13]	Risk Rating Explanation	Risk Description	Proposed Mitigation Measure	Status[14]
		catastrophe insurance products.			
4.2 Social & Environmental	Low	The program is designed to improve affordability of catastrophe and weather-risk insurance products; by transferring the financial risk to the private sector, governments will be better able to target assistance to the very poorest.	No environmental risks; Social issues include affordability/coverage of the poorest and most vulnerable populations.	N/A	
4.3 Program & Donor	Low	Some countries do not fit within donor priorities. Lack of funding will affect the success of the program in those countries, but regional approach somewhat mitigates the effect. Europa Re can provide some funding from its capital, but it will slow down implementation.	Lack of donor funding for technical work, weather stations, public awareness campaigns	Donor funding has been secured for part of the work and the GEF Grant will cover the remainder. Countries may also fund weather stations and public aware-ness campaigns from own funds and/or as part of other donor-funded programs.	
4.4 Delivery Quality	Medium-L	The program will be managed by a competitively selected private Management Firm with oversight from shareholders. While natural disasters may occur, insurers will be covered by reinsurance which will enable them to pay claims. Experience from similar programs (TCIP, CCRIF) shows that, as long as well managed, catastrophe and	The Facility may not be skilled in monitoring and contract management. Occurrence of natural disasters during program implementation may tax insurers' ability to pay. Sustainability of catastrophe and weather-risk insurance program.	Will be monitored during program supervision and support provided if needed. Diversification of risk across a wide geographic area and over different types of risk; reinsurance of risks on the global market	

Risk Category	Risk Rating[13]	Risk Rating Explanation	Risk Description	Proposed Mitigation Measure	Status[14]
		weather-risk insurance programs not only self-sustain, but grow.			
4.5 Other	Medium-L	In the present economic environment a timely privatization of Europa Re will not be guaranteed, but does not affect PDO. The risk is likely to translate into lower volume of premiums written during the first years of Europa Re operation.	Failed PPP exit strategy. Slow start-up associated with an entrance of the product on new markets.	The involvement of development finance institutions such as IFC and EBRD can help to attract private investors. Governments remain shareholders. The Business Plan will include the scenario with a slower than anticipated uptake.	

A - Proposed Rating <u>before</u> Decision Meeting[15]:

Project Team	**Risk Rating: Preparation**	**Risk Rating: Implementation**	**Date**	**Comments**
Overall Risk				

B - Review by IL Risk Team for Decision Meeting:

Risk Team	**Risk Rating: Preparation**	**Risk Rating: Implementation**	**Date**	**Comments**
Overall Risk				

[15] For Track II Operations only.

Final Decision Meeting Rating:

Appraisal Decision Chair	**Risk Rating: Preparation**	**Risk Rating: Implementation**	**Date**	**Comments**
Overall Risk				

Annex 4
Operational Risk Assessment Framework (ORAF)

Negotiations and Board Package Version[16]

Project Development Objective(s)	
The Project Development Objective (PDO) is to enable Europa Re, a catastrophe and weather-risk re-insurance facility, to develop new weather risk insurance products, automate insurance underwriting, pricing and claims settlement processes for such products, and increase public awareness of weather risk in participating countries.	
PDO Level Results Indicators:	1. Risk models for regional flood as well as local models for temperature and precipitation are developed.
	2. Weather risk products are developed.
	3. Web-based underwriting platform and other insurance applications are launched.
	4. Web-based interactive consumer education tool on catastrophe risk is launched.

Risk Category	Risk Rating	Risk Description	Proposed Mitigation Measures
Project Stakeholder Risks	Low	There is a risk that the countries participating in Europa Re will not carry out regulatory and policy reforms required for the successful implementation of the program.	The risk is mitigated through the creation of country Working Groups consisting of key government agencies and chaired by the Minister of Finance or similar high ranking government official in each facility member state.
Implementing Agency Risks	Medium-L	The risk relates to the inability of Europa Re to implement the project in accordance with the time-table and technical specifications envisaged by the Bank.	The risk is mitigated by the creating of a specialized company, Europa Re, which will employ a cadre of professional staff to implement the project. In addition, the project will be closely supervised by the Bank throughout the project

[16] This is the version that should be used for Negotiations and submission for Board Approval.

			implementation cycle.
Project Risks			
• Design	L	The risk of poor project design may manifest itself in the scope of work considerably exceeding available project resources.	The risk has been mitigated through amassing a considerable amount of donor funds in support of technical preparation work. In addition, as the project become more advanced, Europa Re is likely to receive significant revenue from its own reinsurance operations which will supplement the original endowment funds provided by the project donors.
• Social and Environmental	NA	The project was rated as category C.	
• Program and Donor	L	The risk of donor withdrawal or lack of interest in supporting the project has receded leaving the project without necessary financial support.	By now Europa Re is a recipient of $4.4 million grant from SECO and with this project will be in receipt of another $5.5 million, which should enable it to successfully complete all technical project preparation work.
• Delivery Quality	M-L	The risk of poor quality deliverables in the end of the project cycle.	The risk is mitigated by the fact that Europa Re will retain world-class technical expertise and will be receiving constant feedback from the ultimate beneficiaries of the project – insurance companies and governments - throughout the project implementation cycle.

Overall Risk Rating at Preparation	**Overall Risk Rating During Implementation**	**Comments**
Low	**Medium-L**	

Annex 5: Implementation Support Plan

Monitoring and Evaluation. Europa Re will monitor and evaluate program results as part of its statutory activities; monitoring costs will be absorbed by the reinsurance company. Individual country data (e.g. on insurance penetration rates) 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 Board of Directors and the World Bank. Tracked data will be linked directly to the program results framework. The M&E reports will be used to continuously assess SEEC CRIF effectiveness; any necessary corrective measures will be introduced.

Financial Management. The FM arrangements under the GEF grant are not yet established. It is anticipated that the FM/Disbursement consultant selected will be appointed to implement the grant FM function. The FMM will be agreed with the World Bank. As part of grant implementation support, for about four years, the Bank will conduct risk-based FM implementation support and supervision at appropriate intervals. During that period, the Bank will review the grant financial management arrangements including: (a) grant semiannual IFRs, annual audited financial statements, auditors' management letters, and recommended remedial actions, if any; (b) Europa Re accounting and internal control systems; (c) budgeting and financial planning arrangements; and (d) disbursement management and financial flows. A Bank-accredited FM specialist will conduct the implementation support and supervision process; initially anticipated as predominantly desk reviews, but field visits are not ruled out, depending on the risk levels and applicability of supervisions remotely.

Procurement. All procurement activities envisaged under the grant will be carried out in accordance with the Bank procurement rules by a certified procurement specialist employed by Europa Re. The activities will be closely supervised by the World Bank project procurement team which will review and provide no objections to all procurement packages above the thresholds defined in the project procurement plan.

Implementation Support. Taking into account risks and mitigation measures identified in ORAF, the following summarizes technical support that will be provided during implementation.

I. Implementation Support

Schedule	Focus	Skills Needed	Partner Role
First 12 months	Sign stakeholder documents; release country contributions; hire Management Company and CEO; supervise technical studies	Program management; expertise in catastrophe insurance and operations; financial management.	Key partners will be Europa Re and Ministries of Finance of participating countries.
12-48 months	Supervise CRIF operations and reporting.	Program management; expertise in catastrophe insurance and operations; financial management.	Key partner at this stage will be Europa Re.
Other	Supervise CRIF operations and reporting.	Program management; expertise in the catastrophe insurance and operations; financial management.	The key partner at this stage will be Europa Re.

II. Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Program management; expertise in catastrophe insurance and operations; financial management.	20 SWs in the first year and 15 SWs in the following years	1-2 trips	The first year of implementation will be the most supervision-intensive when the key technical studies will be carried out, policy actions taken in the participating countries, and operational structure and model of CRIF established.

III. Partners

Name	Institution/Country	Role
SECO	Domiciled in Switzerland	Donor
UN ISDR	Domiciled in Switzerland	Donor and program partner

Annex 6: Team Composition

World Bank staff and consultants who worked on the program include the following:

Name	Title	Unit
Eugene N. Gurenko	Lead Financial Sector Specialist	GCMNB
Alison C. N. Cave	Senior Urban Development Specialist	ECSS6
Jonathan Pavluk	Senior Counsel	LEGAF
Jose Janeiro	Senior Finance Officer	CTRFC
Kashmira Daruwalla	Senior Procurement Specialist	ECS02
Arman Vatyan	Senior Financial Management Specialist	ECS03
Sonja Nieuwejaar	Consultant	ECSSD
Lynette Alemar	Senior Program Assistant	ECSSD