

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA46505

Project Name	Kazakhstan: Southeast Europe and Central Asia Catastrophe Risk Insurance Facility (P152230)
Region	EUROPE AND CENTRAL ASIA
Country	Kazakhstan
Sector(s)	Non-compulsory pensions and insurance (70%), SME Finance (30%)
Theme(s)	Other Financial Sector Development (70%), Climate change (30%)
Lending Instrument	Investment Project Financing
Project ID	P152230
GEF Focal Area	Climate change
Borrower(s)	Europa Re
Implementing Agency	Europa Re
Environmental Category	C-Not Required
Date PID Prepared/Updated	19-Jan-2016
Date PID Approved/Disclosed	02-Feb-2016
Estimated Date of Appraisal Completion	01-Feb-2016
Estimated Date of Board Approval	04-Apr-2016
Appraisal Review Decision (from Decision Note)	The appraisal review decision has been to proceed with the appraisal and negotiation of the project.

I. Project Context

Country Context

Globally, economic losses from climate-related and geological perils are rising, exceeding US\$100 billion per annum over the last few decades. In 2013, the economic losses caused by natural disasters amounted to US\$125 billion, while the average economic loss for the period from 1980 to 2012 was US\$115 billion. In addition to the economic toll, natural disasters have been the source of death and disability for millions of people world-wide.

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

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

Kazakhstan also experiences devastating earthquakes, which tend to occur every 80 to 100 years. The last highly damaging period of seismic activities was 1885-1911, when several large earthquakes struck Verneskoye (1887), Chilik (1889) and Keminskoye (1911). During these earthquakes, the city of Almaty was almost flattened. The more recent Zhambyl province earthquake in May 2003 killed 3 people and affected 36,626 others.

To address the impact of climate change and other natural disasters on homeowners, SMEs, and the national economy at large, the government is preparing a new Law on Compulsory Catastrophe Insurance. Technical assistance for the draft law is currently underway under a separate program of Bank technical assistance financed by the FIRST, GFDRR and JERP. This TA program, however, mainly focuses on the preparation of the law and supporting insurance regulations, which leaves the part related to the implementation of the law unattended. The proposed project will directly address this gap in the ongoing Bank program of technical assistance to the government by providing a comprehensive package of insurance market infrastructure in support of catastrophe insurance products for climate related hazards to be offered by local insurers under the proposed national compulsory catastrophe insurance scheme as well as outside the scheme. The insurance products to be developed and offered under the project will cover the risks of flood, steppe wind and catastrophic drought. Coverage of the latter will be of main benefit for the country's agriculture sector as the current crop insurance scheme in Kazakhstan requires a major overhaul to improve the quality of insurance coverage to deal with adverse effects of extreme weather events in the sector.

Sectoral and institutional Context

Like other countries in Southeast Europe and Central Asia, Kazakhstan has limited financial capacity to assist its population in regaining assets and productive capacity destroyed by natural disasters. Over the last few years, the government fiscal space to cope with unpredicted large outlays caused by natural disasters has been severely reduced due to falling global commodity prices, and the reduced demand for the country's exports due to worsening economic situation in the region. From 1990 to 2014, damages due to natural and technological disasters in Kazakhstan totaled over \$280 million USD, although the extreme economic loss potential due to natural disasters projected by probabilistic risk models exceeds several billion dollars. For this reason, one of the basic tenets of disaster risk mitigation is the transfer of financial risk to the private (re) insurance markets. Catastrophe risk insurance is a means of transferring the financial and fiscal risk of disasters from government to the private sector. Not only does it protect homeowners, SMEs and the national economy at large from natural disasters but it also enables more effective targeting of government assistance following such catastrophic events.

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

The World Bank has extensive experience in facilitating the establishment of national and regional insurance pools, both disaster-related such as the Caribbean Catastrophe Risk Insurance Facility (CCRIF), the Turkish Catastrophe Insurance Program (TCIP), and the Romanian Catastrophe Insurance Pool (PAID), and non-disaster related such as the African Trade Insurance (ATI). This is a highly specialized field in which the World Bank is uniquely placed to mobilize donor funding, provide required technical guidance and policy advice to the government, and build a solid technical and legal foundation for the establishment of national insurance programs.

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

Based on the valuable experience and specialized insurance expertise developed under SEE CRIF in designing effective catastrophe and weather insurance market infrastructure and national catastrophe insurance markets, the Bank would like to extend the outreach of the program to Kazakhstan and, at a later stage, to other countries of Central Asia. The proposed Phase II of the CRIF Program – Southeast Europe and Central Asia Catastrophe Insurance Facility (SEECA CRIF) – aims to provide comprehensive technical support to the government of Kazakhstan and the local insurance market in addressing the adverse effects of climate change on the national economy through the development of an advanced insurance market infrastructure that will support mass sales of compulsory and non-compulsory catastrophe insurance products through local insurance companies. It is envisaged that by developing the modern market insurance infrastructure that can

support the launch of affordable catastrophe insurance products under the national compulsory catastrophe insurance for homeowners and SMEs as well as beyond it, the project will greatly contribute to the country's climate change adaptation efforts and will help the government to better formulate climate change adaptation and mitigation policies.

II. Proposed Development Objectives

The Project Development Objective (PDO) is to assist Kazakhstan with developing a modern catastrophe insurance market infrastructure that will support the launch of affordable, innovative catastrophe insurance products covering the risks of weather extremes.

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

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

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

III. Project Description

Component Name

Comments (optional)

IV. Financing (*in USD Million*)

Total Project Cost:	5.00	Total Bank Financing:	0.00
Financing Gap:	0.00		

For Loans/Credits/Others	Amount
Borrower	0.00
Global Environment Facility (GEF)	5.00
Total	5.00

V. Implementation

As numerous technical activities financed by the project require highly specialized insurance and reinsurance expertise to ensure their completion on time and to the specifications, it is crucial that the implementation of the project is carried out by an experienced and technically competent (in insurance and reinsurance) project implementation agency. In addition, to achieve satisfactory compliance with the World Bank project implementation guidelines in the areas of procurement, disbursement and financial management, it is also essential that the project implementation agency has the established successful track record in managing similar Bank projects in the past.

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

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

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		x
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x

Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)**VII. Contact point****World Bank**

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