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IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-80300, IBRD-80310, TF-10940)

ON

LOANS TO SERBIA AND FYR MACEDONIA
IN THE AMOUNT OF US$10 MILLION

AND A

GLOBAL ENVIRONMENTAL FACILITY GRANT (P123896)
IN THE AMOUNT OF US$5.5 MILLION

TO THE

EUROPA REINSURANCE FACILITY (*EUROPA RE)*

FOR THE

SOUTHEAST EUROPE CATASTROPHE RISK INSURANCE FACILITY
(SEEC CRIF)

November 21, 2016

Finance and Markets Global Practice
Social, Urban, Rural, and Resilience Global Practice
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective as November 21, 2016)

Currency Unit	=	US$ and CHF
CHF 1	=	US $1.02
US$1	=	CHF .98

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ATI	African Trade Insurance Facility
AYII	Agriculture Yield Index Insurance
BiH	Bosnia and Herzegovina
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CRIF	Catastrophe Risk Insurance Facility
DRMAP	Disaster Risk Mitigation and Adaptation Program
ECA	Europe and Central Asia
EM-DAT	Emergency Events Database
FINMA	Swiss Financial Market Supervisory Authority
FM	Financial Management
FMM	Financial Management Manual
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GEO	Global Environment Objective
GFDRR	Global Facility for Disaster Reduction and Recovery
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
MDG	Millennium Development Goal
PAID	Romanian Catastrophe Risk Insurance Pool
PDO	Project Development Objective
PIMO	Public Investment Management Office
PPP	Public Private Partnership
RBS	Risk Based Supervision
RS	Republika Srpska
SECO	Swiss State Secretariat for Economic Affairs
SEE	Southeast Europe
SEEC	Southeast Europe and Caucasus
SME	Small and Medium-sized Enterprises
SST	Swiss Solvency Test
TCIP	Turkish Catastrophe Insurance Pool

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Data Sheet

A. Basic Information

Country(s):	FYR Macedonia and Republic of Serbia	Project Name:	Southeast Europe and Caucasus Catastrophe Risk Insurance Facility Program Adaptable Program Loan (APL 1)
Project ID:	P110910	L/C/TF Number(s):	
ICR Date:	November 21, 2016	ICR Type:	
Lending Instrument:	APL	Borrower:	FYR Macedonia and Republic of Serbia
Original Total Commitment:	$10m (USD)	Disbursed Amount:	$10m (USD)
Revised Amount:	NA		

Environmental Category: C

Implementing Agencies: Europa RE

Cofinanciers and Other External Partners: GEF

B. Key Dates

Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:		Effectiveness:		
Appraisal:		Restructuring(s):		
Approval:	March 3, 2011	Mid-term Review:		
		Closing:	December 2015	December 2015

C. Ratings Summary

C.1 Performance Rating by ICR

Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	High
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Unsatisfactory	Government:	Moderately Unsatisfactory
Quality of Supervision:	Moderately Satisfactory	Implementing Agency/Agencies:	High
Overall Bank Performance:	Moderately Unsatisfactory	**Overall Borrower Performance:**	Moderately Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating**
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Satisfactory		

D. Sector and Theme Codes

	Original	Actual
Sector Code (as % of total Bank financing)		
Other non-bank financial intermediaries	100%	100%
Theme Code (as % of total Bank financing)		
Other financial and private sector development	50%	50%
Climate change	30%	30%
Natural disaster management	20%	20%

E. Bank Staff

Positions	At ICR	At Approval
Regional Vice President:	Cyril Muller	Philippe Le Houerou
Country Director:	Ellen Goldstein	Jane Armitage
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F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Documents)

The PDO for the SEEC CRIF Program was to help increase access of homeowners, farmers, the enterprise sector, and government agencies to financial protection from losses caused by climate change and geological hazards. The Project (APL1, P110910) had the same development objective, beneficiaries and PDO level results indicators as the Program. However, the Project specifically pertained to the territory of the Borrowers (FYR Macedonia and Serbia), rather than Southeast Europe and the Caucasus as a whole.

In the case of the GEF TA project (P123896), the PDO was 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.

Revised Project Development Objectives (as approved by original approving authority)
NA

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1:	Increase in catastrophe insurance penetration.			
Value quantitative or Qualitative)	2%	10-15[1]%	na	2-10%
Date achieved	March 2011	December 2015		December 2015
Comments (incl. % achievement)	Based on the surveys of the insurance market conducted by Europa RE in December of 2015, in the absence of expected demand boosting policy actions on the part of the governments, the target for this indicator was achieved only partially. In Serbia now 10 percent of homes are covered by catastrophe insurance coverage provided through Europa RE insurance partners and other private insurers. In the case of FYR Macedonia, the penetration still remains considerably below that benchmark on the order of 1-2 percent depending on the peril covered. However, as per the PDO, the project was successful in increasing access of homeowners, farmers, the enterprise sector, and government agencies to financial protection from losses caused by climate change and geological hazards. Now, as the result of the project, the populations of Serbia and FYR Macedonia have access to highly affordable high quality catastrophe products which are available through 9 insurance companies and hundreds of insurance agents, retailers and banks. In the case of FYR Macedonia, from early 2017, the public is also expected to have access to affordable catastrophe insurance products through the largest local telecom company. In addition, the project raised awareness of consumers about catastrophe insurance, brought attention of regulators, governments and insurance companies to			

[1] The PDO performance indicator for APL1 and GEF TA is not the same, in the case of APL1 its threshold is set at 15 percent while in the case of GEF it is 10 percent.

	the importance of catastrophe insurance as a product line, thus stimulating supply of such products and creating a sustainable market-based mechanisms for delivering affordable-catastrophe insurance products to the people of Serbia and FYR Macedonia. It should be noted that this ICR is for two projects (P110910 and P123896) that comprise the SEEC CRIF program.

(b) Intermediate Outcome Indicator(s) (Component One): Participation in the SEEC CRIF

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1:	Number of countries that implement the minimum regulatory and policy framework required for CRIF.			
Value quantitative or Qualitative)	0	5	3	3
Date achieved	March 2011	March 2011		March 2014
Comments (incl. % achievement)	Although APL2 was not implemented and thus the target number of countries was reduced from 5 to 3, APL1 successfully saw all participating countries (Serbia, FYR Macedonia and Albania) in SEEC CRIF complete the minimum regulatory frameworks required for the Facility.			
Indicator 2:	CRIF capital amount.			
Value (quantitative or Qualitative)	0	$29m	$12.1m	$12.1m
Date achieved	March 2011			June 2012
Comments (incl. % achievement)	APL2 was not implemented due to the lack of interest on the part of potential country borrowers (Montenegro and BiH). As a result, the target values were reduced from $29m to $12.1m, APL1 loans for Serbia and FYR Macedonia became effective by June 2012, with the final disbursement by FYR Macedonia taking place in September of 2012.			

(c) Intermediate Outcome Indicator(s) (Component Two): Technical assistance

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1:	Grant Funding Mobilized.			

Value (quantitative or Qualitative)	0	$12.0m		$14.22m
Date achieved	March 2011	December 2015		December 2015
Comments (incl. % achievement)	Through donor funding from GEF, SECO, the EU and UN, SEEC CRIF not only reached the target of mobilizing $12m in grant funding but surpassed it by over $2 million. In 2016, the project received the additional $9 million in TA funding from SECO and GEF to continue its activities in SEE and expand to Kazakhstan.			
Indicator 2:	Fulfillment of technical preconditions for launch of products (# of countries for which technical design work completed).			
Value (quantitative or Qualitative)	0	5		3
Date achieved	March 2011	December 2015		March 2014
Comments (incl. % achievement)	Although APL2 was not implemented and thus the target number of countries was reduced from 5 to 3, Europa RE successfully fulfilled the technical preconditions for the launch of catastrophic insurance products in Serbia, FYR Macedonia and Albania.			

G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	17-Jun-2011	Satisfactory	Satisfactory	0
2	05-Jul-2011	Satisfactory	Satisfactory	0
3	08-Feb-2012	Satisfactory	Moderately Satisfactory	0
4	26-Dec-2012	Satisfactory	Satisfactory	$10.79m
5	17-May-2014	Moderately Satisfactory	Moderately Satisfactory	$12.86m
6	03-Apr-2015	Moderately Satisfactory	Satisfactory	$14.34m

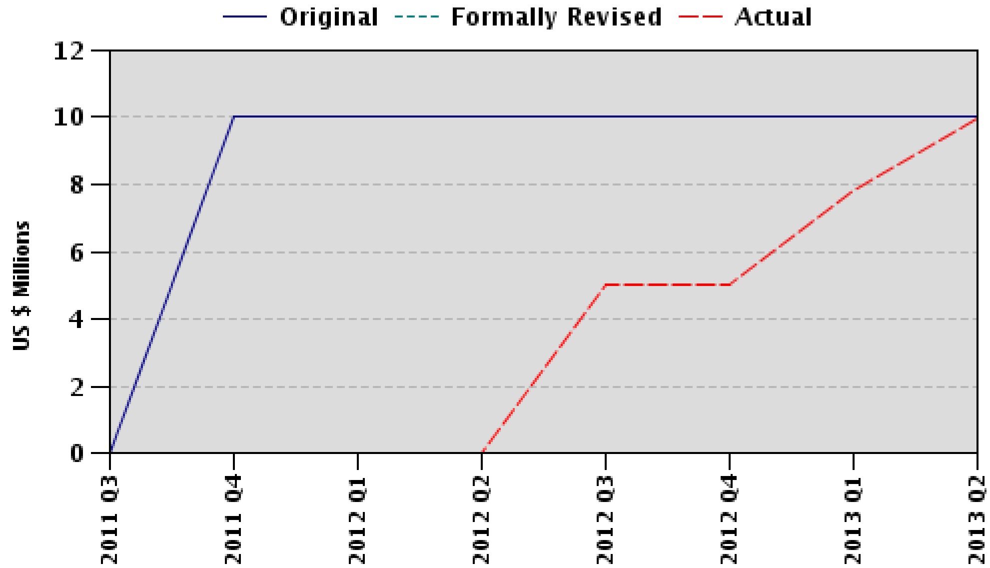
H. Restructuring (if any)

Not Applicable

I. Disbursement Profiles

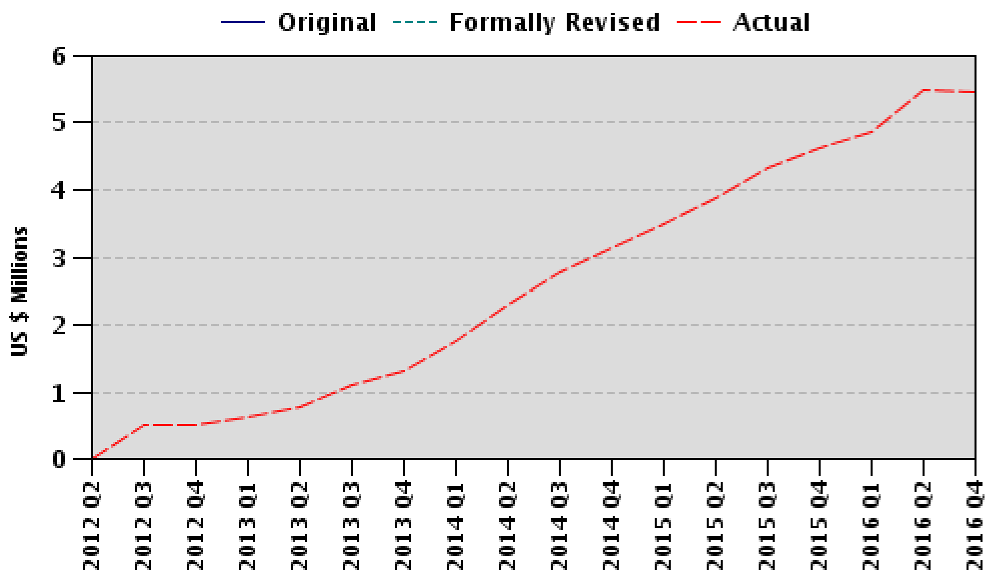
Disbursement Profile for SEEC CRIF (P110910)

Loan	Currency	Amount	Disbursed	Undisbursed	Cancellations
IBRD-80300	US Dollars	5.00	5.00	0.00	0.00
IBRD-80310	US Dollars	5.00	5.00	0.00	0.00



Disbursement Profile for GEF (P123896)

Loan	Currency	Amount	Disbursed	Undisbursed	Cancellations
TF-10940	US Dollars	5.50	5.47	0.03	0.00



1. Project Context, Development and Global Environment Objectives Design

1.1 Context at Appraisal

1. South East Europe (SEE) is particularly vulnerable to seismic and hydro-meteorological perils, especially as climate change becomes increasingly pronounced in the region, adversely affecting government budgets due to the growing financial risk exposure of SEE countries to catastrophic events. Over the years, natural hazards have caused severe socio-economic damages and loss of human life in SEE countries, limiting GDP growth and productive activity, and increasing indebtedness and fiscal imbalances.

2. Transferring catastrophic risk from the public sector to the private sector through the purchase of catastrophic insurance products reduces the financial exposure of homeowners, small and medium enterprises (SMEs), and governments to catastrophic events. At the inception of the project in 2010, disaster risk insurance products were virtually non-existent in the countries of Southeast Europe, with coverage levels ranging between 1-2 percent. Low public awareness of catastrophe insurance, coupled with additional supply-side limiting factors and expectations of government assistance, exacerbated these market inefficiencies. As a result, in the case of a major catastrophic event, homeowners and SMEs would have had to rely on government post-disaster aid.

3. To address this lack of a catastrophic insurance market, in 2007, the World Bank began working with SEE countries who were interested in participating, as well as supporting institutions, to establish a Southeast Europe and Caucasus Regional Catastrophe Risk Insurance Facility (SEEC CRIF), a facility that would offer voluntary catastrophic insurance coverage to homeowners and SMEs in participating member states through private local insurance companies. The development objective for the SEEC CRIF program was to develop new disaster and weather risk insurance products supported by a dedicated reinsurance capacity, automate insurance underwriting, pricing and claims settlement processes for such products, and increase public awareness of disaster and weather risk in participating SEE countries.

4. In 2008, the SEEC CRIF program received its first infusion of capital from the Disaster Risk Mitigation and Adaptation Project in Albania (DRMAP) (P110845) and Albania became a founding member of SEEC CRIF by contributing $2.1 million of capital to the Facility. To implement the SEEC CRIF program, in November 2009, Europa Reinsurance Facility Ltd. (Europa RE) was established by Albania, FYR Macedonia and Serbia in Switzerland, known for being one of the most rigorous and far-reaching risk-based insurance supervision regimes in the world. However, the capital contribution from Albania alone was not sufficient to meet the minimum capital requirements for a reinsurance company in Switzerland, which, along with the need for more regional diversification of risk, necessitated new country membership.

5. In March 2011, the World Bank approved the SEEC CRIF Project (P110910), which financed membership contributions of FYR Macedonia and Serbia to Europa RE in the amount of USD 10 million. The funding for these country membership contributions was provided under APL I in the form of IBRD loans of $5 million each to FYR Macedonia and Serbia. Initially, multiple SEEC countries expressed interest in joining the program and the project was originally approved as a horizontal Adaptable Program Loan (APL) with two phases. It was envisaged that APL2 would finance the Facility's membership contributions of Montenegro, Georgia and Bosnia Herzegovina (BiH). However, in the end, both Montenegro and Georgia decided not to participate and BiH did not ratify the minutes of negotiations drafted after extensive official negotiations with the country in February 2015.

6. At the time, countries wishing to join the SEEC CRIF program were required to make a membership contribution toward the capitalization of Europa RE – both the implementing agency for the SEEC CRIF project, as well as the reinsurer for the catastrophe risk products provided by the program in the member countries. The contributions could be paid either from the countries' own resources or financed by an IBRD loan or IDA credits.[2] In the end, all country membership contributions for the current facility members were financed with IDA/IBRD resources thus allowing Europa RE to apply for a Swiss reinsurance license, which required a minimum of CHF 10 million in fully paid-up capital. Because Albania had already provided $2.1m under DRMAP to SEEC CRIF, once the $10m of APL1 under the SEEC CRIF Project was fully approved and disbursed, Europa RE had the necessary funds to apply for a Swiss reinsurance license, thus, making the APL 2 not strictly necessary for the capitalization of the Facility.

7. The original duration of P110910 was from March 3, 2011 until December 31, 2015, with the objective being to help increase access of homeowners, farmers, the enterprise sector, and government agencies to financial protection from losses caused by climate change and geological hazards. The project was designed to support the development of a regional catastrophe risk insurance market and transfer financial and fiscal risk for natural disasters in Southeast Europe and Caucasus countries from governments to the private sector. In all participating countries, the Ministries of Finance were the main counterparts. To move forward with project implementation, each country created an Inter-Ministerial Working Group chaired by the Ministry of Finance, consisting of key government Ministries, insurance supervisory agencies, and the central banks. From the inception, Europa Re instituted a Policy Advisory Board, intended to serve as a forum for policy discussions among facility member countries and Europa Re on the progress made during the project in each country. Since 2012, the Policy Advisory Board, held twice a year, convened country high ranking country representatives at the

[2] With SEEC CRIF fully capitalized, joining SEEC CRIF no longer requires country capital contributions. As can be seen in the latest SEECA CRIF project for Kazakhstan, countries do not necessarily need to become shareholders of the Facility to benefit from its technical expertise and access to reinsurance capacity but rather can join the SEEC CRIF program by expressing a formal commitment to the development of a domestic catastrophe risk insurance market and securing financing (either from donors or from their own budget) for the development of primary insurance infrastructure required for the launch of catastrophe insurance products.

level of Senior Director. In addition, Europa Re held annual shareholders meetings with all member countries which were regularly attended by senior country representatives. [3]. Further, to maintain close contact with the government policy makers in each market for the purposes of project implementation, Europa Re opened Country Representative Offices in all three member states. The staff of Europa Re Country Office has been in regular contact with the governments and used every available opportunity to ensure their awareness of the project and secure their commitment to its successful implementation.

8. From the inception, due to strong reservations from the Borrowers, the design of the project did not envisage to make catastrophe insurance compulsory in FYR Macedonia and Serbia but instead opted for developing a private market for such insurance, which required minimum involvement of the government. Throughout the project implementation the governments of Serbia and FYR of Macedonia were supportive of the project. This has been made evident by the unwavering commitment of the Serbian MoF (throughout all changes in MoF administrations) to provide the project with the minimum enabling environment that was a pre-requisite for its implementation. This culminated in the important amendment to the Serbian Insurance Law, sponsored by the MoF at the end of 2013, which allowed all foreign catastrophe reinsurers, to offer reinsurance capacity in the Serbian insurance market without establishing a fully capitalized local reinsurance subsidiary. The Serbian MoF has also been highly supportive of the project objectives to provide coverage to municipalities. Over the last few years of its implementation, the project has also found welcome support for its objectives from the Public Investment Management Office (PIMO), which has recognized in SEE CRIF Program as an important vehicle for improving the current state of catastrophe risk management at the local government level.

9. In the case of FYR of Macedonia, the main project counterparts under the project were the MoF and the Insurance Supervision Agency (ISA). Both have been supportive of project objectives and throughout the project have made every effort to meet the *essential* prerequisites for the project implementation such as approving Europa Re as an accredited reinsurer in FYR of Macedonia, approving the insurance products designed under the SEE CRIF for sale through local insurance partners, and introducing innovative catastrophe insurance products to the public. In addition, Europa Re products are included in the Governmental Program for financial support in agriculture.

10. Specifically, the project had two components. The first component was to finance country membership contributions to the Facility, i.e. the $10m in IBRD loans to Serbia and FYR Macedonia. The second component was to provide the technical assistance required to build catastrophic insurance markets in the Facility member states, which included capacity building of key stakeholders such as insurance regulators to achieve better quality regulation of catastrophe insurance markets. Along with other donor funds, the TA component (component two) for both the SEEC CRIF project and program was

[3] In the case of FYR of Macedonia, the country was represented on several occasions by the President of ISA – Insurance Supervision Agency, and by a diplomatic attaché in charge of Economic Affairs, from the Macedonian Embassy in Switzerland.

funded by a separate, standalone GEF grant (P123896), approved by the Board in November 2011 in the amount of $5.5 million[4]. Europa RE was appointed as the implementation agency for the TA part of the program, which included: (i) risk mapping and modelling for participating countries; (ii) design and pricing of appropriate catastrophe risk insurance products; (iii) creation of weather and crop yield databases to support parametric weather insurance; and (iv) technical assistance for regulatory and policy reforms to create an enabling market environment.

1.2 Original Project Development Objectives (PDO) and Key Indicators (as approved)

11. The objective of the Project, as set out in the Loan Agreement, was "to help increase access of homeowners, farmers, the enterprise sector and government agencies in the territory of the Borrower to financial protection from losses caused by climate change and geological hazards."

12. As outlined in the PAD for P110910, the most important result of the proposed operation was increased access to affordable weather risk coverage and catastrophe insurance for households and SMEs in the region. This outcome would be measured by the following key indicators:

Component One: Participation in the SEEC CRIF:
1. Increase in catastrophe insurance penetration;
2. Number of countries that implemented the minimum regulatory and policy framework required for CRIF;
3. CRIF capital amount.

Component Two: Technical assistance:
1. Grant funding mobilized;
2. Fulfillment of technical preconditions for launch of products.

13. Europa RE reported on performance targets through annual and semi-annual reports. While the PAD reflects targets from the original design with APL1 and APL2, the ICR and datasheet reflects targets and actual values at project closure.

1.3 Original Global Environment Objectives (GEO) and Key Indicators (as approved)

14. The Global Environment Objective (GEO)/PDO, as highlighted in the Grant Agreement for the Southeast Europe and Caucasus Catastrophe Risk Insurance Facility

[4] Additionally, to build the comprehensive and complex insurance infrastructure that is required for the development of a strong, regional catastrophic risk insurance market, the overall SEEC CRIF program also received funding from other donors for technical assistance. In March 2010, the Swiss State Secretariat for Economic Affairs (SECO) provided $4.45m (P117069), with a later replenishment of $4.12m. In September 2012, the Global Facility for Disaster Reduction and Recovery (GFDRR) provided $0.15m (TF12450). In June 2013, EU/UNISDR provided a $0.37m grant to Europa RE.

GEF (P123896), was to "enable the Recipient 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 the Participating Countries."

15. As outlined in the PAD, the PDO indicator for P123896 was an increase in catastrophe insurance penetration. Intermediate indicators for component one (technical and regulatory assistance) included the following:

1. Number of countries that implemented the minimum regulatory and policy framework required for CRIF;
2. Grant funding mobilized;
3. Fulfillment of technical preconditions for launch of products (per country).

1.4 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

16. The PDO for P110910 was not revised during the implementation phase and the results framework essentially remained in place. However, due to the APL2 not materializing, several intermediate indicator target values were adjusted to reflect the change in the number of participating countries and capitalization amount.

17. While the PAD reflects targets for the APL program, the ICR (and datasheet) reflects targets and actual values at the closure of APL 1. Specifically, the target value for the indicator "Number of countries that implemented the minimum regulatory and policy framework" was changed from five to three countries. The CRIF capital amount was also changed from original target value of $29 million to a revised $12.5 million. Lastly, the indicator "Fulfillment of technical preconditions for launch of products (# of countries for which technical design work completed), the target value was changed from five to three countries.

1.5 Revised GEO (as approved by original approving authority) and Key Indicators, and reasons/justification

18. The GEO/PDO for the Southeast Europe and Caucasus Catastrophe Risk Insurance Facility GEF (P123896) and the key indicators were not revised.

1.6 Main Beneficiaries

19. Target beneficiaries of SEEC CRIF were homeowners, farmers and the enterprise sector that could purchase dependable catastrophe insurance coverage and/or index-based parametric weather risk insurance contracts at competitive prices. The purchase of disaster insurance would translate into a financial safety net to protect the lifetime savings of homeowners, farmers and businesses, savings that are typically embedded in property equity.

20. Direct beneficiaries also included local insurance companies in participating countries that would be able to expand and deepen their insurance business. Specifically, local insurers would benefit from lower administrative costs, reduced technical complexity in issuing catastrophic and weather insurance coverage, increased premium income and market share, improved regulatory and internal risk management practices, efficient claims settlement and catastrophe response technologies, and access to global reinsurance markets.

21. Indirectly, catastrophic insurance also protects the mortgage industry by ensuring that property equity is not lost after a catastrophic event, which ultimately reduces the cost of borrowing, improves equity valuations and access to credit.

22. At a broader level, the SEEC national governments would also experience many economic and fiscal benefits by reducing government contingent fiscal liabilities due to natural hazards and mitigating adverse impacts of natural hazards on fiscal stability and economic growth. The program would free up fiscal resources that governments could target to post-disaster aid for the neediest citizens, because governments would no longer have to provide disaster compensation to citizens who could finally afford catastrophe insurance coverage.

1.7 Original Components (as approved)

23. The project had two components. First, the IBRD loans were to finance Serbia and FYR Macedonia’s membership contributions to the Facility. Under APL1, the component was financed by IBRD loans to FYR Macedonia and Serbia. Under APL2, this component was envisioned to be financed by IDA credits to Bosnia and Herzegovina and Georgia and an IBRD loan to Montenegro.

24. The second component was financed by donor funds and implemented by Europa RE and covered: (i) risk mapping and modelling for participating countries; (ii) design and pricing of appropriate catastrophe risk insurance products; (iii) small weather monitoring stations and data sets to support parametric weather insurance; and (iv) technical assistance for regulatory and policy reforms to create an enabling market environment.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

25. Preparation for Serbia and FYR Macedonia’s membership in SEEC CRIF commenced in April of 2010. In March 2011, after appraisals and negotiations were complete, the Bank approved loans in the amounts of USD $5 million each to FYR Macedonia and Serbia to finance their membership contributions to the Facility and complete the capitalization of Europa Re. In November 2011, the Bank Board also

approved the GEF grant (P123896) in the amount of USD $5.5 million to Europa RE to fund a considerable amount of the technical assistance under Component 2 of Project (P110910) such as risk mapping and modelling for participating countries; design and pricing of appropriate catastrophe risk insurance products; small weather monitoring stations to support parametric weather insurance; and technical assistance for regulatory and policy reforms to create an enabling market environment.

26. The project adopted the same design that had been used for Albania's DRMAP project, also drawing heavily from the lessons learned in various World Bank 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).

27. A key design element of SEEC CRIF was to ensure that Europa RE could become a professional reinsurance organization, free of political pressures from its shareholders. To this effect, the company retained an independent Board of Directors composed of insurance/reinsurance professionals. The country shareholders were represented at the annual shareholders meetings – the highest governance body of the company under the Swiss corporate law. In addition, to ensure pro-active government participation, the governments were represented in the company's Policy Advisory Board, which on average met twice a year and had the objective of formulating recommendations for Europa Re management on main strategic priorities. The design of SEEC CRIF also incorporated a well-defined exit strategy for government participation by providing for the privatization of government shares in five to seven years. These specific features of the company's governance ensured that the SEEC CRIF program would remain free of government political interventions and eventually could transition to the private sector.

28. Europa RE's business model was also designed for financial sustainability. Early on, it was decided that Europa RE would be established and registered in Zug, Switzerland, and regulated by FINMA, thus ensuring that the company would fall under the most rigorous and far-reaching risk-based insurance supervision in the world. Moreover, Europa RE was designed as a *reinsurer* and not as a retail insurer. Being a reinsurer would ensure that Europa RE would not become a direct competitor with local insurance companies. As such, it was assumed that Europa RE would undertake the activities of a reinsurer, with the local insurers providing distribution channels for insurance products developed under the program.

29. Another design element was that Europa RE would ensure actuarially sound pricing of reinsured risk by using state-of-the-art probabilistic and actuarial risk models. Moreover, the company was to develop the local catastrophe risk insurance markets in Southeast Europe by not only providing the tools necessary to sell catastrophic insurance products, but also by building the capacity of key stakeholders to ensure proper management of the catastrophic insurance markets.

30. In this two-pronged approach, Europa RE would equip local insurance companies with adequate reinsurance and insurance market technology to enter or expand presence in catastrophe and weather risk insurance product lines, to include earthquake and flood insurance, as well as multi-peril agricultural insurance products. Thus, local direct insurers who entered the program would benefit from dedicated reinsurance capacity for the risk arising out of sales of insurance products endorsed by Europa Re. Local insurance companies would also benefit from access to a sophisticated web-based production platform with integrated insurance technology applications that included automated pricing and underwriting, innovative claims management services, financial and regulatory reporting and risk management. Second, in developing the local insurance markets, Europa RE would also help build the capacity of local insurance supervisors to ensure that they could properly supervise their respective catastrophic insurance markets. This would include such things as developing an RBS framework, training insurance regulators in catastrophe risk insurance supervision, and providing catastrophic risk monitoring tools.

31. Lastly, to stimulate demand under the program, CRIF member governments were expected, although on the best effort basis, to launch public information campaigns, make catastrophe insurance compulsory for all mortgage borrowers living in disaster-prone areas, ration government post-disaster aid to a fraction of average insurance coverage benefits, and adjust insurance market regulations to provide incentives for private insurers to increase the volume of catastrophe insurance premiums. This last design element was critical for rapidly increasing the level of catastrophe insurance penetration measured by the PDO indicator. As seen in other catastrophic insurance programs such as TCIP and PAID, both public awareness campaigns and compulsory disaster insurance over time[5] led to a material increase in demand and lasting financial sustainability of these programs.

2.2 Implementation

32. Although the Bank approved loans in March of 2011, due to a delay in amending national insurance laws, actual implementation took place over three years later. Despite the fact that the SEEC CRIF took more time to establish than expected in Serbia and FYR Macedonia, Europa Re used that time to accomplish the major technical activities required under the project implementation plan, which inter-alia involved organizing internal operations, preparing a business plan, and preparing technical documentation in support of its application for a reinsurance license from FINMA (the Swiss Insurance Regulator) – an intense, and very detailed application process.

33. To build its own internal operations, which included opening offices in three countries, Europa RE also had to identify and enter into partnership agreements with private insurers in member states that would act as the distribution channels for the

[5] In the case of Turkey, it has taken 17 years for TCIP to reach the level of catastrophe insurance penetration at the rate of about 35%. In the case of Romania PAID, 7 years after the program launch the penetration still remains at about 20%.

products developed under the SEEC CRIF program. Overall, nine insurers were enrolled to become Europa Re insurance partners. The technical activities carried out by Europa RE during the implementation of the SEEC CRIF program also included the collection of risk data; the development of earthquake and flood risk models as well as the development of minimum technical insurance premium rates for earthquake, flood and area yield index insurance products; the creation of a web-based underwriting/pricing and production platform for insurance agents and direct online sales; a highly innovative claims management program; training of hundreds of insurance agents and dozens of loss adjustors; and building public awareness of disaster risk as well as catastrophic insurance products among the general public. By 2014, the Facility was up and running in all participating countries.

34. At the very beginning of the project, in September 2011, Europa Re engaged a catastrophe risk modeling company to develop flood and earthquake risk models for SEEC countries, as well as an IT company to develop a web-based underwriting platform. In the fall of 2011, Europa RE also carried out the first Regional Europa RE Insurance Conference "Developing Catastrophe and Weather Risk Markets in SEE: From Concept to Reality" in Ohrid, FYR Macedonia to present the Facility to the insurance market in the region. This conference kicked off the multi-year project and engaged key stakeholders from the very beginning.

35. During that timeframe, Europa RE also completed the model regulatory framework for Risk-Based Supervision (RBS) of catastrophic risk for all member states. Meanwhile, the national governments of Albania, Serbia and FYR Macedonia created country government working groups for project implementation.

36. On December 8, 2011, the loan agreement for Serbia was ratified by the Serbian Parliament and became effective. In January 2012, the GEF grant was also made available for disbursement. In April of 2012, Europa RE retained a professional insurance services company, with a 16-person full-time management team, to manage Europa RE operations. During this timeframe, Europa RE also signed the first two business cooperation agreements with private insurance companies in Serbia and Albania, thus securing its first business clients for its services and distribution channels for its products.

37. A delay occurred in ratifying the FYR Macedonia loan agreement, which only became effective on June 8, 2012. However, when final disbursements were made by all three participating countries, in December 2012, Europa RE ratified a capital increase and issued new shares to FYR Macedonia.

38. Over the next year, Europa RE completed numerous essential project activities. Early in 2013, Europa RE completed the development of insurance products (earthquake and flood) and underwriting guidelines for all three countries. The company also established resident offices in all three countries. In April 2013, Europa RE entered into partnership agreements with several Macedonian insurers to launch Agriculture Yield Index Insurance (AYII), a multiple-peril loss of crop yield policy that insures against all climatic, naturally occurring and biological perils.

39. By May 1, 2013, Europa RE had carried out regulatory training workshops with the National Bank of Serbia, as well as the Macedonian Insurance Supervisory Authority, on the RBS framework for catastrophe risk that was to be introduced in member states. A few months later in October 2013, Europa RE entered into business cooperation agreements with three additional insurers in Albania and Serbia. In December 2013, Europa RE signed a partnership agreement with another Macedonian insurer, thus securing distribution channels for its products in all three countries.

40. Meanwhile, internally, a key focus for Europa RE's efforts was to complete its application for a reinsurance license from FINMA - the Swiss Financial Markets Regulator – a comprehensive application process that required a detailed business plan and financial projections, as well as proof of capitalization. On December 13, 2013, Europa RE received its regional reinsurance license, which represented a major milestone for the SEEC CRIF program as it enabled Europa RE to start operations on the ground in early 2014 by providing reinsurance capacity (for risk emanating from sales of catastrophe insurance products) to insurance partners selling Europa RE insurance products in three countries.

41. Although the technical assistance (component two) ramped up quickly, component one got off to a slow start. First, Serbia took ten months to ratify the loan agreement, while FYR Macedonia took over 15 months to make the loan effective. Second, even though the Serbian Parliament fairly quickly ratified the loan, it took another two years (December of 2013) before the Serbian Parliament amended its Insurance Law to enable foreign catastrophe reinsurers, including Europa RE, to operate in the Serbian market without creating a fully capitalized local reinsurance subsidiary. Thus, the project implementation in Serbia started with an effective two-year delay.

42. However, once Serbia amended its law at the end of 2013, Europa Re was able to largely make up for the time lost. By March of 2014, Europa RE had finalized all the technical preparations (actuarial pricing, product design, IT platform configuration, local market procedures and regulatory requirements) for the launch of its regional insurance and reinsurance operations. Upon receiving the approvals from insurance regulatory authorities in all three countries, the company was in the position to enable insurers in member countries to sell catastrophe insurance products designed under the SEEC CRIF program through its underwriting platform, and provide them with a turn-key insurance policy support service, inclusive of pricing, underwriting, risk management, claims management services and reinsurance.

43. In May of 2014, the unprecedented Serbian floods provided Europa RE with an opportunity to test and validate the AIR Flood Risk Model, as well as the remote sensing based claims management system devised under the program. Only a few days after the commencement of major floods, with the approval of the Serbian government, Europa RE initiated a damage assessment initiative by conducting aerial and on-the-ground data/image collection surveys. All collected data was processed and the damage

assessment report shared with the Serbian Government within 5 days from the inception of the floods.[6]

44. The remaining months of 2014 saw Europa RE carrying out training sessions for hundreds of insurance agents and dozens of loss adjustors, organizing the Second Regional Insurance Conference in Belgrade, Serbia, and completing the PR and marketing campaigns in the member countries. By the end of 2014, the project was fully operating in all three member countries - Albania, FYR Macedonia and Serbia.

45. However, despite Europa RE successfully addressing all supply side deficiencies in the local insurance markets, by the beginning of 2015, it was becoming increasingly clear that the market-based mechanisms delivery mechanisms for catastrophe insurance products developed under the project would be unable to achieve the levels of catastrophe insurance penetration, particularly in FYR Macedonia, envisaged by the project PDO indicator due to the weak demand for optional insurance products at large. Low demand was due to a variety of factors. The biggest challenge was that four years into the project, the economies of both countries have been growing at a rather slow rate or, during some years, were in stagnation, and in Serbia after the 2014 floods, post-disaster government subsidies to homeowners and farmers raised expectations that the government would compensate them for losses, further dampening demand for catastrophic insurance. Neither country also went beyond the list of “essential” measures envisaged under the project, thus depriving the project of potentially important policy driven demand boosting measures.

46. This was an issue that had been repeatedly addressed in supervision missions during implementation. For example, as early as in November 2012, during the project supervision mission in Serbia, the team discussed with the government the importance of additional government policy support measures for the project by requiring catastrophic insurance coverage for mortgage loans in disaster prone areas. However, despite extensive and repeated discussions with the government on the need for decisive policy measures, which inter alia could include compulsory disaster insurance, when the supervision mission visited Serbia in June of 2015 and informed the government counterparts that demand for catastrophe insurance products was well below initial expectations due to the lack of demand-boosting policy measures, it indicated that it was not prepared to introduce compulsory catastrophe insurance in the short to medium term. A similar view on the introduction of any compulsory or semi-compulsory catastrophe insurance requirements was expressed by the government of FYR Macedonia.

47. In the absence of policy driven demand boosting measures by the governments, weak low public awareness of disaster risk, as well as a lack of interest by consumers in SEE to buy optional insurance products, the levels of catastrophe insurance coverage fell short of initial project expectations. To help raise public awareness of disaster risk and

[6] By comparison, a traditional post-disaster damage assessment of the May 2014 floods conducted by the Serbian Government and supported by the WB, EU, and the UN, took 5 weeks to complete.

boost demand for catastrophic insurance products, Europa RE developed CATMonitor[7] – an interactive consumer website for the public to better understand and measure risk, which includes several features for effectively visualizing hazard, property risk exposure, and loss information before and after natural disaster events. Europa RE also developed and carried out extensive public relations campaigns in each country through mass and social media.

48. Another reason for low demand for catastrophic insurance products was that standalone earthquake products were not very attractive to insurance agents who preferred selling catastrophe insurance bundled with other policies in order to realize higher amounts of insurance commissions. Moreover, some of Europa RE insurance partners had weak sales networks, which contributed to low sales volumes. To tackle this particular problem, Europa RE focused on creating new market tools, explored alternative distribution channels, and expanded insurance partners' sales networks. To facilitate the sales of catastrophe insurance products, in 2015, Europa RE developed micro-earthquake insurance products in order to utilize alternative distribution channels, in addition to the traditional retail market. Europa RE also developed an online sales portal with a simplified user interface in order to facilitate online sales of catastrophe insurance products. At the end of 2015, Europa RE launched the sales portal in Albania and started working with Serbia to launch a similar online sales portal in 2016. Europa RE also began looking into bundling catastrophic insurance products with other more common insurance products such as the compulsory Third Party Motor Liability insurance to make them more attractive for insurance agents. In addition, in the fall of 2016, Europa Re through a local insurance partner entered into a partnership with a major Macedonian telecom (VIP) to offer catastrophe insurance to its mobile telephone clients in 2017.

49. One further area that was contributing to weak demand was the lack of a Risk Based Supervision framework. Throughout the life of the project, the implementation of an RBS framework had been a focal point of discussions with insurance regulators. A more advanced RBS was important for tightening supervisory oversight over companies' management of catastrophe risk, thereby increasing the public's trust of catastrophic insurance products. In 2011, Europa RE completed a model regulatory RBS framework of catastrophic risk for member states, and in 2013, carried out regulatory training workshops with government counterparts on the RBS framework that was to be introduced in member states. However, it was not until mid-2014 during a supervision mission in Serbia, when parties agreed that RBS would not be required at that time due to the limited risk of earthquakes in Serbia and the complexity with properly recording flood risk accumulations by insurers, which made it technically cumbersome to implement. It was agreed that the catastrophe risk exposures arising from the sale of catastrophe insurance products in the country would be addressed in the course of implementing Solvency II. Enactment of RBS supervision measures was also postponed in FYR Macedonia due to the unpreparedness of the local insurance market to face

[7] See www.catmonitor.com

considerably higher capital requirements until the introduction of Solvency II and due to the relatively low volume of optional catastrophe insurance business written by local companies. However, the RBS requirements developed under the project were legally adopted in Albania. Their proper enforcement by the regulator however still remains an issue.

50. Although weak demand was due to a variety of factors such as low public awareness, it cannot be overstated how important compulsory catastrophe insurance requirement is for achieving meaningful levels of catastrophic insurance penetration in a relatively short time frame (e.g. 4 years). Had the government stakeholders enacted obligatory disaster insurance legislation, it is very likely that catastrophic insurance penetration rates would have been much higher.[8] To increase the level of catastrophe insurance coverage, the last year of project implementation was mainly spent by Europa RE on developing new, innovative ways to increase sales through private distribution channels, as well as developing PR campaigns on disaster risk. Although sales went up due to these efforts, and some of these innovations are likely to bear fruit in a few years from now, compulsory disaster insurance and offering new appropriate products at affordable prices is still the best and most effective way of ensuring a quick increase in the level of disaster insurance coverage in countries with nascent insurance markets, undeveloped insurance culture and relatively low income of the population.

51. Nevertheless, putting the issue of lower than expected demand aside, at closure, the project succeeded in achieving its stated PDO objective of increasing access to affordable catastrophe insurance for homeowners, SMEs and farmers in all three project countries. In all three project countries consumers can now obtain highly affordable catastrophe insurance products through a variety of distribution channels that include insurance companies and their agents, retailers, banks, an online portal and, as of recently, a telecom. The products offered include:

- Swiss Visual Pro catastrophe insurance coverage[9] for damages caused to property and contents by earthquake (and fire following an earthquake) in Albania, FYR Macedonia, and Serbia;
- Swiss Visual Pro catastrophe insurance coverage for damages caused to property and contents by flood in Serbia and FYR Macedonia;
- Agriculture yield index insurance (AYII) coverage in FYR Macedonia and Serbia, designed to protect farmers from the loss of crop yields due to adverse weather events and biological risks. AYII has proven to be an excellent form of coverage for systemic or covariate risks such as drought, frost, windstorm, continuous excess rain damage, high temperatures and catastrophe flood which have huge impact over a broader area (e.g. at the municipality level). Tailored for specific

[8] In the case of compulsory insurance programs in Turkey (TCIP) and Romania (PAID), the number of insured homes is measured in millions – 6.5 mm and 2 mm, respectively.

[9] Swiss Visual Pro is the brand name of catastrophe insurance products developed by Europa Re for the countries of SEE. All products under this product line rely on unique damage scale based approach to claim settlement, which increases the speed of claims processing many-fold compared to traditional claims settlement.

crops, this insurance product provides protection to farmers against extreme weather events that affect crop yields.

- Micro-insurance for property damages caused by earthquakes in Serbia.
- Micro-insurance for living allowance in the case of property damaged in Albania.
- Municipal insurance coverage for EQ, Flood and other weather perils in Serbia and FYR of Macedonia.

52. Europa RE accredited local insurance companies, which have been trained to sell Europa RE endorsed products and agreed to follow the technical requirements of the program, are now selling all the above insurance policies. Europa RE continues to work with primary insurers to standardize their underwriting processes and pricing of stand-alone catastrophe insurance policies reinsured under its treaties. Moreover, Europa RE continues to offer highly competitive reinsurance terms to its partner insurance companies. Local insurers in partnership with Europa RE are able to access the company's designated reinsurance capacity to cover all or part of catastrophe risk written through Europa RE's web-based production platform.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

53. From the project outset, the M&E framework suffered from some important flaws. The main one pertains to a major mismatch between the PDO statement, which emphasized "increasing access" to affordable catastrophe insurance as the objective, and the single PDO indicator that measured the level of catastrophe insurance penetration in the country borrowers. The PDO indicator refers explicitly to "increase in catastrophe risk insurance penetration'" which relies on multiple (supply and demand) factors, with the demand factors being well beyond the project reach and its design objective. International experience shows that catastrophe insurance proposed on a voluntary basis has limited penetration even after many years of operations (e.g., EQ insurance offered by the CEA in California has less than 20% penetration and the PAID, even as a compulsory program, has a penetration of less than 20%). It is also unfortunate, that the PDO was measured only by one indicator compared to on average 5 indicators in a typical Bank investment project, which prevents the M&E framework to adequately reflect the real level of accomplishment of the PDO. In the hindsight, the project PDO should have been measured by the indicators that reflect the ease of access of consumers to catastrophe insurance products, the variety of product distribution channels developed under the project, and product cost and quality. While the project succeeded in increasing access to insurance for consumers through the establishment of a fully integrated value supply chain (including the establishment of a dedicated reinsurance company, development of state-of-the-art cat models, use of satellite technology, use of web-based technology and launch of multiple insurance delivery channels) and bringing to consumers highly affordable coverage (e.g. micro cat insurance products designed under the project are being offered for EUR 1-7 for the level of insurance coverage ranging from EUR 2000-10,000), it was not enough to generate demand for cat insurance (even with heavy investments in awareness raising) at the level envisaged by the PDO indicator.

54. As noted earlier, during implementation, some performance targets in the results framework were altered to reflect that APL2 was not going to be pursued. The targets were based on a number of assumptions, including that Europa RE would be successful in operationalizing its reinsurance business and that participating countries would implement regulations to spur demand for catastrophe insurance.

55. The performance targets ranged across a variety of data inputs. Results were monitored and evaluated by Europa RE as part of its statutory activities, with the monitoring costs absorbed by the reinsurance company. The system that was developed by Europa RE for selling insurance policies by local insurance companies automatically collected sales data, which was then aggregated by Europa RE and provided to its Board of Directors, country shareholders and the Bank. The information that Europa RE was required to provide was never an issue. Europa RE provided financial and management reports on a regular, timely basis, including quarterly reports.

56. Monitoring and evaluation was also executed through transparent governance of the program. Throughout implementation, the program was constantly evaluated by member states during annual shareholder meetings, as well as during Policy Advisory Board meetings that were regularly held by Europa RE to debrief member states about program implementation and seek their feedback. Prior to formal meetings with government shareholders, Europa RE held regular meetings on project implementation in every member country with the Intergovernmental Working Groups, MoFs and insurance regulatory bodies.

2.4 Safeguard and Fiduciary Compliance

Safeguards

57. No safeguard policies were triggered and the project was classified as a Category C: likely to have minimal or no adverse environmental (or social) impacts.

Fiduciary

58. The project (P110910) did not provide a budget for technical assistance, nor for Europa RE's operating costs. Technical assistance and operating costs were funded by various donors and out of Europa RE's own capital and premium income. A good part of the TA for project (P110910) was funded and delivered under a separate GEF funded project (P123896).

59. The PAD envisaged that Europa RE would fund and procure goods and services in accordance with its own administrative procedures, as agreed with their Board of Directors and the World Bank. All Bank procurement reviews of GEF funded TA project have been consistently satisfactory throughout the project implementation period.

60. As regards financial management, the FM assessment conducted every year since the inception of the program in 2012 indicated that Europa RE had adequate FM capacity to implement the SEEC CRIF program. Financial management was rated satisfactory throughout.

2.5 Post-completion Operation/Next Phase

61. The next phase of SEEC CRIF has already started thanks to the extension of additional grant funding by SECO. SEEC CRIF's current members are strongly supportive of continuing SEEC CRIF in their respective countries. In FYR Macedonia, the CPS for 2015-2018 highlights that "continued development of the insurance mechanisms can help limit the financial damage of natural disasters to which FYR Macedonia is prone." Moreover, in Serbia's Country Partnership Framework for 2016-2020, the CPF notes that the 2012 and 2014 recessions were primarily caused by natural disasters and that, "Disaster Risk Management is an inherent part of the policy coordination and rationalization agenda (Objective 1b) as well of financial risk mitigation through the Catastrophic Risk Insurance Facility (Objective 2b)."

62. Specifically, for the next phase, the project is likely to build closer partnerships with the Public Investment Management Office (PIMO) in Serbia, which also is responsible for Flood Reconstruction and Disaster Management. For both FYR Macedonia and Serbia, the Ministries of Agriculture are also keen to see the CRIF program playing a larger role in improving the effectiveness and outreach of agricultural insurance in their countries[10].

63. In terms of the project's sustainability, the Europa RE business plan projects that the company will break even in 2016 with some support from trust funds. The business plan also envisages that Europa RE will be financially sustainable *without* trust fund support by the end of 2018.

64. In terms of fulfilling its objective to increase access to catastrophe insurance in its member countries, the SEE CRIF succeeded in designing and making available to consumers a variety of highly affordable catastrophe insurance products that are currently offered through 9 local private insurance companies in all three countries, a telecom operator in FYR of Macedonia, an online sales portal in and a commercial bank in Albania, and a retail network in Serbia. In addition, the program pioneered municipal catastrophe risk transfer coverage in Serbia, which based on the current status of discussions with the Serbian municipalities and PIMO, has the potential to considerably expand over the next few years. In the case of FYR Macedonia, the MOF expressed strong interest to explore potential options for increasing the level of catastrophe insurance coverage among the population after the recent July 2016 Skopje flood. Hence, even in the absence of mandated by law catastrophe insurance requirements, the program

[10] In his recent speech in August 2016, the newly appointed Minister of Agriculture for Serbia declared development of crop insurance for agriculture in cooperation with the WB SEE CRIF program the MOA's main priority for the next few years.

has the potential to achieve the penetration levels envisaged by the original PDO indicator by the end of its second phase in 2018. However, if measured on the basis of the current PDO indicator, given the considerable political and economic uncertainties involved in increasing the level of catastrophe insurance penetration in a given country, the risk to the development outcome remains high.

65. The future will also see additional countries joining the Facility either as new shareholders or as clients. The SEEC CRIF model is now being offered to countries in Central Asia. In April 2016, Europa RE became the project implementation agency for the $5.0 million GEF SECA CRIF project (P152230), which will assist Kazakhstan with developing its catastrophe and agricultural insurance markets. Similar projects are likely in other ECA countries in the near future.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

Objectives: Moderately Satisafactory

Design and Implementation: Moderately Satisfactory

66. The project's objectives were highly relevant when the project was designed in 2010-2011, and remain highly relevant today. As illustrated by the catastrophic flooding that occurred in Serbia and BiH in 2014, and in FYR Macedonia in March 2015 and July 2016, the region continues to experience shocks to its economy and infrastructure due to natural disasters. SEEC CRIF was designed to mitigate these shocks by transferring catastrophic risk from the public to private sector, providing quick access to funds for homeowners and SMEs to help with the recovery following natural disasters.

67. At that time, the objectives of the project were consistent with both countries' former Country Partnership Strategies (CPS) and continue to be consistent with the FYR Macedonia's current Country Partnership Strategy and Serbia's Country Partnership Framework (CPF). Moreover, catastrophe risk insurance remains a pillar of the World Bank Group Disaster Risk Mitigation Strategy.

68. The objectives were also consistent with the Kyoto Protocol, the UN Framework Convention on Climate Change, and the Bali Action Plan which all called for risk-sharing and transfer mechanisms, such as insurance, to protect people from adverse effects of climate change. Specifically, the Hyogo Framework for Action 2005–2015 identified the need to "promote the development of financial risk-sharing mechanisms, particularly insurance and reinsurance against disasters," as a priority action for "Building the Resilience of Nations and Communities to Disasters." Most importantly, the objectives supported the GEF platform to prepare for climate change risks by creating access to parametric weather-risk insurance and transferring climate change risk from the public to the private sector.

69. As regards to the relevance of design, the PAD presented a comprehensive risk assessment framework, which focused on the key operational risks to the SEEC CRIF model. While the risks focused a great deal on the implementing agency, Europa RE, which was understandable because at the time the company had to be built from the ground up, less focus was placed on designing a suitable for the project PDO M&E framework, which in the end resulted in a major mismatch between the PDO statement and the only indicator measuring it. Although the PDO indicator measured a significant "increase in catastrophe insurance penetration," neither the project PDO, nor the project design or Borrowers' policy conditionalities were aligned with it. Based on the agreement reached with the Borrowers, the project design did not require the introduction of compulsory catastrophe insurance for homeowners by the governments due to the market-driven nature of the project, its small size and largely experimental pilot nature. This misalignment of the PDO objective statement and its only and main indicator, in combination with a very limited number of PDO indicators (one vs. 5 on average), in retrospect proved to be the main design weakness.

70. While in theory, one may argue that by *requiring* the introduction of compulsory insurance from both governments may have helped to achieve the PDO indicator targets, in practice attaining government commitment to such a serious domestic policy action under a very small Bank project has never been a realistic objective. During the APL1 negotiations both borrowers have been highly concerned with the political feasibility of non-essential but highly desirable policy actions envisaged under the project. The question of compulsory insurance was raised by the team on numerous occasions and was flatly rejected by both Borrowers, which preferred to opt for a less dirigiste market-based approach to providing catastrophe insurance coverage to the public. Government aversion to introduction of compulsory insurance, even in the mildest forms, was made vividly clear during the APL2 preparations in the negotiations with BiH, which decided not to ratify the minutes of negotiations due to the loan's policy precondition that required BiH to pursue rather minor demand boosting measures. A valid universal concern expressed by all participating and (interested to participate in the program) governments is that compulsory catastrophic insurance could be perceived by the public as yet another tax which may be too politically damaging for the government to realistically consider such a loan requirement. Hence, a loan precondition requiring obligatory catastrophe insurance must also consider political realities of client countries and be realistic in terms of policy requirements in project design.

71. There is no clear-cut answer to this particular dilemma. To ensure material improvements in catastrophe insurance penetration among the population within the time-frame of a Bank project, one can of course require compulsory insurance from the start as a policy conditionality. However, in most cases such an approach is likely to result in making a potential country borrower unwilling to pursue such a project further, which in turn would forfeit in the foreseeable future any prospects of improving access to catastrophe insurance for the country's population. Alternatively, the project may allow for voluntary disaster insurance delivered through the private market and end up waiting for a long time before the market based mechanisms developed under the project are

mature enough to deliver the sought after results on the demand side (e.g. thus also failing to meet its objectives within the project-time frame). This is not to say that this lower demand level currently observed in Europa Re member countries would be forever. With the main blocks of catastrophe insurance market infrastructure already firmly in place (e.g. automated risk pricing and underwriting systems, risk models, products, claims settlement systems and reinsurance capacity) demand could be built gradually through increased public awareness of these innovative insurance products, or through successful launch of new alternative private insurance delivery mechanisms (e.g. micro-insurance products through a telecom service), or member countries could independently initiate demand boosting measures at a later date once they manage to build an acceptable level of political consensus on the sensitive issue of compulsory catastrophe insurance. However, whether requiring compulsory or allowing for voluntary catastrophe insurance in project design, the underlying disaster insurance infrastructure would still need to be built in order to provide catastrophe insurance products to the public. And that, in a nutshell, represents the main and most lasting achievement of the SEE CRIF program.

72. One other area of project design that in the hindsight could have been improved was the project performance indicators. This part could have been strengthened by including (1) several more detailed indicators for the PDO, instead of trying to capture the accomplishments of a multi-faceted and complex program with one single performance indicator, (2) an indicator and measurement on public awareness of disaster risk, as well (3) as an indicator/measurement on public understanding of catastrophic insurance products being offered. These indicators/measurements could have allowed to better determine whether the level of access of population to catastrophe insurance has increased and overall public awareness heightened due to Europa RE's initiatives. With these hindsight amendments, the Results Framework could have been designed better. Nevertheless, at the time of design, the indicators were acceptable to member countries, ensuring strong participation in the program. Moreover, every indicator, except the level of insurance penetration which does not properly measure the PDO, was ultimately achieved.

73. As regards to implementation, although Europa RE achieved all milestones, participating countries' ability to implement the underlying regulations lagged behind the initial project expectations. As noted earlier, due to the two-year delay – the time that it took the Serbian Parliament to amend its Insurance Law to enable Europa RE to operate in country, - the implementation did not effectively start until two years into the project.

3.2 Achievement of Project Development Objectives

Rating: Moderately Satisfactory

74. The project aimed at "helping increase access of homeowners, farmers, the enterprise sector, and government agencies to financial protection from losses caused by climate change and geological hazards." To achieve this, the project addressed the lack of supply by creating catastrophic insurance products, and addressed the lack of demand by focusing on measures that would increase sales of catastrophic insurance. The key result

expected was the increase in availability of affordable high quality insurance products through the local industry with a potential uptick in disaster insurance penetration.

75. By all measures, the project fulfilled all supply side requisites for the creation of a viable catastrophic insurance market in the region. Europa RE developed the underlying infrastructure needed to sell insurance products such as the automated online underwriting, pricing, and sales platform, designed a state of the art claims management system based on remote sensing technologies, and carried out highly advanced risk mapping and modeling work that underpins its technical operations. Moreover, Europa RE worked with and trained hundreds of insurance agents working for local insurance companies and insurance regulators to ensure that the products could be sold in the three participating countries. By 2014, the entire supply chain was fully operational.

76. However, despite a fully functioning, comprehensive system that supplied inexpensive catastrophic insurance products (see Annex 6 for a comparison of EQ insurance rates offered by Europa Re local insurance partners vs. other companies), demand did not grow as had been expected by the project PDO indicator, which resulted in only partial achievement of the insurance penetration target. A key weakness of the results matrix was that the PDO level indicator was linked to the penetration rate of catastrophe insurance in each member country which was not the main intention of the PDO statement. While the PDO committed to increasing the access of homeowners, farmers and SMEs to affordable catastrophe insurance coverage (which involves supply side factors), the PDO indicator measured the increase in catastrophe insurance coverage (which involved both supply and demand factors, with the latter being completely beyond the reach of the project team). *The project experience clearly demonstrated that this mismatch between the PDO statement and the M&E framework had become the weakest project link.*

77. While the governments of SEEC CRIF member countries were in general supportive of the project, during the first phase of the project that support did not translate into any concrete policy measures beyond those that were deemed "essential" under the project Legal Agreement. In the case of Serbia, the government policy actions were in fact counterproductive to the overall objectives of the project because of unconditional post-disaster assistance provided by the government to homeowners after the floods of 2014.

78. To realize its PDO objective Europa RE worked closely with local insurance partners, insurance regulators, government institutions and all other relevant stakeholders to explore new ways to increase sales of catastrophe insurance in member states through market-based mechanisms. Europa RE tried to increase public awareness of disaster risk through consumer education campaigns and the development of CATMonitor, an interactive consumer website for the public to better understand and measure risk. In addition, , Europa RE worked closely with local insurance partners to design new products and explore alternative distribution channels such as bundling products and providing micro-catastrophe insurance products through mobile services (phone, cable,

TV, and internet). Europa RE also developed an online sales portal with a simplified user interface in order to sell low cost catastrophe insurance products directly to the public.

79. Although the level of insurance penetration somewhat increased due to these measures initiated by Europa RE, catastrophic insurance penetration rates in Serbia currently stand at 10 percent (which achieves the GEO indicator) while in FYR Macedonia, as has been demonstrated by the recent floods, the penetration still remains on the order of 1-2 percent. Despite member countries indicating throughout the life of the project that they would pass some demand boosting measures for catastrophe insurance, only during the supervision mission in June 2015 did the governments make it clear that they were not prepared to introduce compulsory catastrophe insurance in the short to medium term. Despite this, they also recognized their high fiscal exposures to natural disasters and agreed to work with Europa RE and the Bank to find alternative solutions to increase the level of catastrophe insurance coverage in their countries during the second phase of the project, which will be financed by a SECO grant until 2019.

80. It should also be highlighted that even though the 10% GEO indicator for catastrophic insurance penetration was not achieved in FYR Macedonia, there is a good potential for turning things around in the next year in light of the recent agreement reached with a Macedonian telecom on the distribution of micro catastrophe insurance products bundled with telecom services (see below). On the supply side, all supply side activities have been completed and local insurance companies are now able to provide 6-7 different types of highly affordable catastrophic insurance products to homeowners, farmers and local governments. Some of these products, like flood insurance, are extremely technically sophisticated in terms of pricing and underwriting, exhibiting over 100 million risk permutations in flood pricing alone. In regards to the Facility itself, over the lifetime of this project, Europa RE has proved itself to be a competent professional reinsurer, which can now provide extensive technical assistance to countries in the region in developing national catastrophe insurance markets.

81. On the demand side, at the time of writing this report, around 1,400 primary disaster insurance policies have been sold so far in both Serbia and FYR Macedonia. Moreover, as noted in Europa RE's Weekly Production Report in August 2016, Europa RE recorded risk insurance coverage for over $16 million of property and crops in Albania, Serbia, and FYR Macedonia, thus considerably leveraging its initial capital of $12 million received from the member states. By providing insurance coverage to municipalities at the meso level, over the last two years Europa Re managed to insure over 30,000 ha of land, thus providing indirect coverage to over 30,000 farmers.

82. Europa RE also continues to work with participating countries to explore new distribution channels. For example, in Serbia, Europa RE and the Bank's project supervision team have been working intensively with the Public Investment Management Office (PIMO) and numerous municipalities to launch a highly innovative catastrophic insurance program for the Serbian municipalities, which is expected to commence in the fall of 2016. Through this program it is expected that at least 10-20municipalities per year will be insured against the risk of flood and earthquake.

83. Europa RE is also developing new products like micro-insurance, as well as making sales as easy as possible through the new online sales portal and via mobile phone operators. In Albania, Europa Re has linked its online sales portal to the buyers of compulsory Third Party Motor Liability insurance (MTPL), which has a penetration level of about 80 percent. Given the compulsory nature of MTPL insurance, this arrangement is expected to result in the sale of at least 20,000-30,000 policies during the next 12 months. Moreover, in July 2016 in FYR Macedonia, Europa RE entered into a ground-breaking insurance distribution agreement with the second largest Macedonian telecom company, which agreed to offer micro catastrophe insurance to its 400,000 clients. Insurance sales are expected to commence in October 2016.

84. These are all highly innovative approaches to the distribution of catastrophe insurance products, which are well ahead of current commercial insurance market practices in the SEE markets. Successful realization of at least some of the above mentioned initiatives has the potential to considerably increase the level of catastrophe insurance coverage through market-based mechanisms without resorting to compulsory government schemes.

3.3 Efficiency

Rating: High

85. For project P110910, the project funds were to be used to provide capital to Europa RE to enable it to obtain a Swiss reinsurance license, which it successfully accomplished at the end of 2013. Measured against the industry financial efficiency standards, Europa Re also scores rather favorably. Its direct operating costs, unrelated to the implementation of the World Bank projects, were on the order of USD 0.6 mm - a rather small amount given the high cost Swiss domicile of the company[11]. Europa Re also exhibited maximum efficiency in pricing its insurance products, which allowed it to offer reliable and at the same time highly affordable flood and EQ insurance coverage in all three of its member states. For instance, in the case of Macedonia, the company offered the cheapest EQ insurance coverage in the market – EUR 14-18 for a sum insured of EUR 30,000. As of 2017, Europa Re intends to offer micro insurance coverage through the VIP telecom priced at about EUR 1-2 for an average sum insured of a few thousand euros. In Serbia and Albania, such micro-insurance are already offered through local banks and retailers to consumers. Such efficient pricing, was made possible due to the rather low overhead and profit margin loads applied by the company to the risk premium (5-10%) compared to 20-50% charged by other reinsurers.

86. One other important indicator of the project efficiency is the ability of Europa Re to achieve a highly satisfactory risk-based solvency ratio. As stated in the July 2016

[11] Due to the startup nature of the company, it is yet impossible to present Europa Re operating costs in relative terms (as a ratio of costs to premium, also known as an expense ratio).

report on Europa RE's Swiss Solvency Test (SST) filed with FINMA – the Swiss Insurance Regulator, in 2016, Europa RE achieved a solvency ratio of 284 percent, which is a testimony to the company's prudent risk management and operational efficiency.

Due to the aforementioned reasons, the efficiency rating is considered High.

3.4 Justification of Overall Outcome Rating

Rating: Moderately Satisfactory

87. The project's achievement of objectives is rated as moderately satisfactory due to a manifest misalignment between the project PDO statement and the only and main PDO indicator that measured it. While the project PDO objective was to increase access to catastrophe insurance for the population in FYR Macedonia and Serbia (achieved), the PDO indicator measured the level of increase in catastrophe insurance penetration (achieved only partially) which could only be achieved by the introduction of compulsory insurance requirements in both countries and which was well beyond the stated PDO objective and the policy influencing impact of a small and largely experimental TA pilot project.

88. The objective of increasing access to affordable catastrophe insurance coverage was achieved through the successful development of the fully integrated supply chain of catastrophic insurance, which involved the following sequence of highly challenging and demanding intermediate actions:

1. Development of customized catastrophe risk insurance models for flood and earthquake and other climate risk perils.
2. Development of insurance products for different market segments and countries, including micro insurance products and meso insurance products for local governments.
3. Development of actuarial risk models to price the products.
4. Development of a web-based automated pricing and underwriting system that can be used by insurance companies in all three markets.
5. Establishment of a "green field" reinsurance company in Switzerland to provide reinsurance capacity to insurance companies involved in sales of catastrophe insurance products.
6. Entering into partnership agreements with 9 insurance companies and training hundreds of insurance agents to sell catastrophe insurance products.
7. Establishment of alternative distribution channels, including product distribution agreements with a major telecom, several retailors, a commercial bank and an online sales portal.
8. Training insurance regulators in the fundamentals of catastrophe risk supervision and providing extensive regulatory assistance.
9. Developing a highly innovative claims management system combining elements of remote sensing and rapid field damage assessments.

89. In recognition of these project achievements, the donors that provided initial funding for the technical assistance work, have extended an additional round of funding for the second phase of the project which is now scheduled to close at the end of 2018. This additional time will be used by the project team and the project implementation entity to establish additional product market distribution channels and improve the use of the existing ones with the view to further improving access to catastrophe insurance products in all Europa Re member countries and Bosnia and Herzegovina.

90. Innovative alternative distribution approaches pursued by the company hold the potential to rapidly increase the policy count in the near future. In the aftermath of major natural disasters in FYR Macedonia and Serbia, governments expressed strong interest in exploring more proactive policy approaches to catastrophe insurance than those that have been witnessed during the time of the project implementation. Such increasing government support holds promise for considerably increasing the project outreach to consumers.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

91. While there was no mechanism in place to measure the project's impact on poverty, it is believed that SEEC CRIF will contribute to poverty alleviation and help focus government assistance on the most vulnerable populations by reducing the government's fiscal exposure to natural disasters and enable participating countries to allocate more of post-disaster assistance to the poor. Moreover, because resource-constrained consumer choices tend to cluster poorer households in disaster-prone areas, by increasing the public and government awareness of disaster risk and areas that are disaster prone, SEEC CRIF also sheds light on the disaster risks that the poor are more likely to face.

92. Furthermore, retailing for EUR 1-2 per policy, many of Europa RE's micro catastrophe insurance products directly benefit low income segments of population by making disaster insurance highly affordable. Specifically, AYII and micro-insurance products are expected to provide coverage for low-income populations that did not previously have catastrophe coverage.

93. In terms of gender, although the project could not ensure specific targeting to certain vulnerable social groups or specifically female farmers and homeowners, the project design ensured that it maintained equality by targeting both genders**.**

(b) Institutional Change/Strengthening

94. Since its establishment in 2009, SEEC CRIF and its implementing organization, Europa RE, has built a catastrophe insurance reinsurance structure, putting in place a professional reinsurance company with a management team and the expertise and skills

needed to operate a regional reinsurance company, ultimately receiving a FINMA reinsurance license. To protect its own risk accumulation, up to 95% of Europa RE's risk exposure is reinsured with "A" rated reinsurers.

95. The project also facilitated institutional change by strengthening the local insurance markets in Serbia, FYR Macedonia and Albania. Europa RE effectively implemented the supply-side for catastrophic insurance markets in three countries, providing a full suite of services such as product development, pricing, underwriting, sales, claims settlement and professional insurance products training, and entering into agreements with local private insurance companies. Moreover, Europa RE also helped to build the capacity of local insurance supervisors to effectively manage these new catastrophic insurance markets by providing them with training and modern catastrophe risk monitoring tools specific to each member state.

(c) Other Unintended Outcomes and Impacts (positive or negative)

NA

4. Assessment of Risk to Development Outcome & Global Environment Outcome

Rating: High

96. Based on the current PDO performance indicator, the Risk to Development Outcome will be viewed from the perspective of whether SEEC CRIF succeeds in stimulating demand and increasing catastrophic insurance penetration in the long-term, on a sustainable basis.

97. Working with member states in the course of project implementation, Europa RE has developed new approaches to raise sales by exploring alternative distribution channels in the local markets via mobile phone operators, commercial banks, municipal insurance coverage and sovereign insurance coverage. Full scale realization of any of these approaches is likely to yield a considerable uptick in insurance penetration. However, given the political and economic uncertainties surrounding introduction of policy driven demand boosting measures by the governments in both countries, the risk to the attainment of the project development outcome remains high.

98. In Albania, Europa RE is looking into taking the current stand-alone earthquake product and bundling it with a fire insurance (also known as FLEXA), thus creating a more attractive and competitive product. The online sales portal that was launched in Albania at the end of 2015 is also expected to generate a considerable pick-up in demand once micro cat insurance policies are offered in one package with the compulsory third party liability insurance (MTPL). Recently, Europa Re in cooperation with a local commercial bank, provided 500 policies to the bank clients. The company is now further exploring bank-assurance options for expanding its insurance sales. In FYR Macedonia, Europa RE Europa RE is working with the second largest mobile company in the country

on expanding sales of micro-products via mobile phones, thus making catastrophic insurance purchases as easy and affordable as possible. Europa RE is also working with a Serbian retailer to provide micro-insurance products via its loyalty program, a creative solution that provides both limited coverage, as well as increases public awareness of disaster risk. Tailoring sales and product design strategies to local partners' business needs is expected to increase penetration in the insurance markets.

99. Currently, we are also starting to see participating countries making strides towards regulations or policy actions that should increase demand. In FYR Macedonia, the Ministry of Finance recently indicated that they would consider the idea of the national government buying insurance protection for farmers on a wholesale level. Moreover, using Serbia as a model, Europa RE is exploring possibilities for municipal AYII coverage in FYR Macedonia, as well as coverage of large agro-producers. There are also new local insurance companies in FYR Macedonia that have recently joined the program thus increasing its outreach.

100. In Serbia, Europa RE intends to expand further its wholesale insurance pilot program at the municipal level, especially for AYII. To support this endeavor, the new Minister of Agriculture in Serbia expressed strong interest to develop a pilot program where municipalities would insure against natural disasters in agriculture under the SEE CRIF program. Serbia's Public Office of Investment Management is working closely with Europa Re to pilot a municipal disaster insurance project for municipalities through which in 2016, Europa RE expects to insure 5-10 municipalities against the risk of earthquake and flood. Already three additional Serbian insurance companies have expressed their interest to join Europa RE's agriculture program at the municipal level. Similar pilot programs of financial protection for local governments against climatic perils are currently being discussed with the governments of FYR Macedonia and Albania.

101. In Albania, with the Bank support under the FIRST funded project, Albania's government is developing a compulsory disaster insurance law, which is expected to be presented to the government for discussion at the end of 2016. The World Bank and Europa RE have also been working with Albania's banking industry to pass regulations requiring disaster insurance for loans made for real estate located in disaster zones. These regulations are expected to be enacted by the end of 2016.

102. Another key element to SEEC CRIF's viability is Europa RE's credibility as a catastrophic reinsurer. During project implementation, Europa RE gained the trust of participating governments, insurance regulators, and local insurance companies. Under this project, Europa RE also attained the minimum capital needed to start-up as a reinsurance company under Swiss Law, meaning that future participants may join SEEC CRIF not necessarily as shareholders but rather as participants that are willing to establish the necessary regulations and underlying technical requirements for Europa RE products to be sold in their country.

103. In terms of financial sustainability, despite weak demand for catastrophe insurance products supported by the company under the SEEC CRIF program, Europa RE intends to break even by the end of 2016 and achieve full financial sustainability by the end of 2018. If achieved, this will represent a major accomplishment for all Europa RE donors and stakeholders, while also assuring an exit strategy for the World Bank and other donors.

104. It is worth pointing out however that as participating countries take steps towards increasing demand through both market-based and policy driven solutions, the risk to the development outcome is likely to dissipate over time.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: Moderately Unsatisfactory

105. This project was a collaborative funding effort between the World Bank and many donors, in particular SECO and GEF. The program was meant to design and set-up the first, modern, catastrophic insurance market for a region that had little to no access for catastrophic insurance. The design of this project closely took into account the lessons learned from previous World Bank catastrophic risk insurance facilities. First, the project retained Europa RE to operate SEEC CRIF, ensuring that a professional reinsurance staff would manage operations, as well as develop actuarially sound pricing and management of reinsured risk. This particular design element was highly successful. The design also incorporated an exit strategy for government participation by requiring the privatization of government shares after 5-7 years. Although this has not occurred yet, it is expected to happen in 2016-2019 as the company achieves full-cost recovery and becomes profitable.

106. One design element that was flawed is that the project M&E framework was misaligned with the PDO. While the latter intended to achieve increased access for the population to affordable catastrophe insurance products, the former measured the increase in catastrophe insurance penetration, which involves both supply and demand side factors and goes well beyond the intended project design objectives. Achievement of the PDO indicator within the time-frame of the project could have been only possible by government policy actions to stimulate demand through public information campaigns and mandatory insurance requirements. None of such actions were required under the Loan Agreement and none were accepted by the Borrowers during the project design phase. As a result, although participating countries did implement the minimum regulatory requirements for allowing Europa RE to operate in-country (regulations that were considered essential and required), they did not implement regulations that the PAD termed *highly desirable* such as enacting regulations that required all buyers of real estate to purchase catastrophic insurance coverage.

107. Although the lack of demand was noted as a key risk during appraisal, project design did not specifically mitigate this risk by introducing the PDO indicators commensurate with the PDO statement and project overall resources. As noted in the ISR dated April 2015, the team should have anticipated how voluntary catastrophic insurance would have led to insufficient demand within the time-frame of the project and hence should not have set an unrealistic and conflicting with the PDO results measurement indicator.

108. While in retrospect, one may speculate that the project PDO indicator could have been achieved by simply requiring the participating countries to make disaster insurance compulsory, as have been noted earlier, such a requirement would have pushed countries to opt out of the program entirely from the outset, thus leaving the region without access to comprehensive, affordable catastrophic insurance products.

109. Other key risks identified during appraisal included weak operational management of SEEC CRIF and potential mismanagement of funds. However, with the establishment of Europa RE, the project implementation agency, and the attainment of reinsurance license, as well as other implementation arrangements, this concern never materialized.

(b) Quality of Supervision

Rating: Marginally Satisfactory

110. The Bank provided close support to Europa RE during the span of the project. Support took the form of proactive dialogue with Europa RE on performance and technical (insurance specific) matters and ensuring Europa RE accomplished project milestones.

111. The project team worked closely with insurance supervisors in all three countries to assist them with the regulation of catastrophe insurance markets in line with risk-based insurance supervision requirements. The project team undertook at least 2 supervision missions a year, visiting member states and having open discussions on the project's main challenges with the Ministries of Finance, Ministries of Interior and Insurance Market regulators.

112. The Bank also submitted six Implementation Status and Results Reports during the project period. The Team maintained close contact with Europa RE's management, government shareholders as well as insurance regulators.

113. One noticeable flaw in the project supervision was that the project team failed to restructure the project M&E results framework despite the clearly discernable signs of lagging demand for catastrophe insurance products in Europa Re member states one year before the project closure. A timely project restructuring could have greatly helped to refocus the main results framework and make it more precise and comprehensive.

(c) Justification of Rating for Overall Bank Performance

Rating: Moderately Unsatisfactory

114. Based on a moderately unsatisfactory quality of entry, and a moderately satisfactory quality of supervision, overall bank performance is rated ***Moderately Unsatisfactory***.

5.2 Borrower Performance

(a) Government Performance

Rating: Moderately Unsatisfactory

115. Due to FYR Macedonia's initial lag in making the loan effective, and Serbia's major delay in amending its law to enable foreign catastrophe reinsurers to operate in the Serbian market, the overall project was delayed by two years. Only in 2014 were Europa RE products made available through local insurers in all three countries.

116. Moreover, the weak political will to pass any measures to make catastrophic insurance obligatory directly led to weak demand. Although Europa RE's public information campaigns and CATMonitor increased demand for these products, if governments had been willing to implement compulsory disaster insurance, demand would most likely have considerably increased catastrophic insurance penetration rates as seen in other catastrophic insurance programs like TCIP, which has over 6.5 million insured homes under its compulsory disaster insurance program.

117. A lack of concrete policy measures was partly due to the frequent changes in government counterparts. As political administrations came and went, the project's main counterpart - the Ministries of Finance in each member country - changed as well. In Serbia alone, over the tenure of the project, there were three different Ministers of Finance and four Undersecretaries of Finance in charge of the project. With revolving government counterparts, it was extremely challenging to maintain continuity and government support for a major insurance policy initiative.

(b) Implementing Agency (Europa RE)

Rating: Highly Satisfactory

118. Overall, Europa RE accomplished all of the programmatic milestones that were required, and more. First, Europa RE built their own internal operation, retaining a professional management team and creating an independent Board of Directors. In addition, Europa RE applied for and was granted a Swiss reinsurance license (despite being a startup company lacking previous track record) and currently operates under the strict regulations of the Swiss risk-based solvency regulations.

119. Since the inception of the project, Europa RE also demonstrated a satisfactory track record in financial management, procurement and overall project supervision. Europa RE employs financial management (FM) and procurement staff, which consist of a full-time Chief Finance Officer (CFO), an accountant and a disbursement officer, as well as a procurement specialist and a contract coordinator. The financial management assessment of Europa RE, including numerous external audits, found no irregularities since the inception of the SEE CRIF program. All financial reports to the Bank, FINMA and country shareholders were submitted without delays. The procurement implementation capacity of Europa RE was also recognized as satisfactory. Three procurement reviews of Europa RE project activities under the SECO and GET trusts funds found no procurement irregularities throughout the duration of the project.

120. Moreover, not only did Europa RE build its own internal business during the lifetime of the project, but it also developed the entire supply side of catastrophic insurance markets in three member countries, which in turn allowed to launch a variety of catastrophic innovative affordable insurance products through local insurers. The company also successfully worked with insurance regulators, local insurance companies, banks and telecoms in three countries to ensure these products could get directly to consumers.

Based on the above, the implementation agency performance is rated as Highly Satisfactory.

(c) Justification for Overall Borrower Performance

Rating: Moderately Satisfactory

121. Based on a moderately unsatisfactory government performance and a high implementation agency performance, while taking into account the moderately satisfactory overall outcome rating for the project, overall borrower performance is rated as moderately satisfactory.

6. Lessons Learned

122. The following are the key lessons learned from this project. Since this particular SEEC CRIF project is part of the larger SEEC CRIF program, these lessons relate to the program as a whole.

123. First, a well-functioning catastrophic insurance market remains as important as it was when the project first started. The region faces an extremely high risk of disasters, as well as extreme weather variability, both of which are only expected to worsen with climate change. In particular, the Serbian flood in 2014 was a tipping point for the nation. After the floods, the Serbian government renewed their vow to prepare a disaster management platform that included disaster insurance. Municipal governments in Serbia also realized that the national government may not be able to fund the entire reconstruction of catastrophic events and a few municipalities began looking into

purchasing disaster insurance on the municipal level. Moreover, in order to quantify contingent liabilities, both Serbia and Albania created Offices of Risk Management in their respective MOFs. Once awareness of liabilities, including those arising from natural disasters, is in place, proactive risk management of a country's disaster risk becomes a political necessity and catastrophic insurance will become an important pillar in mitigating the negative financial impact of natural disasters.

124. Second, because consumer demand for (voluntary) catastrophe insurance products was not as expected, proactive government policies introducing compulsory demand boosting measures comes to the fore. As noted earlier, it may be difficult to require fledgling Facility partners to institute compulsory disaster insurance *immediately* (in fact, it may discourage some interested parties in joining the Facility) but perhaps a phased approach would be more feasible where catastrophic insurance is initially voluntary, and after twinning it with a public relations campaign and fiscal and financial incentives for the public and local governments, it gradually becomes compulsory. *No matter the approach, a major lesson learned for this project was that if governments were to achieve immediate (within the time-frame of a Bank project) material increases in catastrophe insurance penetration they need to make disaster insurance compulsory. However, if government objective is to pursue an evolutionary market-driven approach to increasing catastrophe insurance coverage, then the project design and evaluation framework should be explicit about the realistic levels of demand in the near future.*

125. A third lesson learned is that if countries lack the political will to make catastrophe insurance obligatory, then to spur demand, regional programs like this one need to be flexible and be able to proactively come up with alternative market based solutions. Some of the innovative products that Europa RE developed in response to lagging demand may actually become the more desirable products in the long term. For example, the Agriculture Yield Index Insurance (AYII) that Europa RE developed for FYR Macedonia and Serbia, two countries that have a large farming base, may be a product that can be provided to other farming communities in other countries. Moreover, Europa RE is currently exploring alternative distribution channels such as bundling products and providing micro-catastrophe insurance products through mobile telecom service providers (phone, cable, TV, and internet) and has recently entered into a distribution agreement for its micro EQ insurance product with a major Macedonian telecom, which has the potential of generating hundreds of thousands of policies within one year. Due to the ease in purchasing, these products may also become the preferred choice among consumers. Overall, the point of this lesson learned is that for catastrophic insurance projects where a reinsurer is the implementing agency, that reinsurance company may have to step out of its traditional reinsurance role and help develop some of the primary insurance requisites such as distribution channels, and yet <u>not</u> assume a primary insurance role. This is a tricky role for a reinsurer to undertake, which is why the reinsurer must be a highly innovative and flexible professional organization.

126. Another major lesson learned is that having a professionally managed reinsurance company like Europa RE is a necessary backbone for such an innovative and transformational World Bank project. Being a regional Facility, there needs to be one

champion to encourage the continued expansion of catastrophic insurance markets in all participating countries. By having one strong, implementing agency, there is also an economy of scale where all participating countries can share in the agency's technical expertise and reinsurance capacity. Moreover, this one agency can capitalize on the lessons learned in each country and provide these lessons (or new, improved products) to other participating countries.

127. Lastly, Bank supported programs of lending and/or TA for the purposes of increasing the level of market participation in disaster risk financing should be mindful of crucial differences between supply-side and demand side objectives. The choice of the objective should in turn dictate the design of M&E indicators and the type of Bank lending instrument. While standalone TA or small investment lending operations may be appropriate in case of supply-side building projects, in the case of demand strengthening objectives DPOs or Emergency Reconstruction Loans (with insurance demand boosting conditionalities) may present a more effective instrument choice.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies. The Government of the FYR of Macedonia reviewed early versions of this ICR, provided comments, and these have been incorporated into this report. The Government of Serbia acknowledged receipt of the report and agreed with its contents without providing specific comments.

(b) Cofinanciers

n/a

(c) Other partners and stakeholders
(e.g. NGOs/private sector/civil society)

n/a

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Component 1: Participation in SEEC CRIF. The program supported Southeast Europe and Caucasus (SEEC) countries' efforts to join Europa RE by financing their membership contributions to the Facility. Europa RE, in turn, facilitated the growth of catastrophe risk insurance markets in member countries. This component was financed by IBRD loans to FYR Macedonia and Serbia.			
Serbia	5.0	5.0	100%
FYR Macedonia	5.0	5.0	100%
Total Project Costs	10.0	10.0	100%
Component 2: Technical Assistance. This component, financed by donor funds and implemented by Europa RE, included: (i) risk mapping and modelling for participating countries; (ii) design and pricing of appropriate catastrophe risk insurance products; (iii) small weather monitoring stations to support parametric weather insurance; and (iv) technical assistance for regulatory and policy reforms to create an enabling market environment.			
GEF/SCCF Grant	5.5	5.47	99.5%
Total Project Costs	5.5	5.47	99.5%

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Borrower	0	0	0	0
IBRD Loan	10.0	10.0	10.0	100%
Donor (GEF/SCCF Grant)	5.5	5.5	5.47	99.5%

Annex 2. Outputs by Component

The SEEC CRIF project was designed with two components. Component one was the capital contributed by Serbia and Macedonia to finance their membership and subscribe for share capital in SEEC CRIF. The funds of component one enabled Europa RE to apply for a Swiss FINMA reinsurance license, ensuring strict Swiss oversight and thereby public and private trust.

Component two provided the greatly needed technical assistance to create catastrophic insurance markets in member states. This component was financed by donor funds and implemented by Europa RE. It included such things as risk mapping and modelling; design and pricing of appropriate catastrophe risk insurance products; small weather monitoring stations to support parametric weather insurance; and technical assistance for regulatory and policy reforms to create an enabling market environment.

Europa RE's main objective was to develop the local catastrophe risk insurance markets in Southeast Europe by equipping local insurance companies with adequate reinsurance and insurance market technology to enter or expand presence in catastrophe and weather risk insurance product lines. Europa RE's main business line was catastrophic disaster insurance for earthquake, flood, and agricultural yield. Specifically, Europa RE endorses the following products:

- Swiss Visual Pro catastrophe insurance coverage for damages caused to property and contents by earthquake (and fire following an earthquake) in Albania, Macedonia, and Serbia;
- Swiss Visual Pro catastrophe insurance coverage for damages caused to property and contents by flood in Serbia and FYR Macedonia;
- Agriculture yield index insurance (AYII) coverage in FYR of Macedonia and Serbia, designed to protect farmers from the loss of crop yields due to adverse weather events and biological risks.
- Micro-insurance for property damages caused by earthquakes in Serbia.
- Micro-insurance for living allowance in the case of property damaged in Albania.

Improving risk management standards at local, national and regional levels as well as educating the public on natural disaster risks and disaster risk mitigation, were also among the core objectives of Europa RE.

The following were the principal outputs (targets and achievements) associated with each component:

<u>Component One - Participation in the SEEC CRIF:</u>

(a) The number of countries that implemented the minimum regulatory and policy framework required for CRIF:

Baseline (March 2011): 0

Target (March 2014): 3
Achieved (March 2014): 3

(b) CRIF capital amount:

Baseline (March 2011): US$0 million
Target (June 2012): US$12.1 million
Achieved (June 2012): US$12.1 million

<u>Component Two - Technical Assistance:</u>

(a) Grant Funding Mobilized:

Baseline (March 2011): 0
Target (December 2015): S$12.0 million
Achieved (December 2015): US$14.22 million

(b) Fulfillment of technical preconditions for launch of products (# of countries for which technical design work completed):

Baseline (March 2011): 0
Target (March 2014): 3
Achieved (March 2014): 3

The SEEC CRIF project for Serbia and Macedonia (P110910) was part of the larger SEEC CRIF program, which also included Albania. Thus, the above outputs are for the overall program, not just the project. Moreover, along with other donor funds, the technical assistance component (component two) for both the SEEC CRIF project and program was funded by a GEF grant (P123896). The GEF grant had the same indicators as above but did not include the CRIF capital amount indicator because that indicator was specific to the capitalization of Europa RE and not about technical assistance.

Annex 3. Economic and Financial Analysis

Economic Analysis: Due to the two-year delay in implementation, Europa RE's catastrophic insurance products were only introduced to the Serbian and Macedonian insurance markets in March of 2014. Furthermore, due to the absence of regulations making disaster insurance compulsory, sales of catastrophe insurance were extremely slow at first. Only in the summer of 2015, after Europa RE initiated public awareness campaigns and began introducing new micro insurance products to utilize different distribution channels, did the sales of catastrophic insurance begin to increase. Because this catastrophe insurance data is still being collected, an analysis of economic impact is inconclusive at this time.

Despite our inability to analyze the economic impact of this particular project at this time, it's important to highlight that catastrophic insurance in the region is still crucial for a healthy economic and financial future. Natural disasters affect national productive capacity by destroying physical and human capital and 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.

Moreover, 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. 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.

In particular, catastrophic insurance can play a crucial role in ensuring the viability of the agriculture sector for the SEE region. As seen by the following table,[12] the agriculture sector is an extremely important sector in the SEE economies.

	Percent of Domestic Production	**Percent of Export**	**Population Dependent on Agriculture**	**Number of Farmers**
FYR Macedonia	12-19%	15%	30%	145,000
Albania	12%	6%	50%	350,000
Serbia	10-15%	24%	30-40%	1,350,000

When catastrophe strikes in the SEE region, the economic impact can be devastating for agriculture. This was clearly seen in the 2014 floods in Serbia. Damages to the agriculture sector totaled EUR228 million, with damage to physical assets costing

[12] http://www.internationalinsuranceforum.com/prop/wp-content/uploads/2014/10/20_ Marijana-SARAMANDIC.pdf

EUR107.9 million, and production losses costing Serbia EUR120.1 million.[13] Had agricultural yield insurance been available, these losses could have been transferred to the private sector and resulted in a payout to farmers.

Of all sectors, agriculture production is also the most influenced by climate change. SEE countries have been faced with severe droughts in the last ten years, with inestimable consequences to crops. Drought is one of the largest agricultural risks with the potential to reduce yields by over 50%. Unfortunately, with climate change, the risk to agriculture will only increase in the future. By 2050, temperatures are expected to increase by 1.9 degrees. Average precipitation is also expected to decline on average by 5%, while in the summer months, precipitation is expected to decline by 17%.[14]

Due to the high importance of the agriculture sector for the SEE region, as well as the increase in risk due to climate change, catastrophe insurance is more essential than ever for the region, especially coverage via insurance policies like AYII.

Financial Analysis. Europa RE's business model was built for financial sustainability. The company is established and registered in Zug, Switzerland, and is regulated by the Swiss Financial Market Supervisory Authority (FINMA). Switzerland is known for having the most rigorous and far reaching risk-based insurance supervision regime in the world.

With full capitalization of Europa RE totaling US$12.25 million, Europa RE fulfilled the requirements of the Swiss Solvency Test, as set out in the initial operations plan in 2011, thereby safeguarding Europa RE's long-term sustainability. Moreover, up to 95% of Europa RE risk exposure is reinsured with "A" and above rated reinsurers. The company employs a staff of reinsurance, insurance, risk modelling and GIS, IT, public relations and financial services professionals. The Board of the company comprises three independent directors with well-established international track-records in reinsurance and financial services.

The broad stakeholder oriented approach to business also ensures that government agencies, insurance regulators, local insurance companies, financial institutions and consumers are all involved in the process of achieving the company's major milestones, thus securing financial sustainability in the long-run. The following stakeholder groups are crucial for the future success of the SEEC CRIF program:

- Local insurance companies participating in the Europa RE program sell Europa RE endorsed catastrophe and weather risk insurance products to homeowners, businesses and farmers. Local insurers are fully supported by an IT (re)insurance market infrastructure that automates the insurance policy cycle and includes an innovative, image-based claims management system. Europa RE provides additional support through provision of accredited trainings for insurance agents, exploring alternative distribution channels for the catastrophe insurance products,

[13] Serbia Floods 2014, RNA Report.
[14] http://www.internationalinsuranceforum.com/prop/wp-content/uploads/2014/10/20_ Marijana-SARAMANDIC.pdf

as well as raising public awareness about disaster risks, jointly with governments and local insurers.

- Insurance regulators support Europa RE and promote its program to the local insurance industry by working together with the Europa RE team on implementation of risk based supervision methodology and risk management tools, as well as introducing new regulatory frameworks that will support sustainable catastrophe and weather risk insurance markets. Regulatory market control is sufficient to prevent underinsurance and sales of inadequate cat insurance products.
- Governments of beneficiary countries, in particular, Ministries of Finance and Agriculture, as well as other relevant institutions, are beginning to play a more active role in conceiving demand boosting policies, promoting the Facility and providing resources for public relations campaigns and awareness building. Government regular feedback on project implementation has been attained through regular government consultations carried out by Europa Re staff at country resident offices, bi-annual meetings of the government Policy Advisory Board, and annual shareholder's meetings of Europa Re.

Overall, the financial outlook of Europa RE, and thus of the SEEC CRIF program, is considered to be sustainable in the long-term given the current momentum behind the project in all member states, additional donor funding raised for the second stage of the project implementation, and the encouraging financial results of the company for the first six months of 2016.

Annex 4: Bank Lending and Implementation Support/ Supervision Processes

Southeast Europe and Caucasus Regional Catastrophe Risk Insurance Facility (SEEC CRIF)

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Philippe Le Houerou	Regional Vice President		
Jane Armitage	Country Director		
Wael Zakout	Practice Manager/Manager		
Alison Cave	Senior Urban Planner		Project Team Leader
Eugene Gurenko	Lead Financial Sector Specialist	GFM1B	Team Leader
Jose C. Joaquin Toro Landivar	Senior Disaster Risk Management Specialist	GSU09	Team Leader (ADM Responsible)
Supervision/ICR			
Jose C. Joaquin Toro Landivar	Senior Disaster Risk Management Specialist	GSU09	Team Leader (ADM Responsible)
Eugene Gurenko	Lead Financial Sector Specialist	GFM1B	Team Leader
Kashmira Daruwalla	Senior Procurement Specialist	GGO03	Procurement Specialist (ADM Responsible)
Galina Alagardova	Sr Financial Management Specialist	GGO21	Financial Management Specialist
Adam Shayne	Lead Counsel	LEGAM	Counsel
Goran Tinjic	Senior Operations Officer	ECCU4	Team Member
Jasna Vukoje	Sr Program Asst.	ECCYU	Team Member
Keler Gjika	Consultant	GFM03	Team Member
Luan Aliu	Program Assistant	ECCMK	Team Member
Senad Sacic	Program Assistant	ECCBM	Team Member
Lisa Fonick Haworth	Office Manager	GSU09	Team Member

(b) Staff Time and Cost for SEEC CRIF (P110910)

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	**USD Thousands (including travel and consultant costs)**
Lending		
FY10	19.94	119,647.54
FY11	46.00	275,977.59
Total:	65.94	395,625.13
Supervision/ICR		
FY12	16.71	100,252.52
FY13	19.45	116,676.53
FY14	12.62	75,744.49
FY15	8.26	49,535.76
FY16	12.03	72,154.09
Total:	69.06	**414,363.39**
GRAND TOTAL:	**135**	**809,988.52**

(c) Staff Time and Cost for GEF (P123896)

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	**USD Thousands (including travel and consultant costs)**
Lending		
FY11	3.23	19,397.60
Total:	3.23	**75,862.98**
Supervision/ICR		
FY12	17.30	103,829.51
FY13	35.72	214,303.04
FY14	9.45	56,680.21
FY15	4.99	29,929.69
FY16	13.71	82,262.12
Total:	81.17	**430,539.19**
GRAND TOTAL:	**84.40**	**506,402.17**

Annex 5. List of Supporting Documents

- Europa RE's Operation Manual
- SEEC CRIF Project Appraisal Document
- SEEC CRIF Implementation Status Reports and Aide Memoires
- Europa RE website and Press Releases - http://www.europa-re.com/

Annex 6: Comparison of premiums for EQ insurance products offered in FYROM

Insurance Company	Euroins	Triglav	Euroilink	Winner	Sava	Uniqa	MK Osiguruvanje	Europa RE EQ provided by IP Partners		
Premium (EUR)	38	92	21	20	71	27	21	18	16	14
Deductible	No	No	2% on SI	No	2% on SI	10% on SI or min 1.300 euros	10% on SI or min 2.000	3% on SI	5% on SI	10% on SI
What is covered:	100%	100%	Only 20% of the SI	100%	100%	100%	100%	100%	100%	100%
replacement cost per m2	500 eur	400 eur	400 eur	400 eur	400 eur	400	400 eur	400 eur	400 eur	400 eur

Notes: The rates presented in the table have been obtained by means of market survey insurance agencies which were asked to quote on a residential apartment with the following characteristics:

Unit size (m2)	**76m2**
Address	**Bul. Ilinden 5/12, Skopje city center**
Type of construction	**reinforced concrete**
Insured object	**floor/building**
Year of construction	**1980**
Floor	**3 out of 12**