I. Introduction and Context

Country Context

Bosnia and Herzegovina lie within the Mediterranean-Trans-Asian fault zone, one of the most active seismic areas of the Balkan Peninsula. The steeply sloping terrain has a propensity to generate flooding, a risk exacerbated by the growing number of settlements, industrial facilities, and critical infrastructure located in high-hazard river valleys, plains, and large karst valleys. The country is also affected by such hazards as landslide, forest fire, hail storm, windstorm with lightning, drought, early and late frost, and heavy snowstorm. About 2,500 square kilometers (60 percent of all plains and lowlands) is considered to be at high risk of floods. In the past, there were enough flood mitigation structures to protect about 50 percent of the flood-prone areas, but many of them were destroyed during the devastating Balkan war. The occurrence of landslides in the mountainous parts of Bosnia and Herzegovina is very frequent due to subsurface water flow. The number of landslides also increased considerably due to uncontrolled exploitation of forests and minerals, which changed water and land regimes, and the increase of illegal and unplanned construction. Drought risk is high in the northeast and southwest parts of the country compared to the central mountainous terrain. Two drought events of 2000 and 2003 caused a total loss of US$408 million. The droughts in Bosnia and Herzegovina can also trigger widespread wildfires, which often cross the borders with neighboring countries. The available data from EM-DAT for years 1989-2006 for both hazard incidents and number of deaths shows an increasing trend. An annual average economic loss due to disasters is estimated at about US$23 million or about 1 percent of GDP.

Sectoral and Institutional Context

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

Catastrophe risk insurance is one of the pillars of the Bank Group’s Disaster Risk Mitigation Strategy. Catastrophe risk insurance is a means of transferring the financial and fiscal risk of disasters from government to the private sector. This not only protects the national economy as well as homeowners and SMEs, but enables more effective targeting of government assistance following a disaster, all of which become increasingly important with the global financial crisis.

The World Bank has experience in facilitating the establishment of national and regional insurance pools, both disaster-related (such as the Caribbean Catastrophe Risk Insurance Facility, the Turkish Catastrophe Insurance Program, and the Romanian Catastrophe Insurance Pool) or non-disaster related (the African Trade Insurance Facility). This is a highly specialized field and the World Bank is uniquely placed to mobilize both the expertise and the participation needed to ensure a solid foundation for such a facility. The World Bank, jointly with the UNISDR and the Swiss Secretariat for Economic Affairs (SECO), is addressing the problem of low catastrophe and weather risk insurance penetration in Southeastern Europe through the creation of the regional Catastrophe Risk Insurance Facility (SEEC CRIF), which has been recently incorporated as “Europa Reinsurance Facility Ltd” (Europa Re).

Relationship to CAS
The proposed operation contributes to the Country Partnership Strategy (CPS) goals to strengthen institutions and competitiveness in line with EU accession requirements and improve environmental management. The project, which is included in the FY12-15 CPS, will help to develop the private insurance industry and will protect the national economy, individuals and businesses against financial losses due to natural disasters. It will assist with establishment of a risk-based regulatory framework for catastrophe and weather risk insurance compliant with EU Solvency II requirements.

II. Proposed Development Objective(s)

Proposed Development Objective(s)
The Project Development Objective (PDO) is consistent with the development objective for the SEEC CRIF program: to help increase the access of homeowners, farmers, the enterprise sector and government agencies to financial protection from losses caused by climate change and geological hazards.

Key Results
The most important result of SEEC CRIF is the increased access to affordable weather risk coverage and catastrophe insurance for millions of people and thousands of enterprises in the region. The aim is to raise catastrophe and weather risk insurance penetration among homeowners, farmers, the enterprise sector, and government entities from the current 1-5 percent to 15 percent over the next 5 years, without making the insurance compulsory. Consistent with APL 1, the PDO level results indicator will be the percent of homeowners, farmers, enterprises and government holding catastrophe insurance policies. The baseline will be set during project preparation (but earlier studies have indicated that the overall penetration rate is around 2%), and annual targets will be determined.

III. Preliminary Description

Concept Description
The proposed project is the third phase of a horizontal Adaptable Program Loan and comprises a US$3 million IDA regional credit and US$2 million IDA credit to finance Bosnia and Herzegovina’s membership contribution to the Facility. The proposed project will enable Europa Re to provide reinsurance support and required market infrastructure for innovative insurance products that will cover the costs of replacing physical assets (such as homes, business equipment and inventory, greenhouses) and livelihoods lost to natural disasters. The first phase (APL1), approved by the World Bank Group Board on March 3, 2011, consists of IBRD loans to Serbia and FYR Macedonia. The second phase (APL2), under preparation, comprises an IBRD loan to Montenegro. And the third phase (APL3), also under preparation, comprises an IDA credit to Bosnia and Herzegovina.

The PDO will be achieved through SEEC CRIF, a catastrophe and weather risk reinsurance program, which will enable a rapid expansion of penetration for weather and catastrophe risk insurance products among beneficiaries in participating countries. A non-profit, government-owned organization, Europa Reinsurance Facility Ltd. (Europa Re), has been established as a specialized regional reinsurer to implement the program. Europa Re was incorporated under Swiss Law in Zug, Switzerland in November 2009 and will provide reinsurance, pricing and underwriting services to private insurers in member countries for standardized catastrophe and weather risk insurance products.

The main design features of SEEC CRIF closely follow the previous prototypes of national and regional catastrophe and weather risk programs developed with direct technical and capital assistance from the Bank, however, the program contains several innovations. These include (i) the development of both traditional indemnity type catastrophe insurance products and parametric index-based weather risk hedging contracts; (ii) private management and governance of the Facility; (iii) a sunset clause for the duration of government participation in the program; and (iv) the openness of the Facility to a wider range of clients, inclusive of households, farmers, government agencies and the enterprise sector exposed to weather risk.

There are two components under the overall program. Component 1 (Countries’ Participation in Europa Re) supports SEEC countries’ efforts to join Europa Re by financing their membership contributions to the Facility. The countries’ membership contributions to Europa Re form the company’s initial capitalization. Component 2 (Technical Assistance), financed by donor funds (SECO and GEF grants) and implemented by Europa Re, includes: (i) risk mapping and modeling for participating countries (ii) design and pricing of appropriate catastrophe and weather risk insurance products; (iii) development of a web-based underwriting platform; (iv) small weather monitoring stations to support parametric weather insurance; and (v) technical assistance for regulatory and policy reforms, to create an enabling market environment. Most of the technical and regulatory work funded by the Technical Cooperation component will be carried out in the member countries after the disbursement of their membership contributions into the Facility.

IV. Safeguard Policies that might apply

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VI. Contact point

**World Bank**

Contact: Eugene N. Gurenko  
Title: Lead Financial Sector Specialist  
Tel: 458-5414  
Email: egurenko@worldbank.org

**Borrower/Client/Recipient**

Name: Bosnia and Herzegovina  
Contact:  
Title:  
Tel:  
Email: 

**Implementing Agencies**

Name: Europa RE  
Contact:  
Title:  
Tel: (41-44) 380-5090  
Email: heinz.vollenweider@europa-re.com

VII. For more information contact:

The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Web: http://www.worldbank.org/infoshop