



1. Project Data

Project ID
P152230

Project Name
KZ: SEECA CRIF

Country
Kazakhstan

Practice Area(Lead)
Finance, Competitiveness and Innovation

L/C/TF Number(s)
TF-A1934

Closing Date (Original)
31-Dec-2019

Total Project Cost (USD)
4,957,142.08

Bank Approval Date
08-Apr-2016

Closing Date (Actual)
31-Dec-2019

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	5,000,000.00	5,000,000.00
Revised Commitment	5,000,000.00	4,957,142.08
Actual	4,957,142.08	4,957,142.08

Prepared by
Nestor Ntungwanayo

Reviewed by
John R. Eriksson

ICR Review Coordinator
Christopher David Nelson

Group
IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

The Project Development Objective (PDO) statement in the Grant Agreement on page 5 "was to assist the Republic of Kazakhstan in developing a modern catastrophe insurance market infrastructure that will support the launch of affordable, innovative catastrophe insurance products covering the risks of extreme weather variability.



As per the Project Appraisal Document (PAD) on page 4, the PDO was identical to the one in the Grant Agreement, with a slight difference in wording, and aimed "to assist Kazakhstan with developing a modern catastrophe insurance market infrastructure that will support the launch of affordable, innovative catastrophe insurance products covering the risks of weather extremes".

When it appeared that the Government could not pass the law on compulsory catastrophe insurance, the project's TTL worked with local stakeholders to revise the results framework and performance indicators. Changes to the indicators did change neither the PDO nor the theory of change. Both the PDO and theory of change aimed to develop a catastrophe market infrastructure, not specific insurance products.

The PDO remained unchanged during the period of project implementation, and this review will assess the project performance against the PDO as stated in the Grant Agreement.

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?

No

c. Will a split evaluation be undertaken?

No

d. Components

Estimated cost at appraisal of US\$5.0 million; actual cost of US\$4.96 million: This project had one component consisting in the funding of technical assistance to expand the Southeast Europe and Central Asia Catastrophe Risk Insurance Facility (SEECA CRIF) program to Kazakhstan. The project had five sub-components as follows: (i) general technical services; (ii) actuarial services; (iii) claims services; (iv) agriculture insurance services; and (v) IT services and public relations and marketing services.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Cost: The project's actual cost amounted to US\$4.96 million from Global Environmental Facility/Special Climate Change Fund (GEF/SCCF) grant.

Financing: The project was financed by the Global Environmental Facility/Special Climate Change Fund (GEF/SCCF) grant in the amount of US\$5.0 million.

Restructuring: When it was realized that the government could not pass the law on compulsory catastrophe insurance, the project's TTL revised the results framework and performance indicators during the September 2018 MTR in coordination with Europa Re (PIU), the country management unit and the government counterparts. Key changes in the result framework consisted in the following: (i) the end-targets of various indicators were revised to focus on catastrophic insurance for the agricultural sector, the original indicators were slightly modified to focus on the weather-risk elements of the project, which was the key goal of the donor in the first place, (ii) following the non-passing of compulsory catastrophe insurance law, few insurance companies were going to opt for selling or using the insurance market infrastructure



developed under the project, and the target for this key indicator was reduced from 4 to 1, and (iii) most other indicators were output indicators, with a yes or no results, and were slightly changed.

Borrower Contribution: There was no borrower contribution identified in the PAD, and none occurred during project implementation.

Dates: The project was approved on April 08, 2016, became effective on May 25, 2016, and closed on schedule on December 31, 2019.

3. Relevance of Objectives

Rationale

The PDO statement in the Grant Agreement aimed "to assist the Republic of Kazakhstan in developing a modern catastrophe insurance market infrastructure that will support the launch of affordable, innovative catastrophe insurance products covering the risks of extreme weather variability".

The PDO was in congruence with the Borrower's priorities, despite political risks that affected the scope of the original catastrophe insurance product. Prior to the project appraisal, a World Bank team worked with key Kazakhstan stakeholders to develop a framework for a catastrophe insurance scheme drawing on the Financial Sector Reform and Strengthening (FIRST) Initiative, a multi-donor grant initiated by the World Bank, the International Monetary Fund and bilateral donors. A draft law on compulsory catastrophe insurance was completed and set the stage for this project whose goal was to develop a catastrophe insurance market. Due to political protests that broke out across the country to oppose proposed land legislation and the financial situation of households and businesses, the Kazakhstan authorities postponed the implementation of a compulsory catastrophe insurance program, but went ahead to launch the insurance products on the agriculture sector and weather-risk products. Despite the potential political risks that hindered immediate adoption of a law on compulsory catastrophe insurance, the Government was still intent to initiate a catastrophe risk insurance, and used this project to support the creation of a catastrophe insurance market and infrastructure.

The PDO was in line with the World Bank's country strategy at project's closure. Both the 2017 Systematic Country Diagnostics (SCD) and the FY2020-25 Country Partnership Framework (CPF) for Kazakhstan underscored the cardinal importance of the country's agriculture sector. That is why one of the objectives of the World Bank's CPF was to "promote market-led agriculture transformation", with the goal of overcoming the weaknesses and distortions affecting the smallholder farmers. Particularly, access to finance in rural areas and in the agriculture sector was limited, and climate change pointed to worsening the situation. Mitigating the impact of climate change and the need for better access to finance in rural areas justified the need for developing the weather-risk insurance market that would support the extension of credit to farmers.

Overall, the PDO was substantially relevant at the project closure. While the targeted result was watered down, the PDO was still congruent with the Borrower's priorities and the World Bank's diagnostics and strategies in the country.



Rating

Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

"To assist the Republic of Kazakhstan in developing a modern catastrophe insurance market infrastructure that will support the launch of affordable, innovative catastrophe insurance products covering the risks of extreme weather variability".

Rationale

Theory of change:

There was no theory of change in the PAD, but the ICR constructed a result chain (ICR-Figure 1) whose key features are developed hereafter. The main pillar of the theory of change was that grant resources were to fund technical assistance (TA) aimed to (i) develop and launch risk insurance products in Kazakhstan, (ii) design reinsurance schemes, and (iii) raise public awareness of hazards. Expected outputs included: (i) an increase in the number of insurance companies, and type of catastrophe insurance products, and (ii) greater Government and consumer awareness of hazards. The above outputs would lead to (i) increased availability of affordable catastrophe risks products, (ii) increased ability for consumers to make choices on how to mitigate risks, (iii) greater access to catastrophe risks products, and (iv) a mainstreamed process for sales and submission of claims.

The key assumption underpinning the above results chain was that the government would pass legislation on mandatory property catastrophe insurance. As noted in the previous section and will be further developed later, the Government dropped the pursuit of the above legislation, given the political risks that would be prompted by its preparation and adoption.

Outputs:

Outputs generated with the project's support were discussed on pages 15-22 of the ICR, and are summarized below:

- A renowned international insurance and reinsurance firm (Europa Re) assessed the catastrophe insurance market practices, and updated regulatory practices for catastrophe insurance and reinsurance activities for the National Bank of Kazakhstan;
- Europa RE provided in-depth legal and regulatory technical assistance (TA) to the Ministry of Agriculture and a legal and regulatory framework for the Agriculture Yield Index Insurance (AYII), and this framework triggered the design of the credit default insurance product;
- Europa RE developed two catastrophe risk (CatRisk) insurance products as follows: (i) the first product was the Agriculture Yield Index Insurance (AYII), an insurance product insuring farmers against climatic and biological perils; and (ii) the second product -the AYII Credit Risk Default



- insurance product- was launched to insure crop-production related loans of agricultural commodity producers against the risk of credit default;
- A web-based insurance sales portal for a modern catastrophe insurance market infrastructure and online sales of innovative insurance products was developed;
 - Catastrophe risk insurance products are offered online, and online automated sales, underwriting and pricing systems were launched, and an online claims management system in support of insurance companies was operational;
 - Europa Re developed an actuarial analysis of risk and established the terms, conditions and pricing of insurance products;
 - Actuarial and probabilistic risk models were also developed, and a reinsurance program was placed with international reinsurers to transfer catastrophe risk to the global reinsurance market;
 - Public information campaigns on the benefits of catastrophe insurance were carried out as a result of the TA provided to the government services and the insurance regulator;
 - Europa Re created an IT platform for the selling and purchasing of catastrophe risk products and trained local insurers and insurance agents on both the products and the IT platform used to sell them;
 - Europa RE developed relationships with local insurers to sell the above products, as well as with international reinsurers to provide reinsurance coverage for local insurance companies; and
 - CatMonitor, an online instrument informing the public of earthquake hazards in the region, was successfully launched and custom-tailored for Kazakhstan and is regularly maintained.

Outcomes:

Outcomes achieved with the project's support were discussed on pages 15-22 of the ICR, and are paraphrased below:

- The ICR reported that consumers are more aware of disaster risks and the mitigating role of insurance, because a web-based disaster risk information tool is operational, but no quantitative indicator was set;
- An Insurance market infrastructure was made available for use to local insurance companies in support of catastrophe risk insurance products;
- Catastrophe risk insurance products were developed under the project and insurance agents are available in the market to offer catastrophe risk insurance;
- The premium rates for insurance products for low risk borrowers with good credit standing were reduced by Europa Re from 7 to 2 percent of the sum insured, thus making agricultural catastrophe insurance more affordable and more attractive for local farmers;
- The target of one insurance company that is using the insurance market infrastructure was fully achieved;
- The target of one insurance company selling catastrophe insurance products through the insurance market infrastructure was fully achieved;
- The number of women insured against natural disasters was 50 percent of the total insured, fully achieving the target;
- Coverage of catastrophe risk insurance products actually represents less than 1% of the potential in terms of financing. The AYII Credit Default Insurance Program aims to cover more crops, and extend insurance deadlines, so that agricultural producers can obtain up to 40% larger loan amounts without providing additional collateral;



- With the support of Europa Re, the Oil Insurance Company (OIC) increased its sales to local agricultural cooperatives using the AYII Credit Risk Default product;
- The interest of agricultural cooperatives in buying voluntary agricultural insurance grew substantially, resulting in the conclusion of three general insurance contracts with credit unions and twelve single contracts for an approximate total of US\$18,500 in premium covering 21,000 hectares of crops, with the risk reinsured globally;
- Product sales resumed on a larger scale reaching over 70,000 hectares after project closure, including the conclusion of four more contracts with credit unions (CU) for a total of seven insured CUs, and the sale of thirty-one policies;
- This project resulted in greater access to weather-risk insurance, giving poorer farmers greater access to credit. Currently, there are contracts with seven credit unions and the number of end beneficiaries stands at 29 farms, and the AYII credit default insurance product insured over \$3.7 million in agricultural loans; and
- The project provided coverage over three consecutive planting seasons (2018-2020), resulting in gradual increases in the uptake rates and in insuring over 80,000 hectares of crops.

Overall, significant results were achieved toward the PDO, but because of constraints on the ground, some outcome targets were revised downward, justifying a substantial rating of the project's efficacy.

Rating
Substantial

OVERALL EFFICACY

Rationale

Overall project efficacy includes the following key achievements: (i) consumers in Kazakhstan were more aware of disaster risks and risk insurance products, (ii) insurance agents were available to offer catastrophe risk insurance using a web-based underwriting platform, and based on the weather risk data and pricing algorithms developed under this project, (iii) agricultural catastrophe insurance became more affordable and more attractive for local farmers, as premium rates for insurance products were significantly reduced, (iv) women insured against natural disasters increased sharply, and (v) greater access to weather-risk insurance led to increased coverage and expansion of voluntary agricultural insurance. Overall efficacy was substantial, because the original project's goal was watered down and while significant results were achieved, more quantitative evidence could have been provided.



Overall Efficacy Rating

Substantial

5. Efficiency

Because this was a TA project, no cost-benefit analysis or estimate of the economic rate of return was undertaken at appraisal.

The ICR presented the project efficiency on pages 67-70, and identified efficiency features are summarized hereafter: (i) all planned activities were completed within budget and on time, (ii) Europa Re was a cost-effective implementing partner, because when an insurance company develops and sells a new product, 25-30 percent is typically charged to administrative costs. In the case of this grant, only 10 percent went towards Europa Re's administrative costs, the remainder of the grant proceeds being spent on the core activities of building the market infrastructure. Costs were also kept low because Europa Re was an efficient implementing agency; and (iii) the grant tapped into a pool of technical expertise that had already been established in three countries of the Western Balkans.

This project was a first step in developing a larger catastrophe insurance scheme in Kazakhstan and is potentially scalable, allowing the addition of further catastrophe products. Even if the government did not implement the compulsory catastrophe insurance, the project paved the way for new catastrophe insurance products that can be developed and added to the installed market infrastructure, justifying a substantial rating of the project's efficiency.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate		0	0 <input type="checkbox"/> Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome



Overall, the relevance of the PDO was substantial. While the PDO was in line with the country's priorities and the World Bank's strategies in supporting the Government, the scope of the project was scaled down to adjust project implementation to constraints on the ground. Efficacy was substantial, following significant achievements as follows: (i) launching of new risk insurance products, (ii) the strengthening of catastrophe risk insurance market and infrastructure, (iii) increased affordability for local farmers arising from reduction in premium rates for insurance products, (iv) higher participation of women in getting insured against natural disasters, and (v) larger coverage and expansion of voluntary agricultural insurance. However, the original project's goal was watered down, and more quantitative evidence was needed to illustrate project performance. Efficiency of the project was substantial, leading to a Satisfactory rating of the overall project outcome.

a. Outcome Rating
Satisfactory

7. Risk to Development Outcome

The key risk to the achieved outcome has to do with the Government's commitment to pursuing the agenda of expanding the catastrophe Risk Insurance. This review reported earlier (Section 4) that the Kazakhstan authorities launched the insurance products on the agriculture sector and weather-risk products, but postponed the implementation of a compulsory catastrophe insurance program, because of an un conducive political environment. Delays in implementing a compulsory catastrophe insurance could hamper the diversification and the depth of the insurance products initiated in the context of this project.

There are other risks that might affect the sustainability of the achieved outcome as identified in the ICR (pages 28-29): (i) insufficient promotion of the AYII Credit Risk Default Product by the Agrarian Credit Corporation or by participating credit unions, because for the product to be sold successfully, all key stakeholders need to be aware of existing products and relevant benefits, and (ii) the current economic crisis prompted by COVID 19 could put the government in the situation of force majeure whereby it might initiate non-market instruments, thus jeopardizing the market-based insurance products for agriculture supported by this project.

To buttress the sustainability of achieved outcomes, the ICR suggests that the government establish a national catastrophe insurance program and a level playing field for all insurers and make agricultural insurance more transparent, and efficient for policyholders.

8. Assessment of Bank Performance

a. Quality-at-Entry

A summary of quality-at-entry features of the project is provided in the ICR on pages 24 and 27-28. The project design drew on the World Bank's past experience in supporting catastrophe risk insurance facilities and in developing national and regional insurance programs. Key lessons learned from previous



disaster insurance projects included (i) the role that has to be played by the Government in creating demand for catastrophe insurance products, and (ii) how to acquire IT solutions. Building on the above lessons, the project assumed that the Government of Kazakhstan would enact a new Law on Compulsory Disaster Insurance, and chose to rely for project implementation on a renowned insurance and reinsurance firm (Europa Re). In hindsight, the Government found that the pursuit of compulsory catastrophe insurance had major political risks, abandoned it and opted for alternative options.

Other aspects of the quality-at-entry discussed throughout the ICR included the strategic relevance of the project as well as its implementation and M&E arrangements. Regarding the strategic relevance, Kazakhstan has been vulnerable to natural hazards and climate change, which affected agriculture and the national economy. This project aimed to address the problem of the worsening impact of climate change on the national economy, and to overhaul the existing mandatory crop insurance scheme that covered extreme weather events for the agricultural sector. Regarding implementation and M&E arrangements, the design team aimed to rely on seasoned reinsurance and insurance experts from a renowned reinsurer (Europa Re), who would also manage all vendors of IT services. The PDO indicators were measurable and relevant to the assessment of achieved outcome, and the implementing agency (Europa Re) had the experience of managing the M&E system set up to report on the progress toward expected outcome.

Overall, the project's quality-at-entry was satisfactory, because the operation was strategically relevant, implementation and M&E arrangements were adequate, and the project design drew on World Bank's lessons learned from previous sector projects.

Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

The ICR described the project's quality of supervision on pages 24-25, and 28. During project implementation, the Bank team worked in coordination with a renowned reinsurer management firm (Europa Re) and the Government's representatives to provide its expertise on M&E matters, assist in crafting a catastrophe insurance market, and contribute to the creation of a new innovative product that mitigated the postponement of the Law on Compulsory Catastrophe Risk Insurance.

Bank supervision relied on a strong implementing agency (Europa Re) which supported all procurement, disbursement and financial management operations of the project. Europa RE also provided large-scale technical assistance to various governmental entities involved in the catastrophe risk insurance. Supervision also addressed implementation challenges including affordability, staff turn-over and limited Government's commitment to a Compulsory Catastrophe Insurance Program. Project supervision addressed the affordability concern through its support to the Government in the development of pricing of compulsory catastrophe risk products, by which the Government was to introduce innovative automated pricing and underwriting technologies. Staff turnover prompted by reshuffles in the Government was a challenge that led to lack of business continuity, as the project lacked a champion to deal with a difficult working environment.



During implementation, passing a Law on Compulsory Catastrophe Risk Insurance proved to be the Government's major political risk and did not occur. Instead, a risk mitigating mechanism was adopted and allowed the development of insurance products that covered severe weather, enabling the achievement of the project objective. While the revision of the ensuing results framework was justified, this action was finalized by project teams of the Bank and the Borrower, below the required level-two Management formal restructuring (see Section 9 below).

Overall, the quality of supervision is rated as moderately satisfactory. While the Bank handled appropriately and flexibly project supervision and restructuring, including the coordination with the Borrower and the implementation agency to oversee progress toward the outcome, the project restructuring fell below the requirements of the Bank's guidelines.

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The project's results framework was consistent with Bank guidelines and was presented in Annex I of the PAD. The PDO and intermediate indicators and their targets were adequate to measure the performance toward achieving the project objective. The PDO indicators were measurable and relevant to the assessment of achieved outcome. However, the number of intermediate indicators could have been reduced. The implementing agency (Europa Re) was competent and equipped to monitor the M&E that would satisfy both the borrower and the World Bank reporting and supervision requirements.

b. M&E Implementation

Europa Re was diligent in monitoring project implementation, and progress and guidance from the project team were recorded in the six ISRs completed before project closure. Europa Re prepared annual technical reports on the progress of project activities, and also provided quarterly reports on a timely basis. Europa Re staff opened a project implementation office in the borrower's capital city, hired or retained several technical experts, aiming to establish high standards of project implementation and day-to-day oversight.

The original indicators were slightly modified to focus on the weather-risk elements of the project, which was the key goal of the donor in the first place. While the revision of the results framework was



justified, this action needed to be undertaken in the context of a Management formal restructuring, as advised by the 2018 OPCS guidelines (OPS5.03-POL.110, para. 23).

All Implementation Status Review Reports (ISRs) informed key stakeholders on the progress of all performance indicators, including the recommendations toward achieving the performance targets, and Europa Re played a key role in this task.

c. M&E Utilization

Europa Re consolidated data collected from the progress reports on indicators and used it to inform Bank management and the Borrower on the progress of project implementation. M&E utilization is partly illustrated by the revision of the results framework, even if it was not formally conducted.

Overall, the M&E performance is rated substantial and hinged predominantly on the expertise and experience of the Implementing Agency (Europa Re), which provided useful TA and advice, and supported both M&E implementation and utilization.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The project was classified under category C, as it was not planned to undertake activities that could impact environmental or social safeguards.

b. Fiduciary Compliance

Because of the expertise embedded in Europa RE, the project implementation complied with all financial and procurement management requirements. Europa RE prepared annual audited financial statements and quarterly reports on a timely basis. Internal control arrangements were in place, and adequate financial management, procurement, and disbursement systems were maintained. Disbursement of funds was smooth and allowed the use of 99.8 percent of project resources. An independent external firm (Mazars) audited the final accounts of the project implementation and provided an unqualified opinion. Financial management and procurement operations were all rated satisfactory throughout the period of project implementation.



c. Unintended impacts (Positive or Negative)

The ICR did not identify unintended positive or negative impacts.

d. Other

The ICR did not raise any other impacts.

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	There were moderate shortcomings in the project supervision.
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

The ICR identified a few lessons, which are summarized and rephrased below:

- **For growing economies exposed to catastrophe risks, a sustainable solution is to promote a private catastrophe insurance market in combination with financial resilience:** Kazakhstan faced both a harsh climate, elevated earthquake risk, and some weaknesses in its economic structure. This project showed how this country mitigated catastrophic consequences by transferring financial risks to the private risk markets.
- **For catastrophe insurance to be effective, the insurance coverage needs to be imbedded into a lender's underwriting process.** In the context of this project, a scaled down catastrophe insurance market and infrastructure project were developed. The achieved outcome would only grow deeper roots only when a compulsory catastrophe insurance will be legislated to create a good environment of insurance market expansion. For the catastrophe insurance to reach a high level of penetration, it needs to be made compulsory or to be bundled with something that people want, like loans or subsidies. If bundled with a loan, catastrophe insurance becomes a part of the production costs for the insured. Hence, catastrophe insurance needs to become an integral part of the lending process.



- **The presence of an implementing agency that already has a developed expertise is central to implement a project in a difficult context.** The Kazakhstan context was not ideal for the successful completion of this project, which achieved tangible results. This was possible because a professionally managed reinsurance company like Europa RE had the expertise for implementing a technically complex catastrophe insurance project. Its outstanding expertise in developing catastrophe insurance markets and its reinsurance capacity at minimum cost were central to the performance of the project.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is concise and provides a comprehensive presentation of the project context and the achieved results. Key strengths include (i) a concise but well-organized and relatively thorough document and the depth in the description of the theory of change and the achieved results, (ii) the internal consistency of the analysis linking the project activities and the achieved outcome, and (iii) the learned lessons that reflect the experience of project implementation. The ICR has a few weaknesses as follows: (i) the change of the results framework in the absence of a restructuring operation did not comply with OPCS guidelines, and (ii) the Annex 3 (Project Cost by Component) was not updated, but this was corrected upon IEG request.

a. Quality of ICR Rating

Substantial