



## World Bank Financing to Help Region Cope With Natural Disasters

**WASHINGTON, March 3, 2011**— The World Bank’s Board of Directors approved loans of US\$5 million for FYR Macedonia, and US\$5 million for the Republic of Serbia as part of the regional **South East Europe and Caucasus Regional Catastrophe Risk Insurance Facility Project (SEEC CRIF)**. The loans will finance countries’ membership contributions to Europa Re, a specialty catastrophe reinsurance company set up under the program for the purposes of developing retail insurance markets for innovative catastrophe and weather risk insurance products in the countries of Southeast Europe and Caucasus.

Homeowners, farmers, private business, and government agencies in Southeast Europe and the Caucasus will have access to affordable disaster insurance thanks to new World Bank financing. The project aims to help increase local access to financial protection from the losses caused by climate change and natural disasters. In this initial phase, the World Bank is financing the participation of FYR Macedonia and Serbia in the program. It is expected that Bosnia and Herzegovina, Georgia, and Montenegro will join during the project’s second phase.

Countries of Southeast Europe and the Caucasus (SEEC) are highly vulnerable to natural disasters. Since ninety percent of Southeast Europe is located within trans-boundary river basins, the region is highly prone to floods. Due to climate change, natural disaster frequency and severity are rising in all SEEC countries, particularly disasters of a rain-related origin.

FYR Macedonia and Serbia are particularly at risk. Between 1989 and 2006, for example, floods constituted 44 percent of natural and technological disasters in FYR Macedonia. Data from the last 20 years reveals a steadily rising trend of natural disaster incidence, flood severity, and flood intensity. The countries are doubly impacted because, while flooding has shown a rising trend; the effects of climate change have also been seen in increased incidence of droughts in both countries.

At the same time, both countries are located in the Mediterranean seismic belt. The strongest earthquakes in FYR Macedonia occurred in 1904 (7.8 MMI), in 1931 (7.8 MMI), and in 1963 (6.1 MMI). The 1963 earthquake killed more than 1,000 people and damaged 80 percent of the building stock in Skopje. In Serbia, over 50 percent of the country is vulnerable to earthquakes of 7.0 MMI and around 20 percent of the country is vulnerable to 8.0 MMI earthquakes, although seismic activity is milder than that of other countries in the region.

Governments in the region have very limited financial capacity to assist citizens in regaining assets and productive capacity destroyed by natural disasters. The 1979 Serbia earthquake caused damage worth 366 times the amount allocated by the government for emergencies in the 2008 national budget. The 1994 FYR Macedonia floods caused damage worth 77 times the amount allocated by the government.

In order to help mitigate the consequences of any future similar events, the World Bank developed **SEEC CRIF** to support SEEC countries’ efforts to join *Europa Re*, a specialty



catastrophe reinsurance company, by financing their membership contributions to the Facility. *Europa Re*, in turn, will facilitate the growth of catastrophe risk insurance markets in member countries.

Homeowners, farmers, private companies, and government agencies will be able to purchase dependable catastrophe insurance coverage and/or weather risk insurance contracts at competitive prices.

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

The program also provides substantial technical assistance, financed by donor funds and implemented by *Europa Re*, which includes: (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.

The financial sector in the countries will be strengthened by the SEEC CRIF, which will boost national insurance industries—creating new clients, additional premium income, improved access to global reinsurance markets—and, most importantly, to developing national catastrophe and weather risk insurance markets.

**SEEC CRIF** will also reduce government contingent fiscal liabilities due to natural hazards and mitigate adverse impacts of natural hazards on fiscal stability and economic growth. The program will free up fiscal resources that governments can target to post-disaster aid for the neediest citizens, because government will no longer have to provide disaster compensation to citizens who can afford to buy their own insurance coverage.