Disaster Risk Finance for Agriculture

Module 4

Structuring a Financial Protection Scheme for Agriculture

Disaster Risk Financing & Insurance Program
SUPPORTED BY WORLD BANK GROUP

WFP World Food Programme

UKaid from the British people

USAID FROM THE AMERICAN PEOPLE

Structure of Webinars

Total of 8 Factsheets & 90-minute Webinar for each Factsheet

Different guest speakers

Live audience polls & interactivities: Please participate

Q&A: Please share your questions via chat

Breakout sessions at the end of each Webinar: Please register

Certificate of participation from the World Bank*

* Based on attendance & participation.

Certificate from World Bank

Participants will have an opportunity to obtain "Certificate of Informed Policymaker" from the World Bank on successful completion of following criteria:

Participation Certificate:

Participants need to attend 4 out of the 8 webinar sessions and complete a short survey/quiz.

Program Completion Certificate:

Participants need to attend 7 out of the 8 webinars and complete a short survey/quiz.

Webinar Road Map

SESSION

1. Introduction to DRFA
2. Reducing & Preparing for Risks in Agriculture
3. The Role of Financial Market Solutions for Building Resilience to Shocks in Agriculture
4. Structuring a Financial Protection Scheme for Agriculture
5. Implementing an Agriculture Financial Protection Scheme
6. Risk Finance Instruments 1 – Agricultural Insurance
7. Risk Finance Instruments 2 – Risk Retention Mechanisms for Agriculture
8. Risk Finance Instruments 3 – Macro and meso-level Risk Transfer for Agriculture

Overview of fact sheets

FACT SHEET #

1

- Four core principles of DRF, risk layering, and types of DRF instruments
- How agriculture fits in the broader DRF picture

2

- Introduction to risks facing rural households and agri sector
- How farmers, businesses, govts can reduce risks
- How farmers, businesses, govts can prepare for risks
- Outline a comprehensive approach to reduce and prepare for risks

3

- Benefits of greater access to finance including: enhanced resiliency of the agricultural sector, rural livelihoods, and economies
- Financial tools available including: credit, savings, insurance, transfers, climate-smart agriculture financing, and value-chain finance and when to use these tools

4

- Different aims of DRF and who to protect
- Potential objectives and priorities for covering certain risks
- Disaster risk financing instruments in agriculture sector – what exists
- Importance of pre-planning the financed disaster response and delivery channels

5

- Different stakeholders in implementing a DRFA scheme
- Typical roles and responsibilities of the public and private sector in supporting and developing DRFA
- Importance of monitoring and evaluation

6

- Policy objectives of agriculture insurance
- Agricultural insurance products – key features, benefits, constrains of index insurance
- Public-private partnership in agriculture insurance – Overview and delivery models

7

- Sovereign risk retention mechanisms for agriculture
- Structuring risk retention instruments – key features and things to consider

8

- Overview and objectives of macro-level risk transfer for agriculture
- Structuring a macro or meso-level risk transfer solution – alignment with other financing instruments and other things to consider

Word Cloud 1: Where are you currently based?

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Use the code: 4788 5164

Poll 1: Recap

What was the last Webinar about?

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What was the last Webinar on Module 3 about?

- The role of financial market solutions for building resilience to shocks in agriculture
- Various tools which government can use to support agriculture finance
- I did not attend the last webinar
- I don't remember

Recap Module No. 3

Key takeaways of Module 3

- **Finance can help farmers address diverse objectives**
- **There are various financial products for farmers to manage risks,** both for risk reduction and financial protection
- **Governments have different tools in their policy tool-box** to support agriculture finance

Structuring a Financial Protection Scheme for Agriculture

Content

1) What are the overall goals of a financial protection program and why?

2) How will these goals be achieved?

3) How will the program be implemented?

4) What monitoring and evaluation framework is needed?

Module 4 objectives are for participants to understand:

1. **How to utilize the decision-making framework** in designing a financial protection scheme, focusing on agriculture risks

2. **The importance of asking fundamental policy questions** to make clear the objectives of a financial protection scheme

3. The operational framework and **ways to implement the decisions using different instruments and contingency plans**

Financial Protection and Disaster Risk Management

PILLARS

1. RISK IDENTIFICATION

Improved Identification and understanding of disaster risks through building capacity for assessments and analysis

2. RISK REDUCTION

Avoided creation of new risks and reduced risks in society through greater disaster risk consideration in policy and investment

3. PREPAREDNESS

Improved capacity to manage crisis through developing forecasting and disaster management capacities

4. FINANCIAL PROTECTION

Increased Financial resilience of governments, private sector and households through financial protection strategies

5. RESILIENT RECOVERY

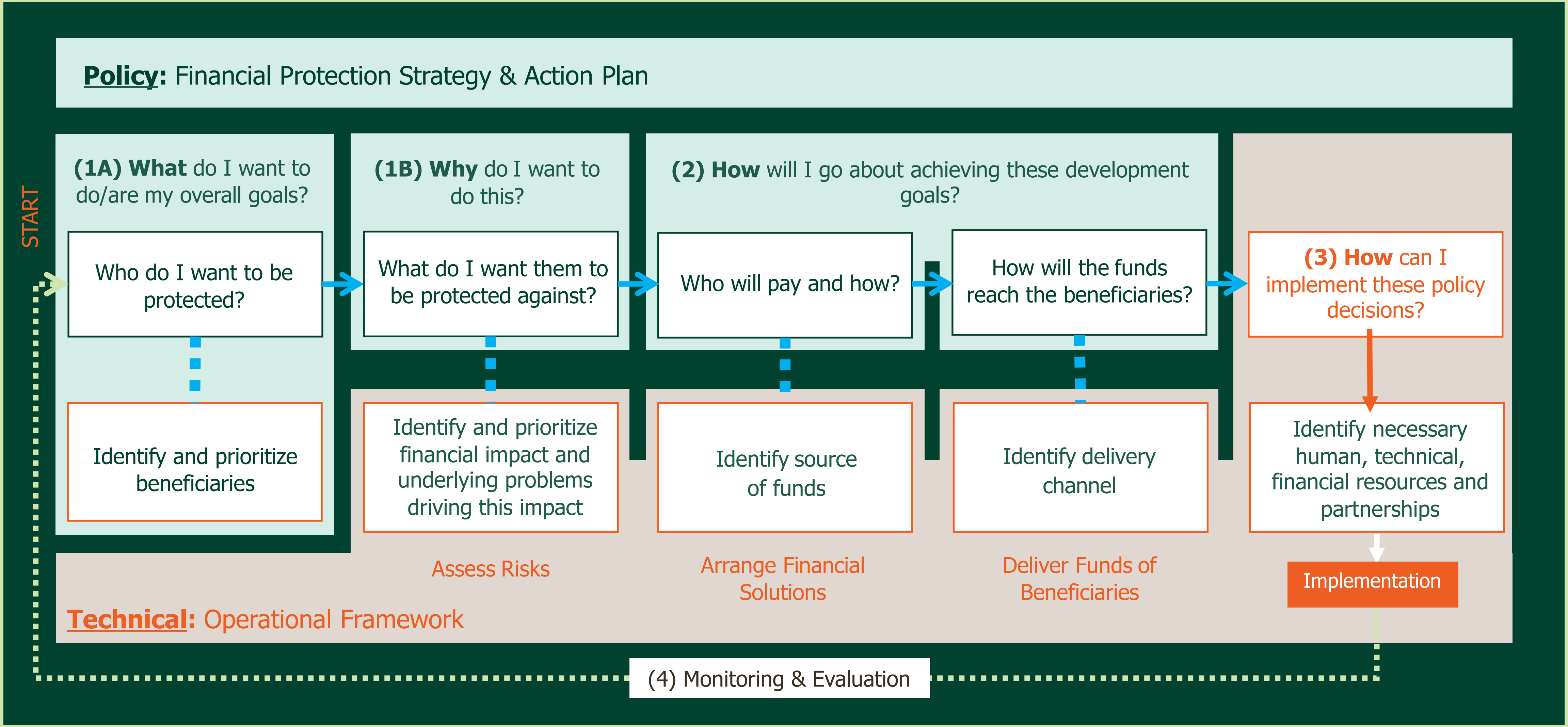
Quicker, more resilient recovery through support for reconstruction planning

PILLARS

Disaster Risk Finance is one component of a comprehensive approach to risk management

Financial protection complements, but does not replace, risk reduction and resilience measures

Decision making framework



Poll 2:

What are some hurdles you have faced when setting up financial protection instruments or schemes for agriculture?

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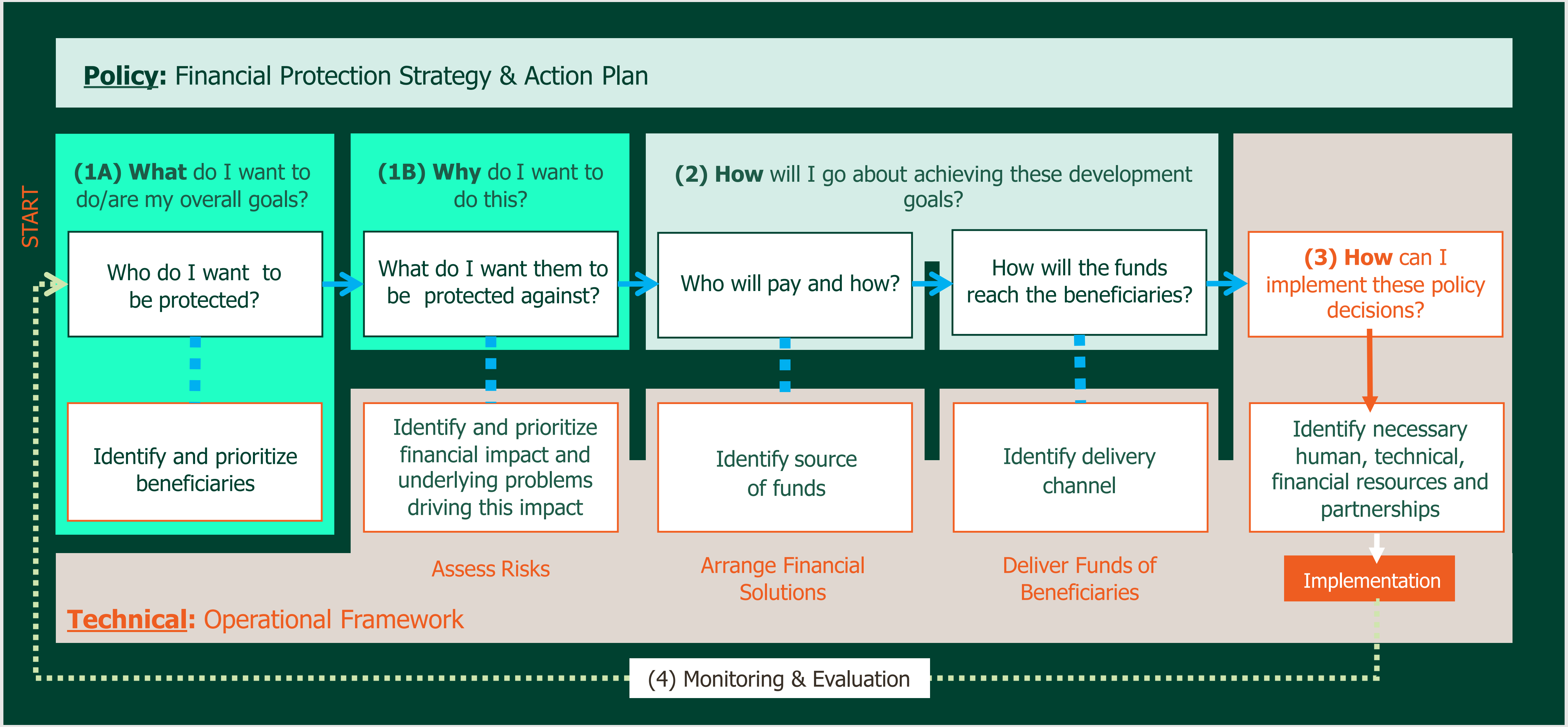
Select all responses that apply:

1. Lack of funding
2. Lack of instrument availability
3. Lack of data
1. Difficulty deciding on priorities
2. Limited understanding of cost
3. Others

Part 1: What are the goals of the agriculture financial protection scheme & why?

Part 1


Policy: Financial Protection Strategy & Action Plan
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(1A) What do I want to do/are my overall goals?
Who do I want to be protected?
Identify and prioritize beneficiaries
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Implementation
Technical: Operational Framework
(4) Monitoring & Evaluation

WHO do I want to protect?

First step is to establish clear policy objectives and priorities to form the foundations for the program

Analytical work is needed to understand risks and capacity gaps to support (or oppose!) objectives

Policy objectives should focus on the needs of the target beneficiaries

Clear objectives helps with stakeholder engagement

WHAT do I want to protect them against?

When considering the policy objectives, it is helpful to identify and prioritize financial impact

Assess disaster risk, vulnerability and financial impacts

Identify and segment beneficiaries based on vulnerabilities and access to financial services, this can help align and prioritise intervention to their needs

Useful communication tool as to why certain segments have been targeted/chosen

Farmer Segments

Illustrative example for South and Southeast Asia

Most Productive/ Less Vulnerable

Commercial Farmers
- Medium & Large Farm units > 5 Ha
- Access to credit
- High levels input use
- Produce for sale

Semi-Commercial Smallholder Farmers
- Small farm units Typically <5 Ha
- Some assets
- Some access to credit
- Part consumption/part sale

Small Subsistence farmers and sharecroppers
- Very few assets < 1 Ha land
- Subsistence farming
- Very vulnerable to climatic shocks

Landless Labouring Households
- Very few assets – No land
- Paid labour
- Very vulnerable to climatic shocks

Less Productive/ Most Vulnerable

WHO do I want to protect?

Understanding the segments of society that need to be targeted

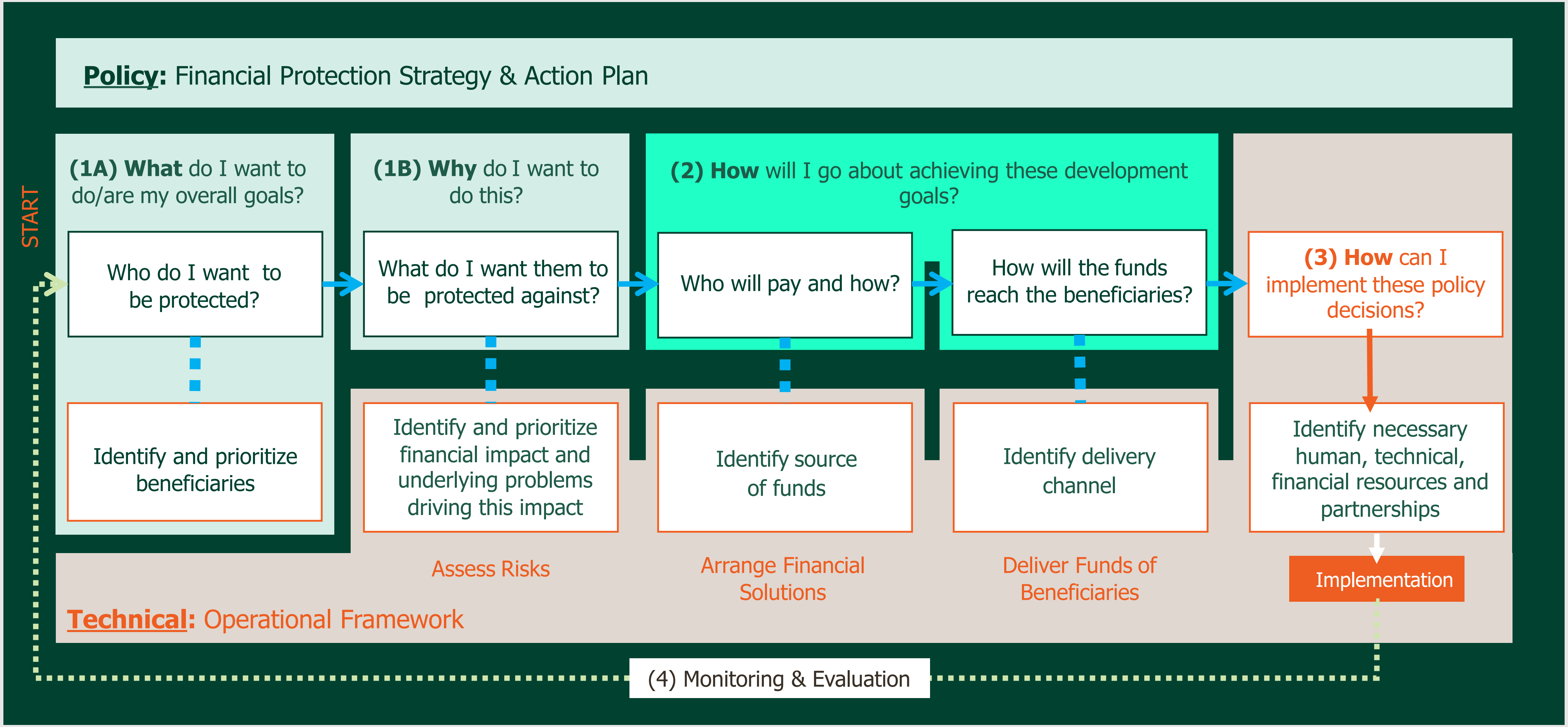
WHAT do I want to do and **WHY?**

Understanding the current state of the country and the goals clearly

A program that fits the **BESPOKE** needs and objectives of a country.

Part 2: How to go about achieving the development goals?

Part 2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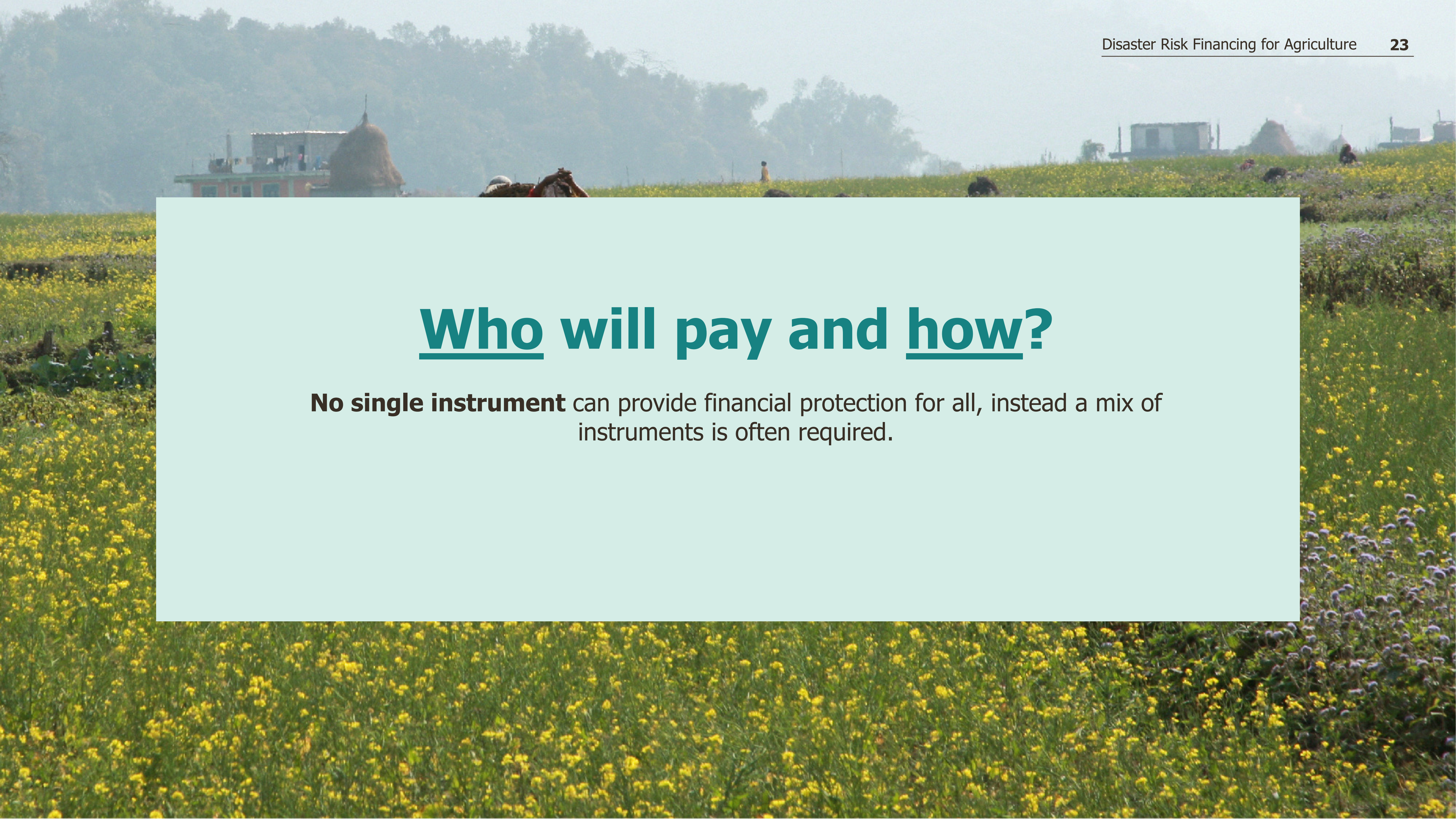
What are the benefits of responding early to disasters?

Direct Welfare Benefits
Late payment can lead to decreased child nutrition, reduction in income per capita

Pre-empts negative coping strategies
HHs tend to cope by selling productive assets and reducing food consumption

Reduces the cost of response
Late response, circa 7 times that of early response

Macro-economic impact
Governments divert scarce resources away from public services undermining national development



Who will pay and how?

No single instrument can provide financial protection for all, instead a mix of instruments is often required.

Risk finance instruments

A useful way of breaking down risk finance instruments is to think of them as:

Ex-ante
(arranged before a disaster)

Vs

Ex-post
(arranged after a disaster)

Risk retention
(cost of financing is retained but when and how one pays can be changed)

Vs

Risk transfer
(removes risk from balance sheet)

Pre-positioned instruments

A **mix of instruments** often required to ensure timeliness and cost efficiency; products should be developed with these key dimensions in mind:

- Clear and transparent triggers that determine how/when financial disbursement will be made;
- Financing secured at the lowest cost, as a result of an optimal mix of risk retention and risk transfer; and
- Disbursement systems and plans in place to ensure that the finance reaches the targeted beneficiaries in a timely and transparent manner.
- Think about needs – when is money needed and for what

Financial protection – at different levels

Risk finance strategies are a '**packages of services**', whether you are an individual (looking to protect your business or household) or a government looking to protect your budgets or specific households

This 'package' can be made up of different instruments, that look to protect different things.

A household example	A government example
Insurance (e.g., micro index insurance)	Insurance (e.g., sovereign drought policy)
Credit	Contingent credit
Savings	Reserve funds
Payments	Allocated budgets

Disaster Risk Layering – a simple approach for a sovereign

No single financial instrument can address all risks

HAZARD TYPE	FINANCING INSTRUMENT	THREE-TIERED RISK LAYERING STRATEGY FOR GOVERNMENT
Low frequency/ **High** Severity	**Market-Based Instruments**	**Risk Transfer** Risk transfer for assets such as property insurance or agricultural insurance and risk transfer *for budget* management like parametric insurance, cat bonds/swaps
	Contingent Financing	**Contingent Credit** Financial instruments that provide liquidity immediately after a shock
High frequency/ **Low** Severity	**Budgetary Instruments**	**Budget Reserves/ Reallocations** Reserve funds specifically designated for financing disaster related expenditures, general contingency budgets, or diverted spending from other programs

International Assistance (uncertain)

Poll 3:

Ex-ante Instruments: What are some characteristics of ex-ante instruments?

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Select all responses that apply:

1. Builds discipline into policy objectives
2. Does not solely rely on international assistance
3. Undermines Discipline
4. Can be slow
5. Can have negative impact on long-term development / investment programs
6. Can be expensive if required during crisis

Non-sovereign risk finance instruments

Products can target and disburse funding to specific segments of the population, in previous sessions **payments**, **savings** and **credit** were highlighted as possible solutions, some other examples products include:

Product	Country Example
Partial credit guarantees	**Why:** Rwanda had high economic growth pre-pandemic, Covid-19 has impacted their economic growth significantly **What**: To provide financial relief to businesses affected by the COVID-19 pandemic and to support recovery of economic activity **How:** WB and AIIB to provide lines of credit targeting affected businesses, providing funding for businesses that the private sector alone would not have the capacity for
Shock responsive social protection	**Why:** Kenya's chronically vulnerable and vulnerable households are most impacted by weather related shocks **What**: A social protection fund was set up to support the chronically vulnerable + a scalable social protection fund set up to provide funding for additional vulnerable households **How:** Payments are delivered directly to beneficiary bank accounts, and can be accessed using standard bank debit cards
Risk Transfer & Insurance	To be discussed further in sessions 5 and 6

Different instruments targeting different segments

How different disaster risk financing tools can be used to meet different segments of farmers (simplified example with counties in Southern and Southeast Asia in mind)

Most Productive/
Less Vulnerable

Less Productive/
Most Vulnerable

PRODUCT RANGE

Multi-peril Crop Insurance (MPCI)

Named peril Crop Insurance (NPCI)

Index Insurance

Credit (long-term finance and guarntees)

Savings and payments

Safety Net Programs for the very Poor:
1.Fully subsidized index insurance based on specific criteria for targeted producers
2. Risk finance-enabled safety nets

Micro-Credit

FARMER SEGMENTS

Commercial farmers

- Medium and large farm units (> 5 ha)
- Access to credit
- High levels of input use
- Produce for sale

Semi commercial smallholder farmers

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Broader considerations to be made when assessing the <u>how</u>

What instruments are available to the country? (i.e., is there a regulated local insurance market with capacity)

Are the appropriate legal and regulatory frameworks in place?

What funding is available, including concessionary finance and other incentives?

What existing financial infrastructure and data is available?

Are technical partners available to assess the risks and mix of instruments?

What capacity gaps exist across government and implementing partners and what is needed to fill these?

How the funds reach beneficiaries?

Having financing available is important but it's equally important to consider how the funding will reach these beneficiaries.

This is where having **contingency plans and delivery channels** can be useful.

How do we make sure funds reach beneficiaries?

Different risks need different windows and types of responses

Drought Ag. insurance	Pastoral Index insurance	Drought Sovereign insurance	Index insurance for fast onsets
↓	↓	↓	↓
Investment capacity next season	Prevent livestock from dying after failed rains	Early food security response, before lean season response	Quick action taken immediately after disaster

CONTINGENCY PLANS CAN BE RIGID, FLEXIBLE OR A COMBINATION

What points to focus on when designing operational plan?

Right type of support at right time	**What do people need?** → Food, cash, water, livestock feed, seeds or other small inputs might be required at different times, by different groups of people	**To go beyond just a document with descriptive preparedness processes we can do dry runs** **(ex. FIP simulation)**
Timing of procurement and implementation	Ex: lessons from rice procurement from ARC payout in Senegal	
Targeting of geographies and people	• Timing in West Africa with Cadre Harmonisé • Coordination with ASP systems (ex. Madagascar)	
Distribution channels	Mobile money but… is the infrastructure still functioning?	
M&E	What do we want to demonstrate?	

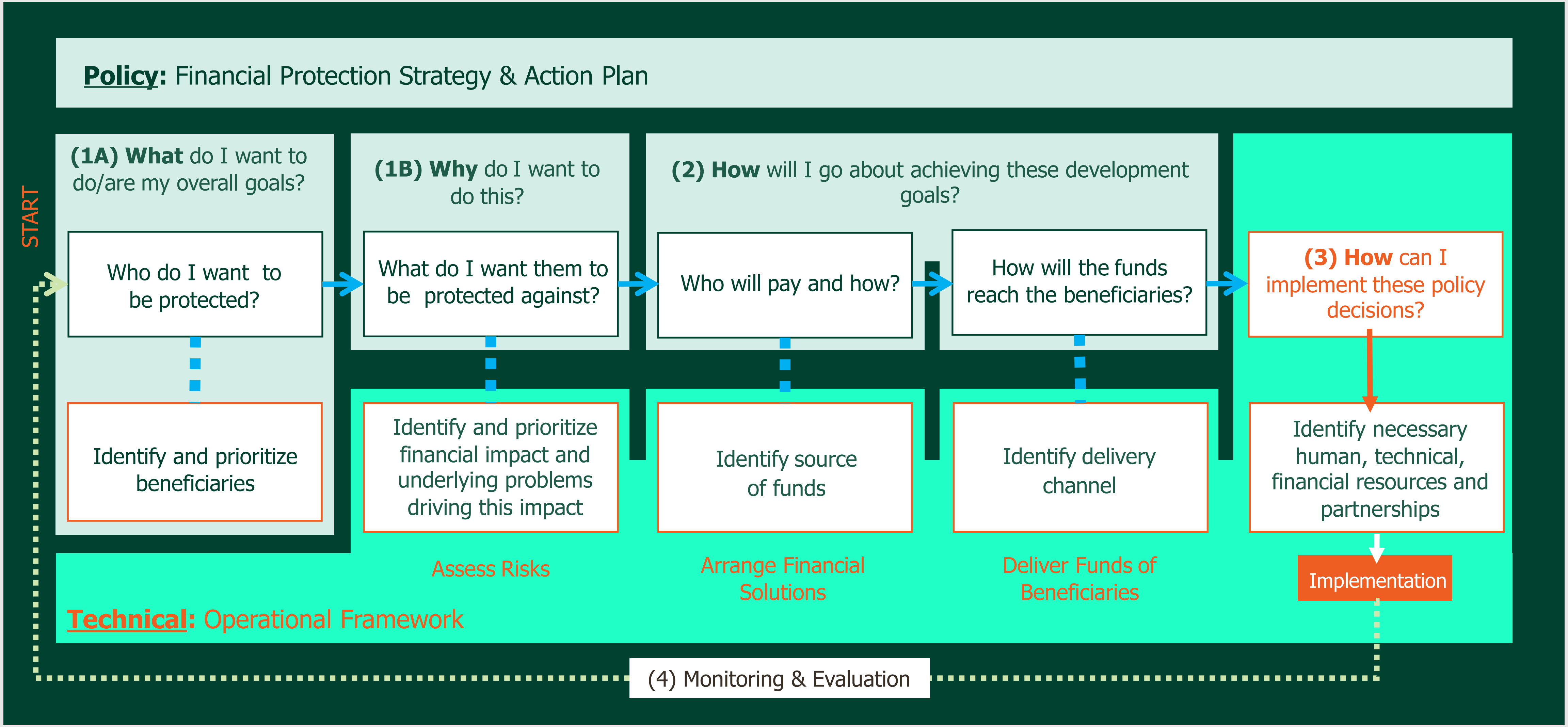
Why have contingency plans?

3 pillars of DRF – objective triggers (hard vs. soft triggers), pre-arranged finance and pre-agreed actions

When we are prepared it is easier to implement quick, timely and quality interventions.

Part 3: How to implement financial protection schemes for agriculture?

Part 3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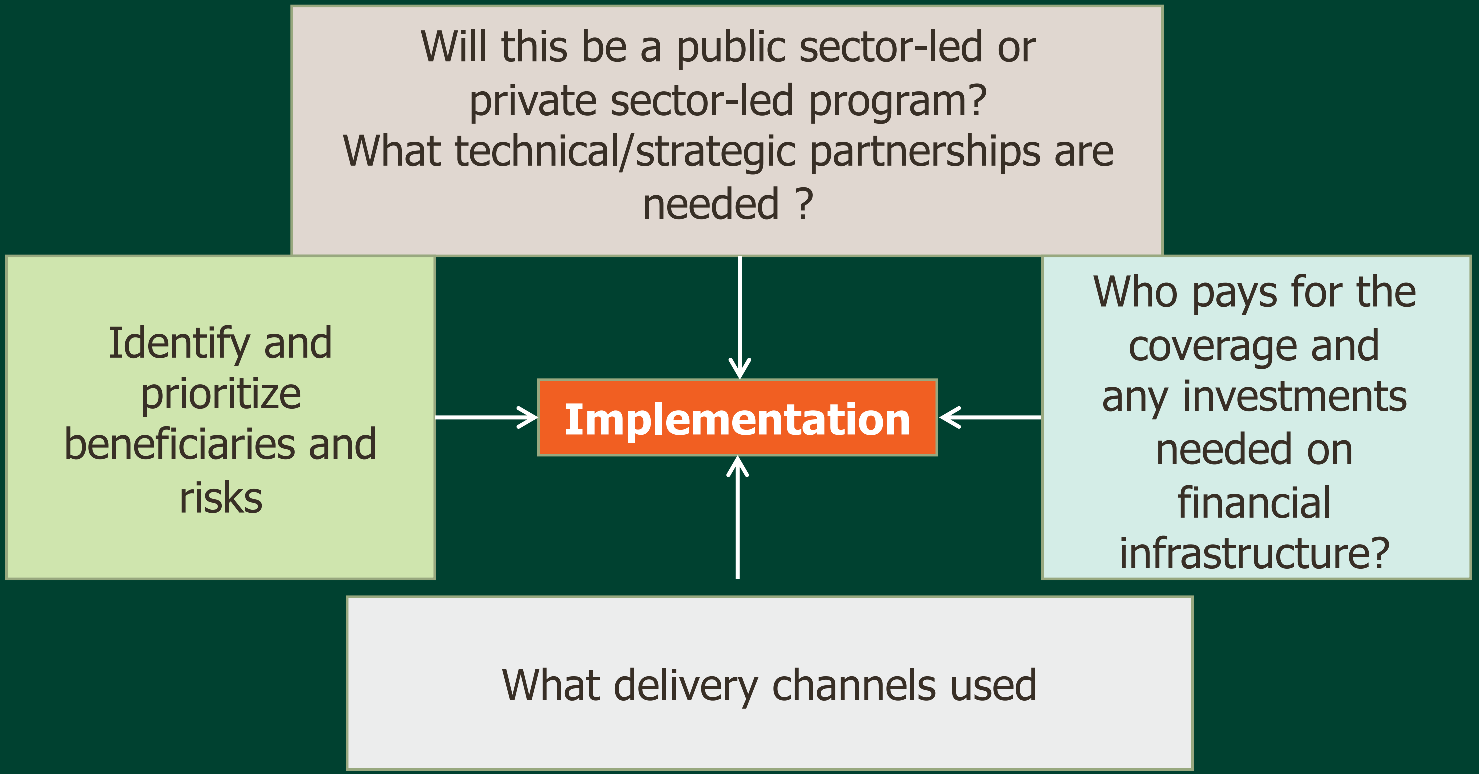
The implementation process

The implementation arrangements will likely differ by objectives, financial instruments and delivery channels. Some key questions to consider shown on the right.

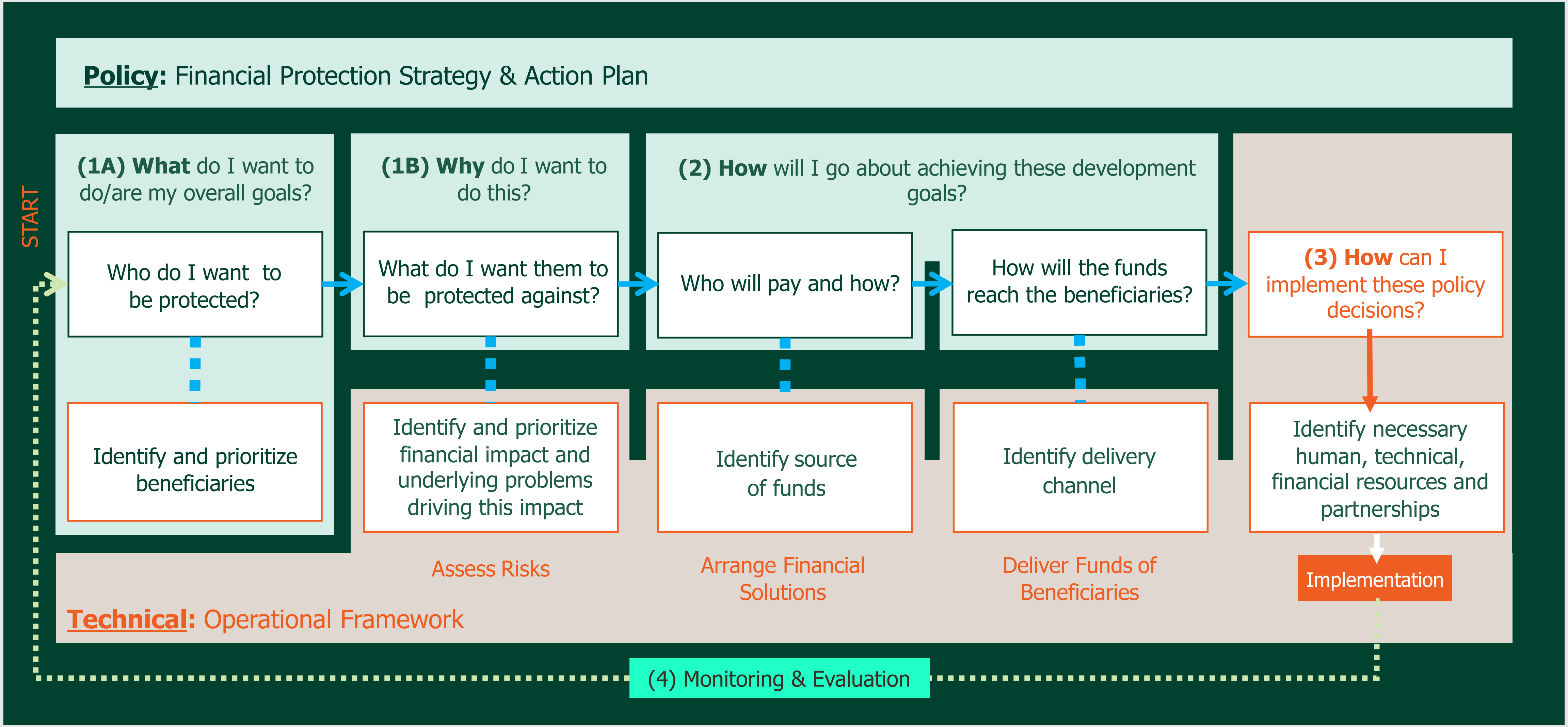


Typical roles in a public-private arrangement

Government	Private sector	Development agencies
Data collection		Assists in best practice data collection
Outreach and Distribution		
Consumer financial education Market conduct	Sale and distribution Two-way delivery of payments	Brings in knowledge and learning from similar programs in other countries, links up government and project to experts
Enabling environment Subsidy provision	Risk financing	Supports government on areas where they may lack knowledge or expertise
Product design and development		
Set parameters for subsidies Establish a monitoring and evaluation framework	Responsible for: The design and development of insurance products	Advises on involvement of private sector and helps to assess and design tender process Capacity building where required

Part 4: Monitoring and evaluation

Part 4



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Monitoring & Evaluation

A monitoring and evaluation (M&E) framework should be :

- Designed alongside the designing the program
- Assessed against over time to ensure the impact is as expected and learnings can be incorporated into the program going forward

Module 5 will cover this element of the framework in detail.

Key takeaways of Module 4

- When governments are prepared it is easier to implement quick, timely and quality interventions.
- One size does not fit all, it is unlikely that one instrument will meet all objectives, a risk layering approach is optimal
- Design of instruments and getting the right mix of instruments is important, instruments at the macro, meso and micro levels can be considered when building solutions to meet the needs of different end beneficiaries.
- Contingency plans outline the key processes needed to ensure beneficiaries receive the right support at the right time. Practical exercises like simulations can turn planning documents into true preparedness, by working out any challenges in advance of a crisis.
- Financial protection schemes require review over time to ensure impact has been met and learnings can be taken on board, building M&E into the operational framework is vital in doing this

Next session

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Questions?

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