Disaster Risk Financing
& Insurance Program

SUPPORTED BY
WORLD BANK GROUP

Financial Protection for Agriculture

Increasing the financial resilience of rural households

Federal Ministry
for Economic Cooperation
and Development

THE ROCKEFELLER FOUNDATION

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Federal Department of Economic Affairs,
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Sida

UKaid
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USAID
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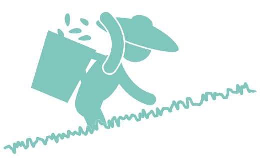
Why is financial protection important to reduce poverty and increase shared prosperity?

Financial losses from natural disasters continue to rise. Developing countries and their low-income populations experience the greatest impacts.

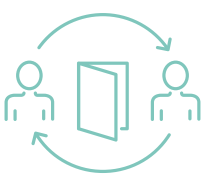
The Disaster Risk Financing and Insurance Program (DRFIP) leads the dialogue on financial resilience as part of the World Bank Group's effort to support vulnerable countries in better managing disasters and climate shocks.

How we support governments



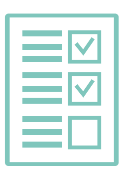
Poverty remains a predominantly rural problem, with a majority of the world's poor located in rural areas[1] and engaged in agricultural practices. Agriculture is a risky business, and a large shock can be especially devastating for poor households. One approach to building rural resilience and smoothing shocks suffered by the rural poor is to promote agricultural insurance. But few pilot agricultural insurance schemes have scaled up successfully; hence insurance has had little impact on the resilience of rural livelihoods. Experience suggests that sustainable, scaled-up agricultural insurance programs should be based on an equal partnership between the public and private sectors.

The DRFIP, through its through its work on agriculture aims to support client countries in implementing sustainable, cost-effective public-private partnerships in agricultural insurance, with the larger goal of increasing rural households' financial resilience. The DRFIP's work on agriculture fits within countries' broader agricultural risk management strategy, focusing on **three key outcomes:**



1. **Governments create an enabling environment for the private sector** by clearly defining the private sector's role to support the provision of public goods and insurance interventions, and contribute to the global knowledge agenda.

2. **Governments better understand both short- and long-term financial costs** of supporting agricultural insurance programs.



3. **Sound monitoring and evaluation processes are established for agricultural insurance programs,** adding to the growing evidence base supporting agriculture insurance interventions and contribute to the global knowledge agenda.

1 See A. de Janvry, E. Sadoulet, and R. Murgai, "Rural Development and Rural Policy," in Handbook of Agricultural Economics, vol. 2, part 1, ed. Bruce Gardner and Gordon Rausser (Elsevier, 2002), 1593–1658. It is estimated that 76 percent of the poor in low- and middle-income countries live in rural areas. Prem Sangraula, Shaohua Chen, and Martin Ravallion, "New Evidence on The Urbanization of Global Poverty," Policy Research Working Paper 4199, World Bank, Washington, DC, April 2007.

What we do

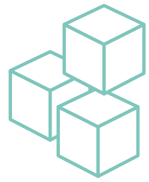
The Disaster Risk Financing and Insurance Program (DRFIP) builds upon international best practice for successful large-scale agriculture insurance programs, which offers two key lessons:

(i) Both the public and private sectors must be actively engaged, since approaches led by a single sector tend to fail; and

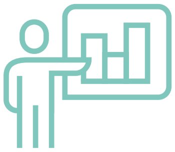
(ii) To increase its sustainability, agricultural insurance must form part of a broader agriculture risk management framework.

Drawing upon these lessons, DRF for Agriculture offers technical support to governments through **six key activities**:

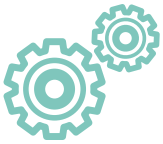
1. **Financial agricultural risk assessment** ensures that any agricultural risk transfer solutions are consistent with government's agricultural risk management plans.



2. **Public institutional capacity building** helps countries understand how insurance principles and tools can promote social objectives, and helps to clarify the respective roles of the public and private sectors in an insurance partnership.



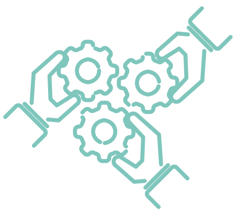
3. **Working with governments on data for agricultural insurance** supports coordinated market investments in collecting, auditing, and managing data of insurable quality. This provides a foundation for affordable, reliable protection against large agricultural shocks.



4. **Actuarial and technical capacity development** supports design, pricing, risk financing, and monitoring and evaluation of agricultural insurance programs.

5. **Crowding in private sector financing, capacity, and expertise** through work with the private sector helps to develop sustainable agricultural insurance programs.

6. **Design and implementation of a monitoring and evaluation framework** allows for meaningful assessment of the agricultural insurance program's welfare impact.



Partnership with the U.S. Agency for International Development and Global Facility for Disaster Risk and Reduction

In July 2015, the U.S. Agency for International Development and the Disaster Risk Financing and Insurance Program of the World Bank, through the Global Facility for Disaster Reduction and Recovery (GFDRR), signed a partnership on DRF for Agriculture to support client countries in implementing sustainable, costeffective public-private partnerships in agricultural insurance, with the larger goal of increasing rural households' financial resilience.

The World Bank Group's Disaster Risk Financing and Insurance Program is within the World Bank's Finance, Competitiveness and Innovation Global Practice. As a leading partner of developing countries, it helps governments, businesses, and households manage the financial impacts of disaster and climate risk without compromising sustainable development, fiscal stability, and well-being.

Impact

MONGOLIA

Background: The agricultural sector, and more specifically livestock, forms a core part of the Mongolian economy, supporting at least half the population with an important source of income, job and food security, and a means of investing and storing wealth. Nevertheless, herders make up a large percentage of the poor and are vulnerable to harsh winters (known as dzuds). Between 1999 and 2002, one-third of the national herd was lost in successive dzuds, crippling rural households.

Our engagement: Between 2005 and 2015, a World Bank Group lending operation supported the government of Mongolia in the design and nationwide launch of the Index-Based Livestock Insurance Program (IBLI). Support focused on (i) investments in livestock mortality data; (ii) the creation of an innovative **Contingent Debt Facility (CDF)**, which the government could draw upon in the event of large losses; (iii) raising awareness of insurance (a new concept for the majority of herders); (iv) institutional capacity building; and (v) monitoring and evaluation.

Impact: In 2010, a harsh winter (known as a dzud) impacted 80 percent of Mongolia's territory and 97,500 households. Approximately 9.7 million head of livestock, with an estimated value of US$477 million, were lost. In response, the government of Mongolia triggered the CDF, drew down funds, and with private sector insurers made a payout of US$1.3 million to more than 4,000 households to offset financial losses.

KENYA

Background: In Kenya, over 75 percent of farmers are smallholder subsistence farmers or pastoralists who are highly vulnerable to the economic effects of drought, flooding, and other natural disasters. According to the Kenyan government, damages from drought amounted to $12.1 billion between 2008 and 2011, with the livestock sector accounting for 70 percent of these damages. In 2014, in an effort to address farmers' vulnerability, the government of Kenya sought partners' technical support in understanding the options available for large-scale crop and livestock insurance.

Our engagement: Since 2014, DRFIP worked with local partners (International Livestock Research Institute and Financial Sector Deepening Kenya) to provide the government of Kenya with technical assistance in the design of a crop and livestock program. In October 2015, the Kenyan government launched the **Kenya Livestock Insurance Program (KLIP)** to protect pastoralists against climate shocks in two counties. In March 2016, the government launched an area yield index insurance (AYII) to protect semi-commercial maize farmers in three counties.

Impact: In October 2016, 14,000 vulnerable households from six counties were selected to benefit from livestock insurance cover. This has since grown to over 20,000 households, with the government subsidizing the premium up to 100%. In February 2017, the Kenyan government announced that about 12,000 pastoralists were eligible for payouts amounting to KSh215 million (US$2.2 million). This represents the largest insurance payout to vulnerable pastoralists in Africa to date. The government of Kenya plans to expand KLIP to the remaining arid and semi-arid counties and to offer cover to about 65,000 vulnerable pastoralists by 2020. The scale of the AYII crop insurance scheme is still larger, with 330,000 farmers insured in twenty cereal-growing counties, expected to grow beyond this in 2019. The success of these two schemes has led to increased interest in neighboring countries, where work is underway to develop agricultural disaster risk financing solutions.

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