Disaster Risk Finance for Agriculture

Module 8

Risk Finance Instruments 3 –
Risk Retention Mechanisms for Agriculture

Disaster Risk Financing & Insurance Program

SUPPORTED BY WORLD BANK GROUP

START NETWORK

UKaid from the British people

USAID FROM THE AMERICAN PEOPLE

Structure of Webinars

Total of 8 Factsheets & 90-minute Webinar for each Fact Sheet

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:

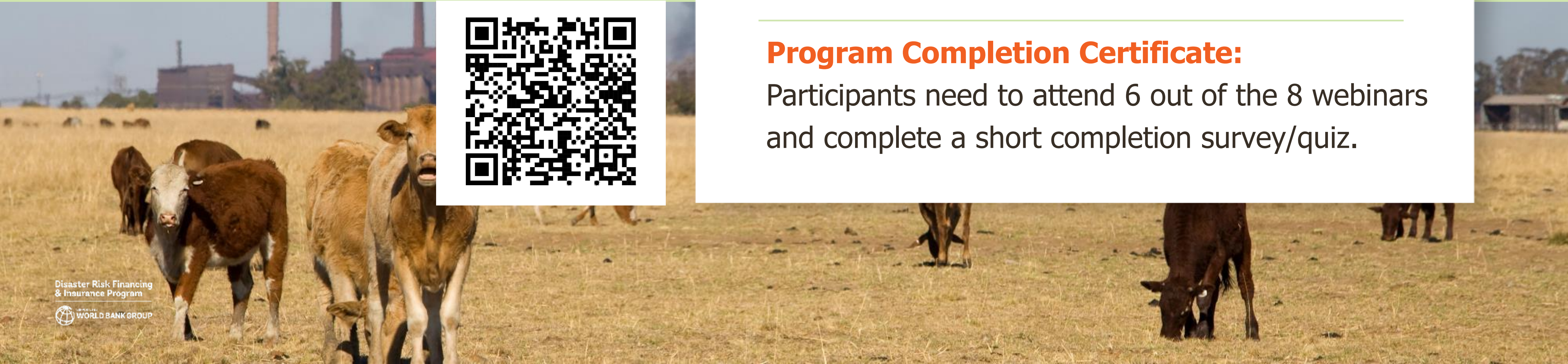
Participation Certificate:

Participants need to attend 4 out of the 5 webinar sessions and complete a short mid-term survey/quiz.

Program Completion Certificate:

Participants need to attend 6 out of the 8 webinars and complete a short completion survey/quiz.

Completion Survey



Disaster Risk Financing & Insurance Program

WORLD BANK GROUP

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 an Agriculture Financial Protection Scheme
5. Implementing an Agriculture Financial Protection Scheme
6. Risk Finance Instruments 1 – Agricultural Insurance
7. Risk Finance Instruments 2 – Macro and meso-level Risk Transfer for Agriculture
8. Risk Finance Instruments 3 – Risk Retention Mechanisms 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

- 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

8

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

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RECAP OF
Module 07

Macro and meso-level risk transfer

Key takeaways of Module 7

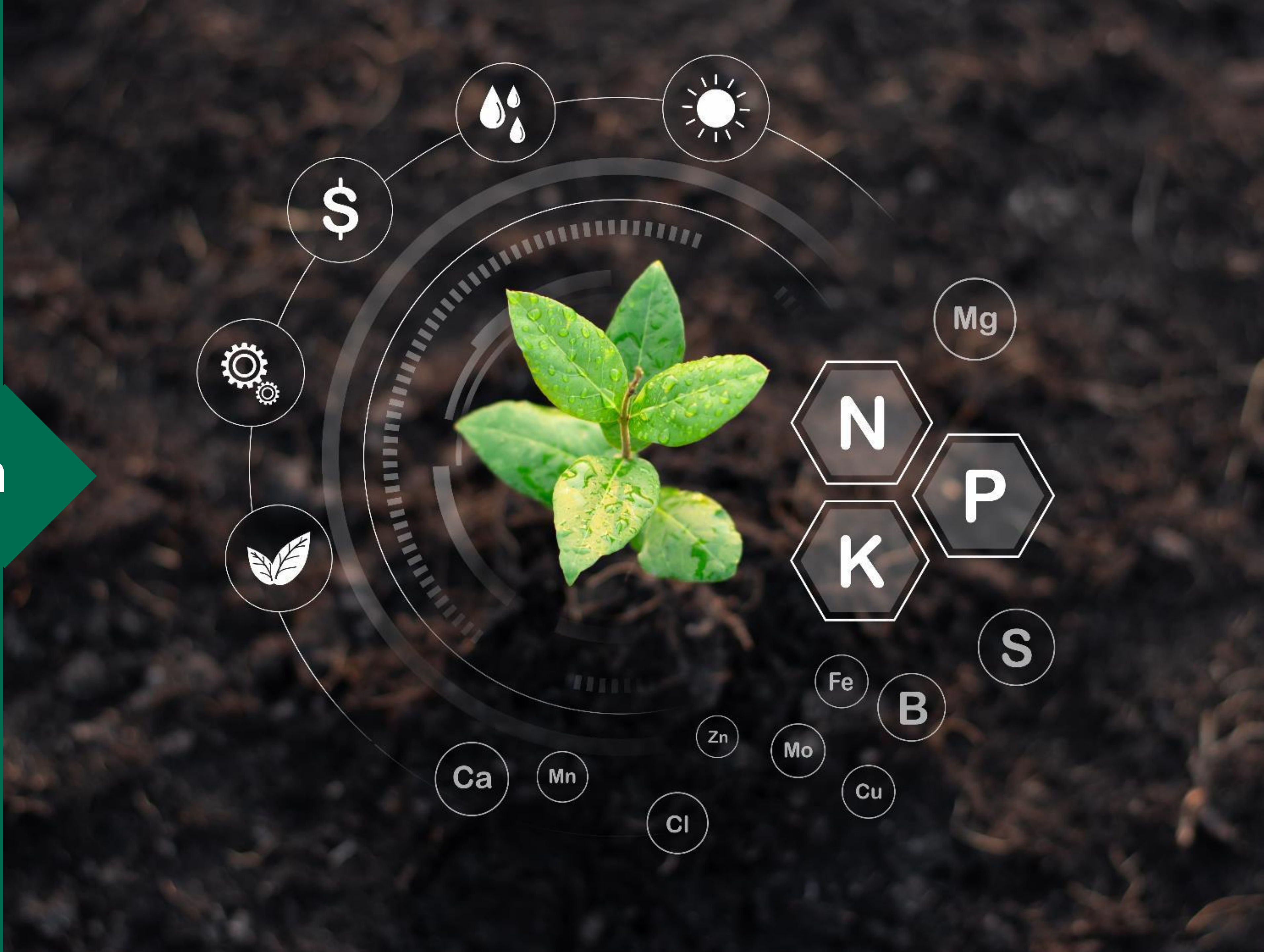
- **Design of meso and macro risk transfer programs should consider the specific challenges and risks faced by target beneficiaries**

- **Macro and meso-level risk transfer programs can be structured differently to achieve different objectives** such as: ensuring supply of financial services after disasters, reducing basis risk relative to micro insurance, or protecting aggregators or other value chain actors

- **Meso and macro-level index insurance can reduce basis risk compared to micro insurance**. However, it remains critical to ensure that the index and payout distribution is designed carefully

- **Partial credit guarantee (PCG) schemes provide a direct way of protecting financial institutions from credit risk, including that from disasters**. This can be used in place of, or alongside insurance for agricultural borrowers to increase willingness and ability to lend for productive activities. Schemes must be very carefully designed to manage moral hazard and covariate risks

Sovereign risk retention instruments



Content

- **Sovereign risk retention mechanisms for agriculture**
  - Risk retention in the risk layering framework
  - Why keep money in reserves?
  - Design of reserve funds
- **Case study: Government of Mozambique**
- **Case study: Start Network**

How do risk retention mechanisms fit within the risk layering scheme?

When a disaster strikes, domestic public finance is the first port of call

Reserve funds usually provide a source of quick liquidity but can finance response through reconstruction

Used for spending that cannot be anticipated

Have opportunity cost of revenues foregone because of money not invested elsewhere

Other risk retention sources of funds: budget reallocations, contingent financing and borrowing, grain reserves

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)

Why keep money in reserves?

Be prepared

Considerations such as how much money we will need immediately or how we will spend it, and on what, make regular budget planning a challenge. Saving for the worst case can help manage this uncertainty.

Act early

Governments' resources are depleted day by day and an absence of reserves may worsen the crisis. Setting money aside will help governments to have the means to act early.

Save

A reactive approach is more expensive. Preparing in advance requires thinking about how to manage financial costs before those costs materialize.

Reserve funds need to be carefully designed

Some of the key considerations for establishing a disaster reserve fund:

Risks: financial management, procurement and financial control

Cases of reserve funds used for supporting farmers

In agriculture, general reserve funds are often used to provide ad hoc assistance to farmers, such as Government Reserve Fund in Kazakhstan

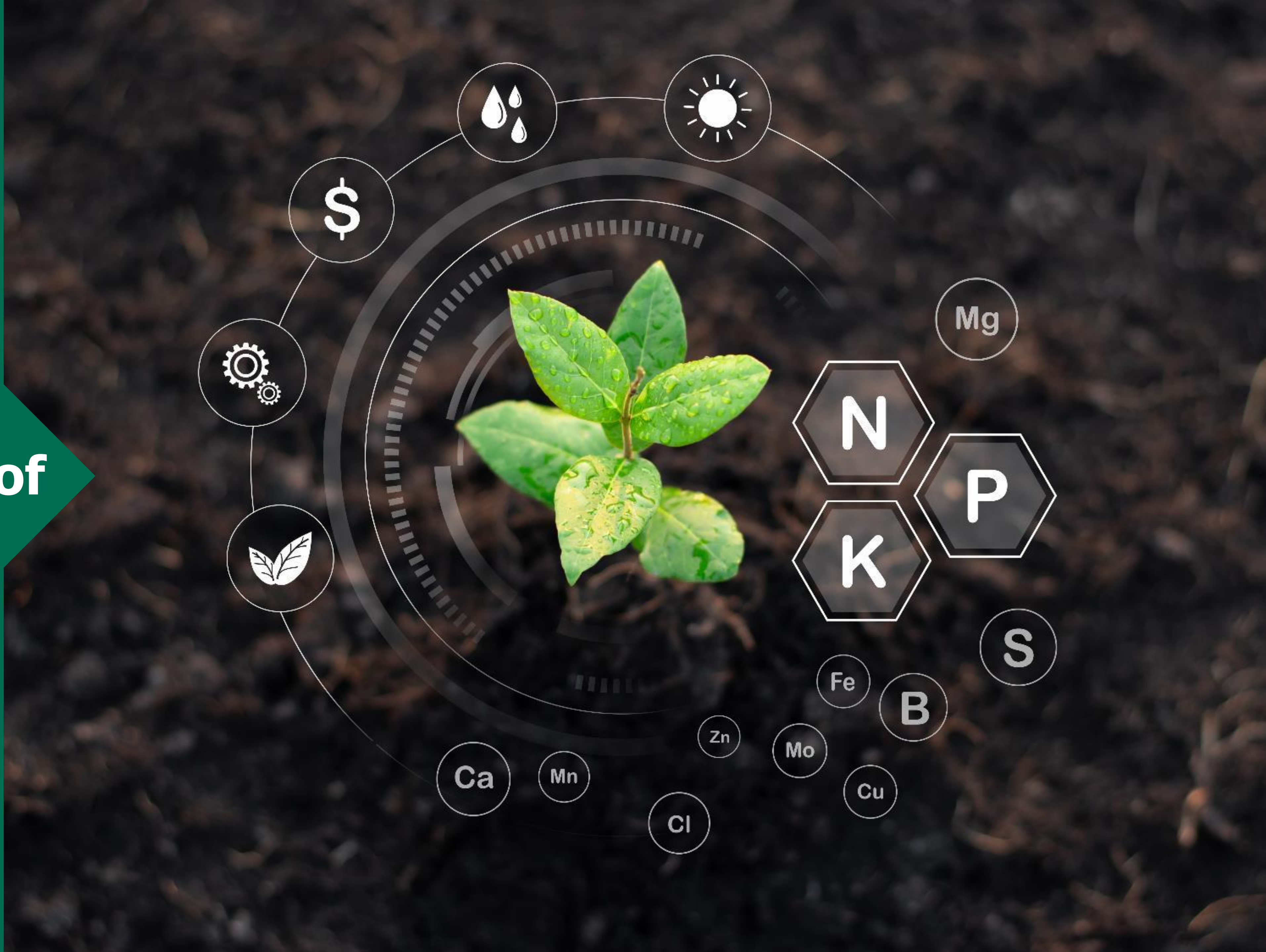
Such funds can also be established ad hoc: Farm Service Agency Salaries and Expenses Fund (US$9.5 billion) were established in USA to provide financial aid to farmers for losses associated with the pandemic

They can exist at central or agency level:

In the Philippines, Quick Response Fund (QRF) of the Department of Agriculture can provide financial assistance to the affected farmers for their rehabilitation – it exists along with agricultural insurance administered through PCIC (Philippines Crop Insurance Corporation) and DA seed reserve

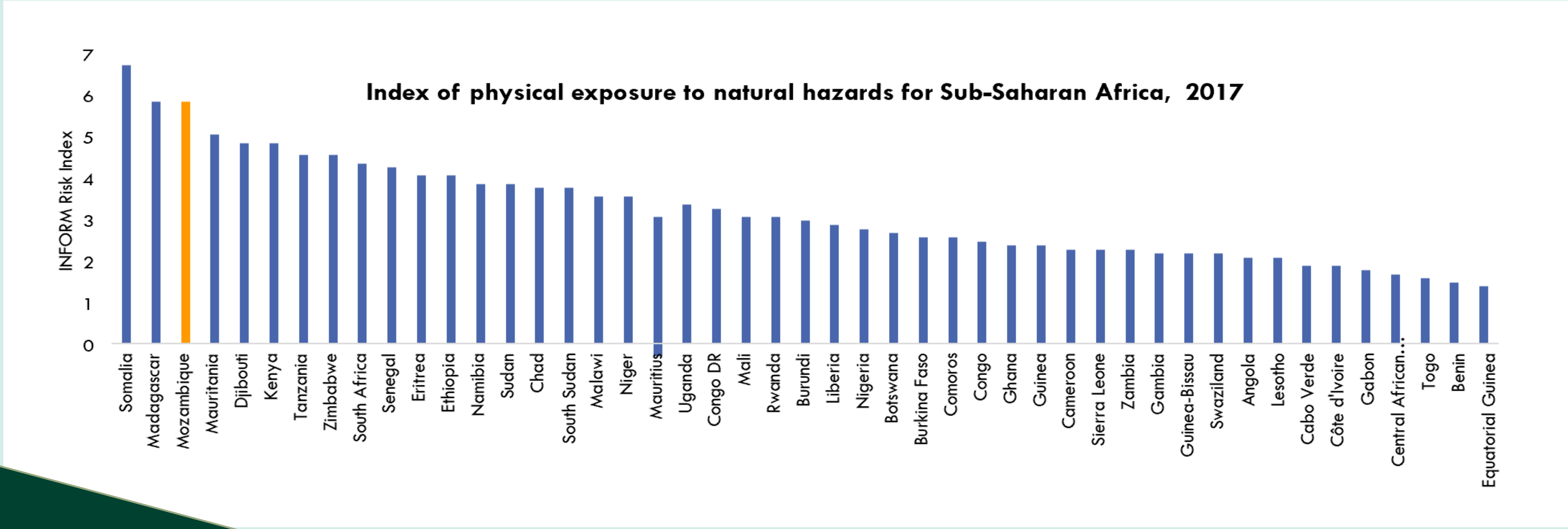
In Moldova, central government level Subsidy Fund can finance post-disaster needs of farmers

CASE STUDY:
Government of Mozambique



Mozambique is highly prone to natural hazards

Mozambique ranks third among African countries most exposed to multiple weather-related hazards and suffers from periodic cyclones, droughts, floods, and related epidemics



Source: Inform-Index 2017

A large financing gap

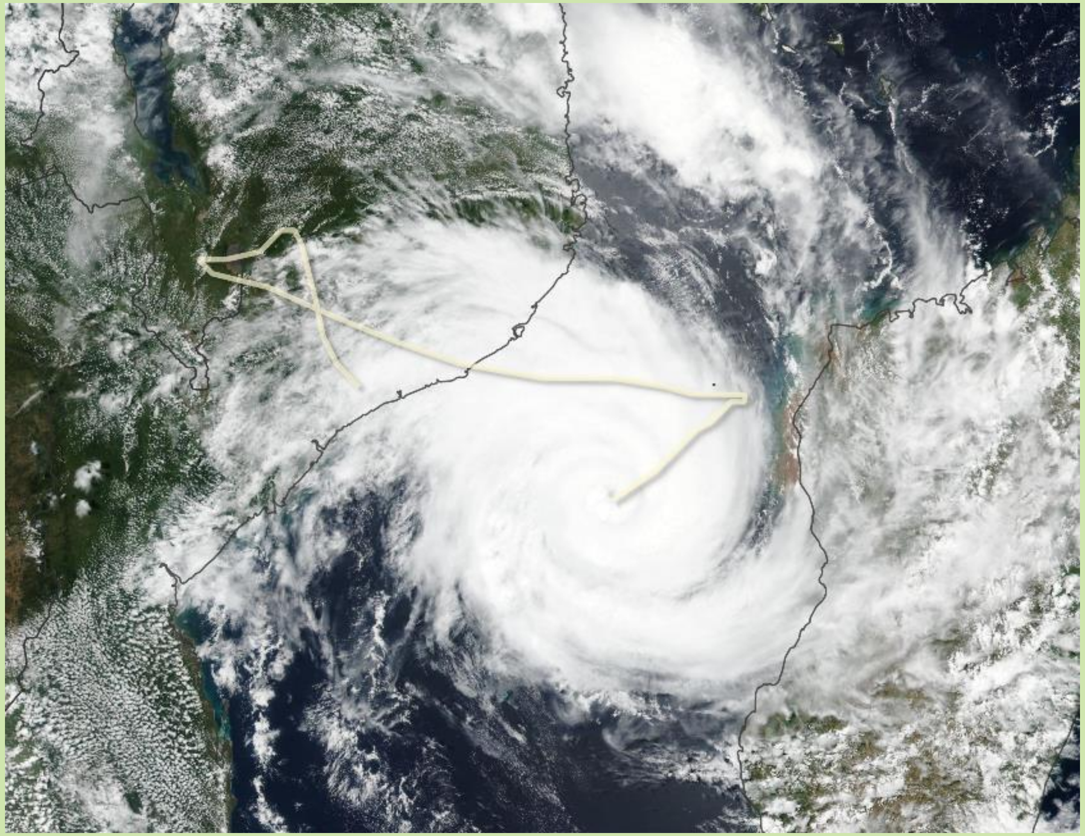
In the past, the Government of Mozambique has **struggled to mobilize financing** for post-disaster response, recovery and reconstruction

Major flood events in 2013 and 2014 caused losses to the public sector of MZN 11,582 million. Disbursements after these disasters only reached MZN 1,405 million (12%), leaving a **financing deficit of MZN 10 billion**

18 Disaster Risk Financing for Agriculture

Cyclone Idai

One of the strongest cyclones ever recorded in the Southern Hemisphere affected 1.7 million people and caused $3 billion in damages



Mozambique Disaster Risk Management (DRM) and Resilience Payment for Result (PforR)

Program Objective: To strengthen the capacity of the Government of Mozambique to respond to disasters and increase the resilience of key public infrastructure in risk-prone areas

Financing: US$90 million IDA + US$8 million from Global Risk Financing Facility

Bank approval: March 19, 2019

Disaster Risk Financing ($46m)

- Capitalization and operationalization of the DRM Fund
- Sovereign Risk Insurance

Disaster preparedness and response ($10m)

- Strengthening network of functioning DRM Local Committees
- Strengthening Early Warning systems and Emergency response

Resilience of Public Infrastructure ($22m)

- Schools
- Rural and urban water supply systems

Technical Assistance ($10m)

- Support to Fiduciary, Socio-environmental and Institutional Capacity of INGC, MINEDH, DNGRH, AIAS, DNAAS

DRM Fund – Rationale

Part of wider DRF strategy being implemented by GoM.

In the past, disaster response was financed with a budget for a national "Contingency Plan" covering on average only 15% of the response cost of small to medium events.

Unspent funds returned to the national treasury.

Costs of large emergencies were funded with budget allocations and donor funding.

Institutional arrangement & Objectives

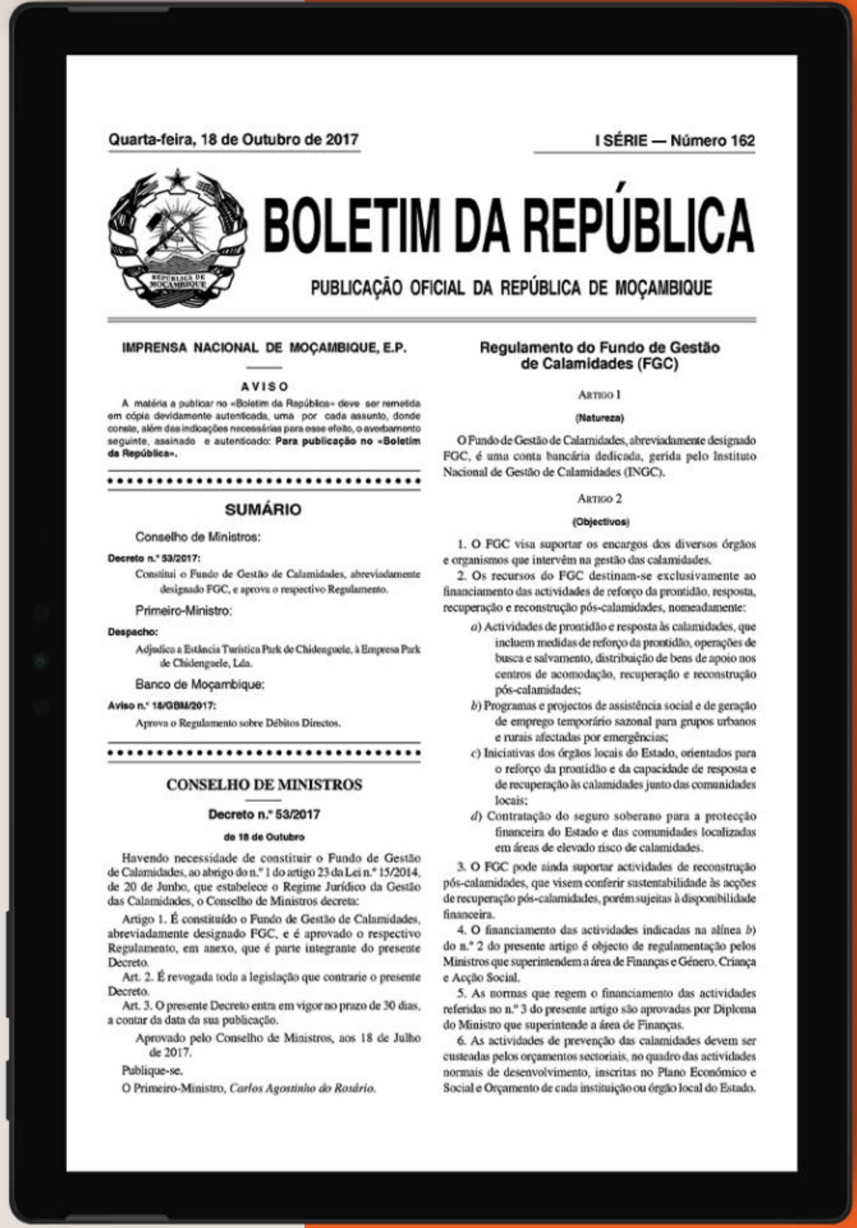
The DMF is a dedicated account managed by the National Disaster Management and Risk Reduction Institute (INGD) of Mozambique

The Government of Mozambique set up a Disaster Management Fund to:

- Increase the predictability of funds
- Increased transparency
- Increase the speed (through immediate availability of funding) and efficiency of response

The DMF finances:

- Immediate preparedness and emergency response
- Premiums of sovereign insurance that back-stops the DMF



Quarta-feira, 18 de Outubro de 2017 — I SÉRIE — Número 162

BOLETIM DA REPÚBLICA

PUBLICAÇÃO OFICIAL DA REPÚBLICA DE MOÇAMBIQUE

IMPRENSA NACIONAL DE MOÇAMBIQUE, E.P.

AVISO

A matéria a publicar no «Boletim da República» deve ser remetida em cópia devidamente autenticada, uma por cada assunto, donde conste, além das indicações necessárias para esse efeito, o averbamento seguinte, assinado e autenticado: **Para publicação no «Boletim da República».**

SUMÁRIO

Conselho de Ministros:

Decreto n.º 53/2017:

Constitui o Fundo de Gestão de Calamidades, abreviadamente designado FGC, e aprova o respectivo Regulamento.

Primeiro-Ministro:

Despacho:

Adjudica a Estância Turística Park de Chidenguele, à Empresa Park de Chidenguele, Lda.

Banco de Moçambique:

Aviso n.º 18/GBM/2017:

Aprova o Regulamento sobre Débitos Directos.

CONSELHO DE MINISTROS

Decreto n.º 53/2017

de 18 de Outubro

Havendo necessidade de constituir o Fundo de Gestão de Calamidades, ao abrigo do n.º 1 do artigo 23 da Lei n.º 15/2014, de 20 de Junho, que estabelece o Regime Jurídico da Gestão das Calamidades, o Conselho de Ministros decreta:

Artigo 1. É constituído o Fundo de Gestão de Calamidades, abreviadamente designado FGC, e é aprovado o respectivo Regulamento, em anexo, que é parte integrante do presente Decreto.

Art. 2. É revogada toda a legislação que contrarie o presente Decreto.

Art. 3. O presente Decreto entra em vigor no prazo de 30 dias, a contar da data da sua publicação.

Aprovado pelo Conselho de Ministros, aos 18 de Julho de 2017.

Publique-se.

O Primeiro-Ministro, *Carlos Agostinho do Rosário.*

Regulamento do Fundo de Gestão de Calamidades (FGC)

ARTIGO 1

(Natureza)

O Fundo de Gestão de Calamidades, abreviadamente designado FGC, é uma conta bancária dedicada, gerida pelo Instituto Nacional de Gestão de Calamidades (INGC).

ARTIGO 2

(Objectivos)

1. O FGC visa suportar os encargos dos diversos órgãos e organismos que intervêm na gestão das calamidades.
2. Os recursos do FGC destinam-se exclusivamente ao financiamento das actividades de reforço da prontidão, resposta, recuperação e reconstrução pós-calamidades, nomeadamente:
   a) Actividades de prontidão e resposta às calamidades, que incluem medidas de reforço da prontidão, operações de busca e salvamento, distribuição de bens de apoio nos centros de acomodação, recuperação e reconstrução pós-calamidades;
   b) Programas e projectos de assistência social e de geração de emprego temporário sazonal para grupos urbanos e rurais afectadas por emergências;
   c) Iniciativas dos órgãos locais do Estado, orientados para o reforço da prontidão e da capacidade de resposta e de recuperação às calamidades junto das comunidades locais;
   d) Contratação do seguro soberano para a protecção financeira do Estado e das comunidades localizadas em áreas de elevado risco de calamidades.
3. O FGC pode ainda suportar actividades de reconstrução pós-calamidades, que visem conferir sustentabilidade às acções de recuperação pós-calamidades, porém sujeitas à disponibilidade financeira.
4. O financiamento das actividades indicadas na alínea *b*) do n.º 2 do presente artigo é objecto de regulamentação pelos Ministros que superintendem a área de Finanças e Género, Criança e Acção Social.
5. As normas que regem o financiamento das actividades referidas no n.º 3 do presente artigo são aprovadas por Diploma do Ministro que superintende a área de Finanças.
6. As actividades de prevenção das calamidades devem ser custeadas pelos orçamentos sectoriais, no quadro das actividades normais de desenvolvimento, inscritas no Plano Económico e Social e Orçamento de cada instituição ou órgão local do Estado.

Governance

The use of DMF resources and its operations are governed by dedicated Manual of Administrative Procedures and Financial Management

A dedicated Fund Management Unit composed of 10 staff manages the Fund

Goods and services are competitively procured before the occurrence of disasters, rather than after disaster as was the case in the past

The Fund is audited annually, and the audits are published

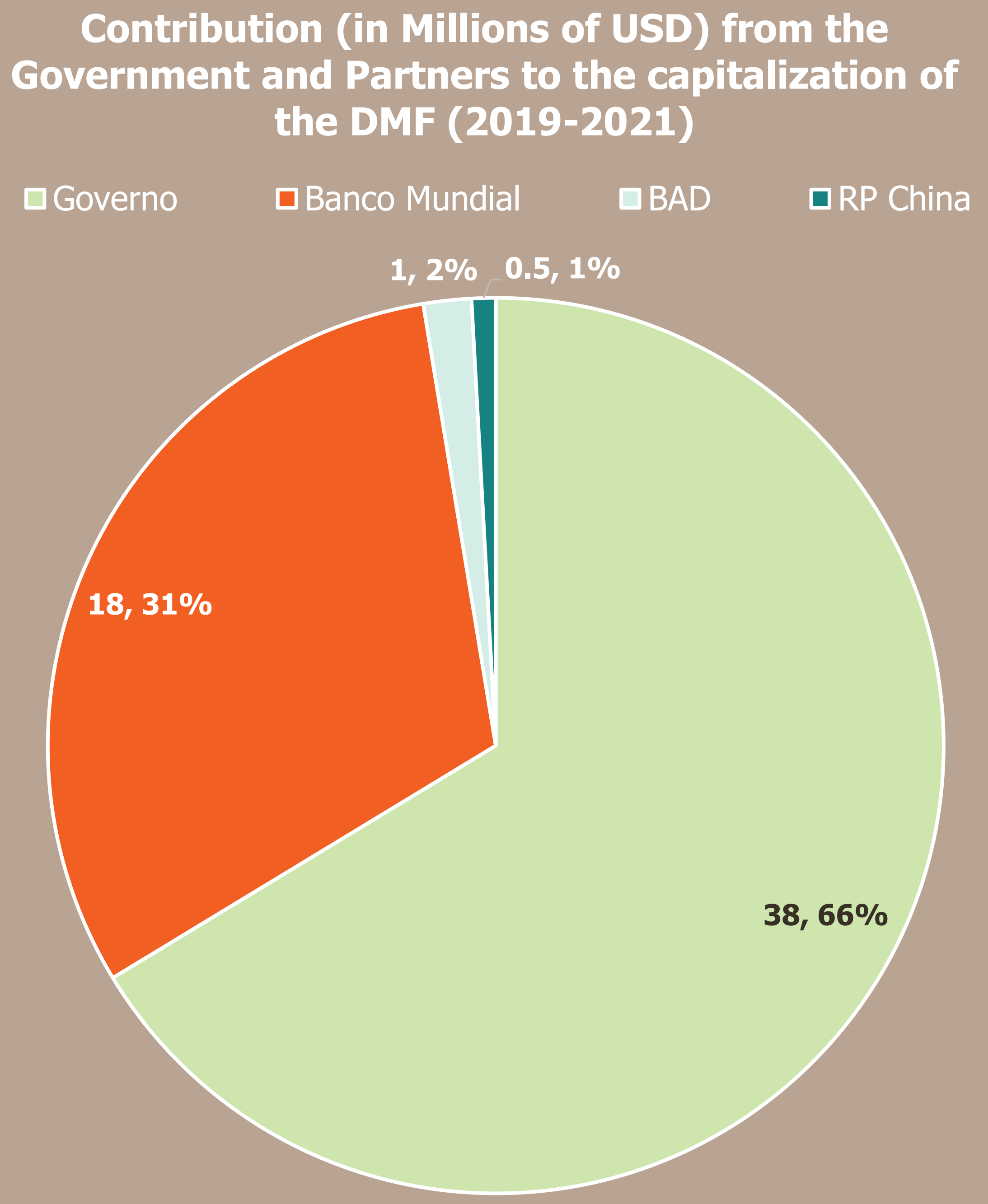
Capitalization

From 2019 – 2021 the DMF received and used US$58 million.

It received funds from the Government of Mozambique, the World Bank, the People’s Republic of China, and the African Development Bank

The major contributor is the GoM which contributes a minimum 0.1% of the State Budget every year (as stipulated in the decree establishing the Fund).

The WB is the most important external financier of the Fund

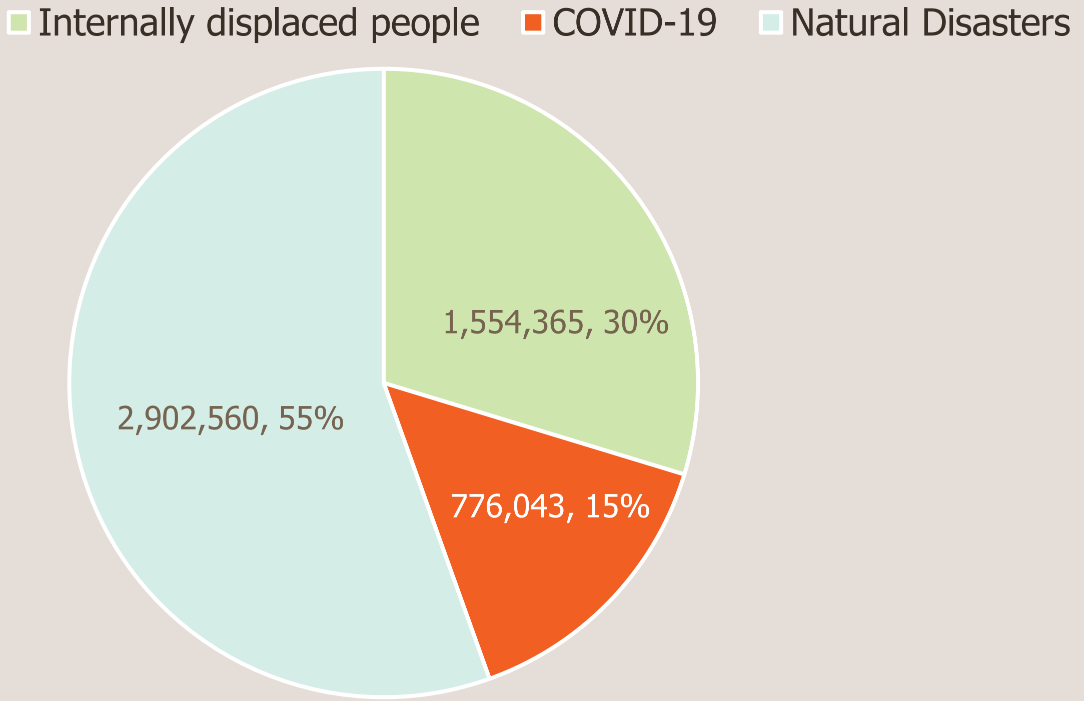


Beneficiaries

Since 2019, the DMF was the main financing instrument for the response to different emergencies.

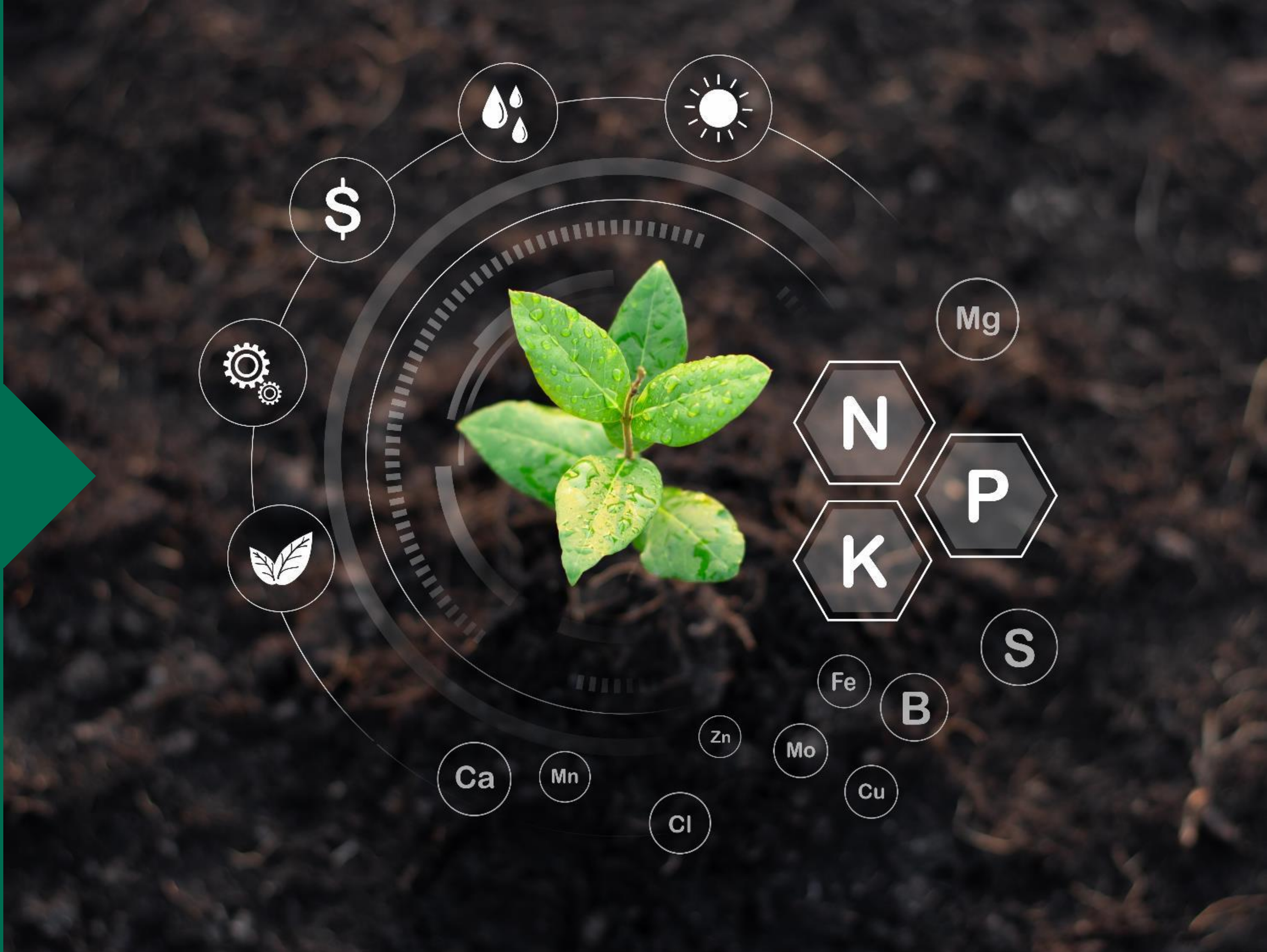
5.23 million people have benefited from DMF support related to the response to natural disasters, the humanitarian crisis caused by the insurgency in the north of Mozambique, and the COVID-19 pandemic.

DMF beneficiaries by type of event (2019-2021)



CASE STUDY:

Start Network



Start Network Origins

The Start Network was formed in 2010. Our aim was to bring together NGOs (non-governmental organisations) to tackle the systemic problems faced by the aid sector – including slow and reactive funding, centralised decision-making, and an aversion to change.

A paradigm shift catalysing change through national networks and hubs

Start Network is evolving into a distributed network of national and regional hubs made up of collectives of local, national and international organisations operating in the same country or region.

Power, decisions, resources and collective action will be closer to crises – making disaster prevention and response faster, more efficient and more cost-effective.

This presents an opportunity to provide a financial infrastructure to support and scale these country-led efforts to get ahead of crises.

The start network had two approaches to humanitarian financing

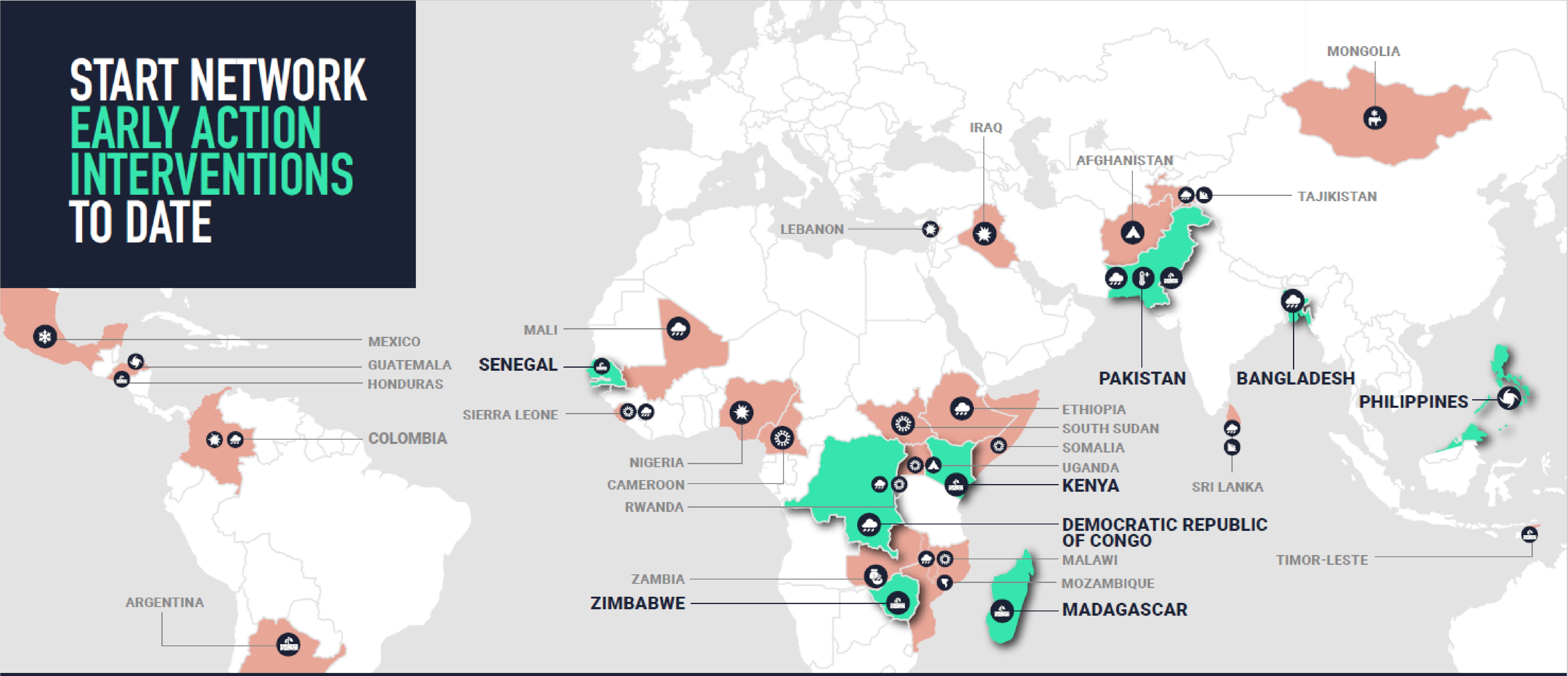
Start Funds

Providing flexible, pooled contingency funding for small to medium-scale crises.

Start Ready

A new service, providing predictable triggered funding at scale for predictable crises – using innovative risk analysis, collective planning and pre-positioned financing.

START NETWORK EARLY ACTION INTERVENTIONS TO DATE



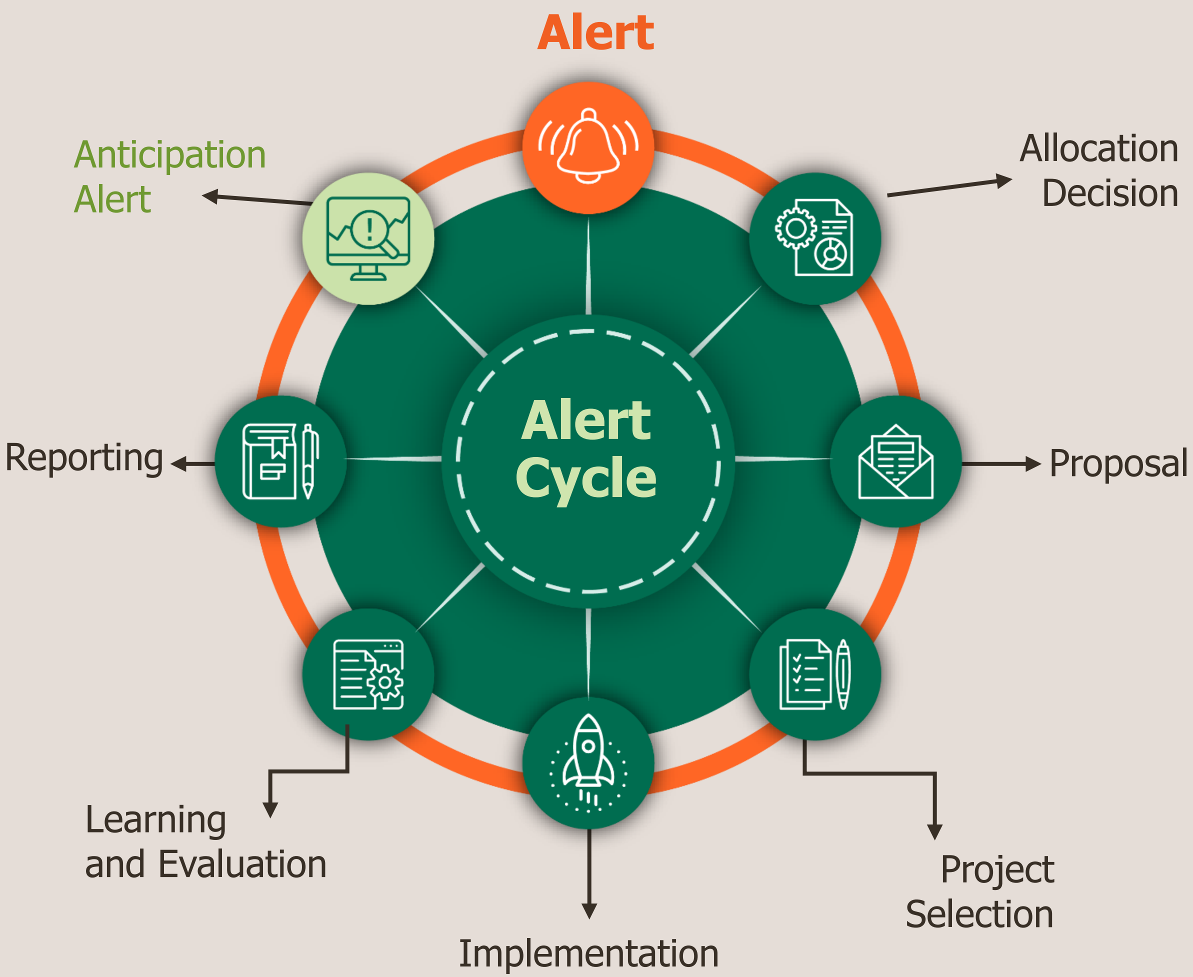
START NETWORK

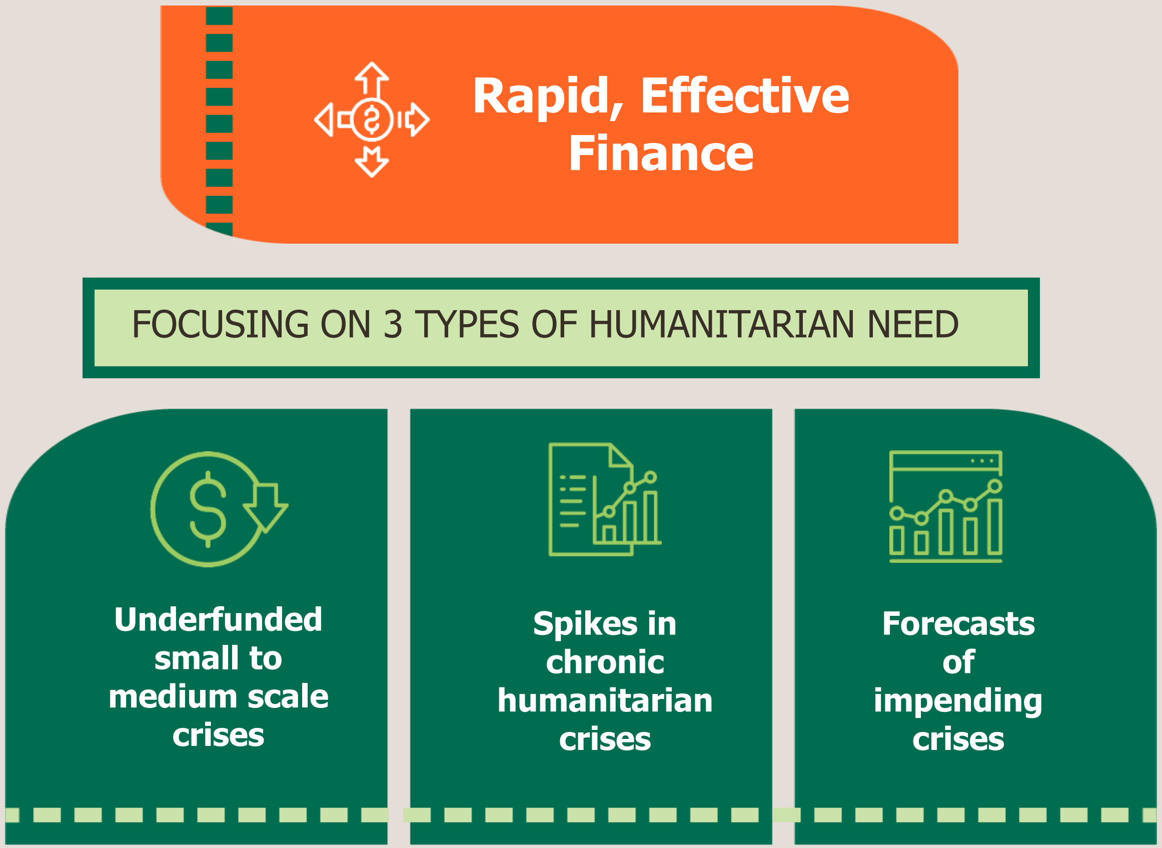
- Potential Start Ready countries*
- Start Fund anticipation alerts

- Heatwave
- Volcanic eruption
- Flooding/rains
- Landslides/ River Bank Erosion
- Drought
- Disease/Dengue/ Covid outbreak
- Cold snap
- Dzud
- Livelihood/food insecurity
- Refugees/ Forced refugee returns
- Conflict, displacement, election violence
- Hurricanes/Severe winds
- Cyclones
- Tropical Storm

*these countries may also have had anticipation alerts, not featured in this map

Start Fund - Alert Cycle





LINK HERE FOR START FUND HANDBOOK

Start Ready

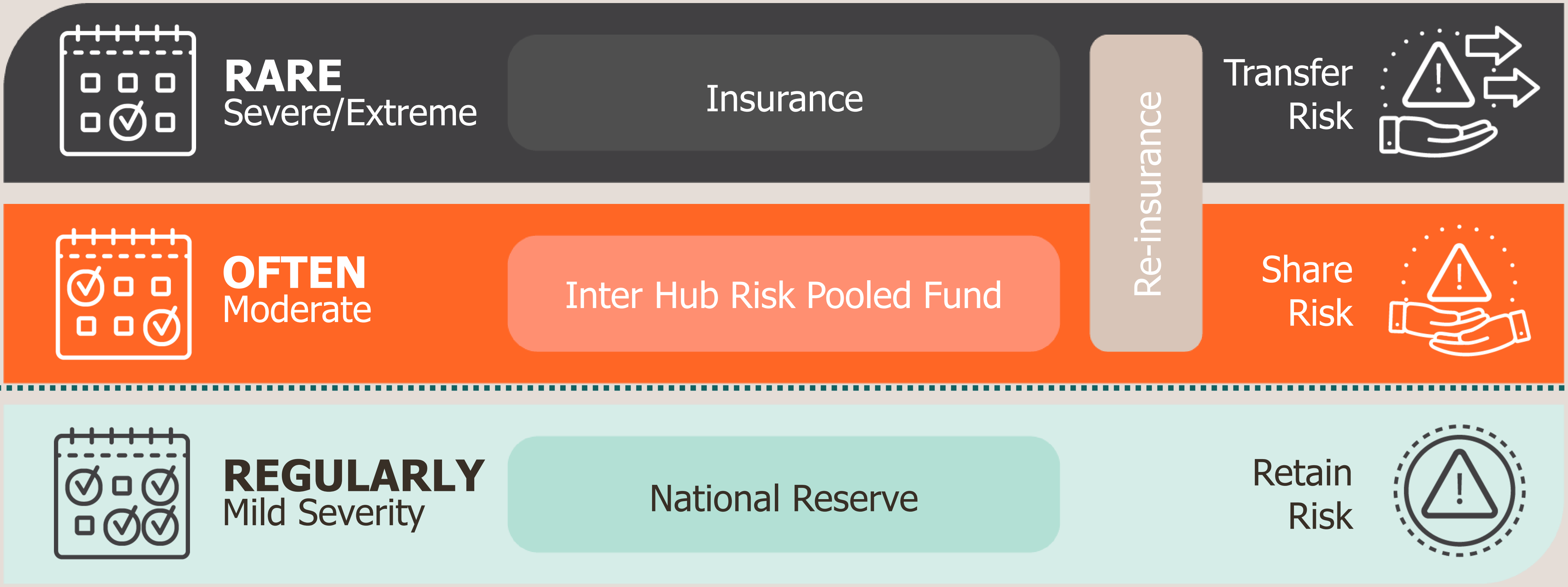
Made up of three components

- Analyzing risks and setting triggers
- Pre-agreed plans
- Pre-positioned financing

Funding is predictable/guaranteed

Members collectively decide in advance for scenario X, what funding will be released, for what actions, where and by whom

Start Ready



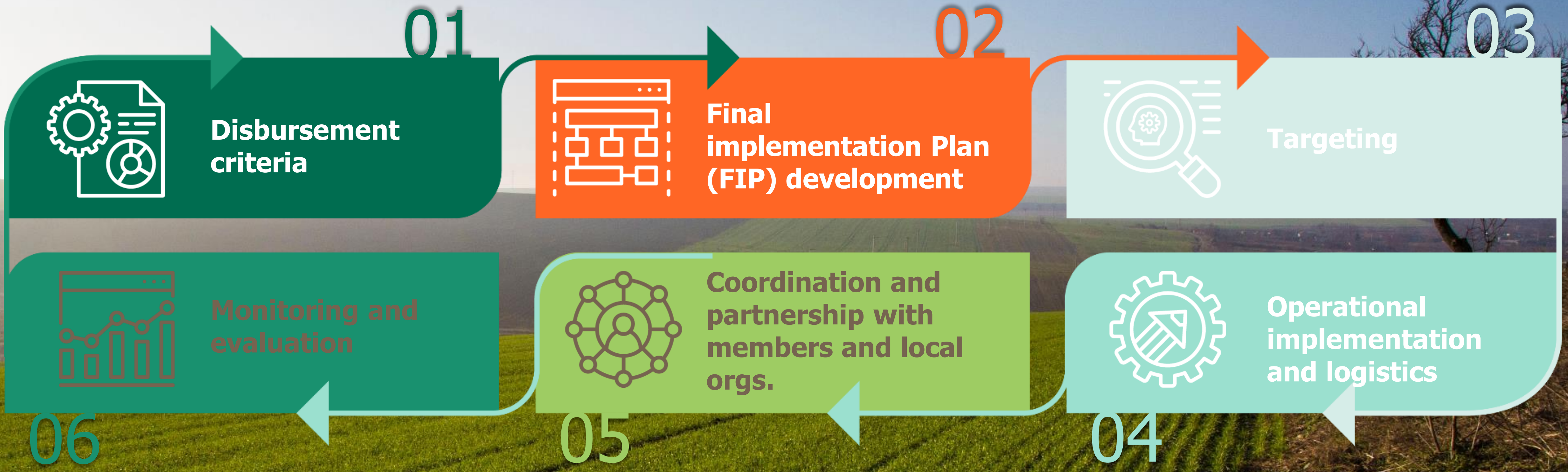
- *Low impact, high frequency*
- *Contingency funds, contingency loans, budget reallocation - provides immediate liquidity following a national disaster*

Discision making – pre-release of funds

The hub steering committee of that country, which is made up of national appointed local NGO’s and INGO members will need to decide:

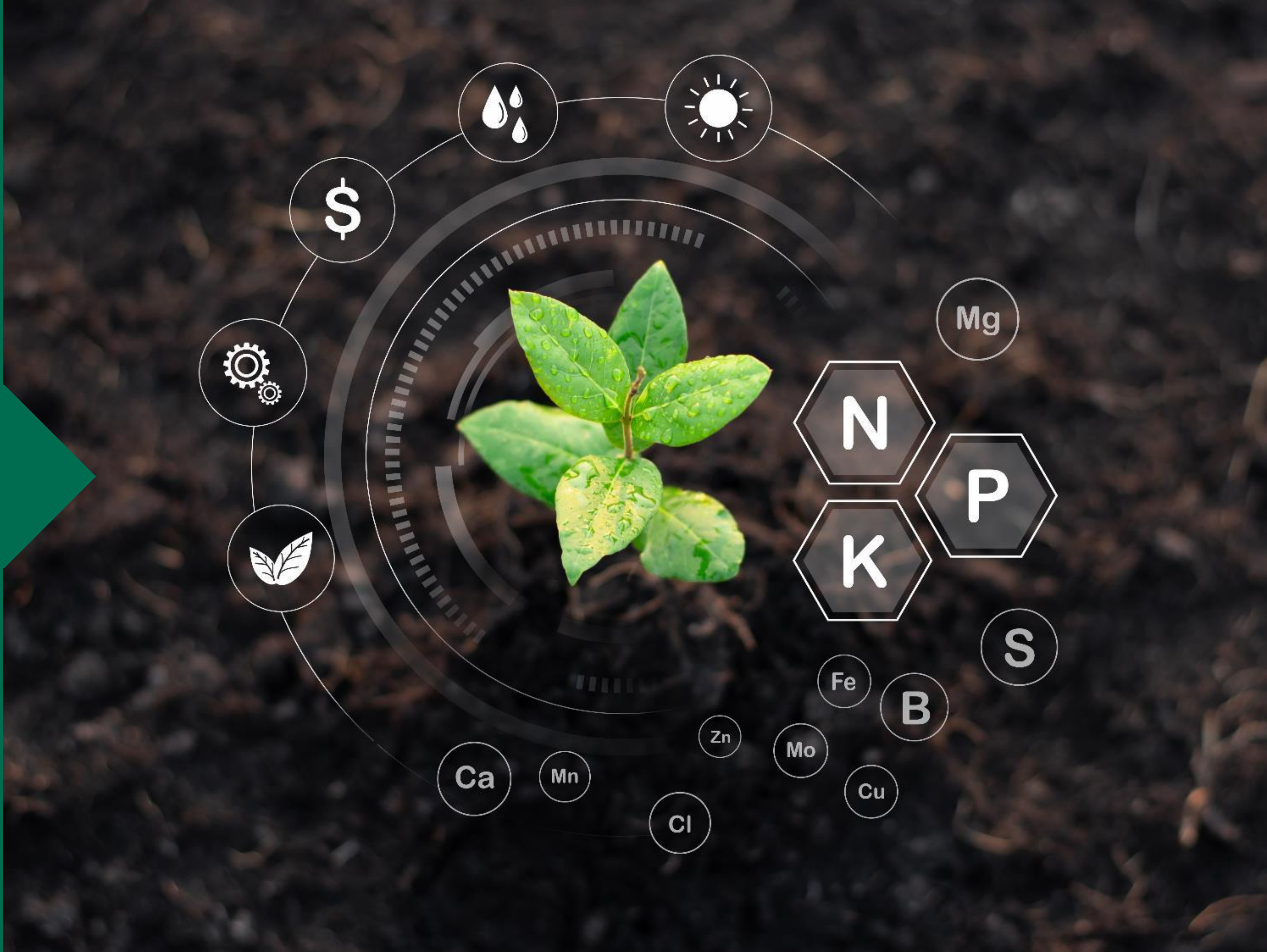
- How and when should the funding be released?
- The amount of funding
- The activities the funding will support
- Who will carry out these activities and where?

How it works – post release of funds



CASE STUDY:

Insurance Against drought in Senegal–Contingency Fund 2019



Late 2019: Rains Failed

After a poor rainy season in 2019, Senegal's harvest in 2020 was at risk – threatening farmers with serious difficulty

How it worked in practice

Aug 2019
Rains fail in Senegal

Oct 2019
African Risk Capacity announces that a large insurance payout is likely.

Dec 2019
Start Network receives a payout of $10.6 million and a contingency fund release of $375,000 the largest ever payment to civil society for early humanitarian action. The Government of Senegal receives $12.5 million.

Jan 2020
Response planning begins.

Feb 2020
Our partners begin targeting communities and selecting suppliers.

Mar 2020
The pandemic hits - and we adapt.

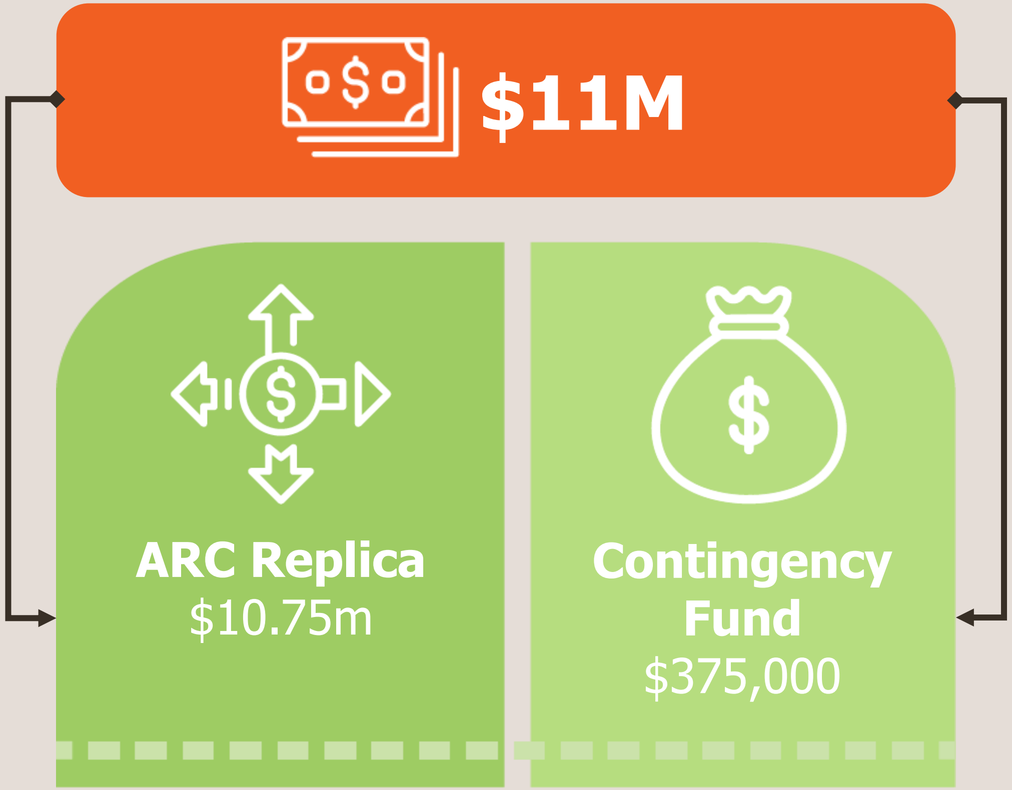
May 2020
We begin distributing cash and flour to households.

Sep 2020
All distributions of flour and cash are completed.

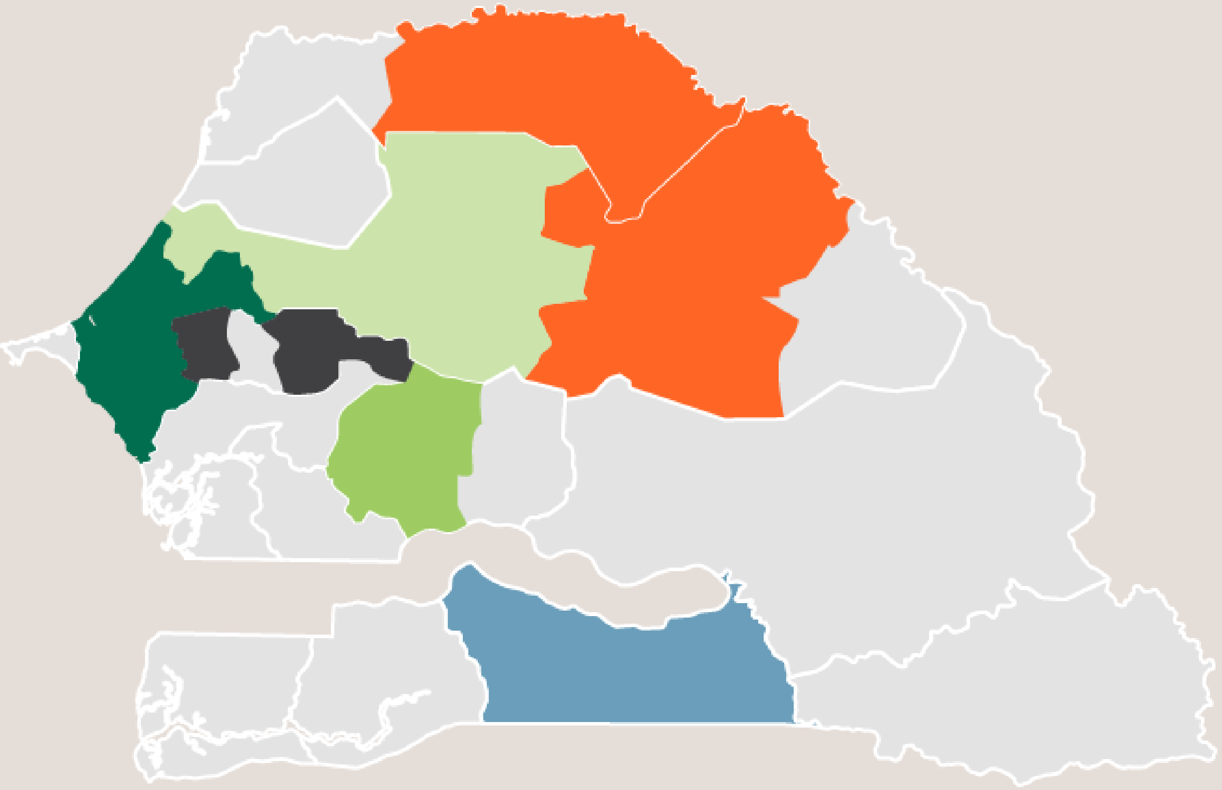
335,000 people reached

How it worked in practice

Senegal 2019: 1 in 10 year drought in ARC



How it worked in practice



Action Contre La Faim
Save the Children
Oxfam
Catholic Relief Services
World Vision
Plan International
Government Support (ARC)

Contingency Fund $375,000

As ACF were the main agency operating in this region the Contingency Fund was released in full to them.
The Contingency Fund supported 8,693 people with cash grants and fortified flour distributions.

- Cash Distribution
- Flour Distribution
- House Awareness – Raising and Education activities related to Nutrition and Hygiene Practices

Each of our partner agencies has a wealth of experience in delivering disaster response, as well as specific expertise. By playing to their strengths, we were able to plan the most appropriate assistance to the communities in greatest need

Risk Layers Working in Practice

Challenges:

Covid-19

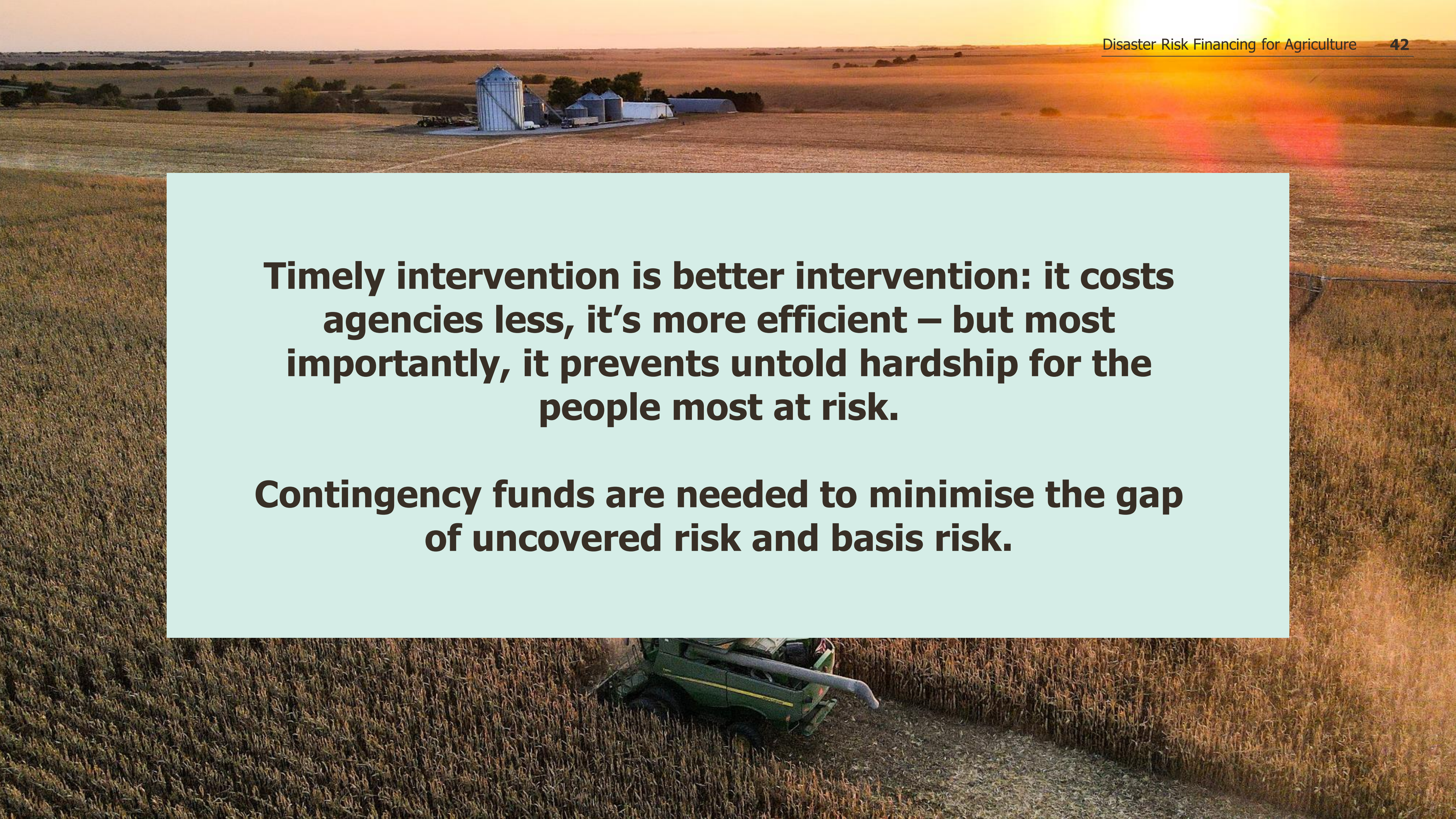
ARV only objective model that can be used for the release of drought-specific funding

Contingency fund does not trigger if the country experiences yield loss from devasting floods

Senegal 2021: 1 in 3 year drought – just below ARC attachment point. Slow start to the season and some crops have failed. Contingency fund triggered - $300,000 to support over 9,000 people with cash and food.

Info for 2019 Scrolling Story
https://startnetwork.org/news-and-blogs/defeating-drought-crisis-averted-senegal

YouTube video of payout
https://www.youtube.com/watch?v=5AULsiO5yWE&t=3s

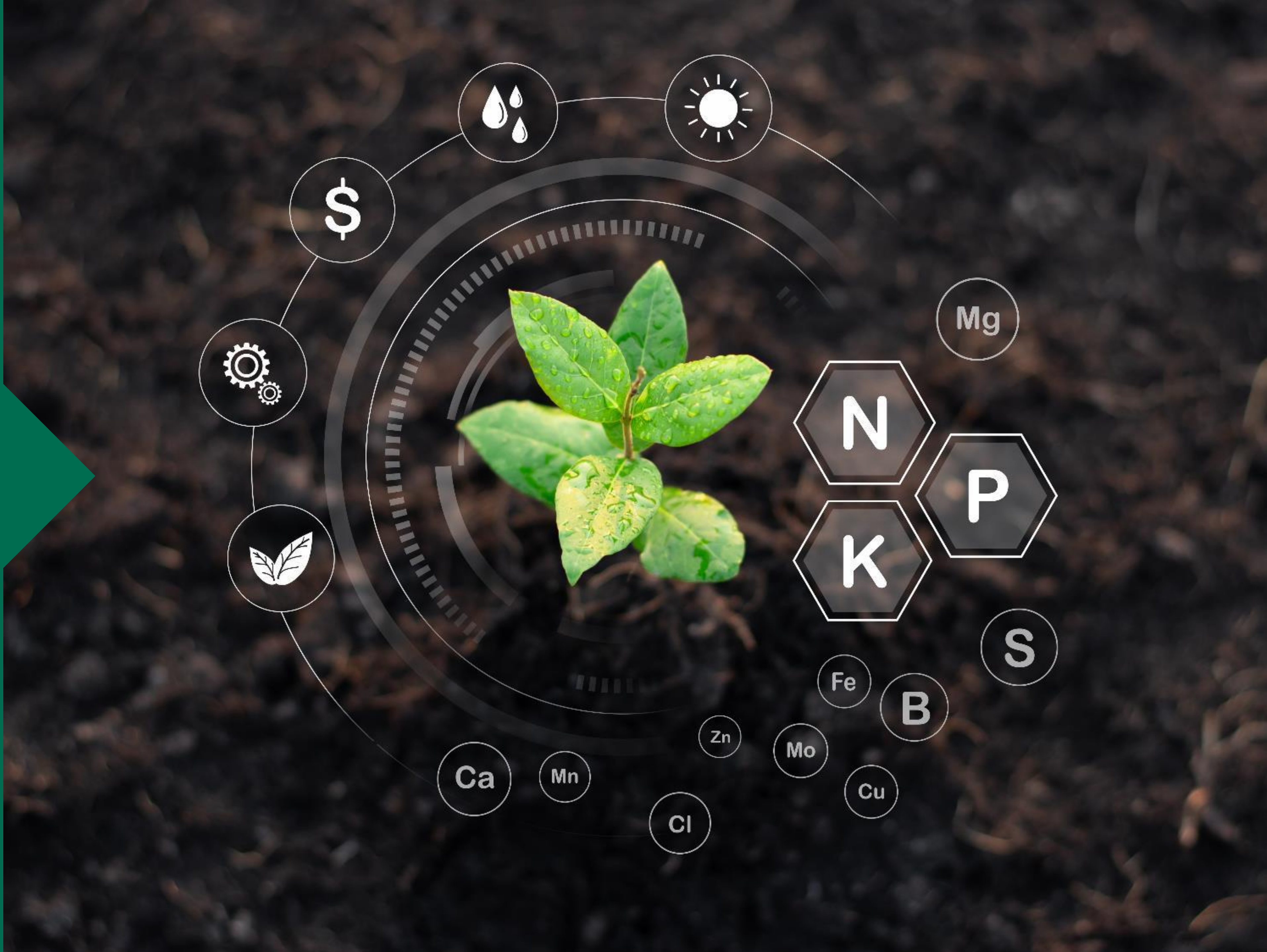


Timely intervention is better intervention: it costs agencies less, it's more efficient – but most importantly, it prevents untold hardship for the people most at risk.

Contingency funds are needed to minimise the gap of uncovered risk and basis risk.

LESSONS LEARNED AND

final conclusions



Key takeaways of Module 8

- Reserve funds can be used for financing a variety of different post-disaster costs – these are the costs that cannot be anticipated and planned. They help to act early, be prepared and save costs (if compared with relying only on ex post-financing)
- Reserve funds, while important, should be considered as part of broader risk management strategy
- Reserve funds require careful design and implementation to avoid being used ineffectively where funding does not reach those most in need quickly
- Timely intervention is better intervention: it costs agencies and governments less, it is more efficient – but most importantly, it prevents untold hardship for the people most at risk and where negative coping strategies may be employed
- Reserve funds can be used to minimize the gap of uncovered risk and basis risk from other products such as risk transfer

Questions?

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