



**Climate and
Disaster
Governance**

MICRO-INSURANCE & DRR: CHALLENGES AND OPPORTUNITIES IN THE CONTEXT OF CLIMATE CHANGE

Author: Rachele Pierro

Contents

<i>1. Purpose of this study</i>	<i>1</i>
<i>2. Introduction</i>	<i>2</i>
<i>3. Experience to date</i>	<i>3</i>
<i>4. Delivery models and MI providers</i>	<i>4</i>
<i>5. Approaches to index-based MI: Multi-countries, Macro and Micro level</i>	<i>5</i>
<i>6. Research method and limitations</i>	<i>7</i>
<i>7. Results</i>	<i>7</i>
<i>8. Conclusions and recommendations</i>	<i>14</i>

1. Purpose of this study

The purpose of this study is to provide an overview of Christian Aid interest in crop/ weather micro-insurance (MI) as well as partners' involvement in micro-insurance related products and services, and of today's experience as documented by other actors, including government and non-governmental organisations. Our final aim would be to outline a position on micro-insurance that is compatible to Christian Aid's ways of working, and make specific recommendations for the Disaster Risk Reduction Unit on how to take forward work on micro-insurance, including further research.

While the benefits of providing financial services for the poor, is now widely accepted, and micro credit is a common approach to long term development, micro-insurance, and its benefits for low income individuals and families has hardly been considered. However it is now being seen within the private sector, government and non governmental sector as a way not only to reduce the impact a disaster might have in the poorest communities but also as a way of encouraging economic development and growth. Micro-insurance could help low income people to retain the financial gains they make, allowing them to kick start a virtuous cycle of growth and economic independence.

Our background research has shown that experience in this area is limited, particularly experience of successful models of crop and asset insurance for small-scale and marginal farmers and livestock producers. However, many agencies are now getting interested in the

subject and look into the role of micro-insurance products to address risk, also in areas expected to be affected by climate change. While at a global level and for large businesses, climate insurance has been discussed for some time, models for poor farming communities are only being developed for the last two to three years.

The findings of this work point towards two viable options for CA in reference to crop/weather micro-insurance provision: the first one is to advocate both directly and through our partners, for governments and commercial providers to make micro-insurance schemes available to low income individuals, (this option was the most recommended one by the interviewees within CA). In addition to this, advocating governments and International Financial Institutions to assist both technically and financially vulnerable countries in establishing climate related insurance schemes at a national or multi-national level (see examples from Ethiopia and from the Caribbean).

The second option would be for CA to become part of a pool of NGOs that would be interested in piloting a micro-insurance approach together to other tools already in use, ensuring in this way that the scale of the approach is sufficiently big, and that a large enough number of people are covered under the scheme to proof its benefits and sustainability in the long run. This approach would mean that NGOs participating in the scheme form a joint venture with both governments and private sector alike (insurers, re insurers, and country laws and regulations).

2. Introduction

While the poor are the most vulnerable to risks, the majority of them have to manage risks with their own means. Very few have access to formal insurance and depend on informal mechanisms to cope with shocks. During the last ten years formal insurers have started targeting low-income markets focusing mainly on health and

life insurance. Recently new forms of micro-insurance have been developed aiming to mitigate the risk of natural disasters for the poor. Some donors and international organizations are looking at these new models with growing interest also in sight of the new challenges climate change may pose by further eroding actual coping mechanisms.

What is Micro-insurance?

Micro-insurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Specific perils can be death, funeral expenses, small-scale assets, livestock, crop and damage to

We are aware that micro-insurance will only ever be one tool among many and its success will depend on a number of other factors, including access of farmers to seeds and markets, good administration, cost efficient micro insurance products, and large scale delivery, for it to benefit the poor and also to make it attractive to those who provide the micro insurance. Moreover, before micro-insurance can be made available in a large scale and this approach work, there are certain obstacles that must be overcome such as market barriers (poor people lack access to insurance or credit products), lack of appropriate delivery channels for micro-insurance products, regulatory barriers or the inexistence of them (that protect both insurer and insured).

By bringing NGOs/Civil Society, private sector skills, expertise and institutions, to work alongside Governments, micro-insurance can become an integral component of countries broader strategy to reduce the devastating consequences of natural disasters which are becoming increasingly frequent due to the effects of climate change.

3. *Experience to date*

Crop insurance experience, in developing countries, has been very limited and overall traditional crop insurance has shown to be unsuccessful. New models have been recently implemented but information is still scarce above all in reference to their ability to target the most vulnerable groups.

Traditional crop insurance

In traditional crop insurance, insurers pay claims based on actual losses through field inspections and this theoretically guarantees its fairness. However, according to the World Bank and many academics (see Skees, Hazel, Miranda and Morduch) experiences with traditional multi-peril crop insurance in developing countries have been a “global failure”, for the following reasons:

Positive aspects	Negative aspects
<ul style="list-style-type: none"> • Based on actual losses • Cover also losses due to crop pests and insects attacks 	<ul style="list-style-type: none"> • Depend heavily on subsidies since has high monitoring and administrative costs. • Has large <u>correlated risk</u>¹ so require high extra cost for reinsurance. • Can be unfair since large farmers tend to get most of the subsidies. • Is plagued by <u>adverse selection</u>² and <u>moral hazard</u>³.

Example: traditional crop insurance in India

In most rural India the only form of agricultural insurance available is the traditional public crop insurance. Since payout is based on crop damage for every farmer administrative costs are particularly high and moral hazard is a major issue. That makes this insurance inefficient and onerous for the government. On the other side farmers experience delayed, even 1 year, and often very low payouts. Another issue is that crop insurance subsidies are positively associated with the farm’s size. But since many of the rural poor in India have little or no farm, they do not benefit from subsidies to the existing insurance programs.

Index-based insurance

¹ Correlated risk refers to the simultaneous occurrence of many losses from a single event, as a natural disaster.

² Adverse selection occurs when there is asymmetric information between insurer and insured. It is the tendency of persons who present a worse than average risk, to buy the insurance.

³ Moral hazard arises when policyholders can, with their behaviour, increase the likelihood or magnitude of a loss.

Index-based micro-insurance started very recently therefore more experience and studies are necessary in order to better understand its potential as a risk reduction tool for people with different level of vulnerability.

In these models, contracts are written against a physical trigger (ex. rainfall measurements at the regional weather station) regardless of actual losses and premium varies from crop to crop. Claims are paid promptly since no field inspections are required and this can prevent the sale of crucial productive assets. According to James Morris (WFP, 2005) farmers could feel secure enough to make higher risk, higher return investments in seeds and fertilizer and that would increase their chance of becoming self-sufficient and less dependent on emergency aid.

Disaster micro-insurance products can be extensions of micro credit/saving programmes. They can have a *bundled scheme* where insurance is a requirement to be a member of a marketing organization or to access loans (see NASFAM) or they can have an *independent scheme* (see BASIX).

Positive aspects	Negative aspects
<ul style="list-style-type: none"> • Low transaction costs • Eliminate long settling claims • Reduction of moral hazard (since not related to actual loss) • No adverse selection (since there is no asymmetric information) • More transparent (payout fixed in advance) • Works well in case of massive weather events • Other people besides farmers (like fishermen, tourist operator...) also affected by the weather, can buy it, creating a diversified pool • Also landless people can buy the insurance. • Once implemented and if at a big scale (about 10.000 people) it is going to be economically self sustainable 	<ul style="list-style-type: none"> • If the trigger is insufficiently correlated with the losses no payout is given even though losses occurred (<i>basis risk</i>) • It is really recent, even in developed countries, few experiences • It is problematic in a peril not evenly impacting the area to which the coupon relates (ex. hurricane) • Need of sufficient historical data to develop the index • Need of precise measurements • It is very expensive to implement at the start up phase since big expertise is needed to price the product and establish triggers • Given the possible magnitude of loss, need an international re-insurer or multiple underwriters

4. Delivery models and MI providers

MI can be sold to individuals or to groups following one of these delivery models:

1. Partner-agent model commercial or public insurer with MFI or NGO collaborates in developing the insurance. The insurer absorbs the risk, the agent markets the insurance through its established networks, lowering distributions cost (dominant in India)
2. Community-based model local communities, NGOs, MFIs and/or cooperatives develop, distribute the insurance and absorb the risk; no commercial insurer is involved. (mainly used in health insurance)
3. Full-service model Commercial or public insurer develops and runs its own insurance scheme absorbing profits and losses.

4. Provider model Banks and other providers of microfinance can directly offer or require insurance contracts, usually coupled with credit. (widely used in general insurance but has high transaction costs)

Providers can range from multinationals or domestic commercial insurers, to member owned mutuals (cooperatives), non governmental organisations (NGOs) or community based organisations, or even informal groups.

Micro insurance Companies: These are insurance organisations that have been specifically set-up to provide insurance services to the low-income market. These can be NGOs, companies or other types of organisations which mostly follow the full service model. (Please refer to Annex 1 for examples).

Micro finance institutions: These organisations offer insurance to its clients along with other financial products. The most common insurance products are credit-life or life insurance. The decision to use one or the other model can evolve over time, but the partner-agent model would be the most favourable option if no insurance and actuary in-house expertise exists. Some organisations have especially been set up to offer microinsurance. (Please refer to Annex 1 for examples).

Insurance companies: National and international Insurance Companies have started offering insurance products to low-income households either because they have realised the potential of this market or for corporate social responsibility motives or for both reasons. Some of these companies provide micro-insurance services directly, while others partner with organizations such as MFIs that are closer to the target population (partner-agent model). (Please refer to Annex 1 for examples).

Mutual insurers: They are non profit, member based insurance organisations, with professional management and regulated under non insurance act regulations. Mutual insurers provide the third largest share of all covered lives.

NGOs insurers: In a study carried out by The Micro-insurance Centre LLC, it was found that 47% of all micro insurance-covered lives is provided by NGOs, but 36% of the total covered lives are attributed solely to one body, the China Federation of Trade Unions, leaving the true coverage of NGOs to around 11% worldwide. Since NGOs are not driven by profits they can focus on the lowest income market and provide more complex products than a commercial firm. There are however drawbacks to NGO micro insurance, the most significant is that they operate without the benefit of an insurance license and outside the regulations which commercial insurers must adhere to, (only 7% of NGOs operate within the bounds of regulation). Because they hold premiums in trust, unregulated insurance operations are of concern, however well intentioned NGOs might be. NGOs are the largest providers of health micro insurance, since this is a highly demanded service among their beneficiaries, and is a popular area for donors, and therefore partly donor driven, since

health micro insurance is difficult to operate profitably and since NGOs lack profit motive this type of micro insurance is largely subsidized. (Please refer to Annex 1 for examples)

5. Approaches to index-based MI: Multi-countries, Macro and Micro level

Index-based MI schemes can be implemented at different levels: Multi-countries level, Macro level and Micro level. Each of these models has been put into operation only recently at a pilot basis, therefore further studies are necessary in order to understand their potentiality and limitations. The first two models appear to be suitable for low-probability high-consequence risks, like a catastrophic drought, while the third model offers protection also to localized weather risks, like mild, local droughts.

The first two approaches, creating big pools, can better guarantee financial sustainability of the scheme, however the issue of corruption and unfair distribution of payouts has to be taken into account. Conversely the third approach, while possibly granting higher community involvement and control, can however end up being economically unsustainable, unless a big-enough pool is created and premiums are priced correctly.

Multi-countries MI scheme

The first Multi-country catastrophe insurance pool is very recent (Feb 2007) and has been purchased, thanks to donors contributions, by a pool of 18 Caribbean countries. The Caribbean Catastrophe Risk Insurance Facility (CCRIF) will guarantee participating governments immediate access liquidity if hit by a natural disaster. According to the World Bank, pooling their risk is saving the eighteen participating countries approximately 40% in individual premium payments. Purchasing the insurance from the Facility, Caribbean Governments can contribute to their own protection proportionate to their risk of exposure to natural disasters and help safeguard their services. This in turn will help protect the poor who suffer disproportionately from such disasters, and raise investor confidence in any participating country's ability to recover from a disaster

Macro approach to MI

In 2006 the first Macro index insurance has been piloted in Ethiopia. The index has been correlated to crop failure due to weather for 310.000 beneficiaries. The whole country has been assured against drought by AXA Re and WFP has paid for premiums. According to WFP, this pilot project has shown that catastrophic risk is suitable for transfer to global markets.

Micro approach to MI

Few miniature MI policies have been implemented recently (ex BASIX in India and NASFAM in Malawi). This model requires a big donation for the starting up phase but can become self sustainable when bigger pool is created (more than 10.000 people insured). This MI can be sold to individual farmers or to groups (like a village or a cooperative) premium is paid by farmers and can be subsidized for the poorest.

BASIX in India

In 2003, with the World Bank's technical assistance an Indian insurance company, ICICI Lombard, designed a pilot weather-based insurance and BASIX, a microfinance institution, marketed it. Reinsurance was guaranteed by Swiss Re. Essential conditions for this new form of insurance have been: first, the expansion of Microfinance Institutions in India's rural areas (BASIX has established networks and good reputation among farmers); second, the availability of historical reliable meteorological data that allows reinsurance in the international market.

Two policies were designed for castor and groundnut. Triggers of minimum mm of rain have been established and discussed with farmers. In 2003 policies were sold to 148 farmers with an average of 2-10 acres of land. During this pilot project 2 major problems emerged:

- Cash availability during marketing days, since timing of sales coincided with seed purchasing.
- Complexity of the insurance, since most farmers did not understand "mm of rainfall".

Based on feedback from farmers, the insurance has then been improved and by the end of 2006, 150.000 farmers bought the insurance. According to ICICI Lombard, weather insurance needs extensive government support for product promotion, subsidy and service tax.

NASFAM in Malawi

Peanut farmers in Malawi traditionally use local seeds since they had no money or credit to buy high-quality seeds. In 2005, to make them more creditworthy NASFAM (a farmers' association) with technical assistance from World Bank and Opportunity International, designed a pilot index-based insurance. Multiple underwriters were necessary since no single underwriter was willing to take the risk alone, given the huge payout in case of drought. OIBM agreed to provide loans to insured farmers. In the first season 892 farmers bought the insurance, they were small farmers with an average of 1 acre of land.

In the first phase, farmers had low harvest due to the seed quality they received. Seeds received from NASFAM were too old and this led to poor crop yield and to an inability by participating farmers to repay their loans. This experience shows that, in *bundled schemes*, micro insurance can be a tool in disaster mitigation only if the coupled services are functioning well. Farmers also expressed their wish to see more buyers coming in, more options from where to buy seed, and a scaling out of the insurance facility to other crops such as maize and tobacco. Therefore for the 2006-2007 season, maize has been included in the insurance for a total number of 1.710 farmers insured. According to Aaron Oxley (Opportunity International) in this second phase farmers experienced a substantial increase in their yield and this has allowed them to buy assets and high-quality seeds.

6. Research method and limitations

In order to evaluate the relevance of MI for CA and to individuate a position that is compatible to Christian Aid's ways of working, a briefing, summarizing updated experience with crop/weather insurance for the poor, has been produced and shared with some CA members. Questionnaires (written, face-to-face or through Skype) were held with a total of 20 people, 9 based in London at the CA head office and 11 based in field. Key questions refer to the confidence that crop/weather insurance would help poor farmers in managing weather risks and to the relevance of MI for CA as well as CA possible involvement as service provider, broker or in advocacy.

A balance of qualitative and quantitative questions have been used in order to reach a better understanding of the general perception and attitude towards MI but also to be able to draw some generalizations. Participants to this research were chosen according to their expertise on BDRC countries and to their willingness to answer the questionnaire. The limited number of people interviewed, due also to time constrain, and the fact that they were not selected randomly constitute a clear limitation to the statistical relevance of this research given the risk of picking up an atypical sample. However data collected are believed to be reasonable representative of CA general attitude towards the topic.

7. Results

According to most of the people interviewed the weather is one of the major risk farmers have to face in the research areas, in the form of hurricanes, typhoons and flooding in Southeast Asia and Central America, while drought and floods are the major threats for farmers in Sub-Saharan Africa (see Table 1). There is a range of informal mechanisms used by low-income people to cope with these risks and the most common, according to the respondents, are summarised in Table 2. Some strategies, like activity and crop diversification, are considered effective but not enough widespread among the poorest, while others, like selling assets or borrowing from money lenders, are seen as cause of increased vulnerability. But in general these mechanisms are considered almost unanimously insufficient in helping the poor coping with weather related risks.

Table 1 Major risks faced by farmers according to questionnaire's respondents

Answers in order of frequency

<i>Southeast Asia</i>	<i>Central America</i>	<i>Sub-Saharan Africa</i>
<i>Hurricanes/Typhoon</i>	<i>Hurricane</i>	<i>Drought/Floods</i>
<i>Flooding</i>	<i>Flooding</i>	<i>Pests</i>
<i>Conflicts</i>	<i>Landslides</i>	<i>Lack of market</i>
<i>Land grabbing by the state</i>	<i>Earthquake</i>	<i>Conflict</i>
<i>Money lenders</i>	<i>Free trade</i>	<i>Price shock</i>
<i>Local economy (ex. importing cheap staple food from China)</i>	<i>Land tenure</i>	<i>Government policies</i>
<i>Unaffordable seeds</i>		<i>HIV</i>
<i>Pests</i>		<i>Unaffordable seeds and fertilizer</i>

Sources: Author's research, 2007.

Table 2 Some common informal mechanisms used by farmers in BDRC countries to cope with weather related risks.

Answers

<i>Selling labour</i>
<i>Selling assets</i>
<i>Kin support</i>

Eating less
Migration
Crop diversification
Activity diversification
Money lenders
Eating wild food
Disaster preparedness

Sources: Author's research, 2007.

Most of the people interviewed (85%) believe crop/weather insurance would help poor farmers in managing weather risks (see Fig.1) and this percentage rises to 100 % for interviewees based in field. For most respondents conditions for successful MI would be the presence of empowered communities and the absence of conflict, while protection to different categories of poor (not only farmers but also landless and marginalized pastoralist communities) makes weather insurance more appealing than traditional crop insurance. Other key characteristics would be low price and close monitoring, to avoid corruption. Many respondents emphasize that MI should target groups, for instance the village committee, instead of single individuals and some put emphasis on the importance of community's involvement in managing the insurance, since that would give the community a sense of responsibility for the success or failure of the scheme.

However, when asked about the best mechanism that would improve farmers' situation in managing weather risk, the majority of respondents from the three geographic areas covered by the research mention DRR awareness raising in risk mitigation as the essential tool. In Southeast Asia good governance, with less favour towards medium and big farmers, and access to better technology are also believed to be crucial; while in Central America the extension of Micro Credit/Micro Saving schemes is seen as an important mechanism; instead, in SS Africa a synergic combination of different tools is believed to be necessary in helping subsistence farmers managing weather risk. Mainly activity diversification (with less weather-dependent jobs), crop diversification, good governance (with improvement of infrastructure like transport system and irrigation), but also access to market and to better agricultural inputs, more stable prices and presence of cereal banks at a community level.

Would crop/weather insurance help poor farmers?

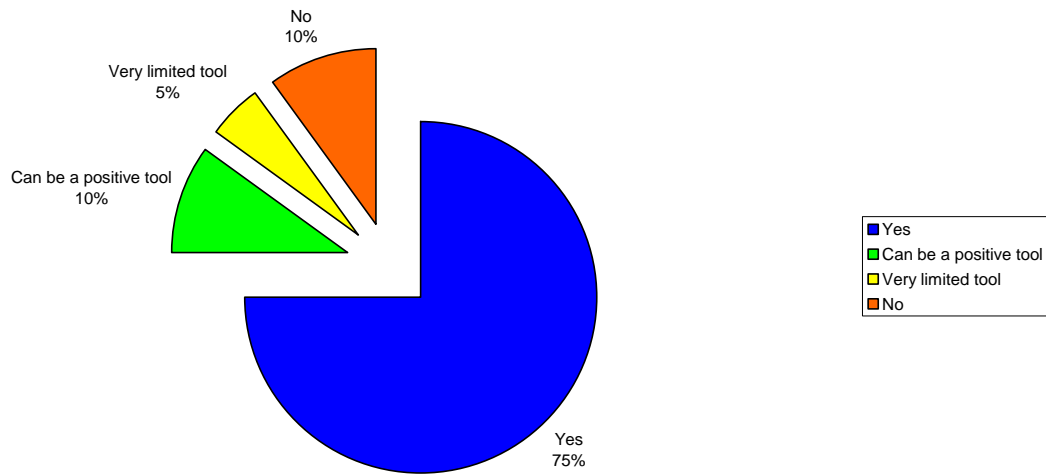


Fig 1

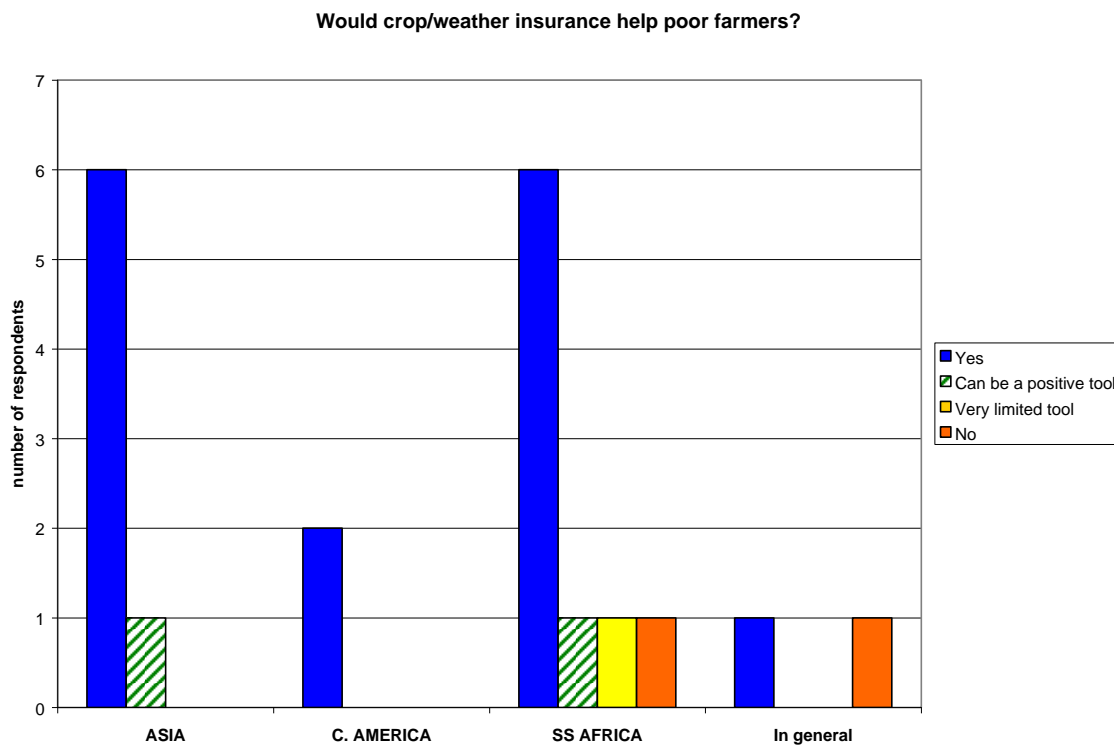


Fig 2

As shown in Fig.3 there is no general consent about the likelihood poor farmers would pay for crop/weather insurance and the variety of answers is strongly related to the different areas covered by this research (see Fig 4).

In reference to Southeast Asia, most respondents are quite positive about low-income people’s willingness to pay for MI, but they put as an essential condition the absence of conflict in the area. Key issues are also considered affordable premium, transparent and simple scheme as well as a broad coverage also for non-farmers poor (included landless). Conversely in Central America respondents consider that due to the fact that people are focused on making ends need on a daily basis, there is a lack of incentive, resources and energy that would make MI unattractive for the poor, therefore a strong emphasis on education would be necessary in order motivate money investment in a MI scheme. For Sub Saharan Africa the majority agrees that only medium and big farmers would be able to pay for crop MI but not subsistence farmers.

Would farmers be willing to pay for crop/weather MI?

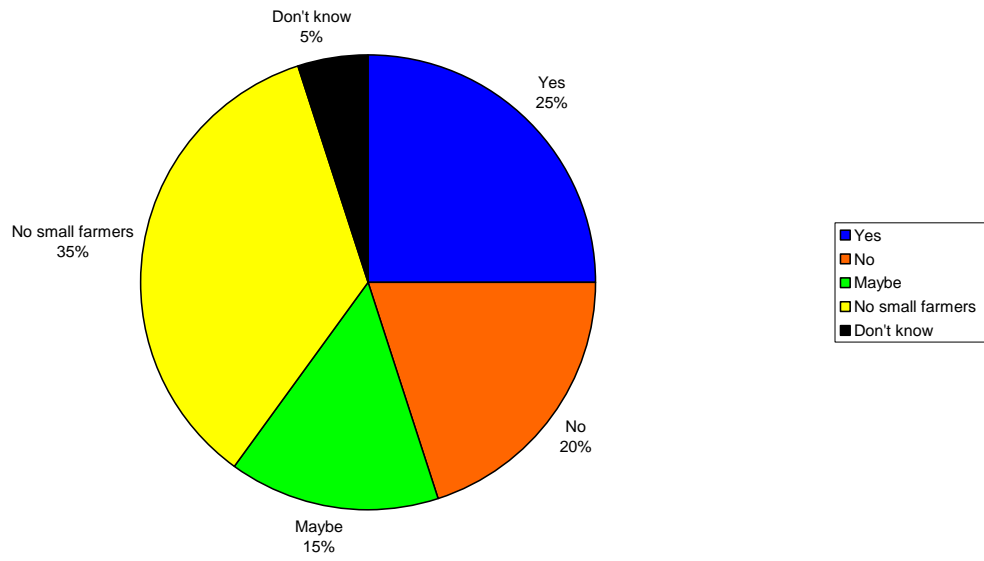


Fig 3

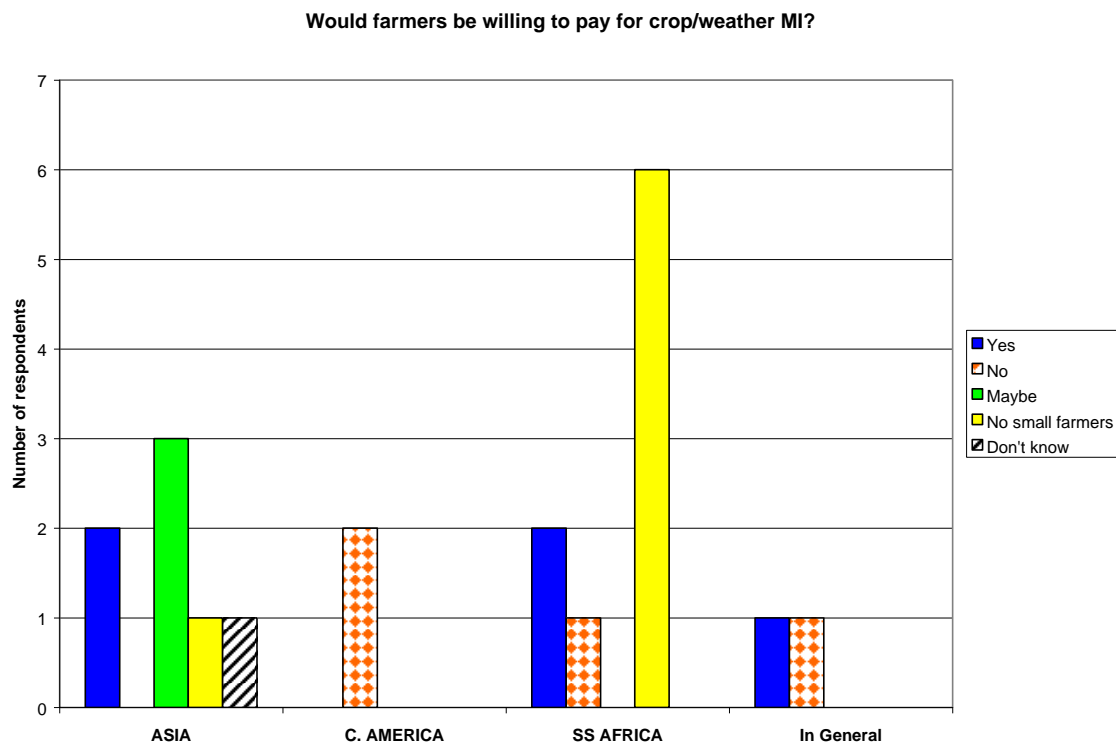


Fig 4

With regard to the possibility of an involvement of CA on MI, for 60% of respondents CA should get involved either directly or indirectly while 25% are not sure about this opportunity (see Fig. 5). Most of the scepticism refers to the lack of information and positive case studies available at the moment but also to the disillusion Micro Finance (MF) experiences, well present also among CA partners (see Fig. 6), created.

About MF, it is interesting to notice that there are strongly divergent opinions about the success of these experiences. Some respondents consider MF mostly ineffective in helping the poorest; others believe these schemes are even detrimental for the most vulnerable communities as many NGOs use MF to increase their income at the expenses of the poorest. Conversely other respondents believe MF is an extremely helpful tool but not enough widespread in the rural area and others refer to its financial sustainability as a positive aspect, that maybe MI could replicate.

Then with reference to MI, main fear is the possibility that it could end up being a business, creating profit for insurance companies and MFIs and benefits for the richest part of the population, leaving the poorest out of the game.

Other limits for MI are considered lack of sustainability, once donors stop subsidizing the scheme, corruption (mainly in Asia and Central America) and possible lack of security for premium collection and payout distributions (above all in SS Africa). In spite of that

about 80% of the interviewees think CA should advocate insurance provision with local and national government, even though almost a third of them put as a condition more research and case studies available (see Fig.7) or possibly some experience gained by CA directly through MI pilot projects, considering that selective evidence from other agencies are not always reliable. Only about 15% of respondents believe CA should act as service provider for MI and 35 % think CA should facilitate MI services as a broker, helping interested partners already involved in MF services (Fig.7).

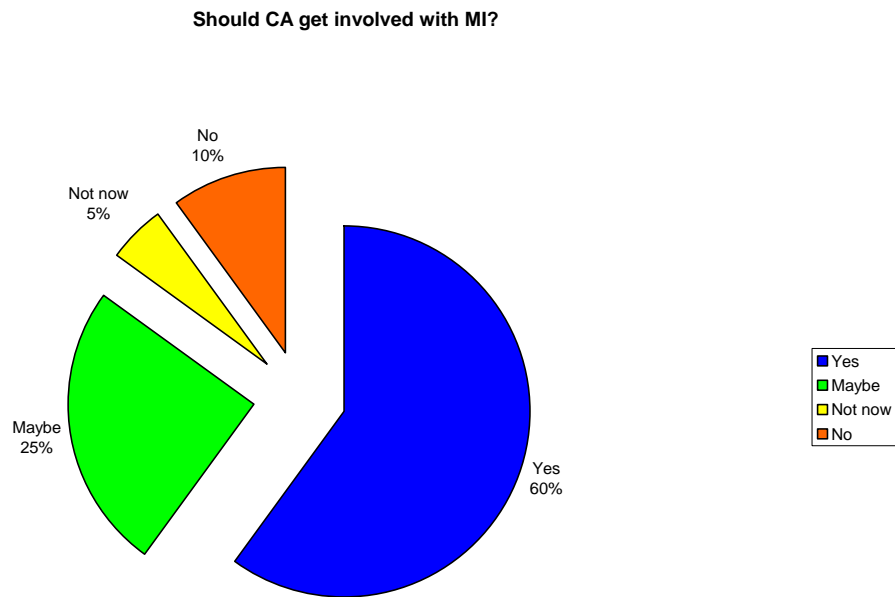


Fig 5

Are CA partners offering MC or MS?

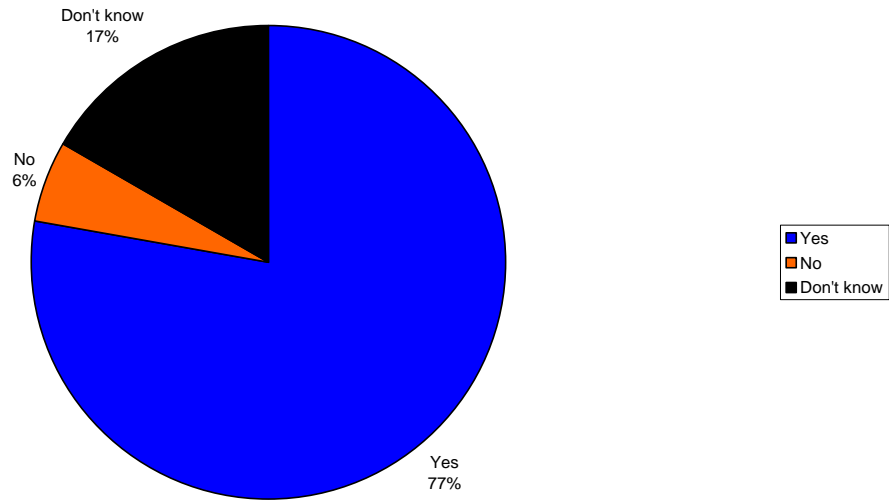


Fig 6

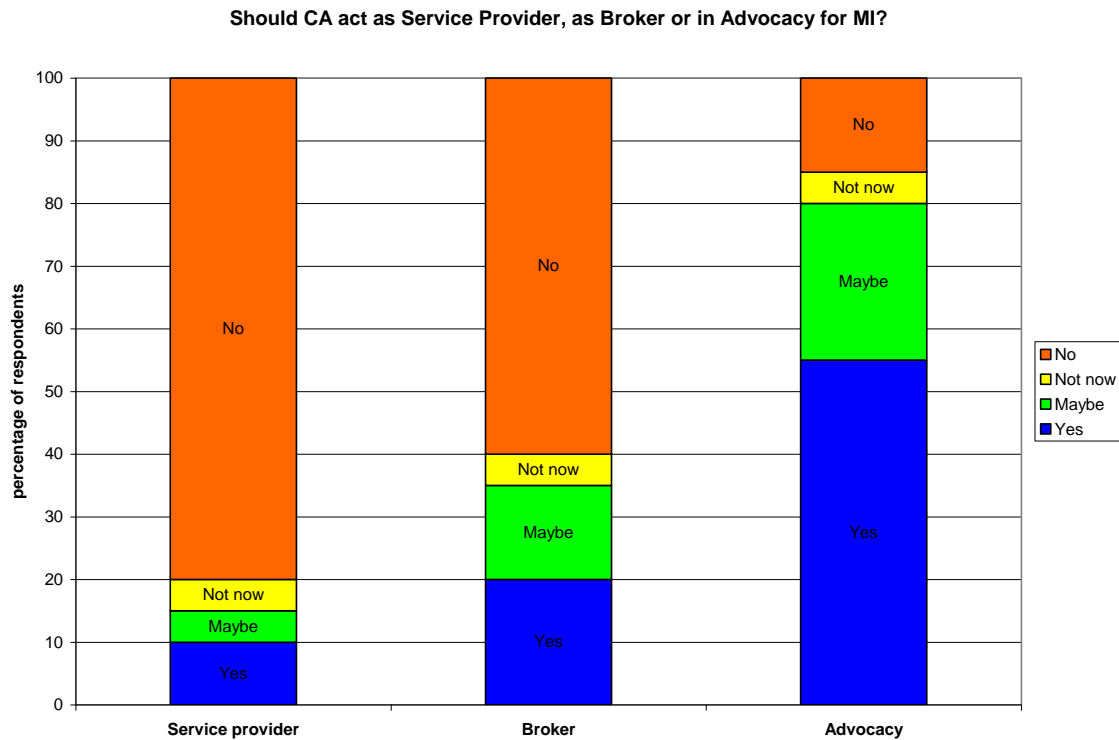


Fig 7

8. Conclusion and recommendations

Being aware that index-based micro-insurance is not a panacea and that its success will depend on a number of other factors, including government policies and access of farmers to inputs and market, MI seems to offer a sustainable approach to weather risk in disaster-prone developing countries and appears to be a promising tool for climate change adaptation. In fact it can be financially sustainable since it is based on objective index therefore can be linked to the international reinsurance market. Moreover it seems to be able to offer protection also to landless and non-farmer poor, condition considered essential by many interviewees in order to make MI an appealing tool.

As emerged from the survey, more pilot projects and more research are necessary before CA would consider any direct or indirect involvement in MI. First hand experience with a small pilot project could be valuable, in order to better understand its potential as a risk reduction tool for people with different level of vulnerability. However the risk of setting up an expensive, isolated project that would collapse as soon as CA will stop subsidizing it, is very much present.

Two viable options have then been identified:

First option

After further research, the issue can be considered and analyzed with other DRR units and a synergic pilot project could be put in place pooling with other international NGOs and with the private sector (local insurance companies and international re-insurers). In accord with a CA partner interested in MI and other local groups supported by interested International NGOs a big pool (of about 10.000 people) can be created. That would reduce the cost of the pilot for CA while increasing the chance that the project would be self sustainable by the time donors' subsidies would stop.

These would be the necessary steps:

- Find out the cost for the start up phase of different pilot projects (from other organizations already involved in a pilot).
- Acquire reliable information about the conditions required to implement an index-based MI project (historical weather data necessary, regulation in place etc.).
- Find a CA partner (possibly already involved in MF schemes) interested in piloting the project and see if the required conditions are met.
- Held discussions with local small farmers to confirm their benefit from weather insurance coverage and to adapt the insurance product to their needs.
- Through NGOs' networks find out if other international NGOs (working in the same country where the selected CA partner is present) are interested in joining the project.
- Organize a meeting with the interested NGOs and a broker (like ICIC Lombard or Opportunity International) to discuss the project in details (implementation costs and implementation phases, distribution, possible insurers, possible reinsures, etc.).
- Write a proposal for a grant only for CA or a common proposal with the other NGOs involved.

Key characteristics of the MI scheme would be:

- 1) The CA partner marketing the insurance need to have a very good reputation in the area and broad local distribution networks (the same for the other NGOs involved).
- 2) The most relevant crops for MI schemes have to be established through farmers' interviews.

- 3) Triggers, correlated to minimum and maximum rainfall for the different growth stages, have to be set up with local farmers' participation and agronomists' consultancy.
- 4) The product needs to be simple and triggers for payouts clearly defined in order to be well understood by local farmers.
- 5) The insurance should be sold to groups (cooperatives, village committees...) and close monitoring needs to be in place to avoid corruption in payouts distribution.
- 6) The product needs to be priced correctly with different premiums for the different areas to allow reinsurance in the international market and to reduce adverse selection (that occurs when premium is fixed so farmers in areas with higher risk are more likely to participate). Then premiums can be subsidized for the poorest.
- 7) Multiple underwriters might be necessary given the high covariant risk in weather insurances (that occurs with perils affecting a large number of policyholders at the same time) and re-insurance in the international market would be essential for the same reason.
- 8) The insurance needs to be marketed when there is some cash availability in the villages (for instance after harvest).
- 9) Reliable weather stations are necessary and the geographic unit per weather station needs to be small enough to reduce basis risk (that occurs when farmers experience a localized drought but since it is not registered by the station, receive no payouts).
- 10) Prompt payouts have to be guaranteed in order to create trust in the scheme and to reduce the selling of crucial assets after a negative weather event.

Possible governmental and institutional donors for this project could be:

Donors already involved in MI pilot schemes:

The World Bank is involved in many MI pilot projects and offers a number of grants meant to promote innovation, co-operation between organizations and stakeholders' participation in development projects (see the World Bank web site under the "Grants" section)

DFID is funding and facilitating the Caribbean Catastrophe Risk Insurance Facility (CCRIF) [we have a pending meeting with Olivia Coghlan who is directly involved in this pilot]

USAID is funding NASFAM in Malawi

Other possible donors:

Asian Development Bank
African Development Bank
Inter-American Development Bank
Caribbean Development Bank
EU
ICCO
DEC

**Irish Aid
Norwegian Aid
DanChurch Aid**

Second option

Another option, also suggested by many respondents, can be advocacy to local governments and/or to the UK government and other major donors.

In MI the role of the local government is crucial for many reasons:

- a. In developing and subsidizing Multi-countries or Macro schemes, above all considering that the WTO regulations, while generally forbid governments from subsidizing agriculture directly, allow subsidization of crop insurance premiums up to a certain percentage of the country's GDP.
- b. In adjusting the legal and regulatory framework as well as in developing and making accessible necessary information to insurance companies (ex weather data).
- c. In training staff and policymakers.
- d. In conducting small pilot projects.

But, as already emphasized, advocacy for MI needs to be preceded by rigorous and extensive research. Given the complexity and the involvement of different stakeholders, MI ventures would require an international scale of research effort. NGOs, academics, research agencies, credible government agencies and private insurance companies need to pool their effort together in understanding financial viability as well as potentiality and limits of MI as a tool in protecting the poor from weather related risks. This aspect can be considered as part of the advocacy process itself since "scientific" consensus would make advocacy reasonable and broadly acceptable. CA's role in that process could be:

- Knowledge generation through direct analysis of case studies in place;
- Knowledge sharing facilitation through seminars, symposiums and dialogues among the different stakeholders;
- Information dissemination.

Once the necessary information has been acquired, two direct approaches in advocacy for MI could be pursued by CA:

1. Helping partners advocating to national governments for the implementation of Multi-country or Macro MI schemes or for setting up the right environment for MI schemes (implemented by private or international organizations) to succeed.

2. Directly advocating to the UK government and other major donors for the piloting of Multi-country schemes (e.g. CRIIF) or Macro MI schemes (e.g. Ethiopia case).

Annex 1

Microinsurance Companies

- **All Lanka Mutual Assurance Organization (ALMAO), Sri Lanka**
ALMAO is a registered formal life insurance company offering long term life insurance, accident insurance and loan protection to low-income people.
- **Delta Life Insurance Company, Bangladesh**
Delta is a for-profit private insurance company. It operates a separate window for providing life insurance to more than 860,000 low-income individuals.
- **Micro Care, Uganda**
MicroCare is a Ugandan licensed insurance company which offers a comprehensive health care microinsurance, third-party administration, and health clinic staffing. It currently covers more than 10,000 people.
- **People Mutuals, India**
People Mutuals is an entity implementing the mutual insurance programme from DHAN Foundation. More than 35,000 people are covered with life insurance, livestock insurance and weather insurance.
- **Servi Peru, Peru**
This is an insurance brokerage partnering with a private insurance company to provide integrated health and funeral insurance to more than 94,000 people.
- **Tata-AIG Life Insurance Company, India**
TATA-AIG is a joint venture between the Tata Group and AIG and provides term life insurance and endowment insurance to nearly 21,000 rural, low-income and landless people.
- **L'Union des Mutuelles de Santé de Guinée Forestière (UMSGF), Guinea**
This is an apex body for 25 micro-health organisations, providing health insurance to about 15,000 clients.
- **VIMO SEWA, India**
This is the insurance arm of SEWA union working mainly with self-employed women. It offers voluntary health insurance, life insurance and property insurance to more than 120,000 clients. Recently they also started a pilot index-based scheme.
- **Yasiru Mutual Provident Fund, Sri Lanka**
Yasiru is a micro-insurance scheme that partners with NGOs providing microinsurance covering accident, death, disability and hospitalisation of the more than 15,000 clients.
- **Yeshasvini Trust, India**
This scheme collaborates with the government and cooperatives and benefits are only available through a network of healthcare providers which covers about 1.45 million people.

MFIs Providing Micro-insurance

- **Asociación de Consultores para el Desarrollo de la Pequeña, Mediana y Micro Empresa (ACODEP), Nicaragua**
ACODEP is an NGO that provides life insurance to more than 52,000 clients.
- **Association d'Appui aux Activités de Santé Communautaire (3ASC), Togo**
3ASC is an NGO offering health insurance on mutual basis to almost 9,000 people, mainly women and children.
- **Association d'Entraide des Femmes (AssEF), Benin**
AssEF is an MFI offering health microinsurance to more than 2,300 clients (2004).
- **Association des mutuelles de santé de Ngazidja, Ngazidja Island (Comores)**
This network, promoted by CIDR, includes micro-health organisations created by enterprises' employees and by villages.
- **Association for Social Advancement (ASA), Bangladesh**
ASA is an MFI that serves close to 1.5 million clients. Over 55,000 of them are covered with a term-life insurance product with a partner-agent model or the self-insurance dynamic.
- **Banco Oportunidade de Moçambique (BOM), Mozambique**
BOM is an MFI that is a part of the Opportunity International network. It provides credit life insurance to almost 5,000 clients. Funeral insurance will be offered soon.
- **Bank Rakyat Indonesia (BRI), Indonesia**
BRI has a programme to transform 3600 rural branches into microinsurance intermediaries. It provides life insurance to 2,600,000 clients.
- **Bhartiya Samrudhi Finance Limited (BASIX), India**
BASIX is a group of financial services and technical assistance companies that provides insurance (life, livestock, health, rainfall and assets) to the rural poor. BASIX has more than 300,000 clients.
- **Bima ya Afya ya Atiman (Bima Ya), Tanzania**
Bima is operated by the Msimbazi Parish of the Catholic Church in Dar es Salaam, Tanzania. It began offering a basic health insurance programme in 1995.
- **BRAC, Bangladesh**
BRAC provides life insurance to more than 12,000 families through an insurance scheme linked to an NGO healthcare provider with a network of clinics and associated MFIs.
- **CARE International**, working with:
Bajaja Allianz in Tamil Nadu, insuring Fishing producers.

Innovation for Increasing the Security of unserved and Needy Clients (INSURANCE) in Ghana assists the rural bank network in Ghana to research, develop and test innovative, micro insurance products that address the needs of the micro-finance industry in Ghana and the needs of their clients, particularly the poor. CARE provides technical assistance through the Association of Rural Banks. Project interventions include client-based research, developing and designing suitable innovative products and testing a life insurance product called Anidaso ("hope" in a local language) through action research with five rural banks and two MFIs in Ghana. INSURANCE works with a large, private sector insurance company called GLICO, using the partner agent model so that it is able to extend the product through the rural banking network. Lessons drawn from the project will be widely disseminated.

Peri-Urban Lusaka Small Enterprise (PULSE) PULSE's objective is to increase household income, economic security and employment opportunities among families of poor micro and small entrepreneurs who are constrained by an unfavorable economic climate, poor business management skills and lack of collateral to access capital from conventional banks. PULSE offers the following services: a) loans with competitive interest rates; b) convenient repayment schedules; c) attractive interest rates on deposits in loan insurance fund; d) business management skills training; and d) borrower's protection fund. PULSE has branches in six compounds and an additional delivery point in central Lusaka. From inception until end of 2002, PULSE cumulatively provided credit worth ZMK 12,969 millions to 19,851 micro entrepreneurs; however, it did not achieve sustainability as its operational and financial self-sufficiency, with investment income, only stood at 70 percent and 34 percent respectively. Since August 2002, PULSE is implementing a five-year business plan, based on a change strategy that identifies and aims to optimize use of under-utilized resources, identifies and mitigates weaknesses and aims to fully exploit strengths. CARE projects a gradual growth, reaching up to 7,400 clients by the year 2006, and achieving full financial self-sufficiency by the year 2005.

- **Centre for Agriculture and Rural Development Bank (CARD MBA), Philippines**
CARD MBA is a non-profit, member-owned organisation providing a life insurance/pension scheme and health insurance to its 300,000 members and their families.
- **Centre de Développement Intégral de Bwamanda (CDI – Bwamanda), Congo**
CDI – Bwamanda is an NGO offering mutual health insurance services to more than 115,000 people in rural areas.
- **Christian Enterprise Trust of Zambia (CETZAM), Zambia**
CETZAM is an MFI that partners with Opportunity International and offers death and funeral insurance through a product known as Ntula.
- **Compartamos, Mexico**
Compartamos is a Bank providing life insurance to all its 70,000 clients.
- **Constanta Foundation, Georgia**
This MFI partners with an insurance company, Aldagi Insurance, to provide health

insurance that covers the costs for in-patient transport and emergency care, surgery and therapy.

- **Fédération des Caisses d'Épargne et de Crédit Agricole Mutuel du Bénin (FECECAM), Benin**
FECECAM is a network of credit unions offering life insurance to the rural population.
- **Fédération des Caisses Populaires du Burkina (FCPB), Burkina Faso**
The FCPB is the largest network of credit unions in Burkina Faso and offers an in-house insurance to more than 29,000 clients.
- **FINCA, Uganda**
FINCA Uganda is an MFI partnering with AIG Uganda to provide life insurance to almost 50,000 clients mainly women.
- **The First Microfinance Bank Ltd (FMFB), Pakistan**
This MFI offers credit and life insurance to low-income rural people, especially women.
- GTZ, German Agency for Technical cooperation. Works in Asia with Allianz.
- **Grameen Bank, Bangladesh**
The Grameen Bank offers life insurance or emergency fund, livestock insurance, equipment leasing insurance, vehicle leasing insurance and health insurance.
- **Grameen Kaylan, Bangladesh**
As of 2004 this Grameen company is providing health insurance through a health care provider to about 58,000 families.
- **Groupe de Recherche et d'Echanges Technologiques (GRET) Cambodia, Cambodia**
GRET Cambodia serves the rural provinces of Kandal and Takeo with health insurance.
- **Karuna Trust, India**
Karuna Trust is an NGO that partners with the National Insurance Company (NIC) providing a health insurance product to more than 113,000 low-income persons.
- **Kasfh, Pakistan**
This MFI is a member of WWB. It provides life and accident insurance linked to credit to urban low-income women. The policy includes a contribution to funeral expenses.
- **Union of Savings and Credit Cooperatives (MUSCCO), Malawi**
This credit union association operates an in-house life-savings and life-credit insurance scheme for about 56,000 policyholders.
- **Mutuelle d'Assurances de la FUCEC-TOGO (MAFUCECTO), Togo**
MAFUCECTO is the insurance branch of the MFI FUCEC providing in-house life insurance to more than 19,000 clients.
- **Opportunity International Bank of Malawi (OIBM), Malawi**
OIBM is a network member of Opportunity International and offers both credit life as well as index linked crop insurance to more than 9,000 credit clients.

- **Opportunity International Sinapi Aba Savings and Loan (OI-SASL), Ghana**
OI-SASL is a non-bank financial institution and network member of Opportunity International. Its credit-life and funeral insurance programme targets more than 50,000 people.
- **Pakisama Mutual Benefit Association, Inc. (PMBA), Philippines**
PMBA is the insurance branch of the MFI PAKISAMA and offers life and health insurance to more than 1,400 people.
- **PAMECAS, Senegal, Senegal**
PAMECAS is a credit union network offering an in-house health insurance scheme and credit-life.
- **People's Rural Education Movement (PREM), India**
PREM is a voluntary organisation and, through its community based project “People’s Rural Health Promotion Scheme”, offers a mutual health insurance to about 70,000 rural people.
- **Pulse Holdings Ltd., Zambia**
This MFI partners with the private-sector company Madison Insurance and offers life insurance to more than 2,200 people.
- **Réseau Alliance Santé, Benin**
This network of 30 mutuels is promoted by CIDR and offers basic micro-health insurance packages to more than 25,000 clients mainly living in rural areas.
- **Save for Health (SHU), Uganda**
This is an umbrella group for community-based health insurance schemes offering insurance-credit products to more than 4,000 clients.
- **Self-Help Promotion for Health and Rural Development (SHEPHERD), India**
SHEPHERD is an NGO offering a wide-range of insurance products (life, health, assets, livestock, and retirement) to more than 10,000 rural women, in partnership with state insurers (LIC and UUIIC).
- **Society for Helping and Awakenning Rural Poor through Education (SHARE), India**
SHARE is a non-bank financial company that offers life insurance to nearly 79,000 micro-entrepreneur clients through a partner-agent model.
- **Society for Social Services (SSS), Bangladesh**
The MFI Society for Social Services provides health care to about 27,000 families.
- **Spandana, India**
This MFI manages in-house insurance and provides credit-life insurance, spousal death insurance and limited asset loss insurance to over 390,000 people.
- **Tao Yeu May’s Mutual Assistance Fund (TYM), Vietnam**
TYM’s is an MFI providing a community-based in-house credit life insurance scheme with hospitalisation benefits to more than 21,500 women.

- **Tatay Sa Kauswagan (TSKI), Philippines**
This MFI is an Opportunity International affiliated. It provides credit life and life insurance to more than 330,000 persons in partnership with the private insurance company Cocolife.
- **Tulay Sa Pag-unlad Inc. (TSPI), Philippines**
TPSI is a non-profit organisation that offers health insurance to its over 140,000 women clients and their dependants, through a partnership with the government's health insurance programme.
- **Uganda Agency for Development (UGAFODE), Uganda**
UGAFODE is a partner of Opportunity International and provides a microinsurance package product to more than 69,000 people, also targeting people with HIV/AIDS.
- **UpLift India Association, India**
UpLift is an association of organisations providing health and life mutual insurance services in Maharashtra to about 30,000 individuals.

Insurance Companies

- **Allianz Indonesia, Indonesia**
In 2005 Allianz Indonesia started a one-year pilot credit-life insurance project aiming at covering more than 50,000 people.
- **American International Group (AIG), United States**
AIG is an international insurance company partnering with 26 MFIs around the world to provide accidental death and disability (AD&D) insurance and credit-life.
- **AXA Financial Protection, France**
In Ethiopia, AXA has provided its financial expertise to design an insurance against drought.
- **Bajaj Allianz, India**
Allianz is providing more than 42,000 microinsurance credit-life policies in partnership with Bajaj Allianz (local insurer) and the NGO ASA.
- **Co-operative Life Insurance Mutual Benefit Society (CLIMBS), Philippines**
CLIMBS is a co-operative insurer providing insurance products to members of 500 co-operatives and rural banks in Philippines.
- **Columna, Guatemala**
Columna is an insurance company providing three microinsurance products: credit-life, life savings and a Special Life Plan to about 54,000 members of 35 credit unions.
- **La Equidad, Colombia**
La Equidad is a mutual insurance company owned by credit unions, providing life and disability insurance to more than 30,000 policyholders.

- **Gemini Life Insurance Company (GLICO), Ghana**
GLICO is partnering with rural banks and savings and loans companies to provide life insurance, to more than 1,000 low-income households in Ghana.
- **ICICI Lombard, India**
ICICI Lombard provides non-life insurance products (asset, credit, rural) and is supported by SIDBI.
- **ICICI Prudential, India**
ICICI Prudential offers rural insurance and weather insurance to more than 650,000 people.
- **INISER, Nicaragua**
INISER is providing a group life policy to the clients of an NGO. The NGO is in charge of marketing and premium collection.
- **Madison Insurance, Zambia**
This private insurance company partners with four MFIs to provide credit life and funeral insurance to about 61,000 people.
- **New Jubilee, Pakistan**
This is a Pakistan-based general insurance company offering microinsurance with the MFI Kashf as partner.
- **TUW SKOK, Poland**
This mutual insurance company owned by credit union network is providing property, savings completion and AD&D to more than 93,000 persons.
- **Zurich Financial Services, Switzerland**
Zurich offers microinsurance in Latin America (Mexico) through an association of credit unions (AMUCSS). It also plans microinsurance development actions in Africa and Asia.

Reinsurance Companies

- **Eureko Re, The Netherlands**
Eureko Re (former Interpolis Re) is providing reinsurance to various mutual microinsurance entities, in Sri Lanka and Philippines in co-operation with MIAN.
- **Munich Re, Germany**
Through the Munich Climate Insurance Initiative (MCII) Munich Re is trying to find insurance solutions to deal with the effects of climate change especially in developing countries.
- **Swiss Re, Switzerland**
Swiss Re is reinsuring a crop microinsurance scheme in India through a public-private partnership and is operating in other emerging markets like Mexico and Turkey.

Technical Assistance

- **Americas Association of Cooperative/Mutual Insurance Societies (AAC/MIS)**
The AAC/MIS is a regional branch of ICMIF for the Americas aiming to provide technical assistance and training to its members.

- **Centre d'Innovation Financière (CIF), Burkina Faso**
CIF is a network of credit union partners, aiming to support its members through innovation and product development. It started a life insurance scheme in 2003, called "Régime de Prévoyance Crédit" RPC.
- **Friends of Women's World Banking (FWWB), India**
FWWB is facilitating linkages between its MFI/NGO partners and Insurance Providers with regards to life insurance, health insurance, livestock insurance, asset insurance and weather insurance.
- **The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), Germany**
GTZ in India is working to ascertain the need for microinsurance and to identify efficient networks to market and sell it. GTZ is also helping with NGOs' training in all aspects of the insurance business.
- **Healing Fields Foundation (HFF), India**
HFF is a NGO providing health management expertise to support organisations and people involved in the development of healthcare for the rural poor.
- **International Cooperative and Mutual Insurance Federation (ICMIF), United Kingdom**
ICMIF is a non-profit organisation with 120 members in 64 countries. Core services include reinsurance, training and technical assistance, development, research publications, mutual fund investments, professional networks and conferences.
- **Micro Insurance Agency, United States**
The Micro Insurance Agency is an insurance broker and a subsidiary of Opportunity International. It is involved, among others, in design and back-office administration of microinsurance.
- **Micro Insurance Association Netherlands (MIAN), The Netherlands**
MIAN is an organisation of insurance professionals providing on a voluntary bases consultancy services for the development of microinsurance, particularly focusing on co-operative insurance.
- **Munich Re Foundation, Germany**
The Munich Re Foundation is cooperating with some microinsurance and disaster management programmes and is the initiator of the International Microinsurance Conference.
- **Quindiem Consulting (Pty) Ltd., South Africa**
Quindiem is a consulting firm of actuaries and risk managers, that has a microfinance division. Its main experience is in life, health and non-life insurance in Africa, as well as in insurance regulation.
- **Rabobank Foundation, The Netherlands**
Rabobank Foundation funds technical assistance, capacity building and initial operating expenses for mutual microinsurance providers.
- **Risk Management Solutions Organization of Philippines Inc. (RIMANSI), Philippines**

RIMANSI is a microinsurance resource centre in Philippines providing technical assistance in Philippines and Cambodia

Annex 2

Micro-Insurance Questionnaire

Part 1

<p>1. Are you aware of any formal insurance (life, health, assets or crop) targeted at poor/ low-income people that is working well in your country?</p>
<p>2. Is there any crop/weather insurance offered in your region? How does it work?</p>
<p>3. From your experience, do you think farmers would be willing to pay for crop/weather insurance? Which part of the rural population would be most interested?</p>
<p>4. Are our partners offering any formal or informal credit-saving or micro-insurance scheme?</p>
<p>5. Do you think crop/weather insurance would help farmers in managing risk?</p>
<p>6. Do you think this is an issue of relevance to CA? Should we get involved either directly or indirectly: As service provider? As broker, in facilitating the service? Advocating insurance service provision with local and national government?</p>

If you answer YES to questions 5 and 6, please complete the second part of the questionnaire.

Part 2

7. What are the major sources of risk that farmers face in your region (please rank)?
8. How do people cope with weather-related risks? Which informal mechanisms are used?
9. What are the different strategies for big, medium and small farmers?
10. To which extent are these mechanisms working in managing risk?
11. What other mechanisms do you think would improve farmers' situation in managing weather-related risks?