



Regional Conference

“Strengthening resilient food and agriculture systems –
Implementing the Sendai Framework for DRR in the Agriculture Sector in Asia and the Pacific”

15 - 16 March 2018, Ha Noi, Viet Nam

Session Concept Note

Session	Parallel Session S6 – Risk Financing
Title	Making Agriculture Risk Financing Work for Smallholder Farmers and the Most Vulnerable
Date and Time	Friday, 16 th March 2018 10.30 – 13.00 hours
Venue	TBC
Organizers	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH Contact: Suriyan Vichitlekarn, Deputy Cluster Coordinator, Food & Agriculture suriyan.vichitlekarn@giz.de FAO: Sumiter Broca, Senior Policy Officer and Leader Socio-Economic Development and Policy Support Group, FAO Regional Office for Asia and the Pacific Contact: Sumiter.Broca@fao.org
Background	<p>With almost three-quarters of the poor living in rural areas and most of them farming, agriculture is a key source of income and driver of economic development¹. The agriculture sectors is inherently risky in nature as it is often at the mercy of various shocks and stresses emanating from climate change, climate variability and disaster risks as well as pestilence, economic fluctuations, changing consumption patterns as well as conflicts. Disasters cause heavy losses to farmers every year and require substantial financial resources for restoring livelihoods and agriculture production. Beyond direct loss, disaster impacts might push farmers, especially small holders, into vicious debt cycles and negative coping strategies. With an increase in the frequency and severity of extreme weather events due to climate change, the situation will be more severe. The need for financial strategies and adequate financial instruments, as part of sound risk management practices, to protect population, particularly smallholder farmers and small agribusinesses against disaster and other shocks has become more important than ever.</p> <p>Disaster risk financing provides financial protection and complements (but does not replace) risk reduction and resilience building measures. In the context of increasing risk exposure</p>

and disaster costs to agriculture sectors, risk financing also complements risk-sensitive development and planning in the sectors.

As many governments' risk management strategies are gradually transitioning from ex-post (viz. relief, compensations, recovery) to ex-ante (DRR, resilience building) there is an increasing understanding the effectiveness as well as limitations of different financial instruments – for DRR, for risk mitigation and disaster risk financing. Investing in DRR has been demonstrated globally as a sound financial strategy. FAO recent study shows that on average, the net economic benefits from improved farm level DRR good practices are about 2.5 times higher than the usual practices adopted by farmers, livestock raisers and fishersⁱⁱ. Yet there seems to be limited traction for designing financial instruments to support these practices.

Although farmers and onward linkage stakeholders in Asia and the Pacific have been practicing different forms of risk financing, formal risk financing in the agriculture sectors is only gradually evolving since the last decade and options explored to date appear to be more on risk-transfer (insurance) and risk-retention (compensations, subsidies, debt waivers / credit guarantees, and contingent credit). An ADB studyⁱⁱⁱ found that risk management strategies, currently used by the at-risk communities provide inadequate protection against the impacts of natural hazard induced disasters, leading to negative coping mechanisms such as increasing paid labour work and selling of assets. Financing strategies are limited to risk retention by households in the form of savings and loans while risk sharing and transfer mechanisms are underutilized.

Different options for agriculture risk financing could include: (i) Sovereign Disaster Risk Financing - Increasing financial response capacity of government/agriculture sectors and access to funding; (ii) Agriculture risk insurance - protecting agriculture producers from losses; (iii) Property Catastrophe Risk Insurance - Protecting small and medium enterprises and home owners; and (iv) Risk-informed and shock-responsive social protection - Targeted protection for the rural poor and vulnerable. All are underpinned by a Risk Protection Strategy that emphasize risk assessment, scenario analysis and cost-benefit analysis.

Agriculture insurance is an important risk financing instrument and risk management tool. FAO study shows that in 2010, agriculture insurance was present in 20 (45 percent) of the 44 countries, territories and areas in the Asia-Pacific region. Agricultural insurance premium volume for the region increased from US\$1.6 billion in 2005 to nearly US\$4.0 billion in 2009 and represented (in 2010) slightly over 20 percent of the total global agricultural insurance premium. However, the penetration of traditional insurance to protect against disasters through has been slow, being challenged by under-developed insurance products, costly damage assessment and high-risk premiums, late payouts, lack of institutional and technical capacity, mistrust / adverse selection / moral hazard and lack of reinsurance availability^{iv}.

Over the last decade, there have been pilots of weather index-based insurance in the region, however, not many have scaled up, and hence have had little impact on the resilience of rural livelihoods. This parametric insurance has advantages over traditional insurance such as less

	<p>moral hazard and adverse selection, timely payout, lower administrative costs, precise actuarial modelling, standardized and transparent structure, availability and negotiability, reinsurance acceptability and versatility. However, it requires careful addressing of basis risk (i.e. correlation between index and loss), sustainability of the index, precise actuarial modelling, education, market size and forecast.</p> <p>Further, as agriculture is subject to a very wide range of risks, only some of which can be dealt with under an insurance policy (FAO), insurance should not be used as a stand-alone product but rather integrated into broader programs for development and agriculture/climate risk management (ADB) ^v. Insurance should complement other risk management strategies and to be linked to supply chains. A combination of measures for self-protection, market-based insurance and social safety nets programs to be coupled with involvement of agriculture credit institutions and digital financial services providers would allow insurance cover to be easily bought and tracked, thus reaching the poor and most vulnerable.</p> <p>Against this background and building on the recommendations for increasing investments in DRR for resilience, identified in parallel sessions on Day 1, this session will facilitate deliberations on how to further promote agriculture risk financing as an important risk management tool for enhanced resilience, particularly of the poor and vulnerable smallholder farmers in the region. The following questions would guide contributions and deliberations:</p> <ul style="list-style-type: none"> • What agriculture risk financing options/instruments are available in Asia and the Pacific? How effectively they support risk management and resilience of smallholders and the most vulnerable agriculture dependent population against disasters and climate change? Lessons learned from different perspectives of farmers, the private sector, government and other stakeholders. • What are the emerging effective options / instruments for risk financing in agriculture sectors and also to go beyond financing risk to finance DRR and resilience building vulnerable smallholder farmers? • What are the capacities (within government, especially the agriculture ministries, farmers, the private sector and other stakeholders) and priority actions required to scale up effective options/instruments?
<p>Session objectives</p>	<p>The session aims to:</p> <ul style="list-style-type: none"> • Develop a shared understanding of the role and effectiveness of agriculture risk financing in disaster risk management and climate change adaptation and enhancing resilience, particularly of the most vulnerable population in the region; • Take stock of agriculture risk financing options and instruments developed and/or applied in Asia-Pacific countries, lessons learned, challenges and gaps • Deliberate on priority actions to further promote agriculture risk financing as part of comprehensive risk management in agriculture sectors, to achieve the resilience building objective of the Sendai Framework, the Paris Agreement and the SDGs.

	<ul style="list-style-type: none"> Facilitate partnerships and collaborative processes to bring government, farmers, the private sector and other stakeholders together to promote effective and economic viable agriculture risk financing options.
Expected outcomes	<ul style="list-style-type: none"> Improved understanding of the role, effectiveness as well limitations of agriculture risk financing in support risk management and enhancing resilience, particularly of smallholder farmers and the most vulnerable population in the region. Identification of the challenges, opportunities and priority actions to further promote agriculture risk financing as an effective risk management tools for resilience building of the most vulnerable population in the region.
Session format	<p>The session could be a combination of a panel discussion and plenary and/or group discussion. Indicative schedule is as below:</p> <p>10.30 – 10.35 Introduction by the Chair</p> <p>10.35 – 11.35 Panel discussion, moderated by the Chair</p> <p>11.35 – 12.50 Plenary and/or 4 round table discussion to identifying priority actions for more effective agriculture risk financing to support enhanced resilience especially of the most vulnerable population in Asia and the Pacific.</p> <p>12.50 – 13.00 Wrap up by the Chair</p>

Participants who would like to contribute papers and/or speak as a panellist at this session,

Please click here for contribution and send the information of your contribution to kaustubh.devale@fao.org and agrisendai2018@gmail.com)

ⁱ World Bank. 2015. *World Development Indicators*. <http://data.worldbank.org/topic/agriculture-and-rural-development>

ⁱⁱ <http://www.fao.org/3/a-i7319e.pdf>

ⁱⁱⁱ <https://www.adb.org/publications/risk-financing-rural-climate-resilience-gms>

^{iv} http://www.unescap.org/sites/default/files/9-ESCAP-Financing%20Disaster-July2015_share.pdf

^v http://www.unescap.org/sites/default/files/Agendaitem3d_ArupChatterjee_ADB.pdf