



Climate Risk Insurance in the Agricultural Sector

Advisory Service

The challenge

Climate change exacerbates extreme weather events that represent an increasing challenge for global food production. Many developing and emerging countries have established goals in their Nationally Determined Contributions (NDCs) to increase the resilience of their agricultural sector. However, integrated climate risk management (CRM) attending to the continuum of climate risks, including preventive and adaptation measures as well as financial tools to transfer the residual risk, is missing in most countries. Climate risk insurance (CRI) is an efficient financial tool to help agricultural producers and governments to cope with the consequences of extreme weather events by addressing this residual risk element.

Our approach

GIZ combines long-term expertise on agricultural value chains, climate change adaptation and inclusive insurance markets around the world and brings together the perspectives of all key stakeholder groups in agriculture, climate change and finance. In order to address the landscape of CRI in the agricultural sector adequately, GIZ approaches CRI as: agricultural risk management measure; element of broader CRM strategies and national social protection schemes; and a sustainable, customer-focused financial service. GIZ follows a multilevel approach, building capacities for improving framework conditions (macro), financial and technical service provision (meso) as well as sustainable business models of CRI providers and clients (micro).

The benefits

Well-tailored CRI provides three main “values” to vulnerable groups:

1. Preventive: Timely payments buffer against existential losses, stabilise agricultural incomes and prevent additional asset sales. Compared to other modes of financial support, e.g. emergency aid, CRI facilitates faster economic recovery in post-disaster regions and overall socio-economic self-empowerment.
2. Promotive: CRI enhances certainty for better planning and higher value farm-driven investments, thus accelerating economic development.
3. Transformative: By rewarding other climate smart risk-reducing measures with lower premium payments, well-integrated CRI creates incentives for long-term climate change adaptation and strengthens overall resilience.

Our services

- › **Conducting (pre-)feasibility studies.** GIZ supports partners in acquiring a complete understanding of the challenges and opportunities for CRI in the agricultural sector. This comprises (pre-)feasibility studies that include climate risk analysis about the exposure and vulnerability of the target group, as well as a financial needs assessment. It extends to an analysis of the state of the (re-)insurance markets, the regulatory settings and the wider political environment.
- › **Developing insurance models for agricultural value chains.** GIZ supports the design of insurance models and products that are tailored to the needs of beneficiaries and the requirements in the agricultural value chains, ranging from individual weather or area yield insurance products to large-scale, multi-stakeholder CRI programs at national level. For the successful development of CRI models,



GIZ sees intermediaries such as farming associations, contract farming companies or financial institutions as particularly important as they link insurance to other key functions in the agricultural value chain, such as credit and off-taking.

› **Strengthening policy frameworks and institutional structures.** GIZ supports the development of conducive policy frameworks that align CRI with relevant national climate policies (NDC, NAP), ensure consumer protection, incentivise insurance market development and build local capacities for CRI implementation. Where state institutions are insurance policy holders or applying for international insurance pools (indirect insurance), GIZ assists in aligning these tools to financial planning and sectoral programming. GIZ promotes a continuous dialogue between state institutions and the private sector and supports access to international climate funding that is targeted at CRI.

› **Providing continuous access to reliable agricultural and weather/climate data.** GIZ supports the establishment and integration of high-quality, permanently updated agricultural production and weather data systems to promote access to reliable, convenient (online) and low-cost data for CRI models. GIZ facilitates the use of latest technological advances and collaborates with internationally renowned partners such as the German Space Agency.

› **Strengthening insurance literacy and awareness.** GIZ helps building an adequate understanding of climate-related agricultural risks and insurance products at all stakeholder levels, covering both public and private sector and fostering local exchange. GIZ conducts capacity building for beneficiaries such as smallholders, SMEs or farmer associations.

An example from the field

Ghana. The German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU)-funded project ‘Integrated CRM and Transfer’ tackles challenges of increased climate variability and climate risks in the agricultural sector in Ghana. Using a multi-level approach, GIZ promotes vulnerability-reducing and preventive measures on farm level such as climate smart practices or financial and insurance literacy trainings. Climate disaster risk management trainings are offered to local partners to build a pool of trainers. On meso and macro levels, the project promotes the emerging agricultural insurance market and new CRI products for commercial agricultural businesses. GIZ facilitated Ghana’s accession to the African Risk Capacity that will provide a sovereign drought insurance policy covering 1.1 million vulnerable people.

Peru: Two types of agricultural insurances exist in Peru: (1) The Catastrophic Agricultural Insurance (SAC) is entirely subsidised by the state and aimed at subsistence agriculture in the poorest and most affected areas. (2) Commercial Agricultural Insurances are aimed at large and medium producers and usually promoted alongside agricultural credits. The BMU-funded project ‘Integrated financial management of climate risks in the agricultural sector’ aims to establish a sustainable risk transfer system based on agricultural insurances, jointly founded and funded by the state and private sector. GIZ provides capacity building to improve the quality of technical decisions, premium calculation and policymaking. Great achievements were made regarding the coverage of the SAC: from 2014–2017 the area and number of insured farmers almost doubled, and the insured amount increased by 127 percent.

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