



FTF CSO Stakeholder Mtg: Risk Management: How Can Risk Transfer Help?

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Participants

Lena Heron, USAID Bureau for Food Security

Ruth Vargas Hill, International Food Policy Research Institute, IFPRI

Kimberly Pfeifer, Oxfam America

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United States Agency for International Development: Agriculture Office

Male: Good morning, everyone. Thanks for joining us today for today's Civil Society outreach meeting on risk management and how can risk transfer help.

I just wanted to welcome you today to the meeting and then also sort of talk to you about some of the upcoming events. There's an event by the USA Knowledge Services Center on July 13th that will be taking place at the National Press Club, 9:30 A.M. that's going to be on a greener revolution. That's going to be looking at food security and ecosystem services. That's –

There's also, on July 20th, the next Ad Sector Counsel. This is going to be given by Andrew Keck from IRG who's chief of party in Senegal for a lot of USAID programs around Feed the Future, and he's going to be talking about some of their experiences in USAID Senegal.

And then, also, just to let everyone know that, in August, we will be taking a hiatus where we'll be looking over our evaluations that you've been so kind to fill out over the last six months and looking to improve the program. Oh, and by the way, failed gain. My name is Zachary Baquet. I'm the knowledge management specialist for the Bureau for Food Security.

And with that, I'll pass this over to our first speaker, Lena Heron from USAID's Bureau for Food Security.

Female: Thank you.

Male: That's forward.

Female: Okay. Thanks. Do I need this one or not? That one, yeah?

Male: This one here.

Female:

There you go. Thanks, Zachary. Good morning, everybody. My name is Lena Heron, and I'm with the Bureau of Food Security and USAID. I've been working on risk issues and paying attention to risk issues and risk transfer instruments since about 2003 when I was working on agriculture development and finding that access to finance and risk were major constraints for the kind of agricultural development we do.

I'm not working in the Bureau of Food – that was back in the Office of Agriculture for USAID. Now I'm in the Bureau of Food Security, and we still take the responsibility for a lot of the agricultural development that takes place in the missions and with the agency.

But, primarily, implementing through the feed the future initiative, this is the Feed the Future results framework. How many people have seen this before? Just – this has been something – I think there have been presentations on this in the pasts and it's – I'm not sure – maybe evolving a little bit. I'm not sure which version this is, but it's a pretty good representation of what the Feed the Future initiative is about.

Our goal is to sustainably reduce poverty and hunger, and the two main threads on – of the initiative are – to get there to that goal are improving nutritional status, especially of women and children, and inclusive ag sector growth.

What I think is interesting about this overall framework is how much risk plays into it, and I just wanted to point out a couple places where I think it does. Further down on the kind of more – what do you call this – kind of intermediate steps to these broader objectives, you'll see this increased resilience of vulnerable households.

And so, really, if you're talking about increasing resilience, you're talking about increasing resilience to withstand risk. Just even the nature of inclusive ag sector growth, inclusive, for us, means that it is a broad based. It's a growth that more poorer households participate in. Right?

And so, if you're going to be inclusive, you're really talking about making sure that small holders can participate, and what I want to talk today about is a little bit about what it takes for them to participate and how that relates to risk.

You also see – well, I'll talk on the next part about the growth part. Down on the bottom, I think, this is kind of an interesting strip because it's cross – cutting across everything, projects and policies to improve stability by reducing risk and vulnerabilities – vulnerability and to increase gender equality and environmental sustainability – but risk and vulnerability front and center.

I was so excited, as the development of the Feed the Future framework and the Feed the Future strategy came together to see how much we were starting to pay attention to risk. Paying attention to risk.

So why – why is risk – why does risk matter? Well, first of all, risk makes people poor. How does it make people poor? Well, if you have uninsured risk or if you have – you're not able to withstand shocks that come along, you tend to – I mean you tend to reduce your consumption first. You maybe pull your kids out of school, but, you know, if it's bad enough and a deep enough shock you start to deaccumulate your productive assets.

And I think people struggle against that. They really try to do that as the last thing, but it happens. And when it happens, it knocks people down into a place where it sometimes is hard to climb back out. Right? So risk that people can't withstand or recover from can make people poor and then risk keeps people poor.

Well, how does it do that? Well, if, again, even the threat – I mean people know that shocks can knock them below a place where they can recover. They know that, and so – and I think you guys know that. I mean this is something we see all the time in our development work. Right?

That people, especially poor people, kind of stay hunkered down – right – in a low risk, low return strategy. Right? We see it all the time that we – and we

sometimes approach them or I see a lot of the ag development kind of strategies approaching them with, “Oh, well, if only you did this, if only you entered this value chain or adopted this variety or, you know, did whatever, X, you could have a better return.”

But what that does is it misses the fact that people often aren't in an income maximizing kind of position. Right? They're not thinking, “How can I do better?” They're thinking, “How can I not get knocked down? How can I make sure that I don't lose my last you know whatever.” So they're risk minimizing, and when you're in that risk minimizing position, it's very hard to engage in economic opportunity even if it's all around you. Right?

The thing is the Feed the Future strategy makes a lot of assumptions about how we're going to get to reduce poverty and improved nutrition and growth basically. It assumes a lot of things like that people will be able to adopt new technologies. Right? It assumes that they'll be able to have the – that they'll have the access to finance to do that. It assumes that they will be willing to adopt a new technology. Right?

And so, in the base of it, the underlying assumption is that they'll be willing and able to take on quite a bit of risk. Right? Just the in – so that's on the kind of even for more productive farmers. We have to really think and understand what their risk profile is.

For the populations that are a little bit poorer, again, if we're serious about the inclusive part, we have to really pay attention to – I mean I think we have to pay attention to the risk profile of everyone we're trying to reach out to but especially to these poorer households. What we're asking them to do requires them to overcome their – I put appropriate often – aversion to risk.

I mean, often times, the – you know, it's a very practical kind of rational – economically rational behavior to, you know, hunker down sometimes if you don't have any way to manage your risk. So risk is important. I don't know. Is everyone sold on my risk is important?

Then what do we do about it? So I'm going to give credit to this – for this picture to my colleague, Nora Firm, who works with me at USAID. She's on the Global Climate Change Team and thinks a lot about risk as well and how that plays into climate change adaptation.

She probably drew a lot from Oxfam and others in the community that work on risk for these kinds of ideas, but we're really learning together and working at evolving these ideas together. But basically, this is a risk management framework, and I'm sorry I didn't kind of maybe phase in some of the information on there. But what I want you to look at for a minute is just the distribution here.

So this is a picture of a – just a distribution of shocks, of risks, of shock events. Think about just the bad things that can happen, and on the vertical, we have the probability, the likelihood that an event happens. And so this is more frequent events and down here – sorry.

So up at the peak of that distribution are more frequent events, and down at the tail is less frequent events, say. Okay? And down on the horizontal axis are the kinds of losses that you might expect for any particular event. Right? Basically, it kind of correlates to the severity of the event, and this distribution shows that not all events – I mean you – the people out in the Midwest might not believe that all natural disasters are like catastrophic this summer or this spring. They kind of saw a lot. Just they got hit a lot.

But, you know, there was a distribution where kind of there's the more frequent events. You know, there's more of the events that are less intense, say. Okay? And that's what that distribution is. So what we're saying is, with any kind of distribution of risk and the losses associated with those risks, there's a layering that takes place in how we think we should approach risk in general.

And we've kind of divided up parts of the risk to represent those kind of portions, those layers. Right? That there's part of what we should be doing and

a big part, I would add, is reducing people's exposure to risk by adaptation. Right? By improving their agronomic practices, maybe conservation agriculture that makes them less vulnerable to drought or better water use efficiency or shifting to kind of appropriate irrigation if that's appropriate, drought resistant variety.

So a whole slew of things we already do and are working on. Right? The next little bit, this part that I've called retain – so that's risk reduction. The next little bit, the part that I've called retained, is the part that the – the part of the losses that the farmer really needs to be able to handle himself or the household needs to be able to handle itself. Right?

That – and for that, we really are talking – and this is where – I mean all of it is the resiliency, but I really think of this part as a big piece of the improving resiliency. Right? Improving the household's ability to kind of, you know, bear the brunt of a shock and come back without too much delay or whatever, come back from a shock.

And there's a number of things we can do there, but I think the common ones are improve people's savings. Right? Maybe strengthen informal coping strategies. Right? There's a number of things that can kind of build the individual resiliency or the community's resiliency. Right?

Finally, as we move to the right – or not finally because there's to more pieces, but as we move to the right, risk transfer and this is a part – this is a piece that I think is underused and under developed in our approaches. And I'm going to talk a little bit about what we're doing and ask a couple of speakers to come to talk about what they're doing to work on the development of this piece. This is the piece we kind of want to talk about today.

And then the final section is, again, where we've got this kind of catastrophic tail end where kind of public sector interventions are probably appropriate whether government or donor or whatever, that's, you know, where aid starts to kick in.

But what I want you to think about is how these pieces fit together. Right How do these – how can these pieces work to reinforce each other? And what I mean by that is, you know, again, if you think about that idea of what we often do is work over here. You know, strong value chain relationship. We go out there with a value chain activity, and we think, “Okay, let’s work on this value chain.”

And the people you're trying to reach out to are hunkered down in that low growth, low – I mean low risk, low return strategy. Right? If you don't make some effort to help them manage their risk, it's going to be very hard to get them to take on the risk that is inherent in the upgrading that you want them to do, the kind of entering new value chain channels. Right? That kind of work that's inherent in the development strategy we have requires some attention to risk, to their risk profile and helping them manage their risk. Okay? So that's one example.

Another one might be my colleague, again, Nora Firm, working on climate change is looking at how, say, risk transfer mechanisms can help give price signals or help cover the risk so people can do the adaptive, you know, the – crowd in some of the adaptation to climate change that they think will help basically improve people's, again, resilience.

So that's what I'm – I think we need to think about how these things fit together, and I think our speakers today will help us think about those interactions.

For me and for USAID, we've put together a kind of learning agenda for a piece of it. Again, kind of in the risk transfer. There's a lot of risk and risk transfer elements that we could work on, but the one that we're kind of focused on, for agricultural – in particular, agricultural populations is this – something called index insurance which I've asked Ruth to talk a little bit about for anyone who's not familiar with how indexed insurance, say, differs from kind of more traditional crop insurance or so on.

But it's more appropriate for developing country contexts for a number of reasons, but it's still rather undeveloped itself. I mean insurance markets are pretty much nonexistent in most of the countries where we work – certainly for agricultural insurance products – and yet there's so much potential for that tool to reinforce the other things we do.

And so what we've embarked on in something we call I4, the Indexed Insurance Innovation Initiative under a research facility that I manage is a – I4 is basically a learning agenda for indexed insurance, and we're trying to learn how best to use these products in terms of, you know, good design, where and when they're appropriate, how they fit up against other activities. Right?

So we have eight pilots in a range of contexts, a range of countries, all Feed the Future focused countries, but basically, it gives us a kind of exposure to a wide range of context that we can learn from and basically feed back into the development community information about how these products can be used and best applied.

We're testing applications for both I'm going to use the term value proposition and what – so value proposition and for social protection kind of agendas. And what I mean by that and what people, who use those terms, generally mean by that, is, you know, in the value proposition, it's more where you've got, you know, people who are a little bit more commercially scaled, viably – viable economic kind of producers that are producing for market. Right?

We still think risk management mechanisms make a lot of sense for those folks, and there are some people who would argue that's the only place to use these transfer mechanisms. Okay? I'm going to be really clear about that, but I'm not sure that's the case.

And we're – so we're testing out a couple of places where the – these products are used in more of what you might call a social protection kind of agenda, and I think the NGO community, you're probably more familiar with what I mean by that. I'm talking about poorer populations who may or may not be producing a

marketable surplus, and yet we know they have huge risk exposure and they need ways to manage risk.

And so we're looking at can these transfer mechanisms be used in a way that can help build their resiliency effectively. I think an important piece of that, of understanding that is that an assumption that we're kind of basically testing out our learning agenda. All of these are – they're going to be rigorously evaluated, and so we really know what's going on with them.

But part of this assumption of ours or hypothesis that we're testing is that risk transfer mechanisms, as we're designing them and we're envisioning them, are not a zero sum game. Right? Because if you're talking about really poor people who have like so little margin, it's like – or no margin and you're saying, "Okay. Divert a little bit of your almost nothing to pay a premium," right, "And you'll maybe be better off if there's a really bad event, that's kind of a tough thing to sell, and I'm not sure I'm so comfortable selling that.

But if what it is is saying, "If we can protect a piece, if we can transfer off a piece of the risk, then maybe people can have – be in a better position to take some risk which will get them out of that low risk, low return livelihood. Right? That's what we're trying to get to.

We're not saying, "Just transfer off some of your risk and then sit there kind of with a little bit less, but you'll be better off if something bad happens." We're saying, "Transfer off a little bit of the risk, and you will be in a better position to jump up to the next level." Now, that's kind of simple. Right? It's more complicated than that in the way it works, and that's why we have two people who are going to talk a little bit more about what it looks like actually in the field.

But I just wanted to throw that out – that we're not talking about a zero sum gain. We're talking about something that crowds in other pieces. Right? Crowds in access to finance. Crowds in people's willingness to adopt technologies that will move them up to the next level.

And I kind of talked about this already and what we're talk – what we're looking for is the way that these pieces fit together. Think again about that risk management framework. How do they all – how does it all fit together. So I put down, at the bottom here on this slide, the website for this I4 learning agenda. You can check out any of the eight pilots and some of the papers that are being generated on more in depth on any of these kinds of activities that we're doing. I welcome your attention to that and your engagement on this topic.

So the speakers we have today are both Oxfam and IFPRI are engaged in this topic quite in depth. We have Ruth Vargas Hill is actually one of our I4 researchers working on a project in Ethiopia and Bangladesh, and I think her project, in particular, I was excited to have Ruth come to talk about these links between the transfer mechanisms and – especially the building resiliency.

I think her project, in particular, speaks quite directly to that. So I'm excited to have Ruth, and Kimberly Pfeiffer is the head of Oxfam's – Oxfam America's research division. I just actually met Kimberly in Zurich where we were both attending a forum or at risk management and where she got to announce new kind of collaboration between Oxfam America – well, I think it's Oxfam more broadly, right? Oxfam America? Okay.

Oxfam America, WFP and Swiss Re which is one of the big reinsurance companies to basically roll out and to other countries something that they piloted in Ethiopia as well to really look at insurance as a mechanism for poor populations, and I'll let Kimberly describe – are you going to describe that or? Yeah, okay. That's what you're talking about. Okay.

So I'll turn it over to – I think Ruth is going to go first. Thanks. I'll let you look at their fuller bios in the –

Female: It's longer than I intended, but it's ____.

[Crosstalk]

Female:

Good morning, everybody. Thanks very much for inviting me, Lena, to come and speak to you all. I'm very happy to speak a bit about the research work that we're doing and partly funded through – by USAID through the I4 that Lena just mentioned.

I'm a researcher at IFPRI. So if I – I've been sort of tasked with the challenge of explaining some things about index insurance to you. I don't know how many of you in the room or online are familiar with index insurance. So, if you are familiar, forgive me because I'm probably going to go over some familiar ground, and once I've done that, I'm then going to describe a little bit more about some of the research that we've been doing in Bangladesh and Ethiopia and focus particularly on some of the results for a pilot that we conducted in Ethiopia last year and that we're building upon this year.

So, as has already been well described, risk is prevalent in rural Africa and the context that I'm going to be talking about later and also South Asia where we're working in Bangladesh, and it's very costly for small holder farmers when it occurs. It reduces their welfare when the shock occurs, but as just described, it also has this knock on effect on how much farmers can invest in activities or inputs that might be quite rewarding for them to invest in but also carries some risk.

So, for example, in Ethiopia, one thing that is often observed is that fertilizer is quite widely available, and there's credit to buy it, but yet we still see farmers often choosing not to use it. And when we ask farmers why is this, then we find out that, well, it's because they know that, if they take the credit, they take the fertilizer, the rain doesn't come, they're still going to have to pay that credit back, and they're not going to have the yields with which to do that.

So that – to just sort of avoid that risk, they just sort of step back. They say, "Okay, I'm happy to accept lower returns and not put myself out there and invest in fertilizer."

So it seems that, if we can start to tackle this issue of uninsured risk, it's potentially got very big welfare effects. It's going to help farmers when these bad events occur, and it's also going to help them invest in other technologies and in other ways of producing and marketing their produce.

And once thing that's been talked about a lot is, in the insurance world and in recent years – well, in probably the last ten years, is this idea of index insurance, and this is insurance that, instead of paying somebody on their losses directly, it pays them on an index that is quite a good, rough measure for the losses they're experiencing. I'm going to describe that in more detail, but just to sort of go back to why – what's been the history of agriculture insurance and why might we need some innovations in this area.

For a number of years ago, it was try – individual level farmer insurance was tried, and so this is sort of the insurance product that you and I are more familiar with where you take a contract – an insurance contract and if you experience a loss then the insurer is going to insure you for that loss.

In the case of agriculture, that might come – that will involve them coming to your farm to assess your yield losses, and the cost of doing this in small holder farmer are just prohibitive. And that ___ cost a visiting a farmer and conducting a loss adjustment are often, many times, the premium that the farmer will pay because they're paying for such a small amount of land.

And we also know that, because there's so many things going on in terms of what determines a farmer's yield, yes, some of it's going to be weather. Some of it's going to be pest, but some of it's also going to be good farming practices. Some of it's also going to be, you know, how much was the farmer working on the land during that season?

So there's a real tendency for there to be this problem of moral hazard in this type of agriculture insurance where you insure farmers for their yield losses but then that sort of encourages farmers to not exert as much effort.

So, for these reasons, as you will see in the table here, a lot of these schemes stopped quite a long time ago, and this is data that's taken from a publication by Peter Hazel on this type of agricultural insurance. And the publication was sort of saying, "Well, we know farmers have risk. We know they need insurance for it, but actually, the schemes that we currently have available are really expensive. And they're actually paying out a lot more than the amount of income they're taking in from premiums."

So that's what that last column is. It has the total cost of the insurance program divided by the premium income that the insurance company takes. You'd want that to be less than one if you want to stay in business, and as you see for many countries, it was about five. So that's why the period's ended quite a while ago.

So it seems that we do need some innovation. So what is – so if we – what does index insurance allow us to do? Well, it sort of allows us to rethink an agricultural shock. So if you imagine a farmer having a bad yield and we can sort of – it allows us to put it into two parts.

And it says, "Okay. Well, those sum bits of the poor yields that a farmer experiences are going to be common to many farmers in the area." So this is – would be an example of this would be drought. It would be pest – like sort of widespread pest affecting a number of farmers in an area.

And we – but we can also think that that's going to be some of the reasons why a farmer might have low yields, but there's going to be probably other reasons as well which might just happen to one farmer on a given year. So this might be poor seed quality that the farmer bought, and the seed quality was poor, or it could be that somebody – one of the main laborers on the land and the household suffered a health shock during the production season and couldn't work on the land like they expected to, or it could be that maybe the oxen that they use for plowing the land died or they couldn't get oxen at the time they needed it.

So these are things that are maybe going to affect one or two farmers in a village in a given year but not everybody at the same time, and so if we think about putting agricultural shocks in these sort of roughly two groups, then what index insurance does is it says, “Well, okay. Let’s try to focus on the aggregate shock.”

This is something that formal insurance can try and tackle, and for the individual shocks, they – we’re going to need to think of different mechanisms, and a number have been mentioned. This might be savings, might be contingent credit where farmers can borrow in certain cases and receive reduced interest rates or it could be transfers between – encouraging transfers group risk sharing.

So, if we think about these two different types of shocks, what we’re really saying, “Okay. Well, let’s think about what kind of insurance helps us deal with the aggregate shock.” And index insurance can help with this. What index insurance does is it looks for measures – independent measures that are really well correlated with these aggregate shocks.

And then when this index falls below a certain point then a payout is made to all farmers in the area for which that index was measured. So it’s a bit hard to explain. ____ would be easier to explain with some examples. So here are those sort of three examples of index insurance contracts that I’ve seen.

Probably the best – the sort of gold star of index insurance contracts is area yield. This is an insurance contract with actually pays farmers on the basis of average yields recorded in a given area. So you might have the Ministry of Agriculture in a country going and collecting – conducting crop cutting experiments as they do for their agricultural statistics.

They’ll come up with a measure of yields for that area based on those experiments. If that measure is too low then all farmers, in that area that bought insurance, would receive a payout. And that’s a good type of index because it captures many different types of aggregate risks that we can think of. It captures weather. It captures pests. It captures sort of really large __ supply shocks as well.

But it's often not very available to us. I mean it's – you need a government statistical agency or a good independent third party that's collecting good, quality aggregate yield data or you need a – something like a crop for like cotton or something where you have very good measures of the amount produced because all of it's being sold to one government ____ state or something like that.

The contracts – so that's probably the best and it forms a lot of the insurance contracts that are offered currently in India, for example, but often, in the place where we're working – and actually, the work I'm going to talk about today and that Kimberly is going to talk about, is talking about rainfall deficit or excess indices, and there's are indices that are defined by measures of weather at the local weather station or, in the case of Kimberly's project, a satellite estimate or what the weather – how much rain actually fell during the growing periods in the area.

And these product, they pay if the rain wasn't enough, or, in the case of floods, they pay if the rain was too much, and so they're good at covering that aspect of aggregate risk. Another type of index, which is used in one of the USAID funded projects, ____ in Northern Kenya, which is based on NDVI which is a satellite measure of the greenness in an area.

And these are particularly good for estimating some types of yields such as, in this case, the quality of rangeland for cattle, and that's the really good index for that type of – to capture what's going on in terms of rangeland there. But that's not going to work for every single crop. It's going to be for cattle. It might not be good for other things.

And the thing with both of the last two indexes is they require quite a lot of calibration because you need to take this rainfall data _____. Well, how exactly does this matter with yields? You know, when is it that farmers need rain and how are we going to design this index such that it captures, well, farmers' yields?

So this – there's – this is sort of a potential very good innovation for agricultural and insurance for small holder farmers, and because it invites costly state and verification on farmers' fields, it avoids some of the moral hazard and adverse selection problems. So it sounds great, but – there's always but.

These indexes, like I said, are only good at capturing aggregate shocks, and sometimes they're currently not very good at capturing aggregate shocks as well. So that's a lot of the research work. And because they don't always capture the loss of farmer experiences, they have this thing called basis risk which is sort of the risk that the farmers' loss is very different from the index for whatever reason because they had some of the sorts of shocks that I was talking about earlier like not having enough labor to plow the land and so on, or it could be that the index just wasn't quite properly calibrated as well.

So, as a result of this basis risk, probably and – probably and a number of other factors that constrain demand, we've actually found that early field pilots haven't quite lived up to expectations. We have not seen the large take up in these products that we would have expected, and a lot of the research work we're doing is trying to understand why that is. Is it basis risk? How can we reduce basis risk, and what other factors are constraining demand?

And I think a big question also and I think this really relates to the risk management framework that you put up is, you know, how much insurance can we expect is to buy? And if we asked farmers to buy insurance for the full distribution of losses that were shown, that would be very expensive.

So we need to think about how do we put this together with other types of insurance mechanisms so that farmers, yes, they might be paying, but they're not going to be paying too much.

So the I4 learning agenda has really sort of looking at, I think, most of these questions and there's quite – I mean it's quite an exciting time for insurance and there's a lot of innovative research work and implementation work going on in terms of trying to improve what we're doing and trying to sort of push the knowledge frontier a bit further forward.

We're doing some work on trying to improve the design of indices. How do we get indexes that really well capture aggregate shocks? How can we do some of this linking of formal insurance to informal insurance mechanisms that might help farmers deal with these individual shocks that are not going to be captured by the index.

And how can we make sure that this does become a value proposition for farmers? That we are linking these insurance products to sort of new technologies that are going to give farmers a higher income as a result of paying for this insurance.

And also, I think it's very important, as we work on this and we think about how much public support should there be for these types of programs, it's important that we actually show the impact of insurance. So it does insurance – is insurance helpful? Does it really help farmers? How much does it help them smooth consumption? How does it help them improve production? Because that gives us a good idea of how much potential public finances sort of helps in persuading people to spend money on it to have this piece of really showing the impact of insurance.

So, for the rest of the presentation – and I should have looked at the time when I started, but I'm doing okay. All right. I'm going to speak about the work that we're doing in Bangladesh and Ethiopia funded by I4, and this is work that I'm undertaking in Ethiopia where the two IFPRI colleagues, Alumayu Sayun Defessa and Gesh Bruhan, and it's work that's being done in collaboration with Oxford University and with Stephan Derk and Daniel Clark and _____ Leon and also with EDRI which is a research institute in Ethiopia and also Colorado University which I realized I forgot to put on the slide.

So I'm going to explain a little bit about the overall concept of what we're doing, and the concept applies both to Bangladesh and Ethiopia, but I'm going to focus more on Ethiopia because we have some results from work done last year in Ethiopia that I thought might be of interest to you.

And the full description of what I'm going to present can be –if you Google this, you'll find a – Google this reference, you'll find a full paper. So the idea is that, before we came with insurance, farmers were managing risk, and one way they were managing risk was to be in risk sharing groups or networks where they would help each other out in times of needs either through loans or through gifts and transfers.

And these groups are extremely effective and quite low forms of – low cost forms of insurance for some risks, but they find it very hard to deal with aggregate shocks such as droughts that affect all of the group members at the same time.

So we've got this sort of quite a lot of insurance activity going on in risk sharing groups, but also, this limits how much risk sharing – how much they can really help farmers share risk. So the question is, well, can we think of combining what's going on already with some of these formal insurance tools that we've been talking about. And so can we think about providing index insurance to groups while also, at the same time, encouraging these groups to share some of the smaller risks amongst themselves.

And we can think that groups could increase demand for insurance for a number of reasons. They might be able to help each other share some of these smaller risks as I was mentioning. So sharing basis risks, but there might also just be some sort of retail advantages of working through groups. Often, in the work that I've been doing, the group leaders are often people who have the most amount of education, probably the most familiarity already with insurance products, and they're quite good entry points to the community in terms of talking about insurance.

They can also reduce transaction costs, and that it's much easier for a former insurance company to think about contracting directly with a group of farmers rather than individually with farmers. And it's also a possibility that, when groups are used as intermediaries, they can help increase the trust in the product amongst other farmers in the village.

So, in this study, we sort of – we actually had all of the insurance that was being sold was being sold through the groups I'm about to describe to you, and what we varied was how much we – information and training we gave them on the idea of sharing basis risk among the group because we wanted to understand whether there was really any role for groups doing this.

So we worked with **Nyala** Insurance Company. We all worked with Nyala Insurance Company. They've – they have a very, well, I suppose risk loving CEO which is quite unusual for an insurance company in that he likes to try new things. So we work with him.

And I'm not going to describe much about the product details because that's not, but if you want more information about that, then there's another publication by myself and my colleague, Miguel Robles, which describes a little bit about the types of products we were selling. But we – with the products that we had, we marketed all of them through risk sharing groups which, in this case, were funeral insurance societies called iddirs, and there's funeral insurance societies are widespread in rural Ethiopia. Nearly all members in a rural community will be a member of the iddir.

And members pay a sort of monthly or bimonthly fee to this group, and in return for paying that fee, they receive help at the time of funerals. So, if somebody in the household dies, the group pays money to the member to cover the cost of the funeral and also some costs of living after the funeral has ended. So they are doing funeral insurance, essentially, for their members.

And because everybody wants a good funeral, everybody pretty much is a member of these groups. So, although they're primarily funeral societies, they are becoming engaged in other types of insurance activities, and this was something that was quite interesting to us to find. We found that about a third of them are starting to provide cash payouts for other types of adverse shocks such as illness, death of livestock, fires or damage to property.

So they're, as much as possible, thinking about ways that they can offer other types of insurance, but if we think about the types of insurance that they're

offering, we'll see that actually they're all events that are not going to happen to everybody in the community at the same time. So not everybody is going to have a fire. Well, maybe they will, but hopefully, not everybody will have a fire in their house at the same time. Not everybody will need a payout for an illness at the same time. So that's why they can do this. They can – it's risk they can manage within the community.

But for things such as droughts, this is not something they can manage. So, when we first started speaking with these groups and we were finding out about these other insurance activities they were doing, they said, "You know, the one thing we can't do is drought insurance," and actually, the – the reason that we had started speaking with these groups as we thought we were going to see if we could work with them to do health insurance.

But then we actually found, well, actually, they're already doing some of that already, and what they really can't do is drought insurance. So can we think of a way to help them manage drought risk? So what we did, in this pilot, is we selected leaders of these groups to be trained in basic concepts of insurance and the insurance products that were being offered in that region in that season.

But what we did is we randomized the content of the training sessions. So, in some iddirs, the training emphasized the individual benefits to insurance. Whereas, in other training sessions, the training sessions were emphasizing the idea that insurance could be purchased by a group and that there was some group pooling of other sorts of agricultural shocks that they could think about doing.

So we had training A which is given. This is one of the iddir leaders that attended that, and it focused on the individual benefits of insurance and then there was training B which focused on the group benefits of insurance and really illustrated how a group might think about buying the right policies and how they could think about sharing risk.

And what we wanted to look at was, well, how, if we do this different way of sort of marketing or framing insurance and this training on this type of group sharing, do we observe higher demand for formal insurance products? And we found that, actually, the purchase, it really did have a large – a very large effect on demand. The purchase of the insurance policy was 59 percent more likely. So take up across all members of the group would increase from 21 percent to 34 percent.

And this was also reflected when we looked at the number of policies and the value of the insurance bought, and we were trying to look at, well, are there other reasons why the training had this effect. I mean is it really because there was this idea of discussing in a group how to share risk.

And we did some qualitative research to sort of understand what the decision making process had been, and we did some quantitative research as well. And the qualitative research was very – was coming back as telling us that people just thought it made sense to think about insurance through these groups. That was what made sense to them. They could see that the insurance products being offered were similar to what these groups were doing, and there was a benefit of going through the group and having some of these other activities through the group.

Quantitatively, we looked at whether the understanding of insurance then was just a bit better when we framed it as a group product, and it didn't seem to be so. We asked a number of questions on understanding of insurance, and there was no difference between training A and training B. So it wasn't because of understanding of insurance.

But what we did find is that, when we looked at whether or not individuals had spoken to others about the insurance and the number of people that they had spoken to about this insurance, we did see a big difference between training A and training B, and those in training B were more likely to talk to others about the insurance and they were more likely to particularly speak to each other in small groups about how – about the insurance policies.

So this was a small pilot that we did last year, and this year, we're trying to do more research to really understand better what the potential for using these

groups is. This research was very encouraging to us in that it suggested substantial potential, but there's still some questions that we have which is, you know, for this pilot, we went to an area with very well functioning groups.

How does this work in more generally in areas where groups perhaps aren't doing as many other insurance activities. So we're trying this in a wider area this year, and we're also curious about what type of group – what type of information on group risk sharing is – needs to be given and what type of rules about group risk sharing seem to help and seem to work. And so that's really where we're trying to focus our research this year is to try and understand what some of these rules might be.

And we do also have other questions, and this is sort of going back to the question, "Well, how do we link the insurance – private insurance provision with public support?" And the recognition that many of the farmers that we're focusing on, both in Ethiopia and Bangladesh, are very poor farmers, and buying – paying for the premium is very difficult. And so thinking about how do we link this to safety net provision and I think that's sort of a perfect segue for Kimberly. So I'll stop there. Thank you.

Female: So we were thinking we would save discussion for – at the end.

Female: Great. Thank you. Okay. Thank you, Lena and Zachary. Yeah, thank you for giving me the opportunity to talk about Oxfam's project. I'm going to, today, talk a little about HARITA which is our Horn of African Risk Transfer for Adaptation pilot project.

I'll talk a little about what it entails, some of the results we are seeing, some of the lessons, and I will talk a little about also then how it has evolved into our rural resilience program and then, as Lena had mentioned, a partnership with the World Food Program for the next five years building this rural resilience program. Okay?

So I'd like to start by introducing you to Gabrou Kasai and his grandson Aragul Malagayta, and they are farmers. They farm teff. They live in the Village of Adiha in Tigray which is in the northern – in the north of Ethiopia and Kasai is a participant in the HARITA project, and Adiha – sorry. Adiha was the first village – the pilot village for the HARITA project.

Ruth has already done a nice job talking about risk, but just to maybe complement or reinforce that, Kasai is one of about 85 percent of farmers in Ethiopia that rely on rainfall to water their crops. So weather is a very – is a big risk in Ethiopia for farmers, and drought is really the risk we are talking about most often. And you can see how rainfall is related to both GDP and then specifically ag GDP – agricultural GDP in Ethiopia here.

So, in our risk reduction work in Adihi, we wanted to think about this. How do you transfer some of this weather risk for farmers? And as Ruth as suggested, weather index based insurance seemed like an option. She's also done a good job of laying this out, but again, just the index insurance is where the payment depends on an event that causes the loss as opposed to a payment with the – paying out on an actual loss. Right?

The advantages of this are no individual claims to be filed, the data reliability, and then some of the disadvantages of it are basis risk which is where loss may not correspond with payment and data availability.

So, in our discussions with farmers about insurance, something quite interesting came up, and it was just the issue that Ruth is – was raising. Farmers seemed interested in this idea of insurance, but it was a question of payment. And so the idea came up that this would be nice. I would like to have this insurance, but I don't have the money for it. But I do have labor.

I could use labor just like the productive safety net programs that farmers and rural – people in rural areas have an opportunity to participate in in Ethiopia. So this was the core innovation that was taken up as part of the HARITA project. That people could pay for risk management services with labor instead of an actual cash payment – right – of their own.

So, four years ago, Oxfam entered a collaboration with a number of organizations to figure out how we could design product like this and offer it to communities and reach the more vulnerable in those communities. Hence the work component and you can see a number of the organizations or partners in this. Ruth had already indicated work with Nyala Insurance Company.

We've also added, as we've moved onto our rural resilience program, African Insurance Company in Ethiopia. And you can break down the interest in finding a solution to this kind of risk transfer product into a number of groups.

So you have farmers that obviously would like to have some holistic risk management tied to sustainable livelihoods for themselves, overcoming that cash constraint and getting some of the premium even in good years. Then you have donors and government wanting to break that cycle of poverty, wanting to mitigate food security emergencies and climate change.

As I was ____, those 85 percent of farmers who are feeding their crops with rain are – most are also experiencing food insecurity for a period of time throughout – some period of time during the course of the year. Right?

And then you have local insurers wanting to find ways of reaching rain fed farmers that are cost effective but also profitable, and finally, reinsurers identifying extremely large risk pools, of course, lenders and their interest.

So let me give you a sense of how it works. Just maybe ignore this little arrow that doesn't want to cooperate down here, but I'll start you up here. This is trying to lay this idea of introducing payment for insurance with labor to you and how this rural resilience program works, and it sort of overlays on the safety net program or idea.

So you have your safety net. You have your donors giving money for a cash for work program, making payments to the poorest households. They are doing this for labor. They're giving their labor for that cash or that food.

Now the rural resilience program or the HARITA pilot project, as it started, you have a new set of donors, Oxfam and collaborators, putting money into the program which then provides an insurance voucher. The poorest are putting their labor in for that voucher, and the premium is coming down to the financial institution and the less poor households are able to pay for an insurance – for this insurance. So their premiums are coming into the financial institutions, and, of course, it's the drought that triggers the payments.

Okay. So, last year, in 2010 in the five villages, HARITA then expanded, as I said, we moved from HARITA which was a pilot in one village, Ahdihi. We moved then into expanding in 2010 to five villages, and across those villages, this gives you a sense of what percentage of the population that purchase – that took on the insurance, paid by cash or by labor. Labor being the brown and cash being the green.

And again, this gives you a sense of how the project is growing So HARITA being our pilot project in 2009 with Adiha. Moving onto five villages and about 1,300 – sorry about 200 households purchasing insurance in 2009. About 1,300 – 1,308 purchasing insurance in 2010 and, this year, our goal is to reach between 10,000 and 13,000 people.

Now this is our conceptual framework for our rural resilience programs. So building out that HARITA project bit. It starts with risk reduction at the core, and the idea is that these – that you need a package of types of risk management. So, here, we have risk reduction. We have risk transfer. We have smart risk taking and the risk reserves.

So insurance being your risk transfer. Smart risk taking being credit and then risk reserves being savings. And here is risk reduction for us being the community work. This is part of the program that the Ethiopian government supports to pay out for labor, and then – right here, you see the community building an irrigation system.

These are some of the risk reduction activities involved in the program. You have agri forestry, _____ to conserve soil and water, soil fertility management, _____ irrigation and then system of crop intensification .

Risk transfer, again, is the insurance – I'm sorry – is the insurance component of this. Prudent risk taking. Again, the credit in this project – those who participate in it, have improved access to credit, and the idea is also that we have a micro lending company – local micro lending company offering that credit.

And the idea is, also as Ruth and Lena also suggested, that the holding of insurance would also improve access to credit and even perhaps better rates. Great. Again, risk reserves being the saving, and here, we have – we're just in the exploratory phase looking at trying to link with existing saving groups similar to what Ruth is talking about, and the main idea here, though, is that we would work to encourage that insurance and savings parallel one another – that they work together – and that these savings groups would be able to manage the basis risk that we talked about before that you can't deal with with an insurance product like this.

So here's some of the achievements. In 2009, again, going back to the Adhiha pilot, we had one village. 200 farmers sign up. 35 percent paid in cash. 65 through labor and we had 38 percent of those taking up the insurance were female headed households.

In 2010, the project was expanded to four more village and two more crops. We started with teff and then we added wheat and barley. There are two types of insurance products were then offered instead of one. So very dry and dry options, and I believe, in 2010, just to give you a feel of preferences, when given choices like this, I believe 93 percent of those who took, chose the dry or the more expensive option.

Again, 3,000 – 1,308 farmers enrolled and 17 paid – 17 percent paying in cash. Again, this is our goal for this year with our rural resilience program, sort of the built out program. We had – we held enrollment during May and June. We're

in the process of tallying, but we have about close to 10,000 enrolled so far. So we expect to make that target of between ten and 13,000 this year.

Just quickly, some of the challenges in this work. Ruth has mentioned some of them, too. So it's a bit of complementing what she is saying that there's these insurance products are very hard, very complicated to design. There – our program – our project – pilot project and our program involves a lot of training programs because of the absence of local capacity for this.

You have – with different partners, you have different incentives. So you have to balance all of that. You – engaging financial institution is another challenge and then the last one being around governmental policy on agricultural insurance.

Some of the lessons we've learned will, again, complement some of the things Ruth was saying, but that – there are – it is possible to think about financial services for rural populations. But, in our experience, insurance should be one component of a holistic risk management strategy. Something also that Lena's laying out with a framework like that.

The community that – this is also something that Ruth touches on, but the community risk pool fund is needed as an additional risk management layer. And we have found that farmers must take part in a collaborative assessment and design process. It's through that process that we were able to see this core innovation of labor, and so this is, I think, very important if you want to see the possibilities for products like this and the uptake of them. And ambitious partnerships to bring in farmers, civil society, public sector are all very important.

So, going forward, we have the partnership now with the World Food program over the five years. We will be expanding in Ethiopia and adding three other countries, working with their cash labor, cash for work program. So they have, as you know, much greater reach than Oxfam programs do just to give you a sense of what that means to pilot. Piloting in Oxfam is a little different than piloting with the World Food program.

And again, just to highlight that evolution that I've sort of talked along the way about our pilot, we started with risk reduction work wanting to add to that realizing there was something that – as Lena had talked about – that needed to help people jump up and to – and the need to transfer some risk in order to be able to take risk and to be able to jump up.

So we added the insurance and credit components, and now, we're working on adding that link, that saving component. Again, just a vision for a scale for doing this kind of work in the world, this is – give you a sense of where some conditional cash transfer programs are spread throughout the world.

And that's it, and I might just leave you with one last thought. This is an area we're working on, but of course, we're also trying to think about what are some other risk transfer tools that farmers may need in that risk management package. And so we've been thinking a lot about price risk management lately, thinking about how you might use price risk tools to hedge that type of risk and how accessible that might be to poorer farmers that are engaged in markets. Thank you.

Male: Okay. We're going to open it up for Q and A. The way we usually do this is sort of one question, one answer. We'll go back and forth. We'll go from online and in person, and also, when asking a question, please state your name and your organization, and for those of you online, if you could also say sort of where you're joining us from, that would be greatly appreciated.

And we'll start off with – we have a few questions already online, and we'll start off with those –

Female: Zachary?

Male: Sure.

Female: Okay. I just wanted to also invite one of my colleagues to join us up here. His name is Stephan Demession. He works with us on the rural resilience programs. So I thought that might be helpful.

Male: Sure, please.

Female: Going to ____.

Female: Hi. Okay. This first question is from Bruce White at CRS for Lena, and he would like to know if there's a way for PBOs to become involved in your pilots for index insurance.

Female: Hi, Bruce. Glad you could join. Well, that's very – you're asking very specifically about the pilots that we're doing. Is it on? So he missed me saying, "Hi, Bruce." Hi, Bruce. So you're asking very specifically about whether PPOs can get involved in the pilots as opposed to in index insurance.

First of all, I just want to say that the PPOs are already involved, as I see it, in the broader risk management framework. I see index insurance or the risk transfer as an undeveloped part of everything we do whether it's in the contractors or the missions building it into programming, the – whether that's programming that's under, you know, contract, and the big contractors kind of working on it or even on the – you know, part of the agency that the PPOs tend to engage more.

So I think, in general, the – that it's kind of – everyone is underrepresented working on these things, but I think there's a lot to learn still before we're seeing them – this kind of work get integrated into the programming.

But in terms of the pilots that we're doing and this learning agenda, the program that we're doing these pilots under are, for the most part, university led activities that engage with local partners for implementation. So, in all of the cases, we're working with generally people who are on the ground in the

countries where we're doing the pilots whether that's local insurance companies. Often times, there's a local distribution channel it – that generally is a micro finance institution, say, or it might be a cooperative organization that's working on, you know, say an association of coffee growers or something.

In the case of Ruth's project, for instance, I don't know if you've got different organizations that like ___ that works with –

Female: Yeah. Working with Brock.

Female: And Brock.

Female: In Bangladesh.

Female: In Bangladesh.

[Crosstalk]

Female: And micro finance.

Female: So there are local institutions. Now we have an established group of pilots already. The partnerships are pretty established already. Looking forward, I'm hoping that we will be adding some more finance ___ perhaps some more activities in the future. There could be a role for PPOs or other organization.

Generally, they – it's something that is put together. It tends to be put together depending on the context of the country. So I don't – I'm hoping – this is probably not a very good or satisfying answer to the question. There's not an easy answer to that, yes or no answer, in terms of engaging on the pilots.

It's – we're engaging with people who are kind of the on the ground, active already where it's made sense. It – what I think is going to be more likely is, as these kinds of activities get rolled out, where organizations are active and where these activities, where these kind of risk transfer mechanisms bump up against the kind of other activities that, say, an organization is implementing on the ground is probably where it might make more sense. Does that – do you want to add anything to that in terms of –

Female: No. I think that really makes sense. Yeah.

Female: Okay.

Female: Looking for opportunities.

Male: In person questions?

Female: Hello. My name is Liz Michelle. I'm from Fintrack. I wanted to ask about the role of the public sector in understanding risk and trying to mitigate or adapt. If you spaced constraints from the public sector and also if you see a role, regulatory or direct, from the public sector as these programs expand. Thanks.

Female: Do we want to go ahead and answer or do we want to take a few question. I don't know.

Male: One and one.

Female: Oh.

Female: I can – yeah, I can. Is it – is it on?

Female: It's on, and I've just turned it off again. It's on again. So, yeah, I think that's a really good question. I think there's a number of ways you can imagine the public sector getting involved, but sort of at a minimum, those sort of insurance products that we're talking about rely on indices.

And for the most part – I mean, excluding satellite indices perhaps where it seemed to rely more on the U.S government than anyone else –

Female: Thank you.

Female: For the source of indices that I'm working on, which are based on rainfall station measures or area yield indices, really needs public sector support for that because it's a public goods. These indices are a public good like any insurance company could offer insurance off of them. So no one insurance company has the incentive to invest in them, and also, you really want a third party doing it because the insurance company is going to have to pay or not depending on whether the index is high or low. So that's where – that's a really important role.

So, in the case of Ethiopia, I think we'd love to see the national meteorological agency really sort of stepping up to the table. That's more – and they find it difficult to do so because they're really under resourced. So we'd really like – I mean that's definitely a constraint that we face.

I think another thing – and Kimberly alluded to it – is just having a clear, regulatory framework. So at the moment, things are in flux in Ethiopia. They know this is something that they're going to have to regulate on, but I mean, in a way, it's very good. I mean the conversations that we've had with the government have been very positive in that they really want to learn from the pilots that we're doing so they can work out how to establish the right regulatory framework.

But, at the same time when you're doing the pilots and you're not really sure where the regulations are, it means a lot of back and forth between and you often have to go quite high level in the government to sort of, okay, you're really sure this is okay for us to do this this year, and so it would be nice, in the future, to have a clearer regulatory structure.

And I think when – another thing that governments can really help with or the public sector can really help with is especially when these projects are at pilot stage, risk financing for these pilots can be really expensive. So Swiss Re is very expensive because they just have a fixed cost of calculating the price for their reinsurance that they offer, and it doesn't matter whether you sell ten policies or whether you sell 10 million policies.

That cost of them working out what the contract should look like is the same. So, when you're doing a pilot and you're not selling many policies because it's a pilot, that can come up to a really high per policy cost for reinsurance.

Female: Because that fixed cost gets bundled into a smaller number of policies.

Female: Exactly, yeah. So I think public sector support in that is really important because, if you just went with the market price, you'd be charging a much higher price than would be charged if the insurance market were developed which is really what you're wanting to test in a pilot.

So and I think there's a role for the government also sort of setting up the right regulatory structure to bring in reinsurers where needed and to also have a risk pool within the country, within insurance companies in the country when needed as well. So I think that's –

And I mean then there's the whole question of how you link to public safety nets which, I think, is really important, and you can probably talk about it much more than I can.

Female: Yeah. This is on. Yeah?

Female: Yep.

Female: So just to also touch upon the last comment about Swiss Re. We've – in our experience, we've asked Swiss Re to invest in that way, and for private sector, there is a potential interest in making that investment if it's – even though it could be costly to them if they see the potential to develop a market.

But it becomes that investment or support from the private sector may start to wane if the market isn't seen to be there, and that is, as Ruth points out, when you're trying to reach the more vulnerable populations and those that don't have the cash to be able to take up insurance like this. Again, that's where the role of the public sector can come in and, in our case, the government of Ethiopia is a critical partner in these projects without linking to their productive safety net programs.

It wouldn't – we wouldn't be able to – we wouldn't have that labor – right – component so that the more vulnerable could pay for the insurance with their labor. Yeah.

Female: The last piece I would add – I agree with everything that's been said. There's, I think, a strong role especially in the development of insurance market for the public sector, and by public sector, I assume we're talking –

I mean, some cases, it's national governments, and some cases, it's a ___ community or multilateral organizations all have, I think, roles to play in overcoming a lot of the kind of market failure in seeing insurance markets develop and figuring out how to really make these things work for our – the developing country context.

But even in the long run, the risk layering that I talked about, I think is an important thing even in terms of the long term sustainability of this, and actually, this week, today – today is July 7th, right?

Female: Yes.

Female: They're done in Lima today.

Female: Yeah.

Female: Our I4 colleagues are doing a workshop in Latin America down in Peru today with government representatives and private sector from Peru and Ecuador and – I don't know – Columbia and Mexico and a number of countries to talk about that risk layering, that – and by that, I'm talking about that – you know, those different layers by which, you know, some is retained by the farmer. Some is covered by commercial insurance, say, risk transfer mechanisms and some is handled by the government in terms of catastrophic things they're putting in place.

What's interesting is that all of those governments are – have been talking about putting in place a kind of agricultural – catastrophic agricultural risk piece. Right? Mechanism for risk management, and partly, what this workshop is for, is to get them to think about how to set that up in a way that doesn't crowd out commercial insurance provision and that actually helps it develop. Right? Because there's a market. I mean it doesn't exist right now.

But you don't want to set something up that crowds it out, that keeps it from developing, and in fact, you want to think about how what you do – like, for instance, in terms of what kind of information systems that the government – like these governments might put in place in order to do their own catastrophic piece effectively.

How could you set up that information collecting system that you would need to do a catastrophic piece well? How can you do that so that it actually is a public good that the commercial sector can use for the development of commercial insurance products? So.

Male: We have a question from online.

Female: Yeah. So this next question on the webinar is from Christian Panatti at Care, and it's for Ruth. It'd be helpful to understand a bit more of what is involved in crop cutting experiments given that they seem to be the gold standard but also, to this point, the most expensive.

So could mobile technology help bring these costs down possibly partnering with the government extension system, for example?

Female: Yeah. That's another really good question. So these crop cutting experiments basically what they do is you define an area like usually about subdistrict level. I mean the right term depends on the country you're in, and within that area, you will conduct somewhere between ten and 15 crop cutting experiments where you'll go to a field and the – this is what the extension worker will do.

They'll go to a field, throw down a square, like a wooden square, somewhere usually in the middle of the field and then literally harvest that square and see every – all the crop that's in that square and then see how much they harvest and then they'll pay the farmer for what they harvest and then that gives an idea of the yield. And so they – for that one area, they'll have somewhere between ten and 15 observations on the yield.

And then they'll take the average of that, and that will be the average yield for the area. And mobile telephones can definitely help, and they are. So I mean I think the largest and longest running area yield crop insurance program is in India, and from what I understand, this year, they are piloting – this is work that the World Bank's been conducting with the government of India to look at how

they can try and bring down the cost of doing these experiments and also make them much quicker because they can also take a lot of time.

When you think about it, you have to send a huge number of extension workers at harvest time to do a lot of crop cutting, and you need the data pretty quickly because farmers want their payout quickly. And that's been a big problem in the past is that it's just taken months to get these results, and so –

Female: To get the data.

Female: Yeah. Exactly.

[Crosstalk]

Female: Yeah. So, using mobile technology to help get the data quickly or so to sort of monitor the extension workers, that they really – because they have GPS technology in their phones so they can really check where they've gone.

But it's still going to – I mean I think – it's still going to probably remain expensive and, as I just indicated, it really has to be something that's done usually by the government. It's sort of hard to imagine a third party doing this. Although, having said that, leading government's really hoping that they can contract it out to a third party, I think, at some point in the future. But at the moment all the ones I know of are done by governments.

Female: I just want to point out that we have Barbara Leach here today from the USDA, and a lot of the methodologies for doing these kind of crop cuttings are based on U.S. crop cutting kind of methodology that's done.

I mean India may be the longest running developing country.

Female: Yeah.

Female: Context but I think, actually, the U.S. –

Female: Yeah.

Female: Is the – you know, where we’ve had these systems in place some of the longest. I mean, you know, maybe in Europe longer but –

Female: I did have a couple of questions. Thank you. I did have a couple of questions and thank you. One of those is, when we look at the risk layering, has any – you know, these projects are designed for small cooperatives, small farmers’ villages, and certainly, they have the need the most.

But has any thought been given to including, in some of these areas they also have large corporate farms, commercial farms, and those farms often center on who has the best land. And if the government were involved, if – theoretically, one might consider you including those large producers so that you could spread the risk a little easier.

Female: Yeah. We don’t exclude them now.

Female: Okay.

Female: I mean most of the products that are developed for any of these activities are available to, you know, commercially scaled larger farmers at market value.

Female: And then, assuming so, even though you don’t need to have the exact data of what production was for an index product, have you given any thought of

requiring at least where it is possible, per education, et cetera, production records so that you could build into a more exact science later?

I think both of those are key long term, and we're looking at it, with the U.S. program, how we can build in for our index products, too, which we didn't in the beginning, and we wish we had. But this looks like really positive steps, and I – whenever we're able to help at USDA, we're certainly willing to.

Female:

The – one challenge that we faced in including the large producers so they're products are open to everybody, but we found that, currently, the large producers have access to indemnity insurance. So their willingness to switch to an index product is – I think it's going to be there for some of this – maybe for some of the smaller scale ones, but the really big guys, we've – that's the challenge we faced and ____.

The production records is a really good comment, and we're really interested to think about doing – how best to do that, and I'd love to hear how it's done here. I think it's really important when we're thinking about group risk sharing as well because that sort of information is key to helping the group work at how they share risk that's not covered by the index, too.

Male:

Yeah. I'm Bill Fiebig. I'm currently the director of the Office of Agriculture and Food Security for Africare. I've attended a number of these Feed the Future events, and I'm hoping that, as Feed the Future rolls out your RFEs, RFAs, whatever that we get some guidance on lessons learned about behavior change messaging.

I mean risk diversion, in particular, after 35 years in Africa. Farmers have their strategies to keep their families alive. So we've come up with these kind of ideas, and there have been a number of good ones. I'm a safety net kind of person. I know conditional and non – unconditional types of strategies are out there, but it's what message has really been found effective and what have not probably more importantly.

That's really – for Kimberly, I'm intrigued about a cash for work policy. What's in it for the company? For the insurance company? I mean I assume the family is out there – community is out there working on their own natural resources, doing whatever they're doing. But what company – what's in it for them to say they're going to provide a policy should there be drought, should there be a flood? Yeah, I'm just intrigued about that.

Male: Thank you.

Female: Yeah. Quickly, you're right. That's the challenge, but to reach the most vulnerable, this is the innovation we came up to to make that accessible. These – the insurance is open. So people can pay for it, and as you see, we have participants who pay for it.

For the insurance company, what I think is attractive is pursuing more markets. Right? So they have some people who are purchasing. The attraction is perhaps, if this is offered to the more vulnerable through the cash for work program, perhaps – in offering these other parts of risk management – that you'll be enabling people to jump up, and at some point, you'll be – you'll have more prosperous farmers, and that will increase the number of farmers that you have that then can pay for it an insurance product like that.

But time will tell us if that happens. We'll see. Yeah.

Male: If I can add to that, it's a great question, and you know, the model is set up right now so that some farmers can pay with labor and others, who are not eligible or not part of the PSNP, have an option to pay with cash.

I think the best way to think about it, as a way of priming the market, is something that Ruth was talking about in her presentation, demands. And education here is such a challenging issue for a lot of these communities. They may not be familiar with the kinds of different insurance although they may be familiar ideas like the idders.

So, for a company like Swiss Re and for the local insurers, this is an opportunity to introduce insurance concepts to communities, and then, once they graduate from PSMP, they can become paying customers.

Female:

I'd like to answer that behavior change question. I hope you do, too, was the – I mean your comment was that you hope, as the Feed the Future RFAs or whatever rollout, that you get more guidance on achieving behavior change or that risk is built in more to the approach that's being asked.

And I hope you do, too. I'm trying very hard to make sure that happens and I – and others at USAID are also. I think people are more aware than they ever have been of the role that risk plays, and I think, similarly, this notion or this concept of behavior change and the – that what we're really trying to achieve, in some ways, is a behavior change. You know, both of those things have to be at the root of what we do in, say, value chain activities.

Right? That it's not just about adopt this or get involved with this market or, you know, with this process or something. It's really a shift in thinking. It's a shift in approaches that we're trying to achieve, and we're trying to do it in a much more facilitative way than we have every before.

And so more – you know, really, it's about shifting the incentives people have and making sure we pay attention to those things and pay attention to their risk profile. So I think you will see more of that in a lot more of the RFAs. I mean I think it's going to vary, but I think, also in terms of the lessons – the lessons learned, you know, it varies depending on the topic of what the area – the kind of intervention area that you're talking about.

I think there are – I think there's actually quite a bit of good stuff out there. I don't know if you've, for instance, taken a look at the value chain Wiki that's available through microLinks– USAID's microLinks. The value chain Wiki has a very good section on vulnerable populations and just, in general, I think really

pays attention to that issue of behavior change and affecting behavior change in the context of value chain activities.

So I – you know, unfortunately, I don't think there's a one stop shop for that kind of information right now, but we're – I think – you know, all of us – I mean this learning agenda that we have on insurance, we're trying to get that stuff out.

Male: Yeah. I guess my bottom line was – is that, as these pilot studies learning experiences, you know, what are the messages that you find achieve behavior change? Probably more importantly, what has been tried in these pilots that hasn't worked that well and why not? So we can avoid that when we develop a proposal to an RFA, RFP, whatever. That was my issue.

Female: Yes. This is from Havika Johnson from CRS. And how do we insure sustainability for insurance for some of the insurance options that are supported by the don't – by donor financing? This might have already been addressed, and Ruth might be able to answer this, but it's really open to anyone.

So, for example, how can we transfer over those input costs over time?

Female: Which input costs? The design?

Female: The input costs supported by donor financing.

Female: Do –

Female: So maybe I'm not going to understand the question properly, but I'll answer what I understand. So maybe I can be corrected if I misunderstood. So I think it's a good question. I guess the question is sort of, if we think about the long run cost of insurance when an insurance market is fully established and up and

running, is that price for insurance something that the small holder farmers can pay?

And so I think that – and I'm – in one way, I think about the role of finances that some of these cost – of public finances that some of these costs of public finances, that some of these cost are sort of one off or, you know, sometimes like investing in automatic weather stations throughout a country or – is that going to be a one off cost – or sort of investing and setting up your regulatory framework properly, that's going to be a one off cost.

I also think that some of these costs of – and I alluded to risk financing – are going to fall over time as the market expands because the way insurance works is that the more people you have buying the policy, the cheaper it is for the insurance company to offer that policy essentially.

Like risk – yeah, you want a big pool of people. So I think that, as that – as the market develops, that's going to happen naturally one would hope. So I think some of these things are – I think _____ on sort of consumer education and so on are also one off costs that, as the product's out there, people will experience it more and understand it more.

So some of these are one off costs and then the question is, okay, but even for the costs the remain, is that a price that farmers can pay? And I think that's an important question, but I think this really relates to whether or not there's a value proposition for farmers. Like do they see an additional benefit to them for doing that?

And then also, for the government, the – so, for example, the Ethiopian government has this safety net program which is a fantastic program, but the government is very aware it's very expensive. And can they sustain that program over time? And one thing that they're interested in thinking about is, well, can you think about formal insurance markets sort of being used within the program to try and reduce the cost of the government of that program. So there might be that there is – it makes sense to have some sort of public funding sort of for welfare reasons.

Female: Right.

Female: For some insurance reasons.

Female: Because it takes a layer of that risk.

Female: Yeah. Yeah.

Female: I thought that was an excellent answer. Good answer. There's different pieces, and so the – basically, the – all of the pilots that are going on now in the world, well, all of the work, with the exception of maybe India, maybe there's a couple of other places that are not big donor kind of driven, you know, pilots all these things.

But, for the most part, they're – they are kind of donor supported, and I think, you know, Ruth laid out very nicely there's – part of it is just this fixed cost – upfront fixed cost to overcome the market failure of this stuff doesn't exist. And we're investing I think, appropriately, in a public good, to see the market developed and see these tools developed.

And then there's the long term – the longer term issues that there – in the longer term, even once the price has kind of come down because the market has developed and the upfront fixed costs are, you know, absorbed in in the market ____, that there may be this welfare effect.

I mean, currently, we've got pretty large humanitarian assistance obligations around the world, and those just stay and – bother national governments like Ethiopia that – the productive safety net program – or whether you're a donor organization and you're just seeing large, you know, and growing numbers of humanitarian assistance kind of obligations around the world.

And the question is can we use risk transfer mechanisms to take off a layer of that? Not all of it but a layer of it so we can reduce some of that expense by dealing with some of the risks ex-ante.

Female:

Hi. I'm – this is Diana Church with Church World Service, and I attended an agricultural seminar a couple of – maybe a month or so ago in which the concept of index insurance was explained kind of – it was by the researchers doing the pilots, and it was pretty detailed in terms of how the model works.

And as I understand, part of the way the model works involves a strong correlation with some indexed events, say, drought, rainfall, et cetera and a particular, specific crop or livestock. And that works if you've got something that's relatively specialized like that, but many of the farmers – the small holder farmers that we work with grow diversified crops primarily for their own household consumption.

And while I think that index insurance is a fantastic idea, I wonder how it could really be used for that particular group.

Female:

So that's exactly the question that I asked myself when we started working in Ethiopia as well because – just to give you an idea of the Cabelli which is the smallest administrative unit's collection of about 2,000 households that I first went to start this work and spans kind of a large amount of altitude for much higher than I was expecting. And partly, as a result of that and probably partly as a way for the community to manage their own risk, they grow different crops.

So you've got – I think in this one Cabelli of 2,000 households, there were three or four main staple crops, and so then I put that information that I had with the sort of the standard models of doing index insurance where you pick a crop and you fit the yields of that crop to the index, and I thought, "Wow. This isn't going to work," because the farmers are also, you know, intercropping.

So we – the type of – I didn't spend time talking about the type of insurance products that we're offering, but the approach that we've taken is to and

develop very simple products that are very flexible for different farmers to put together to form the type of insurance that they need.

So we have – we offer separate policies for each month of the rainy seasons, and depending on what crops the farmer grows, different of those policies are going to be better for him or her. And the – what we try to do is make the policy simple enough so that the farmer really understands what it is that he's buying so he can work at how to put them together.

And I mean I think that that has it's – I'm not going to say – I think that's got a lot of – and it has worked well in the context that we're considering, but there are some tradeoffs to that approach as well which is that you have very simple products which might not be exactly fitting yields of one crop.

But, interestingly we – when – so the first year, we offered these products, we – the – with Nayala, we sort of prepackaged them. We said, "Okay, if you're a maize farmer, you should get these ones. If you're a wheat farmer, you should get these ones." And farmers didn't like that at all. In fact, one of the comments we got was, you know, "You haven't – I grow a bit of this and a bit of that. I intercrop. So telling me that this is just because I grow wheat, I should buy this one, doesn't make sense to me," or, "I grow red pepper and you didn't tell me what I should buy for red pepper and so – but these products are still important for me. So I – and I know which ones I want to buy."

So, this year, we're actually not – we're offering advice to farmers on how to understand them, but we're not prepackaging them.

Male: We've got a question from online.

Female: Yes. This is from Eric Munoz from Oxfam America and for Ruth. So the pilot programs that you helped design – you're popular. The pilot programs you helped design, have there been any payouts, and if so, what lesson have been learned and have payouts had any impact on uptake of insurance products in the following years?

[Crosstalk]

Female: I'd actually like to know whether Oxfam did. Yeah. I'd like to know whether Oxfam did.

Female: Because you guys have been doing it for longer.

Female: Yeah.

Female: Okay. So the first – very first year, yes, there was payouts. Actually, we didn't even know whether what we were doing was a good idea or not that year. So what we had done is we had gone to farmers, and we'd given them –

We'd sort of worked on an economic experimental game where we'd given them cash. We'd given them an option. We said, "Okay, you can buy these policies or you can – we'll give you cash, and you can buy these policies or you can take it as cash," because we didn't want to take their money because we were testing these products.

And there was pay – there was – the rain stopped – basically stopped halfway through the season that year, and so there were payouts for those policies. We then went back the next year and the farmers had the nice surprise that they had to pay for the policy. So it was bit hard to disentangle that effect from the effect of having the payout. They were very happy getting the payout, but that's – so that's a one off thing I don't think I can say something good about the impact on demand.

Last year, we saw the policies, and it – I think it was probably one of the years where there was the most rain throughout the rainy season where we were anyway. So, actually, I – we were wading through mud to go and train farmers on drought insurance which was quite interesting.

Female: Thinking about other options.

Female: Yeah. They were like, “Really? Drought insurance this year?” So but there has been a study that looked exactly at that question for India, where there’s been a number of years of payments, and I recommend looking at that. It’s by Dan Stein who has just finished his PhD at LSE.

Male: Sure. I think the question of payouts is a great question, and that’s one of the difficulties with these pilots is that, if you have a product that’s designed to pay out every five or seven years, your pilot is still going to be very experimental for a few years until you see how it works over time with multiple seasons.

So, in our first year, there – last year, there was not a payout as Ruth alluded. The first year in Adhihi, we had an interesting challenge which is that there was no payout required according to the technical contract, but it was a – it was not a severe drought, but it was a tough season.

And there was enough confusion because it was our first year pilot. There was enough doubt and confusion about the experimental nature of the product itself that we ended up in a very difficult position. We wanted to adhere to the principles of the contract and not pay out because we didn’t want to create conflicting incentives.

But on the other hand, we really needed to recognize that this was a highly experimental pilot in one village, that we did not want these farmers to be paying the cost of the experiment themselves. And so we ended up coming up with a compromise where we made a donation to the farmers to help cover some of their costs that year but had to make – be very careful in how we delivered that donation and how we did the messaging to be very clear this is not a legal requirement. It’s not part of the contract. Given the experimental nature of this first year, we’re making a donation to help, you know, in the spirit of experimentation.

Female:

I just want to add one thing to that, too. This underscores how difficult this stuff actually is and why we're still framing this as we have a learning agenda around this.

Insurance is a very tricky thing. Right? I mean we're kind of – we've probably all grown up with insurance. Our parents had insurance. We're used to the idea that you pay money, and you really hope you get nothing back because, if you get something back, that means something bad happened to you. Right?

You pay your car insurance, and you really hope you don't get a payout because, if you get a payout, it means you probably totaled your car. Right? Or if you get a payout on your fire insurance for your home, it means your house burned down. I mean, let's face it, that's – we don't want a payout on our insurance. Right?

But if you think about it, in most contexts, where do you ever pay money and hope you don't get anything back? And so it's very counterintuitive product, and so going out into rural, undeveloped, rural places where people are not even banked yet alone have, you know- I mean maybe in – where people have been kind of experiencing some of these –

[Crosstalk]

Female:

Informal insurance companies, it's a little bit easier sell, but in some places, where you don't have, you know, those things, I mean finding a way to explain this stuff to people has – you know is part of the challenge. Back to the messaging, how do you package this? How do you explain it?

I mean that's part of our agenda is figuring that stuff out. Right? So I think – and then, also, a big part of the work is really figuring out how to design these things well so that they do work for people. Right? So that you balance in the design. It's balancing the cost.

Well, the cost is a function of coverage and frequency of payout. Right? So the more frequently you pay out, you're – you know, you're covering – remember, I had that distribution. If you want to push that – the coverage back and cover everything, cover the least little crisis that comes up and cover everyone's loss, then it's going to be a very expensive product.

And so you've got to find a design that balances kind of cost with the trust issues because, if it does – if you have something that only pays out every ten years, every 30 years, you're just going to cover the 30 year drought, well, then trying to convince farmers to pay for 30 years, even though the thing's priced to be pretty fair, is going to be a tough sell.

So it's a big challenge to design these things so that they balance all of those issues, design the product so that it balances frequency of payout, trust, price, all of those things.

Female:

Just to add one more thing to that, in looking at the two products, when eventually we had two options, the dry and the drier. We looked at the prior 15 years, right, and what would have happened if you held one or the other.

And it – we were able to show that, if you held the more expensive one, it would have paid out, over the past 15 years, 30 percent of the time. The less expensive one would have paid out about 20 percent of the time, but it's – you know, again, and part of giving people a feel for what happens, then you actually get to doing it which is different. But that's just something to add.

Male:

Yes. I'm David Spiedel with the U.S. Department of Agricultural. First of all, I want to commend all of you who are taking on a tough subject. Probably I think it's so tough, when I first ran into risk and economics, I stuck with crops and livestock. So good for you.

____, you really piqued my interest when you said you tried bundling or demonstration of bundling, and it didn't work. And what clicked in my mind was, you know, when we first started talking on this topic, it was getting farmers to try more risk adverse things, and they were not taking on more fertilizer.

Female: Yeah.

Male: Have you tried saying, “Okay, if you buy some more fertilizer, you're going to have to have some risk insurance?” Have you looked at that angle?

Female: This – yeah. I haven't, but other people are. One of the I4 – the other I4 projects in Ethiopia is actually looking pretty much at that where they're bundling insurance with credit for inputs. So that sort of idea, and it – I think – I'm going to be really interested to see –

Male: It's what we do in the U.S.

Female: Right. Okay.

Female: There's also the –

[Crosstalk]

Female: Not in 14 projects but Syngenta has a little bit different approach. Kalil Mosalam in Kenya where they bundle instead of bundling the insurance with the loan for agricultural inputs as we're doing in a couple of different pilots. It's actually insurance on the input itself.

So, if you're buying – you know, however you finance it, you come in and buy the fertilizer or the improved seeds, there's kind of an insurance product built into the cost of the product that pays out if something happens. And it's – but it's an index product as well. So that was supported by Syngenta and –

Female: Yeah and it works great for Syngenta because they're the ones that are also supplying the inputs.

Female: Right.

Female: That's something that we have zero control over in Ethiopia, and it's sort of government provision. So that would be really difficult to do in Ethiopia, but it's working really well in Kenya.

Female: Hi. Meghan Murphy with the QED group. This is a question for Kimberly, but it really could apply to any of your experiences with some of these pilots and if you have started looking at the effects either with a payout – I guess, more likely, in the situation with the payout, on household food security and the consumption ___ piece and if you're seeing impacts through these programs alone or if you're seeing – or able to look at these types of programs with additional other complementary, more maybe nutrition oriented or other types of interventions.

Female: Yeah. I'm going to let Stephan answer that, but I will just preference by saying it will take a little time to demonstrate that. That's not something that is so easily shown over one course, but we've had a couple years.

Stephan may want to speak to what we're at least putting into place to be able to look at those things. Yeah.

Male:

Right. The short answer is we don't know yet, but we have a formal impact monitoring evaluation learning project right now in partnership with the International Research Institute on Climate and Society and Columbia University.

And they've already done the baseline surveys and the follow up surveys, and the report is due out this summer. So we're actually going to be very interested to see. That will be tracking results and impact – at least early assessments from the prior season of the villages. So we're interested to see – that will be looking at effects, and I'm not familiar with the details of the study.

But I think it's going to be looking at things such as what is the impact of purchasing insurance on likelihood of taking on credit and other aspects of livelihood security. So, yeah, we're excited to see that report come out this summer.

Female:

Add a little bit to that. Those questions are the questions that are more easily answered. So does taking insurance make it more likely that you take credit or use inputs? Because the consumption question or – it requires you to have a lot of the – it requires to observe a year where there's a drought because actually –

What you're doing with insurance is you're taking money away from good years and you're putting into bad years. So, if you actually look at just a good year with insurance, you might observe people that bought insurance having lower consumption on other things because they bought insurance.

So you really need to observe it for a number of years to really understand, well, what is this doing. Is this really working as a way of transferring from good

years to bad years, and is that having a good impact on the amount of food that people can buy.

Female:

I guess the last piece of that is that, you know, I mentioned we – this all the I4 projects and you can see Oxfam have very rigorous impact evaluations built into these pilots, and I think appropriately so because they are pilots, and we're trying to learn from them. So the –

And I know a number of our pilots are not only looking at does it improve access to finance, does it improve uptake, but they're actually looking at, you know, using – collecting ____ kind of does it improve household welfare. But as Ruth said, over a period of time that not hopefully but whatever in order to be effective as a – in order to learn from it, it really has to cover bad years as well as good.

But to get to your – I understood your question a little bit differently that are we also looking at how these things change in terms of effectiveness or whatever with built up against different activities. And I – we are doing that.

I mean the Northern Kenyan one, I think, is instructive for something like that in that that's the – Ruth mentioned this one. It's called IBLI. It's an index based livestock insurance, and it's specifically designed to build up against different supported cash transfer program to act as a safety net to pastoralists in North Kenya.

And basically, the logic behind putting this pilot in place was, you know, that's great to keep people alive in the case of drought, but if you let their primary asset perish and don't have a mechanism to replace it then those people will be, basically, fall into poverty and not be able to climb back out for generations, ever. I don't know.

You know, whatever. I mean this is – that's an open ended humanitarian assistance obligation, and so the – this insurance product pilot is going to be

tested – you know, is being rolled out and is going to be tested in places – I mean there are some places where there – it will be available.

It's available where the cash transfer program is also available, and there are places where it's available that the cash transfer program is not, and there are places where the cash transfer program is available where the insurance product is not being marketed.

So it will – I – the study I think, in itself, will be really fascinating to see that dynamic in terms of is an insurance product like this enough to keep people from falling into destitution that you don't even need the cash transfer program or is the dynamic between them somehow different than where you don't have that – the insurance in addition to the cash transfer program. Right?

So but I think we need more of those kinds of studies. I mean not all of our pilots are that well integrated with some other kind of intervention, but there are plenty of other kind of interventions that we could build up against.

[End of Audio]