

IFC, SANASA Promote Economic Inclusion in Sri Lanka through GIIF

May 29, 2013 - After three decades of conflict, Sri Lanka has seen a rise in the number of small-scale farmers and small and medium enterprises (SMEs) - a trend that has helped the economy grow and create jobs. To keep the momentum, IFC is partnering with the SANASA Group to ensure that businesses, especially in the north and east, can access needed financing. The SANASA Group is comprised of over half a dozen affiliated companies including the SANASA Federation (with over one million members through its 8,400 savings and credit institutions), SANASA Development Bank and SANASA Insurance.

SMEs play a strategic role in the country's post-conflict economy. As of 2011, SMEs - including farmers - accounted for over 70 percent of employment and contributed nearly 26 percent to Sri Lanka's GDP. However, credit constraints hinder both small business growth and overall economic growth.

But that is changing. **IFC's advisory and investment teams are working with the SANASA Group to improve access to basic financial services, such**



Jin-Yong Cai, IFC CEO, addressing SANASA tea farmers with index insurance.

as microfinance and weather index-based agricultural insurance. With assistance from the Global Index Insurance Facility, an IFC-World Bank initiative, SANASA Insurance is helping small farmers minimize the impact of crop losses through flexible and affordable weather-based agricultural insurance products. The first phase has reached over 11,000 paddy and tea farmers, helping raise incomes and increase food security.

Recently, on his first visit to Sri Lanka, IFC Executive Vice President and CEO

Jin-Yong Cai met with SANASA clients and highlighted the importance of diverse financial products to make it easier for small businesses and farmers to obtain financing, which in turn will foster growth and global integration.

"GIIF's work in Sri Lanka to expand weather insurance is critical to ensuring that small farmers are not vulnerable to adverse weather. SANASA's commitment and passion for helping small businesses is inspirational," Cai said.

How Insurance Helps Increase Access to Finance: Interview with David Crush Manager, IFC Access to Finance Advisory Services, Sub-Saharan Africa

Q: What contribution has the Global Index Insurance Facility (GIIF) made to the Africa region since funding index insurance pilot projects over the past few years in East, Southern and West Africa?

A: The GIIF facility has begun to make an impact in the African region, particularly in the east and southern parts of the continent. For example, Kilimo Salama, one of our GIIF implementing partners in Kenya and Rwanda, reached a major milestone in April 2013 with a total of 100,000 farmers insured with index insurance in these two countries. **And it's not just the insurance itself, it's the impact of being insured - over 30,000 Kilimo Salama farmers in Kenya have also been able to access \$5.5 million in financing because they have insurance.**

Q: Do you see strong growth potential for index-based weather and catastrophic insurance in the Africa region?

A: From a development perspective, one of the key benefits of insurance-based products is that the financial compensation goes directly to those who need it, when they need it. Index-based insurance products generally provide quicker payouts, without time consuming loss adjustment. There is clearly potential to develop this market further and in ways that will provide greater financial security and more sustainable incomes to smallholder farmers who have traditionally been the most vulnerable. Insurance products can be built effectively into



David Crush

agriculture supply chain models that are providing farmers with much better access to markets than previously. It is an exciting time in this industry, and the combination of private sector and donor support is really driving the innovation.

GIIF/World Bank Country Updates

The World Bank GIIF Team has been working on increasing levels of awareness, improving technical and commercial capacity, and improving legal and regulatory capacity for index-based insurance in Latin America and the Caribbean, the Pacific and Sub-Saharan Africa. In West Africa, one of the principal recent achievements was the **adoption of a new regulation allowing the development of micro-insurance and index insurance in the CIMA zone** (covering 14 countries in Francophone West Africa) in April 2012.



Index insurance training for farmers and cooperatives in Senegal.

LATIN AMERICA AND THE CARIBBEAN

Argentina

Two feasibility study reports for livestock and cotton index-based insurance were completed in 2012. The WB GIIF Team developed a high resolution database that allows users to easily calculate pure loss cost rates, technical rates and indicative commercial premium rates for each Insured Unit. Both studies concluded that retail insurance (e.g. individual farmer) is not feasible because of substantial basis risk. Only macro-level insurance with government subsidies and support is recommended.

Uruguay

The WB GIIF Team assessed the feasibility for a livestock index-based insurance product to cover the whole country, as livestock across the country is exposed to recurrent droughts. The study designed a NDVI (Normalized Difference Vegetation Index) insurance product.

The Laboratory for Regional Analysis and Remote Sensing at the University of Buenos Aires' Faculty of Agronomy established the databases for both Argentina and Uruguay, and the WB GIIF team designed software that allows the client to generate net actuarial commercial premiums for any chosen combination of cover.

Dominican Republic (DR)

The WB GIIF Team conducted a feasibility study for macro-level agriculture index-based insurance on the Hurricane Trajectory Index (HTI). The study verified that HTI insurance is possible, and despite a lack of weather data, portfolio yield index insurance is feasible for the Federation of Cocoa Growers.

Haiti

The WB GIIF Team is exploring the possibility of financial risk transfer mechanisms to protect the agriculture sector against damage caused by tropical storms, expanding the agriculture credit market, and making agriculture insurance available to individual farmers.

Jamaica

The WB GIIF Team continues the work initiated by the "Market-Based Agriculture Risk Management in the Caribbean" project. The project is focusing on the development of weather index-based insurance for the coffee sector, and a Caribbean catastrophe risk insurance fund parametric product for agricultural losses in 2013.

PACIFIC

Papua New Guinea

The WB GIIF team conducted a pre-feasibility study and submitted recommendations for the introduction of

market-based agricultural insurance to the Ministry of Agriculture and Livestock.

SUB-SAHARAN AFRICA

Benin

Following on the initial success of index insurance in Senegal, an index insurance pilot in Benin will be implemented with support from Planet Guarantee (PG), the GIIF partner for commercial outreach in West Africa.

After final pricing by Swiss Re, sales will commence in June 2013 for a maize index, with pilot target outreach projected at 2,000 farmers for the WB ground weather index product, and 5,000 farmers for PG's satellite-based index product.

Djibouti

The WB GIIF Team has prepared a report and a roadmap for the implementation of a pilot index-based livestock insurance project.

Ethiopia

The Government of Ethiopia received a \$100,000 grant from GIIF in 2012 to review the existing regulatory and supervisory framework for the development of a weather index insurance market. Micro-insurance regulation has been completed, and a scoping mission is in preparation to assess the extent of technical assistance needed to set up an index insurance market.

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GIIF/WORLD BANK TEAM

Washington

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Oliver Mahul, Program Manager, FCMNB

World Bank on the Role of the Public Sector in Supporting Markets for Indexed Agricultural Insurance: Interview with Daniel Clarke

Senior Specialist, Disaster Risk Financing and Insurance Program, World Bank

Q: What is the role of the public sector to successfully set up index insurance markets in developing countries?

A: While the implementation of indexed agricultural insurance is typically most efficient and effectively managed by the private commercial agricultural sector, public sector support is critical in four main areas: 1) **quality data** that is available for both public and private parties; 2) **outreach support** through subsidies, public information campaigns, and perhaps some elements of government-mandated compulsion or nudging; 3) **public retention of some insurance risk** to support the market development of products based on new types of data to effectively crowd in reinsurance markets; and 4) **technical and regulatory support and oversight** both to rural credit markets and index insurance markets.

Q: Which public-private partnerships for index insurance would you highlight as models?

A: The most successful agriculture index insurance programs in developing countries are based on strong public-private partnerships. **India** has the second

largest crop insurance program in the world with **29 million indexed crop insurance policies** sold last year (covering 22 percent of all farmer households in India). This was made possible through long term government commitment which made insurance compulsory for all farmer loans, substantial government subsidies including financing of insurance data, and recent substantial involvement from the private sector.

In **Mongolia**, while the program has been nation-wide for only three years, **10 percent of all livestock farmers now have livestock index insurance**. The government has played a key role in developing and sustaining the market through investing in robust, insurance-quality livestock mortality data; paying for the catastrophic layer of risk; and promoting the program through public awareness campaigns led by government extension workers.

Q: Can index insurance help scale up agriculture insurance programs for small farmers in developing countries, the majority of whom are still without insurance and access to finance?



Yes, but it's challenging. In recent years many pilot agricultural insurance schemes have not scaled up. There is increasing evidence that some of the index insurance products offered through recent pilots provide limited client value due to high basis risk, e.g. the risk that the claim payment will not fully reflect the loss incurred by the policyholder. These two challenges (outreach and product quality) can be addressed through long-term engagement, innovation and strong public-private partnerships.

GIIF NEWS

East Asia-Pacific: GIIF has started its expansion in the East Asia Pacific region, and two pipeline projects in the Philippines and Indonesia are expected to be operational soon.

South Asia: A conference was organized in May in Dhaka, Bangladesh, to explore the possibility of launching an index insurance pilot.

IFC is now a member of the Microinsurance Network. Founded in 2002, the Microinsurance Network's mission is to promote the development and delivery of effective insurance services for low-income people by encouraging shared learning, facilitating knowledge generation and dissemination, and providing a multi-stakeholder platform. The Network is based in Luxembourg and consists of 70 institutional members and 15 working and discussion groups.



Rwanda/MicroEnsure: Local insurer SORAS handing over a check for Rwfs 1.1 million (\$1,700) to COAIRWA Cooperative as the result of a 25% payout for weather index insurance.

GIIF's objective is to expand the use of index insurance as a risk management tool in agriculture, food security and disaster risk reduction. According to a recent UN Officer for Disaster Risk Reduction report, **natural disasters have cost the global economy \$2.5 trillion since 2000 and affected millions of people.**

GIIF/World Bank Country Updates

Kenya

The WB GIIF Team held a stakeholder workshop with GIIF grantees Syngenta Foundation and the International Livestock Research Institute. The GIIF grantees stressed the need to address overly restrictive regulations which are proving to be a major constraint to the development of micro-insurance and index insurance markets. As a result, a legal expert was contracted by the World Bank to assist the Insurance Regulatory Authority of Kenya in drafting proposed regulatory and supervisory documents.

Nigeria

Nigerian Agricultural Insurance Corporation (NAIC), one of the oldest public agricultural insurance companies in West Africa, approached the WB GIIF Team in 2011 for help in expanding its range of crop insurance products and services by developing weather index-based insurance products. The WB GIIF Team has completed

pre-feasibility studies in five states of Nigeria (Kano, Kaduna, Lagos, Enugu and Cross River) for rain-fed maize and rice, and funded a study tour and training for a NAIC representative in India. From a policy perspective, the WB team has highlighted GIIF and AIDP (Agriculture Insurance Development Project) in various policy framework papers (CADP-3 and Weather Disaster Management program).

Rwanda and Mozambique

In Rwanda and Mozambique, preparations are underway to support the strengthening of the regulatory insurance framework.

Senegal

Senegal is one of the leading countries in West Africa to successfully broker a public-private partnership with the local insurance industry to support agricultural insurance, including index insurance. To date, the Government has committed funds for a **50 percent premium subsidy**

for selected crops and livestock, revised existing regulatory instruments to include micro and agriculture index insurance, and held three training and awareness workshops to help the local insurance industry understand the new CIMA book regulations. An agricultural index insurance pilot is being implemented in 2013 for 8,000-10,000 farmers with collaboration from research institutions (both foreign-CIRAD and Senegalese-ISRA), local expertise from the national meteorology agency (ANACIM), and representatives of farmers' organizations (ASPRODEB).

Uganda

The GIIF WB Team held discussions with the Ugandan Insurance Regulatory Authority (IRA) in 2012. A legal expert is now assisting the IRA to review existing laws and regulations and to develop a regulatory framework paper to cover both micro and index insurance products.

EUROPEAN PARLIAMENT HOLDS SYMPOSIUM ON INSURANCE

Role of Insurance Companies in the Adaptation to Climate Change, European Parliament (30 May 2013)

The EU is considering ways to improve the market for disaster insurance in the EU and to promote insurance as a critical tool of disaster management with a focus on prevention, mitigation and improved data. GIIF was invited to participate in the debate, specifically on the role of insurance companies.

Dr Gary Reusche, IFC/AgrilInsurance program manager and GIIF technical specialist:

Most insurance solutions will be carried out by the private sector, and governments must monitor the markets. Data is critical in order to measure and evaluate risk accurately, and data is not currently available in many countries. Ex-ante catastrophe planning (e.g. before disasters strike) relies on good data which is part of the core business of insurance and re-insurance companies. Insurers/re-insurers are thus playing a vital social role in catastrophe mitigation. Crop insurance is a factor that increases credit to food producers. Increased production is linked to global food security - a high priority issue for IFC/EU in the GIIF program.

INDEX INSURANCE IN THE MEDIA

MicroEnsure, *Bringing catastrophic index insurance to St. Lucia/Caribbean* <http://www.microensure.com/news.asp?id=265&start=0>

Syngenta/Kilimo Salama: *Index Insurance: Managing Risks - Rwanda* <http://spore.cta.int/images/stories/pdf/SE-164.pdf>

A syndicated OpEd campaign across Sub-Saharan Africa: *Turning the Tide on Rural Poverty*, Peer Stein, IFC and Denis Salord, European Union. The OpEd was published in eight countries in Sub-Saharan Africa. [See GIIF OpEd Africa](#)

About the GIIF Initiative

Launched in 2009, the Global Index Insurance Facility is a multi-donor trust fund financed by the European Union, Japan and the Netherlands. GIIF is managed by IFC and jointly implemented with the World Bank. www.ifc.org/GIIF

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