



THE AGRICULTURAL INSURANCE DEVELOPMENT PROGRAM (AIDP)

PROMOTING ACCESS TO AGRICULTURAL INSURANCE IN DEVELOPING COUNTRIES:
A PARTNERSHIP BETWEEN THE WORLD BANK AND THE NETHERLANDS

The World Bank Disaster Risk Financing and Insurance Program (DRFI Program), the World Bank Agricultural Risk Management Team (ARMT), and the Netherlands Ministry of Foreign Affairs are partnering to advance a joint program on agricultural insurance for developing countries.

This Dutch-World Bank partnership on agricultural insurance leverages both institutions' experience and expertise in agricultural risk management and disaster risk financing and insurance. The DRFI Program has been providing technical assistance and policy advisory services on agricultural insurance for more than 10 years, both on indemnity-based and index-based (including weather) insurance. In particular, the DRFI Program contributed to the establishment of the index-based livestock insurance program in Mongolia and the reform of the world's largest crop insurance program in India, two agricultural insurance programs which have reached a large scale. The Agricultural Risk Management Team (ARMT) provides technical assistance and training on agricultural risk management issues, including agricultural risk diagnosis, and broader use of agronomic and weather data in risk management. The Netherlands Ministry of Foreign Affairs is an established leader in the promotion of sustainable agricultural risk management in developing countries.

The development objective of the AIDP is to support countries in implementing sustainable, cost-effective public private partnerships in agricultural insurance that increase the financial resilience of rural households, as part of their broader agricultural risk management strategy.

THE COST OF AGRICULTURAL RISK

Agriculture is a risky business and a large shock can devastate lives. By providing claim payments in the worst years, agricultural insurance could complement mitigation and coping mechanisms by both reducing vulnerability and providing a foundation for production-boosting investments in agricultural that could help to lift hundreds of millions out of poverty.

Over recent years there have been many pilot agricultural insurance schemes, but few have scaled up. Agricultural insurance that does not scale up cannot have a substantial impact on agricultural productivity or rural livelihoods.

Experience suggests that sustainable, scaled up agricultural insurance programs are based on a strong partnership between the public and private sectors, with engagement, innovation, and action from both sectors. Both private sector-only and public sector-only approaches can suffer from severe challenges, ranging from underinvestment in the data necessary for quality products in the case of the former, to inefficient delivery, distribution, and claims settlement in the case of the latter. A strong partnership between the public and the private sectors aims to build on the comparative advantages of the respective sectors.



AIDP ACTIVITIES

Effective public private partnerships in agricultural insurance require both public and private sector institutional capacity. For example, the public sector can have the following roles:

1. Clarify the respective roles of the public and private sector in promoting and delivering agricultural insurance;
2. Regulate, coordinate and co-finance investments in key public goods, such as market data, that could otherwise be undersupplied by the market;
3. Create and build capacity of public institutions to ensure that the incentives of market participants are aligned with those of clients; and
4. Act as a client for the private sector, using market mechanisms to achieve social objectives.

The private sector typically has comparative advantages in delivery, distribution, claims settlement, adoption of new technologies, and the implementation of risk-based pricing.

The program supports the following activities to increase the financial resilience of rural households:

- Financial agricultural risk assessment, to ensure that any agricultural risk transfer solutions are consistent with government's agricultural risk management plans.
- Public institutional capacity building on how insurance principles and tools can be used to promote social objectives, and on clarifying the respective roles of the public and private sectors.
- Working with governments on data for agricultural insurance, supporting coordinated market investments in collection, auditing and management of insurance-quality data to provide a foundation for affordable, reliable protection against large agricultural shocks.
- Actuarial and other technical capacity building to support design, pricing, risk financing and monitoring and evaluation.
- Working with governments on how to use insurance principles for timely targeting of social safety nets in response to shocks.
- Design and implementation of a monitoring and evaluation framework to meaningfully assess the welfare impact of agricultural insurance programs.

The program operates with partner organisations involved in the promotion of agricultural insurance, including the Global Index Insurance Facility (GIIF). The expected duration of the program is until 2015.

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