

Climate and Society Publication, Volume 2

Draft Contents Overview

Initial Notes

Index-based financial risk-transfer mechanisms are being tested in the context of development and climate-change adaptation. These instruments show the capacity to dramatically reduce conditions of chronic underdevelopment by both enabling investment and reducing shocks in agricultural livelihoods. However, important issues have been raised, including the potential for scaling up and the role of climate-informed science to help overcome some of the challenges to scale up. Volume 2 of the Climate and Society Publication document reflects an effort to gain insight on how these tools can best serve development at large scales.

Below is a draft contents overview of the upcoming Climate and Society Publication (CSP). It is intended to capture the broad intent of the document and related processes. Please note that it is designed for communication between partners, so it will be incomplete and change as the volume develops. Also note that there are additional documents describing the process, goals, audience, timeline, and details of particular activities that are likely to be more specific or up to date for the activity.

As with the CSP No. 1, this issue will be written in a language that is accessible to a non-technical audience, and will have the essential points distilled and clearly communicated.

The audience of the document includes

- Public sector: policymakers at national and local levels focused on development and on climate change adaptation, representatives of finance ministries, representatives of line ministries such as agriculture, health and water, representatives of NGOs and community groups addressing climate change and adaptation
- Multilaterals, bi-laterals, donors, international finance institutions (IFIs), United Nations
- Private sector: insurance and reinsurance, financial intermediaries such as reinsurance brokers and investment banks, risk-modeling companies, and other companies with risk transfer expertise
- Research institutions

The volume will be built around 3 sections, mirroring the questions from the index insurance roundtable convened in Geneva in June, with a strong Climate Risk Management (CRM) focus. It will include shorter, one page, case studies dispersed through the report--designed to answer the three questions and focus particularly on issues associated with scaling up (and will emphasize different issues dependent upon the chapter).

The first section will be an introduction on how index insurance relates to poverty and development issues. The second section will focus on the more technical and implementation focused issues that

will need to be addressed to have implementations that will have impacts on poverty at scale. For the second section, there are two ‘knowledge sharing and transfer’ workshops designed to capture knowledge and information from expert researchers and practitioners that will be integrated into the publication. These events are designed to capture state of the art knowledge, and may generate a set of additional, more technically oriented products which will be hosted on the CSP web site. The third section will represent policy level considerations to address some important viewpoints.

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Foreword

Current proposal is to approach Kofi Annan, reference to GHF roundtable process and outcomes (associated with index insurance). This would be followed by a statement of support with signatures from all key partners. The set of partners is currently being defined.

Introduction

Working title: Climate Risk, Poverty and Development

This will address why weather risk is important, the role of index insurance (as a missing link, catalytic role), and the relationship between index insurance and agricultural development. It would also frame index insurance in terms of a Climate Risk Management Tool (use of nuanced, across time scales, CRM definition: including Disaster Risk Reduction (DRR) and adaptation scales—which could also be integrated better into chapter one). Finally, it would introduce the three chapters. A text box summarizing index insurance would be included in this section: “[BOX] What is index insurance and why is it different?”

Part 1

Working Title: Targeting index insurance for poverty reduction and development

This section is intended to root the discussion in terms of the potential for index insurance to help reduce poverty and help development at large scales. It would clarify the distinctions in the role of index insurance for addressing alternate development and poverty problems, following the lead of the index insurance whitepaper led by Barrett.

Potential cases that could be used to illustrate index insurance and alternate poverty types include the Ethiopia national project, India, Central America, Mexico, Malawi. Examples could be presented as specific case studies.

Part 2

Working title: Key hurdles and Opportunities for scale up

This section will address issues in scaling up. It will have three subsections. The first will be a discussion of key concepts. The others will address technical and socio-institutional hurdles to scale up, discussing how they can be managed and/or overcome.

The section will provide a presentation of these issues distilled for a policy, implementation, and donor audience. Subsections two and three will be driven by the products of workshops. The first is a workshop geared towards more technical research topics that have arisen as important topics in implementation and scale up, designed to allow researchers to frame the topics to an implementation audience. The second event is oriented towards the socio-institutional hurdles, and would be built upon implementation experiences.

For each of these sections, concepts can be reflected or reinforced through the presentation of case studies.

1. Key Concepts

A tentative list of key concepts to be discussed in this section is below. Many of these points are issues that arose during the index insurance roundtable. Since the focus of the publication is to provide knowledge and recommendations on how to scale up, it is important that we set the context of what we mean by scaling up:

- Scaling takes place AFTER the pilot phase. Conditions for Scalability are different from conditions that allow for piloting.
- “Sustainable” scaling: scale through markets where real demand meets real supply for market reasons: “pain” and/or “profit” motives to lead to sustainable products that can be replicated!
- There are tradeoffs between types of scale up goals
 - i. Scale up: increase number of insured parties—can occur more quickly than scaling at the pace constrained by other development objectives but may be worthwhile to establish markets that could be re-connected to other development goals in the future
 - ii. Deepening: increase socio-economic impact/poverty alleviation impact of insurance. This strategy focuses on designing insurance products to have a high impact on development and poverty alleviation. It requires more resources because the complimentary development issues must be addressed in coordination with the insurance but has a more direct impact on development goals. It requires more coordination and products that are intimately designed to target poverty issues, and that are at the speed of the pace of the complimentary development activities.
- Scale out: increase number AND impact of insurance policies
- Opportunities and limitations of reaching poorest and given a poverty problem
- At the small scale, what determines the best levels to target, Meso or micro (i.e. farmer level, risk aggregators, etc).

2. Subsection on Technical issues and research

Since many of the technical hurdles have potential solutions, this section will discuss the state of the art and the work that might be necessary to be able to address them. Although there are many

technologies that are being explored for use in index insurance, in most instances, there is substantial work that needs to be done to bring them from prototype research explorations to well understood industrial strength solutions for which the limitations and strengths are well understood in the index insurance context. Below is an overview of the process. Note that the workshop documents will have more explicit and up to date information.

The workshop focusing on technical issues is scheduled to take place October 7th and 8th in New York. It will be organized around a set of technical topics, that have arisen as potentially of substantial value in index insurance projects, but for which there is an appetite driven by implementation demand to understand how to best utilize the technology, what its limitations are, and the directions that it might be further developed. This would not be an educational session on index insurance design or climate risk management, but instead a session to better connect research and application efforts for particular research topics that interface with one or more aspects of product development and scaling.

A coordinator will be responsible for helping to identify and coordinate a set of contributors and reviewers. The team will summarize the important issues and work concerning the topic and then develop a 2-3 page topic paper.

The authors will be instructed to address the following questions in the synthesis (these questions are currently being refined):

- How does your discussion topic relate to index insurance?
- How can it help in terms of scaling up?
- What is the current state of the art?
- Is it being actively used in index insurance projects? If so, where and how?
- What are the associated challenges to using your technology to scale up? Opportunities?
- What are the research priorities?
- References to useful background papers

At the workshop, topic coordinators will present a basic overview of the technology, with a focus on identifying the priority issues and recommendations, with subsequent revision based on written and verbal comments. The final topic papers will be presented on the web, and be adapted as input into this section. The session (day 1) with presentations is open to the public, with the goal of providing information on the topics to interested parties as well as eliciting feedback. This will be followed by a writing session (day 2) with topic coordinators and authors and CSP editors and writers.

The tentative list of topics includes the following: Contract Design, Agricultural Systems Modeling, Water Resources Applications, Rainfall Simulation, Seasonal Forecasts, Spreading Risk Geographically, Climate Change/decadal scale, Remote Sensing – Vegetation, Remote Sensing – Rainfall, and Games for Communicating Complex Information.

3. Subsection on Socio-economic Hurdles and implementation experiences

This section would address real world issues based on practical experience. The second meeting is a collaborative effort organized with WFP and IFAD, tentatively scheduled for October in India. It is directly connected to the WFP and IFAD process of identifying barriers and opportunities for

scale up. A representative set of implementation case studies will be cooperatively identified and representatives from the efforts will be invited to the meeting. The case study partners will each develop a two page summary focused on hurdles and opportunities. These lessons learned and existing hurdles will be presented and discussed in the meeting, providing an important opportunity for the transfer of knowledge from different experiences in index insurance implementation. The particular case studies to be addressed are currently being determined. As currently envisioned, the workshop would be focused on micro level products. To address national macro-level products, the same process of identification of case studies and representatives to produce two page summaries macro-level implementations would be followed without convening to a workshop.

Tentative issues for discussion are below:

- Factors for implementation
 - Endogenous factors (inherent in supply-demand relationship):
 - § Financial Sustainability at demand level (Farmer affordability/cost-benefit analysis/link to credit-willingness to pay)
 - § Financial sustainability at supply level: does it make good business sense? P&L view? CSR view?
 - § Capacity/Education levels
 - § Communication with farmers (what's covered, not covered)
 - § Identification of most cost effective risks
 - § Integration with complimentary climate risk management and development tools
 - § Indexing of risk
 - § Product: level of standardization/replicability
 - § Validation of index
 - § Basis Risk: transparency about basis risk in product communication, management of technical issues level: contract design, hardware (weather stations proximity)
 - External factors (external to supply demand relationship)
 - § Regulatory framework I: is weather index insurance compatible with insurance/derivative regulatory framework?
 - § Regulatory Framework II: Regulatory incentives? Are regulatory obligations (% share of business in rural areas/with the poor for example) suitable?
 - § Crop Data: quality and availability
- Scaling out: Following the piloting phase where proof of concept is done, basic lessons are learnt then what are the
 - Basic conditions (“show stoppers”) that need to be in place (without those nothing much will ever happen) -
 - Advanced conditions (“good to have”) that accelerate the pace of scaling out
 - Deepening welfare impact: Following the piloting phase where proof of concept is done, basic lessons are learnt then what are the
 - Basic conditions (“show stoppers”) that need to be in place (without those nothing much will ever happen) -
 - Advanced conditions (“good to have”) that accelerate the pace of rural welfare impact

- Scaling up: If we want to simultaneously achieve deep welfare effects and large numbers of policies sold/people covered what are the
 - Basic conditions (“show stoppers”) that need to be in place (without those nothing much will ever happen) -
 - Advanced conditions (“good to have’s”) that accelerate the pace of scaling up – including a ranking of importance: what are the top three, what the top five, what are the interactions among them
 - Basic lessons on how to design a scale up strategy: priorities, focus, subsidies, phasing, entry level (meso, macro, micro)

Part 3

Working title: Policy issues for implementation at scale

This section would be a set of short statements by key players on some of the large scale financing, and investment strategies that are being actively explored to specifically address scale up as well as other important issues to address for scale up. This section is likely to not represent a consensus, but instead to articulate some of the key view points at the large scale policy level.

A partial list of potential statements is below.

- Large scale financing and funding strategies including
 - Adaptation financing funds
 - GIRF
 - Gates Initiatives
 - Others
- Project evaluation
- Perspectives from Insurers/ReInsurers
- Perspective from NGOs
 - Perspectives of NGOs on the experience of exploring index insurance as newcomers
- Capacity building
- The role of subsidies (statements representing multiple viewpoints)
- Connecting insurance scale up to development

Conclusions

TBD, based on the process...