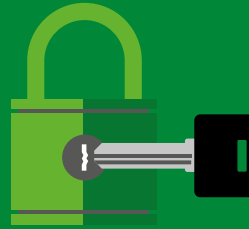


PROTECTION



Protection policies reduce financial risk by “socializing” potential losses through insurance, credit guarantees, social payments or other related risk-sharing mechanisms.

PERU

Peru’s public-private partnerships has in the recent years enabled the development of climate risk transfer mechanisms, such as the agricultural insurance.

MOROCCO

Introduced climate multi-risk insurance products to protect investments in major cereal crops from climate-related damages, including drought, excess moisture, hail, frost, wind and sandstorms

ARMENIA

Establishment and supervision of the Agricultural Insurers’ National Agency, a public-private partnership for agriculture insurance market development

PHILIPPINES

Launched the Countryside Financial Institutions-Calamity Assistance Program in 2007 to help fund early recovery and reconstruction activities in areas affected by typhoons, disasters and other natural calamities



GHANA

Supported the development and initial implementation of the Ghana Incentive-Based Risk-Sharing System for Agricultural Lending to increase the total amount of credit available to the agriculture and agribusiness sectors

NIGERIA

Established the Anchor Borrower’s Program to link smallholder farmers with large-scale processors to alleviate the impact of climate change including revenue index insurance

Provides subsidies to incentivize bank lending to smallholder farmers facing climate risks

FIJI

Use of mobile payments to disburse funds from its “Help for Homes Initiative” to people affected by Tropical Cyclone Winston
Allowed people to withdraw 20 percent from their retirement accounts to rebuild their homes

Fiji National Provident Fund provided relief assistance to members through its retirement fund

Established Fiji’s Natural Disaster Rehabilitation Facility, a climate resilience and adaptation program to replace damaged inventory;

Policies in this category provide a much-needed safety net that can be opened in times of crisis, and they help to build resilience by accelerating and facilitating recovery from extreme climate events.

AGRICULTURAL CLIMATE RISK INSURANCE

Climate risk insurance can protect vulnerable populations against climate-related threats, for example, by providing assurance to farmers that a sudden weather event will not wipe out their investments. While insurance is not normally within the regulatory scope of most AFI members, some financial regulators are creating risk-sharing mechanisms for financial institutions to continue, and increase, lending to the agricultural sector.

➤ In **Armenia**, where agriculture is a mainstay of the economy, the sector is experiencing acute impacts of climate change. Smallholder farmers are especially vulnerable as they have limited capacity to cope with the financial losses that come from sudden and extreme weather events like hail and frost. Armenia's banking sector is also affected when farmers default on loans. Since traditional risk-sharing mechanisms and social safety nets have failed to address these challenges, the **Central Bank of Armenia** intervened, establishing and supervising a system of agricultural climate insurance. The Agricultural Insurers' National Agency (AINA) is a public-private partnership responsible for coordination and development of

agricultural insurance to enhance the efficiency of the agriculture sector of Armenia. The program is subsidizing insurance premiums, and for 2020 the subsidy rate is 50 to 60 percent depending on the product. This rate will be reviewed annually.

- In 2011, **Morocco** introduced a "climate multi-risk" insurance product to protect investments in major cereal crops against a variety of climate-related damage, including drought, excess moisture, hail, frost, wind and sandstorms. In March 2019, a disaster consequence coverage scheme was adopted that provides a dual compensation system: insurance for victims with existing insurance contracts and a solidarity scheme for individuals who do not have insurance coverage. Morocco's **Supervisory Authority of Insurance and Social Welfare (ACAPS)** encourages the insurance sector to subscribe to sustainability standards through its membership in the Sustainable Insurance Forum. ACAPS has also worked to expand the assets accepted as cover for technical provisions. Green assets are now included to promote investment in sustainable development and the environment.
- In 2015, the **Central Bank of Nigeria** established the Anchor Borrower's Program, which had a broad aim to link smallholder farmers with large-scale processors and increase financial inclusion. To alleviate the impact of climate change on farmers, the program includes revenue index insurance, which provides automatic payouts to farmers based on predicted crop yields using satellite data on precipitation. The Central Bank also provides subsidies to incentivize bank lending to smallholders facing climate risks.



Small scale green house vegetable farming in Africa, Karshi, Nigeria. December 2018. (Photo by Tayvay/Shutterstock)

► Peru's public-private partnerships has in the recent years enabled the development of climate risk transfer mechanisms, such as the agricultural insurance. For instance, a catastrophic agricultural insurance (SAC) was implemented in 2008 by the Ministry of Agriculture as an insurance product completely subsidized by the Government. This product seeks to reduce the climate change impacts for farmers in the poorest areas of the country, by giving them insurance coverage against climate events that affect their livelihood. This initiative has had a substantial financial inclusion impact by facilitating the access of thousands of farmers to the financial system, through the opening of bank accounts for insurance payments. Banks actively promote the agricultural insurance products by packaging it with their loans.

As part of the Peruvian government strategy to mitigate the impacts of climate change, round table discussions between public and private sectors have been implemented since 2015. These meetings about climate risk transfer mechanisms has resulted in many improvements for the SAC. For example, a higher amount of indemnification for each farmer and more regions being covered by the insurance (14 out of 25 regions around the country). In fact, more than 1 million hectares were covered by the SAC during the 2019-2020 campaign and this represents more than 460,000 farmers. Furthermore, the Ministry of Agriculture launched a partially subsidized agricultural insurance in 2020, in order to give access to insurance to low-income farmers who can afford to pay a percentage of premium, which means the beginning of a second stage on its national insurance strategy against natural hazards.

CREDIT GUARANTEES

Through a credit guarantee, central banks or any third-party guarantor can cover loan losses, either entirely or in part, to encourage lending to priority high-risk sectors.

- Under the Nigeria Incentive-Based Risk Sharing System for Agricultural Lending (NIRSAL), the **Central Bank of Nigeria** guarantees 50 percent of the loss if a smallholder farmer cannot repay a loan. NIRSAL includes a \$300 million risk-sharing facility through which 30 to 75 percent of a commercial bank's risk on agricultural loans is shared with the Central Bank. Bundling climate risk insurance with subsidized lending and credit guarantees amplifies the impact.
- The **Bank of Ghana** supported the development and initial implementation of the Ghana Incentive-Based Risk-Sharing System for Agricultural Lending (GIRSAL). GIRSAL was set up to increase the total amount of credit available to the agricultural and agribusiness sectors by de-risking agricultural financing through the issuance of agricultural credit guarantee instruments. GIRSAL is managed as a company with the Ministry of Finance as the principal shareholder. GIRSAL's credit guarantee covers financing for the entire value chain (horticulture, cereals, tree crops, roots and tubers, legumes and poultry) and includes insurance products for smallholder farmers.⁷³

MOBILE MONEY FOR G2P PAYMENTS

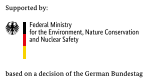
Government social welfare payments through savings-linked systems can help bring the unbanked into the mainstream financial system.⁷⁴ Mobile money-enabled

⁷³ GIRSAL

⁷⁴ UNCDF, 2012



Fijian people run to get shelter during a Tropical Cyclone Winston, Yasawa Islands, Fiji. December 2016. (Photo by chameleonseye/iStock)



government-to-person (G2P) payments are a quick and efficient way to distribute social payments, and have been used to reach vulnerable populations in the aftermath of extreme climate events.

- › The **Government of Fiji** used mobile payments to disburse funds from its “Help for Homes Initiative” to people affected by Tropical Cyclone Winston. Vodafone Fiji’s M-PAiSA platform proved to be an effective channel for distributing aid payments, with financial assistance provided to 32,800 households through M-PAiSA’s mobile wallet.

EARLY WITHDRAWAL FROM PENSION FUNDS

Early withdrawal from pension funds is one way to ensure that people have access to resources immediately after a disaster to rebuild or keep their businesses afloat.

- › In the wake of Cyclone Pam, the Government of Vanuatu allowed people to withdraw 20 percent from their retirement accounts to rebuild their homes. The **Reserve Bank of Vanuatu** is now looking at ways to ensure that more frequent climate events do not lead to significant withdrawals from pension funds, including facilitating access to liquidity for the financial sector.
- › Similarly, in the aftermath of Tropical Cyclone Winston, the **Fiji National Provident Fund** provided relief assistance to members through its retirement fund. Members directly affected by the cyclone could apply to the fund for urgent relief, and benefits between \$500 and \$2,500 were paid out depending on eligibility. A total of 182,571 applications, representing approximately 45 percent of all members and 80 percent of active members, were processed and approximately \$130 million was ultimately paid out.

POST-DISASTER REHABILITATION FACILITIES

Post-disaster facilities are important parts of climate and disaster resilience. They aid in the quick recovery of financial institutions and their clients and ensure that economic activities can resume immediately after a disaster.

The Countryside Financial Institutions-Calamity Assistance Program was launched in 2007 in the Philippines as a program for countryside thrift banks, rural banks, and cooperative banks to help fund early recovery and reconstruction activities in areas affected by typhoons, disasters and other natural calamities. The program is a joint initiative of the Countryside Financial Institutions Enhancement Program Task Force

whose members are the Bangko Sentral ng Pilipinas, the Philippine Deposit Insurance Corporation and the Land Bank of the Philippines.

- › **Fiji’s Natural Disaster Rehabilitation Facility** is a climate resilience and adaptation program to which affected businesses and homeowners can apply to replace damaged inventory; cover the loss of sales, including working capital; repair or replace damaged plants, equipment and machinery; restore damaged buildings, including resorts and hotels; and replace business vehicles. Businesses can apply for funding up to the equivalent of \$235,000 at a maximum interest rate of five percent per annum, while homeowners can apply for up to the equivalent of \$2,350 at a maximum interest rate of 4.5 percent per annum. This facility is available from all commercial banks, the Fiji Development Bank and licensed credit institutions.

In countries that have struggled with the impacts of climate change, financial regulators have taken policy measures to support the climate-sensitive sectors especially agriculture to ensure continued finance flows by putting risk-sharing mechanisms in place. While social welfare is usually not within the ambit of financial regulation, financial regulators have taken initiatives to expedite the distribution of social payments especially in post-disaster events through enabling regulatory environments such as mobile payments and cash transfer mechanisms. These policy actions notably helped in spreading financial risks and enabled financial institutions to support climate actions.

CHALLENGES OF PROTECTION POLICIES

As in any situation where risk is only partially borne by a decision maker, risk sharing has consequences. Some of these are welcome; for example, having insurance gives farmers more incentive to make productive agricultural investments than receiving cash grants.⁷⁵ Other effects may not be so desirable, such as beneficiaries engaging in more risk-prone behavior.

With protection policies like insurance, access and outreach can be challenging. National coordination between relevant stakeholders is vital to ensure insurance initiatives are properly designed and implemented. With new climate risk insurance products, access to the appropriate data might also be a challenge.

⁷⁵ Innovations for Poverty Action, 2017