

Crop Insurance as an Instrument of Adaptation to Climate Change: The Bangladesh Context



by

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Research Question & Methodology

- Agriculture is the most vulnerable sector to CCI, but relief and rehabilitation, credit & saving services are inadequate when a large part of agriculture is exposed to climate risks, beyond the farmers' means to cope with
- For floodplain Bangladesh, structural measures often were found ineffective; so, non-structural options like insurance might prove viable for farmers' adaptation
- Our research, commissioned by the DoE & funded by DFID & UNDP, focused on the question of how can crop insurance be made a sustainable instrument of adaptation to CCI?
- Together with literature & experience survey around the world, primary data were collected from farmers' & policy-makers in Bangladesh for understanding the issue

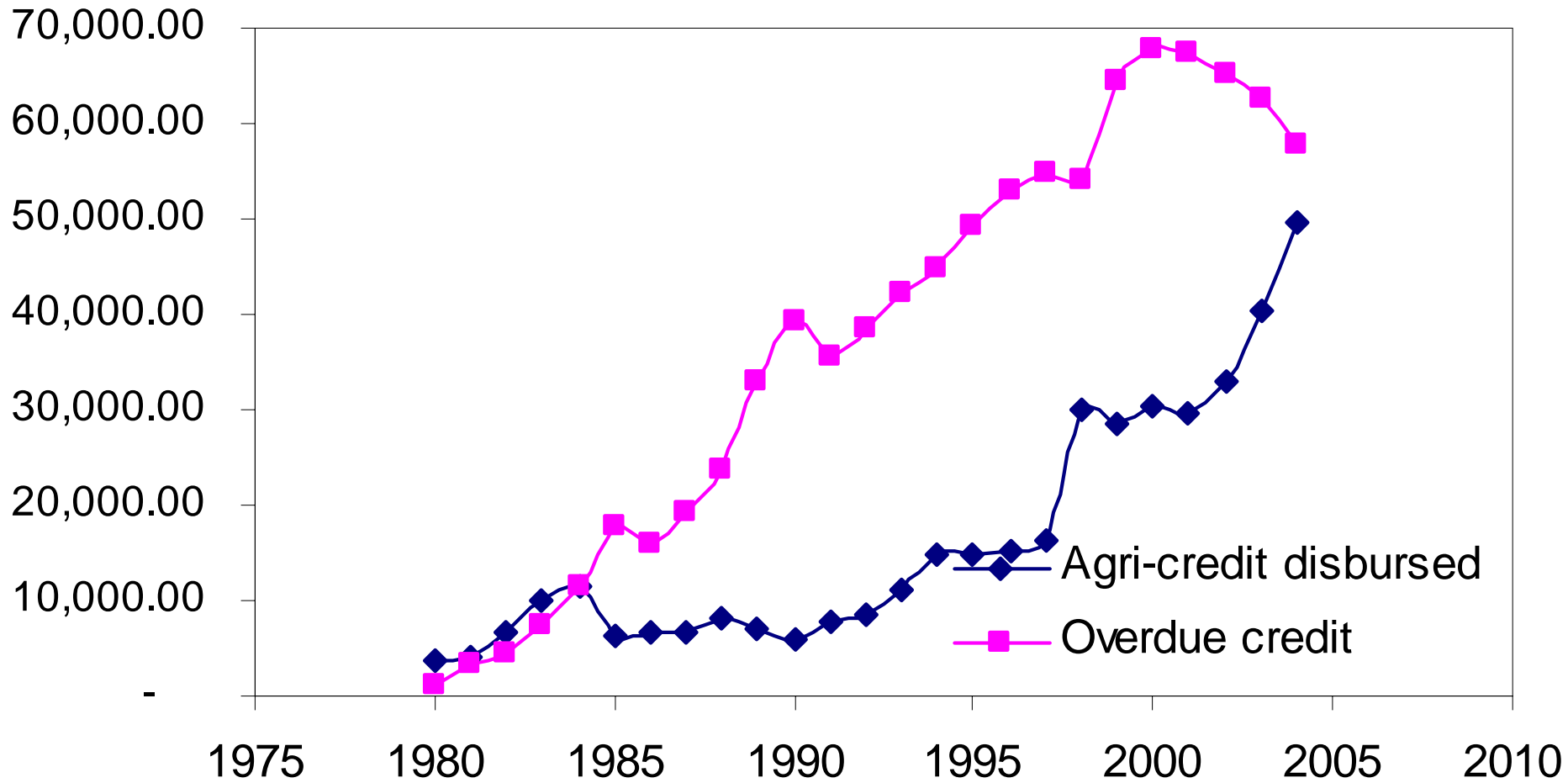
Status of CI in Bangladesh & Elsewhere

- **CI was started in the late 1970s in Bangladesh by a Govt insurer, but was discontinued after heavy losses due to moral hazard, adverse selection & institutional weaknesses**
- **The Govt insurer again initiated a proposal of introducing CI, this time in partnership with private sector & NGOs; but no response yet from the partners**
- **Micro Insurance initiated by some NGOs for their beneficiaries in Bangladesh provides different products for Life, Loan, Health, Disability, etc., but does not cover the assets built with microcredits**
- **Different models of CI have been applied in India, a pioneer in this regard; some of them still continue functioning**
- **In some other Developing & Industrial countries, CI continues as a farmers' welfare program, with huge subsidy**
- **In order to overcome the basic problems of conventional crop insurance, index-based weather insurance has been introduced in India, Malawi, Ethiopia & some other DCs**
- **This model functions still at micro level, involving small sums of money; it is still in the learning stage**

Findings from the Field

- Farmers' were found enthusiastic about CI, but their understanding about its functioning was low
- Farmers prefer dealing with NGOs more than Govt agencies in financial matters
- Farmers depending on their level of risks agree to pay from Tk. 100 to Tk. 500/month as premiums (\$1.5-7.5); this is not sufficient for payment of likely indemnities
- The culture of Govt's relief & rehabilitation & indemnifying loans after a disaster serve as disincentives for buying the risks
- Private sector insurance companies still largely lack the ethos of CSR
- But, NGOs & private sector are willing to work in partnership with the Govt, provided an enabling framework is initiated
- Index-based weather insurance was advocated by experts consulted, given the availability of adequate weather data

Agri-credit (million Taka) - disbursement



Fin Viability of Crop Insurance

- A rough calculation shows that if all costs related to floods & all types of follow-up assistance are considered, such as:
 - Costs of disaster trauma & dislocation
 - Indemnifying a significant part of accumulated agri loans
 - Rescheduling of previous loans
 - Provision of new loans
 - Relief & rehabilitation expenses (national & int'l)
 - Administrative costs involved in all these steps
- And if a 20-yr return period is assumed for severe floods, with around \$15 premiums/yr, then CI becomes financially viable; but return period of severe floods appears to be less than 20 yrs now !
- Obviously premiums to be paid by the poor farmers have to be subsidized – both nationally (cross-subsidization) & internationally
- For implementation of the Convention provision on insurance (Art 4.8), there are several proposals for int'l funding; but this will require a change from the existing *ex-post to ex-ante* financing of disaster risk reduction
- In Bangladesh, we plan to start a pilot & are looking for appropriate partners

These Farmers deserve A Helping Hand, not as Charity, but as our Responsibility

Cyclone SIDR Nov 2007



TRAINING

