

MOZAMBIQUE EXPERIENCE: HOLLARD-IFC COTTON PILOT

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**INDEX-BASED AGRICULTURE INSURANCE IN MOZAMBIQUE:
RECENT EXPERIENCE AND PAVING THE WAY FORWARD**

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Maputo**

Global Index
Insurance Facility



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Background

- Agriculture in Mozambique is the basis of development of the country, for income generation and food security of majority of the population.
- Low levels of production and productivity attributable to risks.
- Some of the risks are known but the country does not have diverse risk management tools.

Nature of risks in the cotton sector

- Agronomic-genetic potential, pests, diseases and management
- Climate-severe and non-severe
- Market risks-price variation and exchange rate variation

Project description

As a direct result of an IFC GIIF local capacity-building grant awarded to Guy Carpenter in 2011 this firm – in conjunction with the Asia Risk Centre Inc. – designed, developed, and deployed weather-index insurance Pilots.

Key Partners

This pilot was supported by close public-private collaboration which is critical when setting up new markets. The cotton concessionaire SANAM, covered their cotton farmers with index insurance designed by Guy Carpenter and provided by Hollard. The premiums for the insurance were paid by SANAM.

First year pilot IAM was the entity insured on behalf of the producers, second year IAM became the promoter, whereby SANAM was the entity insurance.



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Pilot in number

Product: Satellite based weather index

Clients: Cotton farmers

Reinsurers: Swiss Re

Cost of insurance: \$42.877,00

Total insurance portfolio: \$327.621,00

Insurance payouts: \$78.228,00

Average cost of insurance: 15% sum insured



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Insured Perils

The perils covered were:

- Drought (consecutive dry days, aggregate/periodic precipitation deficiency);
- Low temperature;
- Excess rainfall.

Covered stages

- Early stage;
- Vegetative;
- Flowering;
- Ripeness.



Lessons

- Education improves product design;
- Developing markets needs the involvement of multiple stakeholders;
- Disseminating pertinent and oftentimes highly technical information related to the product design down the value chain to individual smallholder farmers can also be quite challenging;
- The lack of data regarding historical exposure and crop yield can be a challenge since it increases uncertainty surrounding product design and associated basis risk.



Thank You



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