

August 2009 action:

## Microinsurance for Climate Change: creating a climate deal that reaches the poor



### TAKE ACTION:

**Write to your MP, asking him or her to speak to the Secretary of State for Energy and Climate Change Ed Miliband and the Secretary of State for International Development Douglas Alexander, to call on them to instruct their Copenhagen negotiating team to push for a climate deal that really benefits the poorest in the run-up to and during the Copenhagen Summit in December. Raise the specific points mentioned at the end of this action sheet.**

### Introduction

In December 2009 more than 180 countries will meet in Copenhagen, Denmark to agree a new international deal to tackle climate change. The new deal will provide the post-Kyoto framework for action on reducing and adapting to climate change. This is a historic opportunity to address one of the most pressing issues of our time, and we must ensure that the poorest benefit.

Climate change is already disproportionately affecting the poorest and most vulnerable people in the world, who are facing more uncertain weather patterns, disasters and, in many cases, dramatic falls in their harvests. Analysts are predicting that climate change could reverse 50 years of development gains, wiping out the progress that the world has made through increases in education, health provision and microfinance.

Oxfam tells the story of Sufia, a Bangladeshi woman who has seen the seasonal floods become deeper and longer lasting each year. Two years ago she lost her five-year-old son to the flood water. These are the people that the agreement must reach, and to do so requires commitment from all parties to the negotiations. The UK has shown good leadership to date, but we must ensure through our action that we keep up the pressure for commitments to the poorest to be included in the final agreement.

### Reaching the Poorest

The climate negotiations address two different strands of the response to climate change: mitigation, which focuses on reducing the scale of climate change by reducing greenhouse gas emissions; and adaptation, which looks at how to adjust to and cope with climate change.

It is in the second strand, adaptation, that it is most crucial the poorest be targeted, to ensure that their risk management systems are robust enough to cope with the increasing shocks that they will inevitably face as a result of climate change. Adaptation funding will form part of the agreement reached in December, and it is crucial that we ensure it is spent in a way that genuinely tackles poverty and helps prevent someone losing their property

or even their life to a climate disaster. The problem is to find a way to ensure the funding 'trickles down' to the level of individual families.

### Microinsurance for Climate Change

The Munich Climate Insurance Initiative (MCII) has submitted a proposal to the negotiators for a 'climate risk' module, paid for by developed countries, as part of adaptation funding. Risk reduction is a key part of this module and is crucial to protecting the poor against the adverse effects of climate change.

However, despite risk reduction the poor will continue to face climate-related disasters that cannot be prevented, for which MCII suggest an 'insurance pillar'. The insurance pillar includes funding targeted at the macro-level (insurance for governments and infrastructure) and at the micro-level through microinsurance (individual affordable insurance policies for the poor).

When extreme weather strikes it often spells disaster for poorer families, who may have to wait months for state and donor aid or borrow heavily to re-establish their livelihood. This is particularly true in droughts, where families will have sold their productive assets long before official assistance arrives. One of the most important determinants of whether a family will enter a spiral of poverty and debt due to disaster is how quickly they can restart productive work, whether that be in farming or a micro-enterprise. Microinsurance can enable this to happen much more rapidly and reliably, as well as providing necessary up-front resources to replace lost assets such as homes. In the case of drought, products have been designed that prevent the sale of assets in the first place, leaving a family's productive resources intact. Microinsurance is therefore a great way to ensure that climate change adaptation funding goes directly to support the poorest, improving poor communities' resilience in the face of increasing climate disasters.

## What is Hindering Microinsurance?

So why isn't microinsurance already being widely provided? Microinsurance is a new initiative, the benefits of which have now been clearly demonstrated. However, microinsurance schemes have very significant start-up costs. It takes a lot of technical expertise to set up a functioning index-based insurance scheme, which is the most appropriate type of insurance for weather-related risks (see Background Sheet 2 for an explanation of index-based insurance). Weather Indexed Insurance also requires a lot of weather data, which is scarce in Africa: more weather stations are needed.

In addition, insurance schemes for disasters face something called 'correlated risks', which means that many claims on the insurance are likely to be made at once because a disaster affects a large number of people. This will bankrupt a small insurance company or scheme. It is therefore necessary to link disaster-related insurance schemes to wider markets, so that risks in one area can be balanced out by insurance premiums from another area. However, most microfinance institutions (MFIs) remain local entities, offering products to people who all live in one area. For these organisations to be able to offer disaster insurance they need to be able to link to the global markets through re-insurance.

The climate risk module would address both these difficulties, providing much more technical assistance to MFIs and countries to allow scaling-up of microinsurance schemes, as well as a pool of funds to underwrite the schemes. This will allow microinsurance to reach millions more of the poorest and most vulnerable to protect them from disaster due to a changing climate.

## Risk Management and Poverty Traps

As well as offering a viable solution to preventing catastrophic losses from climate-related disasters for poor families, microinsurance can unlock other financial services for the poor, enabling investment in the rural economy leading to development and growth.

In the developing world many poor families find themselves trapped in poverty because it would be too risky for them to invest to increase their productivity and work their way out of poverty. This is particularly true for small-scale farmers, who represent a large proportion of the poorest of the poor, particularly in Africa. It is easy to picture why people in this situation get trapped in poverty: poor farmers, and especially women, often choose to maintain low-yield food farming strategies because they offer the least risk to their family's food security. They are unwilling to borrow in order to invest in a crop that may be lost, ruining them and their

children. At the same time, formal financial institutions are reluctant to lend to these families because agricultural production is such a high-risk industry, due to its dependence on the weather.

Microinsurance can break poverty traps by giving the poor the security to invest in better crops and cultivation and financial institutions the confidence that their loans can be repaid even if disaster strikes. MicroEnsure, a project of Opportunity International, are commonly seeing dramatic increases in yield of 3 times from insured farmers borrowing an average of £350. This equates to better food security, more children in school and a healthier rural economy.

## Recommendations for the UK Delegation

We call on the Secretaries of state for Energy and Climate Change and International Development to instruct the UK delegation to the climate change negotiations in Copenhagen to:

- Ensure that microinsurance is recognised as a key tool for climate change adaptation in the Copenhagen agreement;
- Ensure that a funding line for microinsurance is included within the adaptation funding pledged in the Copenhagen agreement; and
- Establish an appropriate operating entity to administer funding for microinsurance, which must be a non-political, not-for-profit, transparent body. This body must ensure that the funding is channelled to and implemented at the lowest level possible, so it really reaches the poor.

More information is available in the background sheets that accompany this action sheet, and for further details you can also visit the following websites:

- Department for Energy and Climate Change: <http://www.actoncopenhagen.decc.gov.uk/en/>
- Department for International Development: <http://www.dfid.gov.uk/Global-Issues/How-we-fight-Poverty/Climate-and-Environment/>
- United Nations Framework Convention on Climate Change: <http://unfccc.int/2860.php>
- Munich Climate Insurance Initiative: [http://www.climate-insurance.org/front\\_content.php](http://www.climate-insurance.org/front_content.php)
- Oxfam Climate Change pages: [http://www.oxfam.org.uk/get\\_involved/campaign/climate\\_change/](http://www.oxfam.org.uk/get_involved/campaign/climate_change/)