



RESULTS International Australia Supplementary Submission to Joint Standing Committee on Foreign Affairs, Defence and Trade, Foreign Affairs and Aid Sub-Committee

Inquiry into the role of development partnerships in agriculture and agribusiness in promoting prosperity, reducing poverty and enhancing stability in the Indo-Pacific region

Climate Risk Insurance and Update on Agricultural Trade

RESULTS International Australia's first submission to the inquiry by the Committee on the role of development partnerships in agriculture and agribusiness in promoting prosperity, reducing poverty and enhancing stability in the Indo-Pacific region included recommendations to:

- makes agricultural development a priority within increases in Australia's overall official development assistance in the coming years; and
- develop a new strategy within the Australian aid program for increasing access to financial services, making increased access to finance for the poor a higher priority in country programs.

In making a supplementary submission, RESULTS International Australia is highlighting the critical role of Climate Risk Insurance in contributing to both poverty reduction and improving agricultural sector productivity. A focus on climate risk insurance is consistent with the two recommendations listed above, supporting development of agriculture and filling a significant gap in availability of financial services.

Our recommendations are:

- 1. Australia – as a partner to the G7 group of countries – makes an ambitious financial pledge of \$20 million towards the G7 Initiative on Climate Risk Insurance, *InsuResilience*, building on its \$5 million contribution to the Climate Risk and Early Warning Systems (CREWS) Initiative announced at COP21.¹**
- 2. Consistent with the Government's focus on the Indo-Pacific region, Australia provides funding to accelerate the development of effective disaster risk insurance mechanisms for Pacific Island States.**

¹ CREWS is an initiative of the World Meteorological Organisation, the United Nations Office of Disaster Risk Reduction and the World Bank, which is raising \$US 100 million by 2020 to improve early warning systems for the poorest and small island countries.

What is Climate Risk Insurance and how does it reduce poverty and promote prosperity?

The current and expected impacts of climate change – including increasingly severe and frequent droughts, heatwaves, storms and floods – are taking a disproportionate toll on the world's poorest and most vulnerable communities. The world's two billion people whose livelihoods depend on smallholder agriculture are especially vulnerable. Farming is an already inherently risky business, and climate change is making this enterprise much more difficult and unpredictable. When climate shocks do occur, those living in or close to poverty are the least able to cope, due to their lack of assets, savings, adequate government support or other safety nets. Today, vulnerable people still have extremely limited access to insurance coverage that protects them from climate risks.

The following key facts show why it is vital to focus on protection against climate risks:

- Extreme weather-related disasters were almost **twice as common** over the past 10 years as they were in the period 1985-94.
- The total economic cost of extreme weather between 1980 and 2004 has been estimated at **\$1.4 trillion**, of which only **one-quarter** was insured.
- The World Bank estimates that **100 million people** will be pushed back into extreme poverty by 2030 without urgent action to tackle the impacts of climate change.
- **78%** of the extreme poor live in rural areas and **63%** of them work in agriculture, especially smallholder farming – a sector that supports the livelihoods of **2 billion people** worldwide.
- **Only 100 million people** worldwide have access to direct or indirect insurance coverage to protect them from climate risks. For example, in Africa, a negligible **0.02%** of people have agricultural microinsurance.

Climate risk insurance is one important tool in the toolkit of climate change resilience. It can be implemented in many different forms but, broadly speaking, comprises:

1. **Weather-indexed microinsurance** (strongly applicable to agriculture, as well as other sectors/enterprises exposed to extreme weather risks), which can be targeted directly at individuals themselves, or delivered through 'aggregator' organisations such as cooperatives and farmers' groups, or provided to financial institutions to insure their portfolio of micro-lending.
2. **Sovereign disaster insurance and risk pooling**, through which governments themselves take out insurance policies that provide a payout in the event of a defined extreme weather event such as a major drought or typhoon occurring in the country. This payout relieves immediate financial pressure and enables governments to reach disaster-affected people without cutting into their regular budgets and pulling funding away from other key development programmes.

The insurance also delivers critical funding both in a shorter period and at lower cost than a traditional international aid appeal in the event of a crisis. A number of innovative regional pooled schemes have been established over the past few years, including the ***Pacific Disaster Risk Financing and Insurance Program*** under the ***Pacific Catastrophe Risk Assessment and Financing***

Initiative (see more details below), the **African Risk Capacity**, and the **Caribbean Catastrophe Risk Insurance Facility**.

Climate risk insurance has three vital benefits for poverty reduction and sustainable development:

1. Uninsured losses can lock families into a cycle of destitution. **A fast insurance payout acts as a safety net for when disaster strikes.** For example, studies estimate that if Ethiopia's 1999-2004 droughts had been covered by insurance, consequent poverty would have been one-third lower.
2. Equally important for building pathways from poverty to prosperity – **the security afforded by insurance enables people to take smarter risks and boost their productivity.** Evidence shows that insured farmers earn 16% higher income and invest 20% more into their farms compared to their uninsured neighbours.
3. To be viable at all, **insurance requires that societies reduce, share and manage their risks within tolerable limits**, which means it has a powerful role to play in shifting societal mindsets and encouraging the systematic mapping, assessment and pricing of climate risks.

What is the G7 Initiative on Climate Risk Insurance?

At the recent Paris Climate Summit, G7 countries reaffirmed their support for the Initiative on Climate Risk Insurance, *InsuResilience*, which was launched earlier this year by the German G7 Presidency. In their Joint Statement released at COP21, they invited others to become signatories to the Initiative.

The Initiative aims to expand direct and indirect insurance coverage against the impact of climate change-related hazards to 400 million vulnerable people by 2020, as well as supporting the development of early warning systems in the most vulnerable countries. It provides a platform for donors to come together around an ambitious common goal, and to coordinate their individual efforts including through a joint monitoring and evaluation framework. In their Joint Statement, signatories stated their **"intention to provide \$US 420 million of public funds through bilateral and multilateral cooperation,"** to work towards mobilising additional private finance, and to cooperate in monitoring and evaluating their joint efforts.

Donor countries which have pledged towards the Initiative so far include: Germany (EUR 150 million or AUD 228 million), Canada (CAD 50 million or AUD 50 million), and the United States (USD 30 million or AUD 42 million).

Recommendations for Australia to Support Climate Risk Insurance

Recommendation 1: Australia – as a partner to the G7 group of countries – makes an ambitious financial pledge of \$20 million towards the G7 Initiative on Climate Risk Insurance, *InsuResilience*, building on its \$5 million contribution to the Climate Risk and Early Warning Systems (CREWS) Initiative announced at COP21.

Australia's funding for climate risk insurance should focus on: (1) premium support to ensure the poorest people can benefit from weather-indexed microinsurance; (2) building capacity to deliver financial products; (3) strengthening the regulatory environment and consumer protection; (4) expanding access to inclusive financial services – especially for women and girls, and other vulnerable groups; and (5) investing in the high-quality and open data infrastructure needed for weather-indexed products.

Recommendation 2: Consistent with the Government's focus on the Indo-Pacific region, Australia provides funding to accelerate the development of effective disaster risk insurance mechanisms for Pacific Island States.

- Over the last 60 years, extreme natural events in the Pacific region have affected more than **9.2 million people** and caused damage in excess of **USD 3.2 billion**, especially due to tropical cyclones.
- The cost of loss and damage suffered in Pacific Island States as a result of recent natural disasters **ranges from 2.6% to a staggering 28% of GDP.**²
- The impacts are particularly disruptive for agriculture, forestry, fishing and tourism.

The **Pacific Catastrophe Risk Insurance Pilot** (a component of the **Pacific Disaster Financing and Insurance Program** under the **Pacific Catastrophe Risk Assessment and Financing Initiative**) provides a rapid, off-budget injection of liquidity following a specific disaster event, based on pre-defined hazard parameters – the first ever application of such a model in the Pacific. The advantage of this approach is that it results in a much faster payout, which helps the government to cover costs incurred in the aftermath of a severe natural disaster and continue provision of public services. Five countries participated in the 2014-15 phase of the pilot: Cook Islands, the Marshall Islands, Samoa, Tonga and Vanuatu. The pooling aspect of the mechanism facilitates bulk purchasing power and allows participating governments achieve 50% savings in the cost of the insurance.

Evidence of impact: A catastrophe risk insurance payout was disbursed to Tonga within two weeks of Tropical Cyclone Ian, a Category 5 cyclone that caused extensive damage in Tonga in January 2014. The government of Tonga received USD 1.27 million under its policy, equivalent to more than the 2013 contingency budget or half of the current reserves of the Tonga National Reserve Fund. More recently, Vanuatu successfully received USD 1.9 million after Tropical Cyclone Pam, which affected more than half the country's population.

The Pacific Catastrophe Risk Assessment and Financing Initiative currently receives financial support from the Government of Japan, the Global Facility for Disaster Reduction and Recovery and the European Union. The Australian Government currently only provides technical assistance through Geoscience Australia.

² Pacific Catastrophe Risk Assessment and Financing Initiative, *Advancing Disaster Risk Financing and Insurance in the Pacific*, February 2015, page 6.

Update on Agricultural Trade Policy

In our first submission to the inquiry, RESULTS international Australia noted that Australia had a role maintaining its current low levels of agricultural subsidies and trade barriers, and encouraging other OECD countries to reduce subsidies and trade barriers in agriculture.

The decisions by members of the World Trade Organisation (WTO) on 19 December 2015 to **abolish export subsidies** for agricultural products (which reduce world prices for agricultural products and can undermine local agricultural production in low and middle income countries) and to ensure that **food aid** is provided in a way which meets the short term needs of recipient countries without undermining local production are particularly welcome as a contribution to increasing the food production capacity of low and middle income countries.

As a follow up to this decision, it will be essential for the Australian Government to ensure its assistance to Australian agricultural producers and food aid continue to conform to the new WTO provisions, and encourage further action to reduce other trade barriers and subsidies in agriculture to further support food production by low and middle income countries.

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