

FACT SHEET

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Key Messages

- Index insurance is best implemented starting from small-scale pilot projects as country specific needs and challenges are diverse.
- Out-scaling should be done only after gaining necessary experience in small regional pilots.
- Extension and information dissemination activities should be of highest priority to build trust.
- To provide additional incentives to purchase a market-based product, index insurance should be integrated with credit lines and state procurement programmes.
- Further research should investigate how positive experiences from index-based livestock insurances can be transferred to crop insurance.

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Index-based Crop Insurance -

International Experience and Opportunities for Mongolia

Changing climatic conditions pose a considerable risk for the vulnerable Mongolian agricultural sector. Land without vegetation cover increased by three times between 1992 and 2006; in the same period, biomass in the rangelands decreased by 20-30 % (Ministry of the Environment Japan 2014). Wheat, which is usually rainfed in Mongolia, suffered from several drought waves over the past decades. Repeated drought waves translated in considerable yield losses, most recently in 2015 and 2017. In future, existing problems are likely to be further aggravated by climate change. Weather risk insurance may increase the coping potential of crop producers and increase investment into agricultural production. Currently, the agricultural sector suffers from a large percentage of non-performing loans (ADB 2018), which leads to credit rationing and strict collateral requirements. Crop insurance might contribute to develop loan guarantee programmes which are recommended to backstop agricultural producers with low collaterals (World Bank 2017).

To support the development of tailored and sustainable insurance markets in Mongolia, international experiences may serve as a benchmark. Relevant are especially pilot programmes in other transition economies like China, Kazakhstan, Ukraine and Uzbekistan.

Comparing various programmes from these countries, we find that long-term success — defined



as programmes implemented sustainably, beyond the pilot area, and in a fashion that they improve farm level risk management — does not seem to depend on the size of the initial investment, a specific index or the type of implementing agency. Instead, successful projects are often characterized by a stable cooperation of private businesses and NGOs or research organizations. Further, sustainable programmes were designed in a way that guarantees economic interests of business partners and takes into account the detailed demands of customers which should be assessed in small pilot projects or consumer studies prior to the launch of large-scale programmes. While governments often provided subsidies to compensate for farmers' low willingness to pay, their support in information dissemination and facilitating exchange between insurance agencies, banks and other stakeholders was at least as vital.

Recommendations

Overall, several lessons from other developing and transition economics could be translated into suggestions towards the establishment of a crop insurance in Mongolia. Most of these issues refer to the embeddedness of the programme in national agricultural policy, coordination of interests and tasks between different stakeholders, and the setting of suitable incentives to farmers and insurance providers:

- ❖ Implementation of index insurance should be approached along small-scale pilot projects and scaled out only after gaining necessary experience with designing, distributing and servicing the product. This allows for creating a demand-based product, prevents the development of false expectations and damage of consumer trust, and provides demonstration cases for a later scaling out.
- ❖ Extension and information dissemination activities should be of highest priority. The government can facilitate discussion on implementing these activities by organizing round tables and workshops for insurance agencies, banks, input suppliers, meteorological organizations and extension agencies. This measure can improve understanding for the product among various stakeholders and increase coverage. Sole reliance on insurance companies will most likely be insufficient.
- ❖ Agricultural index insurance needs to be understood as part of the agricultural finance system and not as a standalone programme. It should be integrated with credit lines and state procurement programmes. However, insurance purchases should not be made mandatory, as programme sustainability is higher if farmers are intrinsically motivated to buy the product, for instance due to improved credit access, lower interest rates, preferential input or procurement prices.
- ❖ Any subsidization of the insurance sector or products should be planned such that financial support is not affected by budgetary fluctuations. Sudden withdrawal of government finances will likely lead to a breakdown of an established insurance market.



- ❖ Experience gained in the Mongolian livestock index insurance should be fully utilized in establishing an index insurance for crop producers. Crop producers may be aware of the products offered for livestock producers and use it as reference information. Further research needs to be carried out to access the transfer of positive spillovers from index-based livestock insurance to crop index insurance.

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