

Designing Innovative Credit & Insurance Products for Scaling Climate Resilient Agriculture in the Philippines

Alliance



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Sustainable finance at the CGIAR

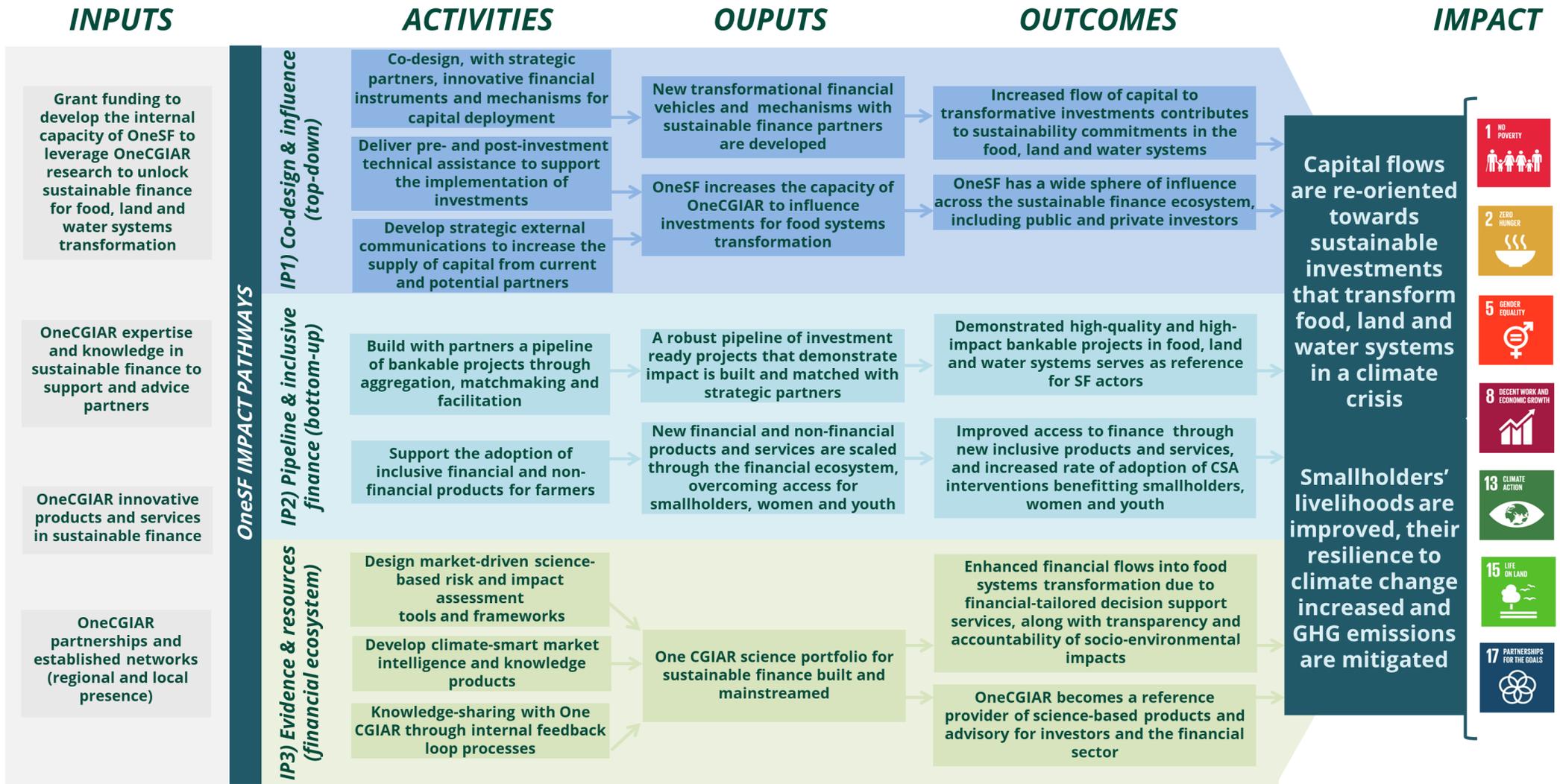
\$2.5trn annual funding gap to meet the SDGs by 2030¹, of which **\$300-350bn** annual investment is needed to transform food and land use systems²

Of the total climate finance tracked, only **1.7%** targets small-scale farmers, entrepreneurs and value chain actors serving them³, who disproportionally experience the effects of climate change.

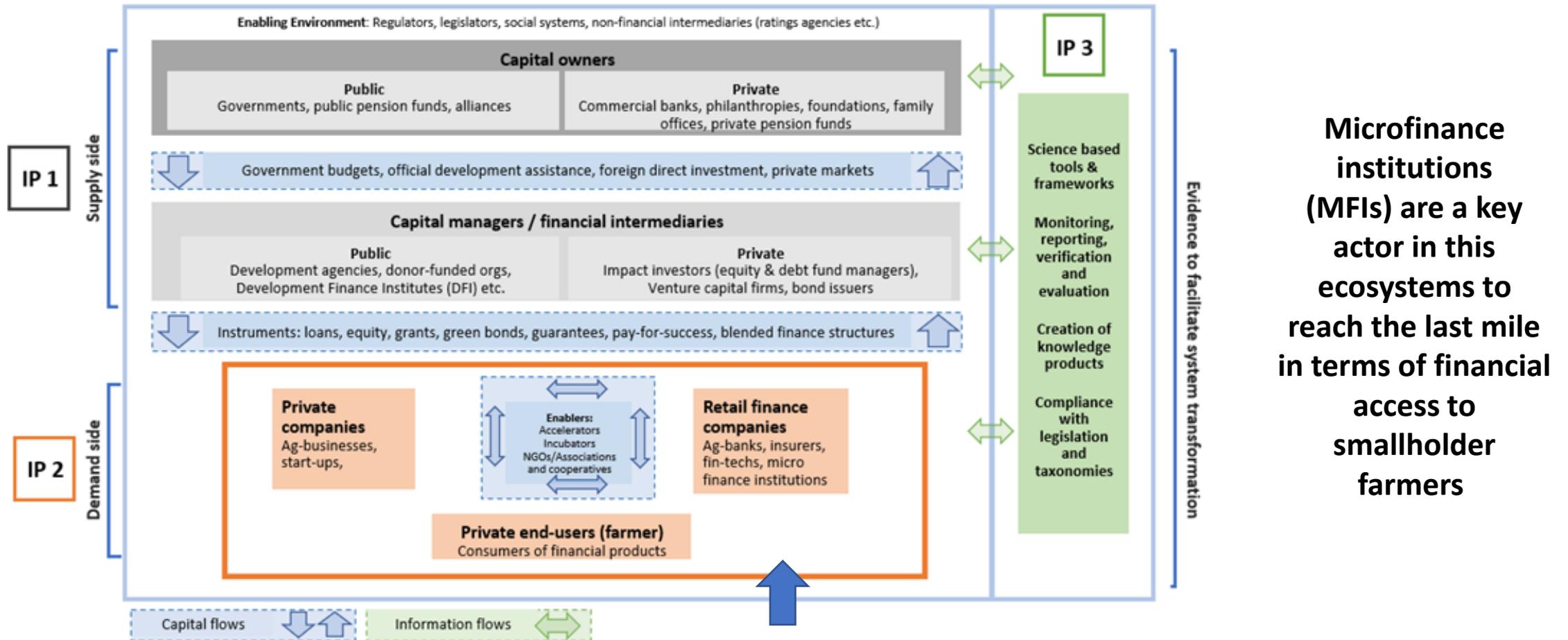
The CGIAR has reaffirmed its commitment to work with the private sector to bridge this gap
(Open for Business: Pathways to strengthen CGIAR's responsible engagement with the private sector).

The CGIAR Hub for Sustainable Finance (or OneSF), was established in 2022 to leverage the CGIAR scientific expertise and extensive network is to address the barriers and bottlenecks that prevent finance flowing responsibly and ethically to food, land, and water systems in the Global South - Through the development of new research, innovation and partnerships, OneSF is committed to close the US\$300-350bn financing gap by 2030

One Sustainable Finance – theory of change



Development finance landscape



The importance of sustainable green financial products and services in the context of the Philippines

- Hit by an average of 20 typhoons each year, **Philippines is one of the most vulnerable countries to climate hazards**, with devastating consequences to agricultural livelihoods
 - There is currently a **disconnect between agricultural financing and climate smart agriculture** despite the inherent dangers that climate change poses to farmers
 - Existing agri-finance products directed to smallholder farmers do not yet factor in climate change risks and farmers adaptation options
 - Innovative climate risk and insurance products and bundles that respond to smallholders are needed for farmers to invest in CSA options
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The advantages of bundling financial and non-financial services for MFIs

Green financial services

- Group loans
- Individual business loans
- Agriculture loans
- Agricultural insurance
- Savings accounts

Non-financial services

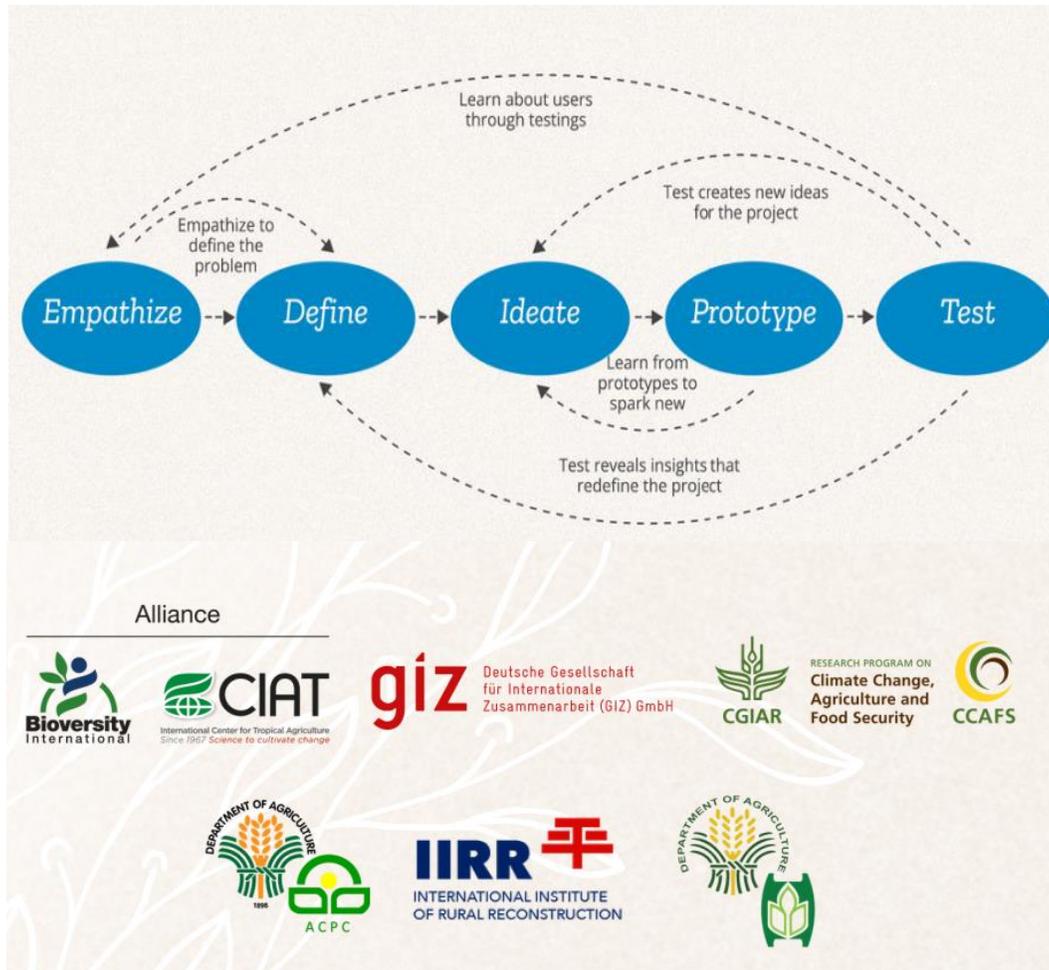
- Financial education
- Business-related: legal advice, technical or business development trainings
- Market linkages
- CSA recommendations (weather forecasts, seed varieties, nutrient management, etc.)

Advantages for MFIs

- **Sustainably improve the quality of their portfolio**, by increasing their clients' profits and resilience to shocks
 - Increase the **capacity** of the clients to repay their loan, and may also increase their **willingness**
 - Increase client loyalty
 - A differentiator for institutions **to stand out in an increasingly competitive sector**
 - **Opportunity to partner with public organizations** willing to deliver and support the non-financial services offered & lower the costs
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A user-centered approach to bundle green financial and non-financial services for farmers

Steps of the design thinking process



Methodology:

- A loan bundle prototype was designed accounting for the needs of farmer stakeholders (the borrowers) and institutional players (cooperatives, relevant government agencies and MFIs)
- The overall methodology included a household survey (317 households) for an in-depth study of farmer livelihoods, perceptions and behaviour.
- These were followed by scoping exercises, focus group discussions, a first workshop (with industry institutions, co-operatives and farmers) to encompass the first 4 Stages of Design Thinking (Empathize, Define, Idea, and Prototype), and a second workshop with farmers for the Testing stage to see if the prototype was acceptable.

Creating the ideal loan bundle based on farmer's preferences – lessons from Ivisan municipality

PLACE

PEOPLE

PROMOTION

PROCESS

PRODUCT

PRICE

Where farmers will access the loan

Who farmers deal with

Where farmers receive information and updates

Type of monitoring activities will be included

What CSA technology or recommendations and non-financial services will be included with the loan

The interest rate the loan will be set at



Preference for cooperatives



Preference for institutionalizing loan programs within cooperatives



Traditional media and mobile phones



Payment monthly reminders and visits to ensure CSA requirements



Seminars on financial management, to be expanded to CSA technologies training

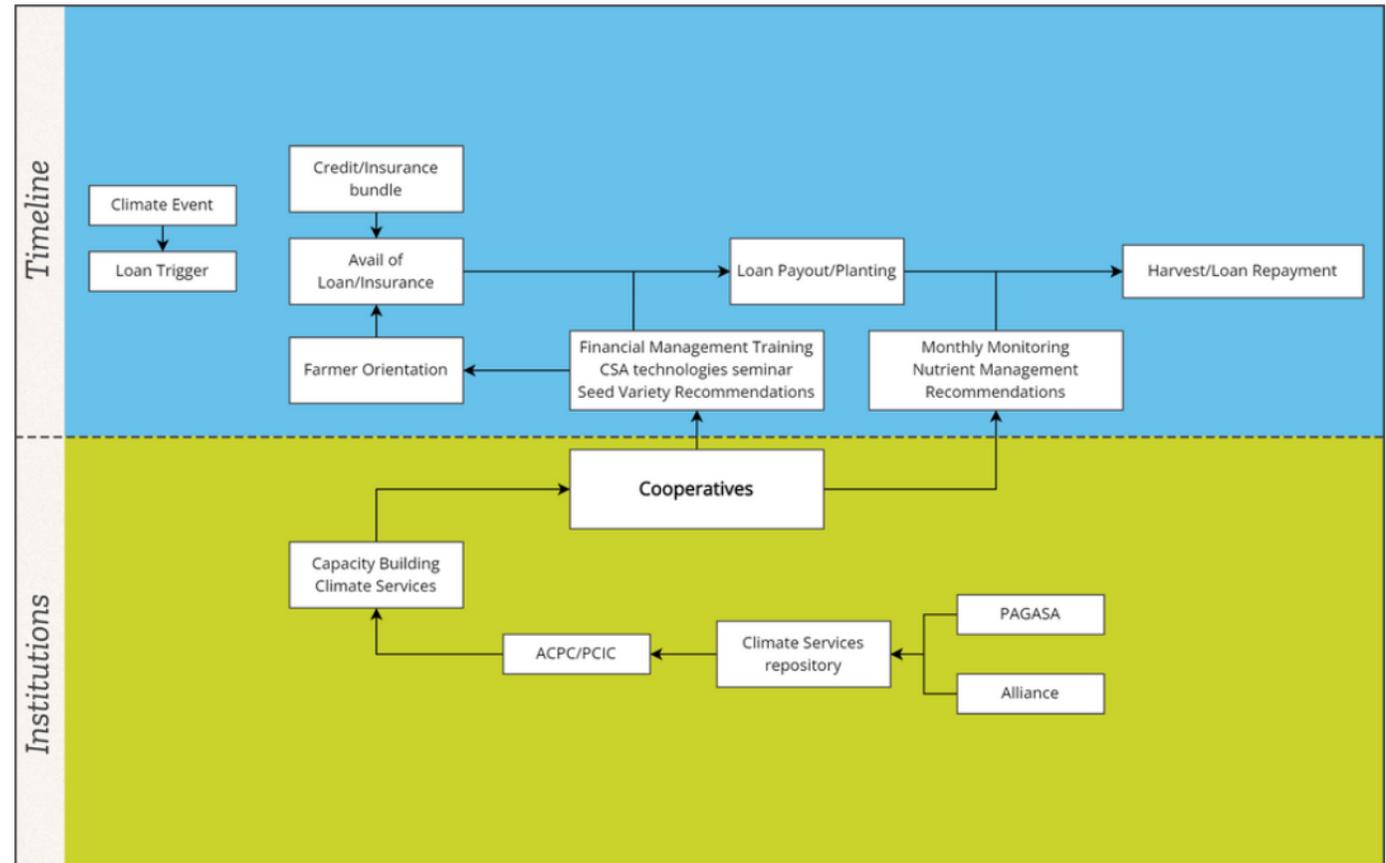


Farmers prefer higher interest rates if they can pay after harvest

Creating the ideal loan bundle based on farmer's preferences – lessons from Ivisan municipality

Key components of the Ivisan Farmers Ideal Loan Bundle

- 1. Interest rate:** 6% (or less) per season bundled with insurance
- 2. CSA Inclusions:**
 - 7-day weather forecast
 - Seed variety recommendations (provided upon receiving payment)
 - Nutrient management recommendations (2-3 months into planting season)
- 3. Requirements:**
 - Farmer is listed under RSBSA
 - Farmer undergoes financial management and CSA practices seminars
- 4. Up to PhP 50,000**
- 5. Transacted through cooperative and monitored monthly by coop staff**



Conceptual framework of the updated process on acquiring CSA-inclusive loan and insurance products

The Weather Protect Insurance program insures co-operatives that provide loans to farmers

EXCESS RAIN PARAMETRIC INSURANCE PRODUCT

It uses parametric insurance to provide set payouts upon a trigger event that can be linked to the environment (e.g., wind speed or rainfall measurements), business (e.g., foot traffic), and more

POLICY MANAGEMENT & AGRO-ADVISORY PLATFORM

Bundled with agro-advisory services on crop suitability, flood risks maps, and crop advisory, which are provided with or without an extreme weather event



Recommendations from the project

- Deliver climate and crop information to farmers using their preferred communication channels. According to survey results, farmers mostly prefer receiving information via television, radio, and face-to-face interactions.
 - Diversify the information according to actual farmer needs. Aside from better climate advice, farmers will need information on stress-tolerant varieties, pest and disease management, and overall climate-resilient crop management.
 - Seek support from formal and informal institutions to guide farmers' management strategy.
 - Incorporate advisories with forecast information on typhoons, El Niño, La Niña, and rainfall.
 - Provide training opportunities or technology transfer mechanisms to reinforce climate and crop knowledge.
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Example of bundled loan product to finance irrigation from AICCRA Zambia Accelerator Program

The AICCRA Zambia Accelerator Program is scaling four CSA/CIS innovation bundles by issuing de-risking grants and providing technical assistance. Bundle 1 brings together 3 Zambian agribusiness to facilitate access to irrigation and finance for farmers:



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Sustainable
Financing for
Off-grid Solar
Irrigation



Financial service provider

FinTech start up providing financial services to individuals, small businesses & micro entrepreneurs



Technology provider

Zambian distributor of FuturePump, providing solar water pumps + financial solution to farmers



Non-financial service provider

Agriculture technology platform providing information on market prices, climate and agronomic practices, and connections to markets for smallholder farmers

Key takeaways

- The importance of end-user finance products to bridge the climate finance gap
 - There is currently a disconnect between agricultural financing and climate smart agriculture despite the inherent dangers that climate change poses to farmers – CSA recommendations should be integrated and strengthened
 - Bundling financial and non-financial services should be co-designed with and for farmers, to meet their context-specific needs, using human-centric design principles
 - Lessons from projects in the Philippines and international experience provide examples on how to successfully meet farmer's climate financing needs and other needs
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