
Concept Note

Agricultural Insurance Markets Development Programme

Colombia | IDB

8 July 2015





Green Climate Fund Concept Note

The Green Climate Fund (GCF) is seeking high-quality projects or programmes.

Accredited Entities may choose to submit a concept note, in consultation with the relevant national designated authority, to present the proposed project or programme idea in order to receive early feedback and recommendation.

Project/Programme Title: **Agricultural Insurance Markets Development Programme**

Country/Region: **Colombia/South America**

Accredited Entity: **Inter-American Development Bank (IDB)**

National Designated Authority: **National Department of Planning of Colombia**



Please submit the completed form to fundingproposal@gcfund.org¹

I. Project / Programme Information	
1.1. Project / Programme Name	Agricultural Insurance Markets Development Programme.
1.2. Project or Programme	Programme
1.3. Country (ies) / Region	Colombia/South America
1.4. National Designated Authority(ies)	National Department of Planning of Colombia
1.5. Accredited Entity	Inter-American Development Bank (IDB)
1.6. Executing entity / Beneficiary	Executing Entity: Agriculture & Livestock Sector Financial Fund (FINAGRO) Beneficiary: Colombian Agricultural Producers
1.7. Access modality	Direct <input type="checkbox"/> International <input checked="" type="checkbox"/>
1.8. Project size category (total investment, million USD)	Micro (≤ 10) <input type="checkbox"/> Small ($10 < x \leq 50$) <input checked="" type="checkbox"/> Medium ($50 < x \leq 250$) <input type="checkbox"/> Large (> 250) <input type="checkbox"/>
1.9. Mitigation / Adaptation focus	Mitigation <input type="checkbox"/> Adaptation <input checked="" type="checkbox"/> Cross-cutting <input type="checkbox"/>
1.10. Results areas (mark all that apply)	<i>Which of the following targeted results areas does the proposed project/programme address?</i>
	<p>Reduced emissions from:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Energy access and power generation (E.g. on-grid, micro-grid or off-grid solar, wind, geothermal, etc.) <input type="checkbox"/> Low emission transport (E.g. high-speed rail, rapid bus system, etc.) <input type="checkbox"/> Buildings, cities, industries and appliances (E.g. new and retrofitted energy-efficient buildings, energy-efficient equipment for companies and supply chain management, etc.) <input type="checkbox"/> Forestry and land use (E.g. forest conservation and management, agroforestry, agricultural irrigation, water treatment and management, etc.) <p>Increased resilience of:</p> <ul style="list-style-type: none"> <input checked="" type="checkbox"/> Most vulnerable people and communities (E.g. mitigation of operational risk associated with climate change – diversification of supply sources and supply chain management, relocation of manufacturing facilities and warehouses, etc.) <input checked="" type="checkbox"/> Health and well-being, and food and water security (E.g. climate-resilient crops, efficient irrigation systems, etc.) <input type="checkbox"/> Infrastructure and built environment (E.g. sea walls, resilient road networks, etc.) <input type="checkbox"/> Ecosystems and ecosystem services (E.g. ecosystem conservation and management, ecotourism, etc.)
1.11. Project / programme life span	Five (5) years
1.12. Estimated implementation start and end Date	Start: June/2016 End: June/2021

¹ Please use the following naming convention for the file name: “[CN]-[Agency short name]-[Date]-[Serial number]” (e.g. CN-ABC-20150101-1).

II. Project/Programme Details

The Fund requires the following preliminary information in order to promptly assess the eligibility of project/programme investment. These requirements may vary depending on the nature of the project/programme.

2.1. Project/programme description (including objectives)

Climate and its variations, both unexpected and long-term, have an effect on agricultural production, production costs, crop yields, and food availability since it can cause the total loss of entire crops. The impact of extreme weather events on food shortages exerts upward pressure on food prices, and may result in increased poverty in the most vulnerable communities.

The proposed program seeks to strengthen climate risk management of agricultural producers in Colombia by providing better access to insurance, to reduce the impact of climate change in the productivity of the agriculture sector by promoting climate change adaptation, and to protect food security by providing insurance coverage to strategic crops in the country.

The program is aligned with the country's adaptation priorities in the agriculture sector which are identified in the Climate Change Adaptation Strategy (CCAS), led by the Ministry of Agriculture and Rural Development. In particular, the program will contribute to the following strategic priorities set out in the CCAS: i) Strengthen the country's capacity to manage agro climatic information by addressing the lack of availability of such information, which is preventing adequate climate risk management in the sector; and ii) Adapt production systems in the agricultural sector to climate change, by providing new insurance products that will address specific needs of agricultural producers for climate risk management while improving coverage.

However, the development of agricultural insurance in Colombia faces significant barriers. The inadequate availability of statistical data to produce technical analysis, the limited technical capabilities from local insurers (risk assessment, underwriting and loss adjustment), high transactional costs, the lack of development of innovative products and the need for strengthening reinsurance schemes are some of the challenges impeding the expansion and penetration of agricultural insurance in the country. Indeed, of the total cultivated area in Colombia, only 129,000 were insured in 2014, equivalent to only 2.5% coverage.

Although there has been strong commitment from Government to support the agricultural insurance, overcoming the above-mentioned barriers requires further support from the public sector. The present Program will aim to stimulate the development of the Colombian agricultural insurance market, through actions directed to enhance its effectiveness as a financial climate change adaptation tool.

The proposed Program contemplates a series of activities, organized in three main components, to address the main challenges described above:

Component 1: Institutional strengthening of public and private sector stakeholders' capabilities.

This component includes three main activities which are: **a)** support for the creation of a Risk Management Unit within FINAGRO by defining the role and the technical skills needed for a more active involvement of FINAGRO in the design and management of agriculture insurance policies. In order to achieve that, international successful experiences will be analysed (e.g. USA, Canada, Spain); **b)** development of analytical and managerial tools for a more efficient management of the agriculture insurance program, including the provision of software and training of FINAGRO staff (e.g. georeferenced database management software, actuarial modelling programs, risk pricing tools); **c)** technical training programs for FINAGRO staff as well as local insurance companies and other market stakeholders, including topics such as agricultural risk assessment, pricing and underwriting, appraisal and valuation of claims, distribution channels, risk transfer strategies (e.g. coinsurance, reinsurance) and administrative management of insurance policies, among others; and **d)** communication and dissemination of agricultural insurance, addressing the needs of financial education

and awareness of the importance of risk management and climate change adaptation to potential beneficiaries.

Component 2: Development of agricultural, climate and production data base infrastructure for insurance market use.

To facilitate the expansion of the agricultural insurance market in Colombia, this component will generate the information necessary for a proper risk analysis of the agricultural sector. This information will also be made available for scientific studies aiming at analysing alternative climate change scenarios and assess potential impacts of such climate change scenarios. The specific activities include: **a)** an evaluation of existing agricultural information collection systems, considering international best practices, and an action plan to improve the availability of information as well as the utilization of information for the development of the insurance market; **b)** analysing the needs of strengthening and expanding infrastructure for the generation, collection and utilization of weather information; and **c)** make necessary infrastructure investments (e.g. hydro-meteorological stations) that will allow the feasibility of the pilot project that would be developed under the next component.

Component 3: Design and implementation an agricultural insurance pilot program. Based on the institutional capabilities and availability of information developed by the previous two components, the objective of this third component is to design and implement innovative financial risk transfer products. Since this endeavor entails analyzing and addressing a series of issues that are preventing innovation in agricultural insurance, the component has been organized into four sequential subcomponents.

Subcomponent 3.1: Identification of areas and crops for the pilot project and segmentation of agricultural producers. **a)** Identification and prioritization of the regions and crops where the pilot project will be implemented based on economic and technical criteria, as well as vulnerability to climate change; **b)** Description of the main features of agriculture production for the selected crops within the territory selected, including main crop modalities, technology level, farmers typology, geographical distribution of farmers, access to markets, and main forms of commercialization; **c)** Farmers access to rural credit and other type of services, identifying the institutions providing credit to farmers, their objectives, their networks, assessing the governance of these institutions, the channels they are using to delivering their services and if there is any potential alignment of interest with the provision of agriculture insurance. These institutions can comprise, but are not limited to: development banks, MFI's, input suppliers, cooperatives, etc.; and **d)** Analyse the performance of selected crops, particularly the gross margins and profitability of the crop activities to be insured.

Subcomponent 3.2: Evaluation of agricultural risks. **a)** Identification of the main hazards affecting agriculture production; **b)** Statistical analysis of weather risks (when and as they become available, information from climate change scenarios will be used for this analysis) and other agricultural risks, including, but not limited to, average annual loss, loss exceedance curve, and probable maximum loss for each agro-climatic zone/weather station/administrative unit/ agro ecological unit with the maximum level of granularity available; **c)** Analysis of the impact of catastrophic losses on each region/crop and the aggregate crop portfolio; and **d)** Development of an insurance portfolio model to assess the potential exposure of stakeholders (e.g. farmers, local insurance companies, government, etc.) to natural disasters (e.g. drought, floods).

Subcomponent 3.3: Identification of challenges in the development of market solutions for agricultural insurance. Review the current agricultural insurance products offered by the domestic insurance market and identify the technical and operational challenges for the emergence of an agricultural insurance market in the selected region(s): **a)** Review technical, operational and financial practices and agricultural insurance products of local insurance companies including Underwriting techniques (crops and livestock), loss adjustment capabilities, pricing methodology, risk financing strategy (e.g., reinsurance, reserves), organizational structure, assessment of the delivery channels; **b)** Recommendations on how to improve current insurance practices and products based on international experience; **c)** Review the agriculture

	<p>reinsurance market, local and international players, conditions for increasing traditional reinsurance capacity and non-traditional capacity (e.g., index based coverage), and analyze market efficiency; and d) Identify areas for agriculture insurance product development, identify crops and hazards which may be suitable for index based insurance products, identify main bottlenecks: (e.g.: underwriting or loss adjustment capabilities) and legal and regulatory challenges.</p> <p>Subcomponent 3.4: Design and implementation of pilot project</p> <p>The design of the agricultural insurance pilot project would be conducted taking as inputs the technical work done in the previous sub-components, so as to develop effective and affordable products for farmers exposed to the impact of climate risks. The activities of this subcomponent are:</p> <p>a) Design of insurance policies, traditional insurance products and/or index-based insurance when advisable and feasible. The technical work to be carried out includes: i) the identification of possible types of coverage (e.g. multi-peril, weather index-based, area-based, etc.) depending on the needs, characteristics of production, infrastructure and information for each combination of crop/area selected; ii) the definition of the conditions of insurability: coverage levels, minimum damage threshold, deductibles, etc.; iii) economic and actuarial analysis of insurance including risk pricing; iv) risk modeling; and v) drafting of policies.</p> <p>b) Operational aspects of insurance: i) distribution channels; ii) loss adjustment; iii) payment of claims; iv) attention services to policyholders; v) payment of subsidies.</p> <p>c) Mechanism of financing and risk transfer that enable a reduction of insurance premium costs and a more efficient management of risks will promote the participation of private insurance and reinsurance sector, which is key to the viability and sustainability of the program. To achieve this goal, the following activities are planned: i) analysis and technical advice on the feasibility of creating an insurance risk pool for the pilot project; ii) technical studies for the design and implementation of a stop-loss fund to cover a portion of the insured risk, including financial, actuarial, operational, institutional and legal aspects; and iii) analysis of technical aspects of international reinsurance, such as determining the cost and features of the negotiation process for the transfer of risk.</p> <p>d) Impact evaluation of the pilot project.</p>
<p>2.2. Background information on project/programme sponsor</p>	<p>FINAGRO, the Program Sponsor and Executing Entity, is a main Colombian public financial institution, created by national law and charged with the mission of supporting the sustainable development of the agricultural sector, by facilitating the sector's access to all financial markets (including insurance markets). Moreover, since 1993 has been appointed, by law as the administrator of the National Agricultural Risk Fund (FNRA); institution directly funded by the National Treasury, to provide public, financial, technical and promotional support to the National Agricultural Insurance Program.</p> <p>FINAGRO is, therefore, in a unique position to timely provide/procure for the herein proposed program all the financial, operational, managerial and promotional support necessary to secure its effective and successful completion. Furthermore, future savings due to lower premium costs driven by the proposed programme, will allow FINAGRO to invest resources in the stop-loss fund contemplated in subcomponent 3.4 of the programme.</p>
<p>2.3. Market Overview</p>	<p>As of the end of 2014 total assets of the Colombian financial sector as a whole, including the insurance sector, were equivalent to about 90% of the Nominal GDP; approximately US\$350 billion. In the past decade the sector has enjoyed consistent high returns, and growth at a pace higher than that of the overall economy. Institutionally, the sector is dominated by a group of large financial conglomerates, with the ten largest concentrating more than 80% of the total assets.</p> <p>The insurance sector also grew at high pace during the last ten years. In 2014 the penetration ratio (gross premiums/GDP) reached 2.7% (about US\$10 billion), but is still below the average level for the LAC region, which is currently about 3.2%. Non-Life insurance gross premium concentrated about 50% of total written gross premium. As of 2013, there were 19 life insurance companies, and 24 non-life (general insurance), but there is a high concentration; almost 70% of the total written premium in the case of life insurance, and 40% in general insurance.</p>

	<p>In spite of the importance of the agricultural sector in the generation of GDP and jobs, Colombia's agricultural insurance market, in general, and crop insurance in particular, still have a very low rate of penetration, especially in comparison with other countries in the LAC region. Argentina and Uruguay, for instance, have more than 60% of their crop area insured, while Colombia had about 1% (as of 2014). The country has been trying to develop a wide Crop Insurance Premium Incentive Program (CIIP) since 2007, and although some progress has been made (from 30.000 Has. covered in 2007, to about 130.000 in 2014) market distortions and diverse financial, economic and technical constraints on the side of the farmers, as well as the insurers and FINAGRO (the public financial institution charge by law with the administration of the Program and the development of an integral agricultural insurance market in the country), has impeded larger progress.</p> <p>The crop insurance policies eligible to benefit from the FINAGRO CIIP, are regular certified commercial indemnity insurance policies, freely priced and distributed by 3 insurance companies, one of them concentrating a large majority of the underwritten coverages. During 2015 two new insurance companies are entering into the market. FINAGRO CIIP solely provides to insured farmers with a direct incentive (subsidy) equivalent to, between 60 and 80% of premium paid per policy (average of 2014, 67%).</p> <p>Under the FINAGRO CIIP, during the 2014 campaign 25 of the country 32 Departments had received some degree of coverage. Twenty four (24) diverse crops were insured, with the largest areas being cereals (rice 25% and corn 15%) and banana(17%).</p> <p>Main Financial Data for the FINAGRO-CIIP, 2014 Campaign. Monetary figures in US\$ - (One US\$ equivalent to \$ 2,300)</p> <table data-bbox="483 1043 1246 1227"> <tr> <td>Number of Policies issued</td> <td>12,500</td> </tr> <tr> <td>Total Area (Has.) insured</td> <td>129,000</td> </tr> <tr> <td>Insured Area (Has.), as % of total cultivated</td> <td>1%</td> </tr> <tr> <td>Total Value Insured</td> <td>303,000,000</td> </tr> <tr> <td>Total Gross Premium paid</td> <td>18,000,000</td> </tr> <tr> <td>Total Incentives paid</td> <td>12,000,000</td> </tr> </table> <p><u>AVERAGES</u></p> <table data-bbox="483 1261 1246 1444"> <tr> <td>Insured crop value, per policy</td> <td>24,000</td> </tr> <tr> <td>Insured Area (Has.), per policy</td> <td>10.4</td> </tr> <tr> <td>Insured crop value per Insured Ha.</td> <td>2,330</td> </tr> <tr> <td>Incentive paid per policy</td> <td>985</td> </tr> <tr> <td>Gross Premium paid per Policy</td> <td>1,440</td> </tr> <tr> <td>Incentive as % of Gross Premium paid, per Policy</td> <td>67%</td> </tr> </table> <p><u>SINIESTRALITY RATIOS</u></p> <table data-bbox="483 1473 1246 1597"> <tr> <td>Siniestrality as % of total Gross Premiums paid</td> <td>84%</td> </tr> <tr> <td>Siniestrality as % of total Incentives paid</td> <td>1.25%</td> </tr> <tr> <td>Total Siniestrality paid</td> <td>15,100,000</td> </tr> <tr> <td>Siniestrality paid/Gross Premium – Incentives (%)</td> <td>150%</td> </tr> </table>	Number of Policies issued	12,500	Total Area (Has.) insured	129,000	Insured Area (Has.), as % of total cultivated	1%	Total Value Insured	303,000,000	Total Gross Premium paid	18,000,000	Total Incentives paid	12,000,000	Insured crop value, per policy	24,000	Insured Area (Has.), per policy	10.4	Insured crop value per Insured Ha.	2,330	Incentive paid per policy	985	Gross Premium paid per Policy	1,440	Incentive as % of Gross Premium paid, per Policy	67%	Siniestrality as % of total Gross Premiums paid	84%	Siniestrality as % of total Incentives paid	1.25%	Total Siniestrality paid	15,100,000	Siniestrality paid/Gross Premium – Incentives (%)	150%
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<p>2.4. Regulation, taxation and insurance</p>	<p>No government licenses or permits are expected to be required. FINAGRO is an Autarchic National Public Entity with enough Statutory authority to subscribe all the foreseeable necessary contracts to timely and adequately implement and operate the programme. Only the insurance policies to be designed under the programme will be subject to approval by the insurance regulation authority in Colombia (Superintendencia Financiera de Colombia).</p> <p>Provision of good and services not furnished directly by the Executing Entity (FINAGRO) shall be procured following local open public bidding regulations; both the procurement and delivery supervision will be conducted by the Executing Entity, following the same local regulations for national public entities, applied by FINAGRO in its regular operations, project and programs.</p>																																
<p>2.5. Implementation Arrangements</p>	<p>A timetable is presented below containing major scheduled achievements and completion for each of the components of the programme.</p> <p>Component 1: Expected initiation: Oct. 2016; completion: June 2018</p>																																

	<p>Component 2: Expected initiation: Oct. 2016; completion: Dec. 2020</p> <p>Component 3: Expected initiation: March 2017; completion: June 2021</p> <p>General Activities: Expected initiation: June 2016; completion: June 2021</p> <p>Component #2 contemplates investments in weather stations, software and hardware to develop and explore data bases. FINAGRO will be responsible for all operational arrangements (maintenance, management, etc.) after they are acquired and implemented.</p>
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III. Financing / Cost Information

<p>3.1. Description of financial elements of the project / programme</p>	<p>Indicative budget</p> <p>Component 1:.....US\$ 2.0 million</p> <p>Component 2:.....US\$ 3.0 million</p> <p>Component 3:.....US\$ 15.0 million</p> <p>Total.....US\$ 20.0 million</p> <p>The Program financial model contemplates FINAGRO equity contributions, and the pursued financial support from GCF through a grant. The financial projections contemplates the progressive disbursement of the grant, as each of the components is implemented (see execution schedule above), plus the proportional and progressive disbursement of FINAGRO counterpart contributions throughout the execution period of the Program.</p> <p>In spite of Government financial support through premium subsidies, entrance costs and market development has remained very high. As a result, very few insurers and farmers found those incentives substantial enough to participate. Further Government investment in public goods, such as weather stations, information data bases, and the demonstration effect of an effective pilot insurance program, are expected to be able to lessen some of these costs and enhance the perception of markets (both insurers and farmers) on the sustainability and value of crop insurance as important, effective tools to manage financial climate risk adaptation.</p>
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		Financial Instrument	Amount	Currency	Tenor	Indicative Pricing
	Total Project Financing (a) = (b) + (c)	20..... ...	million USD (\$)		
3.2. Project Financing Information	(b) Requested GCF Amount	(i) Senior Loans	.....	<u>Options</u>	() years	() %
		(ii) Subordinated Loans	.....	<u>Options</u>	() years	() %
		(iii) Equity	.....	<u>Options</u>		() % IRR
		(iv) Guarantees	.....	<u>Options</u>		
		(v) Reimbursable grants *	.....	<u>Options</u>		
		(vi) Grants *	18	million USD (\$)		
		<p><i>* Please provide detailed economic and financial justification in the case of grants.</i></p> <p>FINAGRO has the institutional capacity to lead the project, and it has been investing in developing agricultural insurance in the country for the past decade, both directly and through the Agricultural Risk Fund, subsidizing premiums and financing technical studies on the crop insurance market. However, currently available (unallocated) resources are not enough to accomplish all the urgent</p>				

		challenges that climate change imposes in the rural areas. To timely and adequately confront these challenges, external, affordable financial supports, such as the grants being offered by the GCF, are considered indispensable.				
		Total Requested (i+ii+iii+iv+v+vi)	18	<u>Options</u>		
(c) Co-financing		Financial Instrument	Amount	Currency	Name of Institution	Seniority
		<u>Equity</u>	2	million USD (\$)	...FINAGRO...	<u>junior</u>
		<u>Options</u>	.....	<u>Options</u>	.....	<u>Options</u>
		<u>Options</u>	.....	<u>Options</u>	.....	<u>Options</u>
		<u>Options</u>	.....	<u>Options</u>	.....	<u>Options</u>
	Lead financing institution:					
(d) Covenants	Not currently available. Eventual ones shall be defined during contract negotiations.					
(e) Conditions precedent to disbursement	Not currently available. Eventual ones shall be defined during contract negotiations.					

IV. Expected Performance against Investment Criteria

Please explain the potential of the Project/Program to achieve the Fund's six investment criteria as listed below.

<p>4.1 Climate Impact Potential <i>[Potential to achieve the GCF's objectives and results]</i></p>	<p>The main adaptation impacts to be pursued through the program vis-à-vis the requested indicators are as follows:</p> <ul style="list-style-type: none"> • <u>Expected total number of direct and indirect beneficiaries and number of beneficiaries relative to total population (e.g. total lives to be saved from disruption due to climate-related disasters)</u> Crop insured farmers will have significant level of farm income protection (up to 100% of crop costs), in case of severe or catastrophic climate related natural disasters affecting their productivity. As a bare minimum, when fully implemented, the Pilot Program is expected to provide income protection to about 12,000 small farmers, and their families, for a total of, approximately 48,000 people.
<p>4.2 Paradigm Shift Potential <i>[Potential to catalyze impact beyond a one-off project or programme investment]</i></p>	<ul style="list-style-type: none"> • <u>Potential for scaling-up and replication (e.g. multiples of initial impact size)</u> The Program rationale is its potential to stimulate crop insurance supply, and demand, ultimate bringing under coverage a substantial portion of the country 2 million (approximately) farmers, which generates over 60% of the employment in the rural area. • <u>Potential for knowledge and learning</u> Two components of the Program are focused on enhancing knowledge and learning for all the public and private sector participants in the Colombian agricultural insurance market. • <u>Contribution to the creation of an enabling environment</u>

	<p>The main Program objective is to stimulate the development of the Colombian agricultural insurance market, through actions directed to enhance its effectiveness as a financial climate change adaptation tool.</p> <ul style="list-style-type: none"> • <u>Contribution to the regulatory framework and policies</u> The aim to develop new crop insurance approaches, through public/private alliances to deliver coverages customized to the different farmer's needs, will undoubtedly spark the introduction of very significant regulatory and policies reforms, necessary to accommodate these new paradigms.
<p>4.3 Sustainable Development Potential <i>[Potential to provide wider development co-benefits]</i></p>	<p>The following indicators shall be design, implemented and maintain during the execution of the Program, and will be made available to conduct ex-post evaluation of Program's results</p> <ul style="list-style-type: none"> • <u>Socio- Economic co-benefits</u> <ul style="list-style-type: none"> - Total number of additional jobs protected - Total number of additional hectare/crop covered - Amount of average premium paid by hectare/crop - Amount of farmers income protected (cost of covered crops) • <u>Social co-benefits</u> <ul style="list-style-type: none"> - Improved food security of vulnerable population • <u>Gender-sensitive development impact</u> <ul style="list-style-type: none"> - Proportion of men and women in jobs protected
<p>4.4 Needs of Recipient <i>[Vulnerability to climate change and financing needs of the recipients]</i></p>	<p>The Colombian agricultural sector is one of the most important productive sectors in the country, in terms of value and volume of its production, as well as for the very large (direct and indirect) job base it sustain. The country has been under increasing climate risk pressure for the last fifty years; the frequency and intensity of severe-to-catastrophic natural disasters are increasing due to the effects of climate change. Notwithstanding this situation, because of acute financial markets limitations and distortions the country was unable to implement an operational nation-wide agricultural insurance support program until 2007. Moreover, still today, this programs, which operates as a commercial insurance premium subsidy scheme operated by a few commercial insurance companies, only managed to provide coverage to about 1% of the country agricultural land (or about 3.8 % of the land underproduction).</p> <p>Aware of these shortcomings and of the importance of a comprehensive, wide and deep agricultural insurance program, the Government and FINAGRO are fully committed to develop the present program, with objective of stimulating the development of the Colombian agricultural insurance market and institutions, through actions directed to enhance its effectiveness as a financial climate change adaptation tool.</p> <p>FINAGRO is already investing in developing the agricultural insurance market but currently available (unallocated) resources are not enough to attend all the very urgent challenges that climate change is increasingly imposing on the rural areas. To timely and adequately confront these challenges without delays, external, affordable financial supports, such as the grants being offered by the GCF, are considered indispensable.</p>

<p>4.5 Country Ownership <i>[Beneficiary country ownership of project or programme and capacity to implement the proposed activities]</i></p>	<p>This Program is in full alignment with the country's national strategy and priorities in mitigation and adaptation, such as the Climate Change Adaptation Strategy, as well as with FINAGRO Agricultural Insurance Working Plan for 2015.</p> <p>FINAGRO would be the leading Executing Entity, but in carrying out the foreseen tasks, FINAGRO will rely heavily on international external consultants to be hired with the Program's proceeds and in contribution and coordination with IDB, as well as a number of local insurance and agricultural markets stakeholders, most of which have already made significant contribution during the design stage.</p> <p>Particularly remarkable among them has been the involvement of local insurance companies through the national insurance companies association (FASECOLDA), providing valuable input to assess the needs for improvement of the current public incentives program as well as the constraints for a further development and penetration of agricultural insurance markets in the country.</p> <p>On the other hand, the support of the National Department of Planning of Colombia was fundamental to prioritize this initiative.</p>
<p>4.6 Effectiveness and Efficiency <i>[Economic and financial soundness and effectiveness of the proposed activities]</i></p>	<ul style="list-style-type: none"> • <u>Co-financing ratio (total amount of the Fund's investment as percentage of project)</u> Ninety percent (90%) of total Program amount of US\$ 20million. • <u>Economic and financial rate of return</u> <ul style="list-style-type: none"> - With the Fund's support: This analysis will be developed when the detailed design of the pilot program component has been concluded. Conceptually, it will be based on the CIIP's cost of subsidies savings brought about by the pilot project's new approach. - Without the Fund's support:

V. Brief Rationale for GCF Involvement and Exit Strategy

Please specify why the GCF contribution is critical for the project/programme.

Currently available (unallocated) FINAGRO resources are not enough to attend all the very urgent challenges that climate change is increasingly imposing on the rural areas. To timely and adequately confront these challenges without delays, external, affordable financial supports, such as the grants being offered by the GCF, are considered indispensable.

Please explain the exit strategy (i.e. how the project/programme will be sustained after GCF intervention).

As indicated previously, under Paragraph 3.1, FINAGRO expects to be able to provide any additional financial resources necessary to ensure adequate maintenance and operations of all the assets created through the Program, for the remainder of their useful life.

VI. Risk Analysis

FINAGRO does not expect any significant financial risk, as the Program shall be fully funded before starting implementation.

Implementation of the Program shall rely heavily on the service of independent external consultants to be selected following procurement procedures acceptable to the IDB. Although in these instances there is always a consultant's performance risk, FINAGRO believes that the stringent selection procedure will ensure the quality and timelessness of the selected suppliers work.

Due to the nature of the Program, FINAGRO has not found any significant environmental or social risks associated with it. Nevertheless, the Program contemplates the implementation of mitigation measures, if any, that are required by the Environmental and Social Safeguards Policy of the IDB for this type of projects.

VII. Multi-Stakeholder Engagement

As indicated previously in paragraph 4.5, There has been substantial involvement of a number of stakeholders during the Program design stage, including local insurance companies through the national insurance companies association,

insurance regulator, producers associations, and government authorities overseeing economic development policies and climate change policy. FINAGRO plans to maintain, and even deepen their involvement during the execution phase.

VIII. Status of Project/Programme

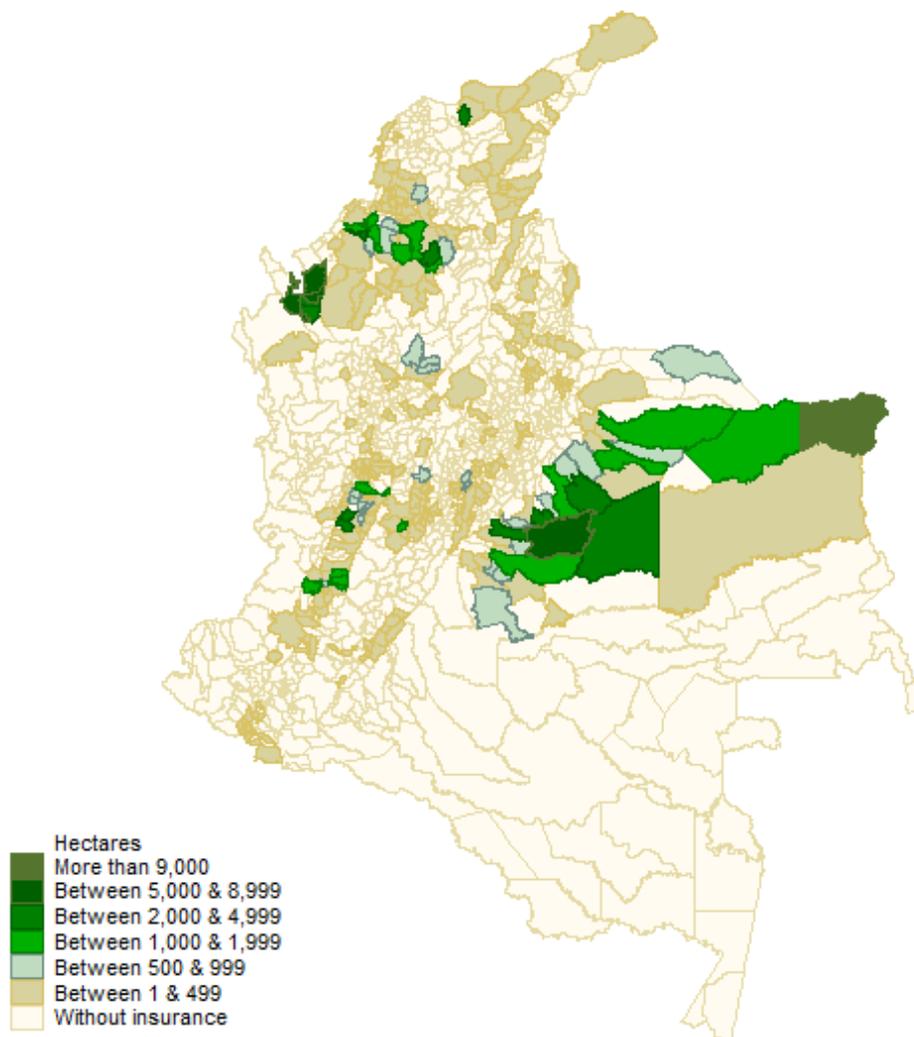
- 1) A pre-feasibility study is expected to be completed at this stage. Please provide the report in Annex II.
- 2) Please indicate whether a feasibility study and/or environmental and social impact assessment has been conducted for the proposed project/programme: Yes No
(If 'Yes', please provide them in Annex II.)
- 3) Will the proposed project/programme be developed as an extension of a previous project (e.g. subsequent phase), or based on a previous project/programme (e.g. scale up or replication)? Yes No
(If yes, please provide an evaluation report of the previous project in Annex II, if available.)

IX. Remarks

Annex I.

The map presented in Annex I illustrates the location of the beneficiary farmers of FINAGRO's insurance premium subsidy program (shown as hectares insured in 2014).

Insured area 2014

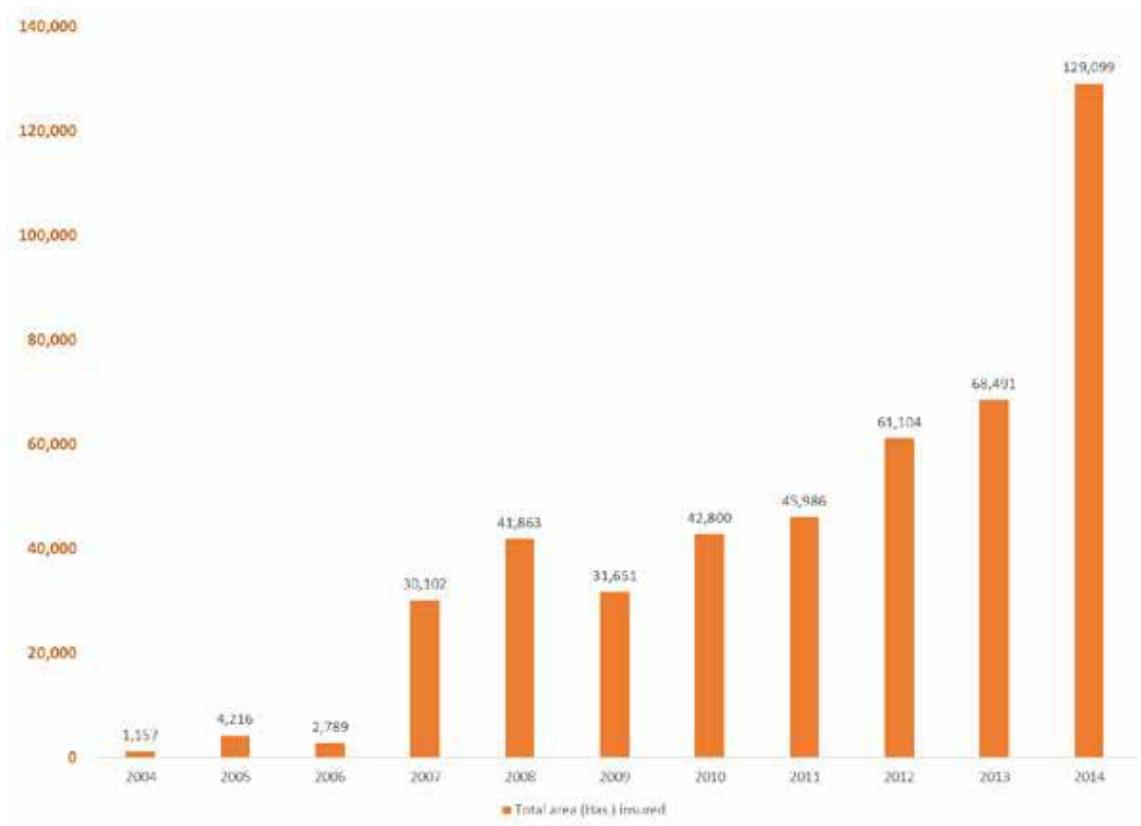


Annex II.

The proposed program seeks to strengthen and expand the agricultural insurance market in Colombia and therefore, it is being developed based on the experience and lessons learned of FINAGRO in implementing the Crop Insurance Premium Incentive Program (CIIP). Annex II provides a report on CIIP's results. Further analysis will be conducted by the proposed program, mainly under component 3 (see 2.1 Program description).

The following graphs show the main results of the CIIP administrated by FINAGRO.

Total area insured among 2004 and 2014 in Colombia with the support of National Agricultural Insurance Program.



Total value insured and total incentive paid among 2004 and 2014 in Colombia. Values are shown in Colombian peso millions. Nominal values.

