



## INSURANCE TOOLKIT Technical tool

# Model terms of reference for the selection of a service provider for: Agricultural and climate risk insurance feasibility studies

## The purpose of this tool

These are model terms of reference (ToRs) for use by project designers and implementers in development organizations and governments. The objective of the ToRs is to support the contracting a specialized service provider to carry out one or more agricultural and climate risk insurance feasibility studies within the context of an IFAD-financed project or similar initiative.

The ToRs are part of a toolkit provided by the INSURED programme (Insurance for Rural Resilience and Economic Development), which is generously financed by Sida (the Swedish International Development Cooperation Agency). Before use, the ToRs should be tailored and adapted to the project and context.

## When and how to use the ToRs

Agricultural insurance feasibility studies are carried out during the implementation phase of projects. In preparation for this, these ToRs can be included within detailed design documents to inform project set-up and planning, and then be further refined for use during implementation.

**If the project plans at the outset to support follow-up actions after a feasibility study, the ToRs can be combined with agricultural insurance implementation ToRs into overall ToRs with two phases: feasibility and implementation.** The approach will depend on the information that is known prior to the feasibility study, and the time available for insurance activities. Combining the two sets of ToRs ensures consistency, with one provider from feasibility to implementation, and reduces contracting processes, as well as any downtime between the two phases. On the other hand, keeping the feasibility ToRs and the implementation ToRs, and the related contracting processes, separate allows project decision makers to take stock of the results of the feasibility study before deciding whether to proceed to implementation of insurance, or to invest in other risk management actions. A middle ground can be to combine the ToRs for feasibility and implementation, but introduce a condition that “proceeding to the implementation phase shall depend upon the technical recommendations from the feasibility phase”.

In some cases implementation may not be the aim. A project might simply produce one or more feasibility studies as a public good to support insurance companies or governments, for example, in further understanding the market and identifying possible risk management solutions in which they may choose to invest.

## What is a feasibility study and what should it do?

An agricultural and climate risk insurance feasibility study assesses whether or not an insurance scheme is feasible for a defined target group within a project, and is both sustainable over time and scalable beyond the project's end. It focuses on a specific context, such as a selected target group within a certain agricultural commodity value chain and geographical area. The feasibility study should also assess the ways in which other project interventions and components (such

as market and financial access, farm record-keeping, input distribution and other de-risking activities) link with insurance. This should include assessing the contribution of such interventions and stakeholders to the successful operationalization of any insurance scheme that might be recommended and, at the same time, assessing the need for insurance to make other project components successful and resilient.

The study should also explore the opportunities existing locally that are likely to influence the adoption of the insurance products. Furthermore, it should examine how different local factors may support or hinder the adoption of insurance products. It may also focus on an existing insurance scheme where a change is being explored. The study will lay the foundations for the responsible use of activities related to insurance that support rural development and agricultural risk management objectives and dovetail with other risk management tools. It will also make it possible to avoid insurance engagements that are not currently practical or appropriate.

A feasibility study should recommend new insurance-based or non-insurance-based products and schemes, or improvements to those existing, and/or other risk management or market-development solutions. All recommendations should consider factors related to gender, youth and other vulnerable groups, and ensure that proposed designs and improvements take account of the needs of diverse groups and support their access, as appropriate. If insurance is not deemed feasible, the study should recommend alternative risk management tools and/or propose actions to make insurance feasible in the future.

The feasibility study ToRs include: a brief account of the project, detailed information on the objectives, outcomes and scope of feasibility studies, a list of deliverables and an indicative timeline, the profile of the service provider and the required professional experience of the team leader.

The ToRs are based on the assumption that a prior general assessment, such as a rapid insurance diagnostic, has been carried out at the project design phase. This will have identified a potential need and possible conditions for a specific type of agricultural and climate risk insurance solution, and recommended further, more detailed assessment by way of a feasibility study.

## TORS FOR A SMALLHOLDER AGRICULTURAL AND CLIMATE RISK INSURANCE FEASIBILITY STUDY

SUBTITLE: [INSERT FOCUS]<sup>1</sup>

### 1. Background to the assignment

These ToRs are to invite service providers to apply to carry out a feasibility study for agricultural insurance [insert type or focus of insurance] within the context of the [insert implementing agency] implemented [insert project or programme title] in [insert country].

#### 1.1 Project background and context

Points to include:

##### Project overview

- Name of project.
- Implementing ministry and project financiers.
- Brief narrative to explain overall programme goal and development objective.
- Brief narrative of project components and their expected outcomes.
- Target groups and targeted area for project interventions.

##### Relation of insurance to the project

- Specification and details of the component, sub-components, activities and target groups to which the potential insurance activities relate, including corresponding outcomes and outputs.
- Brief description of the agro-climatic conditions in the project area.
- How insurance is expected to support the project objectives and the activities with which it is combined.
- How specific project activities will support or contribute to the uptake of insurance.
- Key implementing partners and/or institutions that are to be involved in the management and implementation of the insurance activities.

#### 1.2 Overview of the assignment

It is within this context that a specialized service provider with experience in agricultural and climate risk insurance is sought to implement a feasibility study relating to [insert focus].

Research will be conducted into the risks for [insert value chain], within the specific agro-climatic conditions of the targeted project area, and insurance feasibility for the target groups.

The feasibility study will inform the next steps in [insert purpose depending on the project aims, e.g. insurance product or scheme development and roll-out together with insurers; government strategy; capacity-building].

### 2. Objectives and outcomes of the study

The specific objective of the feasibility study is to reach a conclusion as to whether insurance is feasible for the target group engaged in the value chains identified [or insert: other focus], whether it would be both sustainable over time and scalable beyond the lifetime of the project, and whether insurance would support the broader rural and agricultural development strategy of the project.

The outcomes of the study should be:

- A situation analysis including information on the existing opportunities and barriers that may influence or hinder the adoption of insurance products.
- A detailed analysis of the extent to which different project components or interventions may contribute to the success of the insurance scheme.
- A detailed analysis of the extent to which insurance may contribute to the success or resilience of specific project interventions.
- A conclusion on whether there is a need and demand for insurance within the target group.
- If there is a need, a conclusion on whether insurance is feasible for the specific purpose being investigated.
- If it is feasible, recommendations for possible existing or new products.
- Recommendations for scheme design and operation, with the target group and sustainability and scalability beyond the lifetime of the project in mind, using a low-cost distribution

1/ The focus of a feasibility study should specify: the target group segment, the value chain, the geographical area and the country. For example, smallholder farmers in the oilseed value chain in northern Uganda.

and administration model for rural areas (such as through microfinance institutions, value chain actors or other aggregators), and describing the customer journey from marketing/insurance awareness to claims pay-out, including roles and responsibilities.

- If insurance is not currently feasible, then recommendations on what is needed to develop the insurance market to make it feasible in the future, or on possible alternative risk management mechanisms.

In addition to assessing what would be required to meet the risk management needs identified in the project, the feasibility study should also look at what would support any initiative implemented as a result, to go beyond project end and reach scalability and sustainability in the country context. Therefore, the needs and interests of the following stakeholders should be considered.

- Insurers and their partners, such as reinsurers and insurance intermediaries.
- Delivery channels, aggregators and transactional platforms, such as financial service providers, value chain actors and mobile network operators.
- The low-income market, whether as individuals or in groups such as farmers' organizations or producers' cooperatives, with a special focus on women, youth and other vulnerable groups.
- Policymakers, regulatory authorities and development actors.

### 3. Scope of work and content of the report

The feasibility study should generate comprehensive information on risks, barriers and opportunities relevant to the specific agricultural and climate risk insurance focus in relation to: the demand and supply sides; infrastructure and support services for the sector; and, at the enabling environment level, policies and strategies, and the legal and regulatory framework.

The study should have a specific focus on the feasibility of insurance for the target group, their partners, related value chains and geographical areas within the project. It will also gather and analyse overall contextual information. This will include a detailed profile of the relevant smallholders, including their socio-economic status, their capacity in financial management, as well as their capacity in other core functionalities. Furthermore, it will include key characteristics of the targeted agricultural commodities, the agro-climatic conditions of the targeted area, the risk context in the country in general, the state of the art of agricultural insurance in the country, and any experience from other countries relevant to the aspect being explored.

As detailed in section 2 above, following the analysis, the study should conclude whether or not an agricultural insurance solution is feasible within the context. The study should also recommend any precursor actions that are required in order to trigger the adoption of agricultural insurance products that are designed. Particular consideration should be given to agricultural and climate risk insurance products and schemes that could be sustainable and scalable within the country context beyond the life of the project. Two-way linkages with project activities and components should be assessed, both how specific activities (such as farm record-keeping and input distribution) will contribute to the uptake of insurance, and how insurance will increase the success of activities such as market access and credit.

Through an agricultural insurance lens, the study should identify and analyse the areas of concern set out below.

#### The production characteristics of the target group, including:

- **Production features:** type of production, average yield levels, input costs, typical production cycle, varieties (or species of livestock), inputs (if livestock: typical sanitary, farm and animal management practices); post-harvest handling and storage practices, market access and market prices.
- **Risks:** main production risks and constraints within the relevant value chains and geographical areas, and among target groups/partners of the project, including an analysis of frequency, causes and cost of losses.

#### Aspects related to the demand and need of different target groups and partners for insurance, including:

- Characteristics/profiling of farmers and their cooperatives or groups, financial service providers and value chain actors such as input suppliers and buyers.
- Farmers' awareness and knowledge of insurance.
- Farmers' ability to afford and willingness to pay for insurance.
- Traditional coping strategies used to manage or respond to risk.
- The most important concerns in the lives and livelihoods of the target population, which may be useful in identifying options for bundling.
- Consideration of cross-cutting groups, including women and youth.
- Financial inclusion: shocks preventing access to finance and productive investment; default issues that could be mitigated with insurance; access to and use of other financial products, such as savings, remittances, credit and leasing.
- Income characteristics of the target groups, and value chain actors and links to markets.
- The impact of losses on livelihoods and assets, and other areas of concern.

#### Aspects related to the supply side, including:

- Analysis of the existing provision of agricultural insurance, and inclusive insurance more generally, in the country.
- Analysis of any experience with country and international insurance that is relevant for the value chains or the focus of the study.
- Identification of insurers and reinsurers.
- Identification of intermediaries and distribution channels (including banks, microfinance institutions, financial cooperatives, farmers' organizations, agribusinesses, telecommunications companies).
- The links different intermediaries and distribution channels have with the target groups, and their potential interest and capacity to play a role in insurance scheme delivery.
- Possible opportunities to bundle insurance with other services.

#### The enabling environment and supplementary requirements, including:

- Current or future government policies, programmes or plans of ministries and authorities, e.g. related to agricultural sector development, food security, agricultural and climate risk management, financial inclusion, gender, youth and vulnerable group inclusion, social protection and risk financing.
- Any data available or potentially available from government entities or from different actors working in relevant value chains in the country on [insert for crops: damage or loss] [insert for livestock: disease and mortality] (depending on the focus, this would include ground and/or remotely sensed data on weather, climate, yield, yield losses due to climatic variability/changes, livestock disease and/or mortality).
- Relevant enabling or restrictive policies and potential bottlenecks for insurance.
- Insurance legal and regulatory frameworks.
- Roles played by the government and possible gaps.
- Other relevant existing or upcoming development initiatives.

### 4. Study methodology

The feasibility study should be based on desk research, in-depth interviews and focus group discussions (FGDs). FGDs, which should be both mixed and single-sex, should be conducted at the chosen locations with relevant target groups. This is to ensure that women's voices are heard and that their specific needs and constraints are taken into account.

In-depth interviews with relevant stakeholders, implementing partners, and project and government staff should be carried out at the local and national levels. These may include value chain operators, extension officers, NGOs providing or facilitating other services, staff and management at branches and headquarters of insurers, agribusinesses and financial service providers, development institutions, national insurance bodies, government ministries and departments. Field visits and interviews should be conducted after consultation with, and based on advice from, the project coordinator or the assigned manager of the insurance activities.

## What is INSURED?

These model ToRs are part of a toolkit produced with funding from INSURED (Insurance for Rural Resilience and Economic Development), a technical assistance programme working to integrate agricultural and climate risk insurance into the IFAD portfolio. INSURED is generously financed by Sida (the Swedish International Development Cooperation Agency) and managed by IFAD through the multi-donor Platform for Agricultural Risk Management (PARM). The Insurance toolkit is a public good provided for governments, donors and development partners. It contains technical tools to be used in project design and implementation, and knowledge briefs on issues related to inclusive insurance.

A Word file of these ToRs is available on request.

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### READ MORE

[www.ifad.org/en/insured](http://www.ifad.org/en/insured)

[www.ifad.org/insurance-toolkit](http://www.ifad.org/insurance-toolkit)



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## 5. Deliverables and indicative timeline

### 5.1 Deliverables

The key deliverables for a service provider carrying out a feasibility study are:

- **An inception report** that describes how the work is expected to take place, with a detailed description of research methodologies, a workplan and schedule, and a definition of the roles and responsibilities of the team members.
- **Mission ToRs** that outline the objective and activities of any research missions, and include a proposed list of interviews and FGDs.
- **A proposed outline for the feasibility report** that is made available for review.
- **A draft feasibility report**, including a detailed situation analysis, concrete recommendations for the design of the insurance scheme, covering: institutional set-up, product type, key product features, distribution and administration model, and other operational aspects, such as reinsurance cover. The draft report should contain an indication of expected premium ranges and costs to farmers. (Detailed calculations should be incorporated in the final report.) If insurance is not deemed to be feasible, the draft report

### 5.2 Deliverables, timeline and payment schedule for the feasibility study [to be completed]

Deliverables	Deadline (on or before)	Payment %
Inception report		
Mission ToRs		
Outline of the feasibility study		
Draft feasibility study		
Final feasibility study		

should instead include: (i) proposed actions to create future feasibility; and/or (ii) alternative risk management solutions.

- **The final consolidated report**, incorporating feedback from the previous step, which contains the following:
  - Executive summary.
  - Introduction and methodology.
  - A situation analysis based on: desk research and interviews with stakeholders, findings from household research, results from the data analysis.
  - Proposed solution, including: a description of the proposed insurance scheme; the business case; institutional set-up; details of the recommended insurance product (outlining risks covered, sum insured, retention level of clients, exclusions, underwriting guidelines, pricing and actuarial calculations, suggested premium subsidy levels, and risk cession and reinsurance arrangements); the distribution and administration model; insurance awareness and marketing strategy; and other operational aspects.
  - Recommended strategy for implementing the proposed insurance scheme, including detailed budget for activities, responsibilities, milestones, capacity-building plan.

## 6. Service provider profile

The feasibility study should be conducted by a specialized service provider, with a team of at least two members. The team leader should be an agricultural insurance specialist, and the team should also include members expert in one or more of the following specialisms, as appropriate to the focus of the study: agricultural insurance, livestock, crops, actuarial science, agronomy, agricultural economics, rural finance, value chain development and climate. Where necessary, one or more members of the team should be fluent in the local language.

The team leader should:

- Have at least ten years' experience working in agricultural insurance in similar contexts, of which at least two with any type of insurance relevant to the focus of the study.

- Be based in or have experience of the country, or a similar context.
- Have previous experience leading agricultural insurance feasibility studies.
- Have demonstrated capacity to carry out and analyse demand research.
- Be fluent in English.

## 7. Annexes to the ToRs

The following reference material should be included for the service provider.

- The project design document and any other relevant documentation.
- Other relevant assessments carried out in the project context, if available, e.g. value chain assessments, financial sector mapping.
- **[Additional resources if relevant]**.