SLYCAN Trust

Case Study on Financing Loss and Damage

Submission for the Transitional Committee call for case studies to inform its discussions at its second meeting (TC2) under its workplan as contained in document TC1/2023/3/Rev.3.

Case study title:	Developing country financing on loss and damage: Public insurance mechanisms to address loss and damage in Sri Lanka
Submitted by:	SLYCAN Trust

Geographic focus:	Sri Lanka
Thematic focus:	Comprehensive risk management approaches, risk transfer instruments, developing country financing on loss and damage, public insurance
Summary:	Sri Lanka has invested in public risk transfer mechanisms since 1958, including a universal crop insurance covering all farmers, a National Natural Disaster Insurance scheme, and a loan protection scheme for financial institutions. These mechanisms directly address loss and damage due to climate change impacts and related hazards (such as floods, droughts, dry spells, excess rainfall, pests and diseases, and wild elephant attacks) and compensate losses experienced by vulnerable communities. As these risk transfer mechanisms have functioned in the country for more than 60 years, there are many key experiences and lessons learned on mobilizing and delivering resources to address loss and damage on the ground.
Additional material:	Summary Brief: Addressing Climate and Disaster Risk in Sri Lanka: Crop Insurance Schemes (2022) White Paper: Enhancing Innovative Climate Risk Transfer and Agricultural Insurance Mechanisms in Sri Lanka (2022)

Funding mechanism:	The crop insurance scheme provided by the Government of Sri Lanka covers the cultivation of all registered farmers for six basic crops and can be further expanded through separate premium payments if farmers want to cover other crops, livestock, equipment, storage facilities, or health. Farmers are insured against loss and damage due to floods, droughts, dry spells, excess water, pests and diseases, and wild elephant attacks. Triggers: ▪ The mechanism is indemnity-based, with loss and damage assessed on the ground by agrarian officers and local government authorities. Compensation payments are usually made at the end of the season after an assessment of damages to the cultivation against a baseline established by actuaries at the beginning of the season. Funding sources:

	▪ Premiums paid automatically by farmers when buying government-subsidized fertilizer, with a certain amount out of the total payment for a bag of fertilizer going towards the insurance. ▪ Crop levy of 1% of profit after tax collected from all financial institutions in the country. ▪ Treasury funding from the national budget. ▪ Reinsurance to transfer risk towards global financial markets. In addition to the crop insurance, other public insurance mechanisms addressing loss and damage in Sri Lanka include the National Natural Disaster Insurance Scheme (covering lives and properties of all households and SMEs against loss and damage caused by natural disasters) and a loan protection scheme (covering loss and damage from drought, flood, and wild elephant attacks to financial institutions that provide loans related to paddy cultivation).
Gaps and challenges:	▪ Need for capital and premium support to sustain funding of the mechanism in the context of increasing loss and damage as well as the economic challenges faced by Sri Lanka. ▪ Need for enhanced access to detailed weather information, climate projections, risk modelling, and risk analytics. ▪ Challenges related to limited financial literacy, financial inclusion, and ability to pay premiums of smallholder farmers. ▪ Difficulties related to establishing proof of land or livestock ownership. ▪ Delay between climate impacts and compensation payouts due to indemnity-based nature of the scheme.
Opportunities for enhancement:	▪ Development of parametric or hybrid risk transfer mechanisms and bundled solutions containing risk transfer and other financial instruments or adaptive measures. ▪ Incorporation of loss and damage caused by slow-onset events and of non-economic loss and damage. ▪ Improving distribution channels and strengthening inclusive and participatory processes that mainstream gender, youth, and intersectional vulnerabilities. ▪ Investing in technology and digitization to increase speed, transparency, and reliability of loss and damage assessments and payouts. ▪ Facilitating innovative risk transfer product design and diversifying available financial instruments.
Experiences, best practices, and lessons learned:	Public risk transfer mechanisms in developing countries provide much needed support to vulnerable groups and communities and compensate for climate-

	induced loss and damage. However, funding for such mechanisms remains vital to not pose a burden on the countries' economic empowerment and climate resilience building. Therefore, scaling up as well as accessing external funding through different sources need to be identified, and facilitated to ensure that good practices which are led by climate-vulnerable countries could be promoted and replicated by addressing gaps and needs to better scale existing such mechanisms for better loss and damage finance accessibility. The existing database of farmers and the structure of extension officers and reporting could be utilized to disburse loss and damage finance on the ground level and directly respond to impacts to livelihoods and food security by focusing on key crops, farm assets, and hazards. Additional funding sources could be explored to empower the existing process for better reach and address the needs of the communities impacted on the ground.