



THE WORLD BANK



World Bank Institute Distance Learning

Commodity Risk
Management Group

Market-based Risk Management for Development



Centre for Insurance and Risk Management

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Announcement

Innovative Market-based Risk Management Framework
On-line course
October 6-November 10, 2008



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Introduction

This is an introductory course to the Market-based Risk Management for Development Distance Learning Program (MRMD) of the World Bank. It lays out a conceptual basis for innovative schemes designed to manage risks associated with rural poor in low income countries. The course introduces participants to a market-based risk management approach for correlated risks affecting the agricultural sector such as weather risk and commodity price risk. The “new conceptual framework” is being developed through the World Bank experience in facilitating the transfer of correlated risks to international markets. The course outlines an effective role for national governments, the World Bank, and other donors in this important domain of risk management, and in particular, with the proposed new conceptual framework. While the framework originates from innovations in agricultural sector it is well suitable for applications within the broader development agenda.

Course Overview

Exposure to natural disasters and other sources of risk impedes the development process, pushes households into poverty, and drains the fiscal resources of governments. This three-module course presents innovative risk management mechanisms that suit the correlated nature of weather and price risks that affect agriculture and offers affordable solutions for low income countries. The course seeks to address a number of questions. Why are traditional coping mechanisms inadequate in addressing the costs and consequences of extreme weather events and price shocks in lower income countries? What are the advantages of market-based risk transfer mechanisms in comparison of traditional shock mitigation measures? What are the appropriate market-based risk management instruments and how do they work? How should these market instruments be utilized? What is the appropriate division of public and private roles in a country's proactive risk management agenda? This introductory course aims to provide policy makers with overview answers to the above questions and an understanding of the key issues involved in designing an appropriate risk

management framework that uses market-based risk transfer instruments.

Module 1: Risk Management Challenges in Lower Income Countries

This module identifies the link between risk, livelihoods, and development. It introduces the different types of risks, their impact and the appropriate risk management strategy. The presentation session reviews the typology of risks facing poor households in lower income countries, highlighting the predominant role of two kinds of risks: 1) adverse weather events, including natural disasters and 2) commodity price fluctuations. In both cases, these risks can create large losses, as many households are likely to be affected by the same event at the same time. To better address these risks, the session presents a conceptual framework for selecting suitable market-based risk management strategies at the micro, meso, and macro levels. The session illustrates why a variety of existing coping strategies may be ineffective and presents the rationale for an *ex ante* risk management with distinct developmental benefits. The case study illustrates the main messages of the presentation through the example of Malawi.

Module 2: Key Concepts and Applications of Innovative Market-based Risk Management

Module 2 introduces the tools that can be used to finance economic losses from weather risk and adverse commodity price movements. Such risks cannot be effectively managed by traditional approaches of formal and informal risk pooling since many households are likely to be affected by the same event at the same time. The presentation begins by analyzing the limitations of risk financing exercised by many developed countries and explains why these solutions are not feasible for lower income countries. Against this background, the session presents a new risk management approach, emphasizing 1) *ex ante* which complements *ex post* risk management; 2) the importance of risk transfer, 3) the benefits of market instruments for risk transfer; and 4) the significance of targeting end users at micro, meso, and macro levels. The innovations presented in the session can be well applied in lower income countries where the domination of small producers can result

in high transaction costs for traditional insurance approaches. The session concludes with country examples of how market-based instruments have been applied to weather and price risk solutions at the micro, macro, and meso levels. The case study looks at two different programs in Malawi to deal with price and weather risk in new and innovative ways.

Module 3: The Role of Government and Donors in Developing and Using Market-Based Risk Transfer Instruments

The first part of the session reviews the process of designing a risk management strategy and identifies the necessary key actions to support the emergence of risk transfer markets. The main principle for government and donor policies in supporting innovation in risk transfer markets should be “crowding in” markets instead of “crowding out” or substitute for markets. The clear separation between the role of markets and the role of the public in risk financing facilitates these policies. The conceptual foundation for separating the roles is laid out in the risk layering segmentation principle presented in the second part of the session. The presentation concludes that the implementation of innovative risk management strategies should be first piloted with well-designed programs to field test the approach. Much can be learned via pilot programs when they are well conceived, adequately supported, and include a rigorous evaluation component. Demonstrating a public role in risk financing, the case study reports on the establishment of a specialized natural disaster fund (FAPRACC) to provide a productive asset safety net for farmers by the Government of Mexico.

End of Course Project

The objectives of the end-of-course project are to solidify the concepts presented in the course and apply these concepts to participants’ specific knowledge and experience. Using the recommended policy framework the exercise will allow participants to consider the constraints to risk management in his or her country and to develop his or her own policy recommendations on how to address them. Participants will be required to prepare a risk transfer strategy using specific examples from their country.

Course Contributors

The World Bank

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Other Details of the Course

Language

The language of the course is English.

Cost

Individual participants will be charged a fee of **100 USD**, whereas, representatives of Non Government Organizations will be charged **80 USD** for the course. **Early bird registrations (before September 15th) and institutions with multiple nominees will be allowed a 20% discount.**

Course Format

The course consists of three self-paced modules, discussion forums, readings, case studies, and knowledge check quizzes. Each module is presented in narrated Power Point form. The narration lasts from approximately 45-55 minutes for each presentation.

Course Expectations

Participants are expected to commit 10 -14 hours per week in order to gain the most out of this course, in addition to:

- Completing the beginning of course assignment
- Completing the required reading assignments

- Participation involves posting a minimum of two messages per week that are substantive in nature. The message can be either a new topic or a reply to someone else's message. Participants are encouraged to post more often than twice a week in order to be involved more deeply into topics.
- Completing assignments and an end of course project
- Completing course evaluation at the end of the course

For more information, contact:

CIRM - cirm.training@gmail.com

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System Requirements of the Course

- **Hardware:** Pentium 166 or faster, 64MB Memory, CD-ROM, Sound Card
- **Software:** Windows 95, 98, ME, NT 4, 2000, or XP Internet Explorer 4 or higher, Netscape 4 or higher Microsoft Office 2000 (Word, PowerPoint) Acrobat Reader 5

Participants

This course targets government officials, staff of development agencies, aid and relief organizations. It also has a special objective in reaching and communicating with important private actors — executives in primary insurance and reinsurance companies — whose understanding and interest in the new risk transfer model discussed in this course are essential in bringing the necessary private-sector participation.

Application and Contact

The applicants should submit the online application form on or before **September 20th, 2008**. Qualified participants will be notified by **September 23rd, 2008**. Following the notification, the payment should be made. Last date for receiving the payment is **October 1st, 2008**.

It is important that applicants provide a valid, correct e-mail address and mailing address.