Project Introduction: Index Based Livestock Insurance Project

Project implementation rationale

Total of 11.2 million livestock loss in the catastrophic events (dzud and drought) of 1999-2002 leaded to MNT 333 billion of economic damages in Mongolia. Hence, the Government of Mongolia (GoM) has started undertaking a research of Mongolian market since 2001 by collaborating with donor organizations, such as the World Bank and FAO of the United Nations, confirmed feasibilities to launch a modern insurance structure against such catastrophic damages in Mongolia. As a result of the research, “Index Based Livestock Insurance Project” IBLIP has been piloted in spatially various aimags in order to identify the Index Based Livestock Insurance model is whether feasibility for the Mongolian situation.

Project objectives

The project is aimed for reducing and stabilizing herders’ livelihood vulnerability after dzud or catastrophic events. This would achieved by providing insurance indemnity payments to only insured herders to cover losses, avoid spoon-feed habit of herders as delivery of cash/animals, provide with operational sustainability in the insurance industry; hence, insurance providers will insure herders’ livestock by this unique insurance and improve their market development going forward. Therefore, it tends to reduce heavy load on the GoM in case of dzud or catastrophic events, develop a risk sharing structure for catastrophic losses through reserves of the GoM, private entities, and global reinsurers, and provide legal framework on this structural sustainability for the IBLIP.

Financial sources of the project

Project funding is as follows:
In accordance with IBLIP “Amended and Restated Development Credit Agreement” signed between the GoM and International Development Association, credit agreement is amounted totally USD 18million; USD1.3 million under the PHRD of the Government of Japan, USD 0,35million under the donation of “First Initiative” financial institute, USD 0.7million of the Korean Fund, and USD 2.2 million of SDC grant.

Project implementation period

The pilot project was implemented in Uvs, Bayankhongor, and Khentii aimags/provinces during the period from September 2005 till December 2009. In the pilot period, it completely met the performance terms of the “Development Credit Agreement” approved in 2005. Accordingly, the GoM and World Bank decided to scale up the project until 2013 under the “Additional Financing Agreement” and “Amended and Restated Development Credit Agreement”.

Special feature of the project

Special feature of the “Index Based Livestock Insurance” is to estimate insurance losses and indemnity rates based on livestock mortality at soum level rather than the individual’s livestock mortality.

Project scope

To implement the project initially, the aimags have been selected regarding the variations of geographical dispersion, economic development, and livestock mortality rates. The three selected aimags in the pilot project in 2006: Uvs in the western region, Khentii in the eastern region, and Bayankhongor in the Gobi region, which have various risk levels of livestock mortality. Due to a big territory of the aimags, there is less probability to happen catastrophic events in each soum at the same time, which is aimed to spread risk profiles of the insurance providers. By 2012, the project has been scaled up to the national level by covering 5-6 additional aimags each year.

Main activities of the project
The key activities of the project are the following and other wide-range of activities for sustainability of these activities is organized:

- To insure livestock of herder households in each soum under the IBLIP through commercial insurance companies, to provide information to herders and the stakeholders, and to build capacity of PPP representations;
- To reduce and eliminate catastrophic losses by distributing indemnity to the insured through insurance companies of Mongolia and the GoM in case livestock mortality rate of soum exceeds in the stated threshold. This framework is organized to pay losses from the LIIP that deposits insurance premiums paid by herders via the insurance companies, or in case of insufficient amount in the pool, remain portions are financed from the GoM reserve /World Bank Contingent Credit/.

Dec. 2012, Ulziibold “Bold” Yadamsuren- IBLI Project Director