Country Specific Information: Haiti
U.S. Agency for International Development
Bureau for Democracy, Conflict, and Humanitarian Assistance
Office of Food for Peace

Fiscal Year 2012: Title II Request for Applications - Haiti
Title II Development Program

Annex I: Food Based Crop Insurance and Community Food Reserves - Using Food to Raise Rural Incomes, Stimulate Agricultural Productivity Growth, and Reduce Vulnerability to Food Insecurity

Farmers everywhere face weather, pest, and market-related risks. The poorest farmers usually manage those risks by choosing crops and practices that provide stable, but sub-optimal, economic returns. This results in smallholders foregoing the technological changes that could enhance their chances at longer-term productivity gains and, eventually, income growth. Further, because smallholders often face risks and generate lower than optimal returns, lenders are typically discouraged from offering them credit, creating further obstacles to productivity growth.

Innovative models involving simple *area-based crop insurance schemes* have been recently proposed to reduce the uncertainty of farm income. These schemes generally involve cash payment to compensate for yield losses in the case of unexpected hazards. There are few documented examples of the use of food in the form of crop insurance. However, this appears to present distinct opportunities, especially when paired with other form of local initiatives such as community food reserves in the form of inventory credit schemes. The use of food rather than cash may be particularly appropriate when: (i) the threat of widespread malnutrition is high; (ii) markets function poorly; (iii) inflationary risks are high; (iv) cash transfers are not practical; and/or (iv) effective targeting is sought.

Food-based Crop Insurance

Crop insurance is used to compensate farmers for catastrophic income losses and to protect their consumption and debt repayment capacity. By reducing the perceived risk of production losses, the insurance may encourage farmers to adopt more lucrative, but riskier, enterprises. Combined with a strong agricultural extension program, a food-based crop insurance program could invite farmers to dedicate a portion of their resources to a new enterprise based on the expectation that, should the expected returns to the new enterprise fail to materialize due to exogenous events (changed market conditions, natural calamities, etc.), the farmers' minimum livelihoods will be protected by the insurance program. The release of indemnities to farmers is based on an *ex ante* analysis of most likely verifiable causes of farm losses (e.g., drought, floods, hail, pest infestations, etc.). To ensure rapid response in paying indemnities to farmers, the program should be coupled with an inventory credit program (see below) which would act as a local, pre-positioned food reserve.

Inventory Credit Program
Inventory Credit Programs (IC) operate on the principles of the temporal price differentials of the normal market cycle. The IC receives grains from local farmers for storage, usually immediately postharvest and holds the inventory as prices increase. With stored inventory as collateral, a farmer can request a loan from the IC to settle his most pressing cash needs, yet maintain ownership over his grain until prices rise again. Once prices have strengthened, the farmer can sell his/her grain at greater profit, reimburse the loan, and avoid a costly re-purchase of grain when prices are higher. Additional benefits are that ICs facilitate good practices at the farm and community level (such as proper storage and post handling processing), minimize transaction costs for commodity traders (thus lowering consumer prices); and may help open credit lines with the formal banking system. Most importantly, however, ICs create a de-facto, pre-positioned food reserve at the local level that gets called upon by the crop insurance scheme when the area-based insurance index reaches critical levels.

Structure of the Title II Intervention
In the risk reduction strategies described here, the focus of the Title II program could be on the creation and replenishment of the local food reserve. The program could provide the initial "grain capital" used to start the scheme, then contribute additional grain to replace drawdowns made (if any) when insurance payments are needed to respond to food security needs. The outlet of Title II resource is therefore of two kinds: (i) the annual release of food resources associated with the creation of the IC (this outlet may be stabilized over the years as the program is established in new locations on a rolling fashion) and (ii) the unpredictable releases associated with insurance payments in case of shocks. From a FFP perspective, programmatically speaking, this ties in perfectly with early warning and surge components of the program.

Complementary Activities
To yield full effect, the risk reduction activities proposed here should be paired with other development actions. Crop insurance is provided to farmers willing to diversify and take risk. To mitigate such risks, participating farmers should also be supported by a strong value chain analysis, with training in production and post-harvest processing techniques. Similarly, pastoralists should be offered training in pasture management, fodder provisioning, and income diversification such as hide skinning and meat drying. Resources should also be available for restocking and/or restoring animal health and for supporting market infrastructures and abattoirs. Finally, strong community extension is needed to train local users in managing the IC scheme (e.g. in warehousing, storage, book keeping, etc.). Those complementary activities could be supported by Title II multi-year development programs or by non-Title II programs. In all cases, solid coordination will be required.

Conclusions

This annex suggests novel ways of using food to reduce risk in agriculture. These schemes could take advantage of other resources at FFP (e.g., FEWSNET and/or CNSA for early warning monitoring) or dovetail with other U.S. Government interventions. The schemes also build upon and promote local organizations' capacities, and may offer openings to private interests once insurance concepts are introduced and accepted. Applicants will be expected to answer the many questions that need to be asked prior to finalizing the IC components and carefully design the projects to properly implement those models.