



General approach and tools for risk management in CAP Strategic Plans: Agricultural insurance schemes

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Outline

1. Risk management in CAP Strategic Plans
2. General toolbox
3. Dedicated risk management tools
4. Implementation
5. Conclusions

Risk management in CAP Strategic Plans

Risk management in CSP: context

- Policy objective: support viable farm income and the resilience of the agricultural sector across the EU, in order to enhance long-term food security and agricultural diversity
- Farming activity prone to risks, farmers vulnerable → need for public policy on income/risks
- Risks increasing with multiple/complex events like increased volatility/climate/... → need flexible toolbox along a strategy addressing challenges
- Needs bigger than available outlays → need to set up priorities for public spending/involve other sources (mutualisation, private intermediaries)

Risk management in CSP: context

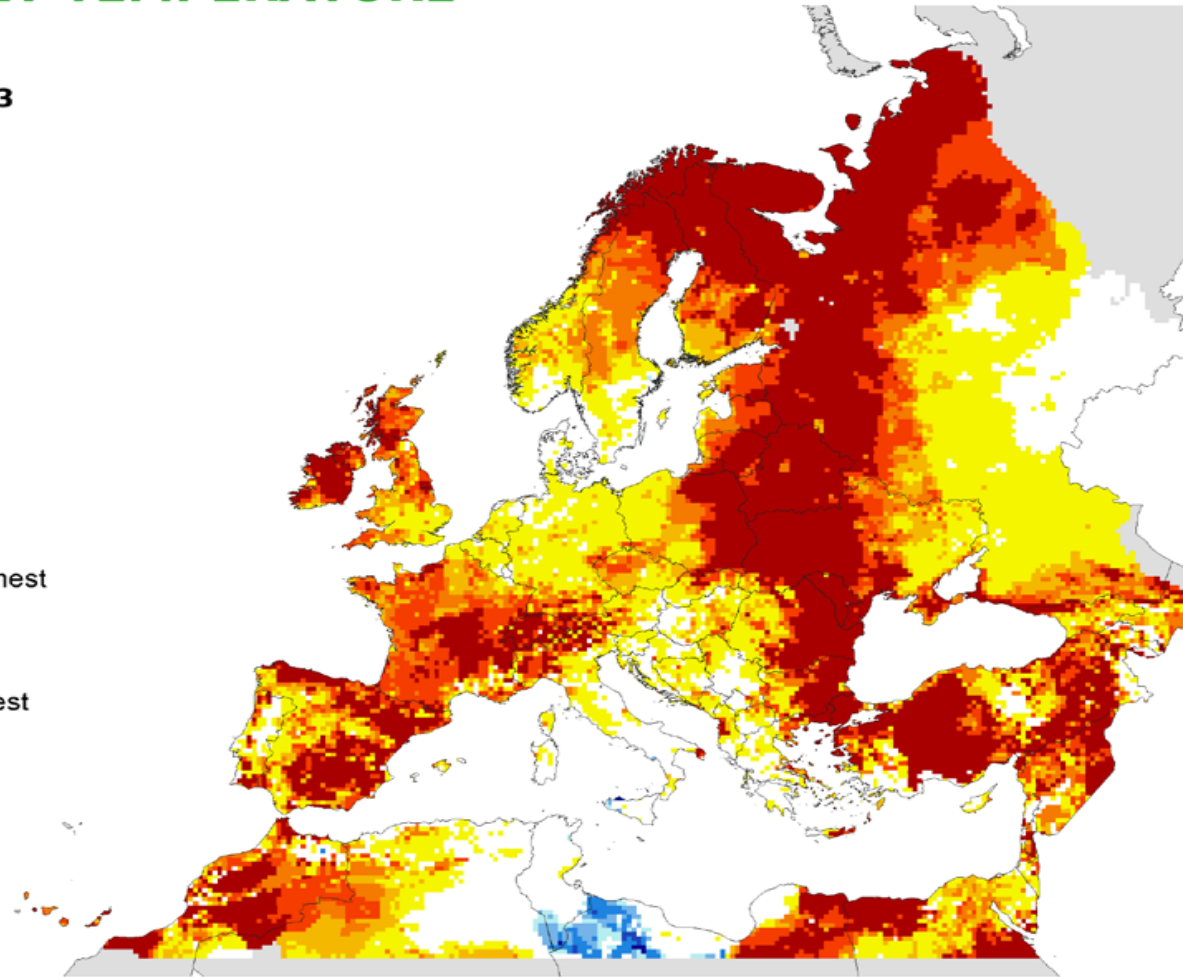
- MS policies have big influence + challenges of different nature/magnitude among MS → need national strategies empowering MS
- All these plead for a strategic, global approach: CAP Strategic Plans
 - Objectives
 - SWOT
 - Design interventions to reach objectives with EU toolkit of instruments
- Toolkit: both general tools not specifically designed for risk management and dedicated risk management tools

Extreme weather/climate change

AVERAGE DAILY TEMPERATURE

from: **01 August 2023**
to: **10 September 2023**

Ranking since 1991



12/09/2023
Resolution: 25 X 25 Km



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Source: EC Joint Research Centre (AGRI4CAST project)



General toolbox

Toolbox: principles

- Efficient: based on SWOT determining strongest needs, focus on prevention/ex ante resilience, avoid deadweight (like paying for normal commercial risks or crowding out private risk management tools)
- Long-term: Encourage farmer involvement (should invest in their own capacity to manage risks)
- Consistent: design policies that do not harm other objectives like competitiveness/market orientation/environmental sustainability (or work in synergy with them)

CAP toolbox (CAP interventions highlighted)

Actions/ risks	1. Normal risks (frequent, minor drops in income)	2. Marketable risks (less frequent, bigger)	3. Catastrophic risks (rare, high damage)
On-farm resilience	Farm business management Farm advice (FAS of the AKIS reinforced with risk management) GAEC e.g. Crop diversification	Contingency planning Financial management (reserves, savings) Investments in e.g., R&I, technology Income diversification Cooperatives and cooperation Management practices	Financial management (reserves, savings)
Commercial private market tools	Market, weather information	Forward contracts, derivatives Pooling, buying in and sales Private insurance	
Ex-ante policies (Risk prevention)	Direct payments Eco-schemes (soil protection, flood prevention etc.) and rural development support (AECM, organic, WFD payments) Productive and non-productive investments, advisory service) Sector interventions (investments, market management, actions to mitigate and adapt to climate change)	Direct payments Public insurance Financial instruments (supporting on-farm investments, loans, guarantees and working capital) Rural development support (investment into preventive actions, investments in irrigation and infrastructure, knowledge transfer/advisory services risk management tool) Sector interventions (e.g. harvest and production insurance)	Direct payments
Ex-post policies (Crisis management restoration of agricultural potential)			RD investments for restoring production potential Sector interventions (replanting, restocking, non-harvesting) Exceptional market measures ag reserve Financial instruments (especially working capital facilities possibly at preferential conditions) State aid or the EU Solidarity Fund

Toolbox: budget allocation of tools

TYPE OF INTERVENTION	EU budget	National co-financing	Total public expenditure
BISS - Basic income support for sustainability (Art.21-28)	96.7	n/a	96.7
CIS – Coupled income support (Art. 32-35)	23.0	n/a	23.0
CIS-YF – Complementary income support for young farmers (Art.30)	3.4	n/a	3.4
CRISS – Complementary redistributive income support for sustainability (Art. 29)	20.1	n/a	20.1
Eco-scheme – Schemes for the climate, the environment and animal welfare (Art. 31)	44.7	n/a	44.7
Cotton – Crop specific payment for cotton (Art. 36-41)	1.2	n/a	1.2
Direct payments*	189.1	n/a	189.1
Apiculture (Art. 54-56)	0.3	0.3	0.6
Olive (Art.63-65)	0.2	n/a	0.2
Wine (Art. 57-60)	4.1	n/a	4.1
Hops (Art. 61-62)	0.0	n/a	0.0
Fruit and vegetables (Art. 49-53)	4.1	n/a	4.1
Other sectors (Art. 66 -68)	0.1	n/a	0.1
Sectoral support	8.9	0.3	9.2
AECC - Environmental/climate/animal welfare related (Art.70)	20.3	12.9	33.2
ANC - Areas with natural constraints (Art.71)	10.6	8.1	18.7
ASD - Areas with disadvantages (Art.72)	0.5	0.3	0.8
INV - Investments (Art.73 and 74)	18.4	12.9	31.4
INSTAL - Setting up of farmers and start –ups (Art.75)	3.4	1.8	5.2
RISK - Risk management tools (Art.76)	2.7	1.9	4.6
COOP- Cooperation (Art.77)	7.0	4.1	11.2
Knowledge and information (Art.78)	1.1	0.9	2.1
Technical assistance	1.9	n/a	1.9
Rural Development**	66.0	43.0	109.0
Total CAP expenditure	264.0	43.3	307.4

* Direct payments - adjusted Annex V SPR Regulation (the sum of types of interventions includes the estimated product of reduction)

** Rural development: Technical assistance financed with national funds and carry-over for early retirement not included

Dedicated risk management tools

Dedicated tools: what is new in 2023-2027?

- Rural development: increased flexibility
 - Less EU requirements - no longer set at EU level: Predefined list of production risks, Definition of income, Obligation for recognition of the risk event, Requirement that the actual loss of the individual farmer must be determined (use of indexes)
 - Basic rules: compensation rates not exceeding 70% of costs, threshold $\geq 20\%$ for all tools
 - Flexibility in design: All tools can cover both production and income losses, any tool
 - Member States establish: targeting, types and coverage of eligible insurance schemes and mutual funds, the methodology for the calculation of losses and triggering factors for compensation, the rules for the constitution and management of the mutual funds

Dedicated tools: what is new in 2023-2027?

- Sectoral interventions: increased flexibility
 - Possibility to fund risk management tools in other sectors based on the F&V model
 - Possibility to transfer up to 3% of DP for funding
- Direct payments: (besides possibility to transfer 3% to fund other sectors to fund i.a. risk management), possibility to use 3% to pay farmer's contribution to risk management tools

Dedicated tools: a comparison

	Beneficiaries	Type of payment	Trigger	Max EU public contribution/payment	Funding
Rural development	Active farmers	<ul style="list-style-type: none"> - premiums for insurance schemes - mutual funds (costs of setup) - income stabilization tools (IST) - other risk management tools 	20% loss of the (previous 3-year or Olympic) average annual production or income	70% of eligible costs (except standalone working capital finance) If GB: compensates 70% of losses	RD envelope (+DP in case flexibility used)
Sectoral interventions	POs, APOs (F&V, etc.) Wine growers	<ul style="list-style-type: none"> - mutual funds (setup, contributions for F&V, etc, admin costs for wine) - harvest/production insurance 	30% (mutual fund for F&V, etc.) – WTO Green Box Rest – MS set	mutual fund (F&V, etc): 20/16/8%, (wine): admin costs only insurance: 80% of eligible costs	Sectoral intervention envelope (except F&V)
Direct payments	Active farmers	- farmer's contribution to risk management	Depends on scheme	Can be used for 30% (e.g. rural development)	Direct payments

Implementation

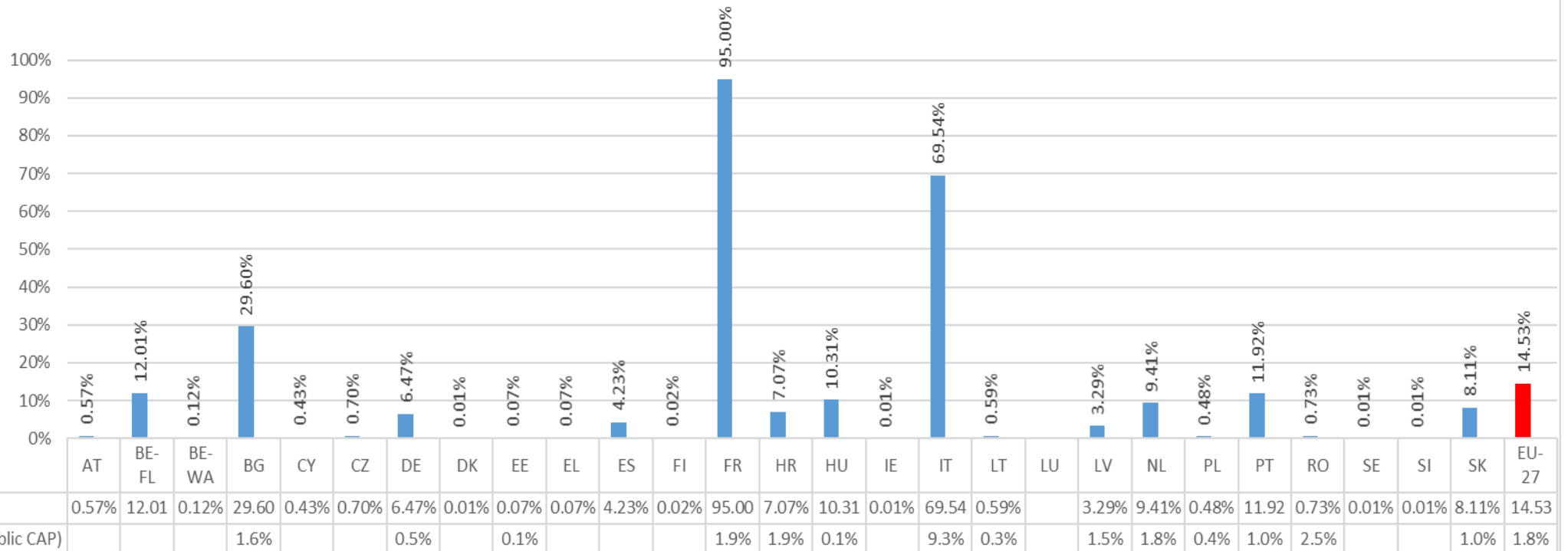
Implementation: state of play

- 14 MSs include rural development risk management tools in their CSPs 2023-2027 (12 MSs in RDPs 2014-2022) and allocate 1% of total public funding for the tool. The tool is aimed to reach more than 14% of EU farms
- Re-allocation of 3% of the direct payments to finance risk management premia: only 3 MSs have chosen to do so
- All Member States except two include in their CSPs the possibility for producer organisations to offer support for risk management interventions in the fruit and vegetables, olive oil and table olives, hops sectors and 'other' sectors through their operational programmes
- Overall: not a lot of use of new flexibilities, very different ambitions across MS, more an evolution than a revolution

Rural development risk management tools planned

MS	Name of risk management tool in the CSP	Type of risk management tool	Production loss coverage	Support rate	Targeting sectors	Threshold triggering compensation (%)	WTO
France	Instrument for stabilizing the income in the sugar beet sector	Mutual fund	Crop; Horticulture; livestock	70 %	Yes	20 - 30	Green box/ Amber
	Mutual funds Payment of insurance premiums	Insurance					
Italy	National mutualisation fund catastrophic events	Mutual fund	Crop; Horticulture	70 %		20	Amber box
	Mutual income funds/ damage	Insurance	Livestock				
	Subsidised insurance						
Slovakia	Premiums for insurance schemes in agriculture	Insurance	Crop; Horticulture; livestock	40 - 50 %		20	Amber box
Romania	Support instrument for farmers affected by losses in agricultural production	Other (crisis support)	Crop; Horticulture; livestock	20 -	Yes	20 – 30	Amber box
	Financial contributions to the payment of insurance premiums	Insurance		50 %			
Netherlands	Broad Weather Insurance	Insurance	Crop	Max 63.7 %	Yes	20	Amber box
Germany	Risk management tools	Insurance	Crop	Min. 20 %	Yes	20	Amber box
Bulgaria	Tools for risk management in agriculture	Insurance Mutual fund	Crop; Horticulture; livestock	70%		20	Green box
Poland	Co-financing of reciprocity funds	Mutual fund	Crop Livestock	70 %	Yes	20	Green box
	Surcharges for livestock insurance premia	Insurance					
Portugal	Risk management — harvest insurance	Insurance	Crop	57 - 80 %	Yes	20	Green/ Amber
	Crop, animal and plant insurance premium						
Hungary	Agricultural Risk Management System (MCS Pillar II/IV): Agricultural crisis insurance scheme / Premium-subsidized agricultural insurance	Mutual fund Insurance	Crop; Horticulture; livestock	70 %	Yes	20 – 30	Green/ Amber
Croatia	Insurance of agricultural production	Insurance	Crop; Horticulture; livestock	70 %		20	Amber box
Lithuania	Crop, plant and animal insurance	Insurance	Crop; Horticulture; livestock	70 %		20	Amber box
	Mutual funds	Mutual fund					
Estonia	Support for agricultural insurance	Insurance	Crop; Horticulture; livestock	70 %	Yes	20	Amber box
Latvia	Crop, animal, crop and plantation insurance premium	Insurance	Crop; Horticulture; livestock	50%		20	Green box

Planned share of farms supported for risk management and targeted financial allocation as a share of total public CAP expenditure



Reasons mentioned for not activating risk management tools in CAP

- The CSP tool is too difficult to set up
- Not flexible enough
- No need: other CSP tools already contribute to farm resilience (e.g. risk management already addressed by farm advisory and agricultural financial services). A well-functioning crop insurance sector already exists. Farms organising in cooperatives may already dampen price volatility and provide some market security
- The insurance cost is too high even with 70 % reimbursement of the premium

Conclusions

Risk Management: perspectives

- Risk management is part of the larger picture of CAP interventions to improve farmers' resilience with a lot of flexibility to MS. The Commission encourages MS to plan risk management tools in view of increasing risks.
- Cooperation, share of best practices
- Future: will depend on how current set-up manages to ensure resilience. Focus on performance.

Thank you



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