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**CASE STUDY SAFCO
MICROFINANCE COMPANY:
HARMONIZING AND
DEVELOPMENT OF
CLIMATE RESILIENT
PRODUCTS AND SERVICES**

INTRODUCTION OXFAM NOVIB FUND

The mission of the Oxfam Novib Fund (ONF) is to support vulnerable people's recovery and resilience by providing (risk and other) finance and other support to Micro Finance institutions (MFI). This allows them to mitigate climate change related risks, so that they can serve clients with adapted products and services while making a long-term social and financial return. ONF has a technical assistance (TA) grant facility dedicated to building climate resilience of portfolio MFIs and their clients. Depending on the needs of the MFI, TA can be used to support the development of an environmental strategy, capacity building in climate risk management and the development of new climate resilient products and services. Whereas the credit facilities of the ONF are managed by Triple Jump, this grant facility is managed directly by Oxfam Novib.



INTRODUCTION MICRO FINANCE INSTITUTION

SAFCO MICROFINANCE COMPANY (Private) Limited ("SMCL") is a for-profit, non-depository microfinance company, operating as a lending company with Non-Banking Microfinance Company ("NBFC") license regulated by the Securities & Exchange Commission of Pakistan ("SECP"). SMCL is aimed at micro-lending and the development of small-scale enterprises and agriculture in the province of Sindh, Pakistan. Sindh is one of the country's most disaster-prone provinces of Pakistan. Natural disasters, such as flooding, drought, heat waves and insect influence are major causes of concern for the small-scale farmers and enterprises in Sindh, including the borrowers of SMCL. Natural disasters and calamities have increased drastically over the past five years. The heavy rainfall and floods from major calamities such as in 2010/11 and 2022 flood were catastrophic, and some communities have still not recovered from that. To protect the company and the borrowers from financial loss resulting from these calamities, SMCL, Triple Jump, and Oxfam Novib have partnered with Pakistan Microfinance Network (PMN) to study the financial and asset impact of such calamities and assess the effectiveness of climate-resilient insurance products and services.



“ ALL WAS GOING WELL UNTIL HEAVY RAINS AND A BIG FLOOD HIT AND RUINED MY CROPS AND DESTROYED MY HOME”

said 43-year-old Rukhsana, a mother of two and a smallholder cotton farmer from the district of Sanghar, Sindh province in Pakistan.

See the full story [HERE](#)

PROJECT DESIGN & SCOPE

The objectives of the project were:



- Development of climate-resilient products & services, especially keeping in view the rural market and potential target segment.
- Review and align existing risk management policies, procedures and practices to address operational challenges in the context to disaster resilient risk reduction framework.

The project included 2 phases:

- 1 Climate risk assessment phase**
 - The consultant assessed the climate vulnerability of SMCL’s regions and products.
 - The consultant researched the level of awareness of SMCL’s clients of climate change and their current climate resilience practices.
 - The consultant created a disaster risk reduction framework with short-term and long-term actions to enhance the climate resilience of the institution and its clients.
 - The SMCL’s management created an implementation plan in which the suggested actions were prioritized.

- 2 Product development phase**
 - SMCL engaged with 3 insurance companies to explore the bundling of crop loans with insurance and the evaluation of the existing livestock loan bundled with insurance.
 - The consultant conducted field visits to pre-test the appetite of SMCL’s clients for the different product prototypes.
 - SMCL adapted the credit policy to include more climate resilient practices and the new and revised product offering.
 - SMCL’s staff was trained on the newly created products.

Figure 1: climate risk assessment of agricultural development loan and livestock development loan

	 AGRICULTURE	 LIVESTOCK
DIRECT	<p>Flooding is the major threat to agriculture in Sindh</p> <p>Extensive river and canal-based irrigation systems contribute to this threat</p> <p>Unpredictable crop yields from insect influence and changing weather patterns contribute to the risk</p>	<p>The death of animals from livestock epidemics, storms, flooding, and heatwaves</p> <p>Sickness of animals</p> <p>In floods, it becomes hard to find feed for animals which causes decline in its health</p>
INDIRECT	<p>Loss of employment opportunity</p> <p>Local demand is fulfilled by locally-grown crops. However, when flooding occurs, it leads to widespread food insecurity</p>	<p>Stress-selling:</p> <p>Due to liquidity challenges borrowers are forced to sell their assets at lower prices, resulting in economic losses</p>

The climate risks of SMCL’s products were assessed by analyzing hazard types, frequency, direct/indirect impacts, existing prevention measures, historical data, and regional geography to categorize risk and its counter measures as high, medium or low. Data sources: NDMA, Pakistan Metrological Department, and Insurance Company’s Data.

KEY FINDINGS

The key findings of this project were:

A.

SMCL's borrowers are vulnerable to climate disasters, especially to heavy rainfall and flood.

B.

From SMCL's portfolio, the agriculture and livestock products are most sensitive to climate disasters (see Figure 1 above).

C.

Several preventive practices and coping mechanisms are prevalent in the communities that SMCL operates in, but this remains to be insufficient. Preventive risk management practices such as vaccinations of livestock, the use of insecticides and excess water draining are associated with high costs (see figure 2) Coping mechanisms such as exhausting savings, additional borrowing or stress selling of crops or livestock can lead to financial difficulties in the long-term.

D.

Due to limited awareness, the demand for insurance is low. However, when insurance is better understood by clients, demand increases. Awareness raising is needed in:

1. Counseling on the concept of livestock and crop insurance, including triggers and the pay-out systems.
2. Cash-flow accounting, specifically detailing the costs associated with existing risk management practices versus the costs of insurance.

Figure 2: preventive risk management practices and associated average costs for SMCL's clients

PREVENTIVE PRACTICES	AVERAGE COST ESTIMATES (USD/YEAR)
Livestock vaccinations	USD 1,80-3,60
Mosquito nets	USD 1,80-3,60
Making the livestock shelters more resilient to heavy rain and flooding	USD 10,75-14,50 (one-time cost)
Insecticide sprays	USD 14,50-18
Water management (irrigation control)	USD 36
Crop covers	Wheat-USD 270, Cotton-USD 325

KEY ACHIEVEMENTS

The key achievements of this project include:

A.
The disaster risk reduction framework that can be used by SMCL as a vision document.

B.
The integration of climate-resilient lending strategies in the credit policy of SMC.

C.
Capacity building of the staff of SMCL on the newly designed bundled product.

D.
Microinsurance bundling:

1. Adaptation of current livestock loan bundled with insurance (see Figure 4 below)
2. Crop loan bundled with insurance product (see Figure 3 below)



Figure 3: Agriculture Development Loan Bundled with Crop Insurance (new)

Addresses this challenge: Flood and excess rain are 2 different triggers that is hard to combine in 1 microproduct in an affordable way.

Products combines 2 distinct triggers:

- Weather Index Insurance: Parametric cover against weather-based triggers (excess rain) on a geographic basis with use of satellite data
- Catastrophe insurance: Indemnity cover against occurrence of disasters (flood) on a geographic basis.



Figure 4: Livestock Development Loan Bundled with Crop Insurance (adapted)

Addresses these challenges:

Digital livestock insurance relies on smartphones and connectivity for tasks like taking pictures and scanning muzzles for claims. Connectivity challenges during disasters, like floods, made capturing images or scanning muzzles impractical.

Adjustments include: extending the incident reporting time to 14 days for a more customer-centric and adaptable approach.

NEXT STEPS

After the end of this project, the next steps were planned:

1. Further operationalizing the climate-resilient lending strategies as defined in the credit policy.
2. Pilot of the Agriculture Development Loan Bundled with Crop Insurance with 65 crop farmers. This is been made possible by funding from the Innovation Lab of the Oxfam Novib Fund.
3. Upon the successful completion of the pilot program, crop insurance will become a mandatory component for all Agriculture Development Loan borrowers.