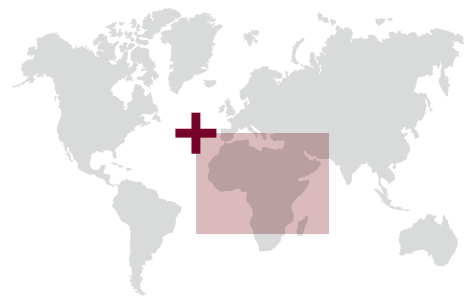


# InsuResilience Global Project in Zambia



## AT A GLANCE

### Name

Global Project InsuResilience, Implementation  
Component Action Area 2: Market Development  
for Climate Risk Insurance in Zambia

### Duration

April 2016 – September 2019

### Focus area

Zambia (Mainly Southern, Central and  
Eastern Provinces), Central and Eastern Provinces

### Target group

Smallholder farmers

### Funds available

The Global Project InsuResilience is conducted by the  
Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ)  
GmbH on behalf of the German Federal Ministry for  
International Cooperation and Development (BMZ)

### The project is jointly implemented by ...

The project is being implemented in collaboration with  
insurance companies and agribusinesses.

### Overall aim of the project is ...

to strengthen the market for climate risk insurance solutions  
in Zambia targeted to smallholder farmers.

## BACKGROUND

As a result of global warming, there is an increase in the frequency and intensity of extreme weather events worldwide. In response to this profound challenge, G7 countries launched the “G7 initiative on Climate Risk Insurance”, also known as the InsuResilience initiative, at the 41st G7 summit held in Elmau, Germany in June 2015. The initiative aims to increase access to direct or indirect insurance coverage against the impacts of climate change for up to 400 million of the most vulnerable people in developing countries by 2020. Germany was one of the first G7 countries to commit to financial and technical support for the InsuResilience Initiative. In light of these developments, the GIZ InsuResilience Global Project was put in place. In 2017 at COP23 in Bonn, the initiative was transferred into the InsuResilience Global Partnership, which was endorsed also by the G20 and the V20 countries.

In Zambia 53% of the working population are employed in agriculture. Most farmers are smallholders with less than 5 ha, often with little means to increase productivity and protect themselves from production risks. Changes in weather patterns such as delays on rainy seasons, more frequent drought periods and excessive rains, can lead to partial or even total crop losses that smallholder farmers cannot bear. Climate risk insurance products can be an appropriate way to transfer these risks and increase farmers' resilience. This is where the work of the InsuResilience Global Partnership comes in, supporting the sustainable development of the agricultural insurance market in Zambia.

## APPROACH

Since 2016, BMZ has been financing measures in Zambia aimed at strengthening the insurance model linked to contract farming, ensuring its sustainability and identifying possibilities for its further spread in the country. NWK's contract farming framework shows that index-based climate risk insurance products can foster sustainable business opportunities for agricultural companies. The project carried out by GIZ supports the further development, dissemination and expansion of the insurance model linked to contract farming throughout the industry. The aim of this model is to be replicated by other agricultural companies within Zambia and other countries, increasing smallholder farmers' access to climate risk insurance.

Since the 2013/14 season, the agricultural company NWK AgriServices provides its cotton contract-farmers access to weather index-based insurance bundled with funeral insurance on a voluntary, unsubsidized basis. The weather index insurance covers dry spells and excess rainfall with rainfall estimates based on satellite data. In June 2018, NWK AgriServices entered into a three year development partnership with GIZ as part of BMZ's develoPPP.de programme. The develoPPP.de programme was set up to foster private sector engagement in areas where business opportunities and the need for development action overlap. To this end, BMZ offers financial and technical support for companies that invest in developing and emerging-market countries.

The private sector contributes at least half the total costs. The development partnership aims at farmer sensitization activities, and scaling up and replicating the contract farming insurance model. NWK is financing 100% of the insurance premium, along with other agricultural inputs such as seeds and fertilizers under a cotton production contract. At the end of the agricultural season, the farmer receives the local market value of their harvest plus insurance payouts, if any, minus the initial investments from NWK. By adding insurance to the agricultural insurance package, the risk to NWK that the contracted farmers sell to other companies and default on their agreement with NWK, so-called side-selling, decreases. Insured farmers that understood the concept of insurance well also have the confidence to invest more. Therefore, insurance linked to a contract farming scheme can strengthen the core business of a contract farming operator such as NWK. Smallholders, on the other side, can be covered with insurance that previously had no access to insurance.

On the supply-side, capacity building is provided to local insurers on weather index insurance for smallholders through workshops and support in product design. On the aggregator level (contract farming companies, input suppliers, MFIs), staff trainings and workshops are conducted.

On the demand side, the understanding of smallholders on weather index insurance is strengthened. This includes the implementation of insurance trainings for farmers, the provision of information materials on weather index insurance (posters, flyers, flipcharts etc.) and the dissemination of insurance knowledge through an interactive mobile engagement platform. An improved understanding of the functioning of weather index insurance supports the uptake of insurance and facilitates positive behavioural changes of the smallholders such as an improved allocation of resources or the uptake of risk reduction measures.



## OVERALL CHALLENGES

- Profit margins in the cotton sector for contract farming operators as well as farmers has plunged in recent years. Agribusinesses have therefore been keen to decrease their operational costs and not engage in activities that increases expenditures. However, adding insurance into the pre-financed agricultural input packaged provided to the farmers increases the refinancing costs of the agribusinesses themselves.
- The benefits of the insurance model in contract farming needs to be well explained to top management of a contract farming operator before they consider adopting it as the benefits of insurance for their business is not intuitive. The project is currently preparing a study that illustrates how adding weather index insurance to the contract farming model strengthens the core business of contract farming operators.
- Local insurance companies rely heavily on technical assistance for the design and pricing of weather index products as well as determining payouts. However, specialized experts in the region to provide this assistance are rare.

## OPPORTUNITIES

- In each of the seasons 2017/18 and 2018/19, the Zambian government has enrolled almost 1 million smallholder farmers on weather index insurance under its Farmer Input Support Programme (FISP). This policy decision might increase the interest of the Zambian insurance industry in weather index insurance for smallholder farmers.

## ACHIEVED RESULTS

### Due to technical support provided by GIZ:

- Two additional insurance companies decided to underwrite weather index insurance to smallholder farmers in the 2019/20 season.
- Two additional aggregators with customers in rural Zambia decided to offer weather index insurance in the upcoming season.
- Alliance Gineries, a contract farming operator in the cotton sector, has purchased a weather index insurance portfolio cover for around 20.000 ha in the season 2018/19 and is considering offering insurance to its contracted smallholder farmers in the 2019/20 season.
- The knowledge about weather index insurance as a risk management tool has increased among agribusinesses.
- The knowledge about the benefits of weather index insurance has increased among smallholder farmers.





## LESSONS LEARNED

- Climate risk insurance is implemented in an effective and sustainable manner, if supply and demand-side measures are undertaken as well as framework conditions such as data availability are improved.
- (Climate risk) insurance should not be implemented as an isolated concept.
- Relying on freely available satellite based rainfall estimates is an alternative to depending on precipitation data from (automated) weather stations (at least in certain parts of the world) for weather index insurance. This allows to reduce the cost of implementing a new insurance scheme.

## IMPRINT

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