Global Index Insurance Facility (GIIF)

Expanding Access to Index-Based Insurance in Developing Countries

October/November 2012 Newsletter (Issue #4)

The Role of Index Insurance for Agriculture in Kenya

Interview with Dominique Davoux, Head of Rural Development, European Union Delegation to Kenya

The Global Index Insurance Facility (GIIF) is a global initiative which began pilot activities in Africa in 2010. In African, Caribbean and Pacific (ACP) States, GIIF is mainly financed by the European Commission, through the European Development Fund Intra-ACP, in partnership with the ACP Secretariat.

In Kenya, GIIF has given grants to the Syngenta Foundation for Sustainable Agriculture and the International Livestock Research Institute (ILRI) to launch weather index insurance products for smallholder farmers and pastoralists. While agriculture in Kenya accounts for 70% of employment, 26% of GDP, and 60% of its foreign exchange revenue, the sector faces numerous challenges.

Over 80% of Kenya's land is arid or semi-arid, and farming is constrained by low and erratic rainfall. Livestock represents nearly half of Kenya's agricultural GDP. Nearly half the population lives in a chronic food insecurity situation, and it is estimated that droughts have a direct impact on the household food security of nearly 10 million Kenyans living in drought-prone areas.

Index insurance can potentially offer millions of smallholder farmers and pastoralists a way to mitigate risks, safeguard their assets and invest in higher yielding crops and herds.

Q: How important is agricultural index insurance for Kenya's smallholder farmers and pastoralists and the Kenyan economy?

A: Risks are quite high for farmers in Kenya. There are recurrent droughts and flash floods. Index insurance is a critical component to help farmers but not a stand- alone product. It must be part of a comprehensive package for farmers including agricultural extension services, loans and better inputs. Most importantly, index insurance must establish market linkages with the commercial agricultural sector.

ILRI, for example, has created a livestock index product with good correlation to drought, and they have good integration with community groups. Now they need to establish linkages with market supply chains such as the local cattle markets. Livestock index insurance is still in the experimental phase. GIIF supported this pilot phase, and the European Development Fund, UK Aid and Australia are now providing an additional $6 million to ILRI for further research into livestock index insurance products for arid and semi-arid lands in Kenya.

Q: What do you think is the key to Syngenta's success in creating a nascent but fast growing agricultural insurance market in Kenya?

A: I am impressed with the Syngenta Foundation's field operations and their willingness to be flexible and experiment.

Dominique Davoux

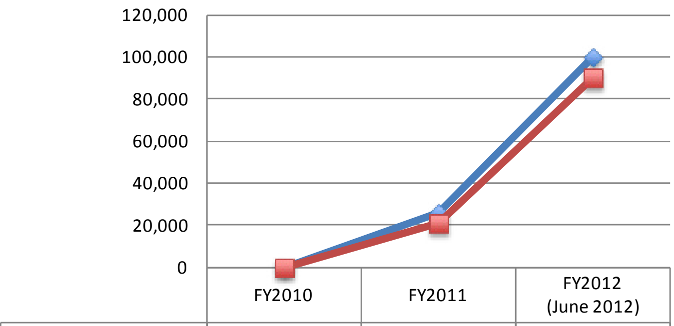
They have created index insurance products for maize, sorghum, wheat, beans, potatoes and more recently horticulture, dairy and coffee. They have also recently created a weather index "coffee weather guarantee" insurance product, which has a good correlation between weather and the coffee crop.

Q: What role can GIIF play to promote the success of index insurance in Africa?

A: We need a way to share knowledge quickly about field successes and failures. GIIF could gather all stakeholders for increased knowledge sharing and to agree on the best way forward for scaling up to a sustainable market.

From Pilots to Market Sustainability in Africa

Total Farmers Insured



	FY2010	FY2011	FY2012 (June 2012)
Total Insured	200	26,000	100,000
Insured with Loans	0	21,000	90,000

The Syngenta Foundation for Sustainable Agriculture implemented one of GIIF's first weather index insurance pilot projects in Kenya in 2010 with 200 farmers. Two and a half years later, Syngenta's recently-formed company Kilimo Salamo ("safe farming" in Swahili) has sold eight weather index products to 53,000 farmers in Kenya, and expanded operations in 2012 to Rwanda, covering 21,000 farmers by November 2012.

A variety of factors, including the density of farmers around weather stations, mobile phone delivery, quick payouts, a dynamic training and media outreach program, good mid-level distributors and dedicated field and office staff, contributed to Syngenta's success in scaling up. GIIF's four other implementing partners working in East, Southern and West Africa are also now positioned to scale up rapidly after 1-2 year pilots addressing challenges ranging from poor or incomplete historical weather data, pricing and design to supply chain issues.

GIIF's total outreach is currently 125,000 farmers/pastoralists, which includes 38,000 farmer directly sourced and serviced by GIIF's technical partner, Swiss Re. GIIF projects now comprise 90% of the weather index insurance market in Africa.

The support from our donor partners has proved critical to create an index insurance market in Africa. The penetration of the agricultural insurance market is less than 1percent in most of Africa. Donor funds have largely been used to build capacity through awareness and training campaigns among targeted farmers and pastoralists; training of local and regional insurance companies to underwrite and process index insurance; support to governments to review and draft insurance laws and supervise practices; training of distributors on pricing, index triggers and claim payments, and the development of satellite technology and weather stations. This support has allowed GIIF's partners to keep premium costs at an affordable level until the market for index insurance scales up. It is critical for any insurance market to spread the risk amidst a broad pool of clients.

GIIF's implementing partners are now preparing business plans to scale up to sustainable market levels. The break-even point for index insurance sales for individual GIIF partners may range from 200,000 to 500,000 farmers/pastoralists depending on climactic conditions and other factors. PlaNet Guarantee, for example, has just estimated a break-even point of 213,000 farmers in five countries in West Africa.

On the premium and loan portfolio end of the market, GIIF's re-insurance partner, Swiss Re, believes that to attract insurers and reinsurers to agriculture insurance in Africa, the market needs to scale-up from GIIF's present annual premium volume of $800,000 in Africa to at least $10 million annual premium, covering around three million small holder farmers, with an accompanying loan portfolio value of at least $100-150 million.

8TH INTERNATIONAL MICROINSURANCE CONFERENCE IN DAR ES SALAAM

From 6 to 8 November 2012, the 8th International Microinsurance Conference took place in Dar es Salaam, Tanzania, hosted by the Munich Re Foundation and the Microinsurance Network. Over 500 participants and experts from around the world exchanged experiences and discussed the challenges of microinsurance. Participants included representatives of insurance and reinsurance companies, international organizations, NGOs and development-aid agencies as well as academics, policymakers, and supervisory regulators.

Shadreck Mapfumo, GIIF index insurance specialist, served on one of nearly two dozen panels entitled "How to provide sustainable insurance for low-income farmers." Other participants came from the University of Oxford, World Bank (Agricultural Risk Management), Munich Reinsurance Company, and the National Bank for Agriculture and Rural Development (NABARD, India). All panelists agreed that weather and area yield index insurance could be used together to reduce basis risk.

GIIF AT THE EUROPEAN DEVELOPMENT DAYS

The seventh European Development Days took place on 16 and 17 October 2012 in Brussels, bringing together heads of state and government, policy makers, and development practitioners to discuss and share ideas about bringing an end to global poverty.

Under the headline theme of "Sustainable and Inclusive Growth for Human Development," discussions focused on sustainable agriculture, food Security and resilience. GIIF was featured as one of 28 "project labs," with a panel discussion on index insurance as an innovative market-based development strategy to address climate change and food security in disaster-prone countries. Representatives from the ACP Secretariat, IFC, Swiss Re, and the Syngenta Foundation participated in the panel discussion.

The event served to share some of the lessons learned from implementation on the ground, specifically in Africa. Panelists highlighted some of the benefits of index insurance, including the fact that it reduces moral hazard and adverse selection, ensures timely payout, greatly reduces administrative costs which allows for more affordable premiums for small farmers), and provides a standardized and transparent structure based on measurable indexes. Index insurance can also be combined with other financial products, such as loans. The important role of insurance in risk mitigation against climate-induced weather change and food insecurity was also highlighted.

Shadreck Mapfumo, Rose Goslinga, Jürg Trüb, and Viwanou Gnassounou at the panel discussion on index insurance

A Testimonial from Rwanda

Field interview conducted by Jean de Dieu Kampayana, Country Project Manager, MicroEnsure/Rwanda

"My name is Mrs. Niyitegeka Veneranda. I am 55 years old and married. My husband and I have seven children and five grandchildren. We own 0.6 ha of land for rice and maize production. With our farming income, we have been able to build own small house, feed our children and send our last three children to school.

I recently took out my first loan with Kenya Commercial Bank (KCB)for 60,000 Rwandan Francs ($96) to purchase fertilizers and to pay for labor to plant rice on 0.2 ha of my land. I am enjoying my loan: as you see, my rice is looking good. I will try to get a bigger loan next season to expand the rice and maize production on all of my land.

The availability of insurance has encouraged me to invest more in our agriculture production. I paid $6 for weather index insurance against drought and excess rain. The insurance was part of my loan. Its price was very fair considering the risks that the insurance is covering. We have a lot of problems here with drought, too much rain, and sometimes flooding and diseases. To get yield based insurance, I would pay double for drought and excess rain coverage up to 10% of the sum insured."


Mrs. Niyitegeka Veneranda

WHAT IS GIIF?

Index-based insurance pays out benefits on the basis of a parameter or a pre-assigned value for losses resulting from weather and catastrophic events. When one of those events is triggered, the insured party receives an insurance payment according to the pre-defined payment formula. For example, insurance will be paid out in the event of drought, defined as a result of less than an anticipated amount of rain.

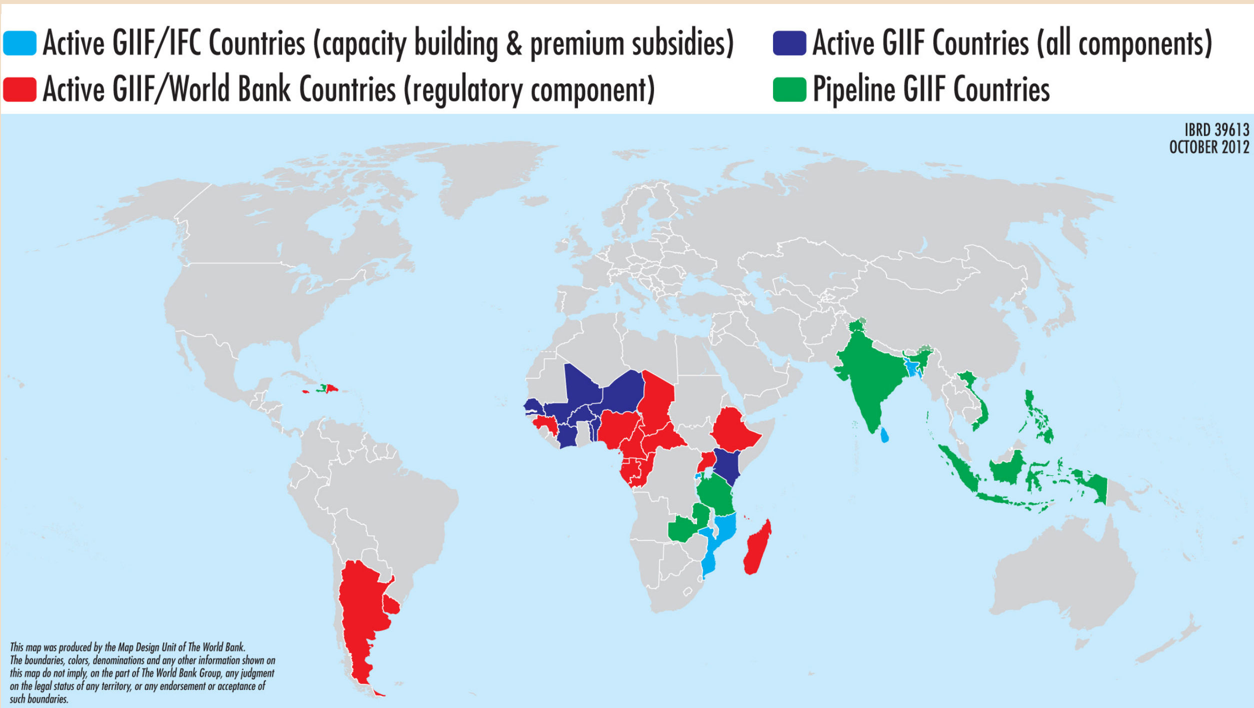
This innovative approach to insurance provision means that policyholders qualify for pay-outs as soon as the statistical indexes are triggered, without having to wait for claims to be settled in the traditional way. Insurance will also pay out if the index is triggered irrespective of the actual loss.

Index-based insurance reduces moral hazard and adverse selection, ensures timely payout, reduces administrative costs, and provides a standardized and transparent structure. The product can also be combined with other financial products, such as loans.

Farmers and pastoralists with insurance also enjoy improved access to finance, as banks are more willing to lend to those whose assets are insured.

Recognized by the G20 Agriculture Group For Its Contribution to Food Security

At the G20 summit in Mexico in May 2012, the G20 Agriculture Group recognized GIIF's role in addressing global food security and food price volatility. One of the recommendations on sustainable agricultural production and productivity was to support the efforts of the Global Index Insurance Facility to provide smallholders with innovative and effective market-based risk management options, including weather index insurance.



Our Partners

The European Union is the primary donor partner to the GIIF Trust Fund with a focus on the African, Caribbean and Pacific Group of States (ACP). The governments of Japan and the Netherlands are providing additional support for further countries.

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