



Agriculture Insurance:

**The business case of Public Private Partnerships
(PPPs)**

23rd March 2021

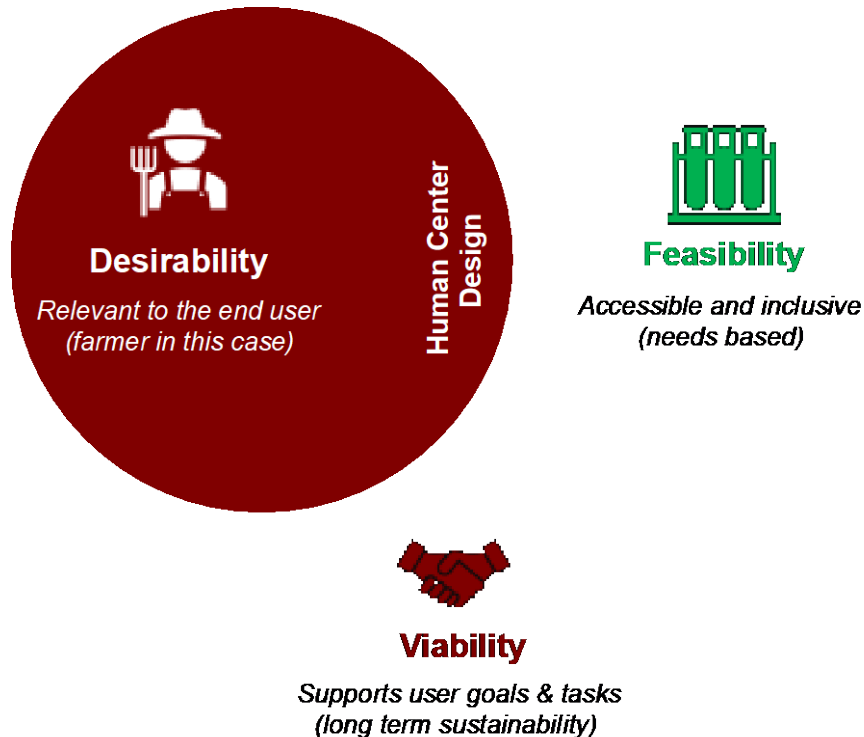
6th Eastern and Southern Africa Regional Conference on Inclusive Insurance

Why **Agriculture Insurance**?

- **More than 60% of 1.2 billion people in Africa** live in rural areas and agriculture accounts for two thirds of livelihoods and food accounts for two thirds of the household budgets of poor people
- Africa's economy is inherently dependent on agriculture; **more than 32% of the continent's gross domestic product comes from the sector**
- **Over 90% of agriculture depends on rainfall, with no artificial irrigation aid.** Agriculture in Africa also experiences basic infrastructural problems such as access to markets and financing
- **80% of African family farms are small-holdings, with a farm size of less than 2 hectares.** Small-holder farmers are often subjected to frequent weather shocks and adversely affected by weather-related risks



Design **responsive and inclusive** agriculture insurance scheme








- Design agriculture insurance scheme based on the principles of **Human Centered Design**
- Design insurance solutions that are **needs-based**, **adjusted to the local content** and linked to comprehensive risk management strategies
- Design insurance products that are **nationally and locally driven and owned**, are tailor-made to the local context, and provide reliable and demand-based coverage
- **Build on natural aggregators** which have established successful delivery mechanisms that are efficient and cost-effective
- Ensure the **inclusive, meaningful and accountable involvement** of all relevant actors and stakeholders

Key institutional, technical, operation and financial **challenges**



- **Low Risk Awareness and Lack of Insurance Culture** - Low level of literacy among rural farmers on agricultural practices The concept of saving, banking, insurance doesn't resonate
- **The availability of historical data and its usage in the design and rating of insurance policies is very much limited.** Commercial insurers are concerned about their ability to access international agricultural reinsurance capacity
- **Private insurers lack rural presence in terms of infrastructure (branch networks)** - the insurance companies have very few retail sales outlets at sector and village level
- **The very small size of farms of less than one hectare** and small average herd size of 2 to 3 animals means that the costs of insurance delivery and underwriting and claims administration are potentially prohibitively high



Comparison of **two Agri-Insurance schemes** in the Region >>

Country	 Rwanda	 Ethiopia
Sponsored/ supported by	Access to Finance Rwanda (AFR); Ministry of Agriculture and Ministry of Finance	LIFT Land Investment for Transformation (LIFT) programme, funded by the Foreign, Commonwealth & Development Office (FCDO)
Technical Assistance	 CelsiusPro KMD London and CelsiusPro	  KMD London and FinProbit Solutions
Target	Small scale subsistence and medium scale commercial farmers	Small scale farmers (mainly subsistence farmers)
Underwriters (local insurers)	Three (3) local insurance companies participating through a tender based approach	Two (2) local insurance companies participating through a tender based approach
Distribution	Cooperatives and individual farmers linked to agro-dealers (Input – linkage model)	Regional Microfinance Institutions regulated by NBE (Credit / Saving – linkage model)
Product/ Scheme <i>Introduced in 2018-19</i>	Area Yield Index Insurance Scheme (AYII) and Livestock Insurance Scheme	Area Yield Index Insurance Scheme (AYII)
Crops Covered	Food crops and commercial crops – rice; maize; irish potatoes; french beans and chilli	Mainly food crops - maize; wheat; teff and sorghum

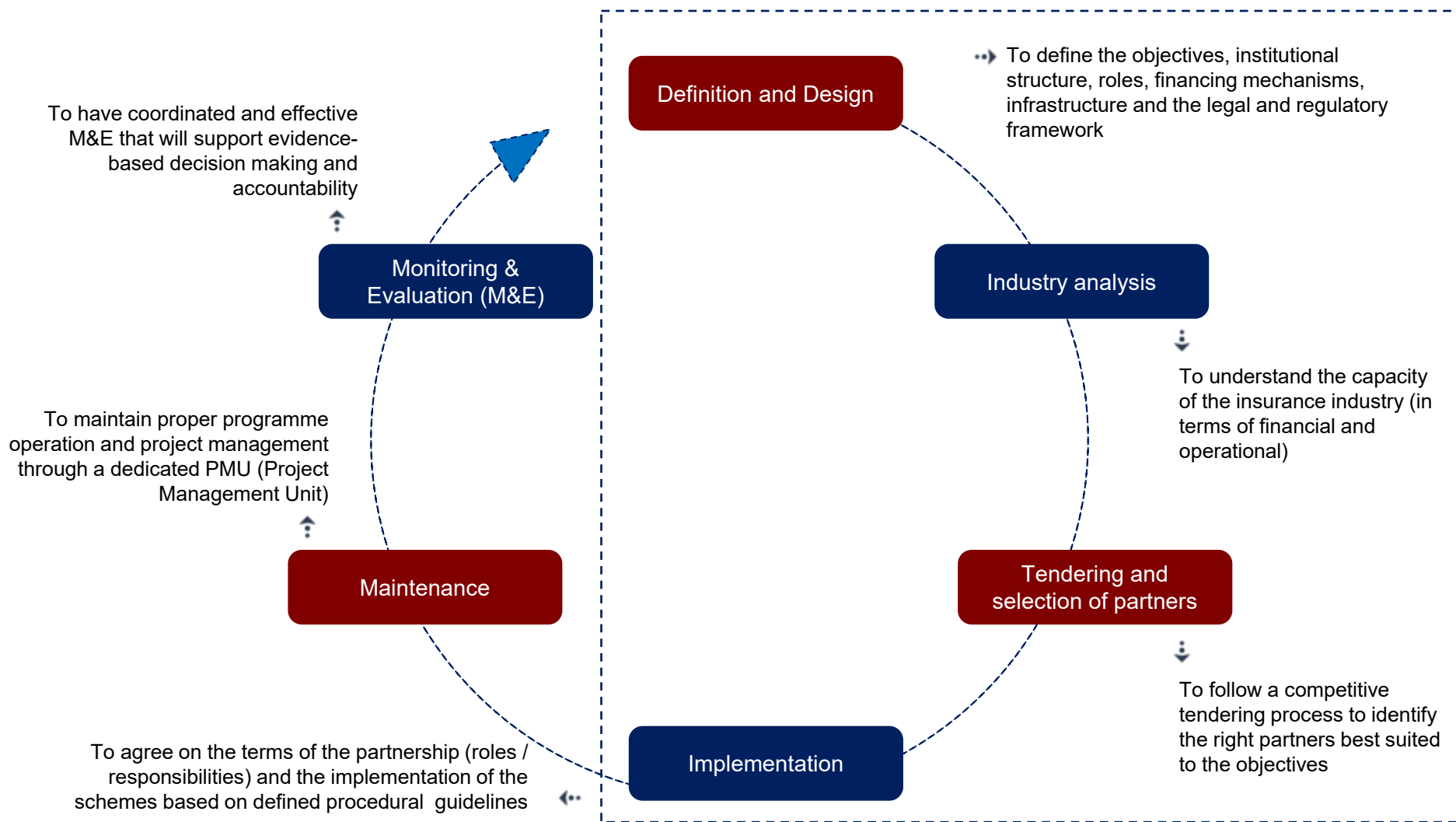
>> Comparison of **two Agri-Insurance schemes** in the Region

Country	 Rwanda	 Ethiopia
Sum Insured/ Benefit Amount	Cost of production/ investment - includes the input costs (e.g. seeds, chemicals and fertilizer) and some standard labour cost	Scale of finance / Credit Amount as insurance is offered as a bundled product with agricultural / input credit
Premium Rate	Maize – 8.25%; Rice – 7.08%; Irish Potatoes – 8.0%; French Beans – 8.0% and Chilli – 8.0%	Maize – 8.0%; Wheat – 6.0%; Teff – 6.0% Sorghum – 6.0%
Subsidy	Yes (40% of the premium is subsidized)	Not available
Roll out of the scheme	Across the country	Confined to one region
Role of Government	Active participation – premium subsidy; setting operational guidelines; awareness building; risk pool strategy (reinsurance) etc.	Limited
Performance	<ul style="list-style-type: none"> • Since inception (over 3 seasons) • 25,000+ Ha of land insured • ~ 100,000 farmers got insurance policy • Loss Ratio in the 1st year was over 100% - this created a good impact right at the inception of the programme 	<ul style="list-style-type: none"> • NBE (the regulator) approved the first every AYII scheme for small scale farmers • Less than 1000 farmers have enrolled into the scheme

Public-private partnerships (PPP)
can create an environment that is more conducive to agricultural insurance.



Key steps in implementing a functional PPP model



Lessons Learnt

- **Use insurers as an ally to achieve public policy objectives** » insurance can be used as a complementary tool to align incentives and create behavioral changes, and to reduce and manage risks
- **Define the target beneficiaries correctly** » Comprehensive risk cover can be provided to final beneficiaries when insurers have an optimal understanding of the risk profile and preferences of end clients (beneficiaries)
- **A strong legal/ regulatory framework** » provides certainty to all the stakeholders (both the public and private sectors) around the commitments and investments needed to implement a programme over the long term
- **Allocate and define roles and responsibilities** » Assign responsibilities for each of the critical activities in the implementation process to create an overall accountability for the success of the scheme
- **Capacity building across stakeholders (implementation agencies)** » provide technical capacity to design policy; oversee insurance schemes; monitor and audit insurance programme
- **Establish a robust monitoring and evaluation framework/ systems** » To establish a result-oriented environment. Evaluation's overtime will shed light on how to improve the design and operation



Thank You

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