Public Private Partnerships for Agriculture Insurance Adoption

By Thomas Njeru, CEO & Co-Founder, Pula

PULA

About Pula

We develop parametric Crop Insurance through **Yield & Weather Index Insurance-** covering **drought, flood, locusts, cyclones, diseases**

Covering 22 crops: **maize, rice, wheat (80%)** as well as pulses, oilseeds, sugar crops, roots & tubers, cash crops (cotton, coffee, cocoa) and some livestock

6.5M Smallholder & Family Farms

100+ Distribution Partners

67 Insurers
22 Reinsurers

52m in Premium
20m in Claims paid

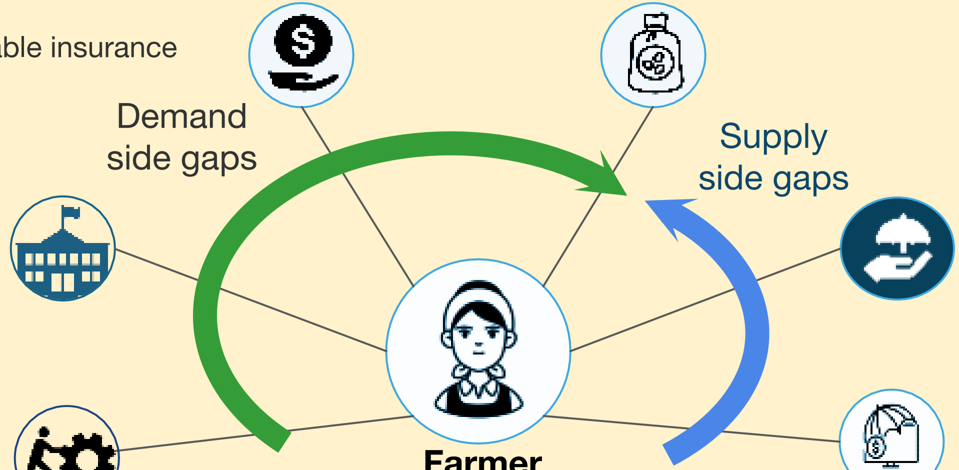
10m in VC investment

There are gaps in the insurance value chain that have kept adoption of agriculture insurance at low levels

Investors and lenders
Unable to find the right, affordable insurance products

Governments
Have limited experience with agric insurance, do not have it in budget and often struggle to set efficient policies

NGOs & Dev. Agencies
Limited experience with agric insurance and don't include it in their program design



Farmer
Needs insurance but has limited interest to buy it her or himself

Input providers & traders
Exposed to risks of the farmers but can't find suitable insurance products

Insurers
Lack technical capacity to design agric insurance products and lack global scale to diversify risk, capital requirements limit them from investing

Reinsurers
Lack in-country presence, despite technical capacity

WFP
IFAD Investing in rural people
APOLLO AFEX Olam

Nigeria: Government lending drives Agricultural Finance by Banks

In Nigeria, the Central Bank of Nigeria offers low cost capital from CBN at 2% and lend it to farmers at 9%. The programs leverages CBN ability to access low cost funding to keeps loans affordable to farmers.

Private banks carry 50% of the credit risk and therefore both the bank and CBN require insurance. Any payout is used to first recover the outstanding loan.

Despite a huge flood in 2020, banks were able to continue lending to most farmers in 2021 due the largest insurance payout in Nigeria history (7 mln USD).

Partners in this Meso program

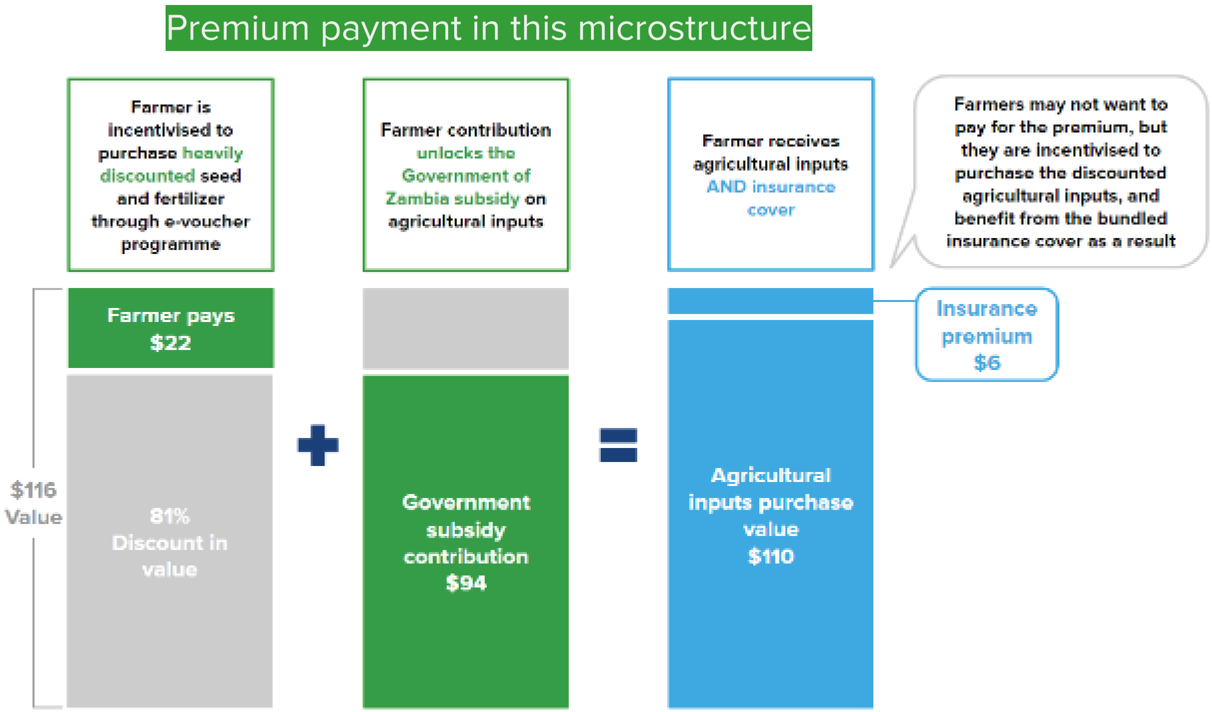
Zambia- Insurance embedded in input voucher programs

In Zambia, the Ministry of Agriculture bundles insurance with the Farmer Input Support Program.

Farmers pay **$22** to access a $116 input package. **$6 out of the $22 contribution pays for insurance.**

This program reaches **70% of zambian rural households.**

There are 26 such voucher programs in Africa. So far, only 2 have embedded insurance.

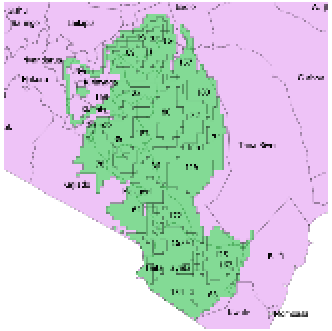


Case study: Insurance bundled with subsidized farm inputs - Government of Kenya KCEP-CRAL project

1

Government provides an input subsidy to smallholder farmers in Arid and Semi Arid Regions to increase food security with a focus on the main food crops (**maize, sorghum, cowpeas, green grams and beans**). Added to the subsidy is an area yield index insurance cover

2



The GoK provides Pula with a list of the farmers and we costed and charged their insurance premiums based on the **agro-ecological zone** of their farming locations, which were **mainly high risk arid and semi arid regions**

3

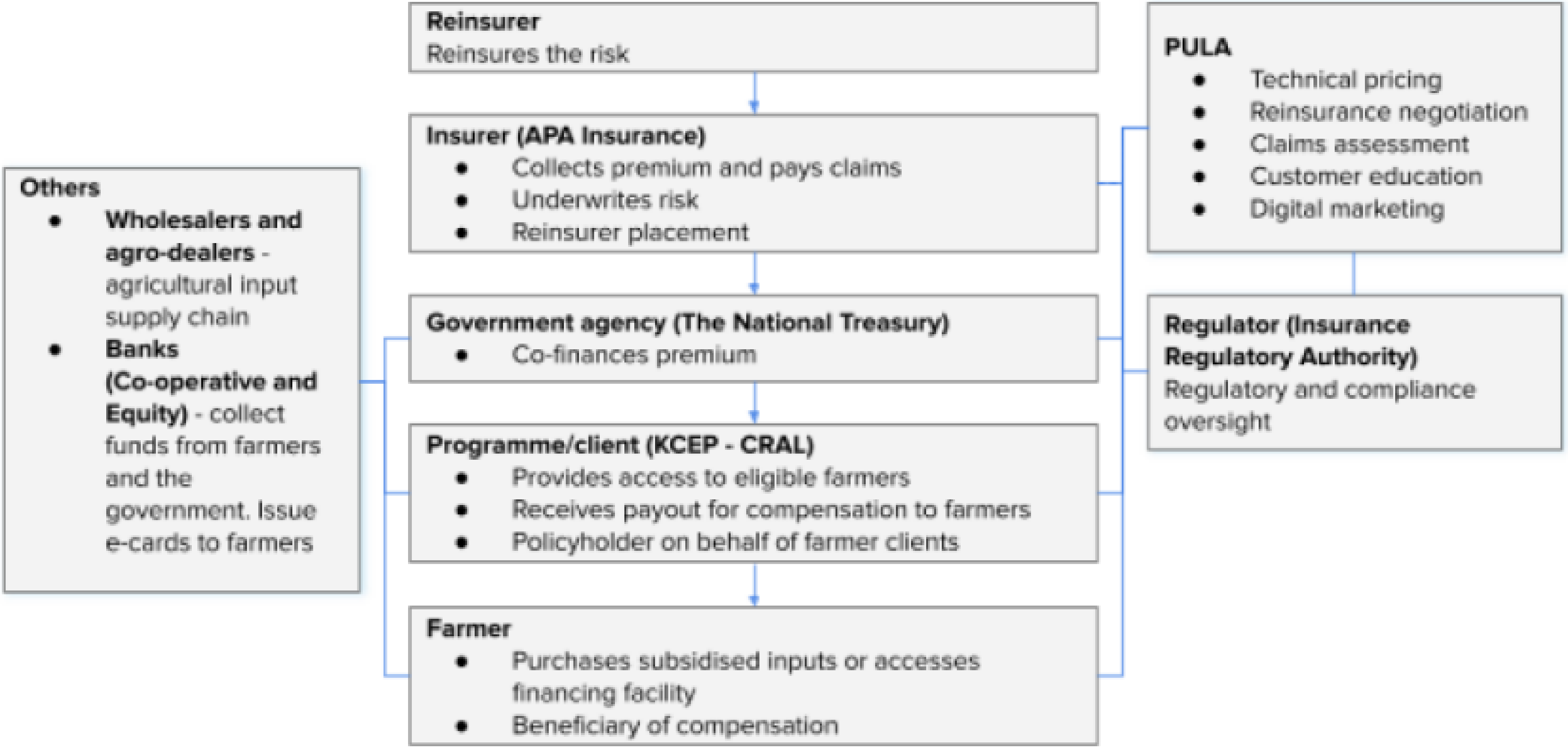
During the season, Pula conducts **digital extension** and **field monitoring activities** E.g we send sms's to farmers explaining insurance, agronomy tips to farmers on weeding and harvesting. We also conduct surveys to gather real-time data on farmer behaviour and conditions as the season progresse

4

At the end of the season, Pula measures farm yields. For farmers whose yields were below trigger, the insurance cover is **paid out in inputs for the next season.**

Upto 2021: 100,000 farmers covered, average payout per farmer of USD 26 and total payouts of USD 1.1 million. Insurance was added in the program during Long Rains 2020.

Figure 1: KCEP-CRAL insurance value chain



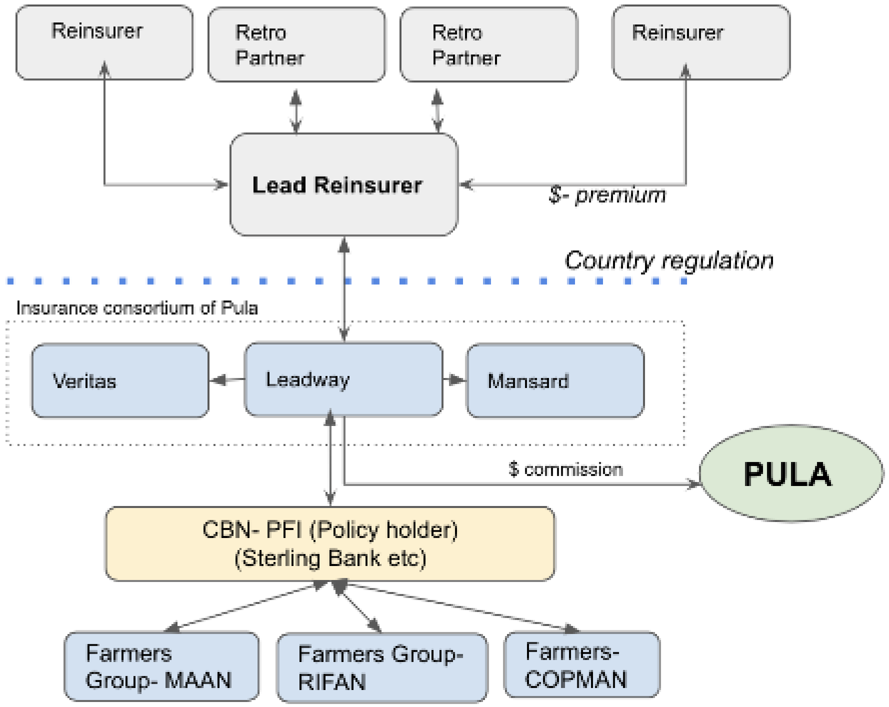
In most countries we end up with **this transaction structure**

The transactions requires **building an insurance consortium with local insurers:**

- \+ building local insurance capacity
- \+ reducing foreign currency flight
- \+ Ensures local champions who continuously build local relationships

The policyholder is a representative- receive the payout, distribute it or garnish the loan.

This structure **harnesses the power of the policy holder (often govt)** and ensures farmers feel confident their rights will be represented.



Building this value chain takes time - **8.5months minimum**

Building this is what we call capacity building

Key Lessons For PPP

Challenges *(Solutions)*

1. **Slow, complicated, ambiguous decision making process**
    a. *Workshops, study trips,*
    b. *External investors to support the high cost of acquisition.*
    c. *Detailed customer acquisition process (76 steps)*

1. **Skepticism** due to previous experiences with AI
    a. Pilot for proof of concept
2. **Lack of Budget:**
    a. Understanding budget making process
3. **Complicated Procurement Process**
    a. Consortium approach

Opportunities

1. **Fastest Route to scale -** a Govt program can reach hundreds of thousands of farmers in one go.
2. **Multiple benefits:** Your client (Govt) can help in AI policy/regulatory improvement once they're aligned.
3. **Potential for Subsidy -** premium subsidies can crowd in private sector to take up AI
4. **Clear benefit for Governments** - Insurer of last resort in case of natural catastrophes. Win-win situation.