Plenary 3

PPPs in the distribution of agricultural insurance

Hosted by the World Bank

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Over the last decade, the evolution of agricultural insurance in Africa has been driven by the development of more efficient distribution channels and a gradual shift from using micro-level to more meso-level channels. There are a number of cases where PPPs have been leveraged in product distribution. This session hosted by the World Bank explored the reasons behind this recent development, achievements made and sustainable ways in which such partnerships can achieve greater impact.

Examples from Africa

Vegetation Index Crop Insurance, Ethiopia

Number of people insured:
14,561

Insured risks:
Weather variation/crop failure

Premium range:
ETB 300 (US$ 10.66) to ETB 5,000 (US$ 177.72) per annum

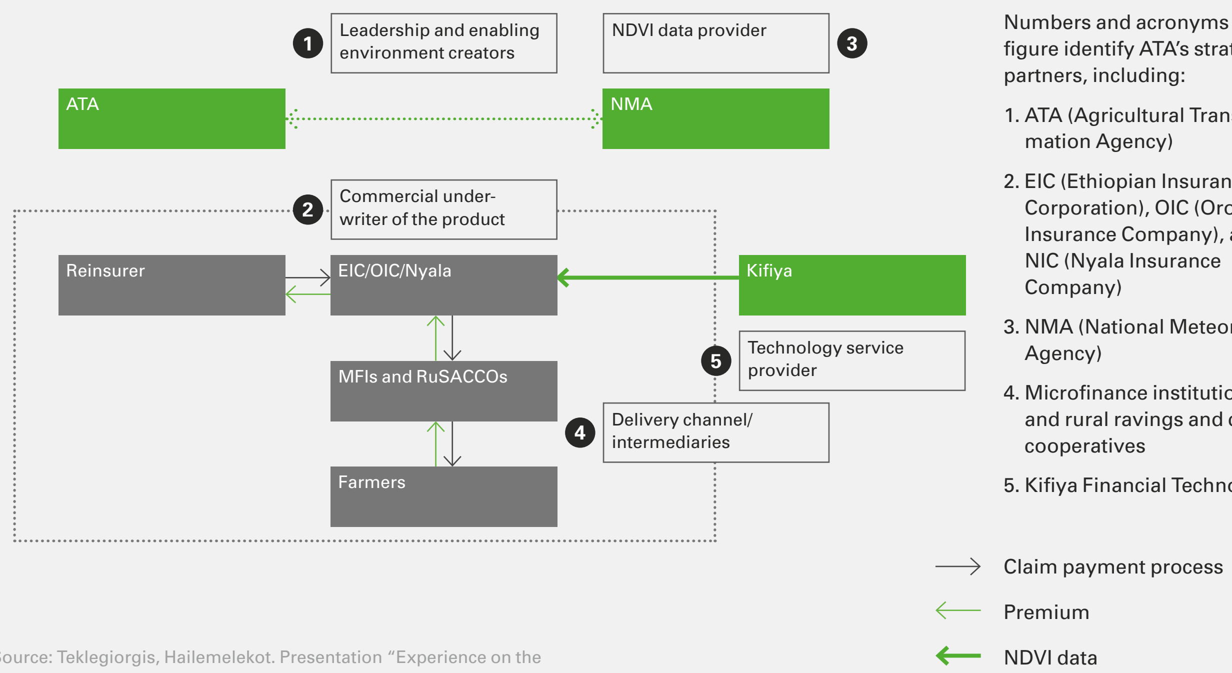
With a mandate focused solely on improving the livelihoods of smallholder farmers, an Agricultural Transformation Agency (ATA) has been driving the growth of **Ethiopia**'s agricultural sector for eight years (see ATA's introduction on page 52). To ensure that insurance protection reaches the broad mass of rural people, the ATA is pursuing three strategic recommendations:

- to increase access to input credit for smallholder farmers;
- to strengthen capacity of credit cooperatives;
- to improve access to crop insurance

In 2016, a vegetation index crop insurance product (see Figure 30) was developed by KIFIYA Financial Technology in partnership with three insurers. ATA's three priorities are aimed at increasing its distribution.

The insurance is based on inputs the smallholder farmers spent to produce their crops. Farmers are expected to pay a premium of 15 % of the total cost of inputs – such as fertiliser, basic seeds, herbicides and pesticides. ATA is making inputs available to farmers from cooperatives using a voucher system, designating MFIs and rural savings, and credit cooperatives (RuSACCOs) to handle the financial transactions for the sale of inputs in cash or credit.

Figure 30
Vegetation index insurance product flow



Numbers and acronyms in the figure identify ATA's strategic partners, including:

1. ATA (Agricultural Transformation Agency)
2. EIC (Ethiopian Insurance Corporation), OIC (Oromia Insurance Company), and NIC (Nyala Insurance Company)
3. NMA (National Meteorology Agency)
4. Microfinance institutions and rural ravings and credit cooperatives
5. Kifiya Financial Technology

Source: Teklegiorgis, Hailemelekot. Presentation "Experience on the implementation of index-based crop insurance in Ethiopia." 14th International Microinsurance Conference 2018

Capacity building and strengthening the partners and clients are key to distributing insurance and other financial services to smallholder farmers. Compared to commercial banks, RuSACCOs have gaps in liquidity, product offering, operational capability and efficiency in savings mobilisation. To address the gaps, ATA is applying a standardised capacity building programme and recommending enhancing the policy and regulatory environment.

ATA believes that **farmers know their risks and the need for protection**. But for standalone index insurance, the premium can become unaffordable; it should be bundled with credit and subsidised by government. In partnerships with the private sector and civil society, the government needs to take a proper lead and use technology to facilitate implementation.

OneStop Farmers Policy, Mayfair, Zambia

Number of people insured:
1.06 million

Insured risks:
Crop & livestock, fire, motor, accident and machinery

In **Zambia**, the PPP involves Mayfair Insurance, which has been providing cover to farmers under the government's Farmer Input Support Programme (FISP), the Zambia National Farmers Union and other organisations such as NWK Agri-Services (supporting farmer projects). Under its OneStop Farmers Policy, including the weather index insurance, Mayfair has paid out a total of US$ 800,000 in claims to farmers for crop failure due to unfavourable weather between 2014 and 2017. By early 2018, the policy covered 1.06 million farmers.

The key to successful distribution is **keeping the product design relevant to farmers' needs**. In addition to crop and livestock insurance, the OneStop policy provides other common covers, including fire, motor, accident and machinery. Together, the coverages help rural families build resilience to climate shocks. Mayfair believes **a PPP involving suitable aggregators facilitates access to products and makes it easier to achieve scale**. It keeps expenses down so the product does not become unattractive, and builds trust among farmers.

“We need to advocate to governments to implement climate risk funding mechanisms and help provide value for vulnerable people.“

Timothy Gotora, Southern and Eastern Africa Country Engagement Manager, ARC, South Africa

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63 — Left to right: Sharon Adhiambo Onyango, Financial Sector Specialist, World Bank Group, South Africa; Hailemelekot Teklegiorgis, Manager-in-charge – Financial Services, Ethiopian Agriculture Transformation Agency, Ethiopia; Humphrey Mulele, Manager Agriculture Specialities, Mayfair, Zambia; Timothy Gotora, Southern and Eastern Africa Country Engagement Manager, ARC, South Africa; Saskia Kuhn, Advisor, GIZ, Germany; Marième Ba, Head of emerging customers, AXA Mansard, Nigeria

Private sector can drive partnerships

AXA Global Parametrics

This AXA subsidiary has been focusing on the public sector and industries (e.g. covering solar panel farms in China against lack of sun), but is now expanding its scope to partnerships serving MSMEs and low-income individuals in 28 countries, with 40 % of revenues generated in Asia.

An objective of **AXA Global Parametrics**, launched in 2014, is "to help populations adapt to the consequences of climate change," in particular by building public-private partnerships and pushing for meso-based index insurance solutions to protect farmers against droughts and floods.

In Nigeria, AXA Mansard was a private-sector partner in the government initiative to develop a new insurance product to mitigate the impact and losses of agricultural yields and market price risks for smallholder farmers. The product, known as the NIRSAL Comprehensive Index Insurance (NCII), is designed to safeguard farmers against risks along the agricultural value chain and is offered by the Nigeria Incentive-based Risk Sharing System for Agricultural Lending, or NIRSAL.

Role of public organisations

The **African Risk Capacity (ARC)** was set up as a Specialised Agency of the African Union in 2012 to **respond to the impacts of extreme weather events** and natural disasters and serve as a continental disaster-risk financing mechanism (see introduction to ARC on page 78).

ARC's mandate is to help member states improve their capacities to better plan, prepare and respond to natural disasters, thereby protecting the food security of their vulnerable populations. Its value proposition is three-fold: strengthening National Early Warning Systems and risk profiling, a plan to respond early, effectively and efficiently to disasters by scaling up existing social protection programmes through a transparent and objective financing mechanism.

ARC – A model for risk financing

In 2014, ARC launched its financial affiliate, the African Risk Capacity Insurance Company (ARC Ltd) through a no-interest 20-year loan by the governments of Germany (KfW/BMZ) and the United Kingdom (DfID). Together, the ARC Agency and ARC Ltd comprise the ARC Group and, with governments, development partners and civil society as key stakeholders, it represents an effective public-private partnership model for natural-disaster-risk financing and management. So far, ARC has paid a total of US$ 36 million to member countries affected by drought, which has directly helped 2.1 million people and 1 million livestock.

The German Federal Ministry for Economic Cooperation and Development (BMZ) in 1999 set up the **DeveloPPP.de** programme to foster involvement of the private sector in development initiatives. Since then, 1,500 development partnerships have been established, which GIZ has helped implement. Two project examples:

A **strategic alliance with Swiss Re** to collaborate with governments to develop climate risk transfer instruments. In Africa, it has assisted public-private agricultural insurance schemes in Nigeria, Ghana, Uganda and Kenya. Amongst its findings are that index insurance programmes need to focus on improving financial literacy of smallholder farmers, providing better information on registration to avoid logistical problems, and making payout processes more efficient.

A PPP with NWK Agri-Services in Zambia to increase access to weather index and funeral insurance for farmers. The main aim of the partnership is to enhance smallholders' financial literacy and explain to them in detail how weather index insurance works. It draws on existing structures, agricultural extension staff and organisations in the cotton sector and works on developing their capacities to carry out training and awareness raising activities.

Lessons learnt

- A PPP should be a win-win-win arrangement – for customers, insurers and the government.
- Trust is a key component, so a PPP should not overpromise and underdeliver.
- To succeed, the partnership requires a strong lead by the government, an effective buy-in by the private sector, and good support from the field. It also requires a solid political, institutional and legal framework.
- Investment in financial and insurance literacy is crucial.