



KENYA

BACKGROUND

Kenya's youthful and growing population, dynamic private sector, highly skilled workforce, improved infrastructure, new constitution, and pivotal role in East Africa, give it the potential to be one of Africa's remarkable success stories. However, key development challenges remain, though, including poverty, inequality, and climate change. With agriculture a major source of employment and the largest single economic sector — accounting for 25% of GDP and roughly 50% of export revenue, according to the Kenya National Bureau of Statistics — drought has a huge impact on Kenya's economy. Farming is largely rain-fed, with worsening cycles of drought affecting food production for local consumption, as well as export related revenues. Poor seasonal rains that reduced crop production and limited the generation of hydroelectric power for much of 2017 were one of drivers of recent economic downturn. The late 2016/early 2017 drought also meant that food prices rocketed, putting inflationary pressure on households and businesses.

PROJECT DESCRIPTION

Supported by the World Bank Group, the Global Index Insurance Facility (GIIF) has recently completed a project in Kenya, Rwanda, and Tanzania, working with ACRE Africa (formerly the Kilimo Salama project of the Syngenta Foundation for Sustainable Agriculture). ACRE Africa, which is the brand name of Agriculture and Climate Risk Enterprise Ltd is the largest private sector index-based insurance program in both Kenya and Africa. It links farmers to insurance products that will both protect them from the losses suffered with failed crops, and allow them to confidently invest in their farms.

The project achieved the following objectives:

- Expanded access to index insurance in Kenya, Rwanda, and Tanzania. Thanks to our support, from 2014 to 2017 ACRE Africa was able to issue around 1.69 million insurance policies to farmers and generated around \$7.43 million in gross premium.
- Expanded insurance offerings by developing additional products, remote-sensing and satellite-based products. ACRE Africa launched 10 different index insurance products during the project.
- To distribute products to farmer aggregators such as agri-finance providers, agribusinesses, and farmer cooperatives, as well as to individual farmers. From 2014 to 2017, ACRE Africa partnered with 64 new distributors to offer index insurance products.

The work of ACRE Africa in index insurance has demonstrated that these products can help farmers to better manage risks from climate hazards and are helping the agricultural insurance market grow in East Africa. The project has also helped to raise interest in index insurance products among insurance companies as well as government. In Kenya, the number of companies offering these products have raised from one in 2013 to 8 currently. Government has incorporated index insurance as part of its climate resilience strategy.

This project has provided valuable lessons that have been incorporated into similar projects in other countries in the continent. An aspect of the project that was key to its positive results was ACRE Africa's pioneering approach to distribution of index insurance products through intermediaries that could easily aggregate smallholder farmers. This model has been replicated in various countries and is now considered key for index insurance products to be feasible. The project also provided lessons on ways to better manage basis risk, which is one of the main challenges for index insurance attractiveness for insurance companies and farmers.

PROJECT SNAPSHOT

Market Launch	2013 (Under Kilimo Salama, 121,956 farmers were insured between 2009–2012)
Clients	Between 2013–2017: Kenya – 992,214 Rwanda – 391,602 Tanzania – 205,584
Partners	Insurers: In Kenya: UAP Insurance, APA Insurance, CIC Insurance Group Limited, Allianz Kenya, Jubilee, APA, Heritage, CIC, and AMACO. In Rwanda: Soras Insurance, UAP Insurance. In Tanzania: UAP Insurance Tanzania. Reinsurers: Swiss Re, Africa Re Delivery Channels: Seed distribution linked to a mobile network operator's location service; agribusinesses with out-growers or contracted farmers; lending institutions (banks, microfinance institutions); savings and credit cooperatives (SACCOs) providing input loans; and medium-scale professional farmers.
Insured Crops/ Livestock	Maize, beans, wheat, sorghum, green grams, rice, coffee, tea, potatoes, cashew nuts, sunflowers, and dairy cows
Insured Perils	Crops: Drought, excess rain and storms, frost damage, fire, uncontrollable pests, and diseases Livestock: Risks associated with pregnancy losses for calving cows, and the financial loss caused by the death of livestock due to disease
Insurance Portfolio	US\$76.9 million (sums insured in 2017)
Average Cost of Insurance	USD 5, Average Premium 8 %
Contact Information	Rahab Karanja Kariuki, Managing Director, ACRE Africa RKariuki@acreafrica.com

WHY INSURANCE?

The availability of insurance gives small farmers and pastoralists greater access to capital, and encourages the development of new farming techniques and technologies. Insurance may also lead to increased investment by farmers, and improved harvests and livelihoods.

When properly developed with both private and public interventions, index insurance can be an innovative and efficient financial instrument. Agricultural index insurance pays out benefits on the basis of a pre-determined index (e.g. rainfall or temperature), without requiring the traditional services of insurance claims assessors. It allows for the claims settlement process to be quicker and less expensive. Index insurance has the potential to increase insurance penetration in low income rural areas and service smallholder farmers. It can help poor smallholder farmers manage the increasing climate-related risks to their harvests, and can potentially increase their access to credit markets.

Capacity building among insurance companies and farmers is essential for expanding index insurance markets in East Africa. There is a need to build technical capacity among insurance companies to develop and manage index insurance products. Raising awareness among farmers about how indexes are structured, what they cover, and how payouts are measured is also needed to expand agriculture insurance markets.

RESULTS AND IMPACTS

Between 2013-17, the project has insured more than 1.5 million farmers through products designed by ACRE Africa.

Increased access to finance: 74 percent of the farmers insured by ACRE Africa in 2017 received loans linked to their insurance.

ACRE Africa's extensive understanding of agricultural risks enables them to develop customized insurance products using mobile technology, bundled with other agricultural services, weather data, local access to quality inputs, and input credit. ACRE Africa's products have encouraged credit institutions to enter into agricultural lending by mitigating weather-related repayment risks.

CHALLENGES

Although great strides have been made, uptake of agriculture insurance is still slow. Insurance is a high-volume business: the higher the number of customers that take out insurance policies, the more risk exposure can be diversified, resulting in lower premium prices. Since index insurance in Africa is still in its infancy, lack of awareness of its advantages, and low uptake mean that volume in this industry is still less than optimal.

In many African countries, financial literacy levels are still very low, particularly in regard to insurance. Many in this target demographic do not have access to formal banking structures, let alone affordable insurance products.

One of the barriers to expansion is access to reliable long-term data on which to base agricultural insurance indexes. For index insurance to be affordable and accurate, 10-20 years of historical rainfall or yield data is required. Collecting, verifying, and analyzing this data is the most time-consuming process in product development. Where such data is not available, ACRE Africa has invested in cutting-edge satellite data, and is testing analytical techniques in order to generate the most accurate proxy.

PARTNER FOCUS



Partner Information

ACRE Africa is a registered insurance surveyor in Kenya, and an insurance agent in Rwanda and Tanzania. It operates as a for-profit company that evolved from the Kilimo Salama project (established in 2009), which was funded through the Syngenta Foundation for Sustainable Agriculture and GIFF. ACRE Africa is not an insurance company, but rather a service provider that works with local insurers and other stakeholders in the agricultural insurance value chain. Headquartered in Nairobi, ACRE Africa is one of the first agricultural insurance programs in the world to reach smallholders using mobile technologies. Farmers can "try out insurance" by insuring as little as one bag of seed.



'The rains failed, and we received compensation'

said Edward and Pauline Mkopi, who grow maize and sunflowers on 15 acres in Kitale, Trans Nzoia County, Kenya. © ACRE Africa

About Global Index Insurance Facility (GIIF)

The Global Index Insurance Facility (GIIF) is a multidonor program that works to provide access to finance for smallholder farmers, microentrepreneurs, and microfinance institutions. GIIF supports the development and growth of local markets for indexed and catastrophic insurance in developing countries, primarily in Sub-Saharan Africa, Latin America and the Caribbean, and Asia Pacific. The facility is part of the World Bank Group's Finance, Competitiveness & Innovation Global Practice.

For more information, please visit www.indexinsuranceforum.org.

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