**Turning the Tide on Rural Poverty Requires Innovation**

 Fifty-five year old Niyitegeka Veneranda lives in rural Rwanda. She and her husband are parents to seven children and grandparents to five. They farm less than a hectare of their own land, yet she has been able to build a small house, feed her family, and send her last three children to school. She expanded her rice production recently with a loan from a local bank made possible through agricultural insurance, and plans to expand her acreage with another loan next year.

Poverty has been on decline globally, and cases like Mrs. Veneranda’s demonstrate how innovative market solutions, access to finance and risk management can contribute to this process. Africa urgently needs more success stories like the Veneranda family, as the poverty numbers remain staggering, with half of the continent’s population still living below the poverty line and 70 percent depending on “subsistence” smallholder farming for their basic livelihood.

Subsistence farming offers little certainty because the size of the harvest is largely determined by the timing and amount of rainfall. A single season of drought resulting in bad harvest can drive hundreds of thousands of families into destitution. Climate change has been making weather patterns even more erratic, affecting the productivity and reliability of agriculture. Understanding and managing risks that farmers face is, therefore, critical to reducing their vulnerability. Innovative solutions are needed to combat these challenges, particularly, the uncertainty of returns surrounding investments in agriculture.

Such innovation is emerging, and the results speak for themselves. The Veneranda family in Rwanda felt more secure in taking a loan to increase planting and purchase seeds and fertilizers because their bank offered weather index insurance with the loan. Such insurance has been supported by the **Global Index Insurance Facility** (GIIF), a program managed by the International Finance Corporation (IFC) and jointly implemented with the World Bank, and financed through donor funds from the European Union, Japan and the Netherlands. GIIF is pioneering the development of an agricultural insurance market for small farmers and pastoralists in Africa. Working closely with insurance companies, meteorological departments, banks, microfinance institutions, governments, farm cooperatives and agribusinesses, the program helps expand access to index-based insurance to farmers and pastoralists, compensating credit providers and/or farmers for losses that happen because of adverse weather conditions. The innovative aspect of index insurance is the fact that payouts are made as soon as the pre-defined statistical indices are triggered, irrespective of the actual loss and without having to wait for on-site visits to farms and lengthy claims to be settled. To date, over 53,000 farmers in Kenya and 21,000 farmers in Rwanda have benefited from the program.

Working with GIIF, the Syngenta Foundation for Sustainable Agriculture set up the first index insurance project in Kenya in 2010 – *Kilimo Salama* (“safe farming” in Swahili) and later expanded into Rwanda. Innovation is not only key for the products on offer, but also in the way they are marketed and sold to reach clients that are often scattered in rural and hard-to-reach areas. Kilimo Salama thought of an innovative way to address this challenge, harnessing the power of mobile phone technology that allows farmers and herders to sign up for index insurance and process claims via mobile phones. In 2012 Kilimo Salama won the prestigious Financial Times / IFC Sustainable Finance Award in the Technology category for using an innovative technique.

 Africa and other parts of the developing world need more innovation, better products, and an increasing focus on the needs of farmers, small business owners, and consumers at the base of the economic pyramid. Index insurance bears the promise to become a breakthrough because it is easily standardized due to the measurable indices. The product also demonstrates that well-targeted and appropriate solutions can find willing consumers on a scale that opens new markets, expands economic opportunities, and delivers longer-term development impact for the people who need it most. Most importantly, farmers are now learning that index insurance can be trusted and unfavorable weather conditions will not have such a destructive effect on their livelihood.

Peer Stein

Director, Access to Finance Advisory Services

International Finance Corporation.