

IN FOCUS:

ENABLING POLICY ENVIRONMENT



SUBJECT

There are a range of reasons for establishing agricultural and climate risk insurance, including adaptation to climate change, food security, disaster risk management or social protection.

Regardless of the motives, however, creating an effective insurance system inevitably cuts across various political spheres. Hence, the first key element is to create a broad consensus amongst policy makers and their commitment to create an enabling policy environment that fosters the necessary infrastructure. This includes the integration of agricultural and climate insurance into respective national policies, strategies and action plans.

Coordination across government sectors is crucial to avoid contradictory incentives amongst stakeholders: a government can, for example, support agricultural insurance, and yet crowd out insurance solutions through the provision of public social protection programs. Mobilizing public resources and creating a suitable regulatory framework are further crucial policy requirements for setting up effective agricultural and climate risk insurance systems.

CHALLENGES IN KENYA

1. The government announced a desire to increase access to agricultural insurance for small-scale farmers, but has no clear position on how to deal with some of the most pertinent challenges impeding the effective spread of insurance. These challenges include, but are not limited to: low financial literacy and awareness, lack of data, limited supply of suitable insurance products for different segments of farmers, (mostly) negative profitability of agricultural insurers and consumer protection. This leaves the private sector responsible for the development of the market.
2. The demand for insurance products is very price sensitive and purchasing power limited. Insurance companies offering agricultural insurance see only a limited business case to justify the development of certain products.
3. Insurance companies alone would not be able to provide all the services necessary to develop the insurance market without some sort of public/external support, esp. for those services which could be considered public affairs.
4. Agricultural insurance related reporting is only covered under the miscellaneous class of insurance in the existing insurance act.



5. A situational analysis of the insurance sector in Kenya facilitated by the project exposed the lack of quality data as one of the most severe constraints for up-scaling the provision of agriculture insurance.
6. The absence of standard procedures to collect and present local-level production data made it difficult to audit and validate available data.
7. Production data collected by the various units in the Ministry of Agriculture was often neither verifiable nor reliable. Therefore, it could not meet the required threshold for usage in designing suitable agriculture insurance products.
8. The data on a local level and the aggregated data often did not match.
9. Quality historical data going back for several years was necessary to assess sector risks over time and was often not available at all.

SOLUTION

Provide policy environment

1. A policy dialogue was initiated by a trusted Kenyan government body with the power to bring relevant public and private stakeholders together in order to develop a strategy for the sector and to coordinate initiatives made by development partners. Supported by the Adaptation to Climate Change and Insurance (ACCI), the Agricultural Sector Coordination Unit (ASCU), which coordinates policy development for the agricultural sector, took charge of the process.
2. By constituting a high profile task force (comprising of public and private sector players) the necessary institutional setting required to drive the policy process was established.
3. The objective of the process was to propose policy options that would address agricultural risks through an enabling environment for promoting access to agricultural insurance.

Name:

Adaptation to Climate Change and Insurance (ACCI)

Duration:

January 2011 – May 2014

Name of component activity:

Policy Support

Program Area:

Kenya (country-wide)

Focus Regions: Busia and Homa Bay Counties

Cooperation:

Agricultural Sector Coordination Unit (ASCU) connected to Ministry of Agriculture, Livestock and Fisheries (MoALF) with links to other Ministries (e.g. Ministry of Environment, Water and Natural Resources)

4. A situational analysis providing necessary data and information on Kenyan agricultural risks and international experience on different approaches was commissioned.
5. To address the data quality challenge as part of the National Agricultural Insurance Policy, ACCI assisted the Ministry of Agriculture, Livestock and Fisheries to fine-tune and pilot-test standardized data collection and management guidelines for use by extension officers.

LESSONS LEARNED

1. Isolated development of insurance products, designed in pilot projects have, even under favourable conditions, proven to not be the most efficient way in kick-starting the development of an agricultural insurance sector in a sustainable manner.
2. Experience have shown that pilot products did not reach full-scale potential and faced challenges with commercial sustainability once the initial external support seized. Access to insurance for farmers did not increase.
3. The process of policy development needs the involvement of influential stakeholders and has to be organized to be as consultative as possible. It is usually a lengthy process and prone to political disruptions.
4. Stakeholders for such a process should not only be drawn from the agricultural and financial/insurance sector, but include others such as working groups in disaster relief or climate change.
5. Governments are usually under pressure to demonstrate quick results, often pretending long-term strategic and sustainable solutions, when they are not. These attempts can also undermine strategic decisions and harm a sustainable development. As far as policy options go, these demands/sensibilities must be met.

Local partner:

Insurance Regulatory Authority (IRA), Association of Kenyan Insurers (AKI), Kenyan insurance companies as well as stakeholders dealing with disaster relief and development partners

Target group:

Ultimate target group: Farmers, but improvements in the provision of agricultural insurance automatically benefit larger segments of the farming population as well as the financial/insurance sector.

Documentation:

www.acci.co.ke and www.ascu.go.ke

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