

# INFOCUS: PARTNERSHIPS BETWEEN PUBLIC AND PRIVATE SECTOR



## SUBJECT

Sustainable insurance solutions for agricultural and climate risks require a joint effort from both the public and the private sector: the partners need to cooperate and commit to facilitating a development process.

Private insurance companies design appropriate insurance products, establish administrative processes and carry the risk. They invest financial and human resources and commit themselves to the agricultural and climate risk insurance markets. Government support that goes beyond creating an enabling regulatory environment can be critical to the sustainability of such systems.

This support can take different forms, including premium subsidies, tax exemption or acting as a reinsurer of last resort. The public sector can also foster market development and bear part of the high start-up costs by investing in data market infrastructure and weather stations, product design and ratings, as well as raising awareness, education and training. Donors and development agencies can provide additional assistance during this initial investment phase.

On behalf of

**giz** Deutsche Gesellschaft  
für Internationale  
Zusammenarbeit (GIZ) GmbH



Federal Ministry  
for the Environment, Nature Conservation  
and Nuclear Safety

## CHALLENGES IN GHANA

The livelihood of many Ghanaian families depends on agriculture. But the farming sector is exposed to a range of, mainly weather-related, threats. In particular, 60 percent of farmers that own small plots of land (the average landholding size is just 1.2 ha) face difficulties in managing their risks. Over the last decades, these farmers have increasingly been affected by droughts, floods and other natural calamities. Until recently, agricultural insurance was not available for the majority of farmers who continued to rely on traditional forms of risk management.

The main reason was that no insurer was willing and able to assume agricultural risk by itself. Insurance companies lacked the knowledge necessary to develop products that suit the needs of farmers. Thus, no single company wanted to invest the funds required to develop in agricultural insurance products, especially not products as innovative and complex as index-insurance.

In addition, no public-sector support was available for agricultural insurance. Policymakers did not understand the welfare benefits of insurance for farmers and, therefore, agricultural insurance was not considered a strategic priority within the broader agricultural sector development strategy. Key public-sector players had no platform to learn about a agricultural insurance and exchange their views.

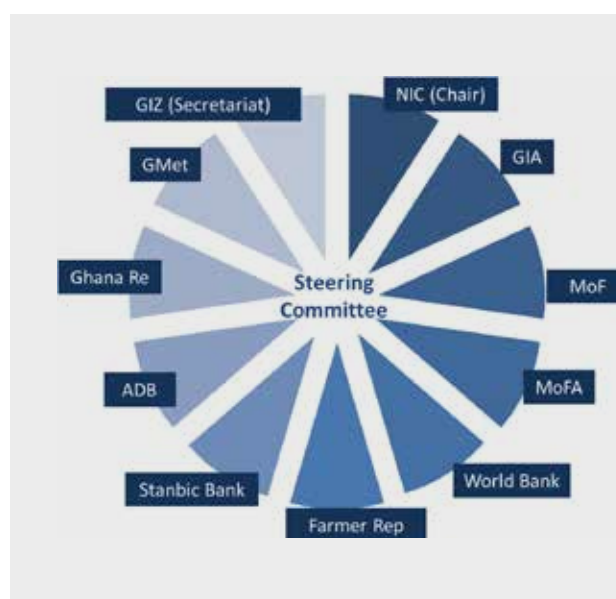
## SOLUTIONS

### Establishing a private-public partnership (PPP) for agricultural insurance

**Establishing a Steering Committee (SC).** IIPACC established a public private partnership aimed at developing a suitable policy framework that is needed to advance agricultural insurance. The Steering Committee (SC) of IIPACC consists of 11 stakeholders from the public and private sector as well as development partners. The mandate of the SC was to coordinate the support for agricultural insurance and shape the policy support for the sector. As agricultural insurance was a new topic and trust between the partners had to be established, the SC held frequent meetings (every one to two months). IIPACC provided technical advice to the SC and assisted with organizational matters.

**Creating an insurance pool for agriculture.** As agricultural insurance was a new topic in Ghana, no individual company was willing to assume agricultural risk on its own. Insurers preferred an institutional arrangement where risk could be shared among many market players. IIPACC provided the legal and institutional advice to establish the Ghana Agricultural Insurance Pool (GAIP). 19 out of 23 Non-Life insurance companies in Ghana (including the national re-insurer) participated in the pool. GAIP was established as a separate entity under the Ghana Insurers Association (GIA). The pool solution also had the advantage that business volume was accumulated, which made it easier to access the international reinsurance market.

**Establishing a management structure.** A management board was established to guide the strategic direction of the institution. For day-to-day operations of the pool, a Technical Management Unit (TMU) was created that comprised a project manager, an insurance underwriter and an agrometeorologist. Risks were underwritten by the TMU on behalf of the GAIP. The TMU is also responsible for designing and pricing agricultural insurance products. IIPACC supported both the management board and TMU with trainings to build up capacity. In the establishment phase, the TMU was supported by an advisory body, the Technical Committee on Agricultural Insurance (TCAI), which comprised of representatives from various insurance companies, the National Insurance Commission (NIC), and GIZ experts.





## LESSONS LEARNED

Government support is key for the development of agricultural insurance. By including the public sector in the steering committee, IIPACC was successful in securing services from Ministry of Food and Agriculture (access to production data and the use of extension network), NIC (licensing of insurance products), and Ghana Meteorological Agency (access to weather data). Unfortunately, the involvement of the Ministry of Finance and Economic Planning did not result in the financial support of the insurance scheme, i.e. provision of premium subsidies for farmers. The failure to attract fiscal support reduced the demand for insurance products as premiums were perceived as high by farmers.

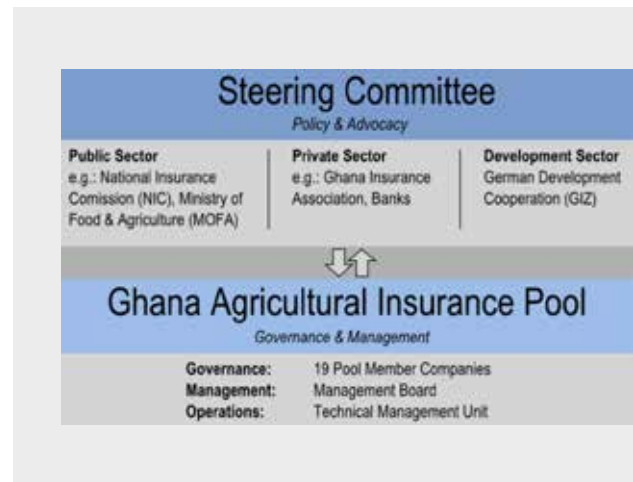
Bringing the public and private sector together in the steering structure of a project helps to build trust and encourages an active dialogue between the key stakeholders. In the intimate setting of SC meetings, all stakeholders are able to voice their concerns and to share their opinions.

Establishing an insurance pool provides a good opportunity for insurance companies to familiarize themselves with the agricultural sector. Many companies in developing countries have mainly focused on urban customers. Insurers need to understand the rural customer base and the risk management environment they operate in.

Setting up an insurance pool also reduces the product development cost for the insurers. Instead of building up capacity in their respective companies, insurers can pool their resources to establish a competent team. The TMU of GAIP operates with three full time experts. It is unlikely that an insurance company outside the pool and with a small market share in agricultural insurance dedicates the same amount of human resources.

## OUTCOME

The Ghana Agricultural Insurance Pool was created in 2011. GAIP was established as an entity under the umbrella of the Ghana Insurers Association (GIA). The institution has hired sufficient personnel to staff the management board and the technical management unit (TMU).



A pool solution is beneficial for securing access to international reinsurance markets. Agricultural insurance pilots often lack scale. The small transaction volume is a deterrent for re-insurance companies to become engaged, as is the lack of risk diversification in a small portfolio. Pooling of business gives a better chance of developing a sizeable portfolio that provides some measure of risk diversification.

The underwriting of risk and managing the agricultural insurance portfolio is the responsibility of the TMU. The marketing of the products, however, remains a responsibility of the individual insurers that are members of the pool. In Ghana, the insurance companies have not yet managed to integrate the crop insurance products into their existing distribution networks or establish new cost-efficient distribution models. This severely limits the scalability of the GAIP and presents a serious challenge for the long-term viability of the system.

With support from IIPACC, the TMU of GAIP has developed two weather index insurance products, one named peril, and one area-yield index insurance (AYII) product. During the project's lifespan, 6,116 farmers were insured through the weather index insurance product. The sum insured for GAIP's portfolio, both indemnity and index products, was EUR 35 million. This business is underwritten by the TMU on behalf of all members of the insurance pool.

**Name of programme:**

Innovative Insurance Products for the Adaptation to Climate Change (IIPACC)

**Duration:**

December 2009 – June 2014

**Programme area:**

Ghana (countrywide)

**Cooperation partner:**

National Insurance Commission Ghana

**Local partner:**

National Insurance Commission Ghana, Ministry of Finance, Ministry of Food and Agriculture, Ghana Insurers Association, Ghana Meteorological Agency

**Target group:**

Actors in the agricultural value chain, such as smallholder farmers, commercial farmers, input suppliers, extension services, processors, financial institutions, lending to the agricultural sector

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