

RESULTSTORIES

GLOBAL INDEX
INSURANCE FACILITY

KENYA

INDEX INSURANCE CREATES STEADY INCOME FOR KENYAN FARMERS

For Jeremiah Kithaka, farming maize on his three acre farmland is the primary source of livelihood enabling him to provide for his family of four. However, with changing rainfall patterns, delayed starts to the rainy seasons and longer and more frequent dry periods, Jeremiah has seen vast volatility in his income levels over the past few years. "I am a smallholder farmer and even a slight change in the weather pattern can make a huge dent in my ability to buy seeds and fertilizers and to continue farming the next season," according to Jeremiah.

The Opportunity

Jeremiah's concerns are shared by majority of the farming community in Kenya, where agriculture employs nearly 75 percent of the working population. Over half of those are smallholder farmers farming on less than five acres of land. For most of these farmers, a bad harvest season means losing their savings as well as their continue farming on their own land. As the largest contributor to the country's GDP, the agriculture sector constitutes nearly 26 percent of Kenya's annual economic output. However, weather-related risks still pose a major threat to farming community in the country.

In 2009, the IFC's Global Index Insurance Facility (GIIF) partnered with the Agriculture and Climate Risk Enterprise Ltd (ACRE), formerly Kilimo Salama, to develop and distribute affordable agricultural insurance products to protect smallholder farmers against weather-related risks. ACRE is an agricultural insurance surveyor which advises insurers on the development and distribution of low-cost insurance to protect smallholders' investments in seed and fertilizer.

Since launching the initial index insurance project through advisory and funding support to ACRE in 2009, GIIF has successfully facilitated access to insurance for nearly 190,000 farmers from 2009 to 2013.

The challenge

While the need for a micro-insurance product specifically designed to address weather-related risks is evident given the large farming community in the country and variable weather patterns, there have been two big challenges in developing the sector. First, Kenya has an insurance penetration of 3-5 percent, which is lower than other comparable economies in Sub-Saharan Africa. Secondly, the insurance sector in the region has limited appetite to cover agricultural risks. To complicate matters, the infrastructure for weather monitoring and index building is not uniform, creating the need for product specialists that can design and develop products that meet the local needs.



Photo Credit: Nitin Nambiar

Approach

GIIF, in partnership with ACRE, has been working with farming communities across Sub-Saharan Africa in order to raise awareness on index insurance for agriculture. At the same time, GIIF and ACRE have together worked with insurance companies over the past six years to create specialized products taking into consideration weather data simulated over several decades.

GIIF and its partner has also been working with the Meteorological department in Kenya to develop a complex network of weather stations that can be transferred for public management. In addition, GIIF has enabled the local insurers to scale up index insurance frameworks by providing support in identifying and diversifying reinsurance providers.

Beneficiary Impact

Jeremiah first enrolled in a GIIF and ACRE developed index insurance product in 2011. "In the 2012-13 season, we suffered a drought at the flowering stage, leading to a major loss of investment on seeds and fertilizers. However, I received a payout of 80,000 Kenyan shillings because of my insurance cover. I was able to continue farming as a result of having the insurance," he says.

In the first half of this year, nearly 100,000 farmers in Kenya insured a total of over \$ 5 million against a variety of weather risks underwritten by UAP Insurance Kenya.

In addition to maize, which is a major cash crop, an array of crops, including sorghum, coffee, sunflower, wheat, and potato were covered against drought, excess rain, and storms.

KEY FIGURES

- Agriculture employs 75 percent of the economically active population in Kenya, with 50 percent engaged in smallholder agriculture
- Agriculture is also the largest contributor to GDP (26 percent)
- Main crops are tea, coffee, produce, corn, potatoes, bananas, beans and peas
- GIIF, through its partner, has succeeded in achieving highest number of farmers insured to date in one country: 120,164
- Highest premium volume generated to date: \$ 1,124,322

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