Kenya

Picture: Turkana women at the presidential ceremony announcing payouts on the KLIP program

Since January 2014 the World Bank Group's Finance and Markets Global Practice has been providing non-lending technical assistance for establishing a crop and livestock insurance program in Kenya with other partners (International Livestock Research Institute -ILRI, Financial Sector Deepening-Africa). The technical assistance provided by the World Bank Group has been led by the Disaster Risk Financing and Insurance Program (DRFIP),

Providing agricultural insurance (crop and livestock) is one of the top priorities of the Government of Kenya (GoK). In October 2015, the GoK launched in two counties the Kenya Livestock Insurance program (KLIP), which protects pastoralists against climatic shocks. The livestock insurance is planned to be expanded to the remaining 12 ASAL counties with a target of reaching about 65,000 vulnerable pastoralists by 2020. Livestock is a major part of the Kenyan economy. The government said livestock losses between 2008 and 2011 accounted for 70 percent of the $12.1 billion in damages caused by drought.

The crop insurance was launched in three countries in March 2016 targeting semi-commercial maize farmers. Approximately 950 farmers purchased 50 percent-subsidized Area Yield Index Insurance (AYII) coverage for the long rain season in 2016. The crop insurance program aims to cover about 87,000 farmers by 2020. Agricultural insurance can provide much-needed protection to keep farmers out of extreme poverty and enable them to invest for their future.

Kenya Livestock Insurance Program(KLIP)

Objective: In the 2015/2016 season, the GoK purchased about 5,012 fully subsidized livestock insurance covers (on behalf of selected vulnerable pastoral households) which issue payouts based on a forage availability index (NDVI).

The fully subsidized component was rolled first in order to allow for insurance companies to establish distribution infrastructure, and testing products and systems. It is designed to insure the vulnerable pastoral households just above the social safety net thresholdto avoid accessing benefits from different programs As of October 2016, 14,000 pastoral households were insured.

Coverage: The fully subsidized insurance product offers a predetermined minimum coverage level and has been designed to protect rapidly deteriorating livestock assets . Although the livestock insurance cover is purchased by the government ("macro coverage"), in case of a drought, the insurance companies pay claims directly to the policyholders or beneficiaries. This enables pastoralists to keep their livestock, particularly their breeding stock, alive during drought by purchasing fodder/pasture. However, only five Tropical Livestock Unit (TLU) are coveredwhich is the equivalent of about 5 cows or 10 goats.

Criteria: The national and county governments have agreed and set up selection criteria to ensure only those vulnerable households are benefiting from the fully subsidized component. To be selected the household should: (i) be active in pastoralism and own a minimum of five TLUs; (ii) not benefiting from any of the programs under the Kenya National Safety Net Program; (iii) not owning more livestock than a certain ceiling (currently set at 20 TLUs); and (v) should have either formal money transfer system (e.g., Bank account, mobile money service) or commit to acquire one after being considered to be a beneficiary.

Sustainability: Given the low coverage of the "macro coverage", the GoK has committed to create a sustainable livestock insurance program by implementing a second phase whereby beneficiaries would be required to contribute to the commercial cost of insurance. GoK will provide 50 percent livestock insurance subsidy for up to 10 TLUs per household, respectively. For insurance to be commercially viable, it needs to be taken up by a larger number of farmers and pastoralists. Demonstration that insurance pays when it is supposed to contributes towards commercial sustainability. Overall the government aims to cover at least 65,000 pastoralist households by 2020.

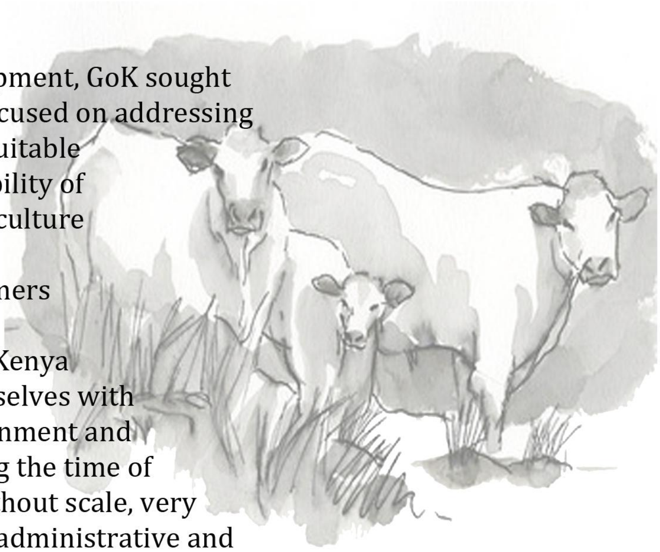
The KLIP has paid out twice in August 2016 and February 2017 due to a major drought. The latest payout included 12,000 beneficiaries in the 6 covered counties.

DID YOU KNOW?

Kenya is one of the **very few countries in Sub Saharan Africa where the index insurance program has the potential to scale up to attain commercial sustainability** – it is the only one with Ethiopia where Livestock insurance has been developed.

This WBG program has been developed as a public-private partnership where government supports premiums, and provide public goods, and the insurance companies develop the product and pay claims when they arise. **This is a key success factor that allow commercial sustainability.**

Early results are highly promising, but they are still challenges including Awareness creation: vulnerable households do not know the value of insurance so such program requires very strong customer(farmer and government stakeholders) awareness



Concerned with the slow agriculture insurance market development, GoK sought technical support from the World Bank Group. This support focused on addressing agriculture insurance market failure, resulting from a lack of suitable insurance products, low effective demand and limited affordability of insurance products. Government's intervention is making agriculture insurance available to the majority of smallholder farmers, constituting 75% of total number of farmers. The targeted farmers practice rain-fed agriculture and are particularly vulnerable to losing their livelihoods during the severe droughts that affect Kenya every three to five years. Before, instead of safeguarding themselves with insurance products, they depended on support from the government and development partners through disaster relief assistance during the time of severe weather shocks. This was costly and unpredictable. Without scale, very few insurance companies in Kenya would be able to cover the administrative and operating costs for their agricultural insurance business lines,let alone generating profits on a sustained basis.

Early results are positive. The fact that KLIP has paid twice in situation of drought shows that the product is working – it pays when it is supposed to. This shows the value of insurance to give cover ex ante, to keep animals alive instead of relying on public funds that are only mobilized ex post.

The sustainability tipping point: The GoK can only pay premiums for a limited number of vulnerable households. For insurance to be commercially viable , it needs to be taken up by a larger number of pastoralists.

Area Yield Index Insurance (AYII)

The crop insurance was launched in three counties in March 2016 targeting semi-commercial maize farmers. Approximately 950 farmers purchased 50 percent-subsidized Area Yield Index Insurance (AYII) coverage for the long rain season in 2016. The crop insurance program aims to cover about 87,000 farmers by 2020. Agricultural insurance can provide much-needed protection to keep farmers out of extreme poverty and enable them to invest for their future.

Objective: The objectives of crop insurance are to manage risks and losses amongst smallholder farmers; increase investment in agriculture through improved access to credit and higher yielding technology such as seeds and fertilizers; and support transition from subsistence to commercial-oriented farming.

Coverage: Through AYII, insured farmers would receive a payout if the average yields of a defined unit areas of insurance measured through a series of crop cutting experiments are lower than a predetermined threshold. The crop insurance is only partially subsidized with the GoK providing 50 percent subsidy for a maximum of 5 acres to farmers growing maize or wheat. Similar to the partially subsidized livestock insurance, crop farmers must take initiative to pay their portion of the premium, and then the government tops up. Any farmer is eligible under these set conditions

The role of the Government: Under the crop insurance program the GoK has three major roles and responsibilities. First is underwriting data, providing finances data collection that will be used for development of insurance products, and finance end-of-season yield determination in the initial implementation of AYII. Second is providing insurance premium subsidy – the GoK has committed to provide subsidy on commercial premiums.
Third, is the creation of awareness on insurance to ensure farmers understand the existing risk management tools.

Expansion: The GoK plans to make available the crop insurance product to 87,000 farmers by 2020, and to cover at least 30 counties.

To enable the private agriculture insurance market to scale, the GoK need to invest in public goods which make provision of agriculture insurance sustainable, because private insurers can then invest in product development. Through the World Bank's recently approved Kenya Climate Smart Agriculture Project (KCSAP), Gok will support investment in public goods to scale up agriculture insurance (for instance systems to generate continuous and reliable time series yield data, technology to establish homogenous production zones, capacity building of government's technical staff to manage public sector functions of agriculture insurance).

Kenya at a glance

75% Kenyan Farmers Over 75 percent of Kenyan farmers are smallholder subsistence farmers / pastoralists who are highly vulnerable to the economic effects of natural disasters like drought and flooding. Agriculture insurance significantly reduces the probability of falling into poverty.

4 Extreme Droughts in 10 years Livestock production in this region is prone to droughts that can cause catastrophic herd losses. Average livestock mortality rates from 1999-2013 data ranges from 9-18% per year.

14,000 vulnerable households - In October 2016,14,000 vulnerable households were selected to benefit from livestock insurance cover. The GOKpurchased cover for the selected from six counties (Turkana, Wajir, Tana River, Marsabit, Isiolo and Mandera). GOK paid premiums of about Ksh. 167 million for an annual cover from October 2016 to September, 2017 with two payout possibilities

12,000 insured beneficiaries Payouts triggered to over 12,000 insured beneficiaries. In February, 2017 insurance companies declare payouts to 59 of the 67 insured units amounting to Ksh. 215 million. A major payout to be made to small holder farmers in Africa, making a market-mediated solution feasible.

7 Insuring companies operating as a consortium and with backing of 1 reinsurance ensure timely payouts. Less than a month after the announcement of the results insuring companies with backing from reinsurance have paid the insured beneficiaries through their bank accounts or mobile money. Premium volumes from this government supported initiative make agriculture insurance market attractive with potential of encouraging private sector insurance to invest and develop the market further.

87,000 semi commercial farmers targetedfor crop insurance coverage by 2020. After its launch in March, 2016, over 900 Farmers voluntarily purchased the maize Area Yield Insurance Index (AYII) covering the March –July crop season. Interested farmers paid50% of the commercial premium with the government topping up the balance. In 2017, farmers in ten counties will have access to crop insurance.

Access to credit: Crop Insurance will unlock access to credit for semi commercial farmers, boosting their production. Insurance creates confidence for borrowers to borrow and financiers to lend.AYII could increase expected loan repayment by as much as 20% in extreme years relative to a situation without AYII

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