

## Weather index-based insurance in Kenya



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**Farming is the most important economic sector in Kenya and nearly half of all farming output in the country is for subsistence purposes<sup>1</sup>. However, there is little certainty in subsistence farming since the size of the harvest is largely determined by the timing and amount of rainfall. One drought resulting in a bad harvest can lead to a lack of savings to invest in next year's planting.**

### Kilimo Salama and IFC support

#### OBJECTIVES:

The Kilimo Salama ("Safe Agriculture" in Kiswahili) is an index-based insurance product that covers farmers' inputs in the event of drought or excessive rainfall. It is a partnership between the Syngenta Foundation for Sustainable Agriculture and Kenyan insurance company UAP. The project uses weather stations to collect rainfall data and implements SMS-based mobile technologies to distribute and administer the payouts.

In November 2010, the IFC's Global Index Insurance Facility (GIIF) entered into an agreement with the Syngenta Foundation providing a grant to incentivize Syngenta to:

- Design new and affordable index based insurance products;
- Develop the technology of the SMS-based mobile platform that expands outreach to low income farmers;
- Scale-up agricultural index insurance into a commercially viable and sustainable product

#### PROJECT PARTNERS

The project partners are further supported by the mobile network and payments distributor Safaricom and the Kenya Meteorological Department. The initiative develops products with agri-businesses committed to working with smallholder farmers such as MEA Limited for fertilizers and Syngenta East Africa for chemicals and seeds on behalf of Seed Co. The NGO CNFA/AGMARK assists the project team with training and selection of stockists.

In addition to insuring inputs the program also facilitates agricultural lending. The initiative entered into several agreements with aggregators, such as microfinance institutions (MFIs) who deliver agricultural loans and services to farmers. Weather Index Insurance is bundled together with the loan to protect the farmers in the event of unfavorable weather conditions. In such an event, the insurance company compensates the organization which in return write-offs of the loan of the affected farmers.

#### How it works?

Kilimo Salama is currently offering two products in the market – one to cover the investment in farm inputs such as seed and fertilizer and one to cover farm output value which is an estimate of the expected harvest value.

The above products protect farmers' investments against extreme weather events; namely drought and excess rain at the end of the season when the crop is in the field. For large insured amounts farmers are presented with a detailed term sheet precisely documenting the coverage.

- Farmers have the option to purchase the insurance products from an agro-dealer in their area or over the phone. The products are all administered via M-PESA, a mobile money platform, on which premiums and claims can be paid and contracts recorded.
- Payouts are determined based on measurement at the weather station nearest to the insured farm.
- Payouts are calculated based on the actual amount and distribution of rainfall over the crop season.

<sup>1</sup> Country Profile: Kenya, Library of Congress, Federal Research Division, June 2007.

- There is no need for farms to be individually visited and payouts made against the index are regardless of whether a physical crop loss was experienced or not; so long as the index was triggered.

### SUCCESSFUL IMPLEMENTATION:

The initiative has a measurable impact on lower income farmers helping them manage the risk of loss of income. In 2009 during the pilot phase, 200 farmers were insured; by January 2012 more than 23,000 farmers had purchased the product.

The project is expected to insure an additional 34,000 farmers by the end of the 2012 long rains season. The reported early sales figures show significant increases for the aggregator product sales. Approximately 45 per cent of the insured farmers are women.

### Main elements of successful implementation:

#### 1. MFI Loan-Linked Insurance

**Intended for:** Smallholders with a loan and input package from a MFI worth >\$100. Farmers produce maize on < 2 acres using improved inputs and receive agronomic training from MFI field agents.

**Advantage:** The MFI increases smallholders' productivity and food security by linking them to credit, inputs and extension services. When farmers take out a loan of agricultural they are registered for Kilimo Salama insurance coverage.

#### 2. Contracted Seed Grower Insurance

**Intended for:** Farmers contracted by a seed company, with > 20 acres for certified seed production insuring an average of \$300/acre.

**Advantage:** The seed company and Kilimo Salama are partnering to provide insurance to certified maize seed growers. The seed company pays the premiums at the start of the season, deducting the cost from the delivered harvest. Kilimo Salama was developed for smallholders, but its insurance products can easily be adapted to large producers.

#### 3. Kilimo Salama Helpline

**Intended for:** Farmers with any size of holding who want further information about Kilimo Salama.

**Outreach 2011:** 21,380 answered calls (> 400 per week)

The Helpline operates daily from 6 a.m.-midnight. Call agents have Agriculture degrees, customer service experience, and training on inputs, pests and Kilimo Salama products.

### LESSONS LEARNED

#### **Awareness raising methods:**

It takes time to understand which awareness raising methods can sell the retail product more effectively. Using monitoring and evaluation tools that are addressed to test farmers' behaviors can provide significant insights on their purchasing activities.

#### **Local Partners:**

The macro and meso-level partnerships with organizations are critical to developing and sustaining index insurance coverage. Given the number of farmers that can be insured via these channels and the premium volumes these clients generate, projects should place significant attention to partnership development.

### IFC'S ADDITIONALITY

In placing its confidence in index-based agricultural insurance, IFC lends credibility and provides a stamp of approval to this concept and attracts other financial institutions to follow suit and offer capital market instruments to share such risks.

IFC is uniquely situated on the ground through its experienced staff in the region and its established distribution channels.

The Project has an important innovation aspect – use of mobile technology to distribute insurance products to small holder farmers. The innovative approach will reduce distribution costs and enable reaching a large population that cannot be reached with conventional methods. The approach can be replicated in other regions and with other products.

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### **Donors and Partners**

The European Commission is the primary donor to the initiative and has committed EUR 24.5 million to facilitate reaching the objectives of the facility. The GTF is also supported by Japan's Ministry of Finance with a grant of US \$3 million, and the Dutch Ministry of Foreign Affairs, which provided US \$500,000 to establish the facility.

