

BACKGROUND

GIIF is an instrument to mitigate the shocks of natural disasters, which are being exacerbated by climate change. Index insurance helps farmers and households reduce their risks and protect their assets and livelihoods.

According to a recent UN Office for Disaster Risk Reduction report, natural disasters have cost the global economy \$2.5 trillion since 2000 and affected millions of people. The Food and Agriculture Organization of the United Nations estimates that 870 million people (1 in 8 people on the planet) go hungry every day. As climate change risks increase, affecting the productivity and reliability of agriculture, some experts suggest that another 100 million to 200 million people could be at risk of hunger by 2050.



ILRI representatives play a game to illustrate insurance products to Maasai herders in Kenya. In 2011, Kenya suffered one of the worst droughts in its history which killed up to 30 percent of the country's livestock in some areas of Northern Kenya.

GIIF is funded by the European Union, Japan and the Netherlands.

Global Index Insurance Facility

WHAT IS GIIF?

The Global Index Insurance Facility (GIIF) is a multi-donor trust fund supporting the development and growth of local markets for indexed/catastrophic insurance in developing countries, primarily in sub-Saharan Africa, Latin America and the Caribbean, and Asia Pacific. **GIIF's objective is to expand the use of index insurance as a risk management tool in agriculture, food security and disaster risk reduction.** The facility is part of the World Bank Group's Finance & Markets Global Practice.

GIIF helps establish index insurance markets through:

- **Information Campaigns:** public education on index insurance for farmers, small businesses, banks and other clients, distributors, etc.
- **Capacity Building:** grants to brokers to support training for local insurers and financial institutions on the design of index insurance policies and claims process.
- **Technical Advice on Products and Pricing:** through a team of GIIF technical specialists, and Swiss Re (GIIF's technical partner).
- **An enabling regulatory and policy environment**

Index insurance can help stabilize income for small businesses and farmers when crops are adversely affected by weather, thereby improving livelihoods, assets and long-term risk management for the world's 2.5 billion smallholder farmers.

WHAT IS INDEX-BASED INSURANCE?

Index insurance is a relatively new but innovative approach to insurance provision that pays out benefits on the basis of a predetermined index (e.g. rainfall level) for loss of assets and investments, primarily working capital, resulting from weather and catastrophic events, without requiring the traditional services of insurance claims assessors. **Before the start of the insurance period a statistical index is developed which measures deviations from normal for such parameters as rainfall, temperature, earthquake magnitude, wind speed, crop yield or livestock mortality rates.**

Insurance is important for development because uninsured losses lock vulnerable populations in a vicious cycle of destitution. Unfortunately, agriculture insurance and disaster insurance are either unavailable or prohibitively expensive in many developing countries.

BUILDING SUSTAINABLE INDEX INSURANCE MARKETS

On the private sector side, the **GIIF Team** funds implementing partners comprised of an intermediary 'broker/agent' who develops index insurance products with local and regional insurance companies who then sell the products. The index insurance products are often bundled with loans or credit and distributed mostly through portfolio-level aggregators such as agribusinesses, banks and microfinance institutions, and cooperatives.

GIIF SNAPSHOT

Grants Committed:
\$25 million (2009-14)

Countries with GIIF projects and policy/regulatory work: 25 in sub-Saharan Africa, Latin America and the Caribbean, and Asia Pacific

Clients: 644,329 farmers, pastoralists and microentrepreneurs (cumulative)

Total Insurance Portfolio:
\$119 million (cumulative)

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Launched in 2009, the Global Index Insurance Facility is a multi-donor trust fund financed by the European Union, Japan and the Netherlands and implemented by IFC and the World Bank.

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One of GIIF's implementing partners in Sub-Saharan Africa, ACRE, was recently incorporated as a brokerage company with support from the **Syngenta Foundation for Sustainable Agriculture**. ACRE has developed weather, area yield, and livestock index insurance products - sold under the label *Kilimo Salama* - covering a wide range of crops and dairy cattle, insuring **185,000 farmers in Kenya, Rwanda, and Tanzania**, with plans to expand into East Africa.



Joseph Kahiga farms maize in Kenya.

"In the past, my area has experienced drought and excess rain. I decided to get Kilimo Salama in 2009 until now because I will be compensated for farming losses caused by excess rainfall or drought."

On the public sector side, the GIIF Team works closely with governments at the regional and national level on policy issues to create an enabling legal and regulatory environment for index insurance. The GIIF Team also carries out feasibility studies and index insurance pilots to test the feasibility of index insurance markets. One of the key achievements of the GIIF Team in the policy area is the revision of the legal and regulatory framework in the **CIMA zone**, enabling the sale of index insurance in 14 francophone countries in West Africa.

The implementing partners are supported by the **Swiss Reinsurance Company**, the technical partner of GIIF.

DEVELOPMENT IMPACT:

- **Improved investment and harvests:** Insured farmers invested 19% more in their farms than uninsured farmers and earned 16% more income than their uninsured counterparts (Kilimo Salama/2012)
- **Clients insured:** 644,329 farmers, pastoralists and microentrepreneurs (cumulative)
- **Total insurance portfolio:** \$119 million (cumulative)
- **Insurance and loans:** 90% of those insured have a loan/credit linked to insurance
- **Payouts to clients:** \$9.75 million (2013)
- **Regulations and government policies:** a new microinsurance code has been approved in West Africa by the Inter-African Conference on Insurance Markets (14 member countries) allowing for the successful launch of index insurance products in Senegal and Benin; the World Bank team is actively working with insurance regulators in Kenya and Uganda (WB/IADB).