Experience in implementing Adaptation to Climate Change and Insurance Project in Kenya

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ACCI Project Objective

Farmers along selected value chains increase their capacity to adapt to climate change by making use of appropriate climate risk adaptation measures
ACCI Approach

- Understanding what is changing about climate
  - Looking at history, current and future
- Understanding the existing coping strategies
  - Not prescriptive – worked with farmers/stakeholders
- Prioritizing interventions
  - Crop related strategies
  - Non-crop related strategies
    - NRM, CA,
    - Insurance
- Empowering extension service providers
- Measuring impact
Agricultural Insurance Solutions as part of an Integrated Risk Management Strategy

<table>
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<tr>
<th><strong>Risk Identification</strong></th>
<th><strong>Risk Pricing:</strong> The identified risks are priced to enable an informed decision about prevention and risk transfer solutions for a given risk</th>
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<td><strong>Joint effort of all stakeholders</strong></td>
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**Risk assessment:** Holistic approach towards assessing and pricing agricultural risks

**Policy/strategy and action plan**
on how to address these risks with either prevention or mitigation measures

**If risk transfer is the best option,** suitable insurance solutions need to be developed, private sector taking the lead
Identified challenges

**Kenyan Agricultural Insurance Market Growth Inhibitors**

- Lack of sufficient insurance market infrastructure
- Low risk awareness and lack of insurance culture of clients
- Considered high premiums rates (catastrophic loading)
- Lack of quality data, necessary for designing appropriate products
- High potential of catastrophic weather events (potential to threaten insurance company financial stability)
- Regulatory impediments, small market volumes limiting access to re-insurance markets
ACCI Intervention in Insurance

- Enhancing literacy among various levels
  - Developed agriculture insurance training manuals
  - Trained extension officers
  - Trained farmers
  - Government officials

- Enhancing public private partnership
  - Brought government and private sector together and started discussing agriculture insurance
  - Analyzed challenges facing agriculture insurance

- Supporting agriculture insurance policy framework
  - Did national agriculture insurance situation analysis
The Agri-Insurance Policy Focus

“to assist agricultural sector players to broaden their risk management options to increase their productivity and stabilize income”

- Focus on making agricultural risk transfer mechanism a viable option
- Agri-Insurance not to be viewed in isolation – should be harmonized with other major policies guiding the agricultural sector
- Policy should also complement other government development instruments
  - Use of improved technologies
  - Extension services
  - Appropriate inputs
Broader risk management, policy considerations

- Need to identify, quantify & cost and prioritize risk (per sub-sector, crop and region)

- Risk stratification (layering): what risk can be retained farmers, what can transferred, what can be addressed through social protection organized by the government

- Identification of risk layers & assessment of current disaster relief framework being necessary for assigning financial burden
Lessons learned

- Isolated agriculture insurance pilots may be hard to reach scale to play important role in Climate Change
- Government understanding and involvement is necessary to make insurance useful tool to reducing agriculture related disasters [ending emergencies]
- Countries will require risk management policy framework
- The policy development process need to involve all key stakeholders.
- Agriculture insurance require consulted effort to make it more useful – Private Public Partnership (PPP) may ideal
- Agriculture insurance can’t be offered in isolation – broader agriculture risk management is the most appropriate
- Appropriate institutional framework is critical – having clear understanding on various actors and mandate
Project Achievement

- Increased understanding [at all levels] on importance of agriculture insurance in addressing transferable risks
- GoK commitment to put agri-insurance policy framework in place
- Increased commitment within GoK to address agriculture data availability and quality
- GoK is keen on supporting up-scaling agriculture insurance
  - World Bank AIDP team is building on GIZ work to assist government develop appropriate PPP agri-insurance
- Active contribution on loss and damage
End

ADAPTATION TO CLIMATE CHANGE AND INSURANCE (ACCI)

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Agricultural Policy Framework for Kenya

- **Vision**: Food secure and Prosperous nation
- **Overall goal**: Achieve an average growth rate of 7% per year over the next 5 years
- **Mission**: Innovative commercially oriented and modern agriculture
- **Strategic Thrusts**;
  - Increase Productivity, commercialization and competitiveness of agricultural commodities and enterprises
  - Offer conducive external environment and develop and manage key factors of production
- **Sector Targets**:
  - Reduce number of people living below absolute poverty lines to less than 25%
  - Reduce food insecurity by 30%
  - Increase contribution to GDP by more than KES 80 billion
  - Reform and streamline agricultural services
Challenges/constraints to the agricultural sector

- Inadequate budgetary allocation
- Reduced effectiveness of the extension service
- Low absorption of modern technologies
- High costs and low quality inputs
- Limited capital and access to affordable credit
- Pre and post harvest crop losses
- Heavy livestock losses to disease and pests
- Low and declining soil fertility
- Lack of coherent land policy
- Over reliance on rain-fed agriculture
- Inadequate disaster preparedness
Government focus

- Introduce affordable state loans to subsidize fertilizer and farm equipment as a way of ensuring food security.
- Establish a vibrant national irrigation scheme to open up more arable land.
- Facilitate leasing of agricultural land and also revive extension service.
- Create and encourage Agricultural Investment Trusts (AITs) through tax incentives to direct private investment into the agricultural sector.
- Encourage mechanization and value addition so that young Kenyans can find employment and investment opportunities in agriculture.
Government Focus

- Establish a national agricultural and livestock insurance and introduce an acceptable livestock evaluation systems that would make it easier for pastoralists to access credit

- Encourage every school to have a model agricultural and fish farm

- Increase agricultural sector budget as recommended under the Maputo Declaration of investing up to 10 per cent of the national expenditure to agriculture and ensure that the sector grows by at least 6 per cent per year.

- Offer minimum guarantee to farmers in terms of crop and producer prices at the beginning of the crop season.
What are the Benefits of Risk Management?

An appropriate risk management framework

- Avoids depletion of assets
- Encourages investment
- Enables more efficient use of resources
- Permits effective financial design
- Provides timely and efficient aid
- Improves the targeting of vulnerable households
- Clarifies the roles of the public and private sectors
- Enhances safety nets
- Facilitates more efficient country-level risk management strategies
Benefits of *Ex Ante* Market-based Risk Management

- Opens the way for innovation at the micro, meso, and macro levels
- Improves access to risk transfer by the rural poor
- Mitigates the impact of shocks that thrust the poor back into poverty traps
- Strengthens locally based intermediaries offering market access to households of different income levels
- Allows for more efficient risk transfer at the macro level through greater risk retention at the country level
- Creates a better environment for investment