Disaster Risk Financing
& Insurance Program

SUPPORTED BY WORLD BANK GROUP

Kenya

Since January 2014, the World Bank Group's Finance and Markets Global Practice has provided technical assistance to establish a crop and livestock insurance program in Kenya. Led by the WBG's Disaster Risk Financing and Insurance Program (DRFIP), this assistance is being carried out in partnership with the International Livestock Research Institute (ILRI) and Financial Sector Deepening Africa (FSD Africa).

Providing agricultural insurance (livestock and crop) is one of the top priorities of the government of Kenya. Agriculture forms a major part of the Kenyan economy, and many households rely on agriculture for their livelihoods. But agricultural production in Kenya is highly vulnerable to natural hazards. According to the government, livestock losses between 2008 and 2011 accounted for 70 percent of the US$12.1 billion in damages caused by drought.

In October 2015, the government launched the **Kenya Livestock Insurance Program (KLIP)** in two counties to protect pastoralists against climatic shocks. In March 2016, it launched crop insurance **Area Yield Index Insurance (AYII)** in three countries for semi-commercial maize farmers. The Kenyan government has plans to expand both programs: the goal is that by 2020, livestock insurance will be available in the remaining 12 counties in Kenya's arid and semi-arid lands (ASAL) and will protect about 65,000 vulnerable pastoralists; and that crop insurance will cover about 87,000 farmers.

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

Concerned with the slow pace at which the agriculture insurance market was developing, government of Kenya sought technical support from the World Bank Group. The Bank focused on addressing agriculture insurance market failure, which resulted from a lack of suitable and affordable insurance products and low effective demand.

The government's intervention is making agriculture insurance available to the majority of smallholder farmers, who constitute 75 percent of all farmers in Kenya. 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 generate profits on a sustained basis.

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 farmers were able to safeguard 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 approach was costly and unpredictable, and did little to protect livestock assets.

Early results are positive. The fact that KLIP has paid twice in situations of drought shows that the product is working—it pays when it is supposed to. It also demonstrates the value of insurance in providing cover ex ante and thus keeping animals alive, instead of relying on public funds that are only mobilized ex post.

Kenya Livestock Insurance Program (KLIP)

Design: Under KLIP, the government of Kenya purchases drought insurance from private insurance companies on behalf of vulnerable pastoralists. In the 2015/2016 season, it purchased about 5,000 fully subsidized livestock insurance covers on behalf of selected households. These policies issue payouts based on a forage availability index (NDVI), which uses satellite data to estimate the availability of pasture and pays out when availability falls below a certain threshold.

The government is also considering partially subsidized coverage for somewhat better off pastoralists, but the fully subsidized component was rolled out first to allow insurance companies to establish distribution infrastructure and to test products and systems.

Objective: The KILP is designed to insure the vulnerable pastoral households just above the social safety net threshold to avoid households 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 was designed to protect rapidly deteriorating livestock assets. Although the livestock insurance is purchased by the government ("macro coverage"), the insurance companies pay claims directly to the policyholders or beneficiaries in the event of a payout triggered by drought. This enables pastoralists to keep their livestock, particularly their breeding stock, alive during drought by using payouts to purchase fodder or pasture. The product covers five Tropical Livestock Units (TLUs), which is the equivalent of about five cows or 10 goats.

Criteria: The national and county governments have set up selection criteria to ensure that only sufficiently vulnerable households benefit from the fully subsidized component. The selected households are expected to (i) be active in pastoralism and own a minimum of five TLUs; (ii) not be beneficiaries of any of the programs under the Kenya National Safety Net Program; (iii) not own more livestock than a certain ceiling (currently set at 20 TLUs); and (iv) either have access to a formal money-transfer system (e.g., bank account, mobile money service) or commit to acquiring one after being considered as a beneficiary.

Sustainability: Given the low coverage provided by the "macro coverage" and the government's commitment to creating a sustainable livestock insurance program, Kenya plans to implement a second phase whereby beneficiaries would be required to contribute to the commercial cost of insurance. The government will provide a 50 percent livestock insurance subsidy for up to 10 TLUs per household. For this insurance to be commercially viable, it needs to be taken up by a larger number of farmers and pastoralists. Evidence that the insurance pays when it is supposed to should contribute toward commercial sustainability. By 2020, the government aims to cover at least 65,000 pastoralist households. The sustainability tipping point will be attained when farmers voluntarily purchase insurance to cover themselves against production shocks.

Area Yield Index Insurance (AYII)

Launch: The government of Kenya launched crop insurance in three counties in March 2016, targeting semi-commercial maize farmers. Approximately 950 farmers purchased AYII coverage, with a government subsidy of 50 percent, for the long rain season in 2016. The crop insurance program aims to cover about 87,000 farmers by 2020.

Objective: Agricultural insurance can provide much-needed protection to keep farmers out of extreme poverty and enable them to invest in their future. Kenya's AYII aims to manage risks and losses among smallholder farmers; increase investment in agriculture through improved access to credit and higher-yielding technology such as seeds and fertilizers; and support the transition from subsistence to commercial-oriented farming.

Coverage: Through the AYII, insured farmers receive a payout if the average yields of a defined unit of area (an "insurance unit") measured through a series of crop-cutting experiments are lower than a predetermined threshold. The crop insurance is only partially subsidized; the government provides a 50 percent subsidy for a maximum of five acres to farmers growing maize or wheat. 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.

Role of the government: Under the crop insurance program, the government of Kenya has three major roles and responsibilities: (i) finance and collect requisite data to develop insurance products and to determine end-of-season yield in the initial implementation of AYII; (ii) finance the insurance premium subsidy that it has committed to pay for commercial premiums; and (iii) build public awareness of crop insurance to ensure farmers understand the risk management tools available to them.

Expansion: Kenya plans to make the crop insurance product available to 87,000 farmers by 2020, and to cover at least 30 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. Ethiopia is the only other country in the region that has piloted livestock insurance.

This World Bank Group program has been developed as a public-private partnership in which government supports premiums and provides public goods, and the insurance companies develop the product and pay claims when they arise. This arrangement is a key success factor that allows commercial sustainability.

Early results are highly promising, but a number of challenges remain, including promoting greater awareness of the program and its benefits.

Scaling up the private agriculture insurance market will require the government of Kenya to invest in key public goods — such as systems to generate continuous and reliable time-series yield data and technology to establish homogenous production zones — that will encourage private insurers to invest in product development. Through the World Bank's recently approved Kenya Climate Smart Agriculture Project (KCSAP), the government will support investments in the public goods required to scale up agriculture insurance.

Kenya at a Glance:

A population reliant on agriculture

More than three-quarters of Kenyan farmers are smallholder subsistence farmers or pastoralists who are highly vulnerable to the economic effects of drought, flooding, and other natural disasters. Agriculture insurance significantly reduces the probability that farmers will fall into poverty.

Four extreme droughts in 10 years

Kenya is prone to droughts that can cause catastrophic herd losses and dramatically impact livelihoods. Livestock mortality rates due to drought averaged nine to 18 percent per year between 1999 and 2013.

14,000 Vulnerable households

In October 2016, 14,000 vulnerable households from six counties (Turkana, Wajir, Tana River, Marsabit, Isiolo, and Mandera) were selected to benefit from livestock insurance cover. The government of Kenya paid their premiums of about US$1.6 million for an annual cover from October 2016 to September 2017, with two payout possibilities.

12,000 Beneficiaries received payouts

In February 2017, severe drought conditions triggered a US$2.1 million payout by livestock insurance companies to 59 of 67 insured households, directly benefiting 12,000 people in the Kenyan Livestock Insurance Program (KILP). This major payout to smallholder farmers in Africa shows that market-mediated insurance solutions are feasible.

Seven insurance companies

The seven companies that participate in the KILP operate as a consortium and are backed by reinsurance, which ensures timely payouts to households. Less than a month after the policies were triggered in February, the insurance consortium made the payout directly to beneficiaries through their banks or mobile money service. Premium volumes from this government-supported initiative make the agriculture insurance market attractive and may encourage private sector insurers to invest and further develop the market in the future.

87,000 semicommercial farmers covered by 2020

This is the GoK's target for crop insurance coverage. After its launch in March 2016, over 900 maize farmers voluntarily purchased AYII covering the March–July crop season. Interested farmers paid 50 percent of the commercial premium, with the government topping up the balance. In 2017, farmers in 10 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 give borrowers confidence to borrow and financiers confidence to lend. Area Yield Index Insura (AYII) could increase expected loan repayment by as much as 20 percent in extreme years relative to a situation without AYII.

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