Disaster Risk Financing & Insurance Program

SUPPORTED BY WORLD BANK GROUP

Kenya Country Snapshot

Progress towards Financial Protection for Pastoralists and Smallholder Farmers

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).

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.

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.

Kenya Livestock Insurance Program (KLIP)

Objective: KLIP 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 has been designed to protect rapidly deteriorating livestock assets. Although the livestock insurance cover 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.

Sustainability: Given the low coverage provided by the "macro coverage" and the commitment from the government of Kenya to create a sustainable livestock insurance program, the government 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. Overall the government aims to cover at least 65,000 pastoralist households by 2020.

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.

Area Yield Index Insurance (AYII)

Objective: 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 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 the government of Kenya has three major roles and responsibilities: (i) it finances and collects data needed to develop insurance products and to determine end-of-season yield in the initial implementation of AYII; (ii) it provides the insurance premium subsidy that it has committed to provide on commercial premiums; and (iii) it seeks to create awareness of insurance to ensure farmers understand the risk management tools available to them.

Kenya launched crop insurance in three counties in March 2016, targeting semicommercial 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 in 30 counties by 2020.

The Disaster Risk Financing and Insurance Program (DRFIP) is a joint program of the World Bank's Finance and Markets Global Practice and the Global Facility for Disaster Reduction and Recovery (GFDRR). As a leading provider of analytical & advisory services on disaster risk finance, it helps governments, businesses, and households manage the financial impacts of disaster and climate risk without compromising sustainable development, fiscal stability, and well-being.

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