DRF for Agriculture and Climate Resilient Livelihoods

March 7th, 2024
Muldersdrift, South Africa

Session 13:

Institutional Arrangements
Public Private Partnership framework and roles & responsibilities of public and private sectors

Disaster Risk Financing & Insurance Program

SUPPORTED BY WORLD BANK GROUP

Eswatini
Ethiopia
Kenya
Lesotho
Namibia
Rwanda
Somalia
South Africa
Uganda
Zambia
Zimbabwe

Evolution of Agricultural Insurance

18th Century

Origins date back to farmer **mutual insurance** companies in Europe in the mid-18th Century for livestock mortality and crop hail

20th Century

Emigrating farmers took crop hail to North America, Latin America, South Africa and Oceania at the start of the 20th century

1945

Post second world war, many governments formed **public sector crop insurers** to offer subsidised crop insurance to small farmers. Most of these programs failed with high underwriting losses (see Hazell et al. 1986)

1990s

Since the 1990s, there has been a proliferation of **Public Private Partnerships** PPPs for agricultural insurance (See Mahul & Stutley 2010: download here)

Rationale for public intervention in agriculture insurance

Agricultural insurance markets often suffer from **market inefficiencies** and **information asymmetries**:

Supply

- Limited availability of adequate data for product design and pricing (agricultural and meteorological) due to weak data infrastructure and systems
- Geographically disbursed farmers are hard to reach, leading to high cost of last-mile distribution
- Limited underwriting and financial capacity of domestic insurers
- Limited provision of reinsurance by international reinsurers due to low understanding and appetite

Demand

- Affordability - majority of small-scale producers have low disposable incomes
- Low understanding and trust in insurance
- Low access – Limited or seasonal presence of service providers results in limited transactions and lower quality of service
- Lack of access to customized products or services due to low profitability of the segment (not being the target customer segment for the insurance providers)

Government support can span both technical and financial roles

Potential Roles of Government

Data

- Collect
- Audit
- Manage
- Finance

Facilitate outreach and stimulate demand

- Link to social Society nets
- Link to credit
- Subsidize premiums
- Built awareness

Support development of last-mile distribution channels

- Training of insurance sales agents
- Facilitate the use of technology
- Develop access & market linkages:
  - Link to input schemes
  - Link to credit schemes
  - Link to other services e.g., agribusiness/ information

Financial Support

Policy & Market development support

Risk Financing

- Act as reinsurer of last resort
- Promote coinsurance pool

Support for product design and development

- Product development and pricing (short run)
- Technical support for insurers (long run)

Enabling environment

- Institutional framework
- Legal framework
- Consumer protection

The shift towards Public-Private Partnerships

LEVEL OF GOVERMENT INTERVENTION

Fully intervened Public Sector Systems

Government sets terms and conditions and operates through nationally owned mono-line insurance company, typically as a monopoly

- ✓ High penetration | Well diversified portfolios | Social criteria prioritized
- ✗ Poor services to the farmers (usually monopoly) | Usually not reinsured so Governments assume full liability | High Fiscal Cost for Governments

Examples: India (former NAIS); Mexico (former ANAGSA); China (former PICC); Panama (ISA); Philippines (PCIC); Canada (several provinces), Brazil (former COSEP)

Public-Private Partnerships

Coinsurance arrangements usually sets terms and conditions. Insurance companies competes for service. Public sector provides the plans /guidelines and financial stability

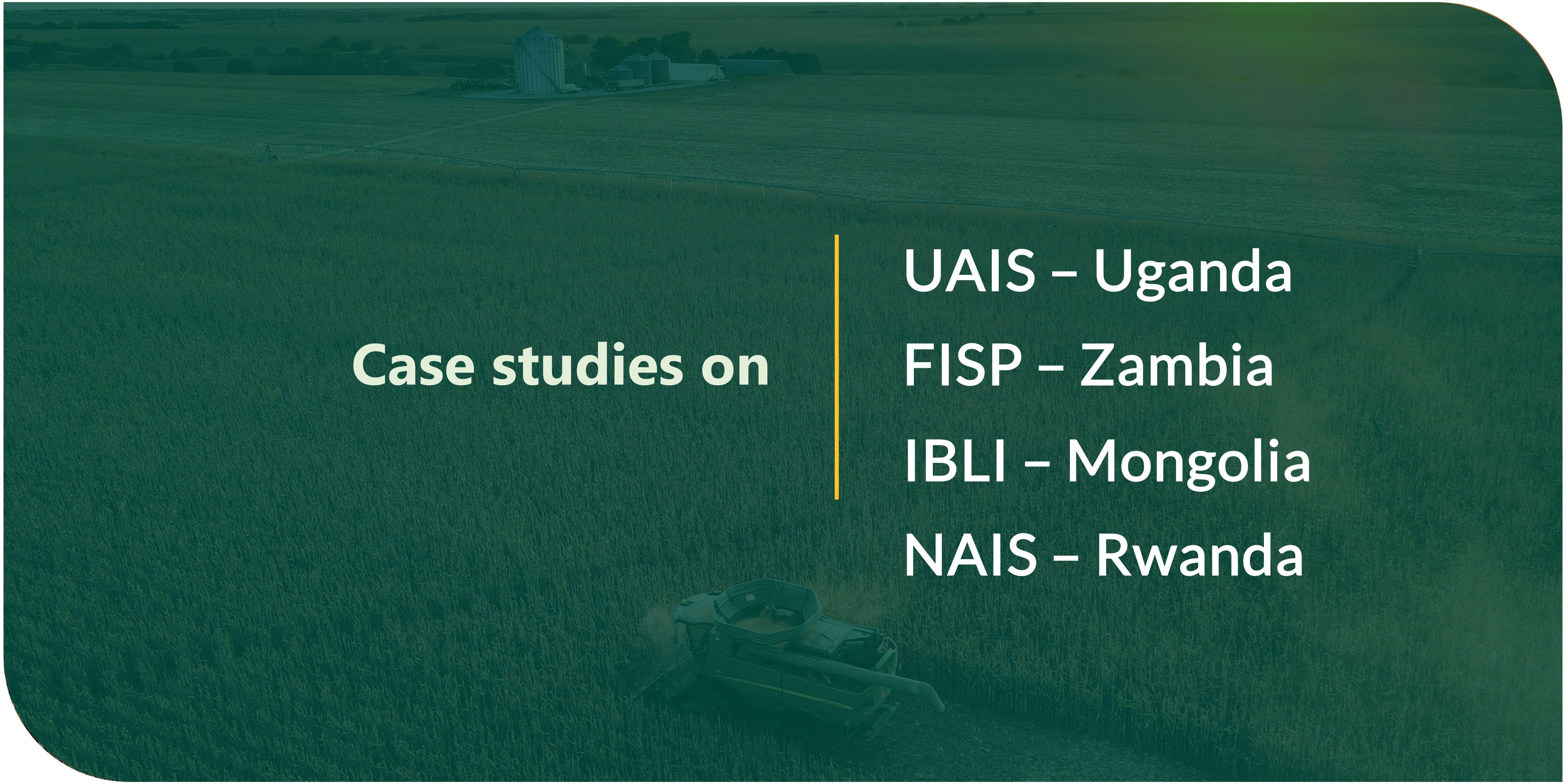
- ✓ Moderate to high penetration | Well Diversified Portfolios | Technical and Commercial criteria balanced with social criteria
- ✗ Difficult to establish | high costs of coordination |

Examples: Spain, Turkey, Italy, Mexico, Brazil, USA, China, India, South Korea, Kenya, Senegal, Tanzania, Uganda, Zambia

Purely Market Based Systems

NUMBER OF PLAYERS ANDPRODUCT DIVERSIFICATION

Source: Iturrioz 2010



Case studies on

UAIS – Uganda

FISP – Zambia

IBLI – Mongolia

NAIS – Rwanda