Africa-Asia Conclave on Loss and Damage Due to Climate Change

Instituting a global agricultural insurance programme as a risk-sharing and transfer mechanism for developing countries

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Overview of Agricultural Insurance in Africa and Asia

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Background

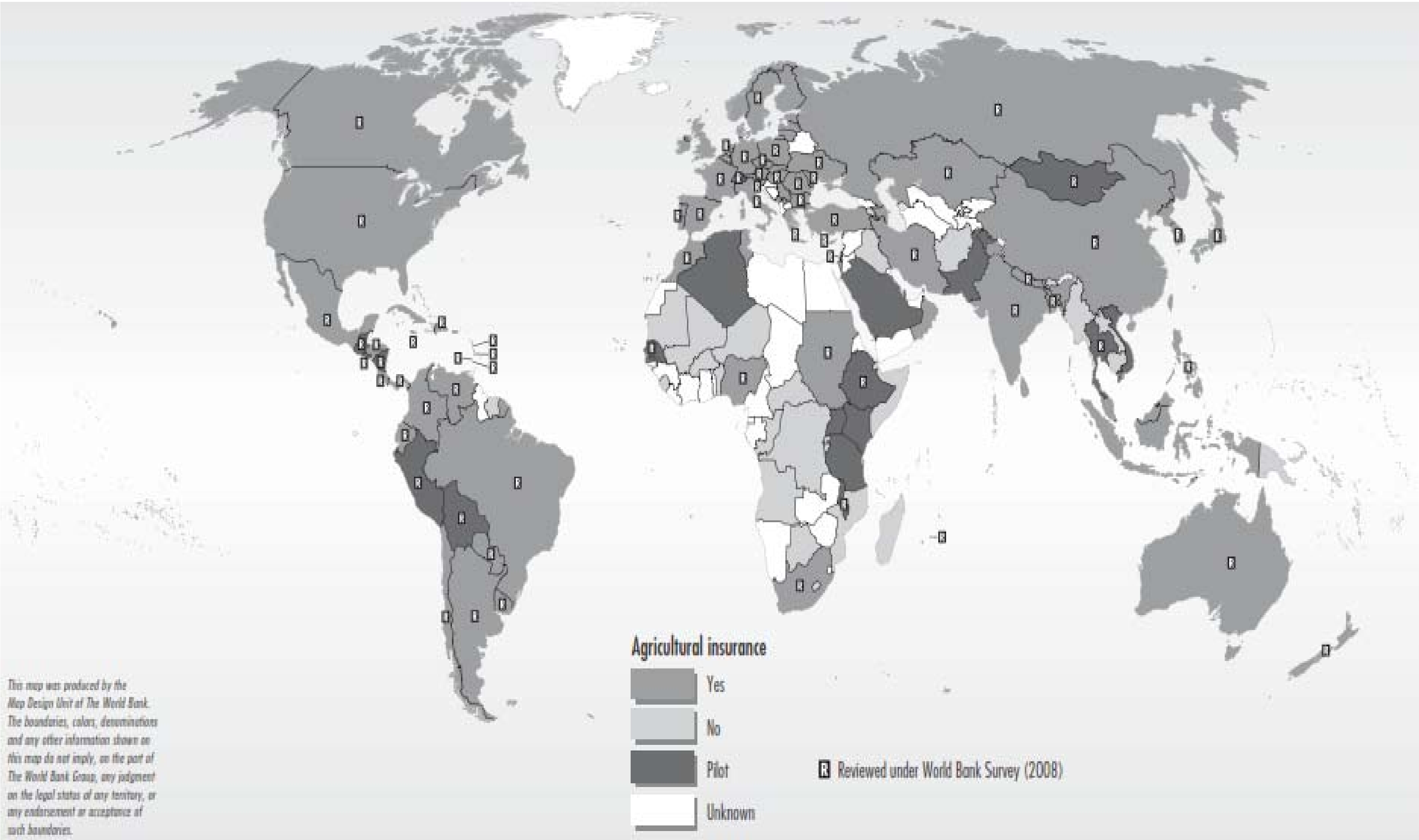
- Developing countries most impacted by climate impacts. Natural hazards and disasters between 2003 and 2013 in developing countries affected around 2 billion people and caused over US$ 494 billion in estimated damage, according to FAO.
- Losses in agriculture sector approximately bears 22 percent of the economic impact caused by natural disasters in developing countries.
- The trend is expected to continue in coming times too.
- Adaptation measures that raise the adaptive capacity thus becomes critical. Such measures include risk management, policy and regulatory frameworks, risk insurance, incentives, finance and technology transfer

The role of agricultural insurance

- Among such wide range of actions, this Conclave focuses on agricultural insurance as a financial coping mechanism to address loss and damage in the agriculture sector in the developing countries

- Currently, risk insurance is available only to 100 million farmers, according to World Bank

Global Agricultural Insurance Coverage



Key Observations from the Map

- Agricultural insurance in Asian region is confined primarily to China, Japan and India

- In Africa, the penetration of agricultural insurance is very low with many of the African countries either not having it or experiencing it only at pilot stage.

- Only in North America and Europe is agricultural insurance well developed

Agricultural Insurance in Developed Countries

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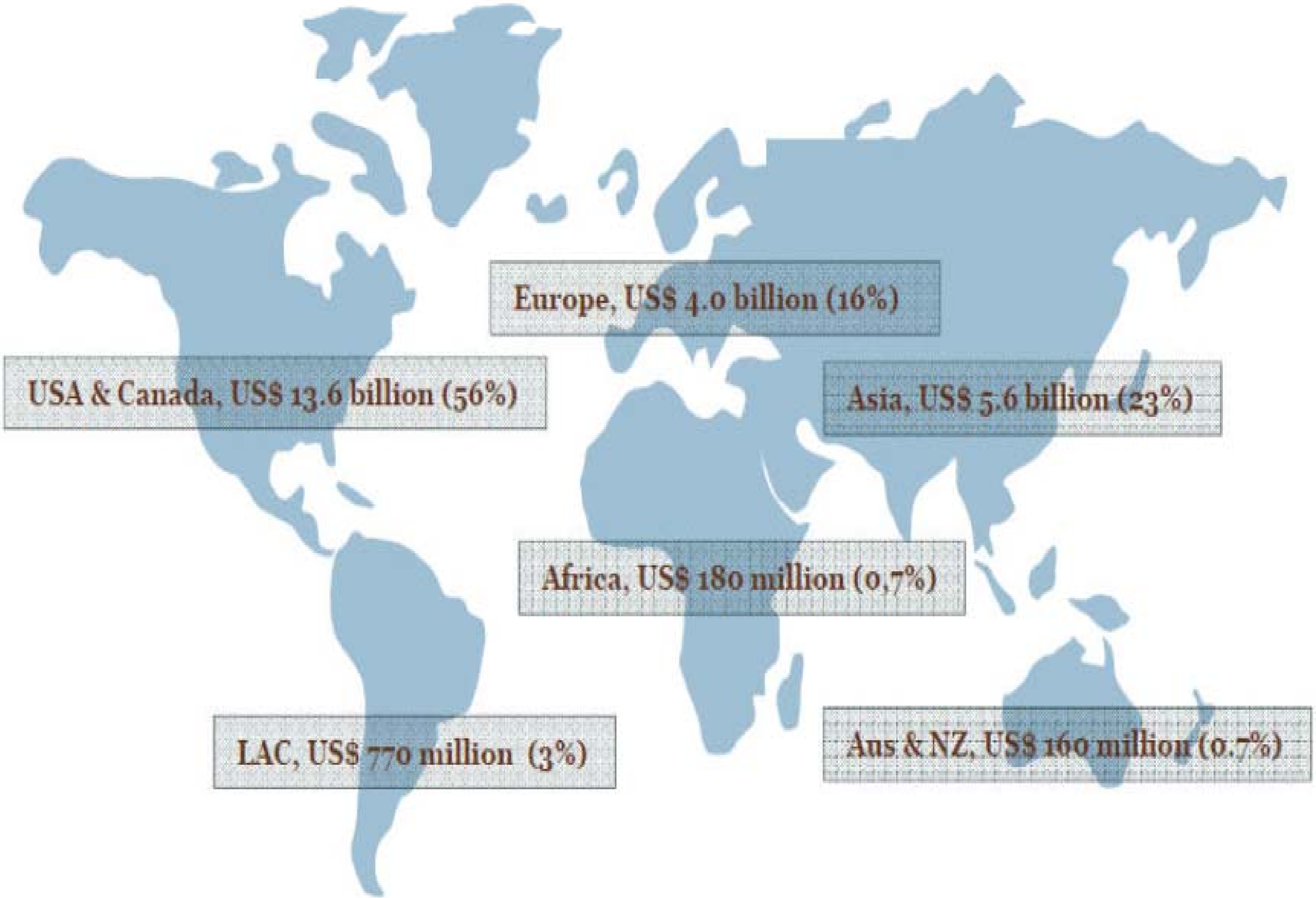
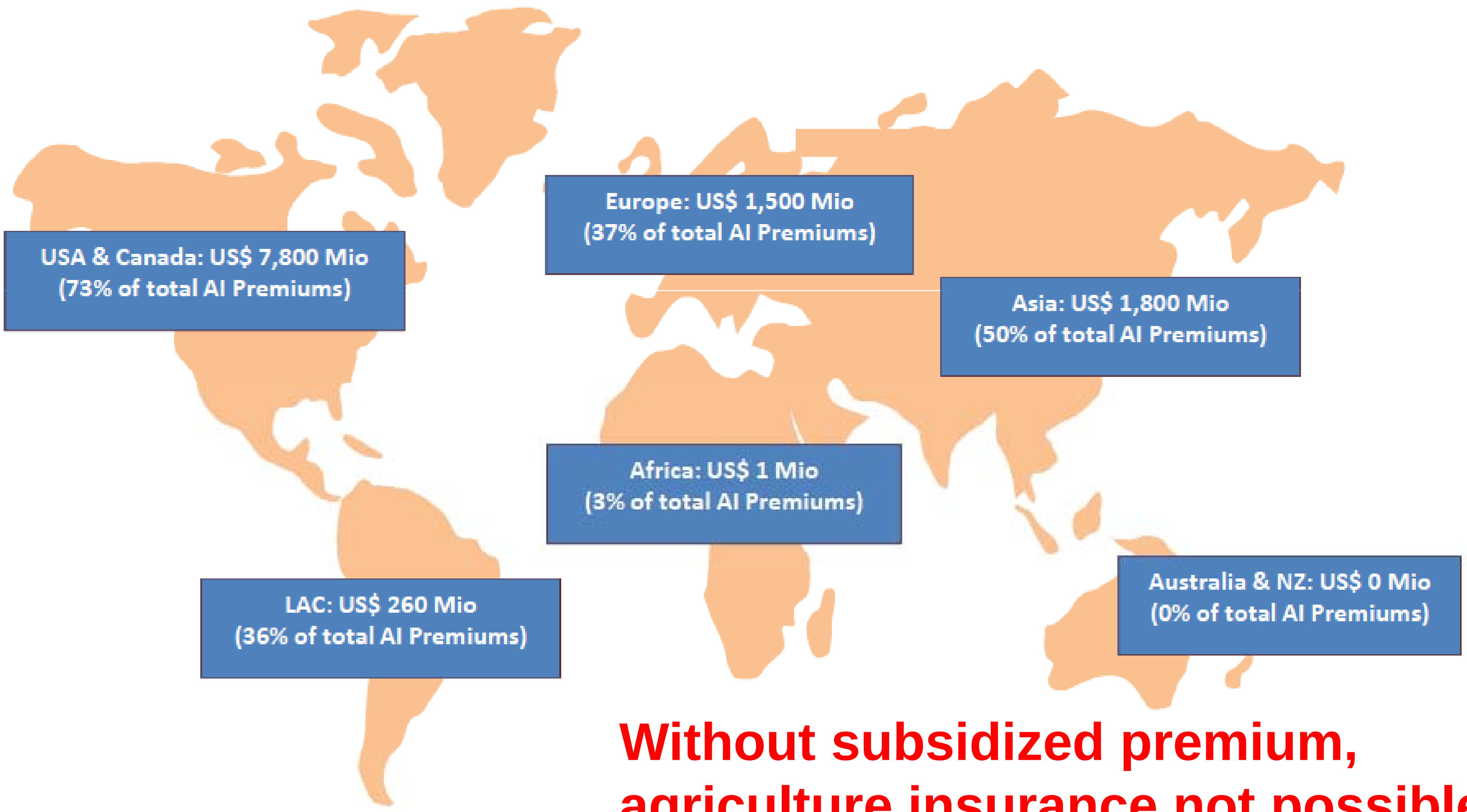
- The highest agricultural insurance penetration rates are found among high-income countries
- USA and many European countries have had some form of crop or livestock insurance for more than a century and now they are mature markets with high penetration rates.
- Important to Note- Within these countries too, the highest penetration rates are in countries with very high levels of government premium subsidy support

Geographic Distribution of Agricultural Insurance Premiums



Government support pre-requisite to Ag. Insurance

Government support for agricultural insurance



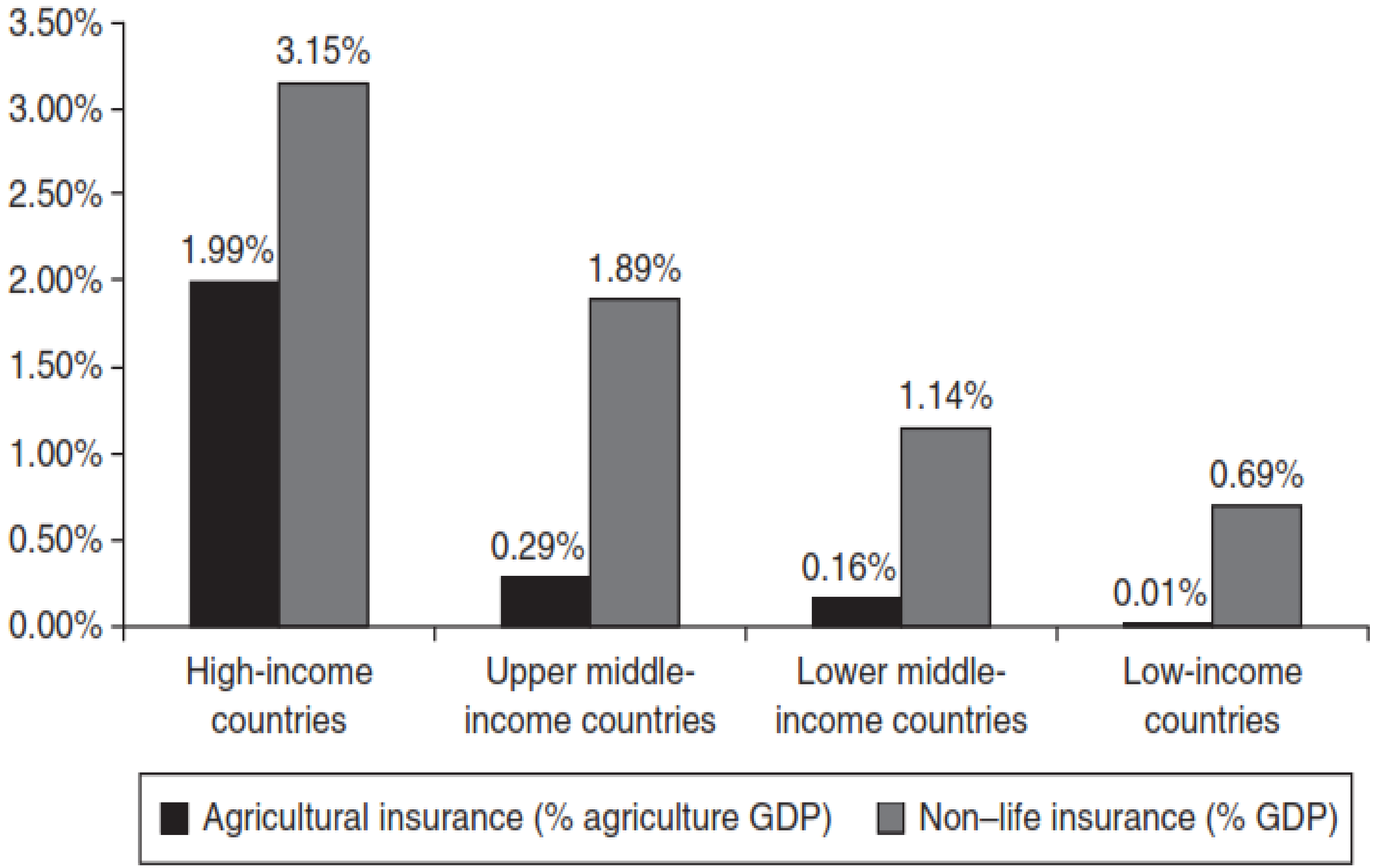
Without subsidized premium, agriculture insurance not possible in developing countries

Source: Mahul and Stutley (2010)

Government support pre-requisite to Ag. Insurance

- Government support to agriculture insurances in different forms like legislation, subsidies and re-insurance in developed countries
- USA and Canada are way ahead of other countries, providing 73 per cent support in agriculture insurance premium
- Asia—50 per cent (Mainly China, Japan and India covered)
- Africa—3 per cent
- Roughly, in many developing countries, agricultural insurance has been operating for only 10–15 years

Penetration of agricultural and non–life insurance, by development status 2007



Source: Authors, based on Cummins and Mahul 2009; World Bank Survey 2008

Key points from the Graph

- Penetration of agricultural insurance exceeds 1 per cent (of agriculture GDP)in high-income countries but is still much lower than penetration of insurance products other than life insurance.

- In low- and middle- income countries, the agricultural insurance penetration is less than 0.3 percent (of agriculture GDP).

Livestock Insurance Scenario

•Livestock insurance products include the traditional animal accident and mortality cover as well as an epidemic disease cover and a livestock index mortality product.

•Peril accident and mortality insurance is the basic traditional product for insuring livestock

•Cover includes death caused by natural perils such as fire, flood, lightning and electrocution

Livestock Insurance Coverage

Region	Number of countries
Africa	8
Asia	12
Europe	22
Latin America	19
North America	2
Oceania	2
All countries	65

Agricultural Insurance in Africa: Key Features

- The level of penetration of agricultural insurance is very low in Africa in general.
- Level of farming is in large number of African countries is subsistence, farmers have less awareness and insurance is costly
- In countries including Ethiopia, Mali, Mozambique, Benin, Senegal, Tanzania, etc, agricultural insurance is at a pilot level stage
- Few countries like Kenya have developed their agricultural insurance to whole scale government programme like Kenya National Agricultural Insurance Program (KNAIP)
- Funds- Most of the African countries depend on international assistance to deal with losses of climate related extreme events. Even where countries have their state level funds, it is struggling for funds like Ethiopia

Few Initiatives undertaken for Increasing Resilience

- Agriculture and Climate Risk Enterprise (ACRE) is the largest agricultural index insurance programme in sub-Saharan Africa in which the farmers pay a market premium. The programme now spans across Kenya, Rwanda and Tanzania
- African Risk Capacity (ARC), an agency of the African Union, has launched the first African catastrophe insurance pool in May 2014. It aims to increase member states more resilient to climate impacts
- Horn of Africa Risk Transfer for Adaptation HARITA/R4 in Ethiopia where if unable to pay the insurance premium in cash, farmers can engage in labour

Agricultural Insurance in Asia: Key Features

- Agricultural insurance systems in the region range from major public sector programmes of India and the Philippines through to public-private partnerships in China and the Republic of Korea.
- There are non-formal private mutual and community-based crop and livestock initiatives in Bangladesh, India and Nepal.
- Ag. Insurance is not available in any form in Afghanistan, Bhutan and Maldives

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Recent Trends

- Major growth in public-private partnerships for agricultural insurance has occurred in China and in the Republic of Korea over the past decade.
- In China, major growth has occurred which now accounts for nearly US$2 billion or 50 percent of the total regional agricultural insurance premium
- In 2009 the major agricultural insurance markets in Asia and the Pacific region by premium volume were China (50 percent of total premium), Japan (31 percent), India (11 percent), and the Republic of Korea (3 percent)
- In countries such as Sri Lanka and India (1985), though agricultural insurance have been for some time now, the coverage still is very less

Conclusion- Key Points

- The agricultural insurance premium volume for the region has increased from US$1.6 billion in 2005 to nearly US$4.0 billion in 2009, in Asia region alone indicating growth and recognition of importance of agricultural insurance.
- It thus suggests that agricultural insurance have important roles to play in managing climatic and natural risks at different levels of aggregation
- The highest insurance penetration rates are found in countries that have large national subsidized schemes and where crop and livestock insurance is compulsory (e.g. Japan for cereals, China for livestock epidemic disease cover)