Towards Sustainable Livestock Insurance for Pastoralists: A case of IBLI

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A sizeable constituent

- Over 50 million pastoralists in Sub-Saharan Africa: over 20 million in the Horn of Africa
- Estimated contribution to the livestock economy at 40% in the Horn of Africa

Centrality of livestock in Northern Kenya and Southern Ethiopia

- Median pastoralist household holds 100% of their productive assets in livestock
- Livestock products and sales of livestock are 40% of income for average household
Motivation

- Vulnerability to livestock losses
  - 75% of livestock losses, among pastoralists, due to drought
  - Catastrophic herd loss due to drought identified as the major source of vulnerability and cause of poverty
  - Between 2008 and 2011 Kenyan economy suffered US$ 12.1 billion in damages due to drought, over 70% due to livestock losses

- Standard responses to drought – costly and inefficient
  - Destocking/Restocking – slow, expensive, targeting challenges, inefficiency
  - Food aid – slow, expensive, targeting challenges, foster dependency
  - Cash aid – targeting challenges, fiscal sustainability, not equally effective for all
Why Index Based Livestock Insurance

- Insurance and independent “index” measure strongly correlated with individual loss
  - Better suited to the pastoral production system and risk profile
  - Lower transaction costs, moral hazard issues than conventional insurance

- Sustainable Insurance can
  - Prevent downward slide of vulnerable populations
  - Allows focus humanitarian resources on the needy

Crowd-in investment and accumulation by the poor
Where we are currently working

- Program launched in 2008 to offer a timely, sustainable, safety net against catastrophic drought shocks on pastoralists.

- Currently implemented in Northern Kenya and Southern Ethiopia - expanding to the whole ASALs of Kenya within PPP framework, and scaling in Ethiopia.

Source: Google images and Vrieling, 2014
Challenges faced

- **Infrastructure**
  - Poor basic infrastructure, low literacy levels, security issues

- **Understanding and acceptance**
  - Penetration of insurance less than 3%
  - Most pastoralists don’t clearly understand the basic concepts of IBLI and have liquidity constraints
  - Instances of mis-selling

- **Competing Expectations**
  - Partners expectations of commercial sustainability in 2-5 years

- **Capacity Development**
  - Non-recurrence of information, remuneration and coordination among underwriters and agents
IBLI Programme Structure

Policy and institutional development

Contract Design
- Index construction
- Data precision
- Drought Index
- Impact Assessment

Market and CapDev
- Institutional and Technical Capacity
- Specialized and customized extension and education tools
- Need based research
- Supporting a PPP policy environment

Delivery Mechanisms
- Innovations towards market linkages
- Developing tools for monitoring, extension and delivery of essential services
- Crowdsourcing and citizen science

Evidence of value and impact

Informed effective demand
How we have overcome challenges
As a result of feedback from communities

Kenya – As of February 2016: 11,654 contracts sold since 2010

Ethiopia – As of September 2015: 3,909 contracts sold since 2012
Insurance is most efficient and effectively managed by the private commercial agricultural sector.

Way Ahead for Agriculture Insurance

**Data**
- Collect
- Audit
- Finance

**Outreach**
- Innovative distribution channels
- Link to credit

**Risk financing**
- Underwrite risk
- Participation in co-insurance pool

**Product Design and Development**
- Product development
- Pricing

Way Ahead for Agriculture insurance contd...

... but successfully scaled up agricultural insurance programs typically require leadership and targeted support from government

- **Data**
  - Collect
  - Audit
  - Manage
  - Finance

- **Outreach**
  - Link to social safety nets
  - Link to credit
  - Premium subsidies
  - Awareness building

- **Risk Financing**
  - Public sector reinsurance
  - Promote coinsurance pool

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**Support 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 IBLI PROGRAM IS A COLLABORATIVE EFFORT OF MANY PARTNERS

For more information, visit http://ibli.ilri.org/
Thank you for your attention 😊

Questions and Comments??