



Creating Value, Building Businesses, Transforming Communities...



Insuring the Agricultural Sector: Can it work?

Agricultural insurance is a major tool for farmers and other stakeholders to use in managing risk. Generally, insurance protects against production-related risks (pests, diseases, farming practices) and market & policy related risks (drought, flood, prices). Globally, the major value chains that benefit from insurance are crop and livestock, others include fishery and forestry. Access to agricultural insurance in Nigeria is limited and costly, particularly for rural farmers. In addition, farmers have poor access to other services like financing and inputs so insurance policies adds costs that most farmers are unwilling to incur. International best practices show that agricultural insurance is most effective when combined with other services such credit and technology.

Crop & Livestock Insurance

Crops are mostly affected by adverse weather conditions which include drought, flood, pest infestation and bush fires. Annually, farmers lose significant amounts of money as a result of the effects of these adverse conditions on crops.

Crop insurance products can be classified into two major groups. Indemnity-based insurance or peril crop insurance is calculated by measuring the percentage damage soon after the incidence occurs while yield-based or multiple peril crop insurance is coverage in which an insured yield is established as a percentage of the farmer's historical average yield. Livestock are mostly affected by various types of diseases such as bird flu and swine flu. In Nigeria, livestock insurance is more popular than crop insurance particularly in the poultry industry, due to the increase in organized poultry production in the country.

Initiatives promoting Agricultural Insurance in Nigeria

Public sector initiatives: Nigerian Agricultural Insurance Corporation (NAIC)

In an effort to provide agricultural risk insurance for farmers, the government established the National Agricultural Insurance Scheme (NAIS) in November, 1987. This scheme evolved into a corporation, fully owned by the Federal Government of Nigeria called the Nigerian Agricultural Insurance Corporation (NAIC) in June, 1988. The main objectives of NAIC are to promote agricultural production, provide financial support, increase the flow of agricultural credit and minimize the need for emergency assistance to farmers. The scheme was established for all category of farmers: small, medium and large scale at the individual or group level. The crop insurance package covers 17 crops like maize, rice, cassava, yam and sorghum. The livestock insurance package covers 14 types of livestock such as cattle, poultry, pigs, rabbit and sheep. The perils covered under crop insurance are fire, lightning, windstorm, flood, drought, pests and diseases while the perils covered under livestock include accident, disease, fire, storm and flood. In May 2013, NAIC paid over ₦500 million in claims to insured farmers who suffered losses from the floods in 2012. More recently, NAIC paid ₦80 million in compensation to a sugar farm in Adamawa State, following natural disasters.

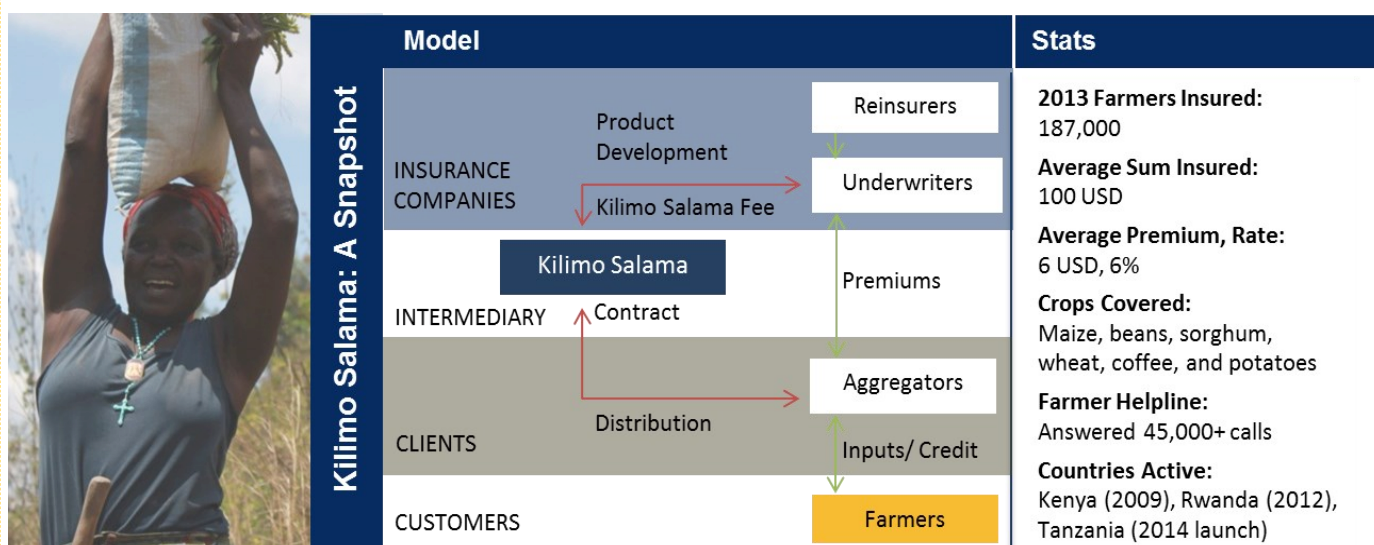
Advancements in Agricultural Insurance in Africa

ACRE Africa

Since 2009, Syngenta Foundation for Sustainable Agriculture has developed and implemented agricultural insurance products for smallholder farmers through the Kilimo Salama project (now ACRE, a for-profit company). Acre Africa currently operates in Rwanda, Tanzania and Kenya. ACRE Africa has been designing insurance products for farmers who grow maize, beans, wheat, coffee, tea, sunflower and potatoes. The project discovered major challenges with the traditional approaches such as excessive fiscal costs and high abuse potential. Thus, they developed an innovative crop insurance product that utilizes weather station and satellite data to monitor rainfall; reducing the need to depend on expensive farmer visits to verify claims. Rainfall measurements and pay-outs are automatically sent from the insurance company to the clients in seasons of loss. This product leverages on mobile technology and aggregators in existing agricultural value chains. The insurance cover can be bundled into the cost of inputs, loans from micro finance institutions (MFIs), or repaid at harvest. As at 2013, the project had insured 187,466 smallholder farmers in Kenya and Rwanda, a major increase from 185 farmers insured in 2009. One of the major success factors of this project has been its ability to leverage on technology to enhance insurance product monitoring and distribution.

The current products offered by ACRE Africa include:

- **Loan-Linked Insurance:** MFIs offer input loans (>100 USD) to farmers, including certified seed, mineral fertilizer, extension services and market linkages. Kilimo Salama products insure these loans, with pay-outs sent to the MFI to apply against loans or distributed directly to affected farmers.
- **Contract Grower Insurance:** an agribusiness pays the premiums at the start of the season, deducting the cost from the delivered harvest. This also works for large scale farmers, producing certified seed on larger areas with heavy investments in fertilizers and crop protection.
- **Dairy Livestock Insurance:** offered to individual farmers or linked to dairy loans from MFIs or banks. The cover is linked to an animal care package and vaccines, and attracts farmers with high quality cows.
- **Replanting Guarantee:** an input company (seed or fertilizer) bundles the insurance premium into the price of each bag. Each bag contains a card with a unique code. If there is severe drought, farmer receives mobile money transfer to purchase a new bag and replant.



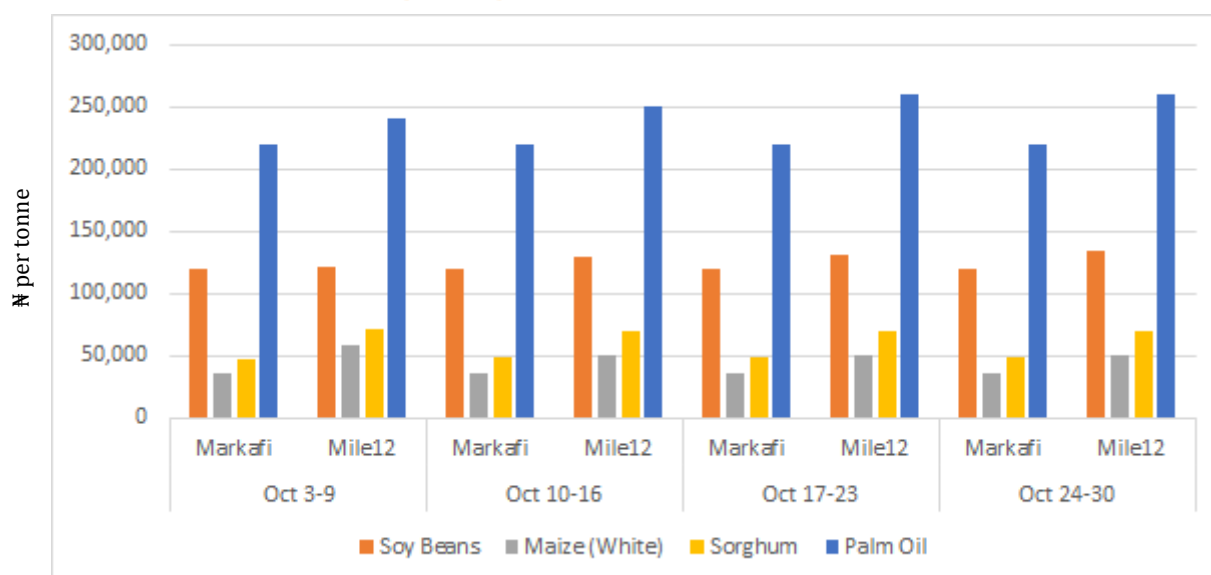
Source: The Syngenta Foundation for Sustainable Agriculture, 2013

Challenges & Mitigating Strategies for Agricultural Insurance

The key constraints and mitigating strategies to improve stakeholder involvement in the agricultural insurance space include:

Challenges	Mitigating strategies
<p>Low awareness about insurance products</p> <p>Farmers and agribusinesses are unaware and have a limited understanding of the benefits of insurance in managing risks. In addition, they do not believe they will receive compensation for losses incurred.</p>	<p>Designing simplified products</p> <p>In order to build trust among farmers and agribusinesses, insurance providers must develop products that are easy for the users to understand and will leave little room for misinterpretation. In addition, insurance providers should organize extensive training sessions to educate users on the importance of using various insurance products for risk management.</p>
<p>Inadequate infrastructure & support services</p> <p>Infrastructure such as feeder roads and proper communication facilities are required to facilitate prompt claims reported by farmers to ensure the assessment of losses by the appropriate authority.</p>	<p>Leveraging on technology solutions</p> <p>Insurance providers should partner with mobile providers to leverage on existing networks to farmers. Furthermore, they can also work to identify aggregators that work with large group of farmers that will benefit from insurance.</p>
<p>Low access to credit</p> <p>Agricultural insurance is costly for both farmers and insurance companies. Most of the farmers knowledgeable about insurance products are unable to access it due to lack of funding.</p>	<p>Bundling insurance products with credit and input suppliers</p> <p>Insurance providers should partner with stakeholders such as MFIs and commercial banks that lend to clusters that would benefit from such partnership.</p>
<p>Poor data management</p> <p>In order to compute premiums and pay indemnities, insurance providers require up-to-date information on farm operations, particularly crop yields and losses from natural disasters. Most farmers do not have this information and this makes it difficult for insurance providers to adequately assess claims.</p>	<p>Encouraging data management</p> <p>Depending on the specific insurance product, insurance providers will need to educate farmers on the adequate methods of recording crop yields and losses. In addition, product users require adequate technology to enhance the data management process.</p>
<p>Private & Public level insurance schemes</p> <p>For the public level insurance scheme, products are offered at a subsidized rate while private level insurance products are fully commercial.</p>	<p>Creating synergies between private and public level insurance schemes</p> <p>A collaborative effort is required by both parties in order to promote the importance of agricultural insurance and target a large majority of farmers and agricultural businesses.</p>

Industry Highlights: Commodity Price Update



Source: Novus Agro Commodity Index, 2014

Sahel Speaks...

Women in Management, Business & Public Service (WIMBIZ) Conference

On November 4, Sahel Capital participated in a panel session on 'Agribusiness: The New Gold,' during the 13th Annual WIMBIZ Conference. The theme of the conference was 'Nigeria Rising...Accelerating Transformation'

U.S. Embassy Youth Entrepreneurship Workshop

Sahel Capital led a workshop for young and upcoming CEO's from November 11-12. The workshop was titled 'Entrepreneurship as a Vehicle for Economic Prosperity', and held at the Bolingo Hotel in Abuja.

OXFAM, National Female Food Hero Award 2014

Sahel Capital provided training during the 2014 National Female Food Hero Award organised by Oxfam in Nigeria. The event took place on November 21st at Platinum Hotel, Ikeja. The National Female Food Hero Award is aimed at recognizing, celebrating, and building the leadership capacity of women small scale farmers, using innovative approaches.

AgraInnovate 2014

Sahel Capital participated in a panel focused on 'Making the case for investing in Nigerian agriculture: Key market drivers and opportunities' on November 18 at the Landmark Centre, Lagos. The AgraInnovate 2014 aimed at addressing challenges and opportunities associated with the Nigerian agricultural boom.

Working Moms Conference

Sahel Capital will be speaking during the Working Moms Conference focused on helping mums in career and business reach their full potential. The theme of the conference is 'Succeed & Achieve' and is scheduled to hold on the 6th of December at Eko Hotel & Suites, Lagos.

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