

AfDB's experience with Index Based Agricultural Insurance in Egypt under the “Rural Income and Economic Enhancement Project”

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African Development Bank Group

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The Importance of Agriculture in Egypt

A) Lead Sector in Egypt:

- Food security – provides for staple items
- Employment – employs around 30% of the labor force
- Exports – particularly fruits and vegetables to Europe
- Provision of raw material for some industries – cotton, agro-processing
- Represents 14.1% of GDP

B) Characteristics of Agricultural Sector

- Main economic activity for rural farmers, including women
- Strong correlation with poverty reduction
 - Estimated that 1% increase agricultural GDP reduces poverty by 3%
- Old lands & New lands
- Highly fragmented (91% of landholdings is below 5 feddans, and 53.7% less than 1 feddan)
- High vulnerability
 - locust, avian influenza, water scarcity, increased temperatures, rising sea water levels,
- Important post-harvest losses
 - Over 30% in vegetables and fruits; +20% in legumes and tubers; + 10% in cereals

AfDB's "Rural Income and Economic Enhancement Project" 2010-2015

Objective: *Improve the socio-economic livelihoods of the economically active rural smallholder farmer engaged in the production, processing and marketing of selected agricultural commodities.*

- **Project implemented by the Social Fund for Development.**
- **Two components:**
 - (i) **Line of Credit for USD 70 Million**
 - (ii) **Technical Assistance for USD 2 Million focused on Upper Egypt: (a) Value chain development; (b) access to finance development**

Target: *Provide finance to at least 4,800 small scale agribusiness enterprises and 20,000 micro-enterprises, creating 60,500 jobs over 5 years; Develop capacities of SFD/PFIs in agribusiness lending.*

Achievement:

- *finance provided to over 80,000 small and micro-entrepreneurs through banks, NGOs, cooperatives and SFD's direct lending arm.*
- *Over 79,000 new jobs created. (35% to women)*
- *3 dedicated agribusiness strategies developed for National Bank of Egypt, Industrial & Development Workers Bank and the SFD*
- *Technical Assistance provided to 28 Farmer Associations (including business plans for 15 horticulture and dairy associations, of which 6 are under funding consideration)*
- *Household level training for women, and training to input suppliers, service providers, etc.*
- *Feasibility Study on Index-based crop micro-insurance (first time in Egypt)*

Advantages of Index Insurance

- Historically, small-scale farmers excluded from agricultural insurance due to:
 - High cost of assessing the claims
 - Information challenges (premiums do not cover costs of visiting farmer's plots that are fragmented)
- Index insurance overcomes this by:
 - automating settlement process,
 - not need for inspection (payouts triggered based on pre-determined parameters that are easy to measure)
- Requirements:
 - Access to large groups of farmers to build scale
 - Substantial geographic spread to diversify pooled risk
 - Insurance must work to overcome initial reluctance by small holder farmers
 - Generally packaged with another financial instrument such as a loan

Basic Aspects of Index Insurance

- Design based on “weather coupons”
- Simple product that is easy to explain to smallholder farmers
- Low amounts are insured
- Co-payment is a fixed amount
- Parameters defining co-payment include:
 - Index
 - Coverage period
 - Reference weather station
 - Premium
 - Payout amount
- Index must be observable/verifiable/independent
- Existence of weather and agriculture yield and production data

The Weather Coupon buyer will receive (X amount) if the value of the (index) occurs during (coverage period) and calculated based on information (reference weather station) is smaller (or larger) than (trigger)

Index-based Agricultural Crop Insurance Assignment under RIEEP

- **Feasibility study** conducted by PlanetGuarantee, in collaboration with Planetfinance and International Food Policy Research Institute (IFPRI).
- **Focus area:** Minya governorate.
- **Crops:** Tomato and Potato
 - Grown by majority of smallholders
 - Value chains relatively developed
- **Following consultations and focus group discussions, risks identified included:**
 - Unpredictable Price fluctuations “crazy tomatoes”
 - Pests & diseases – due to high cost of pest control and limited awareness on BP for pesticide usage
 - Powerful traders/middlemen
 - Weather risks
- **Stakeholder interest:**
 - International Reinsurer
 - 3 local insurance companies
 - 3 financial intermediaries (banks and an NGO)
 - A union of producers for the awareness raising.

Despite the interest and efforts
exterted, the index was not able
to be completed

Some of Main Challenges Encountered that Need to be Addressed

Technical Challenges:

- Weather data for past 30 years was unavailable.
- Weather stations were few and many were not operational.

Legal Challenges:

- Unclear legislation and regulatory framework

Institutional Challenge:

- Little commitment to champion this initiative

Social Challenges:

- Strong sense of mistrust among farmers.
- Small numbers of farmers interested
- Limited awareness/knowledge

Proposed Way Forward

- Stakeholders and dedicated Donor group to discuss gaps/needs for agricultural micro-insurance, including technical, legislative and institutional challenges.
- Interest of financial intermediaries and insurance providers to be firmed up.
- Feasibility study to be completed and piloted for testing purposes.
- Awareness and communication campaign to be designed and launched in pilot area to solve social challenges.

On May 25, 2016 the African Development Bank and the Africa Risk Capacity signed an MoU to enable African Countries to respond to extreme weather events and natural disasters. Index based insurance is one of the tools that will be supported.

Thank you