

Profile: ACRE

Rural farmers in Kenya, Rwanda, and Tanzania use mobile banking technology to purchase index-based insurance of agricultural inputs



Challenge

In the face of climate change, farmers in many developing countries are becoming increasingly vulnerable to the risks posed by extreme weather and climatic events. These adverse effects affect agricultural smallholders disproportionately, because their capacity to manage risk is limited. Smallholders often lack irrigation systems and are unable to access or afford high-quality agricultural inputs, such as seeds and fertilizer. Their increased risk exposure curbs agricultural investment and thus productivity, locking them into a vicious cycle of poverty.



Innovation

In 2009, the Syngenta Foundation for Sustainable Agriculture, in partnership with the Global Index Insurance Facility (GIIF), began providing farmers in Kenya, Rwanda, and Tanzania, with index-based microinsurance products for livestock and crops. Index-based agricultural microinsurance is a type of microinsurance in which payouts are connected to publicly observable indexes, like temperature or rainfall, rather than actual incurred losses. These efforts have continued under ACRE (<http://www.acreafrica.com/>), a commercial company spin-off, and its partner network, which includes insurers, reinsurers, agribusinesses, microfinance institutions, NGOs, and input suppliers. ACRE collaborates with all relevant actors along the value chain of agricultural insurance, from local insurance companies to input companies and agribusinesses. Its services range from product development and improvement to risk monitoring.

The company offers three main index-based products:

- **Loan-linked insurance:** ACRE's main product is linked to credit from microfinance institutions. ACRE insures the loan and thus the input investment, which must be at least USD 100. Depending on the crop, the premium costs 5–25 percent of the input value. It is paid for by farmers or the microfinance institution. In case of a payout, the loan is covered by the insurance product. The product also provides agronomic training for farmers by microfinance institution agents.
- **Replanting guarantee:** The replanting guarantee is offered in collaboration with seed companies. Each bag contains a scratch card with a code inside. To register for insurance, farmers message the code to ACRE via SMS, paying for the insurance—and all ACRE products—using mobile banking, especially the M-PESA scheme in East Africa. The replanting guarantee starts upon registration and ends after two weeks. If there is a drought within that period, smallholders receive a voucher for a new bag of seeds, enabling them to replant within the same season.
- **Hybrid index and multiperil crop insurance:** This product combines the traditional yield-based approach and the index-based approach. Unlike traditional insurance, it covers the entire crop cycle, starting in the germination phase, providing more comprehensive coverage.

ACRE also offers contract seed grower insurance and indemnity-based dairy livestock insurance.

ACRE has established innovative distribution channels by building strong ties with the private sector. Both input suppliers and microfinance institutions, which have access to large numbers of people who would otherwise be costly to reach, function as aggregators. They have a strong interest in insuring farmers because better-off farmers buy more and better seeds and are more likely to be able to repay their loans.

Impact

A 2012 impact study found that insured farmers invested 19 percent more than their uninsured peers and had incomes that were 16 percent higher. Virtually all insured farmers (97 percent) received loans linked to insurance. In 2013, 178,000 farmers received USD 8.4 million in financing. Many of them would not have been eligible for credit without such assistance.

Scaling Up

ACRE has scaled up substantially since the pilot phase in 2009. It now reaches about 200,000 farmers in Kenya, Rwanda, and Tanzania, making it the largest index-insurance program in the developing world in which farmers pay a market premium. By 2018 it intends to provide insurance to 3 million farmers in 10 countries.

The lack of reliable long-term data on which indexes are based is the main barrier for expansion. Even when such data exist, collecting, verifying, and analyzing them is a very time-consuming process.

From a regulatory perspective, different legal systems can be a challenge. Every country has its own laws and regulations on the role of agricultural insurance providers and lawful fee percentages. Products and partnerships must therefore be tailored to both climatic and institutional environments.