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MICROFINANCE WEEK 2015

FINANCIAL INCLUSION FOR SUSTAINABLE DEVELOPMENT

# MFIs and agricultural credit and insurance: does it have to be an unhappy marriage?

- Moderator: Philippe Guichandut - GCAMF
- Speakers:
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  - Paul Castle – Fondation Syngenta



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## The Micro Insurance Network

- ❑ 80 institutional members and 27 individual members from more than 40 countries
- ❑ Different Working Groups (actuary, distribution, capacity building, health, social performance, etc.)
- ❑ The Foundation coordinates 2 Working Groups:
  - The Funders WG
  - The Agri WG
- ❑ The Agri WG is working on the relationship between agri microinsurance and MFIs, and the role of governments and subsidies.



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## Grameen Crédit Agricole Foundation

- A unique partnership between the Grameen Trust and the Groupe Crédit Agricole
- Mission to contribute to poverty alleviation through the support, investment in MFIs and Social Business enterprises
- Focus on social, rural MFIs serving women and financing agriculture activities
- As of sept. 2015 support of 14 SB enterprises and 46MFIs in 25 countries, mainly in Africa.
- Active in agriculture microinsurance since 2011
  - Research (Pacifica, Airbus, University of Nanterre and Dauphine)
  - Networking (MIN, GAN, GIIF) – Awareness raising (field trips India, Mexico)
  - Investment (ACRE – Kenya, Rwanda and Planet Guarantee – Senegal, Côte d'Ivoire, Burkina Faso, Mali)
  - Advocacy (promoting an international coalition)



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## Difference between classic and index insurance

- ❑ Classical insurance is based on « indemnity principle »
  - The insurance covers one or specific risk mentioned in the contract
  - The insurance will work only if there is some damages confirmed by the insurance company
  - Experts will be used to evaluate the reasons and the scope of the damages.
  
- ❑ Index insurance works through an index, a « proxy », to determine if there is a lost or not
  - No in situ evaluation of damages
  - Used of data (rain, satellite images, yield ) which is closely correlated with the individual farmers yield.

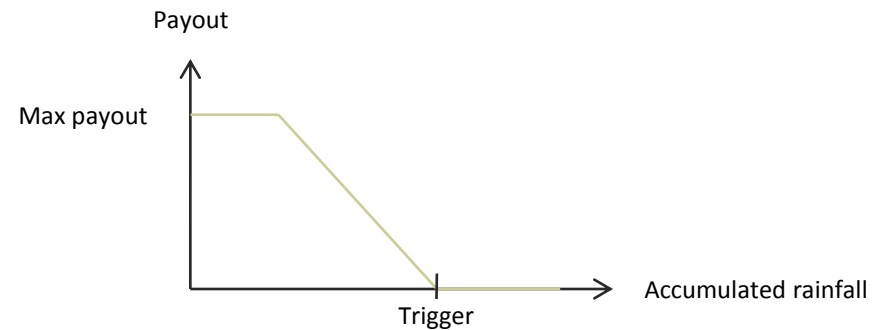


Figure 1 - Example of an index insurance based on rainfall



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## Index Agri Insurance

- Index insurance as one tool with potential to:
  - Reduce smallholder vulnerability and protect assets
  - Enhance food security
  - Unlock access to credit and investment in agriculture, supporting productivity
- Part of a holistic approach to agricultural development and disaster risk management



## Strengths of Index Insurance

- **Improved access to insurance to benefit smallholders:**
  - Reduced administrative costs - no loss assessment required
  - Simplified claims process and timely payout
  - Can be bundled with other products and delivered through aggregators
- **Objective and transparent:**
  - Eliminates most of the asymmetric information problems (moral hazard and adverse selection)
- **Protects against covariate risks and can be used at different levels (micro, meso, macro)**
- **Facilitates risk transfer outside of the local community (insurance/reinsurance)**



## Weaknesses and challenges of Index Insurance

- **Basis Risk:** mismatch between the actual loss and the payout
- **Development costs and replication:** products need to be specifically tailored to each location and crop
- Delivering at **scale and low-cost**
- **Added value for clients and partners** (farmers/value chain actors/MFIs/governments)
- Insurance awareness and understanding amongst partners and clients
- Local **capacity and ownership**
- Limited quantity and quality of **on-the-ground weather and yield data**



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## MFIs and agri microinsurance

- A logical distribution channel ?
- A development agent for rural economy ?
- A partner for small holders farmers ?
- Or do we have it all wrong ?





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## Foundation's experience with MFIs and Agri Insurance

- Few MFIs partners lend to finance agriculture activities even if they are working in rural areas.
- Mitigated interest for agri microinsurance but the experience with Planet Guarantee and ACRE shows that working with MFIs is possible.
- For example, Soro Yiriwaso (Mali) had a program on agri insurance but could have sell more insurance policies if it would have benefited from more financial investments to finance on time the agriculture activities of small holders farmers.
- Agri Insurance is complex but could be made simpler with the appropriate partners.



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## Questions ?

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## Questions we have ?

Financing agriculture activities ...

- Very – too few MFIs involved in agri finance
- Difficulties to raise funding at the international and local level for agriculture financing
- No know how available within the MFIs, investors, not enough trainings...

Complex partnership

- Partners who do not know each other
- MFIs still don't know well all the actors of the agriculture / insurance sector (lack of value chain approach)
- Mistrust from clients and MFIs
- Fear of scattering for the MFIs

Insurance

- A window of short sale before the campaign - Sale of products when the farmers have no liquidity
- An operational cycle not always synchronized with the cycle of loan of the MFI
- difficulty in seeing how a flexibly-priced product such as index-based insurance can be integrated into credit products without disrupting product calculation operations and process
- Difficulties in understanding the added value of insurance for the MFIs and the farmers
- Misunderstanding of how the agricultural microinsurance works, of how the indices are calculated, of how is the index-based approach