CHALLENGES IN ENHANCING FARMERS ACCESS TO AGRICULTURE INSURANCE IN RWANDA

INGABO Syndicate

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Content

EXECUTIVE SUMMARY

Agriculture sector plays an important role in the Rwandan economy. It provides around 30% of the national gross product.
It is the reason why the Government of Rwanda has committed to do what is required to transform traditional farming in modern and commercial agriculture.

INGABO farmer syndicate has found that poor access to agriculture insurance is one of major problems which hinder the agriculture sector development.
In order to carry out effective advocacy on the agriculture insurance issue, INGABO syndicate organized this quick assessment through documents review and stakeholders discussions.
One of the major findings is that agriculture is an economic sector with high and multiple risks within production, marketing and management system.
For those risks mitigation, many farmers resort to traditional methods which rather are not effective enough. Thus, they need an effective risk management strategy which allow them having compensation when necessary and which protect their business and their income stability.

Nevertheless, farmers and insurers present the following difficulties as ones of the more significant hindrances to the development of agriculture insurance in Rwanda:

- ✓ Insufficient information on agriculture and on farmers needs;
- ✓ Insufficient information on insurance products;
- ✓ Lack of knowledge and resistance to change;
- ✓ Insurance companies are far from farmers;
- ✓ Ineffective farmer cooperatives;

- ✓ Existing insurance products are not inclusive of all value chains;
- ✓ Existing insurance programs are not necessary countrywide;
- ✓ All risks are not covered, all losses are not compensated;
- ✓ Lack of trust of farmers towards insurance companies;
- ✓ High insurance cost;
- ✓ Poor agricultural technology and lack of skills in agribusiness management.

Those constraints are located both on the side of farmers and on the side of insurance companies. Others constraints are related to the legal environment and to the natural environment.

Addressing of those challenges needs a holistic solution which requires efforts of different stakeholders. The following strategies may be recommended:

- ✓ Insurance companies should improve their communication with farmers for having required information useful for designing products that meet needs of farmers and for informing them on available insurance products;
- ✓ Farmer organizations and other rural development stakeholders should increase farmers awareness on agriculture insurance importance;
- ✓ Farmer organizations and other rural development stakeholders should increase farmers awareness on cooperative organizing. They should extend their support for improving of farmer cooperatives functioning and management;
- ✓ Tax authorities in Rwanda should look at the 15% of withholds tax imposed to reinsurers and examine whether or not it can be canceled for the benefit of farmers;
- ✓ Rural development stakeholders should diversify and increase their support to improve farmers' awareness about professional agriculture.

1. INTRODUCTION

1.1. Presentation of INGABO Syndicate

INGABO Syndicate is a farmer organization with legal personality since 1[rst] April 2005. It was created by farmers from Southern Province. Nowadays, INGABO Syndicate has more fifteen thousands (15000) located mainly in the districts of KAMONYI, Muhanga, Nyanza and Ruhango which constitute its operation zone.

The mission of INGABO Syndicate is to build farmers technical and economic capacity of its members so that they become competitive actors on the market.

INGABO Syndicate is organized around three governance organs:

- ✓ At province level: a General Congress, a Board of Directors and an Executive Secretariat in charge of daily businesses of the Syndicate;
- ✓ At the zone level: a congress of the zone and a bureau of the zone;
- ✓ At the cell or the Gacaca level which the base structure: A Gacaca congress, a Board of directors. There is also an audit committee and a conflict resolution at all levels.

1.2. Rational and purpose of the report

The present report encompasses information on farmers' access to insurance services in Rwanda. Agriculture plays an important role in Rwanda economic development. Around 86% of Rwanda adults get their livelihood from agriculture. Their livelihood relies on agriculture which provide them job and income to meet their needs and those of their households members.

In addition, agriculture provides around 30% of the national gross product. Since some years, the Government of Rwanda has committed to transform traditional and subsistence farming in modern and market oriented agriculture which is professionally managed to support development of other economic sectors.

However, Rwanda agriculture is subject to many and almost certain risks so that the producer can experience losses at any time. Most of times, these losses are caused by weather-related risks, pests, crops and livestock diseases, post-harvest losses and from market prices versatility.

Those risks have a negative impact on smallholders' farmers' activities and maintain them in poverty. To protect themselves or to minimize the consequences of those risks, farmers resort to traditional strategies including varying cropping practices(planting different crops on a same field), planting drought-resistant variants, accumulation of buffer stocks, diversification of income-generating activities (farm and non-farm small businesses…) , etc.

But those strategies of risk management are not effective, nor sustainable. Farmers need formal insurance susceptible to compensate them against risks.
However, following different reports, farmers' access to insurance is still low.
It is the reason why, as a farmer organization, INGABO syndicate decided to collect necessary data for understanding of the causes of that problem. That information will be useful for solution finding. The purpose of this assessment is to collect information and list the problems that hamper farmers' access to formal insurance.

1.3. Methodology

This data collection has been realized using mainly the desk review and stakeholders discussions. Firstly, different documents written by various specialists of agriculture finance have been gathered. Those documents are the following among others:

- ✓ Reports of Ministries and government projects;
- ✓ Researchers papers;
- ✓ Reports from public and private organs involved in activities related to agriculture finance;
- ✓ Government policies and programs
- ✓ Newspapers
- ✓ Etc.

After their gathering, documents have been analyzed and the most relevant were selected for analysis.

Then, agriculture finance has been discussed in farmer groups. Those discussions allowed farmers to exchange their points of view on the specialists' findings.

This report includes 5 chapters: introduction, the importance of formal insurance against risks in agriculture, farmers' access to formal insurance, constraints against farmers' access to insurance, conclusion and recommendations**.**

2. IMPORTANCE OF FORMAL AGRICULTURE INSURANCE

2.1. Types of risks for crops and livestock in Rwanda

Farmers face three main types of risks:

2.1.1. Production risks

For production increase, the farmer must be prepared to face various risks. The most persistent are weather risks characterized by irregular rains or drought. There also landslides and floods. Farmers often face repetitive variations of prices for inputs including seeds, chemicals and fertilizers, semen for artificial insemination and cattle feed. There is also technical and farmers' skills- related risks.

2.1.2. Post- harvest risks

Post-harvest losses result from crop handling through transportation, sorting, drying and warehousing. Those risks are related to technical capacity and technology available for farmers. Those risks are common to crop and livestock products like milk, meat, eggs and cheese.

2.1.3. Market risks

Other risks are those related to demand decrease, crop and livestock price volatility. Those risks are more frequent for export crops.

2.1.4. Risks consequences

Quasi-frequent losses in agriculture have consequences both on population livelihood and on national economy in general.

Insufficient produce in quantity and/or in quality means loss for farmers. This is a source of demotivation and prevents them from continuing their activities and from sustainable investing as long as when they lose their capacity, at the same time, they lose banks trust which cannot guarantee them credit. That situation result in lack of means to meet needs of their households' members and in inability to overcome poverty.

Poor performance in agriculture does not affect farmers only but it can also provoke inflation resulting in poverty increase in the country.

Agricultural products consumers are not the only ones who get bad deals but food processing industries also can lack of row materials for processing and investments in agri-business in general can be discouraged.

At macro-economic level, losses in agriculture decrease the national gross product (GDP).

2.2. Importance of agricultural Insurance

Insurance is a way of risk transfer to an insurer, by paying a certain amount of premium to get compensation in turn when the risk realizes.

So, insurance protects the farmer and sometimes can result in profit for him. It protect the farmer economy against instability and ensure realization of planned profit at least for a given year period and then allowing farmer to overcome poverty.

Due to sure security for his businesses, the farmer can embark in more investment in more innovative agriculture. On the side of financial sector, banks and other investors get trust for him and are motivated to deal with him.

3. FARMERS ACCESS TO AGRICULTURAL INSUSSANCE

3.1. Insurance market in Rwanda

Private insurers provide various types of insurance including life insurance, medical insurance, travel insurance, credit insurance, vehicle insurance, etc.
Rwanda insurance sector progressing is still slow. There is a very low level of insurance penetration (ratio of total premiums to GDP) which stood at 1.7 percent in June 2019, the same in June 2018. At end June 2019, the total insurance policy holders stood at 79,593 (11 percent of the total adult population)[1].

The insurance sector consisted of 14 insurance companies as at June 2019 including 12 private insurers (9 non-life and 3 life insurers) and 2 public medical Insurers (RSSB medical and MMI).
Insurance intermediaries consisted of 707 agents, 17 brokers, and 19 loss adjusters as at June 2019 from 581 agents, 16 brokers and 13 loss adjusters as at June 2018[2].

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[1] BNR, Rwanda annual financial stability report, July 2018 - June 2019, p.34.
[2] BNR, Rwanda Annual financial stability report, July 2018-June 2019, P.34

Here is the list of insurance companies licensed in Rwanda (list established in January 2020):

1. RSSB – Medical Scheme (RSSB - MEDICAL)
2. MILITARY MEDICAL INSURANCE (MMI)
3. SONARWA General Insurance Ltd
4. SANLAM ASSURANCES GENERALES Ltd
5. SANLAM ASSURANCES VIE Ltd
6. PRIME INSURANCE Ltd
7. MUA
8. PRIME LIFE INSURANCE Ltd
9. SONARWA LIFE ASSURANCE COMPANY Ltd
10. UAP INSURANCE RWANDA LIMITED
11. RADIANT INSURANCE COMPANY
12. BRITAM INSURANCE COMPANY RWANDA Ltd
13. BK GENERAL INSURANCE COMPANY Ltd
14. AYFAIR INSURANCE COMPANY RWANDA Ltd

As for the World Bank group[3], agricultural insurance was piloted in Rwanda in 2011, but has failed to scale up in subsequent years. Three insurance companies and three reinsurance companies have been involved in Rwanda's agricultural insurance market. The insurance companies are SORAS, SONARWA, and UAP Old Mutual, and the reinsurance providers are Hollard, Swiss Re, and Great Lakes. Among these, SORAS and Swiss Re have been the main service providers. SONARWA, one of the two local insurers that piloted agricultural insurance in 2011, exited the market in 2013.

[3] World Bank Group, Agriculture Finance Diagnostic, Rwanda, 2018, P.20-22

Of the three companies that offered crop insurance in Rwanda in the past, two now offer livestock insurance. These companies are SONARWA and UAP Old Mutual. SONARWA was the first to launch livestock insurance in 2011, and UAP Old Mutual added it to its insurance products in
2013. Insurance companies have reached farmers through agro-dealers, microfinance institutions, cooperatives and banks.

Historically, Swiss Re Corporate Solutions used to provide reinsurance coverage, but has since stopped offering this capacity citing two reasons: low premium volumes and the effect of a 15-percent withholding tax, which makes developing a product that offers sufficient coverage at an affordable premium rate difficult.

3.2. Government contribution in development of agricultural insurance

The Government of Rwanda is dedicating resource and effort to strengthen agriculture insurance development.

The Ministry of Agriculture and livestock contributed in establishment of "Hinga Urishingiwe" crop insurance scheme launched on 11 October 2012.

The program provides to smallholder farmers insurance bundled loans for fertilizers and other inputs. Smallholder farmers are compensated for their losses following drought. The insurer distributes the payout to farmers as general reduction of their debt.

On April 23rd 2019, Ministry of Agriculture and Animal Resources launched the National Agriculture Insurance Scheme (NAIS) meant to mitigate risks and losses incurred by farmers due to unpredictable natural disasters, pests and diseases that affect their livestock and crops. Dubbed "Tekana Urishingiwe Muhinzi Mworozi," the scheme is subsidized up to 40% by the Government of Rwanda. In addition, it is expected that NAIS shall boost agriculture financing which is low due to risks associated with agriculture as perceived by financial institutions.

The Government of Rwanda allocated 390 millions of Rwanda Francs for the budget year 2019-2020[4]. The farmer will pay 60% of the insurance cost when the Government will be contributing for 40% through three insurance companies, meaning SONARWA, RADIANT and PRIME INSURANCE. During the pilot period, the program will be operating in rice and maize crop value chains. For the livestock, dairy cows will be insured against accident, diseases and lightening.

The scheme will benefit farmers working with cooperatives, associations and the various milk collection centres across the country. The insurance cost is calculated on the basis of the cost of investment by hectare.

3.3. Smallholder farmers access to agriculture insurance is still low

In general, agriculture insurance development is still slow. Farmers' access to agriculture insurance is low when it is compared to the access to insurance in general. For example, in 2018, 6% of farmers admitted having underwritten to any type of insurance. But over this population, only 7% of them stated they bought agriculture insurance. When 63% of adult farmers admitted they experienced crop or livestock losses due to risks[5].

[4] Munyantore, JC,in https://www.kigalitoday.com › article › Leta, Kigali Today, 9 May2020

[5] The World Bank Group, Agriculture finance diagnostic — Rwanda**,** 2018; P.11.

At June 2020, farmers' access to agriculture insurance was evaluated at 1% against 4% in 2016[6]. Considering the insurance in general, in 2020, 17% of adult population (around 1,200,000individuals) bought insurance against five hundred thousand in 2016)[7]. For 75% of adult Rwandans, this situation is explained by the cost of insurance which is not affordable; when 21% qualify the lack of information on insurance products as the main cause.

4. CONSTRAINTS AGAINST FARMERS ACCESS TO AGRICULTURE INSURANCE

There are various constraints that prevent farmers' access to agriculture insurance. Some of those constraints are inherent to farmers themselves whereas others are based on the insurance activities, on insurance regulation or on environment in general. The following are among the main constraints identified:

4.1. Insufficient information on agriculture and on farmers needs

Insurance companies are poorly informed on farmers needs. Because of that, it is difficult for them to design new insurance products or to update them.

4.2. Insufficient information on insurance products

Rwanda insurers promote enough their products to make consumers aware of them. They are content with advertising skits instead of approaching

[6] FinSCope 2020,p,44

[7] FinScope 2020,p5

directly rural population. This is one of the reasons why few Rwandans take out insurance as the majority does not have information on insurance products. In agriculture sector, 32% of adult farmers complain about that lack of information[8].

4.3. Lack of knowledge and resistance to change

Many Rwandans have poor knowledge on insurance and on its importance. In addition, there are among them those who remain attached on traditional farming practices.

4.4. Insurance companies are far from farmers

Even though insurance companies are trying to disseminate branches and intermediaries in different locations in the country, farmers claim that those companies are located only in urban zones rather than in rural areas. Thus it is difficult for them to avoid transport costs or to minimize them.

4.5. Ineffective Farmer cooperatives.

Cooperatives should be the best way for insurers to reach small farmers scatted in rural areas. Thanks to cooperatives, insurers can easily deal with farmers and monitor contracts with them. On the other side, thanks to cooperatives, farmers can express themselves through a single voice. When farmers take out insurance, they harvest at the same time and it is easy for them to self-advocate through their cooperative.

Nevertheless, while many farmers are organized into cooperatives, most of these cooperatives are not large enough given that the majority of small farmers are not involved in that form of organization (cooperatives are not

[8] FinScope2020,P.18

developed for all crop value chain). In addition, functioning of many cooperatives is not effective and their management is inadequate.

4.6. Existing insurance products are not inclusive of all value chains

Existing insurance products focus on commercial crops more than on food security crops. As it is for crop products, existing insurance programs do not concern all livestock types. The best example is the National Agriculture Insurance Scheme " Tekana Urishingiwe Muhinzi Mworozi" which concern dairy cows only.

4.7. Existing insurance programs are not necessary countrywide

Generally, agriculture insurance programs target on specific zones whereas other zones seem not be concerned. For example, the National Agriculture Insurance Scheme is targeting 14 pilot Districts. Crop insurance started with Gatsibo, Nyagatare, Bugesera, Gisagara, Kirehe, Gicumbi, Huye, Rulindo, Ngoma, Rwamagana districts. Livestock insurance has been availed in Nyanza,Gicumbi, Musanze,Rwamagana,Gatsibo,Nyagatare, Ruhango, Burera Districts[9] even if it is planned to be extended to all 30 Districts.

4.8. All risks are not covered, all losses are not compensated

Insurers commit to take in charge specific risks, not to cover the total agriculture risks. Moreover, all losses are not compensated. For example, UAP insurance program covers only 10% of the loss in livestock insurance

[9] Mbonyishuti JD, Hoe farmers will benefit from new insurance scheme in The newTimes, www.newtimes.co.rw, 20 April 2019

(accidental death, death caused by disease, or emergency slaughter decided by a veterinary) against 20% when the livestock has been stolen[10].

4.9. Lack of trust of farmers towards insurance companies

Farmers have past memories of neighbors or friends who experienced losses but who were not compensated or who only were compensated partially. Because of that, they continue to consider insurers as crooks. "In the past, farmers have had issues with insurance companies which pulled out before reimbursing them"[11].

4.10. High insurance cost

Agriculture in Rwanda is an economic sector which experiences multiple risks which are quasi-certain. This discourages insurance companies and affects prices upward.

In addition, insurance companies need reinsurance companies to share with them their risks and for increase of their financial capacity. The withholding tax of 15%[12] imposed to reinsurers contributes also the cost of agriculture insurance cost. According to insurance companies, this cost increase results also from the fact that assessment of agriculture insurance applications is costy because it requires expensive technicity and experts.

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[10] IPAR-RWANDA| AFR, Agriculture Finance year book, Kigali,2018;P.48

[11] Rwanda agriculture finance year book, ARF/IPAR,Kigali.P.50

[12] World Bank Group, Rwanda agriculture finance diagnostic,2018.P.28

4.11. Poor agricultural technology and lack of skills in agribusiness management

Many farmers do not master modern farming techniques and continue using traditional methods which are less resilient to risks. This affects negatively farmers who experience losses and insurance companies which are often required to indemnify for risks which are otherwise avoidable.

In addition, many farmers (individually or associated in cooperatives) do not have credible records allowing tracking progress in their businesses (investment, annual yield, income, difficulties…). This lack of credible information can constitute a bias in insurance application assessment and in insurance price calculation.

5. CONCLUSION AND RECOMMANDATIONS

Various experts and other stakeholders have a common view that agriculture insurance is still underdeveloped in Rwanda. It ratio in the national gross product is still low and the number of farmers who access agriculture insurance is still insufficient.

This data collection has revealed that constraints that hinder development of agriculture insurance are multiple. The following are some of those constraints:

- ✓ Insufficient information on agriculture and on farmers needs;
- ✓ Insufficient information on insurance products;
- ✓ Lack of knowledge and resistance to change;
- ✓ Insurance companies are far from farmers;
- ✓ Ineffective farmer cooperatives;
- ✓ Existing insurance products are not inclusive of all value chains;
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Those constraints are located both on the side of farmers and on the side of insurance companies. Others constraints are related to the legal environment and to the natural environment.

This situation needs a holistic solution which requires efforts of different stakeholders. The following strategies may recommend:

- ✓ Insurance companies should improve their communication with farmers for having required information useful for designing products that meet needs of farmers and for informing them on available insurance products;
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- ✓ Farmer organizations and other rural development stakeholders should increase farmers awareness on cooperative organizing. They should extend their support for improving of farmer cooperatives functioning and management;
- ✓ Tax authorities in Rwanda should look at the 15% of withholding tax imposed to reinsurers and examine whether or not it can be canceled for the benefit of farmers;
- ✓ Rural development stakeholders should diversify and increase their support to improve farmers' awareness about professional agriculture.

ANNEXES

1.Bibbiography

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