Rain Shortfall Triggers First M-PESA Drought Insurance Payouts For Kenyan Farmers

EurekAlert

EMBU, KENYA (21 September 2010)-Over 100 farmers in Embu received insurance payouts via M-PESA today, marking the first payouts issued through the mobile phone payment system M-PESA by Kilimo Salama, an innovative micro-insurance program that protects farmers' investments in improved seeds and farm inputs against drought and other extreme weather.

The payments under the Kilimo Salama program were triggered when weather stations at Siakago Rural Technology School registered rainfall totals for the current season that were slightly below average.

"We keep our promises and pay out fast," said James Wambugu of UAP, adding that farmers received payments less than two weeks after the end of their insurance contracts for the growing season.

Kilimo Salama is a partnership involving the Syngenta Foundation for Sustainable Agriculture, UAP Insurance, and Safaricom. The insurance program offers farmers who plant on as little as one acre an opportunity to pay a 5 percent insurance premium on their purchase of seeds or fertilizer. The insurance policy protects their investment by calculating losses incurred when insufficient or even excess rains have been detected by a nearby weather station.

In many locations this year, the weather during the long rain season has been good, hence the insurance payouts low or not triggered at all. "However," Wambugu added, "the weather in the short rain season is projected to be poor, so farmers should keep insuring in order to protect themselves against the risk."

He added that UAP was well positioned to respond to weather challenges and had designed insurance products that would meet the needs of different farmers. "Our focus is to ensure that these products are as widely available as possible across the country," noting that in the meantime Kilimo Salama partners will continue discussions with farmers to better understand their day-to-day challenges and developing products and services that enrich their lives and shield them and their harvests from risk.

Currently, only about half of Kenyan farmers invest in improved seeds and nutrition for their crops. A key reason for the low demand is the fear among farmers that poor conditions, such as the 2009 drought that desiccated Kenyan harvests, will render their investment worthless, robbing them of both their crops and their savings.

Jennifer Mbiro: "I am happy that I have received a payout-but since I did not really

trust insurance I only insured my fertilizer and not the seed. Therefore my payout is small this time. This season I've insured my seeds, fertilizers as well as some chemicals that I'm trying for the first time. I now know that it is worth insuring all my inputs."

The payouts issued today were commensurate with the farmers' projected losses. For example, a calculated15 percent decrease in yield, based on the rain shortfalls recorded at the weather stations, triggered a payment of 15 percent of the insured value. The largest payout was for 2500 Kenyan Shillings (Kshs) or about US $30. That is the equivalent of about 12 kilos of high-yielding maize seed, which is enough to plant one acre.

"This is how the system is supposed to work, to compensate farmers for any harvests that fall below what they would expect. In this case, the projected losses, and thus the payouts, were fairly small. In seasons with less rain, the payout could be far greater," says Marco Ferroni, Executive Director of the Syngenta Foundation.

Accurate and easy

Not all farmers participating in the Kilimo Salama program received payments. Payments were made only to policyholders cultivating crops in an area where a weather station documented below-average rain totals.

"The program is designed to have enough weather stations so that we can detect variations in rainfall over relatively small areas," adds Ferroni. "The fact that not all farmers received payments shows that the system can distinguish who suffered damage and who did not. We hope that this high degree of accuracy will attract more farm input companies to participate."

By using M-PESA, the program has found a safe and simple way of disbursing the premiums to farmers without a long claims process. In fact, by using the weather stations to monitor the rainfall, farmers did not have to lodge a claim at all. "This is yet another way in which M-PESA is changing lives," says Betty Mwangi-Thuo of Safaricom. "Previously, such small payouts to rural and remote farmers would have been prohibitively expensive. Now, thanks to M-PESA, farmers can see the benefit of insurance and learn to trust it."

The program currently covers 11,000 farmers in areas across Kenya: Bungoma, Busia, Eldoret, Embu, Nanyuki, Oyugis, and Homa Bay. The Syngenta Foundation and its partners are now looking into extending into other parts of Kenya by early 2011. Further possibilities include insurance for a wider range of crops and threats to harvests.

Farmers can purchase Kilimo Salama coverage from local agro-dealers. The 5 percent surcharge translates into about 9 Kshs to insure a 1-kilogram bag of improved, higher-yielding maize seed and 25 Kshs insure a 10-kilogram bag of fertilizer. To cover the full 10 percent premium needed to fund the program, agro-companies participating in the program, MEA Fertilizers and Syngenta East Africa Limited, match the farmers' investment.

Agro-dealers registered and trained by Kilimo Salama have been equipped with a camera phone. They use this to scan a special bar code at the time of purchase, which immediately registers the policy with UAP Insurance via Safaricom's mobile data network. This innovative mobile phone application, developed by the Syngenta Foundation, then sends a text (SMS) message to the farmer's mobile phone confirming the insurance policy.

The Syngenta Foundation has renovated some 30 weather stations in the targeted regions. The automated, solar-powered systems broadcast regular updates on rainfall and other weather conditions.

When data from a particular station indicate that rain shortages or other extreme conditions (including excessive rains) are likely to affect harvests, all farmers registered with that station automatically receive payouts directly via Safaricom's M-PESA mobile money transfer service.

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