The Southern African Confederation of Agricultural Unions (SACAU) recognises that climate change has become one of the biggest risks that farmers are facing. It poses a significant threat to the transformation of agriculture, particularly in the smallholder sector. At the same time, the advent of Weather Based Index Insurance (WBII), coupled with innovative approaches to product design and distribution channels, provide a significant opportunity to help large numbers of farmers in the southern African region to manage climate-related risks.

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Introduction

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WBII in the region: challenges for uptake

However, despite its potential, the uptake of WBII on a large scale remains limited due to a variety of reasons. Among others, the price of the product is prohibitively high, and the product is generally not available in the market.

The high price is largely attributed to the high re-insurance costs associated with the product, and this is mainly due to the geographic concentration of risk. The limited access associated with the high price not only limits the size of the market, but also makes it difficult for the private sector to provide it on a commercially sustainable basis.

Risk pooling

It is understood that pooling of risk at the regional level offers significant potential to address the problems. Risk pooling across different countries in the region will reduce the cost of re-insurance leading to a reduction in the price of the product. Price reduction is expected to enhance access to the product by large numbers of farmers. Thus, not only does risk pooling diversify risk, but it also enables a larger market size, which is a key factor for a sustainable commercial approach to the provisioning of this solution.

"SACAU is a membership based regional farmers’ organisation representing the common interests of farmers in southern Africa. Its core membership is drawn from general interest apex national farmers’ unions in southern African countries and it currently has 18 members from 12 countries. For further details, please visit www.sacau.org."
Need for a regional policy/ regulatory framework

Risk pooling at the regional level invariably involves many countries which then necessitates cross-country arrangements to be put in place. In this regard, SACAU commissioned actuarial consultants to develop a proposal for a policy/regulatory framework that would facilitate the pooling of risk across countries. This process also involved consultation with key stakeholders in the industry.

Four high level goals are being proposed for the framework as follows:
- Promotion of a regional approach;
- Enhancing access and availability of the product;
- Investment in weather-related infrastructure and systems, and
- Establishment of a regional fund.

The framework also highlights the associated specific objectives of each of these areas which cover the need for a clear understanding of the impact of climate-related risk; a clear and concise plan for risk management; avoiding the transfer of catastrophic cost onto farmers and helping them to recover more quickly and effectively, and forging links across various countries for the aggregation of climate risks in the region.

In addition, 11 elements for a regional policy/regulatory framework are put forward, including consistency in the definition of this insurance across countries, distribution channels; data access and management; public private partnerships; farmer education—insurance literacy; dispute resolution; independent loss evaluation; regional fund and climate proofing mechanisms.

What next?

The next step is for SACAU to engage with relevant bodies in the region (e.g. Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), African Risk Capacity (ARC)) with a view to have the different aspects/elements of the proposal to be integrated into ongoing and future risk management processes, frameworks and strategies.

SACAU intends to facilitate the development of a community of practice in support of this initiative and more generally in WBII.

How to contact us

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