

Practice brief

Is the time right for agricultural micro insurance in Cambodia?

A scoping study for Achmea

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Agricultural micro insurance is an additional risk management tool which is increasingly being considered as important to support the resilience of farmers in developing countries. Unfortunately, it is not widely available. As part of its corporate social responsibility endeavour Achmea, one of the leading insurance companies in the Netherlands, seeks to support innovative initiatives to protect the poor. Cambodia is largely dependent on agriculture, and was recently rated by Standard and Poor's as the most vulnerable country in the world to the effects of climate change.

This study was commissioned to assist Achmea in making a decision whether or not to enter into agricultural micro insurance in Cambodia; in particular to explore the feasibility and usefulness of agricultural micro insurance for (semi)commercial smallholder farmers in the country. This practice brief introduces the findings of the first research stage.

Introduction

Achmea is involved in the provision of (micro) healthcare insurance services in Cambodia. Smallholder farmers in rural areas expressed that having healthcare insurance to cover for healthcare expenses assists family welfare. Nevertheless, when smallholder farmer lose their crops as a result of climate disaster they have to struggle to sustain their families or to repay their loans. The payment of healthcare premiums is then no longer a priority. In case of such severe calamities, the provision of agricultural micro insurance can provide for additional household income protection. For Achmea, extending insurance services to the agricultural sector therefore seemed a logical next step. This first research phase looked at options for Achmea to engage in agricultural micro

insurance, focusing on three issues: 1) the approach to micro-insurance, either commercial or subsidised; 2) the potential insurance providers partnering with Achmea; and 3) suitable types of insurance products. In addition, the research aimed to find out what risks 'keep smallholder farmers awake at night'.

The focus of the quick scan is towards smallholder farmers, in particular those farmers producing semi-commercially or commercially for the local market.

Key findings

Approach to crop micro insurance

Many organisations in Cambodia, including finance institutions, (International) development NGO's, international agencies and farmers associations, have given thought to agricultural (micro) insurance. Those organisations that have done some research into the matter realised, or started to realise, that agricultural (micro) insurance is complex and requires specific technical and organisational skills. Views about the feasibility of agricultural micro insurance differ largely per organisation. From a commercial perspective, agricultural micro insurance is not perceived to be a financially feasible endeavour. On the other hand, the non-profit and development sector in Cambodia look towards agricultural micro insurance as a social protection mechanism that can possibly be delivered through not for profit institutions either cost covering or (partly) subsidised.

Potential providers of crop micro insurance

A large number of organisations, including (I)NGO's and farmers associations, are active in agriculture risk prevention. Agricultural extension services are usually provided on the basis of availability of donor funds. NGO's like Oxfam and Cambodian Center for Study and Development in Agriculture (CEDAC), as well as farmers

associations like some operating under the Cambodian Farmer Association Federation of Agricultural Producers (CFAP), are involved in microfinance provision or the organisation of microfinance services, e.g. by organising (informal) self-help, savings or credit groups.

Extension service providers appear to be less suitable as an agricultural micro insurance implementer, because they usually work on a project basis. However, their involvement could be very beneficial because they possess valuable knowhow on smallholder risks and hazards, have ability to organize and mobilize farmers, and seem well connected to smallholder farmers as well.

Banks and MFI's serving smallholder farmers in Cambodia appear to be capable to deliver microfinance and micro insurance services. However, the large microfinance banks / institutions with a more or less nationwide coverage, such as Aceda Bank, Vision Fund Cambodia and Samic Bank, are not (yet) involved in the provision of agricultural insurance. Two main reasons for their reluctance seem to be the long term financial feasibility prospect as viewed by these institutions, and a perceived distrust in formal insurance services from the side of the small-scale farmers.

On the contrary, agricultural micro insurance provision through Community Based Healthcare Insurance (CBHI) providers in addition to health care insurance could be interesting, although many of these CBHI's are still in the start-up stage.

Types of agriculture insurance products

In the scoping process, local variance in risks and the lack of local data and weather stations were mentioned as complications for the implementation of *index-based agricultural insurance*.

For the implementation of *damage-based agricultural insurance*, managing the operational costs will be the main challenge. The management of operational costs depends on a) the capacity of various actors in the insurance supply chain, b) how well these actors are embedded in farmer communities, and c) to what extent they can make use of local systems of mutual control.

Agricultural micro insurance linked to agricultural credit seems to be an interesting area of exploration in Cambodia, as some MFI's have a nearly nationwide coverage (including rural areas), and linking agricultural insurance to these agricultural loans may provide a financially feasible insurance model.



Discussing risk perceptions of smallholder farmers near Siem Reap, April 2014

However, it appears that for Cambodian smallholders a simple 'one size fits all' agricultural insurance cannot be provided easily, due to the considerable local variance in risks.

Risk perception of smallholder farmers

Interviews with smallholder farmers, financial service providers and agricultural development agencies suggest that smallholder farmers perceive the following risks as a threat to their households: crop damage due to floods and droughts, health and healthcare costs, the risk of low crop prices (poor market development) and pests and diseases in crops. It is hard to verify these perceptions, as hard data is not widely available and existing risk and hazard maps are mostly based on rough data. Interviewed organisations and farmers suggest that there is significant local variance in the vulnerability of farmer's households in case of flood and /or drought. Therefore, the absence of localised historical data on weather conditions and the incidence of calamities will make it a challenge to design a fitting agricultural insurance product.

Scenarios

The demand for agricultural micro insurance is very high (UNDP, 2013¹): however, the possibilities for providing agricultural micro-insurance will be challenging because the organisational, technical, and organisational capacity of potential agricultural insurance providers (insurers or agents) appears to be limited.

¹ <http://www.kh.undp.org/content/dam/cambodia/docs/PovRed/Microinsurance%20Study-The%20Understanding%20and%20Needs%20of%20Low-Income%20Populations%20regarding%20Microinsurance.pdf>

Possible scenarios are:

1. Agricultural micro insurance provision through agricultural development NGO's or farmers associations, with a link to extension/prevention services;
2. Agricultural micro-insurance provision through MFI's (incl. Credit Unions);
3. Agricultural micro insurance provision through existing Community Based Healthcare Insurance (CBHI) providers NGO's.

It seems that the most promising scenario in which Achmea can play a role, is piloting with agricultural micro insurance provision through agricultural development NGO's or farmers associations with a link to extension/prevention services, as these organisations commonly have strong ties with smallholder farmers. The combination of agricultural insurance with agricultural risk prevention may offer strong mechanisms for building resilience of smallholder farmers against major calamities.

Although other scenarios may also prove interesting, the role that Achmea can play in these scenarios appears to be more limited.

Key recommendations

There appears to be a need as well as an opportunity for providing agricultural micro insurance. A key recommendation is to explore possibilities for piloting with an agricultural development NGO, and gain hands on experience in what works and what not when building resilience of Cambodian farmers. Such a pilot needs to be based on good partnering principles, and needs to be supported by a strong knowledge/learning component.

Achmea further needs to decide upon what role it wants to play in enabling the provision of agricultural micro-insurance in Cambodia. This involves choices around becoming involved in developing, piloting and/or establishing an agricultural micro-insurance service.

There is much scope for further research, but research alone will not bring the required answers. A more pragmatic approach for the future is to 'learn by doing', by combining research with action to establish good practice. Such an approach does require sufficient human and financial resources.

If Achmea is clear about which of the above mentioned scenarios is favoured, it should:

1. Define a strategy on how to support micro-insurance provision in Cambodia, which should include:
 - i. Clarity on what advisory services and guidance (human resources) Achmea can offer;
 - ii. Clarity on what long term financial support can be provided;
 - iii. Clarity on the term of commitment to the project (a long term commitment of >5 years is suggested).
2. Decide what type of partner to cooperate with, following the scenario selection. This includes setting out a trajectory of getting to know each other, exploring reciprocal expectations and capacities, and enter a process of joint direction setting and learning.
3. After having chosen a partner, conduct a feasibility study including:
 - i. Needs assessment for smallholder farmers (in a certain pilot area);
 - ii. Cost-benefit analysis of agricultural micro insurance vs. other complementary risk prevention measures;
 - iii. Agricultural micro insurance education planning.

This 'learning by doing' approach has three main advantages for Achmea: 1) It provides a baseline experience for the provision of multi-peril agricultural micro insurance. 2) It allows, during the pilot phase, for a hands-on practical research into what works well and what does not work. 3) Reciprocal relationships with local partners can be developed as potential synergies can be explored in an early stage.

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Photography

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