

Info Note

Building Agricultural Resilience through Insurance in Nigeria

Jon Hellin, James W. Hansen, Débísí Àràbà

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Key messages

- Nigeria can build a robust resilience framework to ensure that its agricultural sector is able to cope with the shocks and stresses of climate change through weather insurance.
- While there is already demand for index insurance, bundling insurance with production inputs and finance can make insurance more attractive to farmers, creating a mechanism for expanding insurance products and services that are more inclusive of smallholder farmers.

Introduction

Climate change poses significant risks to agricultural development and by extension, food security, poverty reduction and political stability, thereby threatening sustained economic growth, especially in Nigeria, where agriculture contributes over 40% of the GDP, over 70% of the workforce is engaged in agriculture related activities and millions residing in rural areas depend on agriculture for their livelihood. Climate risks, such as the drought that affected the north of Nigeria in 2013, often lead to farmers being reluctant to invest in their farms. Farmers also have limited access to credit and remain trapped in a low income-low productivity cycle. It is therefore imperative that Nigeria build a robust resilience framework against the potential shocks and stresses posed by climate change.

In 2014, Nigeria's Federal Ministry of Agriculture and Rural Development (FMARD) proposed a major expansion of agricultural insurance in the context of other reforms to the agricultural sector, and as part of the implementation of its National Agricultural Resilience Framework (NARF). One of the objectives of NARF is to ensure that Nigeria's agricultural sector is able to cope with the shocks and stresses linked to climate change. FMARD has adopted a robust partnership engagement strategy to create the foundation for supporting institutional capacity within the public sector, increasing the access of farmers to accurate weather information

and increasing the participation of the private sector in the provision of weather insurance products to smallholder farmers. FMARD has aligned with partner Ministries, Departments and Agencies (MDAs) focused on agriculture and the environment for closer National policy synergies.

Promoting agriculture risk management mechanisms through weather insurance

Since September 2014, FMARD and the Climate Change, Agriculture and Food Security research program (CCAFS) of the Consultative Group on International Agricultural Research (CGIAR) have been working together to design a roadmap for evidence-based insurance development for Nigeria's farmers. CCAFS organized an initial knowledge-sharing workshop in London in January 2015. This was followed by a planning meeting in Zurich in May 2015, hosted by Swiss Re. Participants in the workshops included FMARD, the heads of the Nigerian and Indian Agricultural Insurance Corporations, CCAFS, Swiss Re, German Corporation for International Cooperation (GIZ), Nigerian Meteorological Agency (NIMET), Nigerian Agricultural Insurance Corporation (NAIC) and Nigerian Insurers' Association (NIA). The outcome of this process is a CCAFS report detailing a phased expansion of insurance coverage for Nigeria's agricultural sector including its smallholder farming population (Hansen et al. 2016).

Roadmap for Evidence-Based Insurance Development for Nigeria's Farmers

Agricultural insurance has been a feature in Nigeria for over two decades. The roadmap document proposed by CCAFS aims to consolidate existing knowledge and information on the risk profiles of value chains, while creating a mechanism for expanding insurance products and services to all smallholder farmers to increase their resilience to shocks and stresses which may undermine productivity and eco-efficiency.

Experiences from index insurance initiatives in India, Kenya, Rwanda, Ethiopia and Senegal suggest that there is demand for index insurance, and that bundling insurance with production inputs and finance can make insurance more attractive to farmers. Well-designed index insurance can achieve specific risk objectives such as protecting farmers' livelihoods in the face of major climate shocks, and promoting farmers' livelihoods by overcoming barriers to adoption of improved agricultural technologies and practices, and access to market opportunities. By overcoming the problems of moral hazard, adverse selection, and resulting high transaction costs and processing delays that have plagued indemnity-based agricultural insurance, index-based insurance makes it feasible to insure millions of smallholder farmers.

A strategy for expanding insurance for Nigeria's smallholder farmers must address the following challenges: limited and asymmetric information; crowding out by post-disaster relief efforts; limited access to reinsurance markets; lack of insurance culture; and inadequate regulatory environments. The development of effective market-based agricultural insurance, requires government support in five key areas: data systems; awareness and capacity building; facilitating international risk pooling; "smart" subsidies; and an enabling policy environment that facilitates the establishment of multi-stakeholder partnerships, and often public-private partnerships.

To initiate the process of developing more inclusive insurance for Nigeria's farmers, Hansen et al. (2016) identify three immediate priorities: First, in order to create a regulatory environment that makes it attractive for insurance companies to enter the market, it is important to form a task force of public sector champions who will spearhead insurance efforts. Second, there is a need to develop a public-private partnership that incentivizes and supports companies to develop innovative products and services for agriculture. The private sector will require support at the early stages of development, as initial set up costs for innovative new products and distribution channels are often high. Third, a phased process for developing agricultural insurance should start with pilot implementation of both weather index and area-yield index insurance, designed in a manner that progressively

builds the capacity of all relevant stakeholders, and strengthens the knowledge and evidence base for scaling up.

Further Reading

- Hellin J, Araba D, Hansen JH, Goslinga R. 2017. A roadmap for evidence-based insurance development for Nigeria's farmers. CCAFS Working Paper no. 218. Wageningen, Netherlands: CGIAR Research Program on Climate Change, Agriculture and Food Security (CCAFS).
- Hellin J, Hansen JH, Araba D. 2015. Evidence-Based Insurance Development for Nigeria's Farmers: Briefing paper for Nigerian Federal Ministry of Agriculture and Rural Development (FMARD)-CCAFS Knowledge-Sharing Workshop, London, 27-28 January 2015. CCAFS Brief. Copenhagen, Denmark: CGIAR Research Program on Climate Change, Agriculture and Food Security (CCAFS).

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Jon Hellin (j.hellin@cgiar.org) is a Senior Scientist and Value Chain and Poverty Specialist at the International Maize and Wheat Improvement Center (CIMMYT), Mexico.

James Hansen (jhansen@iri.columbia.edu) is CCAFS Flagship Leader: Climate Services and Safety Nets; and a Senior Research Scientist at the International Research Institute for Climate and Society (IRI), Columbia University, Palisades, New York, USA.

Débí sí Àràbà (a.araba@cgiar.org) is the Regional Director for Africa at the CGIAR's International Center for Tropical Agriculture (CIAT) based in Nairobi, Kenya.

CCAFS and Info Notes

The CGIAR Research Program on Climate Change, Agriculture and Food Security (CCAFS) is a strategic partnership of CGIAR and Future Earth, led by the International Center for Tropical Agriculture (CIAT). CCAFS brings together some of the world's best researchers in agricultural science, development research, climate science and Earth System science, to identify and address the most important interactions, synergies and tradeoffs between climate change, agriculture and food security.

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