



Evaluating the service delivery model for Index-Based Livestock Insurance (IBLI): insights from Ethiopia

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Introduction

The Index-Based Livestock Insurance (IBLI) product relies on low cost, accessible and reliable satellite-generated data for forage availability through satellite imagery of the earth's surface (St. Claire and Banerjee 2019). The product has been gaining momentum in the Borana zone of southern Oromia in Ethiopia since its launch in 2012. So far, the product has been sold commercially in the Borana zone. A scheme similar to IBLI was introduced in the Somali region in 2016 by the World Food Programme through the Productive Safety Net Program. In Kenya, since the product was first introduced in 2015, IBLI has been adopted by the government as a social safety net intervention in the form of the Kenya Livestock Insurance Program (KLIP).

A measure of success of IBLI in Ethiopia after eight years of implementation can be seen in the interest the government is showing to include IBLI in the National Agriculture Insurance initiative. However, there are still

considerable challenges such as high transaction costs associated with marketing, extension and distribution of the product. There have been several evaluation studies that have been carried out in Kenya, which led to changes in the distribution model (St. Claire and Banerjee 2019), but there is very limited interrogation and evaluation of the distribution model that has been used in Ethiopia since its launch.

This brief presents an evaluation of the service delivery model being used in Borana zone, while at the same time it proposes possible models to be implemented in the larger Somali and Oromia regions where the demand for IBLI has considerably grown. The findings and recommendations are intended to provide a roadmap to IBLI commercial partners and other involved public entities on the distribution and delivery models which could be considered as part of the scaling process of IBLI in Ethiopia.

As of August 2019, the commercial partner in Ethiopia has sold about 14,000 policies with a total sum insured of about USD3 million. (Taye and Jensen 2019)

Service delivery model

The insurance company carries out its marketing, extension and product distribution through the local cooperative system. As in Kenya, the sales window is set following to the bimodal distribution of the risk period in the region (Figure 1).

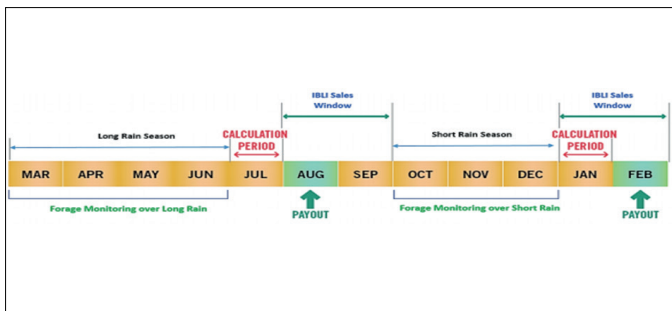


Figure 1. IBLI sales and payout periods in Borana.
Source: Hammonds and Banerjee (2018)

In comparison to the Kenya model¹, the distribution model used in Borana zone is based on a more collective community structure. Each kebele should ideally have a sales agent whose sole responsibility is to sell the product to clients/beneficiaries of IBLI. The village insurance promoters (VIPs) are responsible for raising awareness of the product, marketing and carrying out any and all kinds of extension work including holding community meetings, official events and door-to-door marketing. If an individual is interested in purchasing IBLI, the VIP directs them to the sales agent, who is the point of sale for IBLI. Both the VIP and sales agent are trained on similar concepts and are provided the same promotional materials and job aids. However, the sales agent is given additional training on sales enrolment procedures such as providing receipts, accounting and bookkeeping.

The selection for both the sales agent and VIP is a joint process handled by the insurance company and cooperatives. When the insurance company approaches the cooperative office, the cooperative office identifies active cooperatives in the kebeles and the woredas

where the activity takes place. Cooperative members are

1. For more information on the Kenya model, refer to Banerjee et al. (2017) "Improving the agency model in distribution of Index-Based Livestock Insurance (IBLI)—a study of Takful Insurance of Africa": <https://hdl.handle.net/10568/90637>

nominated with the approval of the kebele chairperson. If the nominees meet the criteria of selection, the insurance company approves the candidate. If the nominees don't meet the criteria, another member is nominated and a similar process is followed. This process applies for both the sales agent and VIPs (Figure 2). The criteria that needs to be met in order to become a sales agent or VIP are as follows.

- The person nominated should be trusted by the community.
- They should be able to read and write (minimum requirement is a primary school graduate).
- They should have the capacity to understand and share information about IBLI to the community.
- IBLI should be a member of a cooperative.

Both the sales agents and VIPs are retained on a commission basis, with the VIPs getting a commission of 8% and sales agents getting 3% against premium collected. It should be noted that this process is being followed in the Borana zone where IBLI is being currently implemented.

Though the selection process seems quite systematic, the insurance company has been facing operational challenges. One of these challenges is the level of reach and presence in the community. This is because of lack of a clear mechanism of accountability from the sales agents and VIPs to the insurance company. Such challenges clearly have a bearing on the current performance of the insurance company but will also have implications on scaling the product to new areas beyond the Borana zone. Therefore, a study was carried out in early 2019 to evaluate the existing sales and distribution model in Borana zone, while also identifying alternate models for this area. The study also aimed at finding institutional structures that could support the scaling of IBLI beyond the current locations in Ethiopia e.g. East Hararge region. This included investigating possible sales and distribution models in the Somali and the Oromia regions as well.

Methods

The sites chosen for this study were Yabello in Borana zone, Jiggiga in the Somali region and Meyumulluke woreda in East Hararge zone. The study in Borana zone and Somali region was carried out in collaboration with a group of students from the Student Multidisciplinary Applied Research Team (SMART) of Cornell University, while the study in Meyumulluke was carried out in

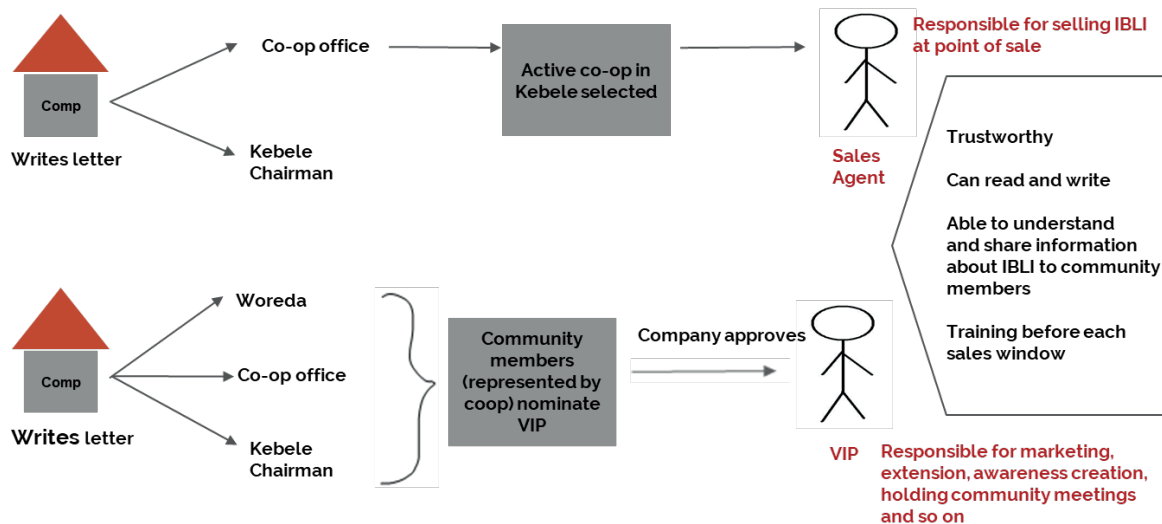


Figure 2. Selection and distribution process for IBLI in Borana zone. Source: Amarzaya et al. (2019)

collaboration with the International Committee of the Red Cross (ICRC) (Zewdie et al. 2020). Since the Somali region and East Hararghe zone did not yet have an IBLI product, the study in these areas were more exploratory for understanding the possible delivery channels and distribution models for IBLI. As for Borana zone, the objective was to evaluate the existing distribution model and understand the challenges and opportunities associated with it.

The study across the regions was mainly qualitative in nature with focus group discussions carried out with sales agents and VIPs in Yabello town (for IBLI Borana), taking advantage of the trainings being conducted by the insurance company as part of preparation for the sales window. In addition, key informant interviews were carried out with the pastoral development offices (DPOs) in both Borana zone and Somali region, along with representatives from relevant government offices of the two regions. The insurance company and some of their critical partners also participated in key informant interviews conducted in Addis Ababa. Community animal health workers (CAHWs) were engaged in the Somali region and in Meyumuluke woreda, which included representatives of community members to understand the local institutional set-up, services available and methods of access and reach to the community.

Findings

This section looks into some key findings which emerged as crosscutting themes across Borana zone, Somali region and East Hararghe zone, which could influence the current agency structure in Borana and can be considered in the scaling of livestock insurance beyond the Borana zone.

Agency network and extension services

With the current commission structure in Borana, VIPs receive 8% and sales agents receive 3% for every premium collected. This incentive structure is not commensurate with the perceived amount of work the agents do, especially since awareness creation and sales require them to travel considerably with expenses paid out of their own pockets. Although the insurance company recognizes the possible imbalance between the commission paid and the work done by its agents, a blanket increase in commission rates would be adding onto the already high cost of service delivery. Moreover, in the existing agency system, the monitoring and evaluation process is relatively weak with interventions by the insurance company only after a particular area has recorded nil sales for three consecutive sales periods. This process is expensive and the level of accountability and sense of belonging of the agents is practically non-existent. Incentive structures are based on performance assessments of agents, and if agents feel the reluctance to bring in greater sales numbers because of logistical challenges but at the same time expect their commissions to be increased, it poses a grave challenge to the sustainability of the agency work as well as the product itself. This is the case in Borana but the possibility of running into similar issues is highly probable both in Somali region and East Hararghe zone.

One of the objectives of this study was to identify alternative/complementary networks and structures that could complement the current agency network. One such network identified was the Community Animal Health Workers (CAHWs), which could complement the existing agency network in Borana and could be considered while scaling in Somali and East Hararghe. CAHWs are individuals who are trained to provide animal vaccination and drugs in their respective communities. There are

about 362 CAHWs in Borana alone, which far exceed the current number VIPs both in number and geographic reach. Ideally, CAHWs are supposed to be present in every kebele/village, reaching even very remote areas which VIPs are often not able or willing to reach. Therefore, if complemented with the existing agency network, they could be useful especially in awareness creation about livestock insurance. Besides the fact that they are relatively better organized and more present than the cooperatives, CAHWs are also nominated by the community to receive a 25-day training on animal health two times a year by the Pastoral Development Office.

In the case of Meyumulluke in East Hararghe zone, CAHWs are engaged by ICRC and the Oromia regional government and get regular training and support on livestock health care and treatment, making them a critical element in the provision of veterinary service delivery in remote pastoral areas. CAHWs provide their services on-call with a commission-based remuneration. Like in Borana, CAHWs are selected by communities based on trust, reliability and knowledge of the kebeles where they work. They have basic literacy and most of them have access to cell phones.

The Somali region has an advanced extension system because of the close collaboration between the local government and international aid-based organizations and NGOs. This makes their reach deeper and structured even in the pastoral areas. The CHAWs for instance are trained and maintained as part of public-private partnership that provides veterinary services and training for pastoralists. In addition, the HelloCash network appears to be promising to leverage for the purposes of a distribution channel for livestock insurance in this region. HelloCash uses a shop model where active shopkeeper/kiosk owners are trained on registering new clients and processing payments. The agents are paid on commission and use this as supplementary income besides their regular income. HelloCash currently has 300,000 clients with over a thousand trained agents in registering and paying new clients. They have basic literacy and are able to use at least a feature phone. Moreover, HelloCash has a system where each shopkeeper or HelloCash agent has a unique ID number in the data frame so that their sales performance can be tracked.

Public-private partnership

Currently, the existing underwriter is the only major player in the pastoral regions of Ethiopia, and specifically in the Borana zone. Although one of the local development organizations is providing 35% premium subsidy through their funding organization for livestock insurance, a lot remains to be done when it comes to the coordination between national and local governments. This would be an important process to accomplish,

especially if the livestock insurance is to scale into more remote areas of East Hararghe zone and Somali region where there is a very strong regional government presence. For the insurance product to scale efficiently, there has to be a public-private partnership mainly to cushion the private sector such as the current underwriter from risks of high payouts in the event of frequent severe droughts. Recently, the national government has shown significant interest in including livestock insurance as part of a larger disaster risk financing agenda. At the same time, regional governments in Oromia region are showing interest in mainstreaming livestock insurance as part of their development agenda.

These are critical steps towards the overall scaling process of livestock insurance and creating a robust agency system by leveraging extension agents and services that are already available in different government bodies. This provides the possibility of having a more extensive agency, resulting in distribution of costs, greater awareness creation, marketing and product uptake support; and could address challenges a private sector entity could have and the current insurance company has been having since the launching of the product.

Infrastructure and connectivity

Having a basic infrastructure in the form of road connectivity and telecom network availability goes a long way in making the delivery of financial products cost-effective and efficient. Given that pastoral areas are very expansive, remote and not well connected, efficient delivery of financial services in particular becomes very challenging. Borana is no exception to this with VIPs travelling long distances to reach potential clients in the villages, often catering for the expenses for the transportation by themselves. This acts as a significant demotivation for them to reach a section of the population who could be interested and willing to purchase livestock insurance. However, improvement in cell phone coverage in the Borana zone is opening up opportunities to explore innovative ways by which VIPs can promote and sell the product digitally, at least in places where there is a stable network coverage. Similar to Borana, the road connectivity in Meyumulluke is very poor; only dry-weather roads connect some of the kebeles to the main all-weather road in the woreda. However, the phone connectivity is considerably good given the remoteness of the East Hararghe zone in general. The presence of several cell phone towers in close proximity to each other throughout the woreda provides decent wireless communication in most parts. Therefore, innovations around digital technology for awareness creation and product delivery becomes critical in order to ensure that there is an efficient distribution channel.

The fact that the Somali region has a well-established microfinance system with high penetration of cell phones provides an advantage to make advances in the use of digital technology and use the institutionalised structures of the MFIs while setting up the agency system when the commercial livestock insurance is introduced in this area. There is already evidence that pastoralists in the Somali region can use mobile transfer system to receive payouts, as with the SIIPE social protection pilot insurance where 85% of the 17,000 households are participating. The study further suggests that some of the microfinance institutions and mobile banking organizations such as HelloCash are increasingly prioritizing greater reach into rural areas, particularly pastoral areas.

Availability of credit institutions

The current agency structure in the Borana zone is based on a cooperative model where the sales agents and VIPs are members of cooperatives. As stated earlier, there is significant presence of microfinance and credit institutions in the Somali region. Similarly, findings in the East Hararghe zone suggest that six of the eight kebeles in Meyumuluke have at least one functioning rural savings and credit cooperative (RUSACO) that is active in the provision of loan and saving services not just to its members but occasionally to the local administration. In spite of this, pastoralists continue to face liquidity constraints when it comes to purchasing insurance and often resort to informal lending and borrowing means during the sales season. Some of them borrow from the sales agents and VIPs. It is possible that loans from existing credit institutions are mainly used for other livelihood or household needs and insurance does not fall into the priority. However, options can be further explored to see how the insurance product can be embedded as part of these local cooperative and financial services to facilitate better governance and strengthen the distribution system, especially in Somali region and East Hararghe zone where commercial index insurance is yet to be launched.

Financial literacy and awareness

There is limited financial literacy in Borana, Somali region and Meyumuluke in spite of the presence of microfinance institutions providing credit and saving services. Though there seem to be several institutional channels of information in the form of local government extension services, radio and other media, there is still a challenge in the capacity of pastoralists to access and understand the range and availability of financial products and services. This could be attributed to lack of concerted efforts by the local administration, development organizations and other relevant institutions to raise

awareness amongst the pastoral community. However, through the IBLI project, there have been attempts to use digital platforms for awareness creation among agents and clients by the insurance company and partner organizations that are providing technical support in the Borana zone. Challenges continue as far as the understanding of the product is concerned but lessons learnt from Borana can be critical in formulating financial literacy and awareness creation strategies as part of the scaling of index insurance to the Somali and East Hararghe region.

Recommendations

The study aims at highlighting some of the challenges that are being faced by the current agency structure being implemented for IBLI in Borana zone. Infrastructure challenges and lack of awareness of the product, along with incentives perceived to be inadequate, are some of the many issues that the current agency structure has encountered. It is important to address these challenges side by side with cost efficiency and sustainability issues. This becomes particularly important since livestock insurance is currently in the up-scaling phase in Ethiopia. The current partnership OIC, the existing underwriter, is promising mainly as the company has taken livestock insurance as part of a corporate social responsibility initiative. However, if the costs of implementation continue to rise with little return on investment, the support of the private company towards the product is bound to diminish.

This study has revealed opportunities to complement the existing agency structure in Borana zone, while allowing for the introduction of new institutional network/service providers simultaneously in new areas that are earmarked as part of the scaling agenda. One such entity are the CAHWs, who seem to have an organized method of working and provide veterinary services in pastoral areas of Somali region and post-conflict areas such as Meyumulluke. However, further investigation needs to be done to understand their willingness to be part of the insurance distribution model, their capacity to promote the uptake of the insurance and most importantly, how they would complement the existing agency structure in Borana zone. In Somali region and East Hararghe zone, it would be worthwhile to consider a combination of an agency model with a cooperative structure, CAHWs and shop agents, with the former two taking up the roles of VIPs and the latter serving more as the sales agent. Further investigation needs to take place to map the spread of the shop agents and assess the capacity and willingness of the shopkeepers to sell the insurance. These are the immediate steps that need to be taken in the introduction of complementary models.

Despite these institutional innovations, the issue of high costs continues to be the biggest challenge for the insurance company. Unless some innovative solutions are sought, costs associated with maintaining the distribution models, capacity building and incentives given to agents will continue to increase with time as scaling progresses. Traditionally, insurance companies have been known to carry out the function of only underwriting the product. Therefore, as a way forward, the insurance companies should think of working with brokers or implementation entities/agencies which could take the role of the missing middle, i.e. a mediator who would take responsibility of hiring agents, training them, tracking and assessing their performance and incentivising them. The insurance company and the

technical support organization (in this case ILRI) would play the role of overseeing and coordinating with the implementing entity. In addition to allowing for better governance, having such an entity could make livestock insurance more profitable and make the business more viable. Such an entity could also enable standardization of procedures which would be easy to replicate outreach and performance-based incentives, making the business effective and sustainable.

Figure 3 illustrates the possible process that could be considered to improve the current agency system, while maintaining the current tenets of the community-based agency system and introducing other models in the upcoming areas of expansion.

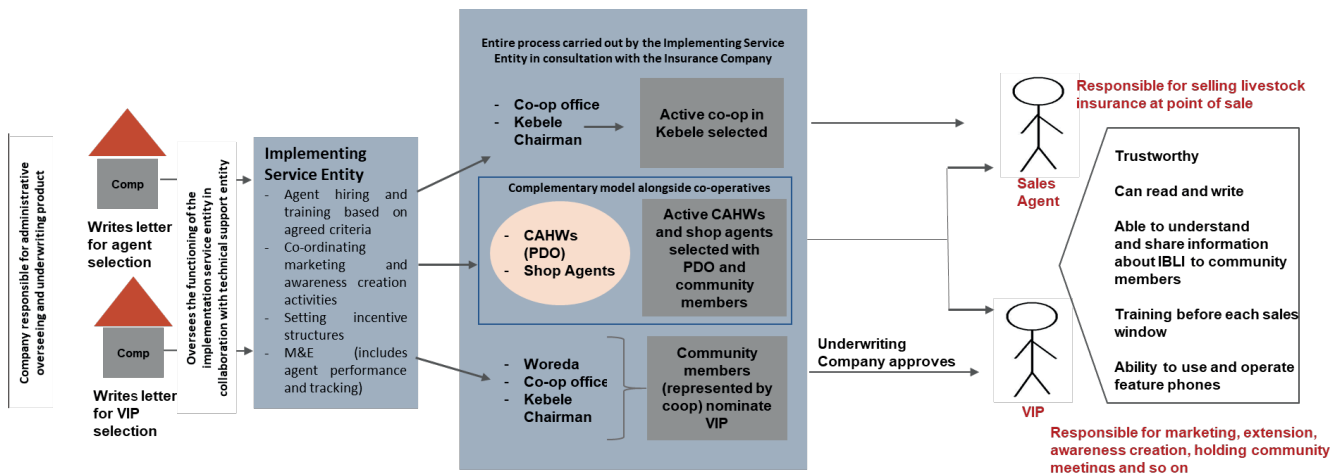


Figure 3. Proposed agency system with the use of the missing middle. Source: authors

In Kenya, the insurance companies, ILRI and the government are already in conversation with one such entity. As a way forward in Ethiopia, the current insurance company underwriting the IBLI product could consider reaching out to this entity and explore areas of collaboration to improve and make the agency system more cost-effective and efficient.

There is a lot of potential for technological and digital innovation at all three locations, especially since considerable amount of work has already been done by ILRI and the insurance company in Borana.

In the backdrop of pandemics such as COVID-19 where there is increasing reliance on use of digital platforms and avoidance of face to face interactions, the use of digital technologies could be further used to test the model proposed in Figure 3. This could be an opportunity to test the strength of the digital tools that are already available and pave the way for further innovations that could lead to a robust agency structure. Finally, a robust agency structure is at the heart of a successful and continued scaling agenda and a gateway for opening up further opportunities for market mediated interventions in the pastoral areas of Ethiopia.

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