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CASE BRIEF: **KIFIYA FINANCIAL TECHNOLOGY**

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KIFIYA FINANCIAL TECHNOLOGY

Description: Kifiya Financial Technology is a digital service provider that provides electronic, branch-less banking and mobile money services in Ethiopia

Products offered: Kifiya offers a range of fintech products, including agriculture and livestock insurance. This brief focuses on its agriculture index insurance product.

Distribution partners: Farmers unions, cooperatives, microfinance institutions and rotating savings groups

Policies issued: Around 10,000 agriculture index insurance policies sold between 2016 and 2018

Agriculture involves around 80 per cent of the population in Ethiopia and accounts for 45 per cent of the country's economic output. Yet, the country's agricultural sector is precarious and already feeling the effects of climate change. Rainfall is becoming increasingly erratic, with devastating consequences in a country in which 90 per cent of agriculture depends on rainfall rather than irrigation.

Protecting smallholder farmers from this climate variability became a priority for the Ethiopian government. As a result, several insurers, the government's Agricultural Transformation Agency (ATA), the Public Finance Enterprise Agency (PFEA), Kifiya Financial Technology (Kifiya) and the University of Twente joined together to offer a vegetative index crop insurance product to smallholder farmers.

The product is based on satellite data that measures the greenness of crops and pays out to farmers in the case of drought. The scheme is managed through a working group, which brings together the complex set of partners. Kifiya is responsible for designing the product, providing the technology, supporting distribution, and settling payments. In addition to the working group, there is a steering committee and field team. With so many partners involved, both public and private, managing this product has proved challenging. Yet, the involvement of such a wide range of stakeholders has allowed the scheme to reach farmers they could not have reached without access to large government programmes.

One example is the role of the Village Insurance Promoters (VIPs). VIPs are staff of the Ministry of Agriculture who work at the village level and promote the insurance product as part of their duties. They provide information to farmers and answer their questions but are not responsible for sales. To ensure good understanding of the product, as well as sales, clients are served in two different ways. Besides the VIPs, clients are reached through agents of farmers' unions

and cooperatives, as well as microfinance institutions (MFIs). It is these agents that sell the product and collect the premiums. To facilitate sales, Kifiya provides these organizations with biometric devices for farmer registration. This double point of contact, allowing for separate but connected education and sales, has proved powerful in increasing farmers' understanding of the product.



Nonetheless, implementation has proved challenging, with difficulties relating to the complex partnership setup and distribution network. In 2016, 4,600 policies were sold. In 2017, just 2,300 policies were sold through a network of around 400 agents and a similar number of VIPs. The division of responsibilities between the partners was unclear and managing various distribution channels was therefore difficult. Furthermore, although the institutions responsible for distribution received commissions, none of that commission was shared with their front-line staff. This meant that sales agents had little motivation to sell the product to potential clients. Lastly, a limited budget was agreed by the partners for awareness creation materials, making it difficult for VIPs to do their job.

Kifiya knew that it would need to improve partnership coordination and focus distribution efforts in order to achieve greater success and make better use of all partners' resources. It therefore redesigned the distribution model in 2018. Based on lessons learnt the previous year, the team decided to reduce the area in which it made sales to two regions, and to work with fewer agents and VIPs, allowing the scheme to better support and train those involved.

Furthermore, the scheme focused on just two of its most promising distribution channels. The first channel type chosen was seed cooperatives, which provide members with inputs on credit and also buy the farmers' harvest. This gives them a powerful advantage as a distribution channel, as they are able to pay the premiums on behalf of farmers who chose to sign up at the beginning of the growing season. Then, when the cooperatives buy the produce from farmers at the end of the season, they deduct the premium owed from the payment made to the farmers. In this way, they provide farmers a mechanism to receive the cover when they need it (but are likely to have limited cash flow) and pay for it later when they have cash available. The partnerships with the seed producer cooperatives were made possible partly by changes made to the product design, which convinced the cooperatives that the cover was relevant for their members. Find out more about the product redesign in the box on the right.

While establishing the partnerships with the seed cooperatives, Kifiya put into practice another lesson it had learned. It arranged for part of the cooperative's 5 per cent commission to be paid to front-line staff, increasing their motivation to promote the product and sign up farmers.



The second channel it chose to focus on was ATA's agriculture commercialization clusters. These are groups of farmers within districts that receive support and technical advice from ATA. The agency analyses the comparative advantages of growing various crops in each district, and the best inputs for doing so given the crop and soil type in that area. It then recommends a crop to farmers in each district and provides inputs and advice. Then insurance scheme benefits from working with these clusters, because the insurance can be simplified, covering one crop type per district. This facilitates loss assessments for the product. Again, ATA was partly convinced to introduce the product to its clusters because of the product redesign.

Working with these two groups of stronger institutions allowed Kifiya to better manage its distribution and focus its sales efforts, allowing more streamlined and better-organized operations. Nonetheless, only 3,500 policies were sold in the 2018 sales window. This represented an improvement on the previous year, but Kifiya was not able to achieve its aim to significantly expand the scheme.

One important remaining obstacle is the price. The product premium is 12 to 15 per cent of the sum insured, with the precise rate depending on the insurers' loadings. Kifiya hopes to overcome this challenge through subsidies. Although in the long run it hopes the government will subsidise the product, in the short term it is working with the Global Green Growth initiative to set up an agricultural facility fund in Ethiopia. This fund will subsidise the insurance product premiums for farmers and provide a guarantee fund against insurers' losses when loss ratios go over 100 per cent. This will make the product cheaper for farmers and Kifiya hopes it will help to boost sales.

Adapting the product to cover pests and disease

After its first season, Kifiya carried out a survey with farmers to understand their impressions of the product and to assess the accuracy of the index – in other words, how closely the payment decisions correlated with farmers' reported experiences of damage.

It found that the index was highly accurate. Only two per cent of farmers felt that the result of the index did not match their experience. However, the field assessment revealed a separate issue: although farmers generally agreed with the results of the index, in many cases they did not believe that the right triggers were being measured. Farmers appreciated the drought cover but were concerned that the insurance did not cover other perils, particularly pests and diseases. These risks are top of mind for many farmers and can happen any year, whereas droughts are perceived as cyclical, meaning that farmers may lose interest in the product during periods of good rain.

Kifiya therefore decided to redesign the product as a hybrid product to accommodate new perils. The new hybrid product uses both the original index, based on satellite imagery, to measure drought and excess rainfall, and a new area yield cover for pests and diseases. This has made the product more attractive and has encouraged other distribution partners to join the scheme.



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We would like to thank our partners FSDA and AFD for supporting the release of this brief.