InsuResilience Solutions Fund

PRE-FEASIBILITY STUDY FOR INDEX-BASED INSURANCE IN THE UNITED REPUBLIC OF TANZANIA

CLIMATE CHANGE PUTS VULNERABLE PEOPLE AT RISK...

In Tanzania, vulnerable farmers in Dodoma, Arusha, and Ruvuma face significant risks from climate variability and extreme weather. Relying on rain-fed agriculture, they are highly susceptible to droughts and floods that can devastate their crops. For instance, a smallholder farmer in Dodoma, cultivating maize on just 1.2 hectares, reported a 50% reduction in his yield during the 2016 drought, leading to food insecurity and reliance on high-interest loans (World Bank, 2015). This situation is common; many farmers in these regions face similar challenges, worsened by limited financial resources, lack of insurance, and inadequate agricultural practices, which deepen their vulnerability and hinder recovery from shocks.

CLIMATE INSURANCE CAN OFFER RELIEF...

The proposed solution is a parametric crop insurance program for smallholder maize farmers in Dodoma, Arusha, and Ruvuma. This innovative insurance will use weather data to trigger automatic payouts based on predefined indices for drought and excessive rainfall, providing timely financial relief. The target group includes about 800,000 smallholder farmers who primarily cultivate maize, essential for their food security and income. The insurance will cover climate-related risks, such as droughts and floods, while promoting climate-smart agricultural practices through training. By utilizing a decentralized distribution model via cooperatives and mobile technology, the program aims to improve accessibility and affordability, addressing the current insurance gap where only 3% of farmers are covered. Expected outcomes include enhanced financial stability, increased resilience to climate shocks, and improved food security for vulnerable households, contributing to sustainable agricultural practices and economic growth in these regions.

WHAT IT TAKES TO MAKE IT HAPPEN...

The feasibility study highlights critical findings about the agricultural landscape, risks, and potential for insurance implementation. It identifies maize as the primary crop for insurance due to its importance for smallholder farmers in Dodoma, Arusha, and Ruvuma. These farmers face significant risks from climate-related hazards, such as drought and flooding, leading to yield losses and food insecurity. The study notes that only 3% of smallholder farmers currently have insurance, mainly due to high premiums, lack of awareness, and insufficient data for effective risk assessment.

The proposed insurance product aims to address these challenges with a parametric model that triggers payouts based on objective weather data, ensuring timely financial support during adverse conditions. The approach includes training on climate-smart practices, leveraging cooperative networks for distribution, and using mobile technology for enrolment and claims processing. Targeting around 800,000 smallholder maize farmers and their specific risks, the scheme seeks to enhance financial resilience, improve food security, and promote sustainable practices. The study concludes that with adequate support and infrastructure, this insurance initiative could significantly mitigate risks for vulnerable farmers in Tanzania, contributing to their economic stability and agricultural productivity.

HOW DID WE FIND OUT...

The feasibility study employed a mixed-methods approach to evaluate the potential for index-based insurance for smallholder farmers in Tanzania. This methodology included qualitative and quantitative data collection techniques, such as surveys and interviews with diverse stakeholders. Over 330 smallholder farmers from Dodoma, Arusha, and Ruvuma participated in focus group discussions and completed questionnaires to share insights on their agricultural practices, risk perceptions, and willingness to pay for insurance. The study also engaged agricultural officers, insurance providers, and cooperative leaders to gather expert opinions and assess existing agricultural frameworks.

To enhance the study's robustness, a market analysis focused on the agricultural landscape, crop production statistics, and the regulatory environment in Tanzania. The research prioritized key agricultural assets, hazards, and regions for the pilot insurance program, specifically targeting maize due to its significance for smallholder farmers. Additionally, a technical feasibility assessment evaluated the necessary infrastructure and technology for effective insurance delivery, including data collection systems and distribution channels. By integrating these methodologies, the study aimed to provide a comprehensive understanding of the challenges and opportunities for implementing a sustainable agricultural insurance scheme tailored to smallholder farmers in Tanzania.

STUDY PREPARED BY