

Pilot Islamic-compliant livestock insurance product in Africa pays pastoralists in drought-prone ken

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For the first time in Africa, an insurance policy that combines an Islamic-compliant financial instrument with innovative use of satellite imagery is compensating Muslim pastoralists for drought-induced losses suffered in Kenya's northeastern Wajir County, where livestock are valued at Ksh 46 billion (USD 550 million).

The 30 women and 71 men in arid and semi-arid Wajir will be the first beneficiaries of [livestock](#) insurance that conforms to the Islamic concept of takaful, in which risks are shared among a group of participants. Through a contract called tabbaru (donation), participants make contributions to a risk fund. In the case of a payout, the fund makes payments commensurate with the contributions received. The pilot program will pay approximately Ksh 500,000 (USD 5,800) for losses suffered to their herds of sheep, goat, cattle and camels during the long dry season that typically ends in March.

The herds were insured last August by Takaful Insurance of Africa (TIA) with an Index-Based Livestock Insurance (IBLI) product, branded as Index-Based Livestock Takaful (IBLT). IBLI uses satellite imagery—measuring the conditions of grazing lands—that is fed into an algorithm that predicts livestock loses. Predictions beyond the 15 percent level trigger indemnity payments. Drought conditions in much of Wajir County have surpassed the index trigger and active contract holders in these areas will be compensated.

"This payout is critical for building confidence in the concept of insurance for the pastoral, drought-prone regions of East Africa, where life revolves around livestock and droughts can bring disaster," said Andrew Mude who leads the IBLI program of the Nairobi-based International Livestock Research Institute (ILRI).

"It's particularly important to make livestock policies work for places like Wajir," he added, "where many thought the combination of isolation from economic activity and the vast, remote areas covered by pastoralist herders made protecting livestock assets with market-mediated insurance products impossible."

ILRI works in collaboration with a wide array of partners in this program that include the government of the Republic of Kenya, Cornell University and the Index Insurance Innovation Initiative (I4), among many others. ILRI and partners want to see livestock insurance available throughout East Africa, where an estimated 70 million people live in drylands, many of them making their living by herding animals. In Kenya alone, the pastoral livestock sector is estimated to be worth at least USD 5 billion. The eight-nation Intergovernmental Authority on Development (IGAD) estimates that over 90 percent of the meat consumed in East Africa comes from pastoral herds. So far, about 4,000 pastoralists in northern Kenya, not all of them Muslim, have bought IBLI contracts since the project launched in 2010, an indication that there is both interest in and demand for livestock insurance.

"Our goal is to show pastoralists that they can use a fair and ethical business model to protect their assets from a natural hazard of keeping livestock in East Africa," said Hassan Bashir, the CEO of Nairobi-based Takaful Insurance, whose father is a client and will be receiving a payout today.

Takaful earns a management fee from participants who pay

contributions to become members of a fund or risk pool. The pool receives contributions and makes payments when the contract pays out. If a surplus results, it is distributed equitably to those members who are not recipients of the payout.

Experts at ILRI say that in semi-arid and arid regions, insurance can make keeping livestock a more effective and sustainable livelihood strategy and can act as a cushion to household assets and income in times of distress. Initial studies from other pastoral regions that have access to the IBLT product showed that droughts were less likely to damage diets in households that had bought insurance. The insurance also was linked to a 50 percent drop in distress sales of livestock and a 33 percent drop in reliance on food aid.

The IBLI program in Kenya is currently funded by the United Kingdom's Department for International Development (DFID), the Government of Australia and the European Union. ILRI researchers note that making livestock insurance commercially viable in East Africa will require catalyzing a critical mass of informed demand. They acknowledge this will be a challenge in a region where many herders occupy vast remote areas where communication and transport are difficult. But some experts believe the potential to protect pastoralists from drought and help them improve their herds justifies support from governments and donors, just as agriculture insurance is often subsidized in many countries across the globe.

"We saw what Wajir was like in 2011 when the worst drought in decades killed almost half the livestock in the region and lives were left hanging in the balance," said Liesbeth Zonneveld, country director of Mercy Corps, an organization that is a partner in the IBLT project. "Today we see a situation where drought remains a threat, but people have a way to protect their central source of food and income."

ILRI Director General Jimmy Smith said the success of the IBLI program is evidence that pastoralists in Africa are as receptive as livestock keepers anywhere to options for managing risk.

"These are people who over the centuries have learned how to nurture herds in some of the most challenging conditions in the world," Smith said. "They may not have encountered livestock insurance before, but they have quickly understood how it can help bring a new level of stability to the pastoralist way of life."

Provided by International Livestock Research Institute

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