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Promotion of climate risk insurances for smallholder farmers: Insights and learnings from Zambia

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Abstract

The Republic of Zambia is a country strongly characterised by agriculture. In many cases, the agricultural potential is not fully utilised and the harvests thus remain comparatively low. This can be attributed to a variety of factors. One of these factors is that Zambian agriculture is predominantly seasonal and relies on rainfall. The rainfall having become more and more irregular and unreliable, this makes Zambian smallholder farmers in particular extremely vulnerable to weather-related crop failures caused by droughts and/or floods. At the same time, Zambia is particularly exposed to the impacts of climate change. The frequency and intensity of both drought and flood events have increased significantly in recent years.

To address this issue, the Zambian government, supported by various actors like GIZ or WFP, is working on the introduction and dissemination of climate risk insurances (CRIs), for vulnerable smallholder farmers as one aspect of a wide range of measures to sustainably strengthen the resilience of this population group. GIZ's CRIIZ project to promote CRIs was oriented towards different needs and interests. On the one hand, the product of CRIs should give smallholders the opportunity to pool and outsource the risk of extreme weather-related crop failures. On the other hand, microfinance institutions (MFIs) and banks also have an interest to insure that smallholders do not find themselves in the position of being unable to repay (micro)loans they have taken out due to such crop failures. However, micro or small loans play a central role in giving smallholders access to sufficient and better-quality agricultural inputs, such as seeds or fertiliser. The Zambian government also has an interest in strengthening the country's agricultural sector, and for insurance companies, CRIs offer a potentially lucrative market due to the almost non-existent supply.

To investigate the acceptance and effectiveness of this approach on the part of smallholders and on the part of MFIs and insurance companies, various focus group discussions with smallholder groups, but also intensive interviews with employees of MFIs and insurance companies were conducted by a team from INEF (University of Duisburg-Essen). The central findings of this research will be presented here.

Keywords: Agricultural finance, climate risk insurance, smallholder farmers