



TRANSPARENCY
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KENYA



POCKET GUIDE TO CLIMATE RISK MANAGEMENT IN KENYA

CASE OF CLIMATE RISK INSURANCE

Multi-Actor Partnership
Transparency International Kenya



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Transparency International Kenya
& Germanwatch**

2021

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ACRONYMS

ASALs	Arid and Semi-Arid Lands
AU	African Union
ARC	African Risk Capacity
CSO	Civil Society Organizations
CRI	Climate Risk Insurance
CDRFI	Climate and Disaster risk finance & Insurance
CRM	Climate Risk Management
DRM	Disaster Risk Management
HSNP	Hunger Safety Net Program
HRBA	Human Rights-Based Approach
IDA	International Development Association
NAP	National Adaptation Plans
TI-Kenya	Transparency International Kenya

BASIC DEFINITIONS

- a) **Climate Risk Insurance** - A form of risk transfer mechanism designed to pay out to the policyholder when defined climate-related events take place, thus diversifying losses across people and time. This often takes the form of 'index' or 'parametric' mechanisms that payout when specific conditions – such as the amount of rainfall, wind speed, or the greenness of vegetation in a specific geographic area fall outside of pre-defined parameters and cross a specific threshold.

- b) **Disaster** - a serious disruption of the functioning of a community or society causing widespread human, material, economic or environmental losses which exceed the ability of the affected community/society to cope using its resources.

- c) **Disaster Risk** – refers to the potential disaster losses, in lives, health status, livelihoods, assets, and services, which could occur to a particular community or a society over some specified future period.

- d) **Gender Transformative** - refers to transforming unequal gender relations to promote shared power, control of resources and decision-making between women and men, and support for gender equality and women's empowerment.

- e) **Hazard** - A dangerous phenomenon, substance, human activity, or condition that may cause loss of life, injury or other health impacts, property damage, loss of livelihoods and services, social and economic disruption, or environmental damage.
- f) **Macro-level Insurance** - A form of indirect cover whereby policies are held by, and payouts made to governments or other agencies working at the national level, to provide emergency funding without cutting into their regular budgets.
- g) **Meso-level Insurance** - A form of indirect cover whereby policies are held by, and payouts made to 'risk aggregator' organizations that provide services to individuals, such as financial institutions, cooperatives, credit unions, or NGOs.
- h) **Micro-level Insurance** - A form of direct cover whereby individuals such as farmers hold policies and receive payouts directly. These policies may be sold or distributed via aggregator organizations such as farmers' cooperatives, or NGOs
- i) **Pro-poor Principles** - Principles as adopted by Insu-Resilience Global Partnership to guide designing of climate risk insurance solutions that support closing the climate protection gap of poor, climate-vulnerable populations including, Comprehensive needs-based solutions, Client value, Affordability,

Accessibility, Participation, Sustainability, and Enabling environment.

- j) **Resilience** - The ability of a system, community, or society exposed to hazards to anticipate, absorb, accommodate to and recover from the effects of a hazard in a timely and efficient manner, such as through the preservation and restoration of its essential basic structures and functions.
- k) **Risk Transfer** - An approach to risk management that involves partial or full transfer of financial responsibility with the materialization of that risk (e.g. through a financial instrument such as index weather insurance, property insurance contract, etc).
- l) **Risk Assessment** - A methodology to determine the nature and extent of risk by analyzing hazards and their potential likelihood and intensity and estimating impacts through the evaluation of conditions of vulnerability and the identification of exposed people, property, infrastructure, services, livelihoods, and their environment.
- m) **Vulnerability** - The characteristics and circumstances of a community, system, or asset that make it susceptible to the damaging effects of a climate risk or hazard, thus a disaster. The many aspects include physical, social, economic, and environmental vulnerabilities

1.0. INTRODUCTION

The number of people affected by climate-related disasters like floods and droughts has increased in Kenya. The increased impacts can be partly attributed to the increased intensity and frequency of these disasters due to the negative impacts of climate change.

Consequently, Transparency International Kenya and Germanwatch partnered to explore Climate Risk Insurance as a possible risk management instrument in Kenya. In pursuit of this objective, a Multi -Actor Partnership (MAP) on climate risk insurance was created under the coordination of Transparency International Kenya. The MAP is comprised of organizations and individual experts working on adaptation, resilience, and disaster risk management thematic areas.

Its members coming from different sectors of society such as civil society, government, media, and academia. The membership of the partnership is shown in the annex.

1.1. BACKGROUND

Due to increased impacts of natural hazards, there is growing recognition by governments and organizations, that building resilient communities and reducing disaster risk is a core initiative. Over the decades, Disaster Risk

Management has moved from a narrowly perceived technical discipline to a broad-based global movement focused on sustainable development.

The government of Kenya has recognized the threats posed by climate risks in the realization of its development agenda. These risks pose threats to different sectors, that is, biodiversity, forests, water, agriculture, energy, and health. The impacts of climate-related disasters are felt at the household level through food insecurity, loss of life, damage to property, and increased prices of food and fuel. These impacts are also evident at the national level, where scarce government resources are re-allocated to address the impacts of floods and drought at the expense of social programmes such as health and education.

1.2. NATIONAL CIRCUMSTANCES

According to the government of Kenya, “drought and floods are the main climate hazards, negatively impacting lives, livelihoods, adversely affect the national economy, and posing a threat to national security. In 2018, floods led to the loss of human lives displacing more than 230,000 people including 150,000 children, wiping out 8,500 hectares of crops, drowning over 20,000 head of livestock, and leading to the closure of over 700 schools¹. Droughts cause large-scale disasters destroying livelihoods,

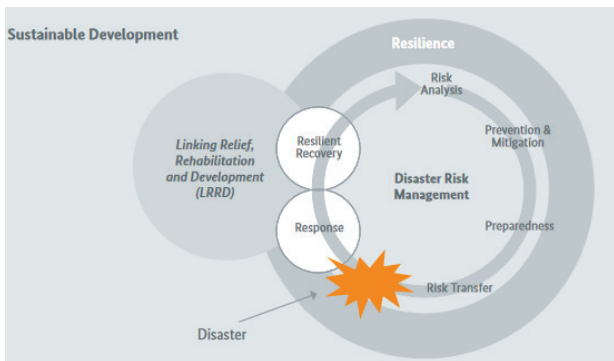
triggering local conflicts over scarce resources, and eroding the ability of communities to cope. The 2014-2018 droughts affected 23 counties, 3.4 million Kenyans were severely food insecure and 500,000 people did not have access to water”¹.

As such, the rationale of this document is to enlighten the public on climate risk insurance as a tool for disaster risk management in the country.

¹ [https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Kenya%20First/Kenya%27s%20First%20%20NDC%20\(updated%20version\).pdf](https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Kenya%20First/Kenya%27s%20First%20%20NDC%20(updated%20version).pdf)

2.0. CLIMATE RISK MANAGEMENT

Figure 1: Disaster Risk Management



Source: Thistlethwaite, Jason, and Michael O. Wood. 2018

Climate Risk Management is a systematic and coordinated process in which climate information is used to reduce the risks associated with climate variability and change, and to take advantage of opportunities, to improve the resilience of social, economic, and environmental systems.

Climate risk management evaluates the influence of climate change on weather extremes and other weather patterns that can contribute to disasters, as well as the exposure and vulnerability of human society and natural ecosystems and prepares for suitable responses and risk mitigation strategies.

2.1. POLICY, LEGAL AND INSTITUTIONAL FRAMEWORK

At the global level, there is the Sendai Framework for Disaster Risk Reduction (SFDRR) 2015–2030² which was adopted to guide efforts and steer Disaster Risk Reduction initiatives. It serves to assign, as appropriate, clear roles and tasks to community representatives within disaster risk management institutions and processes. It also facilitates decision-making through relevant legal frameworks and undertakes comprehensive public and community consultations during the development of such laws and regulations to support their implementation.

²https://www.preventionweb.net/files/43291_sendaiframeworkfordrren.pdf

Specific to combat climate change and disasters due to the negative impacts of climate change is the Paris Agreement³, an international treaty under the United Nations Convention on Climate Change (UNFCCC). It specifically focuses on limiting global temperature increase to well below 1.5°C in order to be able to manage the related impacts. Article 7 on adaptation to climate change clearly states the goal of “enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change”; Article 8 on Loss and Damage inter alia expects countries to enhance their understanding, action and support for loss and damage associated with the adverse effects of climate change. Some of the key areas identified for cooperation and facilitation include early warning systems, slow onset events and other events that may involve irreversible and permanent loss and damage, and risk-related actions. A technical expert group on comprehensive Risk management (TEG-CRM)⁴ has been set up in the context of the Executive Committee of the Warsaw International Mechanism on Loss and Damage (WIM).

³ https://unfccc.int/sites/default/files/english_paris_agreement.pdf

⁴ <https://unfccc.int/process-and-meetings/bodies/constituted-bodies/executive-committee-of-the-warsaw-international-mechanism-for-loss-and-damage-wim-excom/areas-of-work/comprehensive-risk-management-approaches/technical-expert-group-on-comprehensive-risk-management-0>

Insu-Resilience Global Partnership for Climate and Disaster Risk Finance and Insurance. The initiative was launched at the UN Climate Summit COP23 in 2017 by the G7, G20 and V20 jointly and builds upon the G7 InsuResilience Initiative. In order to strengthen resilience and protect the most vulnerable, it includes actors from the national level, civil society, international organizations, the private sector, and academia. “The central objective of the Partnership is to enable more timely and reliable disaster response using climate and disaster risk finance and insurance solutions” .

(1) THE AFRICA REGIONAL STRATEGY FOR DISASTER RISK REDUCTION

The Africa Regional Strategy for Disaster Risk reduction is a policy instrument developed by the African Union (AU) to contribute to the attainment of sustainable development and poverty reduction by facilitating the integration of disaster risk reduction into development⁵.

The strategy covers the risk of small and large-scale, frequent and infrequent, and quick or slow-onset disasters caused by natural occurrence, including environmental, hazards, and technological hazards and risks. A major target of the strategy is to substantially increase and expand the scope and sources of financing and investment in disaster risk reduction, including through dedicated regional and national trust funding mechanisms.

⁵ https://www.preventionweb.net/files/4038_africaregionalstrategy1.pdf

The Strategy's objectives are to:

- 1) Increase political commitment to disaster risk reduction.
- 2) Improve identification and assessment of disaster risks.
- 3) Enhance knowledge management for disaster risk reduction.
- 4) Increase public awareness of disaster risk reduction.
- 5) Improve governance of disaster risk reduction institutions.
- 6) Facilitate integration of disaster risk reduction in emergency response management.

A Programme of Action (PoA) was developed to implement the strategy. Its main objective is to strengthen long-term capacities such as coordination mechanisms at continental and regional levels to systematically contribute to building resilience to natural hazards.

(2) EAST AFRICAN COMMUNITY (EAC) CLIMATE CHANGE MASTER PLAN (2011-2031)

At the regional level, EAC provides a strategic platform for engagement between the Partner States. Though the Partner States have not developed a specific policy/legal document on climate risk management and disaster risk reduction, they have developed the East African Community Climate Change Master Plan 2011-2031⁶.

⁶ file:///Users/tikenya/Downloads/EAC%20Climate-Change-Master%20Plan.pdf

The main objective of the master plan is to provide a long-term vision and a basis for the Partner States to operationalize a comprehensive framework for adapting to and mitigating climate change in line with the EAC Protocol on Environment and Natural Resources Management and with international climate change agreements. To ensure different sectors identified in the Master Plan as of priority to the region are climate proofed, one of the key pillars identified is Climate Risk Management and Disaster Risk Reduction. This pillar explores ways and means of minimizing disaster risks by reducing the degree of vulnerability and increasing the resilience capacity of communities within the region.

(3) THE IGAD DROUGHT DISASTER RESILIENCE AND SUSTAINABILITY INITIATIVE (IDDRSI) STRATEGY (2019-2024).

The Intergovernmental Authority on Development (IGAD) Drought Disaster Resilience and Sustainability Initiative (IDDRSI) is a holistic and comprehensive plan, aimed at building the resilience of vulnerable communities to the effects of recurrent droughts and achieving simultaneous growth and sustainable development in the IGAD region⁷. This initiative was launched in 2013 as a regional undertaking, following a collective decision to end drought emergencies.

⁷ <https://icpald.org/wp-content/uploads/2019/10/IDDRSI-STRATEGY.pdf>

Its major component includes;

- Data Management, Geo-spatial, and Remote Sensing.
- Climate Monitoring, Diagnostics, Predictions and Early Warning.
- Mainstreaming Climate Information Services in key Sectors (Climate Applications).
- Disaster Risk Reduction and Climate Change Adaptation.

Kenya has domesticated (IGAD's Drought Disaster Resilience and Sustainability Initiative (IDDRSI) through the Ending Droughts Emergency (EDE) strategy coordinated by the National Drought Management Authority (NDMA).

(4) NATIONAL RESPONSES TO DISASTER RISKS

a) Disaster Risk Financing Strategy

Kenya has made significant strides in managing drought disasters, by setting a favorable policy and institutional framework that will enable her to escalate efforts to curb drought emergencies. Kenya through a multi-stakeholder process has developed sector plans for Drought Risk Management and Ending Drought Emergencies (EDE) under the third Medium Term Plan (MTP III), and a Disaster Risk Financing Strategy (DRFS) to guide the implementation process.

The Government further adopted a Common Programme Framework (CPF) due to the large number of stakeholders involved in the EDE. The framework ensures stronger alignment and coordination of investment, and where possible, harmonization of programming.

b) Climate Change and Disaster Risk Reduction in Kenya

Kenya's Second National Climate Change Action Plan (NCCAP) 2018-2022 identifies climate change as a potential threat to Kenya's future development and achievement of the goals outlined in Vision 2030⁸. It also recognizes the threat posed by climate risks in the realization of the development agenda.

The action plan proposes actions on disaster risk management, that is, improve the ability of people to cope with droughts; improve the ability of people to cope with, and withstand floods; and improve the coordination and delivery of disaster risk management.

c) Disaster Risk Management Institutions in Kenya

There are about eight institutions in Kenya responsible for disaster preparedness and response as shown in the table below:

⁸ <https://www.kenyamarkets.org/wp-content/uploads/2019/02/NC-CAP-2018-2022-Online-.pdf>

INSTITUTION	FUNCTION
National Drought Management Authority (NDMA)	Responsible for Drought preparedness and response. Under the NDMA, Kenya Food Security Meeting (KFSM) and the Kenya Food Security Steering Group (KFSSG) work to coordinate various stakeholders in drought preparedness and response. At the county level, coordination is done under County Steering Groups (CSG)
The Arid and Semi-rid Lands Secretariat and Forum	Provide platforms for both state and non-state actors to plan, execute, monitor, and coordinate interventions more effectively in the ASALs which are mostly drought-prone. They foster dialogue between government, UN agencies, development partners, NGOs, the private sector, and ASAL citizens at both national and county levels. Other regional and national forums have recently been created that bring partners and donors together. These include the ASAL Alliance, the Kenya Humanitarian Forum, the Agriculture and Rural Development Forum, and UNISDR.
National Disasters Operations Centre	Responsible for coordinating all disaster response operations in the country.

National Disaster Management Unit	Has established the country's emergency response plan and Standard Operating Procedures (SOPs).
Kenya Meteorological Department	Responsible for Early Warning Systems
The Kenya Red Cross	Works closely with the government on disaster response
Water Resources Authority	Is instrumental in floods preparedness and mitigation
Ministry of Health	Responsible for human disease preparedness

(5) SUB-NATIONAL DISASTER RISK MANAGEMENT

The constitution of Kenya permits county governments to be responsible for disaster management within their areas of jurisdiction. However, for purposes of ensuring uniformity and national standards, these policies and laws should be developed and implemented in accordance with the national policies and laws. Based on the above, these counties have established disaster risk frameworks:

- a) **Kisumu County** - Kisumu County Disaster and Emergency Management Act, 2018
- b) **Turkana County** – Turkana County Disaster Risk Management Policy 2018 and Turkana County Emergency and Disaster Management Act, 2016
- c) **Laikipia County** - Laikipia County Disaster Risk Management Policy
- d) **West Pokot County** - West Pokot County Disaster Management Act, 2016

2.2. DISASTER RISK FINANCING INSTRUMENTS

It is important to note that sufficient funding before and after a disaster is necessary and essential in financially protecting affected countries, communities and individuals, and alleviate suffering. Financing instruments can be distinguished by several characteristics, such as risk level (low to high), risk management strategies (retention, transfer, etc.), financier (local community, national government, international donors, etc.), recipients (individuals, national government, etc.).

SPECIFIC FINANCIAL INSTRUMENTS AND TOOLS

Poor and marginalized populations are particularly vulnerable to the adverse effects of climate change due to the multiple risks and challenges that their livelihoods face. In addition, their financial literacy is often minimal, and their appetite to apply financial instruments is low, partly due to competing priorities, unequal distribution of resources, and power imbalances. Moreover, many financial instruments require preconditions, such as a certain level of liquidity or creditworthiness that the most vulnerable are not able to meet. There are however a number of instruments relevant in Kenya for comprehensive climate risk management.

The table below shows some financial instruments and examples within the national context.

GLOBAL AND REGIONAL LEVEL		
TYPES OF INSTRUMENTS	DESCRIPTION	EXAMPLES
Disaster relief funds	In the case of (climate-related) extreme events or disasters, disaster relief funds can quickly be disbursed for response and recovery measures that otherwise must be financed ex-post.	European Union-funded Drought Contingency Fund.
REGIONAL LEVEL		
Risk transfer and risk pooling, including index-based schemes	Risk transfer and risk pooling, and index-based schemes, help risk holders to spread losses widely across time, stakeholders, and/ or geographical areas in the case of sovereign risk holders.	African Risk Capacity (ARC),
NATIONAL LEVEL		
Social protection schemes	At the National level, social protection entails policies designed to reduce people's exposure to risks, enhancing their capacity to protect themselves against hazards and loss of income.	Drought shock responsive scalable cash transfers through the Hunger Safety Net Programme.

<p>Catastrophe risk insurance</p>	<p>Catastrophe risk insurance at national or regional levels protects against low-probability, high-cost events which can result in an extremely large number of claims being filed at the same time as unpredictably high costs.</p>	<p>1) KLIP is an index-based livestock insurance program that protects pastoralists in the remote, arid, and drought-prone lowlands of Kenya from the impacts of extreme weather. With these payments, pastoralists can purchase water and fodder to sustain tropical livestock such as camels, goats, and cows through the drought period</p> <p>2) Kenya Agricultural and Insurance Management Program (KAIRMP)</p>
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Contingent credit	This is a fast-disbursing finance opportunity, which provides lines of borrowing from which to draw in the immediate aftermath of any natural disaster declared a national emergency by the government, particularly for middle-income countries. The funds provide for early response and recovery measures.	Development Policy Financing with Catastrophe Deferred Drawdown Option (CatDDO) of the World Bank. In 2018 the World Bank approved US\$200 million IDA credit to help Kenya manage the financial impacts of climate and disaster risks ⁹ .
SUB-NATIONAL LEVEL		
Micro-saving (Village savings and loans associations)	Micro-savings can be described as savings made by low-income or vulnerable people. Such savings can be an effective tool when combined with other policy measures to ensure access and use of appropriate savings products, especially for some of the most vulnerable.	Village Savings and Lending Associations.
Micro Contingency Funds	In the case of (climate-related) extreme events or disasters, disaster relief funds can quickly be disbursed for response and recovery measures at the local level	Contingencies Fund, County Emergency Funds, Scalable component of the Hunger Safety Net Program (HSNP)

⁹<http://pubdocs.worldbank.org/en/789321545341964161/Case-study-Kenya-Cat-DDO-final-12-19-2018.pdf>

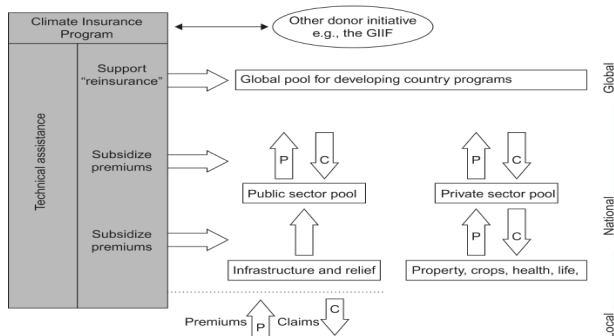
3.0. CLIMATE RISK INSURANCE AS A TOOL FOR CLIMATE RISK MANAGEMENT

3.1. CLIMATE RISK INSURANCE OVERVIEW

Climate risk insurance for developing nations targets lessening the economic risks of individuals and governments despite an increment in extraordinary climate events. Insurance can cushion at any rate the monetary ramifications of extreme weather and climate events through its risk transfer role. Currently, most public-private projects in Kenya offer crop and livestock insurance. Insurance can spread the risk, hence permitting farmers to recuperate quicker (figure1).¹⁰

¹⁰ Linnerooth-Bayer, Joanne, and Reinhard Mechler, "Insurance for Assisting Adaptation to Climate Change in Developing Countries" 621-636

Figure 2: An illustration of the climate Risk Insurance program



Source: Linnerooth-Bayer, Joanne, and Reinhard Mechler. 2006

Innovative insurance solutions, which are coordinated into the individual spaces of climate risk management (respond, recover, prevent, prepare, and residual risk), help fortify individuals' resilience before an extreme climate event hits (figure 2)¹¹.

3.2. ROLE OF CLIMATE RISK INSURANCE (CRI) IN CLIMATE RISK MANAGEMENT

Climate Risk Insurance is one tool in CRM, its application can be guided e.g. by risk layering. In this context,

¹¹ Thistlethwaite, Jason, and Michael O. Wood, "Insurance and Climate Change Risk Management: Rescaling To Look Beyond The Horizon", 279-298.

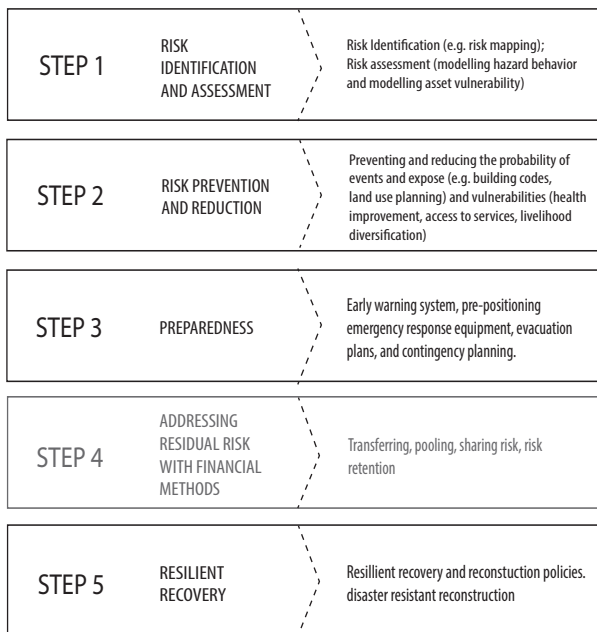
risks that are severe but not very frequent, can be addressed by insurance schemes. In its role in climate risk management, insurance has been perceived as a significant mechanism for the reduction of the socio-economic vulnerability of societies exposed to natural disasters¹². If the demand for insurance products, the potential clients' budget constraints, or the already existing informal coping mechanisms within communities are not well-considered, the risk is high that insurance schemes will not be adapted or bear negative impacts for both insurers and insured.

In the long term, reducing risk through broader comprehensive risk management strategies should have the beneficial effect of lowering expensive insurance premium costs, therefore giving access to insurance to more poor and vulnerable people.

Regarding the decrease of weather-related risk with catastrophic results, insurance should be acknowledged as a feature of a climate risk management strategy that incorporates exercises that keep human and economic losses from climate extremes (figure 3).

¹² https://www.gwp.org/globalassets/global/toolbox/publications/perspective-papers/11_climate_insurance_perspectives_paper.pdf

Figure 3: Insurance in the process of Climate Risk Management¹³



Source: Insurance in the process of comprehensive climate risk management Source: Modified from World Bank (2015).

¹³ https://www.unclearn.org/wp-content/uploads/library/mcii_propoor_161031_online.pdf

3.3. APPROACHES AND CASE STUDIES

I. CASE STUDIES

i. Early warning system

In 2016, Kenya through the National Drought Management Authority and Food and Agricultural Organization (FAO) was able to equip a national early warning system that was meant to minimize the drought impact on communities. The objective of this system was to detect socio-economic crises and reduce their impacts on societies affected. By the end of that year, money had been released into a special emergency fund and livestock rations were distributed to the communities at risk. This not only improved animal wellbeing but also eased the burden of drought to those living in the affected areas through early harvesting and early cash transfers. The early warning teams work closely with county offices to develop a framework for detecting drought patterns in that local context.

ii. The African Risk Capacity

Kenya has been a member of the African Risk Capacity, a specialized agency of the African Union (AU), since 2013. The Index-based insurance scheme was established in 2012 to help African governments improve their capacities to better plan, prepare, and respond to extreme weather events and natural disasters through collaboration and innovative finance.

Box 3.1 Kenya engagement with the African Risk Capacity (ARC)¹⁴.

Kenya engaged in the ARC process during its second funding cycle in the year 2014/2015 season to cushion its citizens against drought disasters, through a premium payment of a total of \$18million. However, the ARC model was not able to accurately predict the impact of drought during the two first years Kenya had purchased a policy, hence a payout was not triggered. The lack of a payout coupled with concerns of expensive premiums, unmet expectations, and internal coordination challenges, were cited as reasons for not engaging in another premium payment in subsequent seasons.

iii. Kenya Livestock Insurance Program (KLIP)

There is also the Kenya Livestock Insurance Program (KLIP) that was designed to protect ASAL counties from drought-related impacts. KLIP uses a composite model where the government purchases, through donor grants, drought insurance from private insurance companies like APA Insurance on behalf of pastoralist herders. The Program was introduced in Marsabit, Turkana, and Wajir counties in the year 2015 and enlisted 5000 pastoralists in livestock asset protection in its initial phase against drought disasters. The index-based product trigger

¹⁴ Oxford Policy Management. Independent Evaluation of the Africa Risk Capacity. Annex C: Case studies. October 2017 (Kenya Case study)

payouts when too little rain results in decreased pastures and with grazing reduced to 20% of ideal condition. An amount of over Ksh.160m has been paid to pastoralists in the form of payouts in a bid to ease the burdens of drought in the area benefitting over 20,000 households.

iv. Kilimo Salama Program

Innovative parametric-index-based agriculture insurance products to mitigate smallholders' climate risks are also available in Kenya. UAP Insurance has partnered with the government under the 'Kilimo Salama' and 'Kilimo Salama Plus' Program to offer weather index, area-yield index, and satellite-based index insurance products that cover a number of commercial (cash, cereal, horticultural) crops within the Kenyan counties. By 2013, the Program ¹⁵is reported to have covered 67,607 farmers at an average cost of 5% to 25% of insured inputs or harvest.¹⁶

¹⁵Reference website: <https://oxfordbusinessgroup.com/analysis/seeds-growth-agriculture-presents-range-options-insurers>

¹⁶World Bank Group. Kilimo Salama Weather Index Insurance: Early Market success. Accessed from: <https://www.indexinsuranceforum.org/project/kilimo-salama-safe-farming-weather-index-insurance-kenya-early-market-success> (NB. Recent statistics from Kilimo salama Plus are unavailable for reference)

Box 3.2 Index Weather insurance from Kilimo Salama Program in Kenya

Kilimo Salama (KS), was established as an innovative index-based solution through Syngenta Foundation for Sustainable Agriculture (SFSa), UAP insurance Company, and Safaricom. KS is index-based, which implies that payouts are pegged on past historical and current regional rainfall patterns through ensuring farming inputs (not outputs) with payouts. Farmers may receive a payout experience even without crop damage. From an economic perspective, KS provides a buffer to protect farmers against shock which is akin to making 'savings.' Over 50 agricultural stockists in Kenya were utilized as distributors of the product, with Safaricom providing network capability to reach small-scale farmers. The product has a composite premium payment model with the farmer and Syngenta sharing 5% of each premium payment. Kilimo Salama Plus (KS-P), the updated premium cover of KS offers coverage for crop outputs, where farmers can cover all of their input costs and the resulting crop yields based on the estimated value of the harvest. In this case, they pay the full price of a 10 percent premium on their own. During the long rain season experienced in 2009, a paltry 200 farmers were engaged. However, during the short rains experienced in 2009, about 12,500 farmers were engaged, with seasonal payouts ranging from 10-50% of insured inputs. This Program was a pioneering initiative for index-based agriculture insurance in Kenya. The current outreach for Kilimo Salama insurance is reported as 67, 607 farmers.¹⁷

¹⁷ Di Marcantonio F., Kayitakire F. (2017) Review of Pilot Projects on Index-Based Insurance in Africa: Insights and Lessons Learned. In: Tiepolo M., Pezzoli A., Tarchiani V. (eds) *Renewing Local Planning to Face Climate Change in the Tropics*. Green Energy and Technology. Springer, Cham. https://doi.org/10.1007/978-3-319-59096-7_16

v. Area Yield Index Pilot Program

Another insurance scheme is the “Area Yield Index Pilot” Program through the World Bank’s Disaster Risk Financing and Insurance Program (Partners). This scheme covers maize and wheat crops to insure farmers with as little as one hectare of land against extreme weather conditions through the use of mobile handsets to access payouts. The scheme was initiated in Nakuru, Embu, and Bungoma counties in 2016, and has reached 20 counties.¹⁸

Other examples for index weather-based programmes in Kenya include; Index-based Livestock Insurance (IBLI)¹⁹ initiated by the Consultative Group on International Agriculture Research (CGIAR) and the Agriculture and Climate Risk Enterprises (ACRE) Ltd²⁰.

II. APPROACHES

a. Macro Insurance Solutions in Kenya

Macro insurance solutions are government-level mechanisms and actions for insuring and managing disaster risk. Sovereign catastrophe risk pools (SRP)

¹⁸ Referred from: [://www.impactinsurance.org/sites/default/files/CB16%20-%20EN.pdf](http://www.impactinsurance.org/sites/default/files/CB16%20-%20EN.pdf)

¹⁹ Banerjee, R. 2015. The story of Index Based Livestock Insurance (IBLI). Presented at a workshop on Microinsurance Business Models for Africa, Lusaka, Zambia, 11 March 2015. Nairobi, Kenya: ILRI

²⁰ Refer to ACRE website: Agriculture and Climate Risk Enterprises Ltd (for a broad range of products in several African countries)

represent a common macro-level insurance solution available to most countries. Under the Africa Risk Capacity, for example, countries can access quick financial liquidity through sovereign catastrophe risk pools (SRP) that combine parametric insurance and risk pools. The risk pools allow governments to “pool risks in a diversified portfolio, retain some of the risks through joint reserves and capital, and transfer excess risk to the reinsurance and capital markets”.²¹ Public-Private Partnerships between government and financial and insurance institutions typically characterize the macro-level products.

b. Meso and Micro Insurance Solutions in Kenya

These products entail direct support, through insurance compensation and ultimate premium payouts to individuals and institutions holding insurance policies. These products respond to individual-level insurance demands and financial intermediary firms (respond to demands for agricultural insurance products from farmer groups or cooperatives.)

In Kenya, meso and micro products comprise traditional indemnity-based crop and livestock insurance (often directed to medium and large cereal and dairy farmers)

²¹ African governments have been able to buttress risk through reserves and capital. However, none of the countries engaged previously or currently have explored the option for reinsurance and capital markets, which is a viable means to engage country level private sector to leverage disaster risk finance

through local insurers such as APA Insurance Company, Africa Merchant Assurance, Cooperative Insurance Company (CIC), Heritage, Jubilee, Kenya Orient and UAP (Union des Assurances de Paris). These firms offer multi-peril micro-insurance products, which cover smallholder maize farmers for crop yields of below 80% of the expected harvest when lower yields are realized due to climate, disease, insect damage, and other causes.

3.4. CHALLENGES

Technical and Capacity Limitations

- Inadequate contextualized products that respond to the specific needs of affected communities.
- Low or lack of knowledge on climate risk insurance products at the community level is attributed to low levels of financial and climate literacy.
- Lack of adequately trained personnel within the relevant institutions to deliver knowledge on CRI solutions with necessary articulation and simplification
- Inadequate capacity among stakeholders (state and non-state actors) on climate risk insurance at the national and county levels.

Resource Limitations

- Insurance schemes may not reach the most vulnerable as their assets might be too small to benefit from a competitive insurance scheme.
- Lack of financial resources to purchase premiums. Individual and institutional/government incapacities affect climate risk insurance uptake
- Overreliance on external donors in disaster risk management at the national level. Donor funds are not predictable.

Social Cultural limitations

- Climate risk programs especially those dealing with drought risks may face challenges of remote and geographically dispersed population.
- Religious and cultural beliefs may hinder uptake of insurance schemes.
- Inequality, bias, and discrimination in access to capital, finance, credit, and decision-making authority over the household economic decision.

Partnerships and Networking Limitations

- Lack of sustained engagement with community, national and regional level actors in development and implementation of CRI schemes
- Lack of coordination and engagement with the private sector on sovereign products, especially engagement in supporting the protection of government risks through reinsurance and capital markets
- Inadequate CRI networks, coalitions, and alliances lead to inadequate participation of the affected.

Governance and Policy Limitations

- Lack of systemic gender mainstreaming throughout the DRM policies, and plans in Kenya.
- Poor governance structures that discriminate gender, social class, and other societal groupings in decision making, influence, control of governance structure, processes, and institutions.
- Lack of comprehensive Gender Analysis of the CDRFI context at the national level.
- Lack of clear policy and legal framework for disaster risk management in Kenya.

4.0. CLIMATE RISK INSURANCE AS A TOOL FOR THE VULNERABLE

4.1. A HUMAN RIGHTS-BASED APPROACH FOR CLIMATE RISK INSURANCE & EMERGING ISSUES.

Basic human rights such as the right to life, water, food shelter, health, subsistence, or social protection can be affected by direct climate impacts. However, insurance-related instruments can support the protection and promotion of human rights.²² One important aspect in this regard is the accessibility of insurance instruments for the most vulnerable communities. For instance, NDMA (focal point) has ensured the active inclusion of marginalized populations, people living with disabilities, indigenous peoples, women, children as well as migrants in their projects.

Additionally, for CRI to work effectively in the protection of human rights, it requires careful implementation and management through a comprehensive risk management strategy and most importantly, a human-rights-based approach that focuses on the most vulnerable.

Four principles should be followed carefully as illustrated in the diagram below.

²² https://www.germanwatch.org/sites/germanwatch.org/files/Human%20Rights-based%20Approach%20to%20Climate%20Risk%20Insurance_0.pdf

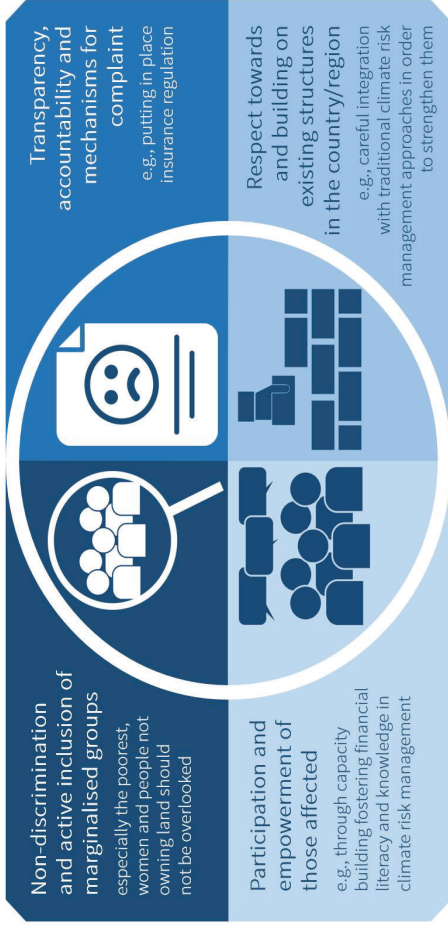


Figure 1: Principles of a human rights -based approach to climate risk insurance and insurance -related instruments. (Source:Gesellschaft für Menschenrechte (modified and extended)

RIGHTS HOLDERS AND DUTY BEARERS.

A key feature of a Human-Rights Based Approach (HRBA) is the recognition of people as individual rights holders, who, by being human, have a claim to certain entitlements. Additional to them are duty bearers, who are legally bound to respect, protect, promote, and fulfill the entitlements associated with those claims. In the context of climate change impacts, rights holders are those affected by the impacts of extreme weather events and slow-onset hazards, which are increasingly frequent and severe. The duty-bearers are, first and foremost, states required to protect everyone within their jurisdiction, and public actors acting on behalf of their governments.

The right to receive relief assistance during disasters is a fundamental humanitarian principle that should be enjoyed by all citizens of Kenya regardless of race, color, or creed. The need for unimpeded access to affected populations is of fundamental importance in exercising responsibility.

The Kenya Disaster Management Policy is a state-led institutional framework to manage disasters, including the promotion of human rights, a culture of disaster awareness, and building the capacity for disaster risk reduction for the most vulnerable in the society. The guiding principles of this instrument are designed to

be informed by both national and international human rights laws and conventions such as the national constitution, the UN Convention on Human Rights, and the Humanitarian Charter.

Rightsholders/beneficiaries

These are the beneficiaries of specific insurance schemes/policies. In the context of Kenya, this refers to the population of the ASALs and flood-prone counties. Pastoral and marginal agricultural households have been named as particularly vulnerable groups. In general, poverty has accelerated food insecurity, limited access to education, healthcare, and the capacity to diversify livelihoods.²³ The national government, for example, has put in place social protection schemes where affected communities from drought shocks receive scalable cash transfers through the Hunger Safety Net Programme.

Civil Society Organizations and Faith-Based Organizations can play an important role in this context, as they can act as advocates of the most vulnerable populations and ensure inclusion of their needs in decision-making processes.

²³ National Drought Management Authority Kenya (NDMA) (2017): Kenya Drought Operations Plan 2018-2020. Available at: <https://www.africanriskcapacity.org/wp-content/uploads/2020/01/Kenya-Operations-Plan-Final..16th-October-Vo2.pdf>

5.0. CONCLUSION

Trends and scenarios show that the impacts of climate change are expected to increase even as countries attempt to put in place the relevant response measures. Disasters associated with the negative impacts of climate change like floods and droughts, which are the most frequent impacts in Kenya, are expected to increase in intensity and frequency posing a threat to lives and livelihoods. Past experiences have demonstrated that the impacts of these disasters exceed the ability of Kenya to respond effectively and limit losses and damages. As the national debt continues to escalate, the ability of the country to access credit to facilitate disaster response has reduced significantly. Based on this, one of the opportunities for disaster risk management is disaster preparedness, which makes climate risk insurance a key instrument for disaster preparedness worth considering.

Insurance-related instruments can limit damages and losses associated with these negative impacts. However, this requires careful implementation and management through a comprehensive risk reduction, risk management, and risk reduction strategy. For effectiveness, the strategy should respect local socioeconomic structures and resilience strategies. Traditionally, most farmers have developed several community-based coping mechanisms for dealing with weather-related risks, such as risk-sharing arrangements.

Insurance solutions should be carefully integrated within traditional approaches instead of weakening them. If not designed and implemented carefully, climate risk insurance may cause more harm than good. For instance, if the most vulnerable people do not have access to insurance due to high premium costs, existing social inequalities will be exacerbated.

As the country anticipates more intense climate disasters, especially in the Arid and Semi-Arid Lands which cover 84% of Kenya's landmass considered more vulnerable, the country and communities should consider climate risk insurance towards reduced poverty, hunger, and vulnerability for the poor in Kenya's most vulnerable areas.

6.0. RECOMMENDATIONS

1) National Government.

- Develop an elaborate policy, legal and institutional framework on disaster risk management to facilitate better coordination of disaster preparedness and response based on the existing strategies and CRM approaches.
- Ensure there is enough personnel with knowledge on risk management that can be passed down to the target groups and capacity-building activities.
- Develop a common framework for the identification of the most vulnerable whenever there is a climate-related disaster.
- Ensure that risks of high severity and low frequency are captured in the Climate Risk Management e.g through insurance schemes like the ARC
- Include affected populations (or their advocates) in decision-making processes

2) County Government

- Develop an elaborate policy, legal and institutional framework on disaster risk management at the county level especially in the most vulnerable counties.
- Comply with the legal provision that requires them to set aside resources for disaster risk response.
- Develop a disaster risk management approach that integrates the indigenous risk management mechanisms.
- Include affected populations in decision-making processes

3) Civil Society Organizations and Faith-Based Organizations

- Facilitate inclusion of special interest groups such as women and youth to ensure a widespread of information on the topic.
- Facilitate capacity building and awareness on climate risk insurance.
- Develop advocacy initiatives aimed at the national government towards the purchase of

the ARC policy and better disaster preparedness in the country.

4) Private Sector

- Support innovation programs on climate risk insurance.
- Develop affordable climate risk insurance products that meet the specific needs of vulnerable communities in Kenya.

5) Academia

- Undertake research and documentation on the negative impacts of climate change and indigenous mechanisms for disaster risk management.
- Develop relevant tools needed for effective disaster preparedness and response.

ANNEX: MEMBERS OF THE MULTI-ACTOR PARTNERSHIP

	NAME	ORGANIZATION
1	Crispus Mugambi	Kenya Agricultural and Livestock Research Organization (KALRO)
2	Dickson Githinji	Safe Drive Africa Foundation
3	Nixon Kisaka	K24 TV
4	Evelyne Ochienge	Freelance Journalist
5	Elijah Toirai	Mainyoito Pastoralists Integrated Development Organization (MPI-DO)
6	Frank Msafiri	Suswatch
7	Caroline Kagose	University of Nairobi
8	Peter Oloo	Kenya Private Sector Alliance
9	Sheline Oyoo	ECAS Institute
10	Suada Ibrahim	Red Cross
11	Stella Yamumo	Mtaani Radio
12	Nelson Mutanda	National Drought Management Authority
13	Phantus Wambiya	United Nations Major Group on Children and Youth
14	Rozilla Adhiambo	Inter-Religious Council of Kenya
15	David Njuguna	BBC Media Action
16	Judith Nasambu	Kisumu County Government

17	Meryne Warah	Pan-African Climate Justice Alliance (PACJA)
18	Anthony Blaize	Inter-Religious Council of Kenya
19	Nyangori Ohenjo	Centre For Minority Rights Development (CEMIRIDE)
20	Brian Odeny	Africa Youth Initiative on Climate Change
21	Loko Tache	National Drought Management Authority
22	Clinton Ouma	National Drought Management Authority
23	Harriet Wachira	Transparency International Kenya
24	Fredrick Ouma	Transparency International Kenya
25	Psamson Nzioki	Transparency International Kenya
26	Brian Sengeli	Centre For Minority Rights Development (CEMIRIDE)

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ABOUT TRANSPARENCY INTERNATIONAL KENYA

Founded in 1999 in Kenya, TI-Kenya is a not-for-profit organisation with the aim of developing a transparent and corruption-free society through good governance and social justice initiatives. TI-Kenya is one of the autonomous chapters of the global Transparency International movement that is bound by a common vision of a corruption-free world. The global movement provides a platform for sharing knowledge and experience, as well as developing strategies to respond to regionally distinct patterns of corruption.

The organisation has 20 years experience in governance work at the national and county levels. These include direct engagement with the Government, the private sector, individuals and groups. TI-Kenya uses advocacy as its signature approach; this is complemented by other approaches such as partnerships' development, research, capacity building and civic engagement.

ABOUT GERMANWATCH

“Observing, Analysing, Acting” under this motto Germanwatch has been engaged since 1991 for global equity and the preservation of livelihoods. The politics and economics of the North, with their global consequences, stand at the centre of our work.

The situation of marginalised people in the South forms the starting point for our engagement for sustainable development. The political and globalized market structures of the North, as well as their resource-intensive mode of production, which is now being increasingly imitated, are influencing human lives worldwide.

We advocate for a political, economic, and social framework that can ensure a future for the people of the South, who are being pushed to the margins of society through unbridled globalization and whose very existence is threatened by the loss of their ecological and economic foundations of their livelihoods.

ABOUT THE MULTI-ACTOR PARTNERSHIP

Multi-Actor Partnership (MAP) on Climate Risk Insurance Kenya was created to facilitate the implementation of a partnership project between Gernamwatch and Transparency International Kenya on Partnership for Human Rights-Based Climate Risk Insurance. The partnership draws its membership from organizations and individual experts working on adaptation, resilience, insurance, and disaster management thematic areas. The Partnership is currently coordinated by Transparency International Kenya.



**TRANSPARENCY
INTERNATIONAL
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