



**Speculative Harvests:  
A Political Economy of Insurance  
Schemes for Poor and Small-  
scale Farmers**

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# Climate Change: A Prominent Threat to Agriculture

OXFAM MEDIA BRIEFING

16 September 2022

## HUNGER IN A HEATING WORLD

How the climate crisis is fuelling hunger in an already hungry world



WORLD BANK  BLOGS

Adapting Africa's food system to climate change is an imperative; it's time for action

HOLGER KRAY, CHAKIB JENANE, SHOBHA SHETTY, ADEMOLA BRAIMOH, PAAVO ELISTE & ELLIOT W. MGHENYI | APRIL 13, 2022

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# Insuring Agriculture against Climate Change



**InsuResilience**  
Global Partnership

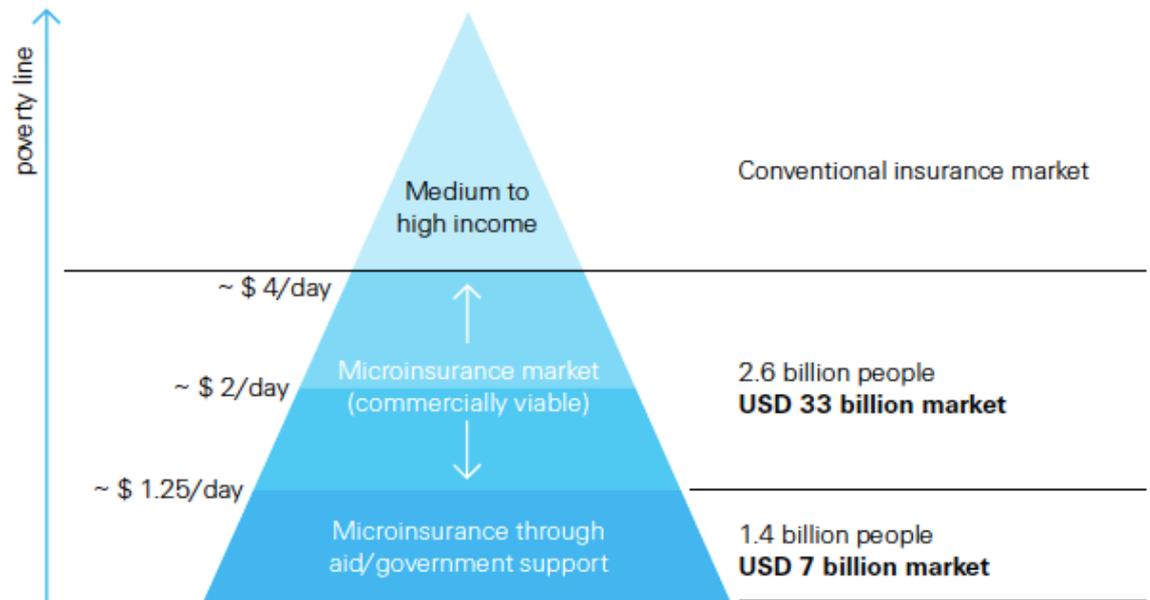
**Global Index  
Insurance Facility**



- Established by G7 countries
- Aims to insure 500 million poor and vulnerable people
- Targeting 80 vulnerable countries
- Now 120 partner organizations
- Launched in 2009
- Facilitated >13 million insurance contracts
- Coverage for more than 65 million policyholders
- ~US\$2 billion in sums assured

# Climate Insurance and the 'Double Bottom Line'

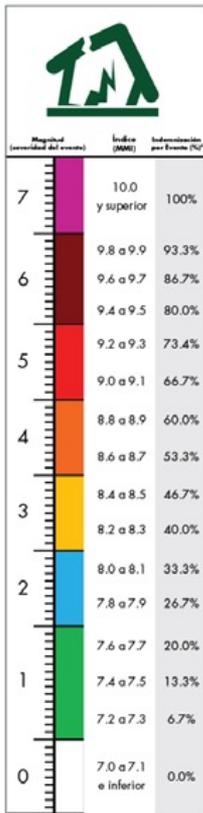
Figure 6  
Potential market estimates of  
the global microinsurance market



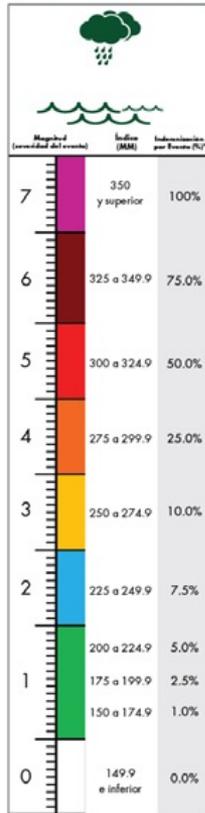
But how to insure the poor?

# The Innovation of Index-Based Insurance (IBI)

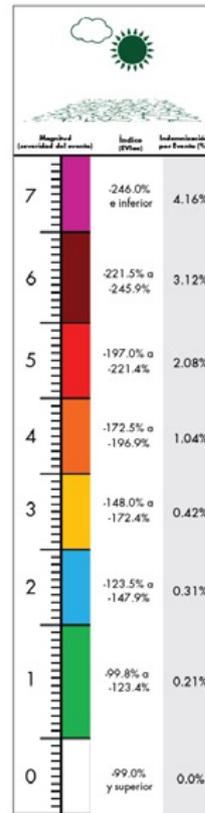
## TERREMOTO



## EXCESO DE LLUVIA



## SEQUÍA



Payouts are based upon the severity of the hazard, not the value of losses

=> IBI is a derivative

# Widespread Support for IBI



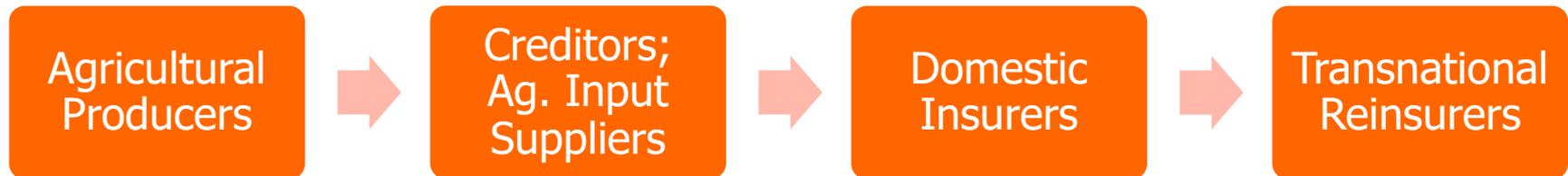
# Widespread Support for IBI

## But.....



- Unclear whether IBI actually benefits poor farmers
- Not commercially viable
  - Demand is weak, limiting scale of programs
    - | Limited trust in IBI
    - | Premiums are often too high
  - Solution:
    - | Financial literacy campaigns
    - | Subsidize premiums
    - | Bundle IBI products with agricultural input purchases and agricultural loans
      - Though bundled purchases are not always informed or willing

# Key Actors in the IBI Value Chain



# Agricultural Producers



- IBI has improved adaptive capacity in Kenya
  - Increased incomes (Jensen et al. 2017)
  - Improved agricultural yields (Sibko et al. 2020)
  - Less likely to sell assets or reduce food consumption (Janzen and Carter 2018)
    - But the magnitude of benefits is small

# Agricultural Producers



- IBI has improved adaptive capacity in Kenya
  - | But the magnitude of benefits is small
- Protections are patchy and incomplete
  - Can only cover limited number of perils
  - Availability often limited to areas with greatest potential for profits
  - Poorer households excluded

# Agricultural Producers



- IBI has improved adaptive capacity in Kenya
  - | But the magnitude of benefits is small
- Protections are patchy and incomplete
- IBI introduces new risks and uncertainties for policyholders
  - **Basis risk:** Possible for policyholders to suffer weather-related losses and not receive a payout
    - | IBI is a derivative, not indemnity insurance
    - | “Village Lottery”

# Agricultural Producers



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  - But the magnitude of benefits is small
- Protections are patchy and incomplete
- IBI introduces new risks and uncertainties for policyholders
  - **Basis risk:** Possible for policyholders to suffer weather-related losses and not receive a payout
- Benefits are often negligible
  - Microinsurance pays micro-benefits

# Banks and other Creditors



- Bundling IBI 'climate proofs' loan portfolios
- Creditors are often prioritized for IBI payouts
- Makes it possible for banks to keep lending to increasingly distressed agricultural producers

# Reinsurers



- Limited number of reinsurers → power to write favorable contracts
- Even though IBI is not profitable, reinsurers are able to capture significant share of subsidies (Johnson, 2022)

# Ramifications of IBI



- IBI Exacerbates climate injustice
  - Tasks farmers who bear little responsibility for climate change to manage the risks

# Ramifications of IBI



- Helps to lock-in land use practices that erode 'natural insurance'
  - IBI linked to increased applications of synthetic fertilizers → degradation of soil and water quality over time
  - IBI linked to use of agrichemicals that harm beneficial organisms
  - IBI encourages use of commercial seed varieties with less adaptive potential than landrace seeds
  - IBI does little to break farmers from agrichemical treadmill and cycles of debt
  
- ⇒ Perpetuates extractive forms of agriculture and vulnerable agricultural producers