



Capacity development in the Index-Based Livestock Insurance project

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Index-Based Livestock Insurance (IBLI) is the world's first index-based insurance designed to protect vulnerable pastoralists in drought-stricken areas from losing their primary asset—livestock. First developed by the International Livestock Research Institute (ILRI) to insure pastoralists in Kenya and Ethiopia, this specialized insurance product has had a considerable impact on the asset base and consumption activities of its intended beneficiaries—nomadic populations living in an expansive area. However, despite its ability to deliver social and economic returns to a population—traditionally neglected by financial services firms—IBLI's uptake has been slower than expected.

This case study demonstrates the opportunities and challenges emerging from the IBLI project. It explains the need to establish the product in locations with large vulnerable pastoralist populations and encourages students to consider and develop an IBLI growth strategy. Through the case study, students will consider various pressures from the market, governments, donors and partners related to IBLI's growth strategy and future sustainability. It was developed as part of a MBA program in microfinance for students interested in the management of international organizations and NGOs. It is also relevant to a range of other courses, including social entrepreneurship, 'bottom of the pyramid' expansion strategies, or introductory finance.

Context

The case study begins in East Africa, where an agricultural economist introduced a novel financial technology designed to help livestock herders living in

some of Africa's harshest regions. Andrew Mude and his ILRI team of scientists lead the innovative IBLI project, which helps herders recover from severe droughts that devastate livestock assets and routinely leave pastoral communities destitute; livestock are critical assets for 'pastoralists', who depend on their animals, and regularly move hundreds of kilometres with their stock to track new pastures and water resources.

As one of humankind's oldest forms of production, these communities produce food in otherwise unyielding environments. However, regular droughts in the Horn of Africa account for 75% of livestock deaths and routinely devastate pastoral communities, especially as the average herding household holds 100% of its productive assets in the form of livestock. Mude's ambition has been to find risk management strategies focused on providing complementary services that enhance pastoralist livelihoods.

IBLI represents an exciting innovation by offering insurance to vulnerable rural smallholder farmers and livestock keepers and potentially reducing the climate-related risks they face. Initial analyses of IBLI projects have shown that insured households experienced: a 25% reduction in likelihood of poor nutrition; a 36% reduction in 'distress sales' of livestock (selling livestock to provide quick income in times of hardship); and a 33% reduction in reliance on food aid when compared to uninsured households. These initial results suggest that IBLI provides a valuable safety net for vulnerable families, protecting them from having to take drastic measures during droughts.

After the Kenya and Ethiopia launches in 2010 and 2012, the IBLI project has, however, experienced growing pains. Despite evidence of its effectiveness as a social welfare program, sales have been slow. This is likely due to a number of factors, including challenges with the insurance partners that implement the project and working with a clientele that can be difficult to reach and unfamiliar with IBLI's benefits.

Mude and his team now need to decide how to further develop the IBLI project. In team discussions, Mude recognized that all team members want to ensure IBLI's growth and success, but they hold differing views about how that should be accomplished. The goal is clear: to grow IBLI. But when and how should this growth take place?

Mude feels torn between two broad strategies: deepening the project within Kenya or broadening it out to new geographical areas. Much needs to be accomplished in

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Capacity development is a prominent feature of ILRI's strategy. This refers to the intentional and purpose-driven efforts to increase stakeholder capacity to undertake and use research to generate development outcomes and scale up in a sustainable manner. The ILRI Capacity Development Briefs highlight the depth and breadth of these ILRI and partner activities, and are circulated to contribute to improved practices and better lives through livestock. The briefs are purposely kept short and provide 'snapshots' of the topics they cover.

Kenya, and the government there intends to introduce short-term insurance subsidies. Focusing on Kenya would also help develop a sustainable model that could be scaled up to new areas. However, many donors and team members are eager to expand the project to new countries with large, vulnerable pastoral populations.

As the ILRI senior management team gathers to plan its 2015–2017 cycle, it is time for Mude to present a clear direction for the project, but being either overzealous or overcautious could harm IBLI. How should he proceed?

More information

IBLI case study website: <http://iblicasestudy.info>

Related blog post: <http://news.ilri.org/2015/01/06/case-study-on-the-first-insurance-for-africas-camels-cows-sheep-and-goats>

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