



De-risking, inclusion and value enhancement of pastoral economies (drive) project in Kenya

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Abstract

DRIVE is a regional financial intervention project being implemented in four Horn of Africa (HoA) countries as part of building resilience to climatic shocks, facilitating trade and supporting livestock value chains within the rangelands. The project objective is to protect pastoral economies against drought risk, increase financial inclusion of pastoralists and better connect them to markets and to facilitate livestock trade and upgrade livestock value chains by mobilizing private investments. The project has two components: one is to support the provision of an integrated package of financial services to build climate resilience including drought index insurance, savings incentives and manage digital payment, and the other is to better include pastoralists in the livestock value chains and facilitate trade and de-risk private investments in the livestock value chains. The project supports four priority areas including: pasture production and conservation, livestock breeding of cattle, sheep and goats, livestock finishing and value addition. To ensure sustainability, the project is private sector led, with regional implementation via local private sector players and international reinsurers, that are constituting pastoralist groups around economic activities to have access to products and services for ownership and alignment to the project objectives. Extensive lessons were learnt from current and previous drought schemes. So far, 186,903 small scale pastoralists have bought USD 4.08 million worth of insurance premiums covering 673,986 Tropical Livestock Units (TLUs), and fourteen private sector investments worth USD 8.9 million have been approved for financing. The project has made livestock insurance payouts of USD 4.94 million to the pastoralists via mobile money transfers.

Introduction

The Horn of Africa (HoA) includes the eight countries that are members of the Intergovernmental Authority on Development (IGAD) namely Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan and Uganda. Most of these countries are amongst the poorest and most fragile regions in the world, where one third of the population lives below 1.9 dollar a day (HOA REM, 2021). In the eight HoA countries, one

fifth of the total population is made up of pastoralists or agro-pastoralists, i.e., around 50 million people. Their main source of livelihood is the rearing of livestock, mostly in open grazing rangelands in the semi-arid areas. Several countries have come together to strengthen regional cooperation and address global challenges within the “Horn of Africa Initiative”. The region is exposed to disasters, amplified by climate change, and recurrent severe droughts are a key factor for poverty and conflicts in pastoral economies. Droughts degrade rangelands, deplete livestock, and lead to underinvestment. Underinvestment lowers pastoral productivity and holds pastoralists in a poverty trap. Pastoralists move across national and clan borders in search of greener pastures and the pressure on scarce resources exacerbates conflicts. About 29 percent of the total land area in Ethiopia and 40 percent in Kenya is classified as degraded. However, such degradation is caused by growing population numbers, land use for economic development, and climatic impacts.

The economies of countries in the HoA are highly dependent on pastoralism and livestock production as a source of livelihoods, income, and contribution to GDP. The impacts of the COVID-19 pandemic have been severe and compounded by other shocks. The regional livestock trade is significant but mainly unrecorded and focused on live animals. Livestock trade represents one of the few economic success stories in the Horn of Africa (Little, 2020).

The livestock value chains are dominated by traders, with limited benefits going to the pastoral producers. Livestock sales are often influenced by ethnic and family ties, due to the uncertain business environment, the absence of formal systems of credit enforcement, weak infrastructure, limited market support services and prevalent insecurity in pastoral areas (HoA REM, 2021). Women are highly engaged in the pastoral economy, as labourers, consumers, and producers, both for markets and their households. Access to formal financial services and credit for pastoral producers is limited

The project development objectives are to enhance pastoralists' access to financial services for drought risk mitigation, include them in the value chains, and facilitate the livestock trade in the Horn of Africa. Compagnie De Réassurance De La Zone Préférentielle (ZEP-RE), PTA Reinsurance Company and Kenya Development Corporation (KDC) are the project Implementing Partners for component 1 of De-risking pastoral production through a package of financial services and component 2 Part 1 of Promoting livestock value chains through trade facilitation and private sector support respectively while the State Department for Livestock Development is the Implementer of component 2 Part 2 which involves supporting management of the project and guiding day-to-day operations of DRIVE project. The project period is October 2022 to September 2027

Methods

In Kenya, the project targets 21 ASAL counties of Turkana, Marsabit, Isiolo, Laikipia Mandera, Wajir, Garissa, Tana River, Taita Taveta, Kilifi, Kwale, Lamu, Meru (Meru North sub county), Tharaka Nithi, Samburu, Baringo, West Pokot, Narok, Kajiado, Makueni and Kitui where pastoralism type of farming is done and drought Index based Livestock Insurance (IBLI) products are viable.

Training on the IBLI product has been conducted each season, equipping these stakeholders with essential knowledge on index-based insurance principles, premium structures, payout mechanisms. Specifically, promotional campaigns and outreach efforts are used to educate pastoralists how insurance could help them cope with drought by helping them purchase fodder, feed supplements, water, and vaccines during drought thus potentially keeping more animals alive and maintaining their livelihoods and leveraged community meetings, radio broadcasts, digital platforms, and printed materials to ensure that even

About 240,000 pastoralists from 21 project counties have been sensitised and registered in project financial digital inclusivity platform. Insurance companies assess livestock insurance payouts using Index-Based Livestock Insurance (IBLI) product that has been designed to protect against prolonged forage (pasture) scarcity. This index is typically derived from satellite data monitoring vegetation, and the pay-out is triggered when the index falls below 25th percentile of historical data indicating a potential livestock mortality risk due to drought.

Trade facilitation and private sector support is done competitively by KDC and awarded to successful implementers after thorough assessment of their business plans

Results

The project has conducted livestock insurance sales to pastoral beneficiaries in the 21 project counties and cumulatively under Component 1 on pastoralist access to financial package for drought resilience the following milestones have been achieved in the 21 counties where livestock insurance has been implemented in the four livestock insurance sales seasons:

Out of the 240,000 pastoralists registered, 186,903 agreed to buy livestock insurance which is a good response. For sustainability, the subsidy reduces annually so that by the end of the project the pastoralists can buy the insurance on their own

Since the project's inception, the financial package under Component 1 has been successfully delivered to pastoralist communities in the 21 counties for five consecutive seasons of OND 2022, MAM 2023, OND 2023, MAM 2024 and OND 2024. This initiative has played a crucial role in enhancing the financial resilience of pastoralists by providing them with essential support mechanisms such as insurance, savings, and market access. Over this period, the project has sold 186,903 policies with 673,986 Tropical Livestock Unit (TLU) Insured (TLU= Cow equivalent) insured in the process which have positively impacted approximately one million pastoralists and their families' improving their ability to manage financial risks, sustain their livelihoods, and adapt to climate-related challenges. The project has subsidized livestock insurance premium at a rate of 70% - 80% where pastoralist have benefited from a total subsidy of USD 13.9 million and to this end the pastoralist have paid their 20%-30% of the livestock insurance premium totalling USD 4.08 million. The pastoralists who have procured livestock insurance for 3 TLUs and above have benefited from a one-off enrolment saving bonus (USD 50 per beneficiary) totalling to USD 7.3 million and the project has made livestock insurance pay-outs of USD 4.94 million to the pastoralist. The total benefits in terms of livestock insurance premium subsidy, enrolment saving bonus and livestock insurance pay-outs pastoralist in the 21 counties added up to USD 26.2 million

As at 31st January 2025, KDC had already disbursed loans worth USD 2,558,057 to successful investors, while 62 projects are pipeline Investment projects totals to USD 51,614,137

The Project Implementation Unit (PIU) carried out its coordination role as well as capacity building in collaboration with counties and relevant stakeholders. The project will subsidize insurance premiums up to the end of the project in the year 2027. The provision of index drought insurance products is being done commercially by roping in private sector insurance providers who will be able to cover their cost of operations and run profitable business. The project supports the creation of necessary awareness on insurance and the number of pastoralists buying livestock insurance and thus the using of other financial services like savings and credit is expected to increase. A strategy has been put in place where supported pastoral households under livestock insurance are linked to better livestock markets which will provide them with an opportunity to sell their livestock for better prices, thus increasing their income. As household income increases, they can contribute more for insurance premium payment reducing the fiscal burden from

the government. The demand for formal financial services among the pastoralist is expected to go up with increased awareness on the DRIVE project interventions.

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