DEVELOPMENT AND IMPLEMENTATION OF AGRICULTURE INSURANCE METHODOLOGY IN TANZANIA

CONCEPT NOTE
1. Project Country and Title

- **Project Country**: Tanzania
  Coordinating entity (TIRA) is based in Dar es Salaam, and is the Insurance Regulator for Tanzania.

- **Project Title**: Development and Implementation of Agriculture Insurance in Tanzania.
  This project is new in Tanzania.
2. **Primary Type of Deliverable**

The Tanzania Insurance Regulatory Authority (TIRA) is requesting Technical Assistance and financial support to assist in the Development and Implementation of Agriculture Insurance Strategy in Tanzania. This request builds on the report submitted in February 2011 by the agricultural insurance working group tasked by the Prime Minister’s Office to investigate introducing agriculture insurance in Tanzania.

The specific activities proposed are the following:

i. **Assessment, preparation and capacity building**: Assessment and evaluation of needs and potential approaches to implementing large scale Agriculture Insurance in Tanzania;
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ii. **Preparation of business plan:** Development of an agriculture insurance strategy and proposed plan of action for implementing best Agricultural Insurance Practice in Tanzania, to be prepared for consideration of Ministry of Finance and agricultural sector lead Ministries. Depending on the study findings, the business plan could target specifically crops, livestock, forests, fisheries and hunting;

iii. **Develop legal and regulatory framework** for agriculture insurance fund;

iv. **Empowering Institutions** responsible for provision of weather data;

v. **Empowering farmers, insurers, banks, financial institutions and policy makers** on agricultural insurance;

vi. **Create public awareness** on agricultural insurance;
vii. Support the implementation of the agriculture insurance strategy through:

• establishment of a Technical Support Unit for development, monitoring and evaluation of the project;

• investments in data market infrastructure for insurance indices;

• investments in risk financing; and

• capacity building of the Ministry of Finance and agricultural sector lead Ministries and Tanzania Development Bank (TADB), regulatory staff, and other institutions involved in agricultural insurance, insurance market participants, distribution networks and other key stakeholders in Agricultural Insurance both Tanzania Mainland and Tanzania Zanzibar.
3. Background

The Applicant

TIRA is a Government Agency established under the Ministry of Finance. It runs under the direction of Commissioner of Insurance who reports to a Board of Directors. The Mandate of TIRA (as stipulated under Section 5 of the Insurance Act No: 10 of 2009), extends to Zanzibar where functions of the Authority are under the supervision of the Deputy Commissioner of Insurance.

The Authority has independent legal standing and its objectives are:

• Transforming the insurance industry into a sound and competitive agent for national savings mobilization and development investment channeling.

• Promoting the insurance sector as an effective catalyst for enhanced economic growth.
• Strengthening and promoting the industry health and orderly growth through establishment of operating performance standards and prescriptions.
• Exempting the insurance industry from undue interferences.
• Developing efficient, cost effective, comprehensive and customer driven insurance services in Tanzania.

Meanwhile, TIRA’s **functions** include:
• Registration of insurance agents.
• Registration of insurance assessors and loss surveyors.
• Registration of insurance brokers.
• Registration of Insurance companies.
• Inspection of all insurance players.
• Handling insurance complaints from the public.
• Creation of insurance awareness to the Public.
Given that TIRA’s business involves promotion of the insurance sector as an effective catalyst for enhanced economic growth in Tanzania and this forms the core of its activities, on this basis, TIRA requires to adopt an integrated approach to championing the development and implementation of a framework for best practices of Agricultural Insurance in Tanzania.

**Justification**

TIRA in collaboration with the Ministry of Finance are the institutions which are charged with the responsibility of coordinating policy and other matters relating to insurance in the United Republic of Tanzania. As such, it is imperative that TIRA put in place a credible and comprehensive Methodology to guide the industry and therefore assist the Government to develop Agricultural Insurance practices in Tanzania.
However, TIRA faces a complex environment with regards to:

- Development of Agricultural Insurance Regulatory Framework in Tanzania
- Coordinating with Ministries and other government agencies which may have roles to play in implementation of large-scale agricultural insurance in Tanzania, and identifying how these roles would be financed and implemented
- Develop an Agriculture Insurance Market in Tanzania
- Distribution channels for this unique type of Insurance
- Investments/Assets required to support the business
- Operations
- Human resources
- Capital
- Insurance & Reinsurance companies’ readiness to offer Agricultural Insurance products.
The proposed Technical assistance for the introduction of Agriculture Insurance practices will help TIRA approach this inter-related mix of forces and form operational decisions in an integrated fashion. This will enable TIRA’s staff and Management acquire a sound knowledge for effective regulatory capacity on Agriculture Insurance. On one hand but on the other hand, develop smart regulations to facilitate a smooth take off of Agriculture Insurance practice in Tanzania.

Prior to this initiative, a number of efforts with assistance of the International Finance Corporation, the private sector arm of the World Bank Group have been made by the industry to pilot private sector led Crop Weather Index Insurance in Tanzania however are facing challenges due to lack of reliable service delivery channels and the fragile economics of agricultural insurance. MicroEnsure are developing several pilots, distributing through contract farming operations and rural banks in Tanzania targeting key crops such as cotton, sunflower, beans and maize. One example links weather insurance to credit to sell to cotton farmers through the Tanzanian Cotton Board. However, with a new political will on Agricultural sector in Tanzania and the Agriculture Insurance Development Program (AIDP) approach of building agriculture insurance Public Private Partnerships (PPPs), the risk appetite for Agriculture Insurance has been on the increase.
Therefore, the proposed project will help the Government manage expectations of the majority rural sector Tanzanians who have been eager to engage in Agricultural activities, provided the environment is made conducive for them.

In designing the project, TIRA considered the need for insurance industry to support Government’s efforts to revive the Agricultural Sector in Tanzania but also to project a credible and effective Methodology for safeguarding the interests of all key stakeholders of Agriculture Insurance in Tanzania.
Funding Sources

- Development partners are able to support the initial activities through mobilization of resources to support the implementation of Agriculture insurance in Tanzania.

- MOF/TIRA will reestablish the agricultural insurance working team formed in December 2010 at the request of the PMO, and comprising members from the public and private sector. The working team will lead an updated assessment of the potential options for a Public Private Partnership in agricultural insurance in Tanzania, with technical support from the AIDP. The assessment will build on the February 2012 report entitled 'A proposed methodology for developing agri-insurance in Tanzania' and cover both potential policy options, products/programs, and institutional structures. Under the Access to Finance component of the Private Sector Competitiveness Project- Additional Financing, the following activities will be financed: working team meetings through the assessment period (approximately three meetings expected over six months); a dissemination workshop for public and private sector stakeholders hosted by MOF/TIRA to present the initial findings of the assessment; a local consultant will be hired to coordinate the activities of this working group and to contribute to the assessment; and logistical services.
• TIRA’s own funds for provision of office space, salaries to staff and other miscellaneous expenses.

The overall project objective
The proposed project’s overall objective is to develop and implement an Agriculture insurance strategy in Tanzania and to implement capacity building activities within TIRA, Ministry of Finance and agricultural sector lead Ministries and Tanzania Development Bank (TADB) regulatory staff, and other institutions involved in agricultural insurance, insurance market participants, distribution networks and other key stakeholders in Agricultural Insurance both Tanzania Mainland and Tanzania Zanzibar, thus providing the insurance industry with a sound platform for building an effective and integrated framework for insuring agricultural risks in Tanzania, based on a PPP approach.
The Expected Benefits

By developing an Agriculture Insurance strategy in Tanzania and building capacity for Government Agencies, the following benefits are expected to accrue:

• Broadening of Insurance Industry’s performance in the building of the economy, particularly in the rural sector.
• Improving Insurance industry’s Public image.
• Supporting the resilience of rural finance by protecting the balance sheet of rural banks.
• Aligning insurance with other financial sector players in enabling the poor to access loans for agricultural activities
• Improving food security in Tanzania by supporting agricultural productivity.
• Provide government with more control over budget, reducing reliance on slow, unpredictable donor funding.
• Reduce the vulnerability of rural farmers, increasing their resilience to shock events.
Measures to sustain the benefits

To ensure that sustenance of benefits is achieved through the implementation of the proposed Agriculture Insurance strategy, the following measures will be taken:

TIRA management will entrench an enabling regulatory and policy framework for Agricultural Insurance in Tanzania. TIRA will keep abreast of new developments in Agricultural Sector and ensure that its staff is provided with adequate and continuous training to enhance their capabilities.

Key project outputs, outcome indicators, and beneficiaries

a) The following outputs are expected from the project activities:
Phase 1 (assessment, preparation and regulatory capacity building):

- A fiscal, market and impact assessment report which would specify three or more options for large-scale public private partnerships in agricultural insurance. This work will be funded by a Development partner. The report shall contain:
  - High level summary of the agriculture risk assessment and how agricultural insurance could fit into a holistic approach to agriculture risk management
  - A concise summary of the three (or more) proposed options
  - A high level comparison of the options in terms of their fiscal cost, market sustainability and welfare impact.

- A country workshop with key stakeholders and decision makers, including the Ministry of Finance, the Ministry of Agriculture, the Bank of Tanzania, key private sector players and donors. The outline for three options for large scale agriculture insurance PPPs will be presented, discussed and developed. At this point a decision shall be made as to whether agriculture insurance shall be prioritized in the country. Should this be the case, phase 2 shall commence.
Phase 2 (preparation of business plan under AIDP):

- An agriculture insurance strategy for Tanzania
- A detailed business plan for the development of large scale agricultural (and depending on the findings of the fiscal, market and impact assessment) possible livestock insurance PPP in Tanzania for consideration of the Government of Tanzania
- A workshop involving key stakeholders and decision makers including the Ministry of Finance, the Ministry of Agriculture, the Bank of Tanzania, key private sector players and donors, where a decision will be made on whether to implement the finalized business plan developed by TIRA with assistance from a Development Partner. Should a decision be made to implement the business plan, phase 3 of the operational strategy shall commence
Phase 3 (implementation):

- The Government of Tanzania shall implement the Agriculture Insurance Strategy and the multiyear business plan to develop a large-scale PPP in agricultural insurance. At this point, a decision shall be made whether to establish a cross ministerial taskforce to oversee the implementation of the plan. This task force would have representatives from the Ministry of Finance, Minister of Agriculture, the Bank of Tanzania, and be championed by a senior official at TIRA. The business plan shall include investments in key aspects of agriculture insurance market infrastructure (for example a technical support unit, the data market infrastructure, a risk financing entity) and technical assistance.
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Phase 1-3 (Technical Assistance with Strengthening the Legal and Regulatory Framework and Capacity Building):

• Review of the existing legal and regulatory framework, supervisory practices and tools used in Tanzania.

• Collection of information on the expectations and concerns of the players involved and the local environment and background.

• Assistance to the TIRA in the drafting (if need be) of insurance regulations to support the development of agricultural and weather index insurance.

• Development of procedures and insurance materials (rules and guidelines).

• Training Workshops/Capacity building seminars on agricultural and index insurance and their overall supervision.

• Awareness raising events for representatives of TIRA, Ministries, the insurance industry, farmers and livestock breeders’ organizations, to enable them to take part in the development of agricultural and index insurance in TZ.

• Monitoring and evaluation through the development of supervisory tools that will allow overseeing the implementation of any new regulation.
b) Expected outcomes include:

• Growth in insurance penetration in the rural sector – measured by number of policies/premium per capital.

• Greater acceptance of Insurance by the Government and the general public as a viable Risk Management tool – measured by the extent to which Banks and Micro-finance institutions will be ready to issue loans to farmers against Agriculture Insurance covers.

• Enhancement of TIRA’s regulatory capacity measured by its capacity to issue circulars and guidelines on Agriculture Insurance practices.

• Improve livelihood of farmers for targeted agricultural commodities in targeted communities

• A strengthening of the balance sheets of rural banks to agriculture shocks
c) Target Beneficiaries:

TIRA will be the primary beneficiary of the proposed project.

There will also be downstream benefits to Insurers, Brokers and agents who will see an expanded market for their business activities. Other beneficiaries are the Stakeholders of Agricultural Sector whose contribution to the value chain will be enhanced by Insurance.
• **Project Management**

For effective development and implementation of Agriculture Insurance Methodology, a champion of the project will be required, able to coordinate with Ministries and other government departments and to articulate a clear vision for agricultural insurance to public and private sector decision makers in Tanzania.

It is envisaged that TIRA will provide a focal point whereby this role will be fulfilled by its top Management under the supervision of the Commissioner of Insurance.

During the first two phases of the project TIRA will work closely with the development Partner who will support: (i) legal and regulatory capacity building; (ii) the development of an agriculture insurance strategy, and; (iii) a detailed proposed plan of action for implementing large scale agricultural insurance program through a Development Partner executed Technical Assistance.
• Implementation Plan
The first and second phase of the project would be led by TIRA with Technical Assistance from the Development Partner. The third phase of the project would be led by the Government of Tanzania

• Project Timetable and milestones

The first phase of the project is expected to take approximately nine months and will close with the following milestones:
A detailed fiscal, market and impact assessment report with at least three options for large scale PPPs in agriculture insurance

A stakeholder workshop presenting the three options to the Ministry of Finance, agricultural ministries, Bank of Tanzania, insurance companies, rural banks, and donors.
The **second phase** of the project will take approximately **three months** and will close with the following milestones:

- A draft implementation plan and agriculture insurance strategy.
- A workshop where business plan and strategy are presented to Ministry of Finance, agricultural ministries, Bank of Tanzania, insurance companies, rural banks, and donors
- Refinement of the business plan with input from the key stakeholders

- The **third phase** of the project will depend on the business plan developed. Time to launch of the first agriculture insurance pilot program could be between 6 – 18 months. Total time for phase 3 could be **3+ years**.
## Proposed Timetable for Technical Assistance:

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<th>Phase</th>
<th>Stage</th>
<th>Timeline</th>
<th>Notes</th>
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<td>Phase 1</td>
<td>Project inception</td>
<td>Upon receipt of formal country request for assistance and securing of the project team</td>
<td>Once the project team has been secured for Tanzania, work on the fiscal, market and impact assessment will begin upon receipt of formal request for the technical assistance from the relevant country.</td>
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<td>First mission</td>
<td>Project inception + 6 weeks</td>
<td>Sufficient lead time must be allowed for pre-research and to ensure that local stakeholders in Tanzania are identified and available for meetings. This will ensure a productive two weeks on the ground.</td>
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<td>Second mission</td>
<td>Project inception + 12 weeks</td>
<td>Six weeks following the end of the first mission will be needed to synthesise the findings of the first mission and to arrange necessary follow-up meetings.</td>
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<td>Stakeholder workshop to present AIDP fiscal, market and impact (FMI) assessment to key stakeholders (third mission)</td>
<td>Project inception + 22 weeks at the earliest – later depending on the availability of key workshop stakeholder</td>
<td>The timing of the closing workshop will be selected around in-country and donor commitments, to ensure that attendance of key stakeholders is possible. This will happen sometime after the 22nd week and delivery of the draft report. A decision will be made whether to prioritize agriculture insurance in Tanzania.</td>
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Phase 2
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<th>Preparation of agricultural insurance strategy and business plan</th>
<th>FMI workshop + 6 weeks</th>
<th>Following the closing workshop, the team will support Tanzania in preparing a 5+ year agriculture insurance strategy and business plan. This will be circulated among stakeholders for two rounds of comments before finalisation.</th>
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<tr>
<td>Stakeholder workshop to present business plan (fourth mission)</td>
<td>FMI workshop + 8 weeks</td>
<td>A stakeholder workshop shall be held around in-country and donor commitments to ensure that attendance of key stakeholders is possible, which will happen sometime after 6 weeks from the closing workshop. A decision will be made whether to implement the business plan for agriculture insurance in Tanzania.</td>
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Phase 3
| Initiation of business plan | Stakeholder workshop + 10 weeks | Once the business plan is finalised, implementation will shortly follow. Exact timelines will vary depending on conditions in Tanzania, but it is expected to be approximately 10 weeks after the closing workshop. |
| Initiation of TA program | FMI workshop + 10 weeks | The TA program to be implemented under the business plan shall commence building capacity of institutions in Tanzania. How this TA shall be delivered shall be detailed in the business plan, and could be though on-site training, workshops, site visits etc. |
| On-going monitoring and meetings to review agriculture insurance strategy | Project inception + 3-5 years | The M&E framework shall provide a feedback loop of results which will be used to adjust the ongoing implementation strategy. |

Legal/regulatory support will be provided throughout phases 1-3.
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<th>Risk</th>
<th>Mitigant(s)</th>
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| • Government/donors have other priorities and are not able to provide the public goods and market infrastructure necessary for a large scale market in agricultural insurance | • Activities specific to agricultural insurance to be suspended after Phase 1 if willingness is not sufficient.  
• Donors may be willing to fund the costs of these large scale investments.  
• Legal and regulatory support may continue if requested. |
| • Timeframe inadequate to produce desired results                    | • Enhanced planning and support with active involvement by TIRA.                                                                          |
| • Non-acceptance of concept (resistance to adopt new products)      | • Early buy-in and inclusion of key stakeholders in the process, particularly the Ministry of Agriculture, Ministry of Finance, the Bank of Tanzania, Insurance Market players, management and staff of TIRA, as well as effective and timely reporting of project progress. |
1. **Budget Estimates**

**Phases 1 & 2**

Technical Assistance from Donor Community under phase one and two of the project will be provided using financing available in their managed trust funds. It will cover the costs of a team comprising of nine experts.

- Legal and regulatory technical assistance to TIRA will require up to $500,000, depending on the workplan to be agreed between TIRA and the Donors.

- Technical assistance to develop a large scale public private partnership in agricultural insurance will be financed by Donors up to $500,000 for Phase 1 & Phase 2 of the engagement.
Phase 3

It is not possible to provide budget estimates for phase three of the project at this stage, as currently we are unaware of the structure of the PPP and the required investments. However, a comparable project implemented for herders in Mongolia, with total support in the form of grants and subsidized loans from the World Bank and donors of approximately USD 20 million. This project is expected to last approximately 10 years and for the 2011-12 agricultural year 10,900 herders, which equals 9.4% of all herders in Mongolia, were covered by the index-based livestock insurance program.
2. **Beneficiary Contribution**

The Government of Tanzania, through Private Sector Competitiveness Project- Additional Financing, will cover the following costs estimated in the range of $100,000:

- Working team meetings through the assessment period (approximately three meetings expected over six months);
- A dissemination workshop for public and private sector stakeholders hosted by MOF/BOT/TIRA to present the initial findings of the assessment;
- A local consultant to coordinate the activities of this working group and to contribute to the assessment; and
- Logistical services (office space, communication services, secretariat support, and transport from local hotel to TIRA office for the team of experts)