SCBF SWISS CAPACITY BUILDING FACILITY
Innovating Financial Inclusion

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Agricultural Microinsurance and Risk Management by RMCR in Mali

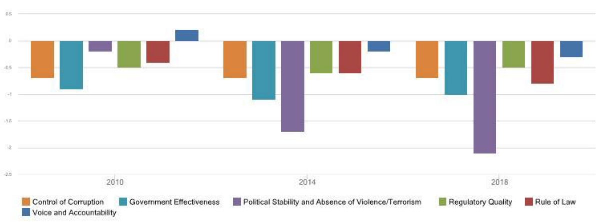
1. DEVELOPMENT RELEVANCE

In 2018, Mali ranked 182nd out of 188 countries on the United Nations Human Development Index. Poverty is much lower in urban areas, with 90% of all poor living in rural areas and concentrated in the south, where population density is highest. Drought and conflict have only increased the incidence of poverty. The extreme poverty rate rose from 47.8% to 50.4% between 2011 and 2013, as a result of the security crisis.

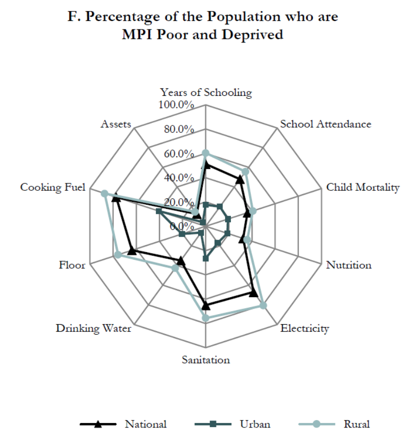
Agriculture is the dominant economic sector in the country, with cotton production, cattle and camel herding, and fishing among the major activities. However, primary sector growth fell from 7.6% to 4.8% between 2016 and 2017, owing to decreased rainfall. The tertiary sector has continued to grow as a result of renewed dynamism in the telecommunications sector, which has grown at a rate of around 6% since 2014 representing today 5.3% of the GDP.

Table 1[i]: Population and economic indicators	
Population in million *(2018)*	*19.1*
GDP growth *(2018)*	**4.9%**
Inflation *(2017)*	**1.8%**
Trade balance (% of GDP) *(2018)*	**-16.7%**
Foreign direct investment (net) (% of GDP) *(2018)*	**2.1%**
Net ODA received (% of GNI) *(2017)*	**9%**
Remittances received (% of GDP) *(year)*	**5.1%**
Economic Freedom Index[ii] (Rank among 186 countries) *(2019)*	**103**
Poverty indicators	
GDP per capita (USD) *(2018)*	**901.4**
Gini Index (0= equality 100= inequality) *(2009)*	**33.0**
International poverty rate (*2009;* at 1.90 USD/day)	**49.7%**
National poverty rate *(2009)*	**41.1%**
National rural poverty headcount rate *(year)*	**No data**

Governance indicators chart[iii], *(Mali, 2010-2014-2018)*



Multidimensional poverty index chart[iv], *(Mali, 2012-2013)*



Financial sector context

Mali's financial sector is shallow, with low levels of intermediation and limited access to finance.

Banking dominates the Malian financial system; there are 15 local banks and 3 financial institutions active in the country. The seven biggest banks had 82% of all assets. Seven international banks are very well set up in the country, actively participating to its financial drive.

There are 163 licensed MFIs in the country, but the microfinance market in Mali is still under the domination of three major actors, Kafo Jiginew, Nyesigiso & CAECE-Jigiseme. Since 2012, the microfinance sector has largely suffered from the country's instability and several institutions stopped the operations due to lack of security, growing clients' insolvency and an overall absence of external funding. According to the Global Findex, in 2014, only 20.1% of adults had an account (13% at a financial institution).

47% of Malian people opened an online account for e-money services, but in the end, only 20% of them use it frequently. The main player in the mobile banking sector is Orange money.

Partner financial institution

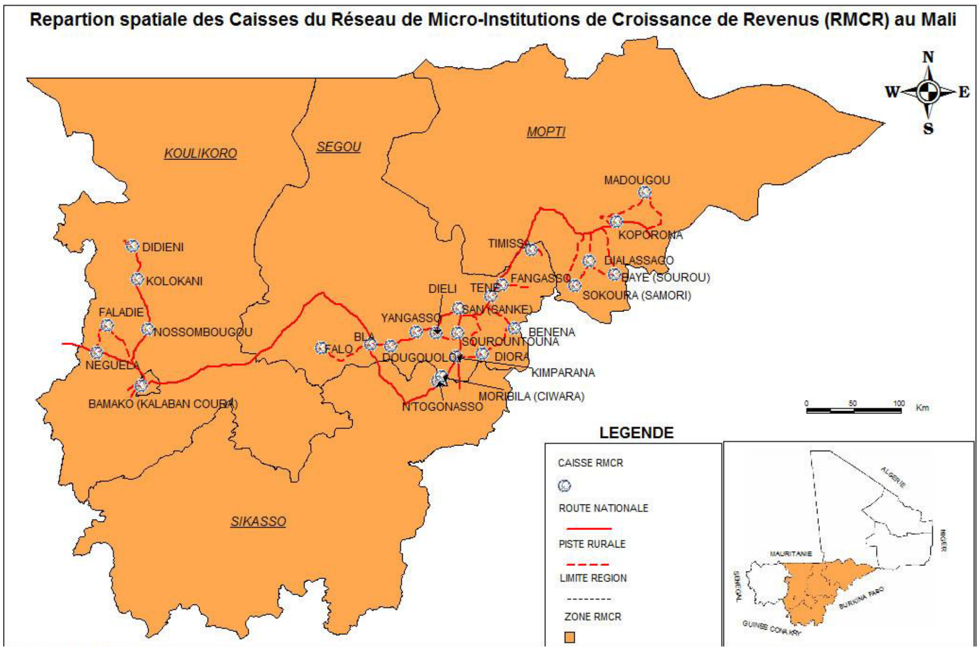


Figure 1 - RMCR network as of May 2017

The Réseau de Micro Institutions de Croissance des Revenus (RMCR) was created in May 2000 by the local entity of the international NGO World Vision (WVI) in partnership with the Bureau d'Assistance et de Développement Social (BADS) and the Association Malienne des Femmes Protestantes (AMAFEP). For its operational monitoring and strategic oversight, RMCR is placed under the supervision of Vision Fund International (VFI), the umbrella structure of all microfinance institutions of the WVI network. The entity provides technical support and compliance control over WVI's strategy but also proposes financial support.

RMCR mainly offers one solidarity loan (group solidarity or GS of 3 to 9 members regrouped in community groups or CCO of up to 35 members) throughout its branches and a limited number of individual loans. RMCR measures its impact through the number of children who benefit from the financial services proposed to underprivileged families. In September 2019, RMCR served 35'132 borrowers, 98% of which live in rural areas and 46% being women. It has a loan portfolio of EUR 10.8M and EUR 2.1M savings portfolio.

Another important partner was PlaNet Guarantee. PlaNet Guarantee played the role of the microinsurance broker. It designed the crop insurance products, negotiated the agreements with the insurers and trained RMCR staff.

2. INTERVENTION APPROACH

Capacity building needs

The project aimed to improve agricultural risk management for both farmers and the microfinance institution by linking seasonal credit with crop insurance based on weather index and by providing adequate sources of financing to the MFI for such activities. Consequently, the project also aimed to increase access to credit for farmers. Production risk is often cited as a major impediment preventing MFIs and rural banks from lending to smallholder farmers. Index insurance has the potential to overcome this barrier and unlock access to credit for agriculture.

Another key feature of the project is that the Grameen Crédit Agricole Foundation granted a loan to RMCR in order to finance the insurance premium and the insured agricultural loan portfolio. This loan is adapted to the crop cycle and is a new product for the Grameen Crédit Agricole Foundation. RMCR obtained a one –year EUR 200K loan from GCAMF at a concessional rate of 5%.

Main activity areas (goals, targets, resources & time frame) and outputs

The project relied on the expertise and know-how of PlaNet Guarantee, a microinsurance broker who had developed a range of agricultural insurance products for smallholder farmers. The project started with a needs and risk assessment, where PlaNet Guarantee assessed the MFI portfolio and identified its exposure to climate risks. Then, the project brought support to RMCR to define which index insurance products it would distribute, and for what level of guarantees and premiums.

In a second phase, the project prepared and launched the commercialisation of the agricultural insurance products. A training manual was written specifically for RMCR. In total, 65 RMCR's loan officers and branch managers (67% of all loan officers) received two days of training and are now able to inform and raise awareness towards agricultural producers within their organizations about index insurance. Agreements were put in place with the local insurer and three reinsurers (Allianz Re, CICA Re, Africa Re).

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

The project fell far from its objective to reach 1'000 farmers. Only three borrowers purchased insurance. They are all sesame growers, living in the same village. Total premiums amount to XOF 21'600 about CHF 38) and total sum insured is XOF 240'000 (about CHF 419). This situation obliged the partners to re-think the project and the insurance products.

A workshop took place with representatives from RMCR, Grameen Crédit Agricole and PlaNet Guarantee (Sébastien Weber, Africa Director for PlaNet Guarantee and Diakaridia Soumahoro, Mali Coordinator for PlaNet Guarantee) to analyse the reason of this failure and propose a new strategy for the future. The main reasons identified were:

- Price was too high for the clients
- Bad timing: many seasonal loans had already been disbursed when the insurance commercialization started. On top of that, RMCR tightened its credit methodology that year, with the introduction of compulsory credit life insurance (premium around 1% of the loan) and mandatory savings (10% of the loan). Therefore, loan officers had already a lot to do to explain the changes.
- Clients have no insurance experience
- Index insurance products are considered complex by the clients
- Lack of marketing effort

It has to be noted that the field staff considered, that the training they received was good and that they were able to explain the products to the clients. According to the team of RMCR, the loan officers' support to the project was not a major obstacle. GCAMF and PlaNet Guarantee however underlined that the lack of incentives or key performance indicators for loan officers had an impact on their motivation to sell the product.

Figure 2 - Clients at an RMCR branch (copyright: RMCR)

Figure 3 - Clients' meeting (copyright: RMCR)

Partner financial institution/s level

Following the workshop in November 2017 and another meeting in Bamako in February 2018, the following decisions were taken:

- Reduction of the sum insured: only 50% of the credit will be covered by the insurance, in order to half the nominal premium price. The average loan balance in Dec 2017 was XOF 192'179 (approx. CHF 350).
- Introduction of a 10% deductible: in 2017, the product was bearing no deductible, which meant there were many small payments made to farmers. The introduction of a 10% deductible reduces the premium by 40% on average (depending on the product and the zone). The 10% deductible means that losses below the historical reference will not be covered; only losses beyond 10% will be indemnified.
- Early start of the campaign: Unlike in 2017, when the project had to wait for the reinsurers' quotation to establish the premium price, we already knew that the 2018 price will remain constant (2017's quotations were available for several levels of coverage, so even if the product's features were changed this year, we had the capacity to anticipate the impact in terms of price). This allows for a better preparation of the sales campaign. Having product pricing and marketing materials ready well ahead of the season, it is expected to significantly improve the product take-up.
- Individual commercial targets for loan officers: each loan officer will be given a sales target of 15 to 20 insurance policies. As there are 66 loan officers in the field, the total number of policies should reach 1'170.

The sales window is from June (maize and generic products) until the end of August (for the sesame insurance). As a reminder, RMCR had 34'164 rural borrowers in its portfolio in December 2017, so the project targeted a 3.4% penetration rate that year.

However, a few months later, RMCR finally decided to abandon the commercialization of agricultural insurance products. The main reasons behind this decision were:

- The price of the product, which remained too high despite the reduction of the sum insured;
- The remuneration of RMCR, which was too low and hence decreased its incentives to sell the product;
- The lack of a sensitization programme for the clients on insurance, limiting their understanding of and interest in the product and generating a lack of trust on the methodology (index based on satellite measures only);
- The lack of motivation of the loan officers to sell the product. The failure of the 2017 season hampered the motivation of loan officers. Even though individual targets were about to be introduced for the 2018 season, there were still no incentives in place for the loan officers;
- The fact that the product remained voluntary: even with a complete review of the insurance product features, agricultural insurance is hard to sell on an optional basis.
- New commercial priorities for RMCR. Partners in the project agreed that RMCR needed to rethink more deeply its strategy regarding insurance, in accordance with Vision Fund International.

It should also be noted that during the project life, the security context in Mali deteriorated dramatically. RMCR's capacity to keep operating in certain localities was severely affected. Both loan disbursements and payment collection were negatively impacted by the rise of violence and insecurity in the country. This resulted in the deterioration of the MFI's performance, and a strategic reorientation of the institution in terms of geographical footprint. RMCR rightfully decided to focus its attention on these priorities rather than on the insurance project, even though the security context was not the main reason for this strategic change (see above).

Despite its failure to reach the objectives set at the beginning, the project offered valuable lessons, both for the MFI (RMCR) and the investor (Grameen Crédit Agricole Foundation). Even though it was predictable, the pilot revealed to RMCR that offering insurance to its clients is more complex than launching another savings or credit product. The first element to assess is the link between credit and insurance. Most RMCR clients reside in rural areas and many of them depend on agriculture for their income. Insuring harvests is therefore in the interest of both the client and the financial institution. However, the MFI is faced with two options, each with its own challenges:

Figure 4 - San Sanke branch (copyright: RMCR)

- Compulsory insurance: it is a way to achieve scale and protect all the agricultural loan portfolio. However, this option increases the cost of credit, which may drive clients to competitors, or out of the credit market. It can also be difficult to implement due to regulation (in particular in the presence of an interest rate cap in the zone).
- Voluntary insurance: it is the option chosen by RMCR. In this case, the effort to sell policies and convince clients can be tremendous. The results show the difficulties met by the loan officers to sell such product and the importance to introduce clear incentives and key performance indicators in order to motivate the employees. The pilot has also demonstrated that developing clear marketing tools and sensitization programmes for the clients are key in order to be able to sell the product.

Offering insurance also demands to define the appropriate level of protection provided by the insurance. A high level of coverage will be effective to reduce the risk but will be expensive and therefore hard to sell. A low level of guarantee will maintain a high level of exposure and be deceptive for clients. Also, timing has proven to be a critical issue in the project. First, because in the case of agricultural insurance policies, the sales period must be in adequacy with the crop cycles. Second, introducing insurance at the same time as a change in the credit methodology is too much, and confuses both clients and the staff. Finally, RMCR concluded that it needs to develop an insurance strategy for the institution, rather than simply adding new products.

Regarding the Grameen Crédit Agricole Foundation, the pilot project reveals that access to finance is not the main barrier preventing MFIs to offer insurance. The packaged offer (loan to the MFI and access to insurance) was relevant on paper, but it does not address the main challenges: capacity building needs, credit and insurance linkage, financial education of the client etc. As for the commercialization of agricultural insurance, there is no experience of a programme reaching a large-scale without premium subsidies and/or making insurance compulsory to apply for a loan. Unfortunately, RMCR did not use GCAMF loan for the financing of the insurance premium, making it impossible to measure the impact such support could have had.

The Grameen Crédit Agricole Foundation remains convinced that access to insurance is an essential service for low-income households and is still willing to work with MFIs in this topic. It is now in the planning phase of a technical assistance program aiming at supporting MFIs willing to distribute insurance to their clients in collaboration with the International Labour Organization. The main differences in the approach are the following:

- Global insurance approach: agricultural insurance is probably the most complex and expensive type of insurance. Depending on the level of insurance expertise within the MFI, it may be more relevant to start with more simple, affordable and often compulsory products, before extending the product range to more sophisticated and expensive policies.
- Long-term support: MFIs need to build internal capacity, make trials and errors before implementing a successful insurance strategy. Future technical assistance programs addressing this topic will therefore need to mix capacity building, and longer-term support brought by insurance experts.

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[i] The World Bank Group (*2018*). World Development Indicators database. Washington, DC. http://data.worldbank.org. Accessed (*November 12, 2019*)
[ii] Heritage Foundation, (*2019*) Index of Economic Freedom, http://www.heritage.org/index/ranking Accessed (*November 12, 2019*)
[iii] The World Bank Group (*2018*). Worldwide Governance Indicators database. Washington, DC. http://databank.worldbank.org. Accessed (*November 12, 2019*)
[iv] Oxford Poverty and Human Development Initiative (*2019*). Global Multidimensional Poverty Index Databank. OPHI, University of Oxford. http://www.dataforall.org/dashboard/ophi/index.php/mpi/country_briefings Accessed (*November 12, 2019*)