

# Village Savings and Agriculture Insurance (VSAI)

## The Challenge

Access to financial services and insurance products remains a critical challenge for smallholder farmers in rural Sub-Saharan Africa. The World Bank reports that only 3.5% of smallholder farmers in Sub-Saharan Africa have crop insurance.

Traditional financial institutions and microfinance programs have found it difficult to reach smallholder farmers in remote and dispersed areas. The barriers to insurance are particularly pronounced. Many smallholder farmers are located in remote and dispersed areas, making it difficult for financial institutions to establish a physical presence and provide in-person services. In addition, many smallholder farmers lack financial literacy and do not fully understand the benefits of insurance products. Moreover, many smallholder farmers face socio-cultural barriers to accessing insurance, such as language barriers or a lack of trust in financial institutions due to past negative experiences.

Insurance companies struggle to assess risks and price insurance products appropriately due to a lack of reliable data on weather patterns and crop yields. This results in a lack of affordable insurance options for smallholder farmers, discouraging insurance companies from developing and selling suitable products.

Extreme weather events like droughts, floods, and heat waves caused by climate change result in significant crop losses, reduced income, and financial instability, perpetuating a cycle of poverty and food insecurity.

## Innovative Solution

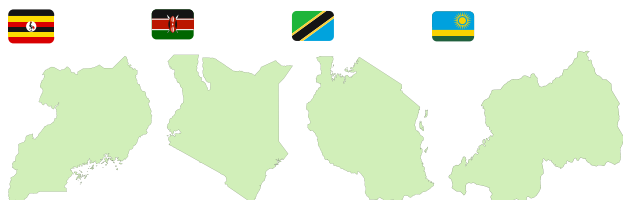
Village Savings and Agriculture Insurance (VSAI) stands out from traditional insurance models by leveraging the existing networks of Village Savings and Loans Associations (VSLAs) in rural Uganda. By partnering with VSLAs, VSAI can offer crop index insurance to smallholder farmers who may have previously been considered too high-risk to insure. VSAI's unique approach to insurance distribution and collection of premiums results in reduced administrative and transaction costs, making the insurance coverage affordable and promoting financial stability and sustainable economic growth in rural communities.

This localized approach to insurance distribution is beneficial to smallholder farmers, VSLAs, insurance companies, and development organizations. Smallholder farmers benefit from insurance coverage, which encourages investment in their farms. VSLAs benefit from improved financial stability. Insurance companies benefit from accessing new customers and expanding their market share.

VSAI presents a competitive advantage by providing a solution that meets the needs of smallholder farmers, enhances financial stability, and promotes sustainable economic growth in rural communities. Additionally, VSAI presents an investment opportunity for external investors to promote financial inclusion and contribute to poverty reduction.

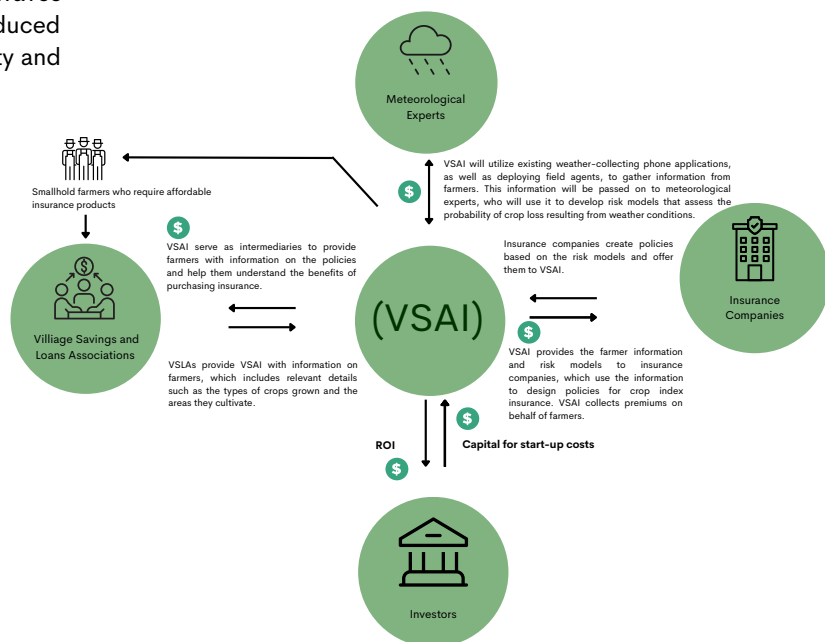
Key Details	
Investment vehicle	Insurance Instrument
Asset class	Climate solution
Investment Size	\$535,000
Addressable Market Size	\$29m
ROI	530.4
Time horizon	10 years

## The Market



VSAI has strong potential in Uganda due to growing demand for insurance among smallholder farmers, a strong network of VSLAs, favorable regulatory environment and expanding economy. Uganda has over 50,000 VSLAs serving over 2 million people and a supportive regulatory environment for index-based insurance. VSAI can expand into similar markets in Sub-Saharan Africa, including Kenya, Tanzania, Ghana, and Rwanda, with growing demand for insurance, strong networks of VSLAs, supportive regulatory environments and expanding agricultural sectors. With its proven model, VSAI can increase access to insurance and promote financial stability, contributing to sustainable economic growth in these markets.

## How it Works



## Operating and Revenue Structure

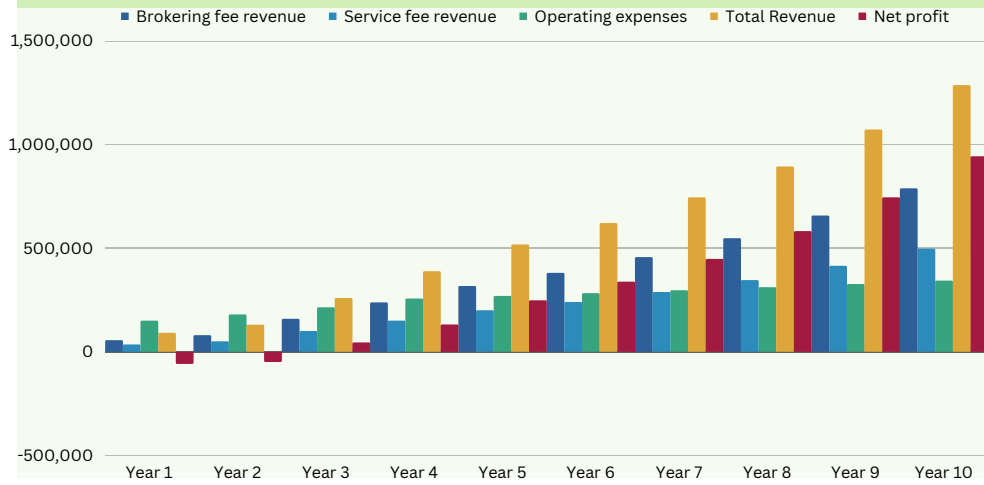
### Operating Structure:

- VSAI acts as a broker between insurance companies and smallholder farmers who are members of Village Savings and Loans Schemes (VSLAs)
- VSAI leverages the existing VSLA networks to distribute insurance policies and collect premiums
- VSAI works with insurance companies to provide index-based insurance coverage to smallholder farmers
- VSAI charges a fee to administer the insurance fund, covering its operating expenses.

### Revenue Structure:

- VSAI generates revenue through the fee charged to administer the insurance fund.
- The fee is a percentage of the premiums paid by smallholder farmers.
- VSAI distributes a portion of the fee to VSLAs as an incentive for biodiversity protection.
- The remainder of the fee is kept by VSAI to generate profits for the company

## Financial Projections



### Assumptions

1. Insurance brokerage fee of 10%
2. Financing brokerage fee of \$100/VSLA
3. VSAI brokers insurance for 350 VSLAs in their first year
4. By their 2nd year, VSAI brokers cover for 500 VSLAs
5. By the end of year 3, VSAI brokers insurance for 1000 VSLAs
6. From year 4 onwards, VSAI increases the number of VSLAs by 20% each year
7. VSAI's operating expenses grow by 20% between years 1-4, then remain constant for the remainder of the projection period

## Future Growth & Scaling

The success and scalability of VSAI's model relies on several key conditions including:

- Adoption of index-based insurance by smallholder farmers
- Availability of insurance products
- Strong partnerships with Village Savings and Loans Schemes (VSLAs)
- Efficient distribution and collection channels
- Supportive regulatory environment
- Financial stability and profitability

As VSAI continues to expand its reach in Uganda, it could potentially grow into other markets in Sub-Saharan Africa where VSLAs are a common mechanism for savings and loan schemes. The scalability of VSAI's model is enhanced by the potential for partnerships with other organizations that are working to promote financial inclusion and support smallholder farmers.

## Investment Opportunity

Governments and institutional investors looking to invest in innovative solutions that promote financial stability and sustainable economic growth should consider VSAI as an attractive investment opportunity.

- **Social impact:** Invest in VSAI for positive social impact via increased access to insurance for smallholder farmers in Sub-Saharan Africa, promoting financial stability and sustainable growth.
- **Financial returns:** VSAI offers attractive financial returns through its financially sustainable model that generates revenue from insurance policy sales.
- **Strong demand for insurance:** Growing demand for insurance among smallholder farmers in Sub-Saharan Africa presents a significant market opportunity for companies like VSAI.

## Impact Assessment

Stakeholder	Risk	Mitigation Strategy
Smallholder Farmers	Lack of understanding of insurance policies  Insufficient coverage of insurance policies	Train and educate farmers on crop index insurance benefits, details, and claims support.  Regular market research to ensure farmer insurance policies reflect risks and offer sufficient coverage.
Insurance Companies	Uncertainty in weather-related risks  Lack of trust in the insurance process	Collaborate with meteorological experts to create precise climate-risk models, and assist insurance companies in enhancing their underwriting and pricing methods.  Establish fair and transparent insurance claims procedures, collaborate with insurers to inform farmers of policy coverage and benefits.
Investors	Uncertainty in financial returns	Conduct regular market research and analysis to assess the viability of the insurance market and the potential returns for investors.



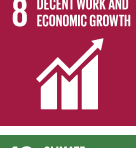

## Case study

In 2016, International Livestock Research Institute (ILRI) and the Alliance for a Green Revolution in Africa (AGRA) formed a partnership to launch an index insurance program to provide smallholder farmers in Uganda with protection against weather-related risks such as drought or excessive rainfall.

ILRI and AGRA partnership provided index insurance to 10,000+ Ugandan farmers, mitigating weather-related risks, providing safety net for investments, and encouraging sustainable agriculture. Demonstrating the benefits of index insurance, the program highlights the potential for financial stability and growth in the agricultural sector.

VSAI is similar in its aim to provide index insurance to smallholder farmers, but is unique in its approach of leveraging existing VSLA networks to distribute policies and collect premiums.

## Impact Assessment

SDGs Addressed	Intended Impact	Evaluation Metric
 1 NO POVERTY	Improved income and financial security of smallholder farmers	Adoption rate of crop index insurance policies among smallholder farmers
 2 ZERO HUNGER	Increased food security in rural communities	Reduction in the number of smallholder farmers who experience crop loss due to weather-related risks
 8 DECENT WORK AND ECONOMIC GROWTH	Promotion of economic growth in rural areas	Increase in the income and financial stability of smallholder farmers
 13 CLIMATE ACTION	Take urgent action to combat climate change and its impacts.	Number of Smallholder farmers who get paid