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# *Sharia-compliant Takaful to Build Resilience in Climate Extremes*

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# *The role of (micro-) Takaful in supporting resilience*

*Communities' ability to deal with shocks and stresses depends on their capacity to anticipate, absorb and adapt.*

Bahadur et al. (2015)



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# Potential of microinsurance for resilience to climate extremes

## ANTICIPATE

- Catalysing risk assessment

## ABSORB

- Protection of productive assets (e.g. livestock)
- Reduction of distress asset sales and other detrimental coping strategies

# Potential of microinsurance for resilience to climate extremes

## ADAPT

- Increased savings
- Increased investment in higher-return activities
- Improved credit worthiness
- Incentivising risk reduction and enhanced risk management



## In a context of...

- Climate extremes and long-term changes
- Low formal (financial) market development
- Strong informal ties and market networks

## ... Takaful presents new opportunities:

- Linking with other financial products and (non) financial services
- Product innovation for market integration
- Signaling client value and increasing trust



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*Opportunities and  
challenges – Insights from  
BRACED*





Building Resilience and Adaptation  
to Climate Extremes and Disasters



*Photo: Mercy Corps*

## Provision of financial services tailored to context

- Aim to improve **appropriate financial services** for Pastoralist communities (Somali Muslim population in Northern Kenya)
- **Partnership** and support to expansion of Sharia-compliant SACCO (CTS)
- **Integrated approach** to financial services



## Index-based livestock Takaful (IBLT)

- **Protecting livestock assets** by providing payouts based on vegetation index
- **Commercial product** and part of Government **social protection** in the Kenya Livestock Insurance Programme (KLIP)
- Overlapping client base with CTS in Wajir, but no direct integration with other financial products supported under BRACED (savings / loans)







## Supporting market integration through micro- / meso- Takaful

- Opportunity for **products targeted at different points of the value chain**
- Mifugo Kash Kash (MKK) **value-chain financing, supply management, & marketing** product for livestock traders and producers; transport to larger markets presents new risks to intermediaries trying to protect their portfolios

# Challenges

- Developing new markets requires investments, often in unknown territory → **Partnerships** can facilitate generation of knowledge and capital
- IBLT is exposed to **covariate losses from drought** → Re-Takaful capacity and support to diversification of income streams where more viable
- **Scaling new products and financial institutions** to reach financial sustainability is challenging → bundling Takaful with other products and services (e.g. livestock immunisation, fodder, seeds, loans) and building on existing structures (e.g. cooperatives) can be key
- **Unfavourable regulatory environment** and limited capacity / recognition / servicing by national agencies and organisations

## *References and image credits*

Slide 1: A pastoralist and his animals drink water after digging a well in the drought-stricken Ewaso Ngiro river basin in Kenya. Photo by Denis Onyodi/KRCS

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