





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)



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





Opportunities and challenges – Insights from BRACED





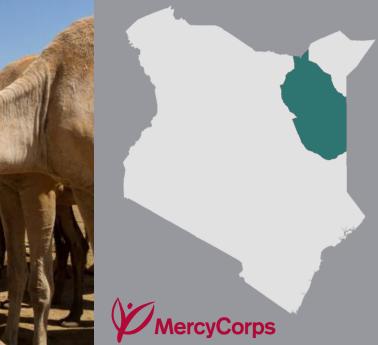


Photo: Mercy Corps

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

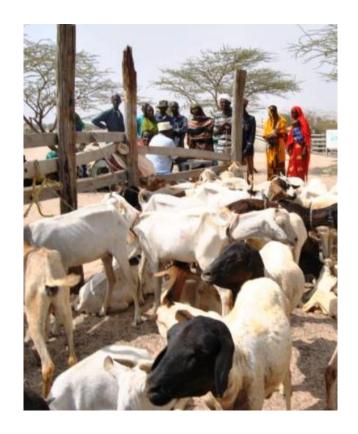






Index-based livestock Takaful (IBLT)

- 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**
- 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 regulartory environment** and limited capacity / recognition / servicing by national agencies and organisations



Evidence Ideas. Change.

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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