

Strengthening Agricultural Insurance for Climate Resilience in Zambia: Policy Actions from the Improving Resilience and Productivity of Smallholder Farmers in Zambia Project.

Authored by FSD Zambia Analytics

Problem Context

Smallholder farmers contribute about 70 percent of Zambia's food production and support over 60 percent of livelihoods. However, they face increasing climate-related risks such as droughts, floods, pests, and livestock diseases. Existing mechanisms such as the Farmer Input Support Programme (FISP) provide limited risk protection, focusing mainly on inputs rather than comprehensive risk coverage. Weak insurance products, low trust, poor distribution channels, and low financial literacy continue to constrain the development of inclusive agricultural insurance.

Policy Objectives

The objective is to expand access to affordable and appropriate agricultural insurance, strengthen climate resilience among smallholder farmers, and transition from reactive post-shock support to proactive risk management systems.

Intervention Overview

The project introduced two key interventions: the Inclusive Crop Insurance Scheme (ICIS) based on Area Yield Index Insurance (AYII), and the Inclusive Livestock Insurance Pilot (ILIP). These were implemented through a market system development approach, supported by partnership with insurers, financial institutions, smart subsidies, digital platforms, mobile money integration, and government, and farmer organisations.

Key Results and Achievements

The project achieved strong outreach and engagement among smallholder farmers, with 94 percent of farmers receiving insurance information and 62 percent demonstrating a good or very good understanding of how insurance works. Among farmers who were reached through awareness activities, uptake of insurance products varied significantly, with crop insurance recording very high adoption at 98 percent, while livestock insurance uptake remained low at 2 percent. Among farmers who experienced losses and filed claims, 75 percent received payouts, indicating functional claims processes despite some challenges. Notably, 81 percent of farmers expressed willingness to continue using insurance, reflecting strong demand and perceived value of the product. In terms of delivery mechanisms, 58 percent of farmers used mobile money platforms for premium payments and claims, highlighting growing integration into digital financial services. Overall, the project reached 1,862 farmers, representing 62 percent of the intended target.

Market System Changes

The project strengthened insurer capacity to design and deliver inclusive insurance products, embedded insurance products into market systems, expanded digital payment usage, and improved coordination among market actors. Demand-side changes included increased awareness, improved financial behaviour, and growing trust in insurance.

Key Challenges

- Low trust due to unclear and delayed payouts: Farmers lost confidence in insurance products because claims processes were not well explained and payouts were often delayed, reducing their usefulness during critical recovery periods.
- Affordability constraints, especially for livestock insurance: Many smallholder farmers perceived premiums as too expensive relative to their incomes, particularly for livestock insurance where costs increase per animal, making uptake less attractive.
- Weak distribution systems such as ineffective cooperatives: Existing structures like cooperatives and farmer organisations often lacked the capacity, incentives, or functionality to effectively reach and mobilise farmers, limiting scale.
- Digital platform failures and connectivity challenges: Technical issues with insurance platforms, combined with poor internet connectivity in rural areas, disrupted enrolment, claims processing, and overall service delivery.
- Delays in regulatory approval processes: Slow approval of insurance products by regulators delayed rollout, reducing implementation time and limiting opportunities for awareness, adoption, and trust-building.

Policy Implications

Insurance uptake depends heavily on trust, transparency, and product value rather than awareness alone. Effective distribution systems are critical for scale. Digital solutions must be adapted to rural contexts. Subsidies remain necessary in the medium term to support adoption and market development.

Key Policy Recommendations

- Insurance companies, with oversight from the Pensions and Insurance Authority (PIA), should strengthen claims transparency and timeliness by improving communication with farmers, clearly explaining claims decisions, and ensuring faster payout processing to rebuild trust.
- Government (Ministry of Agriculture and Ministry of Finance), in collaboration with donors and insurers, should promote affordable and inclusive insurance models by supporting targeted subsidies and encouraging product designs that align with smallholder farmers' income cycles.

- Financial service providers, agro-dealers, and development partners should strengthen last-mile distribution systems by leveraging trusted channels such as Micro-Financial Institutions (MFIs), savings groups, and input suppliers, while building the capacity of farmer organisations.
- Technology providers, mobile network operators, insurers, and government should invest in rural-appropriate digital infrastructure by developing platforms that function in low-connectivity environments and improving system integration for enrolment, payments, and claims.
- The Pensions and Insurance Authority (PIA), together with government, should streamline regulatory processes for innovation by accelerating product approvals and creating an enabling environment for inclusive insurance solutions.

Conclusion

The project demonstrated strong progress in improving awareness, uptake of crop insurance, and behavioural change among farmers. While foundational market systems are now in place, challenges related to trust, affordability, and delivery systems must be addressed. With the right policy support, Zambia can develop a sustainable and inclusive agricultural insurance system.