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KOSOVO NEW OPPORTUNITIES FOR AGRICULTURE PROGRAM

AGRICULTURAL INSURANCE POSITIONING FOR KOSOVO – FINAL REPORT



FEBRUARY 2013

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This report was prepared by the New Opportunities for Agriculture project team of Tetra Tech ARD based on a report prepared by short-term consultant, Roman Shynkarenko.

Implemented by:

Tetra Tech ARD

159 Bank Street, Suite 300

P.O. Box 1397

Burlington, VT 05402

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DISCLAIMER

The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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BACKGROUND

USAID supports economic growth in Kosovo through programs that strengthen and improve the competitiveness of Kosovo agribusinesses, improve the business environment, and encourage local economic development. Accordingly, USAID/Kosovo has awarded Tetra Tech ARD the task order for the New Opportunities in Agriculture in Kosovo Program (NOA).

The goal of NOA is to increase economic growth in Kosovo through expanded, environmentally sustainable production and sales of value-added agricultural products by enabling producers and processors to compete regionally and globally. NOA has the following components:

1. Products and farmers linked with markets,
2. Agriculture products diversified and increased,
3. Food quality and safety improved,
4. Increased affordable and accessible credits, and
5. Improved coordination with the agriculture sector.

To support its work to improve coordination within the agriculture sector, NOA is discussing various measures aimed at mitigating some of the risks inherent in agricultural production with the Ministry of Agriculture, Forestry and Rural Development (MAFRD). Effective risk mitigation is necessary to encourage commercial banks to provide financing to the agricultural sector. It is also a priority for the Ministry of Agriculture, Forestry and Water Economy (MAFWE) and is being demanded by some of the better functioning value chains such as potatoes.

PURPOSE OF ASSIGNMENT

To thoroughly assess the agricultural situation in Kosovo, the consultant conducted a desk study and a series of in-country interviews. The consultant examined options for the introduction of crop insurance and presented these to the MAFRD which will determine next steps based on recommendations made and options presented.

The selected specialist was asked to:

- Identify insurance products suited to the Kosovo agricultural situation.
- Assess value chains that have insurability potential.
- Identify insurable risks in the Kosovo context.
- Research data available and what is required for underwriting such products.
- Identify existing data gaps and determine if they can be resolved.
- Examine the role the government might play in support, promotion or financing of such interventions.
- Identify potential providers of such insurance products.
- Indicate potential premium levels.

EXECUTIVE SUMMARY

Agricultural insurance has natural limitations for development in Kosovo. Although about 90% of the country's territory is mainly rural area and 74% of the area is agricultural land, there are approximately 300,000 hectares of arable land. The key challenge for agricultural insurance for field crops in Kosovo is the small size of farms.

While it may be difficult initially to introduce traditional agricultural insurance products for field crops in Kosovo, agricultural insurance seems to be a viable option for high-value crops and livestock, especially dairy cows. Area-yield index insurance is suggested for field crops such as winter wheat and maize. Another possible insurance solution for winter wheat can be winter-kill insurance which is a very simple but effective product.

The following crops and livestock types are suggested for initial agricultural insurance programs in Kosovo:

- **Named-peril insurance for apples**—loss of quality due to hail and tree (seedling) insurance are advised as add-ons to the basic coverage;
- **Multi-peril insurance for potato**;
- **Multi-peril insurance for greenhouses**, including construction insurance and crop-inside-construction insurance;
- **Area-yield index insurance for maize and winter wheat**; and
- **Multi-peril livestock insurance for dairy cows** with the possible option of milk-yield insurance if demand exists.

The best option for the government is to adopt a comprehensive risk management integrated program for agriculture where insurance is linked to other government subsidies. In the Kosovo context, this could mean linking livestock (per head), field crops (payments to wheat farmers to reduce planting costs), and apple orchard planting and similar subsidies with insurance.

The government can help insurance companies with product development by providing the necessary crop data available from the MAFRD. Such a partnership would be beneficial for the government as well as insurers would when they share data they collect with the MAFRD, after launching insurance products.

According to analysis of the value chains and risk profiles it is possible to assume that premium rates for most insurance products should be affordable for farmers. Government support (subsidies) could make insurance even more affordable for farmers.

The list of potential insurance providers is limited in Kosovo. There are only 13 insurance companies with the only one—Sigal—currently holding a license for agricultural insurance. It is expected that another two to three insurance companies will obtain the respective licenses in the near term. Banks and input suppliers are interested in increasing operations in the agricultural sector and can become valuable partners for insurance companies. Partnership programs may be a good way to provide high volumes of insurance while reducing client acquisition and administrative costs for insurance companies.

1.0 FIELD ACTIVITIES TO ACHIEVE PURPOSES

The short-term consultant was briefed by Program staff members regarding the agricultural sector in Kosovo. The consultant conducted meetings with 7 project experts to obtain information on the situation regarding the field crop, vegetable, orchard, livestock and berry sectors. Three meetings were organized with the different departments of the MAFRD. Meetings with the Association of Insurers of Kosovo, insurance companies and banks were very informative and helped to point out potential activities for agricultural insurance development in Kosovo. A total of 15 meetings were conducted during the one-week field assignment. A list of these meetings is attached to this report (Annex 1).

Several reports pertaining to the agricultural sector, agro-climatic conditions, crop production, weather services and insurance sector were also provided. The evaluation report of the Agricultural and Rural Development Program (ARDP) 2007-2013 and Action Plan of the Economic Vision of Kosovo for 2011-2014 were very helpful to understanding government policy concerning agriculture.

Site visits were conducted to the growing regions to assess the production of vegetables (potatoes) and greenhouse operations during the week period.

A summary PowerPoint presentation was made to the Program's staff, representatives of the MAFRD and USAID at the end of the assignment to highlight the options for agricultural insurance development in Kosovo.

2.0 OVERVIEW OF THE SITUATION IN KOSOVO FROM THE INSURANCE PERSPECTIVE

Agricultural insurance has natural limitations for development in Kosovo. Although about 90% of the country's territory is mainly rural area and 74% of the area is agricultural land, there are approximately 300 thousand hectares of arable land¹. Under such conditions, agricultural insurance companies will not be able to achieve big volumes of premium collected. There are few viable options for insuring high-value crops and livestock that can provide reasonable insurance volumes.

The key challenge for agricultural insurance of field crops in Kosovo is the small size of farms. The average farm size is only 1.51 ha while the average size of farms with more than 2 ha is a mere 3.83 ha. At the same time there are over 40,000 farms with the size larger than 2 ha.

¹ Evaluation Report of ARDP 2007-2013 of Republic of Kosovo, page 46.

Given this context, it may be difficult to introduce traditional agricultural insurance products such as multi-peril or named peril insurance. Because such products usually require higher administrative costs for servicing insurance contracts, this may make field crop insurance either too expensive for farmers or unattractive for insurers. Alternatively, it may be possible to launch an area-based yield index insurance program—these programs are easier and cheaper to administer and there are successful examples of similar programs in other countries. An index-based program is more advisable from the perspective of land titles and land plot identification. It was reported that land ownership and land plots can, in many cases, be difficult to identify in Kosovo. Under such conditions it will be preferable to start an index-based insurance program which can later be replaced with the traditional insurance solutions for field crops.

High value crops (vegetables, fruits and grapes) as well as livestock can be insured due to high values per area unit and the large number of livestock in the country. The potential sums insured per area unit are high for orchards, vegetables and greenhouses, so even small farms with the size of two to five hectares will be desirable clients for insurance companies. Cattle and dairy cow headcounts are high (255,000 for total cattle and 153,000 for dairy cows only²). Most livestock is identified in Kosovo, which is a positive factor for launching a livestock insurance program. Steadily increasing the population of dairy cows can become a success factor for such a program, as farmers will be able to purchase new cows and heifers with the help of bank loans, and that will create an opportunity to launch a credit-linked livestock insurance program.

3.0 TASK FINDINGS AND RECOMMENDATIONS

3.1 TASK 1. IDENTIFY INSURANCE PRODUCTS SUITED TO THE KOSOVO AGRICULTURAL SITUATION

There is no agricultural insurance in Kosovo currently. As a result, there is no technical knowledge about how to design insurance products and, more importantly, how to build the system and fine-tune effective agricultural insurance operations.

On the other hand, there are good technical experts on the NOA project, and their knowledge and understanding of the agricultural sector can be used to establish an agricultural insurance platform in the country. Additionally there exists expertise in agricultural economics within the MAFRD, University as well as in the private consulting arena.

The lack of large farms is a constraint to the development of the agricultural insurance sector in Kosovo. Insurance of field crops grown on small plots will be too expensive for insurance companies if introduced on the basis of traditional crop insurance platforms working with individual risk, even if this was conducted through associations or cooperatives.

Specific insurance solutions will need to be developed later. This will require limited research for each value chain selected in order to determine further opportunities for agricultural insurance development. After a careful analysis of the information provided by the NOA project and by those interviewed, it is proposed to consider several types of insurance products for different types of agricultural operations. These are outlined below:

- **Named-peril insurance for apples** (hail, excessive rainfall, strong wind, freeze). A product like this can provide coverage against single perils like hail or against the most important

² Evaluation Report of ARDP 2007-2013 of Republic of Kosovo, page 53.

perils selected by producers. This product can include the option of covering the loss of quality due to hail and can be a good alternative to anti-hail nets, at least for the initial years of orchard operation. Another possibility is seedling and tree insurance. This optional coverage can be offered to farmers with an insignificant increase in premium rates.

- **Multi-peril crop insurance (MPCI) for potatoes.** This is a traditional insurance product used in many countries for various crops. This insurance is more expensive compared to other options; however, it offers protection against most or all weather perils. Given the situation in Kosovo, MPCI will not work for field crops due to the very small size of productive land plots, but it will perfectly suit the needs of potato growers.
- **Multi-peril insurance for greenhouse operations.** This insurance product is usually designed in such a way as to cover both the construction of a greenhouse and the crops growing inside. It requires additional technical expertise with insurance companies because the experts will need to survey objects of a different nature, and few agronomists know the peculiarities of greenhouse construction. Additional training and preparation of guiding documentation will be required.
- **Multi-peril livestock insurance (MPLI) for cattle and specifically for dairy cows.** This product covers most risks inherent to livestock operations, though it is possible to let customers (farmers) choose the perils (peril groups) to be covered by the insurance contract. A standard MPLI contract includes several groups of perils (weather, fire, accidental death and forced slaughter, epidemic diseases, theft and third-party damage). The product should include specific provisions clearly defining the application of deductible per certain peril groups.

The product can be designed in two versions, for voluntary insurance and for collateral insurance. It is expected that banks will prefer to use the full coverage version of the product.

It is possible to include an option of milk yield insurance (revenue insurance). This option might be interesting to farmers supplying quality milk to processing facilities and will not significantly increase the cost of insurance.

- **Area-based yield index insurance product for field crops.** As indicated earlier in this report, it will be difficult to launch traditional insurance products for field crops in Kosovo. The main reasons for this are the small size of farms, difficulties with land plot identification for insurance purposes and a lack of production history data with farmers. An alternative would be to consider area-based yield index insurance for key field crops such as maize and wheat.

For this insurance product, the insurer must analyze crop yield data from previous years and calculate the average crop yield per administrative unit (municipality). A standard sum insured is set for all participating farmers in one municipality. In the case of a decrease in yield below the insured level, all farmers holding such contracts will receive a standard payout sum. It will be necessary however to decide how the actual yield will be assessed. There are several possibilities for this, but it will need to be agreed upon between the farmers, insurers and the MAFRD.

- **Winter-kill insurance for winter wheat.** This insurance is very easy and customer-friendly. The coverage is offered only for the wintering period until vegetation resumes in the spring. The number of plants per unit area is calculated in autumn and then in spring. If the number of plants in spring is below the agreed payout level the farmer will be required to destroy the remaining damaged crop and the insurer pays out compensation. This insurance product can be bundled with the government subsidy provided to winter wheat farmers to compensate for seeding costs.

3.2 TASK 2. IDENTIFY VALUE CHAINS THAT HAVE INSURABILITY POTENTIAL

In international agricultural insurance practice, insurers are usually interested in the potential portfolio starting from at least 50,000 USD or EURO. The standard approach is to select crops with the largest production area or the type of livestock with maximum population. The types of agricultural production outlined below were identified as insurable in short perspective.

- **Field crops – maize and winter wheat.** Data analysis shows that there are only two field crops in Kosovo that can be of interest to insurers, at least at the initial stage of program introduction. These are winter wheat and maize for grain. The area under winter wheat was stable for the last five years, constituting roughly 75,000 hectares on average. The area under maize has grown considerably in the last two years, and in 2011 maize was produced on nearly 63,000 hectares³. It was indicated earlier in this report that for certain reasons traditional insurance products will not be effective, at least during the first years of the agricultural insurance program implementation.

Alternatively, it is suggested that area-based yield index insurance should be used for field crops such as winter wheat and maize. Winter kill insurance products might work for winter wheat, but government support will be advisable.

- **Potato.** Potato is the most promising more extensive crop for insurance. The area under potatoes production increased in 2010 and 2011. Farmers grew this high-value crop on an area of approximately 7700 hectares. There is information indicating that farmers supplying potatoes to the Pestova processing facility will be interested in insuring their crop against most weather perils. During the interview the director of the Pestova processing facility indicated that these farmers have kept production and agronomic records for the last five years at the very least. Moreover, the farmers are regularly monitored by the Pestova agronomist and the results of such monitoring can be used by insurers for underwriting and loss adjustment purposes.

Production by the Pestova potato group is maintained at two locations. This can provide a good opportunity to diversify the insurance portfolio and will be attractive to insurance companies.

The introduction of the potato insurance product for the Pestova potato production group is recommended to test the product and establish underwriting and loss adjustment procedures. The product can later be offered to other similar producers.

- **Apples.** The apple sector is yet another high-value production segment that should be of interest to insurance companies. The area under apple orchards is approximately 1500 hectares, but this number includes both traditional and modern intensive plantations. According to NOA project experts, there are about 300 hectares of intensive orchards in Kosovo, but farmers have been planting over 100 hectares of new orchards annually for the last three years. An important feature of apple production is the very high value (the cost of planting, operational costs and crop value) per area unit (hectare). This will make apple insurance attractive to insurance companies even if they insure 100-150 hectares per season. The estimated premium collected for this area will be at least 25,000 EURO at much lower administrative costs when compared to field crops or livestock insurance.

The technical consultant was informed that the MAFRD provides a 6000 EURO subsidy per hectare to farmers planting new orchards. In light of this, it is advisable to consider linking this subsidy with insurance (seedling and tree). Should any peril destroy or significantly

³ Crop data was provided by NOA project based on national statistics.

damage the orchard, the government subsidy will not be lost and insurers will cover the farmer's losses.

- **Greenhouse—construction and crop insurance.** Greenhouse insurance looks promising in terms of agricultural insurance. The values per construction unit and per protected area are high, similar to apple production. According to data,⁴ there are over 300 hectares of greenhouses in Kosovo with new operations launched every year. There is one important feature that will definitely increase farmers' interest in insurance - for greenhouses with heating systems and in the event of construction disruption or loss of plastic cover due to strong wind, the farmers may lose their crop within a very short period of time. Farmers interviewed during the consultant's field visits confirmed that they are interested in insurance.
- **Cattle and specifically dairy cows.** According to information provided by the NOA project, in 2011, there were over 260,000 cattle and over 150,000 dairy cows in Kosovo. Moreover, the farmers, processors and the MAFRD are interested in increasing milk production in the country. The government provides a subsidy to commercial farmers keeping more than 5 animals at the household. Many farmers are interested in expanding the dairy herd to over 20 cows per farm.

The majority of cows in Kosovo are identified and a movement control system is in place. Private veterinarians provide services to farmers and those interviewed confirmed that vets are located very close to farmers so that, in case of emergency, they can visit the farm in the shortest possible time. It was also reported that Kosovo is free from many epidemic diseases. All these facts indicate that livestock insurance can be provide useful added value. The analysis of the available data proves that this type of insurance will be interesting to insurance companies as well. Calculations will be provided later in this report. The livestock insurance program can be introduced quickly, especially if the government decides to link subsidies with animal insurance.

3.3 TASK 3: IDENTIFY INSURABLE RISKS IN THE KOSOVO CONTEXT

The risk profile for Kosovo is not unique. The country has continental climate with occasional droughts, a long hail season from May till August, and temperature stress (heat in summer and subzero temperatures in winter). Strong winds can occasionally damage field crops, greenhouses and high-value crops.

According to farmers, experts and weather service representatives, there are three micro-climatic zones in the country. The western part of the country receives about 1400-1700 mm of rainfall per annum while the central region, 650-800 mm of rainfall, and Morava, 600-700 mm. According to precipitation patterns, the conditions for crop production are average compared to other countries in Central and Southern Europe.

Crops can occasionally suffer from low temperatures in winter, with lowest temperatures recorded in 1963 at -34.5°C and an all-time high in 1965 at +39.1°C.

The farmers and experts informed the technical consultant that sometimes high-value crops may suffer from spring frosts occurring during the blooming stage, but such events are rare.

Risk information analysis indicates that most risks in Kosovo can be insured, but further risk profiling might be required for certain crops and insurance products. The loss ratio for crop insurance programs can be within the acceptable levels of 50-70% though hail insurance might experience loss peaks in certain years up to 200-300% of the collected premium.

⁴ Evaluation Report of ARDP 2007-2013 of Republic of Kosovo, page 46.

Livestock insurance should not pose substantial risks in Kosovo. According to the representatives of the MAFRD, epidemic diseases are rarely recorded in the country. Most livestock is kept at private farms in barns and there are no high livestock concentrations. Weather risks and accidental death are low for livestock and the assessed loss ratio for a livestock insurance program could be within the range of 30-40%. Moral hazard and adverse selection should be closely monitored by insurance companies, since livestock insurance programs are susceptible to these classical insurance problems.

3.4 TASK 4. CHECK DATA AVAILABLE IN KOSOVO AND DATA REQUIRED FOR UNDERWRITING, DATA GAPS, WAYS TO DEAL WITH INSUFFICIENT DATA

The Ministry of Agriculture has some crop and livestock production data though it will not be sufficient for an agricultural insurance program. There are no farm reporting procedures as practiced in other countries.

Insurance experts and reinsurers usually require agricultural production historical data for 30 years, but shorter databases are acceptable (15-20 years). It is desirable to have the data in the electronic format, non-aggregated and for each municipality separately. It would be ideal to have access to data by the individual farm,⁵ but in Kosovo this is impossible, since many farmers are not registered and actual production data are not available.

The MAFRD has some data on area, yield and production crop, and cost of production but further research will be required to assess if these data will be suitable for insurance purposes. These data can be used for primary underwriting like benchmarking farms versus aggregated indicators. Experts can provide additional information that will be useful for insurers. The NOA project has some such agricultural production data, which can be used together with the data available at the Ministry of Agriculture.

Weather data is insufficient. According to the weather service, there are 17 weather stations in the country collecting weather data three times a day. Only five stations collect agro meteorological data. Digital data collection is done only at three weather stations. The weather data set is available since 2001, and it is possible to get some data from as far back as 1922. Though older weather data exists in the hard copy format, additional efforts will be required to convert them to the electronic format.

Although the data are insufficient, there are ways to overcome this situation in Kosovo. It is recommended that consultations should be conducted with agronomists and farmers on crop and livestock production during the *product design stage*. Such data should be compared with the data available at the MAFRD. The insurance companies will be advised to design average crop yield scorecards per each municipality and to include specific instructions for underwriters to analyze insurance applications.

Even though good data are not available for calculating premium rates, insurance companies can use several pricing methods. These include expert judgment and reinsurers' rates. The insurance sector will not be able to underwrite huge risks due to the small size of the country and limited options for diversification. At the same time, reinsurers will be comfortable providing reinsurance capacity for the Kosovo agricultural insurance market if several products are submitted for reinsurance, including named peril and multi-peril products for field crops, orchards, vegetables, greenhouses and livestock.

⁵ Individual farm data do not need to include the name of the farm. Insurance experts should check the number of farms and production records per administrative unit. Such data are usually provided on the condition that insurers will use data only for insurance purposes.

3.5 TASK 5. THE ROLE OF GOVERNMENT IN SUPPORTING, PROMOTING AND FINANCING AGRICULTURAL INSURANCE

First, the government needs to decide whether they are interested in developing agricultural insurance in Kosovo. Government-supported insurance programs work well only if they are planned for implementation over a long periods of time. The best example in the EU is Spain. The Royal Decree adopted in 1978 ordered the introduction of the agricultural insurance program in the country. This document instructed the government to provide financial support for the program within calculated budgets but without time limits.

International experience shows that agricultural insurance can develop rapidly only if the government supports the program. In developing countries, the level of farmer participation in agricultural insurance programs usually does not exceed 10-20% of the total number of farms, but with active government support participation levels can exceed 60%-70%.

The best option for the government is to adopt a comprehensive risk management integrated program for agriculture where insurance is linked with other government subsidies. In the Kosovo context, it might be linking livestock (per head), field crops (payments to wheat farmers to reduce planting costs), apple orchard planting and other similar subsidies with insurance.

The government can help insurance companies with product development by providing the necessary crop data that are available from the MAFRD. Such a partnership would be beneficial for the government because the insurers can also share the data they collect after launching insurance products, with the MAFRD. In many aspects, insurance data will be complementary to the data the government collects. Underwriting and loss adjustment records can supply lots of specific information that would be unavailable to the government without insurance.

Other ways the government can facilitate the development of agricultural insurance in Kosovo are as follows:

- Certification of agricultural insurance agents and loss adjusters,
- Organization of informational events for farmers,
- An educational campaign for farmers that will showcase the benefits of insurance, and
- Prudential supervision of insurance companies to improve the quality of agricultural insurance services.

In many countries, governments subsidize crop insurance premiums and finance the development of new insurance products for the agricultural sector. Premium subsidies should be planned carefully to avoid subsidy abuse and rent-seeking, though subsidies can be very effective in lowering the cost of insurance to farmers. Agricultural insurance subsidies will help the government to plan budget expenses. It is much easier to allocate the necessary amount for insurance subsidies than to provide ad hoc financing to support farmers when catastrophic weather events affect them severely.

3.6 TASK 6. IDENTIFY POTENTIAL AGRICULTURAL INSURANCE PROVIDERS

There are 13 insurance companies in Kosovo, of which three offer life insurance and the rest offer general insurance services.⁶ Seven insurance companies are foreign-owned (Austria, Croatia, Turkey and Albania). Risk insurers are mainly involved in motor vehicle and health insurance (about 80% of the total insurance market volume according to the premium written indicator).

Agricultural insurance does not exist in the country. Only one insurance company, Sigal, has recently obtained an agricultural insurance license. The Insurance Association of Kosovo informed the technical consultant that several other insurance companies are expected to obtain such a license in

⁶ Usually such companies are names risk insurers.

the near term. At the same time, it is clear that neither insurance companies nor the insurance regulator⁷ possess the necessary technical knowledge required to successfully introduce an effective agricultural insurance program. The analysis of livestock insurance documents, generously provided by the Sigal insurance company, additionally confirmed that insurance companies will require technical assistance in developing key insurance documents and procedures as well as in providing training for staff involved in agricultural insurance operations is highly recommended.

The banks and processors/aggregators have an interest in increasing operations in the agricultural sector. They can become valuable partners for insurance companies. Partnership programs may be a good way to provide high volumes of insurance while reducing client acquisition and administrative costs for insurance companies.

Banks may be willing to provide loans to purchase dairy cows and agricultural inputs, but they need to minimize the risks of non-payment by some clients. From this perspective, the bank can act as an agent for insurance companies issuing policies on behalf of insurers. Moreover, the premium payment can be added to the loan sum without increasing the interest rate.

3.7 TASK 7. IDENTIFY POTENTIAL PREMIUM LEVELS

According to analysis of the value chains and risk profiles it is possible to assume that premium rates for most insurance products should be affordable for farmers. Government support (subsidies) will make insurance even more affordable for the farmers. Premium subsidies have become common in international practice. They are considered to be less distorting than subsidies per area unit or per head of livestock.

Premium rates per crops and insurance products suggested should be adjusted after additional research of the risk profile for each crop or livestock type. Potential premiums are suggested for 70% coverage level - a standard base level in many countries. According to WTO rules, government support to agriculture below 70% of the multi-year production records are allowed without restrictions.

Premium rates for area-yield index insurance for maize and winter wheat should be within the range of 4-6%. This premium rate includes loading necessary to administer contracts sold to very small farms (as observed in Kosovo). The procedures to establish average yield per municipality should be put in place, but doing so requires further research.

Winterkill insurance for winter wheat should be more thoroughly assessed. However, initial judgment provides possible premium rates at the level of 3.5%-4.5%, depending on the municipality.

Premium rates for multi-peril potato insurance should be kept at the level of 6-8% as such coverage will be provided against most weather perils. In the future, the premium rates can be adjusted taking into account actual loss ratios.

Apple insurance will be one of the most difficult to introduce, given the technical perspective. Quality loss against hail insurance is mostly proxy-based and the premium rates for this insurance product should be within the range of 3.5%-5%. If yield insurance will be considered, the premium rates should be at the level of 5-7%, taking into consideration absence of good yield data for this crop. **Tree (seedling) insurance** should be less expensive and the premium rates are assessed to be at the level of 2%-3.5%, depending of the municipality. Location of the apple orchards will need to be considered to provide better judgment of the premium rates to be applied.

Greenhouse insurance can be relatively inexpensive however different premium rates will need to be offered for metal constructions and wood constructions. Basic premium rates are assessed at the level of 2.5%-3.5% for metal construction greenhouses. Wood construction is advised to be priced with a 30% surcharge—although there are few wooden construction units that fall in the insurable range.

⁷ Central Banking Authority of Kosovo.

Crops in the greenhouses are advised to be insured at the premium rate of 3% as the risk profile for Kosovo is relatively low.

The premium rates for **multi-peril livestock insurance** should be at the level of 2.5%-3.5% for basic coverage for dairy-cows. Still, further investigation of the issue of epidemic disease will need to be conducted. If the government will take responsibility for covering losses due to epidemic diseases, the premium rates can be much lower. In the event that milk yield insurance options are considered, the premium rates should be adjusted to 1%-1.5%, according to the breed and herd management practices.

4.0 CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE ACTIVITY

The main focus of the program-funded interventions in the agricultural insurance sector should be on training and technical assistance. The lack of awareness and understanding of appropriate insurance practices are the key barriers to introducing an agricultural insurance program in Kosovo.

The list of suggested training seminars should cover the following topics:

- Basics of agricultural insurance and risk management with the focus on selected value chains;
- Underwriting standards and procedures;
- Survey procedures, recommendations to experts and underwriters;
- Loss adjustment guidelines and key procedures;
- Guidelines on product development, sources of information, and planning recommendations; and
- Client and time management and conflict resolution.

It would be advisable to provide training sessions for a broad range of institutions including not only insurance companies but also the MAFRD, the Insurance regulation authority, agricultural universities and other agricultural sector professionals.

Specialized training events will need to be organized for producers. The most effective training formats are half-day seminars with the agenda custom-tailored to the specific needs of a certain group of producers, e.g., apple producers, potato farmers, livestock keepers, etc.

Technical assistance should concentrate on instructing insurance companies and the insurance regulator how to develop formalized insurance procedures, guidelines for experts, contract texts, service forms and reference technical documents.

In the event the government decides to subsidize agricultural insurance, the Program might include consultations and advisory support for the government, specifically for the MAFRD.

Training and technical assistance will need to be developed for incorporation into the annual Program work plan and to obtain the desired volumes of area/livestock insured and premium collected. Training and educational activities should focus on overcoming the existing weak links and constraints described above.

Study tours can be arranged to educate insurance companies on the technical side of agricultural insurance. The countries can be selected later, though the experience of Poland, USA, Canada and Spain should be applicable to Kosovo realities.

ANNEX 1. LIST OF INTERVIEWS

February 11, 2013

Ministry of Agriculture, Forestry and Rural Development

- Halit Hoxhaj – Political advisor
- Ekrem Gjokaj – Director of Department for Economic Analysis and Agricultural Statistics
- Delvina Hana – Analyst, Department for Economic Analysis and Agricultural Statistics
- Adelina Maksuti – Analyst, Department for Economic Analysis and Agricultural Statistics

NOA project

- Arben Musliu – Private sector market linkages advisor, livestock
- Liza Marku – Sales and marketing specialist, agricultural finance

February 12, 2013

TEB Bank

- Arton Celina – Head of Sales and Marketing Department
- Arianit Duraku – Head of SME Department

Chamber of commerce

- Emine Daci – Advisor for agricultural sector

Association of farmers cultivars of region Mamusha

- Necat Morina – Director

Insurance Association of Kosova

- Adem Selmani – Managing director
- Agron Sylejmani – Director of Property department, Sigal insurance company

Raiffeisen Bank

- Shpend Nura – Head of micro enterprises segment
- Burim Ibishi – Agro lending specialist

February 13, 2013

NOA project

- Maxhun Shehaj – Fruit production specialist

Pestova

- Bedri Kasumi – Director

Sigal insurance company

- Arber Ponari – Director

Greenhouse farmers

- Halim Baftiu – village Davidovc, municipality of Shtime
- Skender Ramadani – village Godanc, municipality of Shtime

Hydrometeorology Institute of Kosova

- Prof. Syle Tahirsylaj – Director

February 14, 2013

Ministry of Agriculture

- Isuf Cikaqi – Director for Department Plant Production and Protection
- Arsim Memaj – Chief of Livestock Production Division

Central Banking Authority of Kosova

- Berat Begu – Head of Insurance Supervision Department

U.S. Agency for International Development
Kosovo
Economic Growth Office
Arberia, Ismail Qemali Str. House #1
9520 Pristina Place
<http://kosovo.usaid.gov>