



## Taxation for Weather Based Index Insurance in Kenya, Malawi, Rwanda, Tanzania, Uganda and Zambia

### Overview

A major potential area for support for agriculture insurance for small-scale farmers has been premium subsidies from the government. However, premium subsidy decisions are difficult to make for governments in developing countries, particularly given budget constraints. A relatively low-cost and more effective alternative to direct premium subsidies can be tax-waivers.

This policy brief analyses the tax treatment in Kenya, Malawi, Rwanda, Tanzania, Uganda and Zambia and presents viable options on how governments can support agriculture insurance for small-scale farmers. Findings indicates that in these countries, current taxes discourage investments from international institutions. The brief therefore recommends all countries in Sub Saharan Africa should consider instituting lower tax rates, tax-waivers or temporary tax relief during the early years of Weather Based Index Insurance (WII) products for smallholder farmers. This has the potential to lead to more affordable products with a higher chance of benefiting smallholder farmers. Simultaneously, policyholder compensation funds can safeguard farmers and encourage market competition, which may lead to better product innovation and product improvement.



Current tax policies do not attract investments in agriculture insurance. The tax treatment, for agriculture insurance in multiple countries in sub-Saharan Africa, is summarised below. Some common themes emerge, which can help in the development of best-practice cases.

### Rwanda

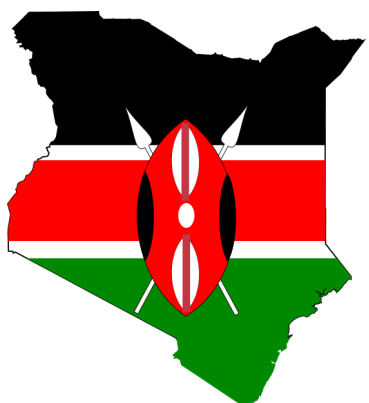


In Rwanda, a 15% reinsurance tax (also referred to as withholding tax) applies on external reinsurance, where the reinsuring body is domiciled outside of Rwanda. Consequently, this tax is applicable for global reinsurance companies (e.g. Swiss Re). However, African reinsurers (e.g. Africa Re, Zep Re) are exempt from this tax.

From 2010 to date, the only interest to underwrite weather based index micro insurance in Rwanda has been from global reinsurers. At the same time, local insurers have been reluctant to retain more than 10% of the risk. Consequently, the impact of this 15% taxation is significant. In addition, there is a value-added tax (VAT) of 18%, which applies on top of the premium pre-VAT.

The impact of these taxes is that the final premium, which the clients pay, is approximately 34% higher than the premium required by the insurer. For example, if the insurer requires a 5% (of sum insured) premium, the final premium would be 34% higher and total 6.70%.

### Kenya



In Kenya, VAT or reinsurance tax does not apply for weather based indexed micro insurance. The only taxes, which apply are the following:

- 1) Policyholder's compensation fund: 0.25% of premium;
- 2) Training levy: 0.20% of Premium
- 3) Stamp Duty- 40 Kenyan shillings (approx. \$0.60) per contract (e.g. 1 contract per distribution channel, so this is a very trivial cost per individual farmer covered).

The impact of these taxes is that the final premium, which the clients pay, is approximately 0.45% higher than the premium required by the insurer. For example, if the insurer requires a 5% (of sum insured) premium, the final premium would be 0.45% higher and total 5.02%.

### Uganda



In Uganda, VAT or reinsurance tax does not apply for weather based indexed micro insurance. The only taxes, which applies is a 0.50% levy on the final premium. The impact of these taxes is that the final premium, which the clients pay, is approximately 0.50% higher than the premium required by the insurer. For example, if the insurer requires a 5% (of sum insured) premium, the final premium would be 0.50% higher and total 5.03%.

### Tanzania



In Tanzania, VAT or reinsurance tax does not apply for weather based indexed micro insurance. The only taxes, which applies is a 6.95% once-off tax of the final customer premium. The impact of these taxes is that the final premium, which the clients pay, is approximately 7.47% higher than the premium required by the insurer. For example, if the insurer requires a 5% (of sum insured) premium, the final premium would be 7.47% higher and total 5.37%.



# Zambia



In Zambia, VAT of 16% applies on the gross premium. There is no reinsurance tax or any other taxes.

The impact of these taxes is that the final premium, which the clients pay, is approximately 16% higher than the premium required by the insurer. For example, if the insurer requires a 5% (of sum insured) premium, the final premium would be 16% higher and be 5.80%. As of January 2016, the VAT has been replaced by a Stamp Duty Tax of 3%, which significantly reduces the tax burden for small-scale farmers. This policy intervention is a very welcome move from the Government of Zambia.

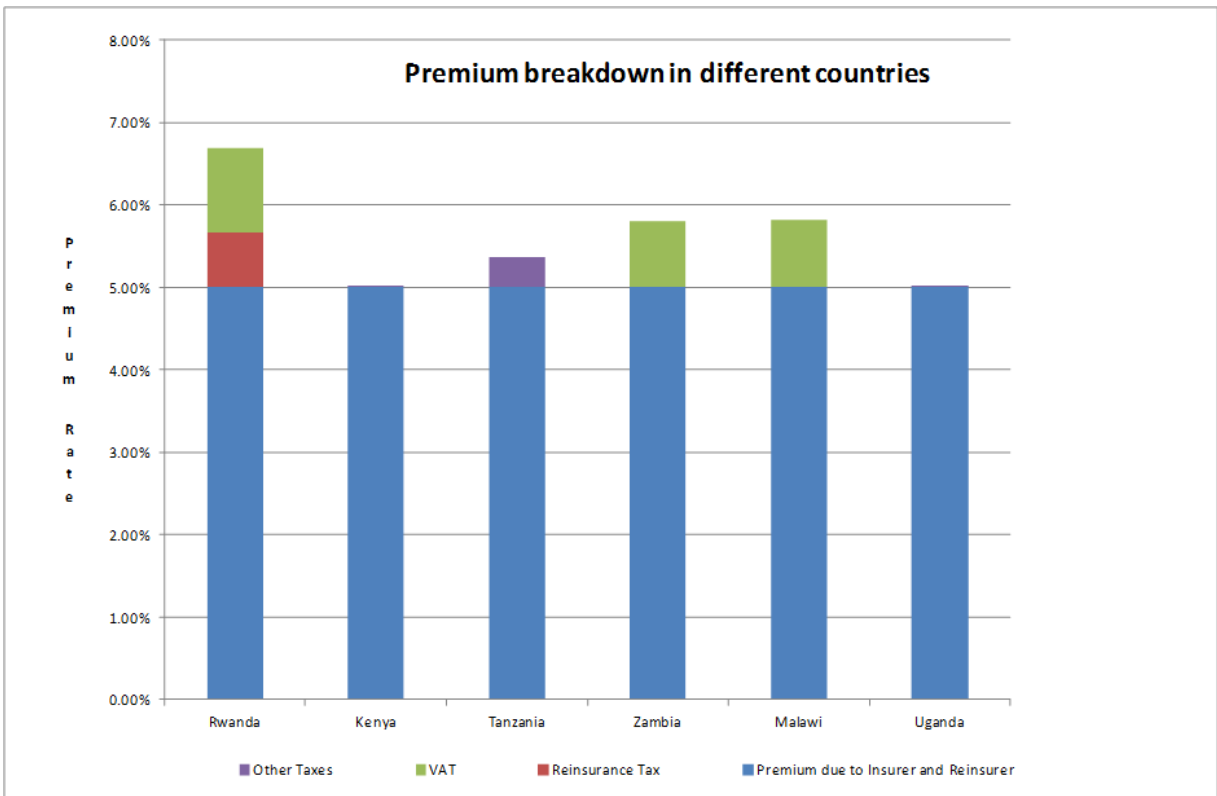
# Malawi



In Malawi, VAT of 16.5% applies on the gross premium - there is no reinsurance tax or any other taxes. The impact of these taxes is that the final premium, which the clients pay, is approximately 16.5% higher than the premium required by the insurer. For example, if the insurer requires a 5% (of sum insured) premium, the final premium would be 16.5% higher and be 5.83%.

The impact of taxation on the final premium (based on the same insurance premium of 5%, assuming the same reinsurance arrangement and ignoring any other charges) for the above six countries is shown below:

**Table 1: Premium breakdown in six countries**



## Observations

- The tax treatment of weather based index insurance in Rwanda is not consistent with the tax treatments in the other five countries (Kenya, Uganda, Tanzania, Zambia and Malawi) where weather based index insurance programs have been operating for many years.
- A total effective increase due to taxation of 34% makes the products more expensive than the same products in neighbouring countries. All the taxes are transferred to the farmers i.e. the tax is NOT paid from the profits of the insurance companies.
- The target farmers of WII are typically smallholder farmers, farming food crops typically. Therefore, the extra cost is an additional strain on this target low-income group. Hence, this leads to a barrier for financial inclusion of low-income smallholder farmers.
- The additional costs lead to products, which have a lower chance of paying out than comparable products in other markets. Consequently, this contributes towards higher basis risk.

## Policy Recommendations

- Lower taxation or provide tax relief during the early years of weather based index insurance program development may promote the scaling-up of WII for smallholder farmers.
- Governments could consider a lower tax rate as a percentage of the total premium (e.g. 0.45%-6.95% in neighbouring countries) as has been successfully done in other regional countries, such as Kenya, Uganda, Tanzania etc and waive VAT and reinsurance tax for this product.
- Inclusion of a percentage towards a Policyholder Compensation Fund (e.g., 0.25% of premium charged in Kenya) in the fixed tax rate could safeguard farmers when there may be claim events and the insurer cannot not pay out for (e.g due to basis risk of product or claim dispute or insurer insolvency etc.).
- A lower tax regime also has the potential of attracting more insurers and reinsurers to offering these products, which can lead to greater competition and so reduce the premiums further.

## Reference

Mookerjee, A. (2015). Barriers to scaling-up agriculture insurance and Meso-level products. Micro insurance Conference, Casablanca. GIIF, World Bank Group, November 2015

This Policy Brief is a product of the collaborative effort between the Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN) and Risk Shield Consultancy with support from the COMESA-EAC-SADC Climate Change Tripartite Programme.

The main authors of this Policy Brief are Agrotosh Mookerjee Fellow of Institute of Actuaries (UK) (Risk Shield Consultancy) and Njongenhle M B Nyoni (FANRPAN).

The content of this publication can in no way be taken to reflect the views of FANRPAN and its partners. Furthermore, the designations employed and the presentation of material in this publication do not imply the expression of any opinion whatsoever on the part of FANRPAN, representative of FANRPAN or of the cosponsoring or supporting organizations concerning the legal or development status of any country, territory, city or area or its authorities, or concerning the delimitation of its frontiers and boundaries.



## About FANRPAN

The Food, Agriculture and Natural Resources Policy Analysis Network (FANRPAN) is an autonomous regional stakeholder driven policy research, analysis and implementation network that was formally established by Ministers of Agriculture from Eastern and Southern Africa in 1997. FANRPAN was borne out of the need for comprehensive policies and strategies required to resuscitate agriculture. FANRPAN is mandated to work in all African countries and currently has activities in 17 countries namely Angola, Benin, Botswana, Democratic Republic of Congo, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

### Copyright

#### FANRPAN Regional Secretariat

141 Cresswell Road, Weavind Park 0184, Private Bag X2087, Silverton 014, Pretoria, South Africa  
Telephone: +27 12 804 2966. Facsimile: +27 12 804 0600. Email: [policy@fanpan.org](mailto:policy@fanpan.org) . Website: [www.fanpan.org](http://www.fanpan.org)