Supporting Development of Market for Agricultural Insurance

Workshop on Index insurance for agriculture in Ethiopia
9th December 2010, Addis Ababa

Oxfam America
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POVERTY & CLIMATE

• 85% of Population is dependent on rain fed farming.
• Thus Weather Variability has a direct and strong impact on productivity of Ethiopian Farmers.
• Also has impact on GDP of the country as it is heavily dependent on Agriculture which is in turn dependent on Weather
Figure 3.18: Relationship between annual rainfall and Gross Domestic Products (GDP) growth over Ethiopia. *From de Jong (2005), cited in World Bank (2005)*
IMPACTS OF WEATHER VARIABILITY

• DIRECT IMPACT
  – Drought
  – Harvest lower than expected
  – Minimized household assets
  – Thus diminished productive capacity
  – Difficult to depend on normal coping mechanisms
WEATHER VARIABILITY- INDIRECT IMPACT

• Farmers risk averse- not knowing frequency or severity
• Thus won’t invest the little they have on improved technologies which are important for increasing productivity
• Lenders also risk averse in the situation where climate risks are covariate and farmers have no collaterals
HARITA - a Holistic Risk Management Model
OA’s Approach
Implementation Approach

Donors, Work-for-Insurance Program

Local Insurer (Nyala) & Global Reinsurer (Swiss Re)

Microfinance Institution (DECSI)

Poorest Households (PSNP Participants)

Poor Households (Non-PSNP Participants)

Ins. Voucher

Payouts

Premiums

Payouts

Credit

Repayments
Why Weather Index Crop Insurance

• Is linked with weather rather than the consequence i.e., crop failure
• Thus objective, simple and low transaction cost
• Insurance companies can pay claims promptly avoiding distress sale of assets.
• Avoids moral hazard as farmers would not be paid even if there is a crop failure if the required amount of rainfall is registered.
Why does it need support?

• Support is required both at the demand and supply side

• Demand side
  – Affordability
  – Financial Education
Why does it need support?

- Supply Side:
  - Poor Farmers are generally considered uninsurable as premium per farmer is very low
  - High transaction cost- Delivery channels
  - Low technical capacity of insurers
    Product Design
OA’ S EXPERIENCE AND WAY FORWARD

• 200 farmers insured in 2009 in Adi-Ha in collaboration with Nyala Insurance, DECSI, REST and Swiss Re.
• Insured crop was teff
• Expanded to five villages and more than 1300 farmers in 2010. Insured crops were teff, barley and wheat.
• Policy in two options in 2010, the Dry Product and the Very Dry Product
WAY FORWARD

• Expand to 50 villages in Tigray and also to other region as risk diversification is important
IMPACT TO DATE

– Evaluation of impact can be assessed by May after study finalized. However some developments to date are

• High fertilizer uptake in Hadush Adi: 2009 was 200 qt; 2010 increased to 350 quintals

• Genete and Hade Alga: 61% of those who took up fertilizer and improved seed through PSNP were insured.
THANK YOU!