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

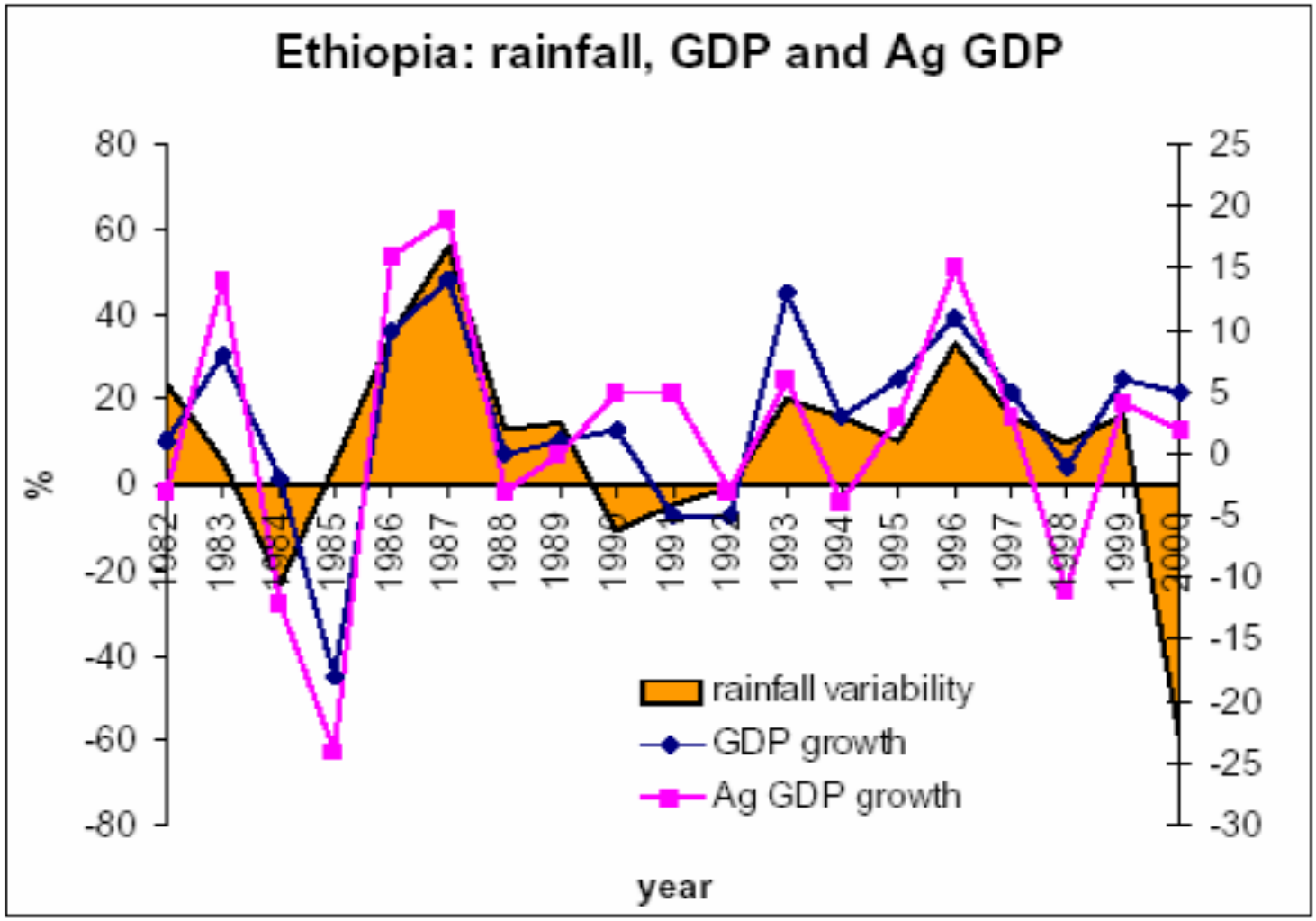


Figure 3.18: Relationship between annual rainfall and Gross Domestic Products (GDP) growth over Ethiopia. *From de Jong (2005), cited in World Bank (2005)*

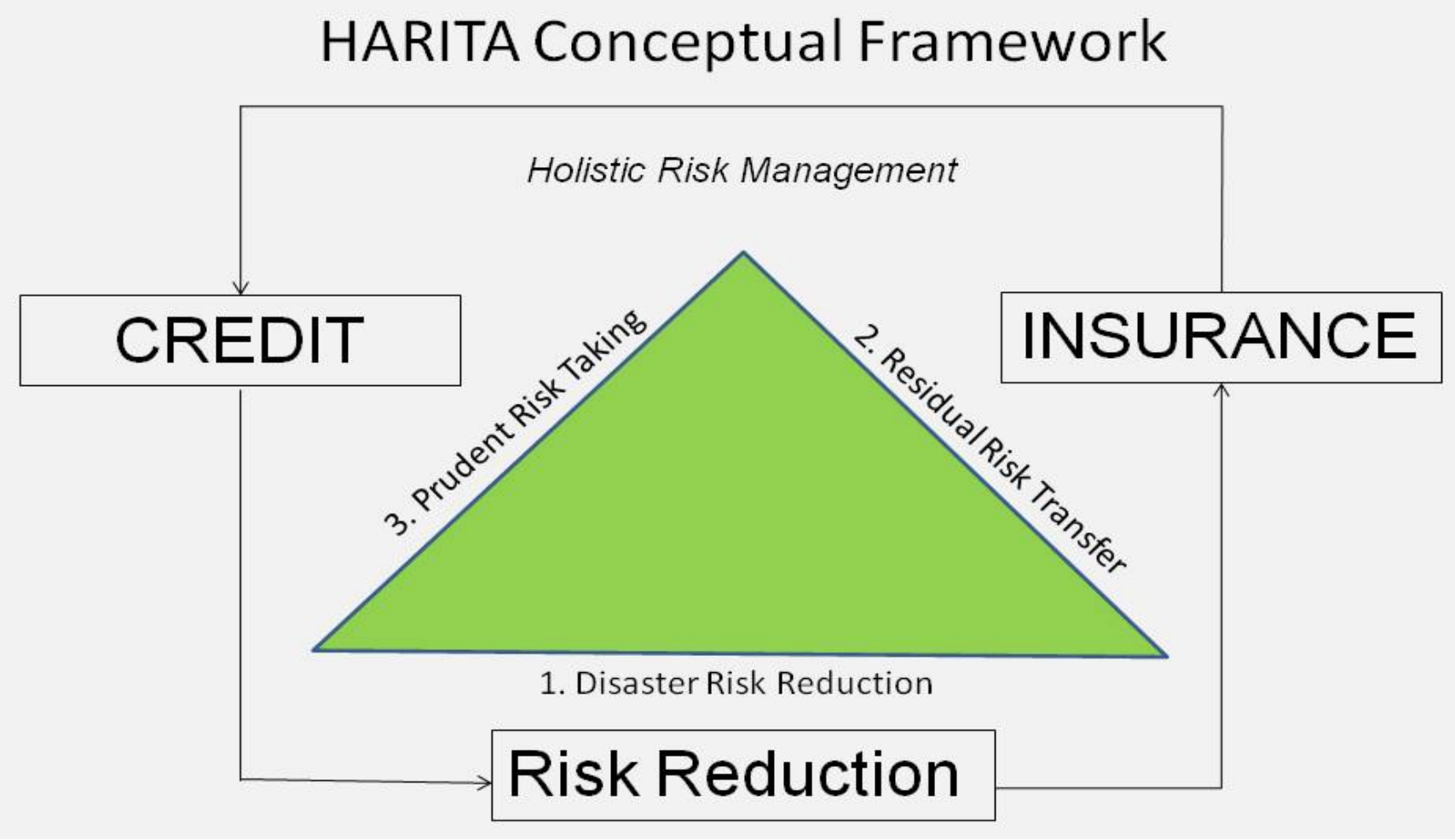
IMPACTS OF WEATHER VARIABILITY

- 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



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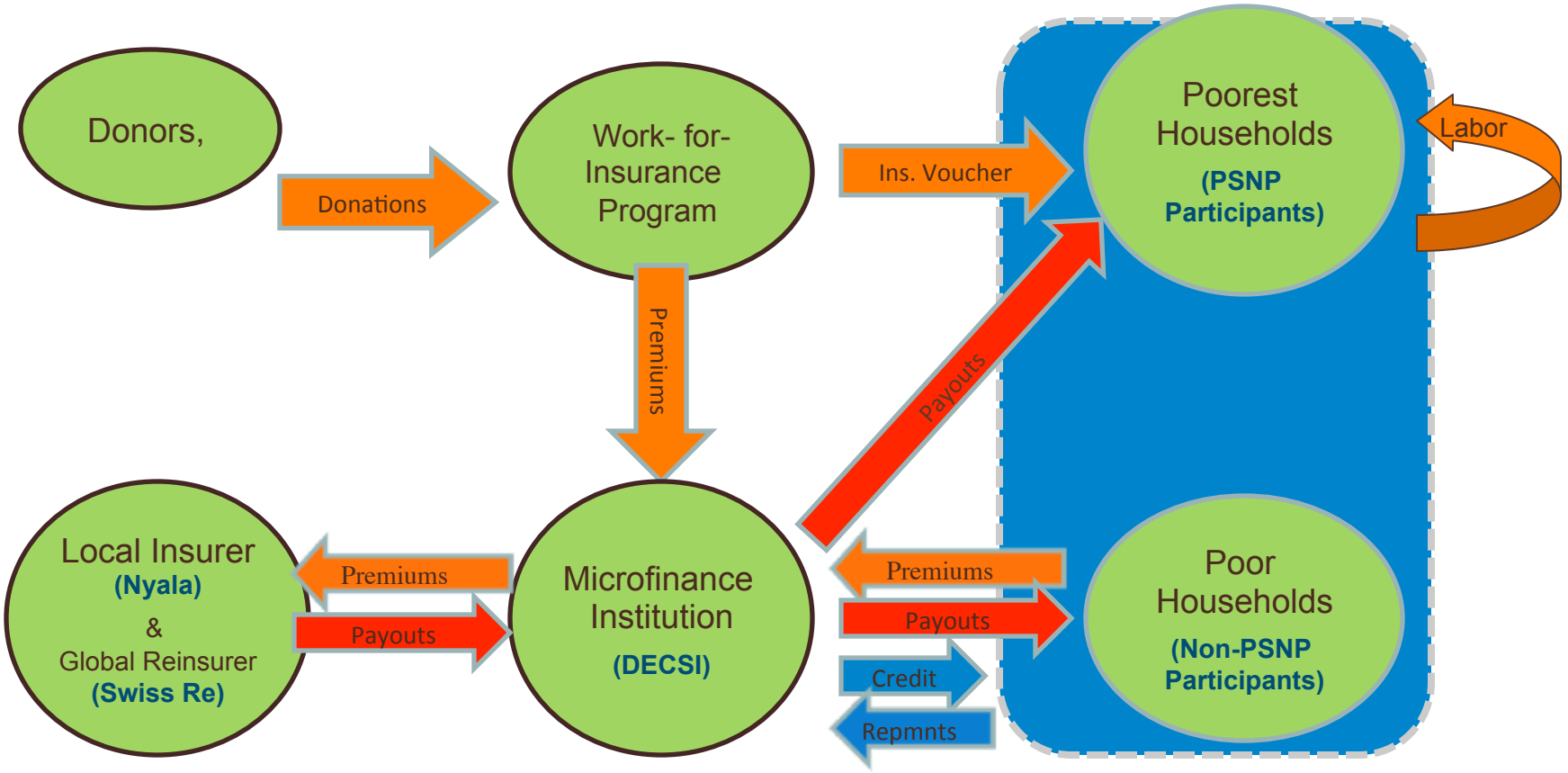
Implementation Approach



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!