Index insurance for agriculture in Ethiopia
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Design and Development of IBLI for Southern Ethiopia

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Objective

To discover the viability and poverty reduction impacts of index-insurance and establish whether, how and when these impacts can be realized and sustained.

Key Steps

- Design a livelihood-focused IBLI
- Identify suitable contract structure
- Identify suitable delivery mechanisms
- Address impacts of climate change and induce climate change adaptation
Existing Data

Longitudinal household data

- **PARIMA (2000-02)**
  - Quarterly household survey (30 hhs/kebele)
  - 5 kebeles in 4 woredas

- **Desta (1999)’s Herd Recalls Data (1981-97)**
  - Annual household herd recalls (~15 hhs/center)
  - 35-km radius of 4 town centers
Livestock Mortality rate (%)
Key Questions:

1. Other longitude household-level data? Verification of past data?
2. The need to collect recent herd recalls?
Scoping Mission (2010)

- **Objectives**
  1. To introduce IBLI to local communities/authorities
  2. FGD to learn the local opinions on IBLI
  3. To meet with local authorities, financial institutions, NGOs

- **Key discussions**
  1. Contract design
     (Group-based, ex-ante payout)
  2. Delivery mechanism
  3. Climate change
Individual IBLI       Group as delivery channel       Group as client

+ Substitute for absence financial facilities in remote locations
+ Use group learning to enhance education and extension
+ Use group rules to reduce individual basis risks
+ Enhance prospect for linking credit access with insurance

-- Groups need to be well-established, participated by pastoralists
**Contract design/regulatory** | **Ex ante/ Ex post payout**

<table>
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<tr>
<th>Start of the contract</th>
<th>Observed loss</th>
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### Ex-ante payout for asset protection

IBLI payment to insured to protect animals before drought

+ Could be cheaper to protect animals than to replace them
- Rely on accuracy in predicting livestock mortality ex-ante

### Ex-post payout for asset replacement

IBLI payment to insured to replace animals after drought

+ Higher accuracy in predicting livestock mortality
- May be more expensive to replace animals

### Key Questions:

1. Which product could provide more effective risk management?
2. What are regulatory pre-requisites of ex-ante product?
Reducing risk coverage for commercial insurers for lower premiums

Cap commercial provision of risk to an intermediate risk layer.

Catastrophic zone can be explicitly taken up by government or donors who already offer some response in times of catastrophic loss.
Climate change adaptation/mitigation

- Climate change ➔ more/worse droughts ➔ IBLI more expensive … mitigation to limit premium rise, adaptation to cushion against premium rise?

- Evidence of change in NDVI ➔ Climate change?

- Incorporating Climate Change in IBLI modeling and delivery:
  - Feeding climate change predictions into IBLI response functions and pricing in expected climate change
  - Conditional Insurance Transfers

![NDVI Trend in Dida Hara (1981-2010)](chart.png)
Impact Evaluation

- Follow a similar impact evaluation strategy as in Marsabit:
  - Baseline of 920 households with 3 annual repeats
  - Should allow us to rigorously establish impacts directly attributable to IBLI
  - Discount coupons and educational games to encourage uptake
  - Also plan for qualitative surveys to generally establish perspective of target clientele.
Thank you

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www.ilri.org/ibli/