Agricultural insurance for smallholder farmers in northern Ethiopia

Project fast facts

OCTOBER 2019
This initiative is part of the International Fund for Agricultural Development (IFAD) grant-funded project “Managing risks for rural development: Promoting microinsurance innovations” (MRRD) being implemented by the MicroInsurance Centre at Milliman (MIC@M) in China, Ethiopia, and Georgia.

“IFAD invests in rural people to eradicate poverty and hunger and strengthen resilience. The Fund advocates a strategic approach to managing agricultural risks in a holistic and sustainable way. It hosts the multi-donor Platform for Agricultural Risk Management (PARM) and works with the Platform and other partners to enable countries, communities, and farmers to move away from a culture of coping with disaster towards a smart management of risk.”

**Overall project goal**

To increase resilience, strengthen capacity to manage risks, and improve the livelihoods of poor rural households who depend on off-farm and on-farm income.

**Gaps and opportunities identified**

The MRRD project team performed an assessment of microinsurance supply, demand, distribution, regulatory context, and of IFAD programming in Ethiopia. The team took into consideration that not all risks and not all rural households are insurable and embarked on a solution to develop agricultural insurance and other combined services to help reduce some production risks faced by smallholders in northern Ethiopia.

**The context: Agricultural microinsurance in rural Ethiopia**

- Ethiopia has a proportionately large rural population (80% of total) who continue to face challenges with their livelihoods and rainfed crop production.
- Rural poor people are particularly affected by climate change (drought, altered rainfall patterns) and lack of market access (for inputs and sales).
- Agriculture-related risks are among the most important to low-income households in rural areas. Exposure is as diverse as the Ethiopian geographical landscape.
- There are currently programs tackling risks and economic opportunities as well as insurance pilots. However, no formal agricultural insurance product or provider has gone beyond a pilot phase without donor support.
- There is no integrated approach to risk management, linking initiatives tackling the various risks farmers face, from market to production to climatic risks.
- Insurers have almost no footprint in rural areas. Farmers and rural populations lack access to financial services and use mostly informal coping strategies.
Microinsurance solution developed

The MRRD project in Ethiopia is collaborating with a number of different institutions to offer a comprehensive risk management solution to low-income farmers and at the same time build a market for insurers in rural areas. The project focuses on agricultural insurance, packaged with other agricultural production services, particularly additional extension advice. The solution links to the IFAD-financed Participatory Small-scale Irrigation Development Programme – Phase II (PASIDP II) implemented by the Government of Ethiopia. MRRD aims to offer smallholders who are participating in PASIDP II irrigation water users’ associations (IWUAs) – and eventually the surrounding communities – a set of tools to manage some of their key production risks related to their rain-fed crops.

By 2021, PASIDP II plans to reach 46,250 households with irrigation in five regions of Ethiopia. The MRRD solution model works with PASIDP II target groups who can leverage irrigation to improve their income opportunities and thus have a higher ability to pay for insurance. It builds on agricultural insurance product development supported by the World Food Programme (WFP) R4 Rural Resilience Initiative program with the International Research Institute for Climate and Society (IRI) and in-country insurers. MRRD is working to increase access to agricultural insurance solutions and to create a market for insurers in rural areas through identifying clusters of target population and creating efficient delivery processes.

<table>
<thead>
<tr>
<th>Product name</th>
<th>Crop index insurance</th>
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<tbody>
<tr>
<td>Client profiles</td>
<td>PASIDP II farmers in six pilot sites in Tigray and eastern Amhara regions of Ethiopia, organized in IWUAs.</td>
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<tr>
<td>Risks covered</td>
<td>Drought (in 2019); Drought, hail, and frost (in 2020)</td>
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<td>Crops covered</td>
<td>Rain-fed crops (cereals such as maize, sorghum and teff)</td>
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<td>Data source</td>
<td>Two types of remote-sensing data are used for the pilot sites: rainfall estimates and enhanced vegetation index (EVI)</td>
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<td>Model</td>
<td>Market-driven model underwritten by private insurers and 100% of premiums paid by end clients</td>
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<tr>
<td>Distribution channels</td>
<td>Direct sales to IWUA members, insured as groups. Future distribution channels have been identified as MFIs, Rural Savings and Credit Cooperatives (RUSACCOs), and other local intermediaries.</td>
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<tr>
<td>Insurance and reinsurance company partners</td>
<td>Africa Insurance Company, Oromia Insurance Company, and AXA Re</td>
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<td>Additional non-insurance risk management benefits</td>
<td>By leveraging multi-stakeholder partnerships, the insurance product is launched in communities together with enhanced agriculture extension services to provide a holistic risk management approach</td>
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The comprehensive solution developed provides unsubsidized crop insurance and extension services to farmers, supporting IFAD’s investment in PASIDP II.
Implementation structure: Leveraging linkages and Rome-based agency (RBA) collaboration

MicroInsurance Centre at Milliman (MIC@M)
Role: Provide technical assistance to project stakeholders and manage project implementation

WFP & IRI
Role: Index insurance design

ICRISAT (a CGIAR center, working with two local research centers)
Role: Build capacity of Ethiopian extension workers on MRRD project sites

Stakeholders involved in developing and implementing the holistic microinsurance solution

Insurers and reinsurers
Africa Insurance Company
Oromia Insurance Company
AXA Re

Distributors
Currently insurers sell directly to the IWUAs. Intermediaries have been identified to sell in the near future

End clients
PASIDP II farmer members of IWUAs with small-scale irrigation acreage and larger rain-fed production fields

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Project components and timeline

1. Country Assessment
What: Assessment of microinsurance supply, demand, regulatory environment, distribution channels, and IFAD programming in Ethiopia
Why: To gain a clear understanding of opportunities and constraints around rural risk management in IFAD’s portfolio
2017–2018

2. Innovations to increase access to insurance
What: Support for design, pilot, and revision of insurance products and other risk management solutions
■ Capacity building, ongoing monitoring and roll-out activities for scale-up
2019–2021

3. Knowledge management and capacity building
What: Generating, analysing and sharing lessons within and between regions and with the insurance sector regarding:
■ Successes and challenges
■ Practical information and advice on key issues, including understanding the market, design, and implementation
2018–2021

For more information about the project, contact us:

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