

# Rural Resilience Initiative

**Innovations in Risk Management and  
Disaster Risk Reduction**

Risk Management: How can risk transfer help

USAID

July 7, 2011



[Video](#)



# Drought: #1 Risk Overall

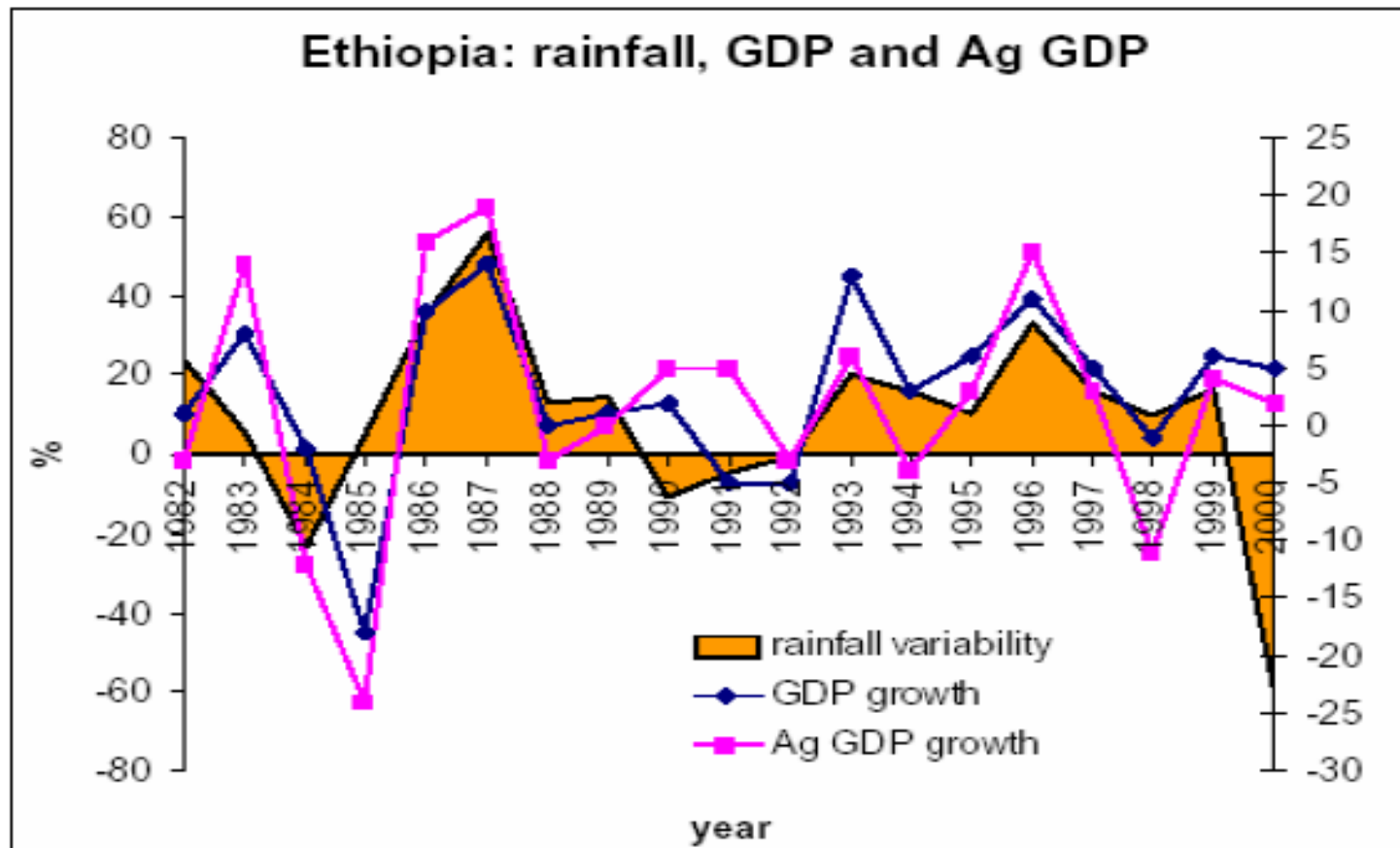


Figure 3.18: Relationship between annual rainfall and Gross Domestic Products (GDP) growth over Ethiopia. *From de Jong (2005), cited in World Bank (2005)*

# Weather Index Insurance

## How it works

- **Index** – payment depends on *event that causes loss* (flood, drought)
- **Indemnity** – payment depends on *actual loss* (loss of limb, damage to house)



## Advantages of Index Insurance

- **Easy administration** – no individual claims to be filed
- **Data reliability** – rainfall, temperature, wind speed, etc. easily verified

## Disadvantages of Index Insurance

- **Basis risk** – loss may not correspond with payment
- **Data availability** – usually requires 30 years of reliable data

# Current Coping Inadequate

**37% of households in  
Ethiopia unable to raise  
US\$10 in a week**

Source: Central Statistical Agency



# Core Innovation:

Pay for risk management services with labor



# Project Partners

## ❑ Global

- ❑ Oxfam America
- ❑ IRI/Columbia University
- ❑ Swiss Re-insurance Company
- ❑ The Rockefeller Foundation
- ❑ Index Insurance Innovative Initiative

## ❑ National

- ❑ Nyala Insurance Company and Africa Insurance
- ❑ Ethiopian National Metrological Agency
- ❑ Mekelle University
- ❑ Institute for Sustainable Development

## ❑ Regional

- ❑ REST
- ❑ DECSI Microfinance Institution
- ❑ Bureau of Agriculture and Rural development/Food Security
- ❑ Tigray Marketing & Cooperatives Promotion Agency
- ❑ Adi-ha Multipurpose Cooperative

# Interests in Solution

## **Farmers**

- Holistic risk management and sustainable livelihoods
- Overcoming cash constraint
- Getting something for their premium, even in good years

## **Donors/Government**

- Breaking the cycle of poverty
- Mitigating food security emergencies and climate change

## **Local Insurers**

- Finding ways to reach rain-fed farmers (85% of the population) cost effectively and profitably

## **Re-insurers**

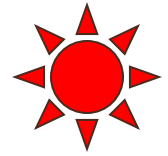
- Identifying extremely large risk pools

## **Lenders**

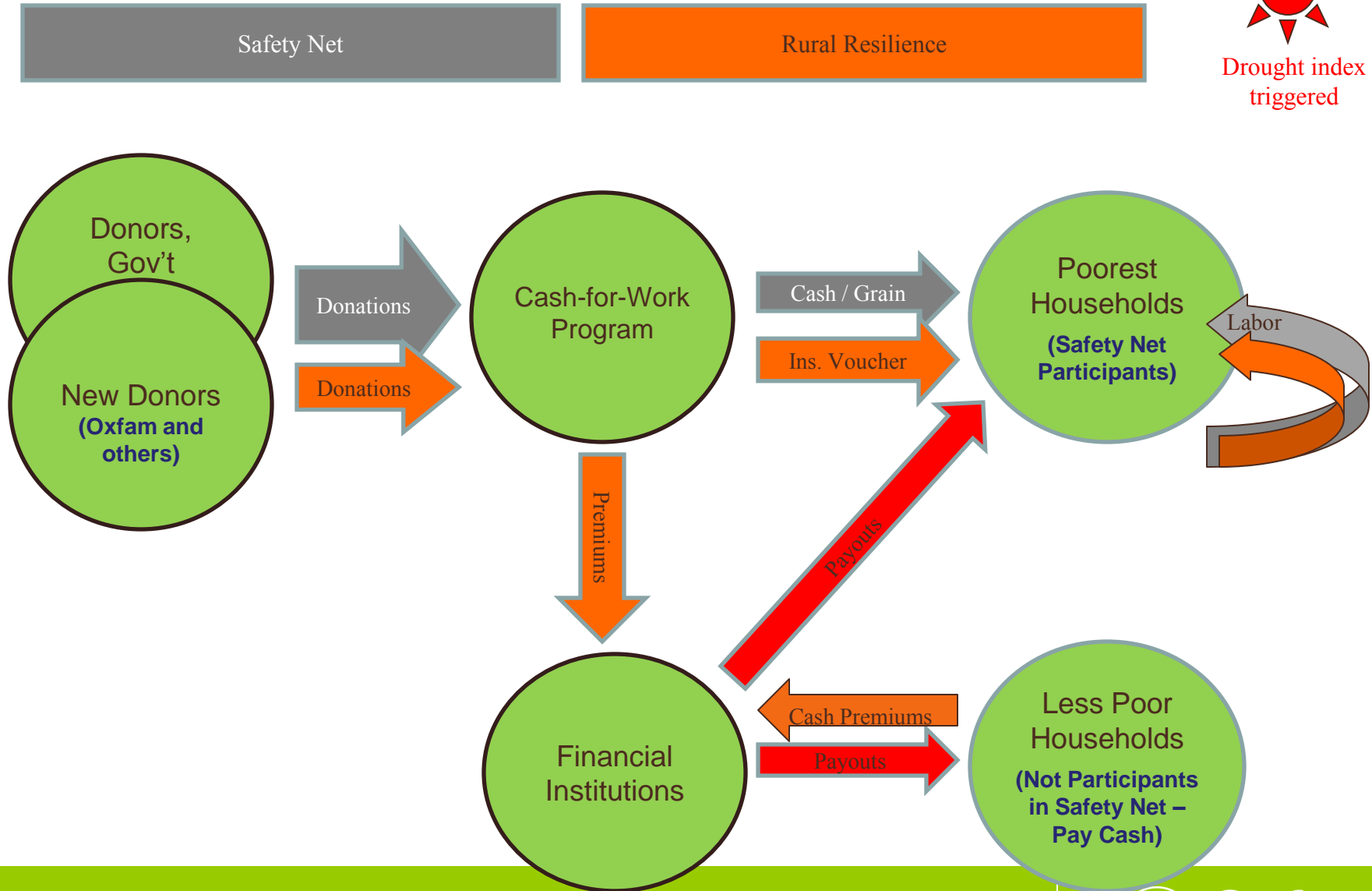
- Managing default risk



# How It Works

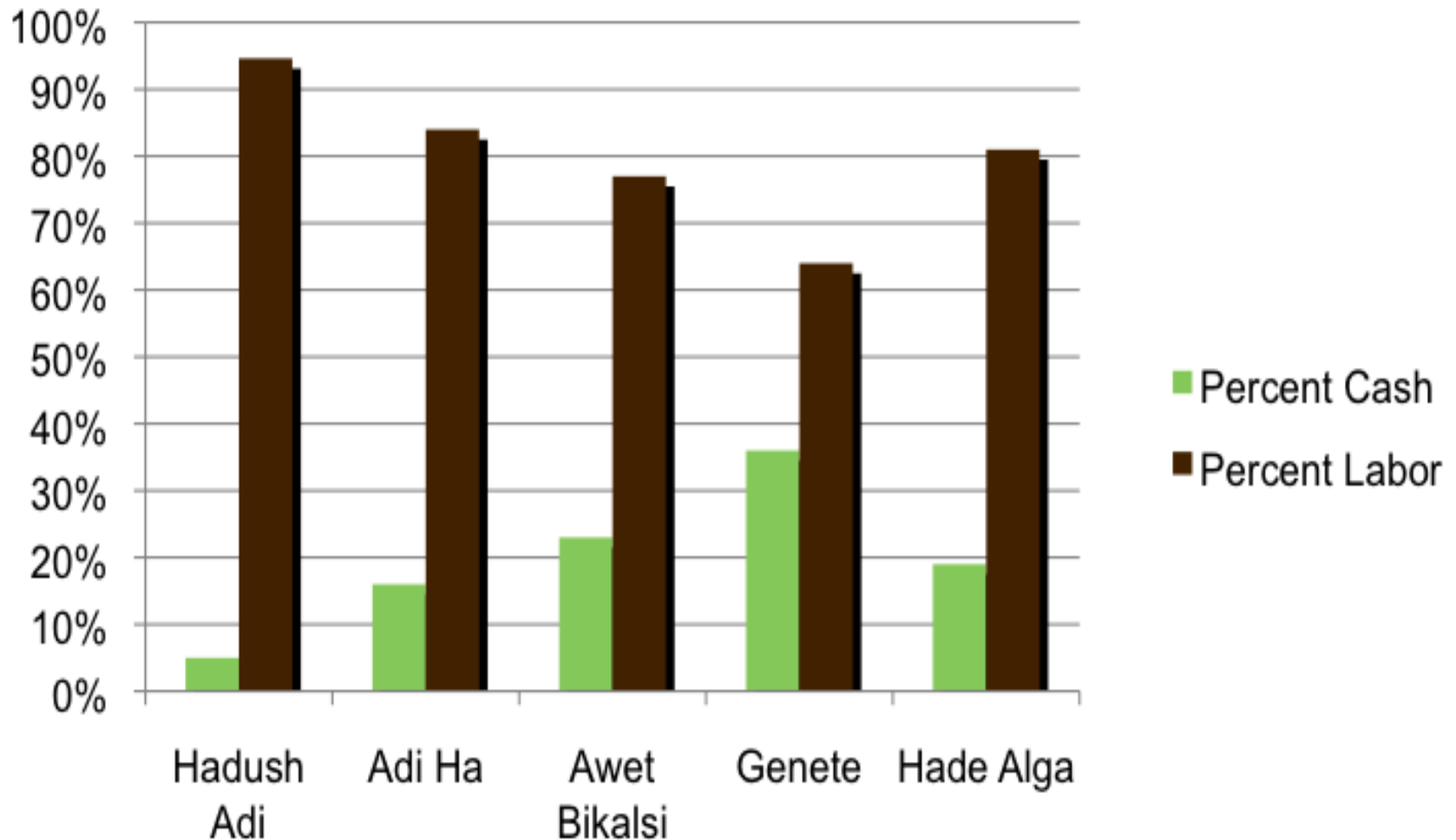


Drought index  
triggered

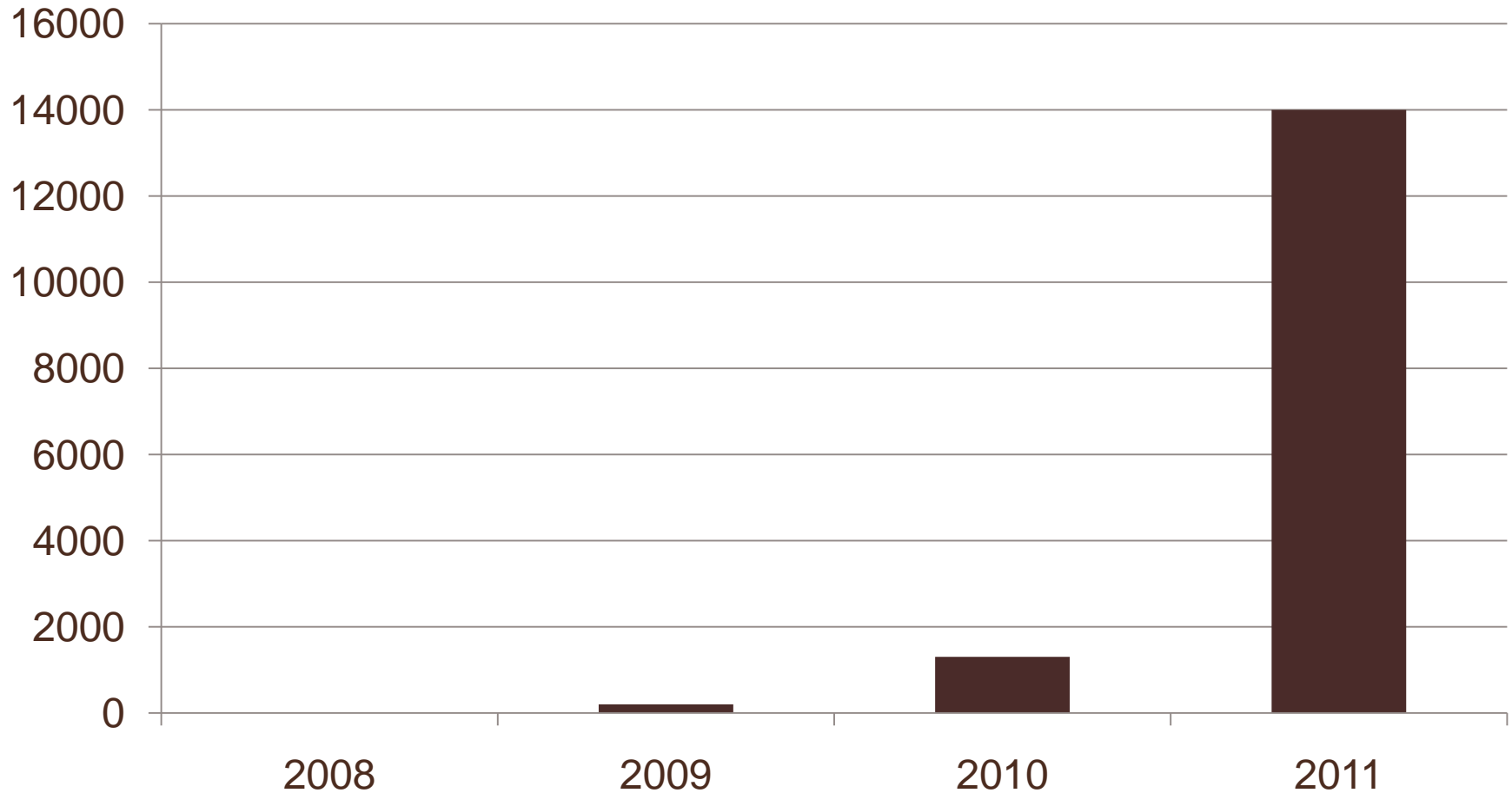


**Oxfam**  
America

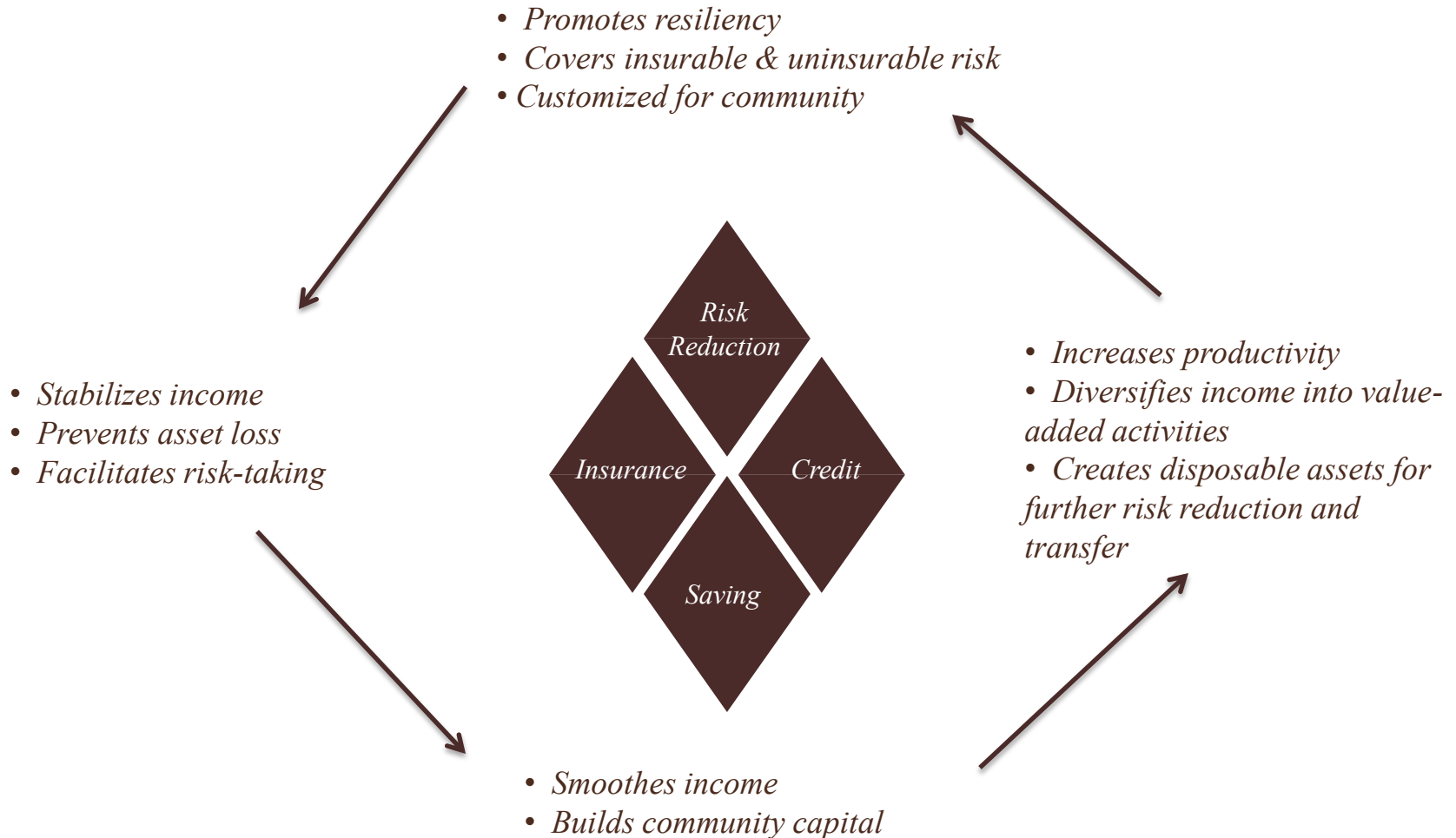
## Percentage of Households that Paid in Cash or Labor by Tabia in 2010



# Households Served



# Conceptual Framework



# Risk Reduction – Community Work





# Risk Reduction Activities

- Agro-forestry
- Stone bunds to conserve soil and water
- Soil fertility management through compost making
- Spate irrigation (using deflecting technologies)
- System of Crop Intensification: teff and wheat



# Risk Transfer – Insurance





# Prudent Risk Taking - Credit



# Risk Reserves – Savings





# Achievements in 2009

- Insured one crop in one village
- 200 farmers signed up
- 35% paid cash and the remaining 65% paid in labor
- 38% female-headed households



# Achievements in 2010

- Project was expanded to four more villages and two more crops
- Two types of insurance products were offered (very dry and dry options)
- 1308 farmers enrolled; 17% paid cash



# Grand Goal for 2011

43 new villages  
13,000 households

# Challenges

- Insurance product design
- Absence of local capacity
- Different partners-different incentives
- Engaging financial institutions (Microfinance, insurance)
- No clear governmental policy on agricultural insurance

# Lessons Learned

- New markets for financial services can be built for poor, rural populations
- Insurance should be one component of a holistic risk management strategy
- **Community risk pool fund** needed as an additional risk management layer
- Farmers must take part in a collaborative assessment and design process
- Ambitious partnerships to bring farmers, civil society, and the public and private sectors into productive alignment are essential



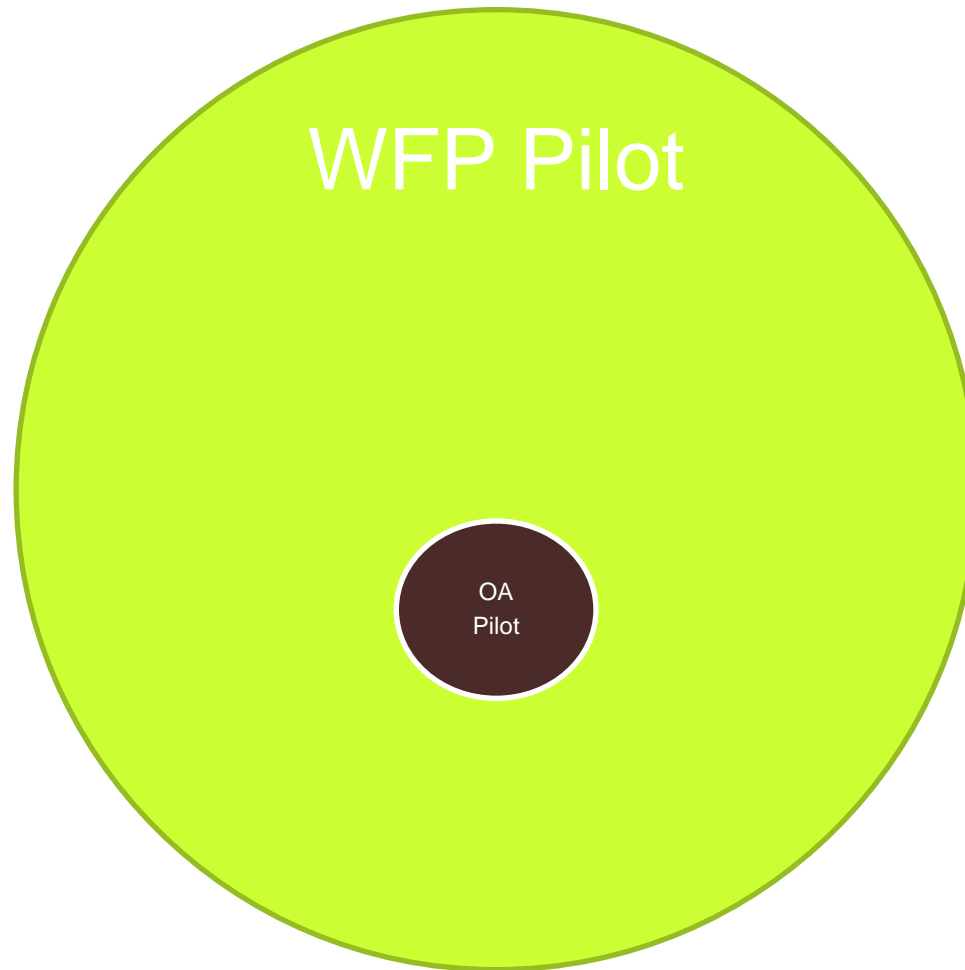
The World Food Program (WFP) & Oxfam Collaboration

# GOING FORWARD

# A Global Institution Leveraged: The World Food Program



***Piloting is in the eyes of the beholder....***



# Evolution of Rural Resilience

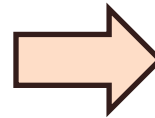
## *Safety Net Only*



1. Food-For-Work
2. Safety Net only provides basic good
3. No agricultural insurance

2007

## *HARITA Pilot*



2009

## *Rural Resilience*



1. Insurance-For-Work
2. Safety Net provides risk management services
3. Pro-poor agricultural insurance markets

2011...

25

# Vision for Scale

## Conditional Cash Transfers in the World: 1997 and 2008

1997



2008



Source: World Bank