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Africa Experiments With Climate Insurance -- for \$5 a Year

By EVAN LEHMANN of [ClimateWire](#)

NEW YORK -- Ethiopian farmers are buying drought insurance with a muscular currency: their own labor.

The experiment is designed to protect about 200 farmers in the village of Adi Ha from dry spells that can wither small fields of teff, a grass with grain seeds, about once every five years. A hunger crisis can follow.

The insurance policies are as tiny as the fields, often about an acre. Each farmer pays the equivalent of about \$5 a year, many of them promising to work for about 10 days on irrigation trenches or other projects in return. The policy will pay up to \$25 in claims.

Without it, a family can go into debt for years, reducing future harvests. The risk might become more acute as atmospheric greenhouse gases threaten to make Ethiopia's rainy season more erratic, possibly causing periodic drought or disrupting traditional growing seasons.

"When farmers are allowed to pay in labor, they can afford a lot more insurance," said Marjorie Victor, senior policy adviser for Oxfam America, an international group that works against hunger and is leading the project. "These are farmers that people told us were uninsurable."

Insurance is rarer than rain in Ethiopia and scarce in many other developing countries. The industry has trouble overcoming the costs associated with underwriting big hazards on a small scale. A \$5 premium will not cover the price of setting up sales shops in far-flung villages filled with people leery about paying for something they can't eat. And you won't see claims adjusters driving for hours into the countryside to inspect a 1-acre field.

No receipts, no claims adjusters needed

This project is designed differently. There are no claims adjusters with "index insurance," an emerging low-maintenance model used in developing countries. Damage is not measured, but nature is. In Adi Ha, the policies pay if a predetermined amount of rain needed to grow teff fails to fall by a certain date.

The index, in this case, refers to rainfall. But there are other examples. Index insurance in the Caribbean nation is triggered when hurricane winds reach a specific speed.

"It's somewhat of a surgical tool. We're not trying to sell people as much insurance as possible. We're trying to transition them out of poverty," said Daniel Osgood, a research scientist at Columbia University's International Research Institute for Climate and Society, which is providing technical support for the project. "It's a very difficult challenge to make these things work."

Adi Ha was chosen because of its difficulties. There wasn't a weather station there to provide the data needed to estimate insurers' risk. Osgood and other scientists began by measuring rainfall with a "cup on a stick." They also used satellite imagery to determine potential rainfall.

They wanted it that way because conditions are similar across Africa. Scientists wanted to establish a model that can be used in remote areas. Adi Ha was the first test. Oxfam hopes to expand the program into five other villages next year.

Ultimately, supporters want an international adaptation fund -- being deliberated as part of a worldwide agreement on climate change -- to help pay for the insurance program. But first it must be shown to work on a wider scale.

A policy keeps farmers out of jail

Insurance is increasingly being seen as a tool for climate adaptation. As natural catastrophes rise globally, supporters say pre-event policies can be used to encourage people and governments to build safer homes, establish early warning systems and pursue other damage-reducing measures.

It can also speed up the delivery of aid. Right now, international donors and governments often wait until people are already starving before stepping in. Insurance payments can come more quickly, supporters say.

In Adi Ha, teff crops fail about once every five years. It's a risky harvest, because the seeds are planted later in the season -- often after initial crops have already failed. Farmers worry that they will default on the small loans -- often about \$20 -- used to buy seeds. The penalty is jail. That can prevent them from planting, driving them deeper into poverty.

The insurance policy is meant to give them confidence. They won't default on their loans. It also assures the micro-lender that the seed loans will be repaid, perhaps increasing credit availability. And it opens up a vast new marketplace to insurers and reinsurers, like Swiss Re, which helps fund the project.

David Niklaus Bresch, director of risk management at Swiss Re, said the company has a "strong interest" in expanding into developing countries.

Swiss Re, a leader on climate change, is preparing its customers for future hazards, in part because the company might have to pay fewer claims. The company is reinsuring an Ethiopian insurance company, Nyala Insurance.

"We think if you stop emissions today, climate change will continue," Bresch said, referring to the lasting effects of greenhouse gases already in the atmosphere.

200 farmers learn Insurance 101

But it's unclear if the insurance project will work, or if it can be replicated. Oxfam, a well-known organization in Ethiopia, spent about a year teaching Adi Ha residents about the benefits of insurance. The project was deemed a success when 200 farmers, or about 20 percent of the population, enrolled.

It would be a huge challenge to devote the same time and money across an entire country -- or continent.

Also, the project is deeply dependent on another program that provides food to about 8 million Ethiopian farmers in return for labor. The Productive Safety Net Program pays the farmers' insurance premiums in cash through a \$2,500 grant from Oxfam. The farmers pay that program back by working on sustainability projects like irrigation systems.

In the future, an international adaptation fund that receives money from high-emitting nations -- like the United States -- would pay for the premiums in exchange for labor, supporters hope.

Meantime, Osgood and a team of volunteers at Columbia University will contribute to the project as "moonlighters."

"I wish I had a budget [equivalent] to open a restaurant in Manhattan," Osgood said metaphorically. "Then we could nail it."

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