

Building resilience through Index Based Livestock Insurance: Insights from Ethiopia

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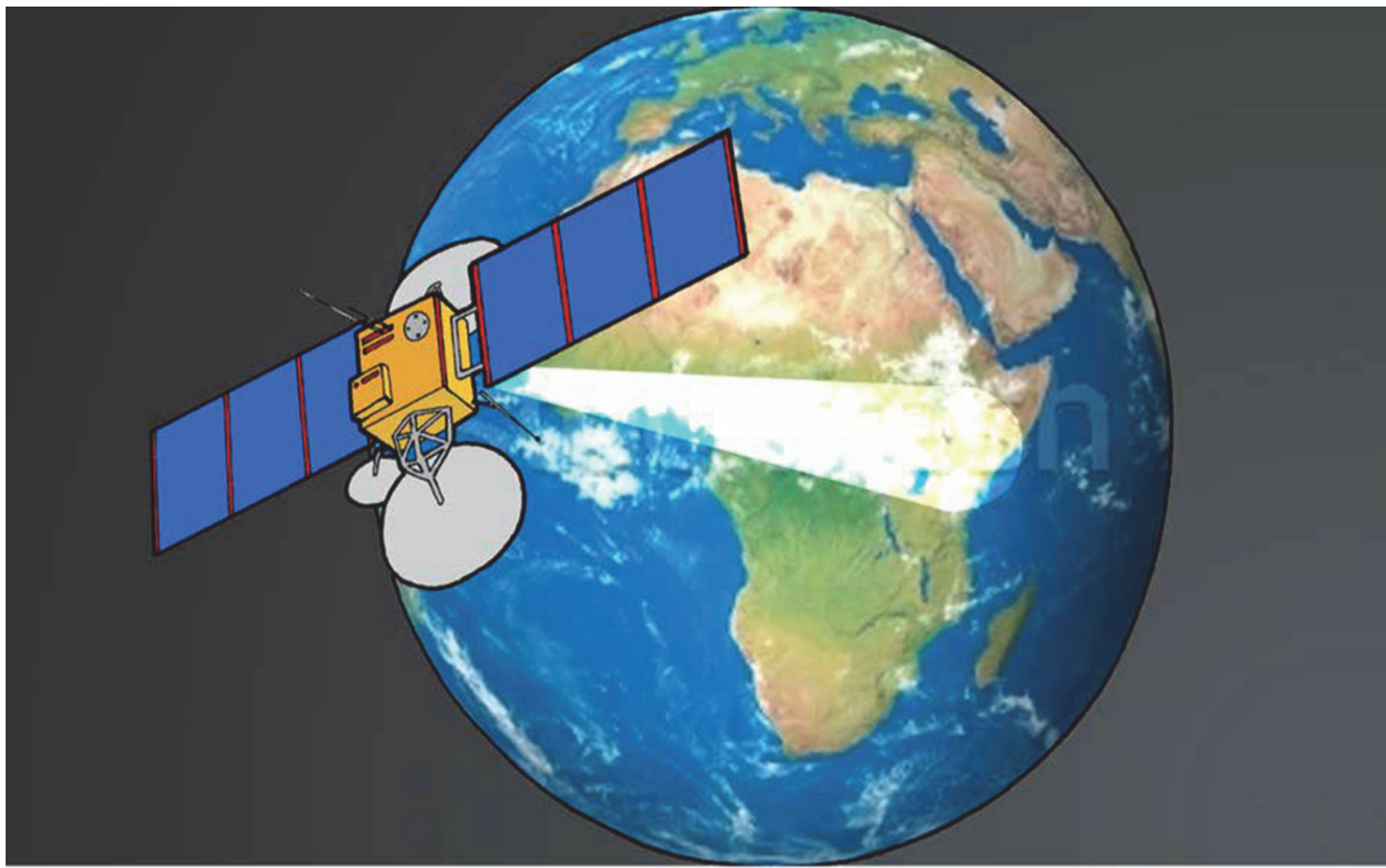
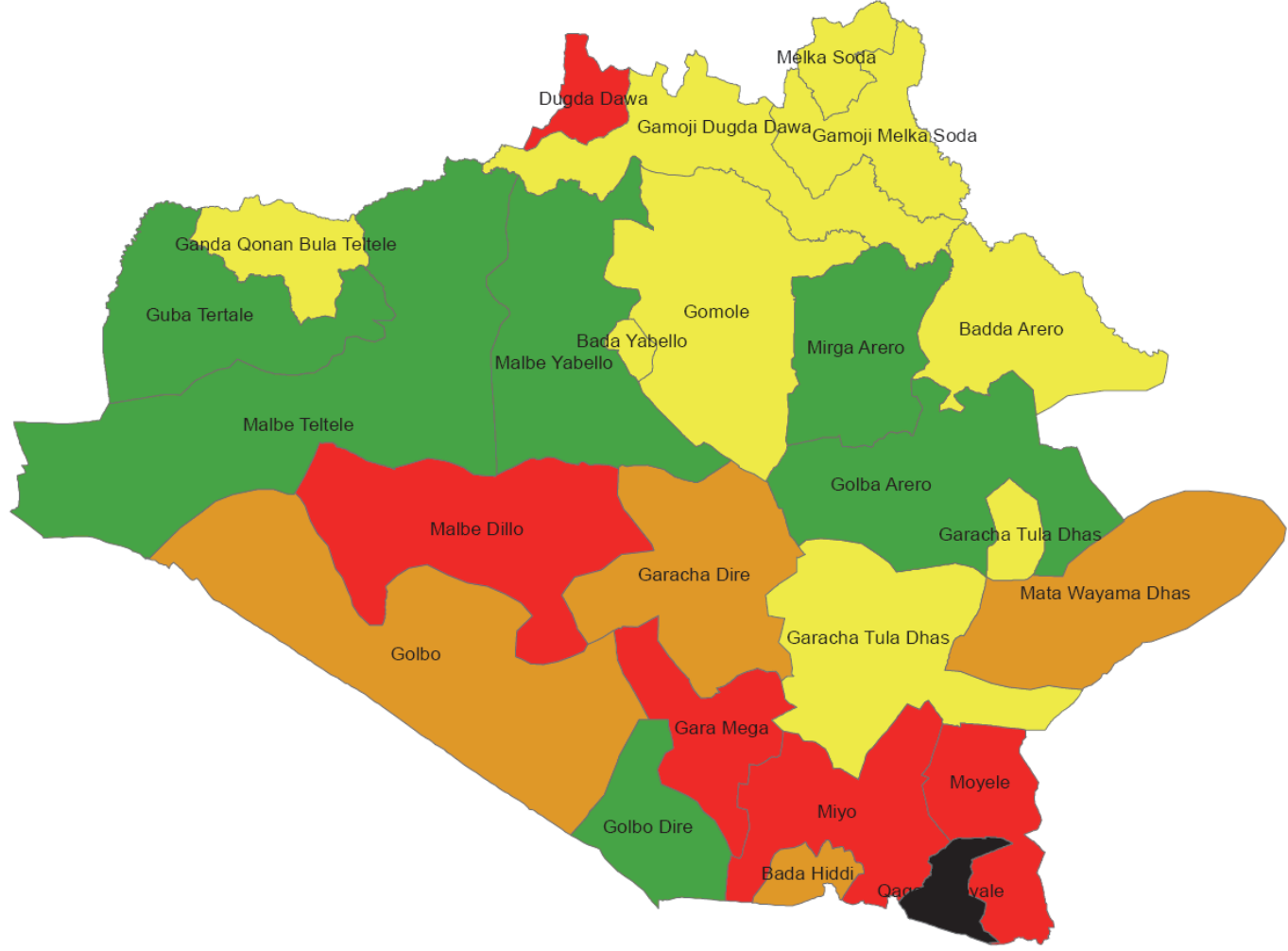
Motivation

- Drought is a covariate shock that erodes livestock assets pushing households into poverty traps.
- Poor pastoralists have few available strategies to manage and cope with drought risk related to livestock mortality.
- Over 300,000 livestock deaths recorded due to drought in the Borana region, estimated at USD 85 million as of July 2011.
- The lack of credit and insurance markets in infrastructure-deficit environments has rendered traditional risk sharing arrangements weakened and insufficient.
- Relief to prevent adverse impact of drought, sometimes delayed and/or inadequate.
- Risk management instruments that are both feasible, commercially viable and potentially effective in reducing poor pastoralists’ uninsured risk exposure, required.

Index Based Livestock Insurance (IBLI) and how it works

- Designed to protect pastoralist against drought-related livestock losses.
- Index is calculated using a measure of pasture/forage availability recorded by satellites, called the normalized differenced vegetation index (NDVI).
- Pastoralists purchase an annual contract with possibility of payout in either February or October.
- Contract holders receive payouts when forage conditions deteriorate below a set threshold.
- Payouts are made when the forage situation is below the worst 20 percentile.
- Payouts are calculated automatically (no individual filing of claims)—hence solving issues of moral hazard and adverse selection.

Green	Good forage availability. Represents between 65 th –100 th percentile of forage conditions over time. This is above normal and stable forage condition.
Yellow	Forage conditions fall between 45 th –65 th percentiles. Here, the forage situation is around or slightly above normal.
Orange	Forage conditions are between 30 th –45 th percentile. The division in question is below long term average but conditions are not yet serious.
Red	Forage condition is between 20 th –30 th percentiles. Drought situation is serious but not yet classified as severe. At this stage, indemnity will have NOT been triggered.
Black	Severe drought conditions. Forage condition are below the 20 th percentile. Indemnity payout have been triggered.



Activities, payouts and plans

- Contract design and index development by ILRI and Cornell University
- Cross-border trips of elders of four ethnic groups to Marsabit, Kenya, for product-awareness raising
- Launch of sales in collaboration with Oromia Insurance Company SC (OIC), regional government, Borana zone, ILRI and Cornell University in 2012
- More than 6,000 policies have been sold through local microfinance institutions (MFIs) and cooperatives acting as distribution channels since 2014—currently more than 80 MFIs selling the IBLI product in the Borana zone
- Extension and education material created for all stakeholders involved in the implementation process
- Dissemination of product information through workshops and training programs
- During the latest drought of 2016/17, OIC paid to 1,500 pastoralists as an indemnity worth ETB 1.6 million (USD 80,000)
- ILRI and Kifiya Financial Technologies PLC signed an MoU and a letter of agreement in April 2016. The main objective of the MoU is to design, implement, provide and assess livestock insurance programing in Ethiopia.
- ILRI and WFP signed MoU to collaborate on satellite index-insurance in pastoral areas of Ethiopia to work in the Somali region



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ILRI thanks all donors and organizations which globally support its work through their contributions to the [CGIAR system](#)



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