

## Effectiveness of Weather Index Insurance for Smallholders in Ethiopia

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**Abstract :** Weather-related shocks can threaten the ability of farmers to maintain their agricultural output and food security levels. Informal coping mechanisms (i.e. migration or community risk sharing) have always played a significant role in mitigating the negative effects of weather-related shocks in Ethiopia, but they have been found to be an incomplete strategy, particularly as a response to covariate shocks. Particularly, as an alternative to the traditional risk pooling products, an innovative form of insurance known as Index-based Insurance has received a lot of attention from researchers and international organizations, leading to an increased number of pilot initiatives in many countries. Despite the potential benefit of the product in protecting the livelihoods of farmers and pastoralists against climate shocks, to date there has been an unexpectedly low uptake. Using information from current pilot projects on index-based insurance in Ethiopia, this paper discusses the determinants of uptake that have so far undermined the scaling-up of the products, by focusing in particular on weather data availability, price affordability and willingness to pay. We found that, aside from data constraint issues, high price elasticity and low willingness to pay represent impediments to the development of the market. These results, bring us to rethink the role of index insurance as products for enhancing smallholders' response to covariate shocks, and particularly for improving their food security.

**Keywords :** index-based insurance, willingness to pay, satellite information, Ethiopia

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