

Demand for Index Based Micro-Insurance (IBMI) in Ethiopia

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Abstract : Micro-insurance is a relatively new concept that is just being introduced in Ethiopia. For an agrarian economy dominated by small holder farming and vulnerable to natural disasters, mainly drought, the need for an Index-Based Micro Insurance (IBMI) is crucial. Since IBMI solves moral hazard, adverse selection, and access issues to poor clients, it is preferable over traditional insurance products. IBMI is being piloted in drought prone areas of Ethiopia with the aim of learning and expanding the service across the country. This article analyses the demand of IBMI and the barriers to demand and finds that the demand for IBMI has so far been constrained by lack of awareness, trust issues, costliness, and the level of basis risk; and recommends reducing the basis risk and increasing the role of government and farmer cooperatives.

Keywords : agriculture, index based micro-insurance (IBMI), drought, micro-finance institution (MFI)

Conference Title : ICAEM 2016 : International Conference on Agribusiness Economics and Management

Conference Location : Prague, Czechia

Conference Dates : March 30-31, 2016