

Livestock insurance for pastoralists in Ethiopia: exploring opportunities for scaling

Yihenew Zewdie, Masresha Taye and Francesco Fava



Key messages

- Index insurance for livestock can be a viable business option to insurance companies and an instrument of mitigating the impact of drought shocks.
- Index insurance for livestock has an inherent flexibility to complement social protection initiatives such as the Ethiopian Rural Productive Safety Net Program.
- Protection-oriented livestock insurance model helps pastoralists keep core breeding animals alive during severe droughts when pasture/grazing are depleted. It also engenders several other social and welfare benefits for pastoralists who have insured their livestock.
- Index insurance does not come cheap. Developing and operating an index insurance for livestock product requires a range of specialist expertise both in the public and private sector actors.
- It takes more than insurance to establish index insurance for livestock. Smooth inter-organizational collaboration between technical agencies, insurance underwriters and government authorities is key.
- No country has successfully achieved environmental resilience through projects alone, but rather through integrating workable experiences into a national program of action.
- Sustainable, large-scale index insurance initiative requires a clear and well-articulated policy and programming structure. In order to steer the scaling process in an informed manner, the federal government should consider establishing a task force on index insurance for livestock that would review experiences, assess challenges, weigh options and show a way forward.
- Insurance by itself is not a panacea. Resilience to drought through livestock insurance can be more impactful when complemented with interventions that would strengthen the resilience of pastoralist livelihood systems.

Background

Pastoralists make up about 14 percent of Ethiopia's population—approximately 110 million people—and inhabit about 60% of the country's landmass. The pastoral production system in Ethiopia is characterized by extensive livestock grazing and seasonal migration. Pastoralists raise a significant proportion of the national herd¹, and most of Ethiopia's live animal and meat exports are also sourced from pastoral areas.²

Livestock represent a large share of the household assets of pastoralists and are therefore key for sustaining rural livelihoods and human welfare.³ For many years, drought has been one of the major threats to the economy of pastoral households. While pastoralists in Ethiopia have developed various traditional coping mechanisms to overcome their livelihood challenges, including the problems they face during drought, these mechanisms

are undermined by environmental changes and political and socioeconomic marginalization,⁴ pushing pastoralists to increasingly rely on humanitarian assistance.

Alongside traditional mitigation strategies, humanitarian relief and other resilience building measures, disaster risk financing and insurance (DRFI) instruments have emerged as powerful tools for protecting vulnerable people from the impact of drought. The innovation in such instruments is to link prearranged financing solutions to credible response plans. This can make funding available more quickly after disasters, while strengthening predictability and enhancing cost-effectiveness. One such instrument is index insurance. Ethiopia and Kenya have been at the forefront of efforts to implement such solutions for extensive pastoral systems with the Index-Based Livestock Insurance (IBLI) program, which the International Livestock Research Institute (ILRI) has spearheaded in the Borana area of Oromia Regional State since 2012.

Until recently, IBLI-Borana was the only smallholder livestock index-insurance scheme available in Ethiopia.⁵ In March 2018, a social protection-orientated livestock insurance initiative based on the IBLI design—Satellite Index Insurance for Pastoralists in Ethiopia (SIPE)—was established in the Somali Regional State.⁶ SIPE was inspired by the experience of the Kenya Livestock Insurance Programme (KLIP) through which the Government of Kenya has provided fully subsidized IBLI coverage since 2015 to selected beneficiaries for social protection purposes.

Understanding index-insurance for livestock

Experience has shown that conventional commercial insurance is not viable for extensive pastoral production systems due to, among other things, the high transaction costs required to verify claims and losses. Index insurance is an attractive alternative in that it does not insure individual losses per se, but is linked to independently verifiable, transparent and pre-defined quantitative indicators.⁷

While index insurance for livestock takes different forms, asset protection models such as IBLI-Borana, KLIP and SIPE, have been widely adopted by pastoralists in East Africa. Based on satellite indicators of pasture conditions, these schemes enable direct payouts when

such conditions begin to deteriorate at the early stages of drought, i.e., before pastoralist policyholders experience major losses of animals or severe impacts. In East Africa, index insurance for livestock has either been sold directly to individual livestock producers or provided by governments (federal/regional) to vulnerable small-scale livestock producers as a livelihood protection instrument.

Index insurance for livestock in Ethiopia

IBLI-Borana

IBLI-Borana was introduced as a retail insurance product for four livestock species—camels, cattle, goats and sheep. Oromia Insurance Share Company (OIC) serves as the commercial underwriter for the product. OIC is also responsible for a range of insurance extension and promotion-related activities, including community-level awareness, marketing and premium collection, sales supervision and claims payment. Sales/premium collection and claim payments are carried out by primary cooperatives on OIC's behalf.

Box 1 includes basic information on IBLI in Borana.

ILRI has supported IBLI through contract design, impact assessment, delivery and institutional support. In addition, ILRI has hosted awareness events and technical training for key stakeholders, including insurance companies and the National Meteorology Agency (NMA). ILRI also used digital technology to develop interactive learning materials.

Evidence, including results of ILRI's research and impact evaluation work, point to several economic, social and welfare benefits of IBLI operations (See Box 2).

Design features of SIPE

In March 2018, the World Food Programme (WFP) Ethiopia Country Office, with technical support from ILRI and in collaboration with the Somali Regional Government and four insurance companies, launched the SIPE pilot program. At the end of 2019, SIPE provided an index insurance scheme for livestock to a total of 7,816 households in four woredas⁸ in the Somali region. The policy holder is the

Box 1: IBLI-Borana

ETB

113 million:

Total insured value covered by all purchased IBLI policies in Borana since 2012

83:

Total number of primary cooperatives in Borana working to increase awareness and sales of IBLI

16,000:

Total number of pastoralists who have purchased IBLI to protect their animals in Borana since 2012

ETB

12,855,632:

Total amount of claims OIC paid in nine seasons to 8,285 pastoralists in Borana since 2014

ETB

4,886,785:

Largest amount of insurance claims paid per season to policy holders to-date (September 2019)

¹ In Ethiopia, pastoralist areas account for about 40% of the cattle, 75% of the goats, 25% of the sheep, 20% of the equines and 100% of the camels. (FDRE (Federal Democratic Republic of Ethiopia) Central Statistical Agency. 2017. *Statistical Abstract of Ethiopia*. Addis Ababa, Ethiopia: FDRE)

² Akliu, Y. and Catley, A. 2010. *Mind the gap: commercialization, livelihoods and wealth disparity in pastoralist areas of Ethiopia*. Medford, MA: Tufts University.

Somali Regional Government. This is a fully subsidized scheme; WFP bears the entire cost of the premium.

SIPE builds on Ethiopia's Rural Productive Safety Net Program (RPSNP). The initiative allows poor pastoralists with 5–11 tropical livestock units (TLUs⁹) to access index insurance for livestock through an Insurance for Assets (IfA) scheme where each beneficiary household participates in the Public Works scheme of RPSNP for extra days as a contribution towards the insurance premium.¹⁰

While the IfA approach is widely considered to be an important complement to the RPSNP, studies by ILRI in Ethiopia indicate the feasibility of introducing retail livestock insurance to pastoralists on a voluntary purchase basis as well.¹¹

Policy engagement to scale index insurance for livestock

Over the years, ILRI in collaboration with its investors and technical partners, has organized technical workshops and policy conferences to share lessons learned from the IBLI approach and explore opportunities for scaling index insurance for livestock throughout Ethiopia.¹² These engagement identified the following as conducive factors that are observed on the ground and which could support the implementation of a national program of index insurance for livestock.¹³

- The existence of sector-specific, as well as overarching policies and strategies, that recognize the value of livestock insurance in enabling pastoralists to become climate resilient;
- The preparedness of the Ministry of Agriculture to provide the necessary leadership and organizational support needed to expand livestock insurance;
- The increased interest of the Ministry of Peace and growing awareness among key stakeholders at regional state levels around the importance of investing in livestock insurance;
- The readiness of the chief insurance regulatory agency—the National Bank of Ethiopia—to provide the support required to institutionalize agricultural insurance (including livestock insurance);

Box 2: IBLI-Borana impact at household/local levels

- IBLI reduced total livestock mortality risk by 25–40% in northern Kenya. Similar findings are plausible in the Borana area. These findings are from a neighbouring county in northern Kenya called Marsabit. Marsabit and Borana not only share borders, but also display similar biophysical and socioeconomic characteristics—hence the contention.
- During drought, households with IBLI coverage were less likely to skip meals and less likely to sell livestock at any price out of desperation.
- IBLI coverage increased investments in livestock as a productive asset, thereby helping poor people to move away from the poverty trap threshold.
- Insurance claim payouts have reduced the necessity of waiting for support from others when severe drought hits. Even in the absence of severe drought or claim payments, IBLI improves the wellbeing of purchasers by providing peace of mind.
- IBLI claim payouts have facilitated local trade, rural-urban linkages and highland-lowland interactions.



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- In partnership with the International Committee of the Red Cross (ICRC) and Oromia Insurance Share Company (OIC), ILRI has just started implementing an IBLI pilot project in East Hararge Zone of Oromia Regional State.
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- See, for example, ILRI and CTA. 2018. *Scaling index insurance in Ethiopia: lessons from the Index-Based Livestock Insurance programme.* Policy Dialogue Workshop Report, Addis Ababa 10 July 2018.
- ibid*

- The increased commitment of private insurance companies to capture the untapped livestock insurance market with a view to long-term profitability;
- The existence of national and international experiences with a variety of index-based insurance schemes for livestock in a pastoralist context to provide robust evidence of value for households and implementation lessons around effectiveness and sustainability; and
- The presence of technical and financial partners interested in upscaling index-based agricultural insurance in Ethiopia.

A way forward for Ethiopia

Only a very small number of livestock populations and geographic areas in Ethiopia are currently served by DRFI mechanisms, including IBLI. Experience has shown that achieving environmental resilience requires a national program of action grounded in knowledge and experience.

Evidence of growing demand and interest indicates that the time is right to invest in promoting index insurance for livestock across Ethiopia. The scaling process has already begun and stands to benefit from a process that allows for a comprehensive assessment of experiences with livestock insurance and options for instituting viable models of implementation.

In this regard, Kenya’s experience with KLIP is instructive. Kenya recognized that developing an effective index insurance policy requires a joint effort by public and private actors and a multidisciplinary partnership led by experts in the field. Consequently, the government established a dedicated task force, supporting it until a national agricultural insurance policy/programming framework had been developed.

Likewise in Ethiopia, consideration could be given to establishing a task force on index insurance for livestock, possibly under the joint leadership of the Ministry of Agriculture and the Ministry of Peace. The task force, which would include representatives of relevant national and international organizations, could explore possibilities for using index insurance for livestock, including as a complementary instrument to early warning and safety net operations, thereby facilitating the emergence of a well-coordinated drought response policy. Such a policy should recognize that promoting drought resilience through livestock insurance will have a greater impact when combined with long-term development interventions to strengthen the overall resilience of the livelihood systems of pastoralists.



Contact

Yihenew Zewdie
ILRI, Ethiopia
y.zewdie@cgiar.org

Authors

Yihenew Zewdie, Masresha Taye and Francesco Fava all work for the International Livestock Research Institute.

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