



Providing Access to Livestock Insurance for Pastoralists in the Somali Region of Ethiopia

Overview

Access to climate risk insurance provides fast recovery and protection from loss and damage, thereby helping countries and households to better manage the impacts of the climate crisis. The UN World Food Programme (WFP) is advancing financial protection as an avenue for building resilience to extreme weather events. WFP has been implementing the Satellite Index Insurance for Pastoralists in Ethiopia (SIPE), with financial support from the Swedish International Development Agency (SIDA) and the Danish International Development Agency (DANIDA).

SIPE effectively provides access to insurance to pastoralists and agro-pastoralists in exchange for their contribution to the construction and rehabilitation of community assets. These assets, such as terracing and other soil and water conservation activities, are designed with local authorities and decrease communities' vulnerability to climate shocks over time. In addition, they receive training on financial literacy, income diversification, access to veterinary services and seed and fodder provision to build their longer-term resilience to drought-related shocks.

Programme development and design

SIPE was designed based on a thorough feasibility study, building on existing examples (such as the Kenya Livestock Insurance Programme (KLIP)). Over the years, many community consultations took place to ensure that the insurance product and the integrated risk management approach fit with the needs and demand of the targeted pastoral households. Although few women lead pastoral activities in this region, a specific focus on gender is placed so that women are targeted and considered in the programme, as shown in recent monitoring conducted after the latest payout. Additionally, by design, SIPE targets vulnerable pastoralist households who are under the productive safety programme of the government (PSNP), confirming the level of food insecurity. As such, a social protection entry point is undertaken, while the programme targets graduating participants.

This index-based livestock insurance product uses technology to monitor vegetation levels in the Somali region of Ethiopia. After identifying vegetation that is below the average growth thresholds, signaling that pasture and fodder availability may be reduced for livestock, SIPE then triggers insurance payouts that are distributed to pastoralists' households through a combination of mobile money and cash distributions. The objective is to have the payouts reach households quickly enough so that pastoralists can take the necessary steps to protect their herds and avoid distress sales, such as purchasing or producing fodder, paying for veterinary services, or purchasing water or fuel for pumping irrigation water.



Impact and evaluation

In Ethiopia, between August 2021 and February 2022, 28,297 pastoralist households insured through policies subscribed to the Somali regional government offices received payouts totaling US\$ 1.8 million over three rounds of consecutive distributions as drought persisted in the region. The insurance policies protected the households from increasingly frequent and strong climate shocks and helped minimize and address climate-induced losses and damages, while other activities of the programme strengthen the resilience and adaptive capacity of communities even in years when an extreme drought does not trigger the index of the insurance policy.

Surveys conducted after the disbursement of payouts indicated that:

- On average, ETB 1,240 (US\$ 25) was received by each household with a maximum of ETB 9,000 (US\$ 180) and a minimum ETB 900 (US\$ 18). Over half of the households reported that the assistance came on-time to protect the livestock and cope with the impacts of droughts.
- Nearly half of the payout amounts received were spent on protecting livestock. This shows how index-based livestock insurance can help families to maintain their herds through harsh drought conditions. There was a notable reduction in spending on debts between September 2020 and March 2022, which demonstrates the increased effectiveness and timeliness of payouts to cushion households from economic vulnerabilities and minimize losses and damages.
- The percentage of households adopting consumption-based negative coping strategies (such as eating less preferred food, reducing the size of meals or the number of meals eaten per day) decreased from 19 percent in 2020 to 11 percent in 2022. Notably, households that reported that the assistance came too early reported less stress, and households headed by women continue to experience more stress than those headed by men.
- The adoption of stress strategies, specifically, the percentage of households borrowing food or purchasing them on credit decreased from 75 percent in 2020 to 48 percent in 2022 and the proportion of families selling households assets decreased from 18 percent in 2020 to three percent in 2022.
- While the drought has affected many households and led them to migrate to another location or sell their houses or land, overall, significant reductions were observed in the proportion of households who migrated, decreasing from 18 percent in 2020 to five percent in 2022.
- 84 percent of the households covered by the index-based livestock insurance are willing to pay a contribution in cash for insurance in the future.
- A majority of the respondents were satisfied with the amount of payouts received (81 percent in August 2021 and 67 percent in March 2022), with the ease of access (97 percent in August 2021 and 94 percent in March 2022) and with the information received during the payouts (96 percent in August 2021 and 99 percent in March 2022).



Lessons learned

To ensure the long-term sustainability of index-based insurance in Ethiopia, efforts are underway to facilitate local ownership of this programme. WFP intends to implement a comprehensive capacity development and policy advocacy strategy targeting beneficiaries, key implementing partners and policy actors. This strategy aims to create informed demand to encourage participation in the insurance scheme; enhance technical know-how among the implementing partners; and strengthen advocacy for policy frameworks to mainstream insurance at regional and federal government levels.

To expand the number of beneficiaries and their access to financial services beyond insurance, WFP is working with partners across the UN system, private sector, and government. Planned collaboration will aim to enroll targeted beneficiaries into shock-responsive savings products, in addition to accessing the insurance product, which releases finance to cope with moderate droughts or other shocks not covered by insurance; digital financial services; and savings accounts that enhance financial inclusion and financial literacy. This combination of financial tools will strengthen pastoralists' resilience to drought and accelerate their investments in livestock production for their subsistence as well as participation in regional livestock markets, leading to the diversification and strengthening of livelihood outcomes for pastoralists in the region.