

WEATHER SECURITIES

Reducing Risk for Farmers

ETHIOPIA



INTERNATIONAL FOOD POLICY
RESEARCH INSTITUTE
sustainable solutions for ending hunger and poverty
Supported by the CGIAR

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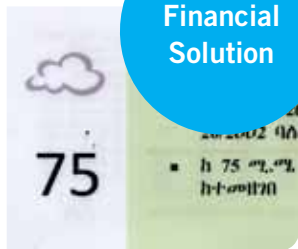
Development Problem



Coping with erratic rainfall is one of the biggest challenges facing rural poor people. Drought can be devastating in the short term, and can perpetuate long-term poverty by causing farmers to sell assets and forgo investments. To protect against risk, poor people need flexible, simple, and affordable insurance products.

Farmers purchase weather securities—tickets that pay out for moderate or severe reductions in rainfall. Securities pay off based on objective cut-offs, which makes benefits clearly defined and easily understandable. While the cut-offs are designed around crop needs, the insurance is not limited to a particular crop. Traders and others whose income is affected by drought can also participate.

Financial Solution



Innovation



Weather securities are simpler and more flexible than previous forms of weather-index based insurance, thereby making them appealing to farmers and cheaper to provide. They have low overhead, so they are replicable and scalable. The project will target farmers in Ethiopia but could potentially be expanded far beyond that.