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Microinsurance and Social Protection Ethiopia Country Case Study

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Country context: overview of social protection main programmes and climate-change exposure

Over the last decade, Ethiopia has achieved significant progress in economic growth and reduction in poverty, which dropped from 30 per cent in 2011 to 24 per cent in 2016, based on the national poverty line⁴. Yet, challenging climatic conditions, especially prolonged droughts, in addition to the COVID-19 pandemic and conflict in Northern Ethiopia (in Afar, Tigray and Amhara) are contributing to the asseveration of food insecurity in the country, where WFP estimates that 20.4 million people require food support⁵.

Ethiopia is one of the most risk-exposed countries in East Africa, ranking 17th globally in hazard and exposure, according to the INFORM Risk Index⁶. From 2015 to 2020 the country suffered from at least 16 disasters provoked by natural hazards⁷, including floods, landslides and droughts, the latter being the most impactful. As of 2022, 7.4 million people are estimated to need food assistance due to the impact of prolonged droughts, after consecutive failed raining seasons⁸.

Importantly, the country has increased coverage of social protection, especially in food-insecure rural areas. Ethiopia's flagship social assistance scheme is the Productive Safety Nets Programme (PSNP), a large national social safety net programme implemented by the Ministry of Agriculture, which is now it is in 5th phase (PSNP5).

PSNP5 provides cash (for 75 percent of recipients) and in-kind support (for 25 percent of recipients) to food insecure families living in most drought-prone areas

in exchange for engagement in public works activities designed to improve communities' climate resilience, with 6-months duration. For families that are labor-constrained (approximately 20 percent), the social safety net scheme provides unconditional cash transfers for 12 months⁹. The programme has a rural component, which's main objective is to support rural households' livelihoods, while also enhancing resilience to shocks at both family and community level – as most public works interventions are also aimed at increasing climate resilience, through various soil and water conservation measures.

As of 2020, PSNP (Phase 4) covered 2.5 million rural households (8 million people), targeting 40 percent of the country's woredas (districts). The scheme is financed by both external donors as well as through the government's own budget allocation, which increased significantly from three percent in fiscal year 2015/2016 up to 30 per cent in fiscal year 2019/2020¹⁰. In its 5th phase, confirmed in 2021, the government of Ethiopia and its partners committed US\$2.2 billion to finance the programme for five years, aiming to cover up to 9 million people¹¹.

Relevant linkages of microinsurance and social protection/programme features

To align programme efforts with the existing national social safety net, WFP in Ethiopia introduced innovative climate risk financing instruments aimed at increasing households' resilience to climate shocks through facilitating access to index-based microinsurance to PSNP beneficiaries. Two major Disaster Risk Management (DRM) programmes are currently under

implementation: the R4 Rural Resilience Initiative (R4), that supports food-insecure households with an integrated climate risk management approach centered on weather-based index insurance in drought-prone areas in the Tigray region, since 2012¹², and Amhara region, since 2013; and the Satellite Index Insurance for Pastoralists in Ethiopia (SIPE) programme, implemented in the Somali region since 2018¹³. The majority of R4's 20,548 participant households and all of SIPE's 7,788 participant households are also beneficiaries of PSNP, an important feature that strengthens the programmes' integration with as well as adds a shock-responsive component to the national social protection system.



In 2021, Ethiopia ranked the 3rd position worldwide for the number of people with access to microinsurance solutions supported by WFP (only after Zambia and Malawi), totaling 248,000 smallholder farmers and producers covered, out of which 80,000 received approximately US\$79,000 in payouts in the same year¹⁴. SIPE has also been triggered in 2021-2022 (between August and February), and US\$ 1.8 million were disbursed by the insurance pool directly to beneficiaries through a digital financial platform (BelCash). Payouts were distributed over three rounds to 28,297 pastoralist households in 11 woredas in Somali region covered by the programme¹⁵.

In order to provide the financial protection of microinsurance solutions through the national social protection system, WFP coordinated with the local kebele (village) food security task force to target PSNP beneficiaries enrolled in the Public Works Programme component. With WFP support, social protection beneficiaries can now access weather or vegetative index-based insurance for their agriculture production or livestock by participating in an additional specified number of labour days through the Insurance-for-Work (IfW) approach, with WFP paying insurance premiums on behalf of participants.

Importantly, insured households are entitled to receive timely payouts if satellite measurements of rainfall or vegetation levels exceeds a pre-identified threshold, providing financial security and reducing reliance on negative coping strategies (such as selling productive assets or taking children out of school). Access to insurance is also stimulating investments in resilient livelihoods and increasing households' access to loans, as per detailed below.

Through R4, 49,797 rural households were covered with microinsurance solutions in 2021, throughout 16 woredas. Under the project, capacity strengthening is being provided to local institutes to form local index design teams and to develop Weather Index Insurance products in Ethiopia, which is key for the project's sustainability. Also, in order to improve beneficiary registration, a basic digital registration tool has been introduced in 2021 which will be further enhanced.

In SIPE, insurance is provided based on a Normalized Difference Vegetative Index (NDVI), which assess pasture availability based on satellite data that identify the status of vegetation. Pastoralists are insured for two regional rainy seasons in a year, with up to two pay-out windows each: an early window triggered in the beginning of the raining season; and a second window, at the end of the season, when rains terminate early (or fails completely) and impacts the quality of pasture. In total, beneficiaries are entitled to up to 4 payouts per year, depending on whether the product is triggered due to low pasture availability from extreme droughts. As of March 2022, 7,788 households (38,940 individuals) benefited from microinsurance coverage.

Evidence from programme implementation in Ethiopia also indicate that microinsurance participants' have access to loans up to five times higher than non-participants, which also increased their investment and productive capacity through the purchase of tools, livestock and agricultural inputs¹⁶.

Conclusion: opportunities for the integration of social protection and microinsurance

By adopting PSNP as an entry-point for microinsurance coverage expansion in Ethiopia's shock-prone areas of Tigray, Amhara (for R4 insurance)¹⁷ and in Somali region (for SIPE), WFP benefited from the programme' infrastructure, identification and targeting procedures, which most likely contributed to savings in implementation and transfer costs.

Also, the alignment of beneficiary selection with existing vulnerability criteria set by the Government for PSNP can be considered an important feature for the sustainability and future hand-over to Ethiopian public authorities.

As per the SIPE Post Distribution Monitoring survey (conducted in March 2022), up to eighty per cent of households benefiting from SIPE are willing to pay a contribution in cash to access the insurance, which indicates an important pathway for PSNP beneficiary graduation, while also keeping support and coverage against covariate shocks. Yet, an increase in coverage would also require an increased participation of the private sector and insurance providers, with services adapted to smallholder farmers and more vulnerable pastoralists. Government authorities can play an important role in this front, for instance, by providing incentives for insurance companies,

subsidizing premiums for the most vulnerable and adapting insurance regulatory frameworks to simplify pre-conditions for the enrolment of low-income and vulnerable individuals.

In Ethiopia, the expansion of microinsurance solutions to PSNP beneficiaries has also been reported as positive to increase their levels of financial literacy and access to financial services, including loans. The programme is a relevant example on how social safety nets can be designed to increase beneficiaries' resilience through innovative and cost-efficient measures, especially when combined with smart technologies and DRM tools.

In order to promote programme's sustainability in the mid-term, two major factors shall be considered:

- increase evidence generation on the role of microinsurance solutions, assessing their level of cost-efficiency vis-à-vis humanitarian/emergency responses and other modalities of shock-responsive social protection (such as emergency cash transfers)
- based on evidence generated, invest in advocacy with both government, development partners to consolidate microinsurance solutions as a component of PSNP. This should be complemented by the elaboration of a feasibility study to assess government and private partners capacity to scale-up microinsurance programmes, as well as a transition plan to support gradual take-over of implementation by national stakeholders in Ethiopia.



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5 WFP, 2022. [WFP Ethiopia Country Brief August 2022.](#)
6 [INFORM Risk. Country Profile 2023 – Scores. Ethiopia.](#)
7 UNDRR, 2022. Ethiopia: Risk Sensitive Budget Review.
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9 [SPEC, 2021. Infographic Series: Productive Safety Net Programme Ethiopia.](#)
10 [The Federal Republic of Ethiopia, 2020. Strengthen Ethiopia's Adaptive Safety Net \(SEASN\) – Productive Safety Net Programme 5 \(PSNP5\).](#)
11 [USAID, 2021. U.S. and Ethiopia launch new \\$2.2 billion phase of the productive safety net program.](#)

12 R4 activities have been suspended in Tigray region in late-2020 due to conflict and security concerns in the region.

13 WFP, 2022. Presentation from Ethiopia Country Office: Post Distribution Monitoring Report. Satellite Index Insurance for Pastoralist Pay-out in Somali region; comparative analysis between 3 year PDM Results [on selected assistance aspects].

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16 WFP, 2021. [Does Climate Insurance Work? Evidence from WFP-supported microinsurance programmes.](#)

17 In Tigray until late-2020, as R4 activities have been suspended due to conflict and security concerns in the region.

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