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Microinsurance - Weather index crop insurance

S. Mapfumo (3), A. Oxley (2), and J. Sharpe (1)

(1) (james.sharpe@microinsuranceagency.com), (2) aaron.oxley@microinsuranceagency.com, (3) shadreck.mapfumo@microinsuranceagency.com

Weather indexed crop insurance was originally designed to provide compensation to poor smallholder farmers when rainfall during a crop growing cycle is insufficient for them to grow and optimise their yields. But it has also proved to be a valuable tool for unlocking rural credit and hence improving rural livelihoods. Typically, these products are non-indemnity and parametric, not being linked to actual losses, but based on an objective measurable feature of the incident, in this case, rainfall deficiency at the local weather station, rather than by what happens in the field.

In order to to have meaningful global, or even national impact on the rural economy, indexed insurance products are a necessary first step. There are numerous advantages including, for example, objective measurements to reduce fraud opportunities, a simple mechanism, easy administration and automatic payouts, so there is no need for affected farmers to file a claim or an expensive loss verification procedure.

By enabling poor farmers to manage risk, the product provides a safety net that will prevent them falling back into destitution in the case of severe drought. But it is as an enabler of microcredit that microinsurance helps the rural poor take another step away from poverty and hunger. Small scale farmers have almost always been unable to access loans to purchase the improved farm inputs such as drought resistant seed and fertilizer they desperately need to increase productivity and raise their living standards. Agricultural lending in areas prone to drought has simply been viewed as too high risk. And few farmers can provide any form of collateral. But with an insurance arrangement that will pay off part or all of the loan in case of severe drought, lenders are becoming increasingly willing to provide loans.

This paper will describe the implementation process for a successful weather index crop insurance product using a detailed nine-step plan. A successful case study in Malawi is used to give practical insight into the benefits the scheme can bring and prerequisites for further programme expansion are examined. Such a scheme is not suitable for every agricultural holding and several major challenges remain that need to be overcome before the product can be widely adopted. The paper examines these challenges and proposes some future solutions.