

Seeds of Change. How a small innovation put crop insurance within reach for poor farmers

BY STEPHAN FARIS

THE TIGRAY REGION IN THE ROCK-strewn highlands of northern Ethiopia isn't the type of place where you'd expect to find an innovative financial product. Its residents are mostly farmers, poor and vulnerable to crop failure resulting from persistent droughts. That's precisely why the region has been chosen to serve as a test range for a new kind of insurance that could help poor countries cope with climate change.

The idea is simple. Instead of relying on food aid to help farmers after drought has hit, aid agencies can sign them up for crop insurance before disaster strikes. When the rains fail, a farmer can use a crop-insurance payout to buy food without dipping into the assets needed for the next planting. "It allows you to smooth out your income," says David Waskow, director of the climate-change program at Oxfam America, which is coordinating the project. "Otherwise, you can fall off a cliff."

The project in Ethiopia is the latest step in the insurance industry's long fight to build a business case that accounts for global warming. Its efforts took on a new urgency after the 2004 and '05 hurricane seasons. By the time the waters had drained away, the in-

dustry found itself faced with claims for \$81 billion in insurance compensation, up from \$2.2 billion during the previous two years. "The world after Hurricane Katrina has been a different one," says Peter Höppe, head of the Geo Risks Research division of the German reinsurance giant Munich Re. The surge in claims pushed insurers to account for more unpredictable weather, and premiums have risen in turn. As Andreas Spiegel, Swiss Re's senior climate-change adviser, puts it, "Insurance sets a price tag on climate change."

Fear of higher premiums can work as an incentive for change. Communities with robust flood control and tight

building codes, for example, would enjoy lower rates. That incentive won't work, however, in very poor countries, where even big cities lack basic public infrastructure and individuals are too poor to afford any kind of insurance, let alone expensive private crop insurance.

That's where Oxfam's experiment in Ethiopia comes in. Its crop-insurance program, which covers about 13,000 households, allows rich countries to pick up the tab for the damage their emissions cause. The premiums are paid by international donors via the World Food Programme. In exchange, the recipients are required to pitch in on public works that will help their communities cope with wilder weather: digging retention ponds, terracing fields, building dams. In Ethiopia, farmers work an average of two weeks a year to pay their share of the premium. A similar idea motivated the creation of a multinational insurance plan in the Caribbean, where 16 island states banded together in 2006 to take out insurance against hurricanes, with the premiums subsidized by donors.

There's a limit to what insurance can do. U.S. taxpayers spent \$9 billion last year to subsidize crop insurance—support that critics say encourages the use of poor land. If drought becomes a regular feature in northern Ethiopia, crop coverage could become nothing more than a byzantine channel for sending more aid. "In some places, insurance simply no longer makes sense," says Höppe. "In these cases, it would be better to look at other solutions." The best insurance—for every farmer—might simply be a cut in carbon emissions. ■

Abrehet Niguse plants seedlings in Tigray; her work helps pay part of the cost of her insurance and prevents soil erosion



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