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PROGRESS REPORT ON THE ETHIOPIA DROUGHT INSURANCE PILOT PROJECT

This document is printed in a limited number of copies. Executive Board documents are available on WFP's WEB site (<http://www.wfp.org/eb>).

NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for consideration.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

Regional Director, ODK: Mr H. Arthur tel.: 066513-2034

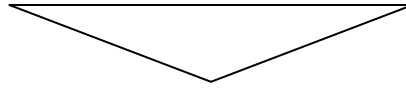
Country Director, Ethiopia: Mr M. Diab

Director of Business Planning, OEDSP: Dr R. Wilcox tel.: 066513-2399

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).



DRAFT DECISION*



The Board welcomes “Progress Report on the Ethiopia Drought Insurance Pilot Project”(WFP/EB.A/2006/10-A/Rev.1). The Board authorizes the Executive Director to conduct further research into risk management in the form of event-specific contingency funding. The Board will consider further pilot projects on a case-by-case basis, subject to the identification of funding sources. The Board will review the Ethiopia pilot project in the board’s first session in 2007 and will reconsider WFP’s role in these risk-management efforts at its Annual Session in 2007. The Board encourages the Secretariat to collaborate further with partners in making these tools available to the development and humanitarian aid community.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document (document WFP/EB.A/2006/16) issued at the end of the session.



UPDATE TO THE EXECUTIVE BOARD

- Contingency plan for cash transfer to beneficiaries established
 - Contingency funding secured through transaction with AXA Re
 - Data flow secured through successful National Meteorological Agency (NMA) capacity-building
 - Drought index accurately tracks agricultural season development
 - Integrating emergency aid and development, in partnership with the World Bank and OCHA
1. Following the Board's approval of the Ethiopia drought insurance pilot project last November, WFP and the Ethiopian government created contingency plans for cash transfers to at-risk beneficiaries in case of catastrophic drought. WFP established contingency funds through a contract with AXA Re, a Paris-based reinsurer. WFP's capacity-building efforts with the Ethiopian National Meteorological Agency (NMA) have enabled the NMA to meet the project's strict data requirements. It is very early in the season, but the index has so far correctly captured events on the ground. A joint study with the World Bank aims to improve the integration of emergency response and development planning. Collaboration with the Office for the Coordination of Humanitarian Affairs (OCHA) seeks to integrate this new tool in the emerging central United Nations emergency aid finance system.

1. DROUGHT INSURANCE CONTINGENCY PLANNING IN PLACE

2. Following a workshop in March 2006, the Government of Ethiopia has established a contingency planning steering committee to be in charge of implementing this project. The committee is chaired by the Food Security Bureau (FSCB) and consists of representatives from FSCB, the Ministry of Agriculture, the Disaster Prevention and Preparedness Agency and the Institute of Development Research at Addis Ababa University. The committee will oversee programme implementation and the integration of this programme into existing government programmes. FSCB will present the contingency planning process at the Board's June discussion on this topic.
3. The Ethiopian government and WFP envisage a contingency plan for the drought insurance project that guarantees prompt cash payouts to beneficiaries in need. This plan is in fact an emergency scale-up of the existing productive safety-net programme to meet the additional caseload of beneficiaries at risk of losing their livelihoods in the case of severe drought. These cash-for-work projects require about 8 percent in capital expenditure —community works require tools and other cash-financed inputs; the administrative cost will be borne by the Ethiopian Government. Planned transfers of 900 birr — about US\$103 — per household would reach up to 63,000 households (300,000 beneficiaries) with cash-for-work programmes in case of a maximum insurance payout. The contingency plan targets beneficiaries as follows:
 - Initially, 60 **potential** beneficiary *woredas* (administrative districts) near the 26 weather stations are targeted.
 - In the case of payouts, the 10 to 15 **actual** beneficiary *woredas* will be those most affected, as determined by:



- ◇ the weather index;
 - ◇ early warning system data; and
 - ◇ the mid-season assessment (August 2006).
- The contingency plan will be updated on the basis of the pre-harvest crop assessment (October 2006).
 - For each beneficiary *woreda*, the contingency plan will determine beneficiary numbers on the basis of the expected final total payout (October 2006).
 - Beneficiary households will be targeted by the communities themselves, according to Ethiopia's Productive Safety-Net Programme (PSNP) community-based targeting principles. The targeting process involves communities and *Kebele* (groups of villages) bodies in all steps of beneficiary screening.

2. CONTINGENCY FUNDING IN PLACE

4. As communicated to Board members in the Executive Director's letter in February, WFP awarded the insurance contract to AXA Re following a competitive tender process. The contract provides US\$7.1 million in contingency funding in the case of extreme drought during Ethiopia's 2006 agricultural season. The policy, a derivative based on a calibrated index of rainfall data gathered from 26 weather stations across Ethiopia, triggers payment when data gathered from March to October 2006 indicate that rainfall is significantly below historic averages, pointing to the likelihood of widespread crop failure. In case of a payout, AXA Re would make payment to WFP, which in turn would enable the Ethiopian government to provide timely payouts to the final beneficiaries as described in the previous paragraph.

3. DATA FLOW SECURED THROUGH SUCCESSFUL NMA CAPACITY-BUILDING

5. Following approval of the project, WFP worked with NMA in preparation for its responsibilities as the data provider for the Ethiopia drought insurance project. This involved ensuring that radios and full-time dedicated and trained staff were available at each of the 26 stations and that procedures were in place for the daily reporting of data to NMA headquarters in Addis Ababa, and from there to the designated settlement data provider — Washington-based MacDonald, Dettweiler and Associates Ltd (MDA) Federal Inc. (formerly EarthSat).
6. Since 1 January 2006, NMA has been reliably reporting daily rainfall data for each of the 26 weather stations via e-mail to MDA Federal, which validates the data and passes them on to WFP and AXA Re every day. This improved capacity has allowed NMA to report regularly to the United Nations World Meteorological Organization Global Telecommunication System for the first time in four years.¹

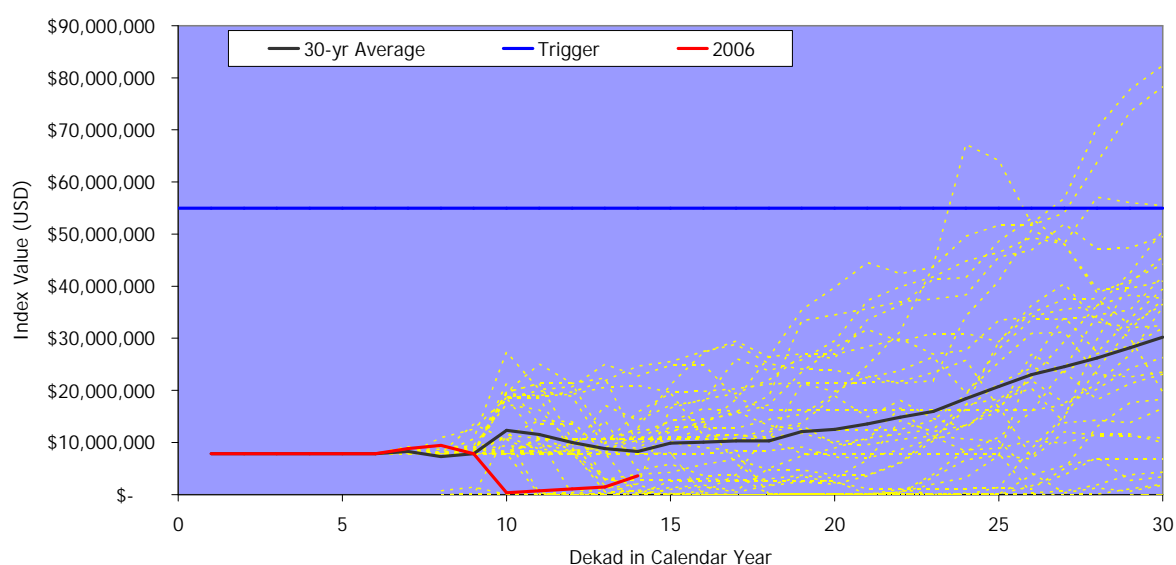
¹ This is particularly important for organizations that manage satellite-based early warning systems for Ethiopia, such as the United States Agency for International Development's (USAID) Famine Early-Warning System Network (FEWS-NET). Real-time data from on-the-ground stations are necessary to adjust for the biases known to exist in satellite-derived rainfall estimates; the availability of such data ensures better quality early warning products for the international humanitarian aid community.



4. INDEX ACCURATELY TRACKS AGRICULTURAL SEASON DEVELOPMENT

7. As explained in detail in November's project document, WFP has built an index that captures vulnerable populations' agricultural income losses resulting from rainfall deficits. Since the beginning of this year's agricultural season, WFP has been tracking the Ethiopia drought index on a daily basis as real-time rainfall data from the 26 weather stations come in from NMA.
8. As each day's real rainfall value comes in, it replaces the 30-year average value in the model for that day. This makes it possible to track how the 2006 season is performing with respect to the average, and allows WFP to monitor throughout the season the likelihood of a payout at the end of October 2006. Figure 1 shows how the 2006 season is developing relative to daily historical averages, and how each season from 1976 to 2005 has evolved with respect to this 30-year average.²

Figure 1: Rainfall in Ethiopia



9. Figure 1 highlights 1984 and 2002, the worst drought events in Ethiopia in the past 30 years, when the contract would have paid out the maximum amount of US\$7.1 million.

² The x-axis of the figure covers the agricultural season denoted in dekads — ten-day periods — of the calendar year from Dekad 1 (1 to 10 January) to Dekad 30 (21 to 31 October), the final dekad of the contract period. The y-axis gives the Ethiopia drought index value in dollars as it evolves throughout the season to its final settlement value on 31 October and the completion of Dekad 30. If the Ethiopia drought index value is above the US\$55 million trigger level on 31 October 2006, WFP will receive a payout from AXA Re of US\$0.35 for every US\$1 the index is above the trigger level, up to a maximum of US\$7.1 million. If the Ethiopia drought index value is below the US\$55 million trigger level by the completion of Dekad 30, no payment will be made.

10. The bold red line in Figure 1 shows development of the 2006 season to date (Dekad 14). It is clear that 2006 up to and including 20 April has been a very good year so far in terms of rainfall.³ Reports from Ministry of Agriculture extension officers in the field confirm that long-cycle planting has commenced as predicted by the rainfall index algorithms.
11. As the season progresses, the evolution of the index at each station will be compared with events on the ground and the status of the dominant staple crops grown near each station. Such continued checks will confirm how well the index captures staple crop production. An update will be provided at the June Board meeting.

6. INTEGRATING DEVELOPMENT AND EMERGENCY PLANNING

12. Planning for development and planning for emergencies are often perceived to be distinct and separate processes that usually happen in parallel. For example, Poverty Reduction Strategy Papers (PRSPs) rarely integrate emergency planning and contingency planning scenarios; PRSPs often mention the importance of risk, but do not propose how to manage it.
13. WFP and the World Bank (Agricultural and Rural Development Department) are collaborating to overcome this divide by studying ways of integrating emergency response with development in a joint formal study on innovation in food security risk management. This effort complements a study by Harold Alderman and Trina Haque of the World Bank Department of Social Protection Africa Division entitled *Insurance against Covariate Shocks: The Role of Index-Based Insurance in Social Protection in Low-Income Countries of Africa*, which studies weather-insured safety nets, with WFP's Ethiopian drought insurance project as its key case study.
14. WFP and OCHA are collaborating intensively to facilitate possible future integration of this new approach and the new financial tools piloted in this project into the United Nation's emerging central emergency financing system.

³ However, it should be noted that the correlation between the mark-to-model value at Dekad 11 and the final Ethiopia drought index value at the end of Dekad 30 for 1976 to 2005 is only 11 percent, which is not statistically significant at the 95 percent confidence level. It is only from Dekad 24 onwards (21 – 31 August) that the mark-to-model value becomes a good predictor of the final index settlement value, with a correlation of 82 percent, statistically significant at the 99 percent confidence level, from 1976 to 2005.



ACRONYMS USED IN THE DOCUMENT

FEWS-NET	Famine Early-Warning System Network
FSCB	Food Security Bureau
MDA	MacDonald, Dettwiler and Associate Ltd
NMA	National Meteorological Agency
OCHA	Office for the Coordination of Humanitarian Affairs
ODK	East and Central Africa Bureau
OEDSP	Special Project Branch
PRSP	Poverty Reduction Strategy Paper
PSNP	Productive Safety-Net Programme
USAID	United States Agency for International Development