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MALAWI

NOTE FROM THE FIELD

Weather Insurance Mitigates Risk

USAID-supported weather insurance policy protects farmers and, by mitigating risk, helps persuade banks to lend to them



Photo by Ephraim Mazizwa and Gift Livata, OIBM

A loan officer enrolls a peanut farmer in the weather insurance program.

“Weather insurance mitigates the most significant risk associated with lending to peanut farmers,” writes Kimball. “If it can be scaled-up to additional crops and farmers in Malawi, index-based weather insurance could help farmers not only manage their risk but also invest in their farms.”

In response to food insecurity brought on by drought, lack of irrigation, and resulting poor crop yields, organizations in Malawi have developed innovative ways to protect farmers and their families.

Peanut farmers in Malawi have traditionally relied on local seed for production. In hopes of producing greater yields and a more competitive product, however, some farmers have become interested in planting an improved seed variety. Unfortunately, these farmers have had little cash and no access to finance to purchase the high-quality seed; banks have been unwilling to lend to them, primarily because of the significant risk of default in the event of a drought.

In an effort to make these farmers more creditworthy and able to access loans for high-quality seed, the National Smallholder Farmers’ Association of Malawi, in conjunction with the Insurance Association of Malawi, designed an index-based weather insurance policy that covers farmers if rainfall is insufficient. Technical assistance was provided by the World Bank and Opportunity International.

Weather insurance mitigates the most significant risk associated with lending to peanut farmers. OIBM and Malawi Rural Finance Corporation agreed to provide loans to farmers for high-quality seed if the farmers bought the insurance. In four pilot districts, 892 farmers purchased the weather insurance.

Not only a benefit to farmers, weather insurance also allows the participating banks to expand their lending portfolio while mitigating their risk. This pilot reflects the Government of Malawi’s initiative and leadership in exploring innovative ways to manage weather and price risk in Malawi through ex-post planning and financing. The Government plans to extend coverage to maize farmers as well as more peanut farmers in other parts of the country. If it can be scaled-up to

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additional crops and farmers in Malawi, index-based weather insurance could help farmers not only manage their risk but also invest in their farms.

Several prerequisites have made this project a success thus far in Malawi:

- Accredited weather stations that have data for 30 to 40 years and are able and willing to provide data to stakeholders during the contract period
- Farmers located within a 10 to 20 kilometer radius of the station
- Willing lenders, such as OIBM, with experienced staff
- Willing farmers
- A farmers association or other body to help mobilize the farmers
- Insurers that are willing to write non-conventional covers; in this case one of the roles performed by Opportunity International was to underwrite and price the insurance products for local insurers
- Project coordinator with relevant insurance background
- A donor (World Bank) to provide technical assistance and work with the project coordinator

USAID currently funds a cooperative agreement with Opportunity International to help with the establishment of OIBM and to increase outreach of financial services to the rural areas in Malawi. OIBM received additional support and funding from the World

Bank to build on its rural outreach efforts through the Weather Insurance Pilot. For more information about this project, contact [Richard Kimball](#) at USAID/Malawi.

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