

## Tekst 6

Famine insurance

### Hedging against the horsemen

- 1 Ask an Ethiopian peasant what would most improve his life, and he will not mention weather derivatives<sup>1)</sup>. Nonetheless, some brainy people at the World Food Programme (WFP), the UN body charged with saving the starving, think they could save more people by using arcane financial instruments.
- 2 A typical famine might unfold like this. First, the rains fail. Then the harvest fails. Then people start to go hungry. After a while, the television cameras arrive. Western donors, moved by pictures of swollen-bellied tots, reach into their pockets. Eventually, truckloads of food aid arrive. But they arrive too late for many.
- 3 This is slightly over-simplified, but it illustrates a real problem. If help arrives before people start starving, fewer will die. But it is only when people start to die that the money to save them starts flowing in.
- 4 Some kind of catastrophe insurance ought to help. Commercial farmers already buy insurance against bad weather. Peasants cannot afford to, but a body such as the WFP could do so on their behalf.
- 5 This could work in one of two ways. The WFP could buy an insurance policy that paid out when, say, the rainfall in Ethiopia was below a certain level. Or it could issue "catastrophe bonds". In years of good or mediocre rainfall, the WFP would pay interest, out of its income from donors, but when drought came, bondholders would lose their principal sum.
- 6 Should disaster strike, the WFP would have ready cash. The WFP thinks its ideas would be cost-effective, though you might think investors would demand a stiff return for what looks like a high risk of losing money. Leading reinsurance firms in rich countries may be tempted because they currently have very little exposure to the weather in the southern hemisphere, and it is always wise to diversify one's portfolio. Richard Wilcox, the man at the WFP assessing the scheme's feasibility, says he thinks it could be up and running in two years' time.
- 7 Sceptics may grumble that the real cause of famine is bad government, not bad weather. This is true, in the sense that well-governed countries cope much better with the effects of drought, whereas ill-governed ones are more likely to collapse into civil war, which tends to spoil the harvest. But bad government is hard to measure, and therefore hard to insure against.
- 8 Rainfall, by contrast, is easy to measure. It also varies enormously from year to year. In Ethiopia, for example, where some 90% of people rely on rain-fed agriculture, household incomes rise dramatically when the rain falls and fall dramatically when it does not.
- 9 In bad years, families sell their possessions to buy food. Worse, they sell their means of production, such as tools and livestock, so even if the rains are better the next year, they may not be able to take advantage of this. Even worse, they all tend to own the same types of goods and they all try to sell them at the same time – i.e., as soon as they can see that the rains will fail – so they receive low prices for them.
- 10 But suppose these families knew that food aid would arrive promptly when the rains fail? In that case, the WFP argues, they might not rush to sell their ploughs, so they

would be better able to take advantage of good weather the next year. Famine insurance, in other words, could offer more than a Band-Aid for the poorest.

*The Economist*

noot 1 weather derivatives: a type of insurance against the risk of weather-related losses

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- 1p 19 Which of the following is in agreement with what is stated in paragraphs 1-3?
- A Effective aid to African peasants may come in an unlikely form.
  - B The famine problem can only be tackled by the countries affected by it.
  - C The media pay attention to only the most famine-stricken areas in Africa.
  - D Western countries may not really be interested in solving the problem of famine in Africa.
- “Some kind ... to help.” (beginning of paragraph 4)
- 1p 20 How?
- A It could be used to help peasants build up a reserve for emergencies.
  - B It could enable the WFP to provide food when crop failure is imminent.
  - C It could make agriculture in the third world countries less reliant on rainfall.
  - D It could make the WFP less dependent on income from donors.
- “Some kind ... to help.” (begin ainea 4)
- 1p 21 Welk mogelijk nadeel van dit soort verzekering wordt in het vervolg van de tekst aan de orde gesteld?  
Citeer het betreffende zinsgedeelte.
- 1p 22 Which of the following arguments supports “the scheme’s feasibility”, judging from paragraph 6?
- A Big finance likes to spread its risks.
  - B The scheme can count on warm support in tropical countries.
  - C The scheme would prevent large-scale famine.
  - D Western insurance companies have enough funds to cope with weather catastrophes.
- 1p 23 What argument against the view of “sceptics” does paragraph 7 contain?
- A A civil war may be more devastating than bad weather.
  - B Bad weather and bad government are equally hard to tackle.
  - C The higher its agricultural productivity, the less likely a country is to have bad government.
  - D There are no clear criteria for the quality of government.
- 1p 24 What does paragraph 9 describe?
- A The circumstances in which Ethiopian peasants produce their food.
  - B The reasons why Ethiopian agriculture needs to be modernised.
  - C The reasons why it is hard for Ethiopian peasants to break out of poverty.
- 1p 25 Which of the following applies to the way *The Economist* treats the WFP’s ideas?
- A It is rather critical towards them, bringing up possible problems.
  - B It takes a neutral stand, weighing the pros and cons.
  - C It takes a positive attitude, refuting possible counterarguments.