Results from an experiment in Ghana reveal that rainfall insurance leads to significantly larger agricultural investment and riskier production choices by farmers.

Researchers randomly assigned farmers to receive either cash, free rainfall index insurance, the option to purchase the insurance, or a combination of cash and insurance. The study found significant increases in agricultural investment among farmers who received rainfall insurance, but relatively small effects among those who received cash, leading researchers to conclude that the main constraint to investment is exposure to risk, and not lack of capital. The strongest increases were among those who previously invested the least, with farm expenditures increasing by 65 per cent.

This positive effect suggests that there are production (not just protection) benefits of offering index insurance directly to farmers. This is also an important lesson for microfinance institutions as they consider which financial products can best meet client needs. Capital constraints alone do not appear to be the problem; risk is a key hindrance to investment and thus improved income and growth.

For more on the research design and results, see Research Paper 23: Agricultural decisions after relaxing credit and risk constraints. [1]

To learn more about how microfinance institutions can improve products and processes, view the video and slides from a recent webinar on Enhancing Microinsurance Products and Processes in Microfinance Institutions. [2]

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