

# Paying for rain

---

*The Economist*

2018.12.13

# Agricultural insurance

- Since 2012 Mr Lewangu, who keeps goats and cattle, has bought insurance designed by the International Livestock Research Institute, based in Nairobi.
- The satellite monitors vegetation; when it is unusually scarce, he gets a payout.

# Agricultural insurance

- Insurance could bring peace of mind to Africa's pastoralists.
- But Mr Lewangu's neighbours are unconvinced.
- The satellite gives false information, says one woman; there is no payout in good years, complains another.
- Such scepticism is typical.

## subsidised by governments

- Although schemes have proliferated in the past decade, almost all are subsidised by governments or foreign donors.
- Insurers and farmers are “not speaking the same language”, says Rahab Kariuki of acre Africa, a Kenyan firm that works with both.

# Index insurance

- Index insurance, an innovative way to cover smallholders (small farmers).
- Data on rainfall or sample yields are crunched; a payout is triggered when an index falls below a threshold.
- That is cheaper than assessing farmers' losses, or checking if nomads' cows have died.

- And since farmers cannot control the rain, there is less “moral hazard”: changes in their behaviour cannot make a payout more likely.

# Assumption

- But the models make assumptions, for example about when farmers plant or how rainfall affects yields.
- And no model can capture all risks.
- Buyers may lose their crops and still get nothing, ending up worse off than if they had been uninsured.

- Insurance is an unfamiliar concept in rural Africa.
- It is also an unsettling one, asking buyers to pay in advance for a return they hope not to need.
- Another barrier to take-up is that premiums are typically paid before planting, when farmers are poorest.



# Good experiences

- Good experiences may ultimately sway farmers.
- Women near Kitui in eastern Kenya used to survive droughts by walking 5km to the river with a donkey, bringing back water to sell at 1 shilling (\$0.01) a litre.
- In the past two years they have received payouts from an insurance scheme
- When asked if they would pay the full premium, almost all say yes.