



FEED THE FUTURE

The U.S. Government's Global Hunger & Food Security Initiative

FEASIBILITY STUDY ON AGRICULTURAL INSURANCE IN NEPAL

Background

Farming by nature is a risky activity, and the main source of risk in developing countries is often that farmers cannot perfectly predict their yields when they plant because of variations in weather and other conditions. This risk can have dual negative effects. If a disaster happens, uninsured farmers often have to sell assets in order to repay debts and smooth consumption, which can push them into destitution. When risk-averse farmers perceive their activity as risky, they may also choose to underinvest in “risky” business opportunities, which often leads to lower or average earnings.

Index insurance is an innovative product designed to manage the main agricultural risks shared by many farmers in a region at the same time, including drought and floods. However, insurance markets remain underdeveloped in developing countries such as Nepal. One of the most important factors explaining this is the prohibitive cost of insurance. Insurance companies often cannot supply affordable insurance products for these farmers due to the high cost of assessing crop yield losses and delivering indemnities.

Project Summary

The Feed the Future Innovation Lab for Assets and Market Access, as part of its Index Insurance Innovation Initiative (I4), will conduct a feasibility study exploring the possibility of agricultural insurance in Nepal. This study will assess both the technical options available and the development impacts to determine where – and for what commodity – an index-based insurance product might be of high value to farmers.

If an index can be identified that is well correlated to actual yield, and captures the significant negative shocks to farmers, then the farmer can use this product to back up investment expenses he would like to make on his farm. If, on the other hand, there is no index that can accurately detect negative shocks, and therefore does not trigger payouts when farmers experience significant losses from the insured shock, then the product serves as little more than a lottery ticket.

In this study, researchers will look across commodities and geographic areas to create a short list of those commodities and geographic areas where risk reduction strategies can open up investment opportunities for smallholder farmers. Then researchers will most closely examine the areas and crops to identify the most promising opportunities for design of a safe and effective insurance product.

Anticipated Impacts

Most directly, this study will assess the feasibility of index insurance for agriculture in Nepal, which – if successful – will enable farmers to better manage risk and increase prudential investments. This study will also assess the feasibility of applying the lessons learned about index insurance in other parts of the world to a unique topographical area in the diverse landscape of Nepal. Finally, this study will also help to refine and clarify the steps necessary for successful testing of index insurance in developing countries. These lessons will have broad applications not only in the region, but around the world.

PROJECT OVERVIEW

Lead PI

Michael Carter, UC Davis

Partners

Interdisciplinary Analysts (IDA), USAID Mission Nepal

Timeline

2015-2017

Funding

\$94,300

Region

Terai

Key

Innovation

Index

Insurance

Commodity

Rice



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