

The BASIS Assets and Market Access Innovation Lab  
Identifying Constraints & Innovating Solutions for Broadly Based Growth

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# Risk & the Dynamics of Poverty



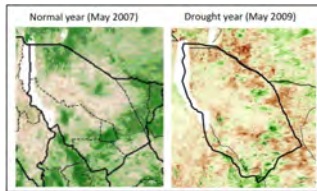
- Ample evidence that risk
  - *Makes people poor* by reducing incomes & destroying assets, sometimes pushing households into a situation from which they cannot recover; and,
  - *Keeps people poor*, by discouraging investment & distorting patterns of asset accumulation
- In the pastoral regions of the horn of Africa, policy has often been reactive, sending food aid when drought events decimate assets
- Even when aid is regularized into cash assistance programs, have to ask if we can more cost-effectively address problem by treating its causes, rather than its symptoms

# Resilience through Risk Reduction



- Risk reduction through insurance could *in theory* be significant:
  - By protecting households against the worst consequences of adverse climatic shocks, insurance should brake the downfall of households into non-viable economic positions (preventing descent into poverty)
  - In addition, by protecting households against the worst consequences of shocks, insurance should also incentivize investment in higher returning, but risky activities (facilitating ascent from poverty)
- But can this theoretical potential be realized in practice?

# Crafting a Solution



- Technical challenges to making a viable and reliable insurance mechanism were many:
  - Cheap to measure index highly correlated with losses
  - Education & understanding amongst the insured
  - Inexpensive purchase & payout mechanisms in remote regions
- Beginning in 2009, BASIS in collaboration with the International Livestock Research Institute tackled these problems & launched IBLI (Index-based Livestock Insurance)

# Testing for Efficacy & Scaling Up

- The catastrophic 2011 drought provided an opportunity to study the effectiveness of IBLI:
  - Insurance caused less well-off households to cut in half their reliance on costly meal-reduction strategies as a way to cope with the drought; and,
  - Also caused better-off households to sharply reduce their reliance on livestock sales as a coping strategy, preserving their future viability & reducing the downward pressure on local livestock prices
- Other work shows that insurance leads households to invest more in health & quality of their livestock, a finding which matches studies of the impact of insurance on farming households
- Government of Kenya is now scaling up the ideas pioneered under the IBLI program
- The IBLI project is a particularly good example of the power of the Innovation Lab model and its long-term commitment to good science, collaboration and problem solving

# The BASIS Innovation Lab Agenda



- At BASIS, a number of other efforts underway, including:
  - Smart learning subsidies for technology adoption in Mozambique
  - Kudu digital trading platform for small-scale farmers in Uganda
  - Combining stress tolerant plant breeding with complementary financial technologies in Tanzania
- Our goals are to
  - Relax the constraints that limit the ability of low resource households to take advantage of the technologies and economic opportunities available to them
  - Devise cost effective strategies that get the most from US foreign assistance dollars while promoting households' self-reliance & growth

Thank you and Stay Tuned!

