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Insuring a Better Crop

The U.S. is experiencing the worst drought in a half century, and President Obama has announced new relief measures for farmers, in addition to the existing federal crop insurance plans. While the heavily subsidized federal crop insurance plan has been criticized for shifting risk and therefore incentives, more interesting is that according to NPR's Planet Money Podcast, there are other reasons crop insurance might deserve more scrutiny. They say the program has become so complicated, with federal subsidies added onto other federal subsidies, that it is too complex for policy makers to understand, perhaps deliberately so.

We had the opportunity to design a new crop insurance program from scratch in Ghana for farmers with little financial literacy or easy access to financial products (around 1 percent had formal bank accounts), let alone insurance. These constraints meant keeping the product very simple and easy to explain, unlike the U.S. program. We also tested the impact of insurance and grants on farmer investment. You can read about it here.



Based on high demand for the product and finding that farmers with the insurance increased their investment in their farms, the Ghanaian government announced that they were adopting a similar product (see here). As for next steps, we're currently testing questions related to scaling up the product in partnership with The Ghana Agricultural Insurance Programme. Let's hope we can keep it simpler than U.S. crop insurance.

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