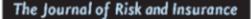


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CROP PRICE INDEMNIFIED LOANS FOR FARMERS: A PILOT EXPERIMENT IN RURAL GHANA

Dean Karlan Ed Kutsoati Margaret McMillan Chris Udry

ABSTRACT

ABSPACT Farmers face a particular set of risks that complicate the decision to borrow. We use a randomized experiment to investigate (1) the nile of computer risk in webscing demand for credit among farmers and (2) how risk miligation changes formers' investment decisions. In Chana, we offer farmers looms with an indemnity component that logily os 30 percent of the loan if crop priors drop below a threshold price. A control group is difered a standard loon product the same interestrate. Loan you public is high among all formers and the indemnity component has little impact on uptake or other outcomes of interest.

Farmers face a particular set of risks that complicate the decision to borrow. Factors that are almost entirely unforesemble and outside of their control, such as crop prices and weather patterns, have an enormous impact on farmers' fortunes—and on their ability to repay any koans they have taken. As such, some farmers are believed reductant to take koans to fnance seemingly profitable ideas for fear of not being able to repay. Fandosically, from a bank's perspective, these may be excellent clients.

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Crop Price Indemnified Loans for Farmers: A Pilot Experiment in Rural Ghana

Farmers face a particular set of risks that complicate the decision to borrow. We use a randomized experiment to investigate (1) the role of crop-price risk in reducing demand for credit among farmers and (2) how risk mitigation changes farmers' investment decisions. In Ghana, we offer farmers loans with an indemnity component that forgives 50 percent of the loan if crop prices drop below a threshold price. A control group is offered a standard loan product at the same interest rate. Loan uptake is high among all farmers and the indemnity component has little impact on uptake or other outcomes of interest.

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