

Examining the Impact of Rainfall Insurance and Family Networks in Burkina Faso



Rainfall index insurance can help small-holder farmers cope with risks to their livelihoods, but take-up of this insurance is often low. Since farmers often depend on urban relatives for financial support when adverse weather affects their livelihoods, and financial institutions can reach urban residents at low cost, marketing insurance products to urban migrants with relatives in rural areas, rather than marketing them directly to farmers, may be an effective way to increase rainfall insurance coverage. A [previous pilot study](#) suggested promising results for take-up of rainfall insurance from urban relatives. Researchers are now partnering with IPA and PlaNet Guarantee to conduct a large-scale randomized evaluation that will measure demand for rainfall insurance among both urban migrants and rural households and its impact on the economic outcomes of the latter group.

Policy Issue

Farmers' livelihoods usually depend on crop yields that can be affected by unpredictable weather. When adverse weather strikes and results in a disappointing harvest, these farmers often rely on financial support from relatives in urban areas. As a result, rainfall index insurance—in which a payout is linked to an index of rainfall data in a region—has the potential to help reduce risk not only for farmers, but also for relatives working in urban settings. This insurance [has been shown in other contexts](#) to alleviate farmers' risks and spur increased agricultural investment. One estimate suggests that as many as 700 million people in Africa could benefit from formal insurance, but take-up among people who could benefit from it is often low at market prices, with less than three percent of these potential beneficiaries using insurance products.¹

Reasons for this low take-up may include financial illiteracy and a lack of trust in insurance providers among rural populations, which could be mitigated by marketing the product to urban dwellers who may have more familiarity and experience with insurance products. Increasing uptake of insurance at market prices in this way is a potentially more cost-effective way of increasing insurance coverage than providing subsidies for insurance, and could improve the welfare of both urban and rural participants.

Evaluation Context

This study is taking place in Ouagadougou, Burkina Faso, and two neighboring rural regions (Centre Sud and Centre Ouest). Approximately 80 percent of Burkina Faso's population lives in rural areas,

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where agriculture is the dominant economic activity. The evaluation builds on a [pilot study](#) with promising results that explored marketing rainfall insurance to urban migrants with relatives in rural areas engaged in farming, rather than marketing it directly to the farmers.

In the pilot, the number of urban dwellers reporting that a rural relative had asked for money doubled during periods of low rainfall (from 30 to 60 percent). The pilot found that demand was high for the insurance product marketed this way: 22 percent of urban relatives who were offered the insurance purchased it, and they were more likely to purchase it if the insurance policy specified that compensation would be paid directly to the rural farmer rather than to the subscriber.

Initial data from this evaluation suggests that a large majority of rural households (about 83 percent) have a migrant relative.

Details of the Intervention

Researchers are working with IPA and PlaNet Guarantee to design, market, and evaluate the impact of rainfall insurance among rural households and urban migrants. The study is measuring the demand for rainfall insurance among both groups and the economic impacts of having insurance, including how it affects rural households' agricultural investments, production choices, and consumption of rural households, and how it affects urban migrants' economic decisions (including the financial support they provide to rural relatives).

In order to understand these impacts, 88 villages (comprising 1,760 participating households) and 1,037 migrants originating from those villages and currently living in Ouagadougou are being assigned to one of four groups:

- **Urban migrants:** Insurance is being marketed to urban migrants but not to households of the village they migrated from.
- **Rural households:** Insurance is being marketed to village households but not to their urban relatives.
- **Urban migrants and rural households:** Both urban migrants and rural households are having insurance marketed to them.
- **Comparison group:** Neither urban nor rural participants in this group are receiving insurance marketing.

Researchers will conduct two rounds of surveys with participants—an initial survey in 2019, and a concluding survey in 2022—and will also draw on administrative data on insurance subscription from the implementing partner PlaNet Guarantee.

Results and Policy Lessons

Project ongoing.

Sources

[1] Matul, M., McCord, J., Phily, C., and Harms, J. 2010. *The Landscape of Microinsurance in Africa*. International Labour Organization.

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