Subsidies for Agricultural Insurance

Governments pay over **$20 billion** per year

Is this a good way to spend public money?

- We don’t really know one way or the other. We know some of the benefits and costs, but no comprehensive economic (C/B) analyses since the 1980s of the producer and consumer gains from subsidized verses unsubsidized insurance
- However, there are lessons about how to design insurance subsidies to increase the likelihood that they will achieve their purposes and be more worthwhile
- Paper examines three types of agriculturally related insurance

Type Insurance	*Main features*	*Reason for subsidy*
Agricultural insurance	Insure production risks in commercial farming	Market failures and externalities that limit development of insurance markets. No reason for a sustained subsidy
Insurance for disaster relief	Compensate farmers when insured disasters occur to protect livelihoods and assets	Saves on disaster relief programs and speeds up payments. Can be used to encourage *ex ante* risk reduction
Insurance for other policy purposes	Assist target groups of poor farmers	Makes insurance accessible and affordable
	Income support	Premium subsidy is an income transfer
	Protect financial lending institutions	Reduces risk exposure to encourage greater lending

Common problems with subsidies

- Premium subsidy exceeds the actuarially fair cost of the insurance leading to excessive risk taking
- Poorly targeted or insurance not linked to access to credit, technology and other farm inputs
- Inelastic demand for insurance leads to high subsidy costs if want widespread participation
- Worsens inequality - large farms gain the most
- Politically hard to contain or remove a subsidy

Some best practice guidelines

- Establish that the insurance is the best intervention
- Develop a clear policy statement and financing plan
- Select capable implementing agencies and insurance programs
- Cap payments
- Keep premium subsidy below actuarially fair cost of insurance. If must go over then adopt corrective measures
- Use subsidy to promote competition between private insurers
- When targeting poor farmers, partner with credible institutions that can reach the right farmers and ensure the insurance is linked to credit, etc.
- Manage intersections when programs overlap

Complications: Overlapping insurance