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

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Abstract

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.

Introduction

Farmers face a particular set of risks that complicate the decision to borrow. Factors that are almost entirely unforeseeable 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 loans they have taken. As such, some farmers are believed reluctant to take loans to finance seemingly profitable ideas for fear of not being able to repay. Paradoxically, from a bank's perspective, these may be excellent clients.

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They are so trustworthy that they are not borrowing out of fear of default. Can a loan product with a component that mitigates farmers' risk successfully encourage farmers to take, and benefit from, credit? What type of individuals is more likely to borrow when some of the risk is mitigated? And lastly but equally importantly, how does the mitigation of risk change farmers' investment decisions, such as the purchase of inputs?

Most of the theoretical literature on the impact of credit constraints on productivity focuses on supply-side constraints. In a recent departure, Boucher, Carter, and Guirkinger (2008) argue that in the presence of moral hazard, farmers will prefer not to borrow *even though the loan would raise their productivity and expected income.* Using panel data from Peru, they identify these "risk rationed" (as opposed to quantity rationed) households as households who never tried to access the formal market because of the high risk associated with borrowing due to consequences of default, and show that risk rationing adversely affects the productivity of these households. Based on this, they argue that improvements in the insurance offered to these households would increase their willingness to participate in formal credit markets and raise household welfare.

As farmers weigh their ability to generate sufficient crop revenue to repay loans, one of the primary risks they face is price variability, which can be very high between and within growing seasons. In terms of price risk management, Morgan (2001) reviews the literature on reducing price risk through support and stabilization measures (e.g., International Commodity Agreements). Price support—often through marketing boards—has been a common but generally unsustainable policy. Because of the risks and politics involved in maintaining international boards, there has been a broad trend to liberalize agricultural markets, shifting price risk onto producers and traders, and furthermore, the boards typically are only setup for dominant export crops.

Due to these difficulties with International Commodity Agreements, Morgan (1999, 2001) outlines theoretical justification for the demand for futures markets and other risk-management tools in developing countries but suggests that few systems are implemented successfully in practice, due to frequently unsatisfied infrastructural requirements.

Although in theory the most efficient approach, futures markets are not readily available for many farmers and crops, in particular for farmers in developing countries. Carter (1999) surveys the literature on reducing price variability through derivatives such as futures and options markets. Such markets remain relatively uncommon in developing countries, however, and even where they exist, they are primarily accessible to large-volume producers and traders rather than smallholder farmers (Varangis and Larson, 1996).

Carter (1999) in particular points to evidence that farmers in developed countries seem to hedge their price risk less than would appear to be optimal and again emphasizes a striking lack of evidence on their counterparts in developing countries. Attempting to begin filling this gap, a comparative study by Woolverton (2007) interviewing U.S. and South African farmers suggests that in the absence of price supports, farmers do show a higher demand for price-risk reduction strategies, though Jordaan and Grove (2007) find that demand may be tempered by distrust of the market and insufficient

education. These studies seem to focus more on larger scale farmers who may also be less credit constrained. There is still very little empirical evidence on how smallholders in particular respond to price-risk management products.

We are unaware of any crop-price insurance offered to smallholder farmers, but recent efforts to sell rainfall insurance are highly instructive. Giné and Yang (2007) study whether the inclusion of rainfall insurance (at marginal cost) into a loan product induces farmers to borrow. To their surprise, loan take-up was actually lower by 13 percentage points among farmers who had to buy insurance along with the loan. They also find that take-up of the insured loan is positively correlated with education while take-up of the uninsured loan is not. Thus, it is clear that inclusion of insurance in loans (in that case, at actuarially fair prices plus a load to cover insurance company costs) for smallholders is not necessarily an easy task that generates higher demand for the loan.

To investigate whether price risk affected the demand for credit, we conducted a simple social experiment in which some loans included a crop price indemnification clause (a "natural field experiment" in the taxonomy put forward by Harrison and List, 2004). Mumuadu Rural Bank in the Eastern Region of Ghana, in conjunction with Innovations for Poverty Action, offered credit to farmers to invest in their farms. Mumuadu conducted marketing meetings to groups of maize and garden egg (egg-plant) farmers. Randomly assigned, in half of the meetings, farmers were offered the opportunity to apply for loans that included crop price indemnification at no additional charge; that is, if crop prices fell below a certain floor during the harvest time, 50 percent of their loan was forgiven. In the other half of the meetings (control), farmers were offered a normal loan, with repayment required irrespective of future crop prices. Farmers attending both sets of meetings merely knew that the bank was holding a meeting to talk about credit in their community; they were not told that there was variation in the types of loans being offered.[1] By not disclosing to farmers that there was a randomized trial within the lending program, the experiment avoids concerns of "randomization bias" that only certain types of individuals are prone to participate in randomized trials (Heckman, 1992). Indeed, this social experiment was entirely "natural" (Harrison and List, 2004) in that, aside from the surveying, the individuals interacted with the bank and saw themselves as clients of the bank.

By conducting this as a randomized control trial, we address two general endogeneity problems. First, those who choose to participate in insurance programs are likely different from those who do not (e.g., more risk averse, perhaps more entrepreneurial or resourceful in finding good financial solutions to their problems), and second, those who are approved typically by lenders are different from those who are not. Note that although the take-up rates of the loans was 86 percent in the control and 92 percent in the treatment groups, our analysis of impacts is done on the intent to treat basis; that is, everyone offered treatment loans are analyzed as part of the treatment group (and not just the self-selected sample of those who take up), and the same for the control group.

[1]We cannot, however, rule out the possibility that farmers may have known each other across groups.

There are two important methodological points to note. First, the possibility exists that there was learning across the two groups of farmers given the social ties that likely exist between farmers living in the same village. In particular, if one farmer finds out that his neighbor has been offered a loan on more favorable terms than herself, she might be less likely to take up the "normal" loan. However, since take-up rates are quite similar across both types of loans, we do not think that this type of learning had an impact on our results. Furthermore, no anecdotal reports of complaints or queries were made to the bank, thus reinforcing the belief that contagion effects were unlikely to have occurred. Second, as with any data collection process, one must always point out that those who participate in a process, whether it be a research process or some other intake process, may be different from the general population. In this case, since participants did not perceive their participation as part of a research project but rather as a process to potentially get a loan, the issue is simply that these results may not apply to individuals with no interest in receiving credit from a rural bank for agriculture.

Finally, by incorporating the study into normal operations of a bank, we avoid any risk of recruitment bias (i.e., a sample selection bias generated by an explicitly research-focused recruitment process).

LOAN PRODUCT DESCRIPTION AND RATIONALE

Our choice of loan product was initially based on focus group meetings with farmers and bank management. In these meetings, farmers reported that one reason they were not borrowing from Mumuadu Bank was fear of default in the event that prices collapse. Opinion from bank management also suggested this was a significant risk. Several further factors made indemnification of crop prices a good candidate for the product. First, more than half of farmers interviewed in a baseline survey said they would be willing to pay to guarantee a floor for the price of their crop. Furthermore, rainfall, an alternative risk commonly discussed, does not vary enough in this region of Ghana to be considered a substantial risk for most farmers (Keyzer et al., 2007), but crop prices do vary considerably. Finally, crop prices are determined in centralized local markets and are thus outside any individual farmer's control or likely influence. Data on these prices are collected by government officials and are easily and quickly verifiable.

The Mumuadu Bank loan product was simple. If the price of the farmer's crop (either maize or garden egg) at the time of harvest fell below a given level (set to be at the 10th percentile of historical garden egg prices during harvest period and at the 7th percentile of historical year-long prices for maize), then Mumuadu Bank forgave 50 percent of the principal and interest of the farmers' loan. To set the crop-price levels and choose the crops, we gathered data from the Ghana Ministry of Agriculture and engaged in conversations with Ministry of Agriculture extension agents, farmers, and Mumuadu Rural Bank. We chose the two crops—garden eggs and maize—due to their prevalence in the region, their price volatility, and availability of historical data. Farmers attended the meetings already in groups designating them as either garden egg or maize, and there was no opportunity to switch crops afterward depending on prices or other factors.

The loan with crop price indemnification aims to encourage investment, and thus the key outcome measure, beyond take up of the loan, is whether investment behavior changed for the farmers. We have three sources of data: a baseline survey, the administrative data from the bank with regard to take-up and repayment, and a follow-up survey that focused on investment decisions of the farmers.

EXPERIMENTAL DESIGN

The project launched in August 2007. Mumuadu Bank employees contacted key community members (district assemblyman, storekeepers, farmers) in each of five villages to collect the names of all maize and garden egg farmers in the village. From the listing, farmers were randomly assigned into either the control or treatment group, and the same community members invited the farmers to marketing meetings separated by treatment and control.

At the beginning of each of the marketing meetings, Mumuadu employees explained that the bank was doing marketing research on farmers in the area, and then asked the farmers to participate in a baseline survey. Table 1 presents the summary statistics from this baseline survey for those who were also successfully reached in the follow-up survey, 1 year later. Appendix Table A1 presents the summary statistics from the baseline survey for everyone surveyed in the baseline and compares those means with those also found for the follow-up, in order to assess whether there was any noticeable attrition pattern. All statistics include farmers who were offered loans, regardless of whether they chose to apply later. The aggregate test finds that those who were found for the follow-up survey were systematically different (F-statistic = 1.84, p-value = 0.028). The attrition bias seems driven mostly by those who perceived price risk to be higher, those who prefer to borrow from banks over relatives, and maize farmers (all three groups were more likely to be found for the follow-up survey). Because attrition is nonnegligible in our sample, a series of robustness checks have been added to the estimation section and are presented in Appendix Tables A2–A4. Results appear to be robust to a correction for attrition.

Once the baseline survey was complete in the meetings, one of four credit officers from Mumuadu Bank then presented the loan offer to the group of farmers. A total of 169 farmers attended one of the 20 meetings. Of these 169, 91 were maize farmers and 78 were garden egg farmers. Farmers were not informed that the bank was offering two different products; rather, the bank simply offered the treatment group their loan offer and offered the control group the loan without the crop price indemnification.

Farmers then had 1 month to apply for a loan. Loans were disbursed about 1 month after application: between September 13 and October 17 for maize farmers, and between November 17 and December 13 for garden egg farmers. Average loan size is 238 GHS (Ghana cedis or 159 USD), which represents a large change in cash flow—roughly 13–38 percent of the typical farmer's average annual income. A follow-up survey was conducted after 2–3 crop cycles (roughly 1 year) to determine the impact of the indemnified loan on input usage and investment.

DATA AND ANALYSIS

The survey instrument for the pilot contains 28 questions and is primarily designed to measure basic demographic information plus data on loan history and plans,

TABLE 1
Baseline Summary Statistics: Orthogonality Verification and Take-Up Analysis Baseline Means and Standard Errors

	Randomization				Decision to Apply			Decision to Apply: Control			Decision to Apply: Treatment		
	Reached for Follow-Up Survey ($N = 126$) (1)	Control ($N = 66$) (2)	Treatment ($N = 60$) (3)	t- Statistic (2) ≠ (3) (4)	No ($N = 14$) (5)	Yes ($N = 112$) (6)	t-Statistic (5) ≠ (6) (7)	No ($N = 9$) (8)	Yes ($N = 57$) (9)	t-Statistic (8) ≠ (9) (10)	No ($N = 5$) (11)	Yes ($N = 55$) (12)	t-Statistic (11) ≠ (12) (13)
General													
Age	43.413	44.394	42.333	0.903	37.929	44.098	1.716*	34.111	46.018	2.765***	44.800	42.109	0.440
	(1.138)	(1.552)	(1.677)		(3.563)	(1.191)		(2.831)	(1.646)		(8.267)	(1.697)	
Female	0.151	0.121	0.183	0.969	0.143	0.152	0.087	0.111	0.123	0.098	0.200	0.182	0.099
	(0.032)	(0.040)	(0.050)		(0.097)	(0.034)		(0.111)	(0.044)		(0.200)	(0.052)	
Number of dependents	5.992	6.348	5.600	1.422	4.929	6.125	1.431	4.778	6.596	1.582	5.200	5.636	0.358
	(0.264)	(0.399)	(0.335)		(0.715)	(0.282)		(0.969)	(0.430)		(1.114)	(0.353)	
Education score (0 = no schooling, 9 = highest)	4.135	4.045	4.233	0.464	4.143	4.134	0.014	4.333	4.000	0.411	3.800	4.273	0.439
	(0.201)	(0.277)	(0.295)		(0.686)	(0.211)		(0.866)	(0.293)		(1.241)	(0.305)	
Cognitive score (1 = lowest, 7 = highest)	4.643	4.500	4.800	1.240	3.929	4.732	2.114**	3.889	4.596	1.514	4.000	4.873	1.344
	(0.121)	(0.162)	(0.181)		(0.355)	(0.127)		(0.484)	(0.170)		(0.548)	(0.189)	
Ambiguity aversion score (1 = not averse, 3 = very averse)	2.310	2.242	2.383	1.007	1.929	2.357	1.949*	2.111	2.263	0.512	1.600	2.455	2.595**
	(0.070)	(0.101)	(0.095)		(0.322)	(0.067)		(0.423)	(0.099)		(0.510)	(0.089)	
Do you have health insurance?	0.532	0.485	0.583	1.103	0.500	0.536	0.251	0.333	0.509	0.971	0.800	0.564	1.018
	(0.045)	(0.062)	(0.064)		(0.139)	(0.047)		(0.167)	(0.067)		(0.200)	(0.067)	
Lending history													
Taken any loan	0.595	0.591	0.600	0.103	0.357	0.625	1.938*	0.444	0.614	0.954	0.200	0.636	1.934*
	(0.044)	(0.061)	(0.064)		(0.133)	(0.046)		(0.176)	(0.065)		(0.200)	(0.065)	
Taken loan from financial institution	0.325	0.273	0.383	1.322	0.071	0.357	2.174**	0.111	0.298	1.166	0.000	0.418	1.864*
	(0.042)	(0.055)	(0.063)		(0.071)	(0.045)		(0.111)	(0.061)		(0.000)	(0.067)	
Prefer to borrow from bank, not relative	0.841	0.848	0.833	0.231	0.929	0.830	0.944	0.889	0.842	0.359	1.000	0.818	1.036
	(0.033)	(0.044)	(0.049)		(0.071)	(0.036)		(0.111)	(0.049)		(0.000)	(0.052)	

(*Continued*)

TABLE 1
Continued

	Randomization												
	Reached for Follow-Up Survey ($N = 126$) (1)	Control ($N = 66$) (2)	Treatment ($N = 60$) (3)	t- Statistic (2) ≠ (3) (4)	Decision to Apply			Decision to Apply: Control			Decision to Apply: Treatment		
					No ($N = 14$) (5)	Yes ($N = 112$) (6)	t-Statistic (5) ≠ (6) (7)	No ($N = 9$) (8)	Yes ($N = 57$) (9)	t-Statistic (8) ≠ (9) (10)	No ($N = 5$) (11)	Yes ($N = 55$) (12)	t-Statistic (11) ≠ (12) (13)
Would use loan to buy farm inputs	0.952 (0.019)	0.924 (0.033)	0.983 (0.017)	1.558	1.000 (0.000)	0.946 (0.021)	0.883	1.000 (0.000)	0.912 (0.038)	0.916	1.000 (0.000)	0.982 (0.018)	0.299
Farming													
Perceived likelihood of price falling (1 = not likely,) 6 = very likely)	2.548 (0.091)	2.576 (0.133)	2.517 (0.125)	0.322	2.429 (0.309)	2.563 (0.096)	0.460	2.000 (0.333)	2.667 (0.142)	1.744*	3.200 (0.490)	2.455 (0.127)	1.678*
Maize farmer (vs. garden egg farmer)	0.579 (0.044)	0.591 (0.061)	0.567 (0.065)	0.273	0.500 (0.139)	0.589 (0.047)	0.634	0.444 (0.176)	0.614 (0.065)	0.954	0.600 (0.245)	0.564 (0.067)	0.154
Number of crops planned	1.968 (0.082)	1.970 (0.120)	1.967 (0.111)	0.018	1.786 (0.334)	1.991 (0.083)	0.786	2.111 (0.484)	1.947 (0.119)	0.465	1.200 (0.200)	2.036 (0.116)	2.137**
Planned to grow maize at baseline	0.643 (0.043)	0.682 (0.058)	0.600 (0.064)	0.953	0.643 (0.133)	0.643 (0.045)	0.000	0.667 (0.167)	0.684 (0.062)	0.103	0.600 (0.245)	0.600 (0.067)	0.000
Planned to grow garden egg at baseline	0.452 (0.045)	0.424 (0.061)	0.483 (0.065)	0.661	0.500 (0.139)	0.446 (0.047)	0.377	0.556 (0.176)	0.404 (0.066)	0.849	0.400 (0.245)	0.491 (0.068)	0.383

Note: Joint F-test of significance for selection into the treatment group: 0.75, p-value: 0.740. Standard errors in parentheses.
*Significant at 10 percent.
**Significant at 5 percent.
***Significant at 1 percent.

cognitive ability, risk perception and aversion, and financial management skills. The survey instrument is available upon request.[2]

We begin with an analysis of differences in means. Our first goal is to verify that the randomization generated observably similar treatment and control groups. Table 1, column 4 shows the *t*-statistics for a series of comparison of means, which all showed that the treatment assignment was orthogonal to all key observable variables collected in the baseline survey. The joint test of all covariates (F-statistic = 0.75, p-value = 0.74 reported in the notes) also shows that the randomization successfully generated observable similar treatment and control groups jointly.

Next, we are interested in comparing the characteristics of those who apply for the standard loan with the characteristics of those who apply for the indemnified loan. For instance, are those who are more risk averse more likely to borrow with the indemnified loan? Or perhaps the price indemnification is difficult to understand, and thus those with higher cognitive abilities or education are more likely to take it up, relative to a simple loan. Ideally, we would know the riskiness of different farmers (which perhaps is proxied by their risk aversion) in order to test a model of adverse selection versus advantageous selection (note that we employed hypothetical survey questions to measure risk preferences rather than incentivized questions as done in, for example, Harrison, Steven, and Verschoor, 2010).

Table 1, columns 5 through 13 show, via comparison of means, what types of individuals were more likely to take up the loan overall (columns 5–7), under the control condition (columns 8–10), and the treatment condition (columns 11–13). Overall, farmers who borrowed were roughly 6 years older than farmers who did not borrow, their cognitive scores were almost 1 full point (out of 7) higher, they were twice as likely to have borrowed previously, especially from a financial institution, and they were somewhat more ambiguity averse.

Table 2 shows similar results using probit econometric specifications:

$$A_i = \gamma + \alpha T_i + X_i \beta + X_i T_i \delta_i + \varepsilon_i, \tag{1}$$

where A_i is an indicator variable equal to 1 if the individual takes up a loan, T_i is an indicator variable for assignment to the treatment group—the farmers who get marketed the indemnified loan, X_i is a vector of demographic and other survey responses, and ε_i is an error term for farmer i, which allowed for clustering at the group (i.e., meeting) level.

We find very few differences in take-up. Any heterogeneity is likely masked by the large take-up rates for both: 86 percent in control group and 92 percent in treatment group (the difference is not statistically significant) took-up a loan. We do not find a difference in take-up due to cognitive score or prior experience borrowing, but we do find that those who believed that prices were likely to fall were *less* likely to take up

[2]The data set, estimation code, and instructions to participants are available at http://karlan.yale.edu/p/index.php.

TABLE 2
Analysis of Loan Take-Up Decision Dependent Variable: 1 = Borrowed, 0 = Did Not Borrow Probit Results

	Probit (1)	Probit (25th Percentile) (2)	Probit (75th Percentile) (3)	Probit (4)
Treatment (loan included price indemnification)	0.020	0.002	0.000	0.195
	(0.046)	(0.004)	(0.000)	(0.165)
Age	0.003*	0.000*	0.000*	0.004***
	(0.002)	(0.000)	(0.000)	(0.001)
Female	0.031	0.004	0.000	0.036
	(0.040)	(0.005)	(0.000)	(0.028)
Cognitive score (1 = lowest, 7 = highest)	0.045***	0.003***	0.000***	0.035**
	(0.015)	(0.001)	(0.000)	(0.016)
Perceived likelihood of price falling 1 = not likely) 6 = very likely)	0.011	0.001	0.000	0.043
	(0.023)	(0.002)	(0.000)	(0.027)
Has borrowed previously	0.121*	0.102**	0.000**	0.040
	(0.072)	(0.050)	(0.000)	(0.045)
Maize farmer (vs. garden egg farmer)	0.09*	0.051*	0.000*	0.057
	(0.051)	(0.030)	(0.000)	(0.043)
Cognitive score × treatment				0.007
				(0.021)
Perceived likelihood of price falling × treatment				−0.088**
				(0.038)
Has borrowed previously × treatment				0.067
				(0.063)
Observations	126	126	126	126
F-test: treat cognitive × treatment likelihood × treatment loan × treatment				6.79
Probability > *F*				0.15

Note: Robust standard errors in parentheses. Reported results are marginal effects. Significant coefficients in column (3) are smaller than 0.001.
*Significant at 10 percent.
**Significant at 5 percent.
***Significant at 1 percent.

the treatment loan than the control loan.[3] This was significant at the 90 percent level. Our prior was the opposite: the loan protects farmers from prices falling, and thus those who believe prices will fall will have higher demand for crop price protection.

[3]The question asked was, "In your view, what is the likelihood that the price of 27 kg of garden eggs will fall below 70,000 between January and April?" Respondents could answer on a scale of 1 to 3 from very unlikely to very likely, and this is summed with the response to the same question asked about the next 5 years. A similar question was asked of maize farmers.

The reversal of this, we find interesting and puzzling. We posit one story, *ex post*: the survey question picked up pessimism[4] in general, not just pessimism with respect to crop prices, and pessimistic individuals were skeptical of the indemnified loan product.

Next, in Table 3 (summary statistics and mean comparisons) and Table 4 (probit and tobit specifications),[5] we estimate the impact of the indemnified loan on investment and profits using the first-difference estimator obtained by comparing the levels of the outcome variables between the treatment and control groups. To avoid self-selection bias related to farmers' decisions to apply for a loan, we estimate the intent-to-treat impact—the impact of being offered a price-indemnified loan regardless of take-up.

Table 4 uses the following econometric specification:

$$Y_i = \alpha + \beta T_i + X_i \delta_i + \varepsilon_i, \tag{2}$$

where Y_i is the outcome of interest, and X_i is a vector of baseline covariates that are not included in columns 1 and 2 and included in columns 3 and 4. We use tobit estimation for nonnegative continuous variables and probit for binary variables. Due to the randomization, the first-difference estimator provides an unbiased estimate of the impact of the indemnified loan on investment and profits, without risk of endogeneity with respect to who decided to take up or who was offered credit by the bank.

We find that farmers offered the indemnified loans spent on average 23.1 percentage points (significant at 90 percent, but not significant when not including control variables) more on chemicals for their primary crop as a share of the total spent on chemical inputs. Other than this, there is no indication that the indemnified loan had an impact on investment in inputs.

We also see a shift toward growing garden eggs by 17.5 percentage points (significant at 95 percent in specifications with baseline control variables, not significant in specifications without baseline controls but the point estimate is similar) and harvesting less maize, resulting in a decrease of 270 kg of maize harvested (significant at 95 percent). As garden eggs are the more perishable and thus potentially riskier crop, although both were protected by the indemnification clause, the relative reduction in risk was greater for garden eggs.

We find a potentially interesting result regarding how and when farmers marketed their crop. Note that the indemnified loan was *not* conditional on the price that they received for their crop but rather on the average price in the area at the time of harvest. Farmers were 18 percent more likely to sell their crops to market traders rather than to farmgate sellers who come to them and pick up the crop. Anecdotal evidence suggests that the farmgate sellers offer contracts that lock in prices, but at lower prices. Those willing to risk market prices are typically rewarded on average. Two further pieces of information would have helped tell a complete story, but we do not have them.

[4]"Pessimism" is meant here in a layman's sense rather than a formal one.

[5]Ordinary least squares (OLS) results are available from the authors and are not qualitatively different.

TABLE 3
Outcome Summary Statistics Mean and Standard Errors

	Overall ($N = 126$) (1)	Control ($N = 66$) (2)	Treatment ($N = 60$) (3)	t-Statistic (2) ≠ (3) (4)
Borrowing				
Applied for loan	0.889	0.864	0.917	0.942
	(0.028)	(0.043)	(0.036)	
Loan principal (GHS), borrowers only	238.4	239.6	237.2	0.187
	(6.24)	(9.41)	(8.26)	
Loan principal (GHS), all obs	182.94	180.30	185.83	0.272
	(10.11)	(14.40)	(14.27)	
Had overdue balance in May 2009, borrowers only	0.516	0.500	0.533	0.371
	(0.045)	(0.062)	(0.065)	
Had overdue balance in May 2009, all obs	0.586	0.579	0.593	0.145
	(0.047)	(0.066)	(0.067)	
Cultivation and inputs				
Cultivated indemnity crop	0.778	0.742	0.817	0.997
	(0.037)	(0.054)	(0.050)	
Cultivated garden egg	0.254	0.182	0.333	1.966*
	(0.039)	(0.048)	(0.061)	
Cultivated maize	0.738	0.773	0.700	0.923
	(0.039)	(0.052)	(0.060)	
Amount of land farmed in minor season (acres)	2.567	2.773	2.342	1.562
	(0.139)	(0.190)	(0.201)	
Amount of land farmed: indemnity crop (acres)	2.147	2.288	1.992	0.712
	(0.207)	(0.338)	(0.229)	
Used certified seed on indemnity crop, growers only	0.490	0.449	0.531	0.803
	(0.051)	(0.072)	(0.072)	
Used certified seed on indemnity crop, all obs	0.381	0.333	0.433	1.151
	(0.043)	(0.058)	(0.065)	
Total spent on chemicals for indemnity crop (GHS)	54.795	60.670	48.333	0.941
	(6.546)	(11.451)	(5.513)	
Total spent on chemicals for indemnity crop, % all crops	0.679	0.604	0.762	1.990**
	(0.040)	(0.058)	(0.054)	
Total labor days used	36.722	33.833	39.900	0.719
	(4.208)	(3.947)	(7.719)	
Total labor days used on indemnity crop	26.373	25.742	27.067	0.209
	(3.160)	(3.954)	(5.045)	
Sales and income				
Amount harvested from garden egg crop (kg), growers only	424.333	485.909	388.684	0.323
	(142.709)	(138.181)	(213.247)	
Amount harvested from garden egg crop (kg), all obs	101.032	80.985	123.083	0.563
	(37.233)	(31.529)	(70.337)	
Amount harvested from maize crop (kg), growers only	464.690	529.441	384.146	1.246
	(58.135)	(88.593)	(68.969)	
Amount harvested from maize crop (kg), all obs	339.298	409.114	262.500	1.594
	(46.226)	(73.639)	(52.392)	

(*Continued*)

TABLE 3
Continued

	Overall ($N = 126$) (1)	Control ($N = 66$) (2)	Treatment ($N = 60$) (3)	t-Statistic (2) ≠ (3) (4)
Revenue for all crops (GHS), all obs	309.250 (41.452)	346.045 (65.037)	268.775 (49.659)	0.930
Sold indemnity crop, growers only	0.929 (0.026)	0.939 (0.035)	0.918 (0.040)	0.389
Sold indemnity crop, all obs	0.722 (0.040)	0.697 (0.057)	0.750 (0.056)	0.660
Sold indemnity crop to market trader, growers only	0.440 (0.052)	0.348 (0.071)	0.533 (0.075)	1.795*
Sold indemnity crop to market trader, all obs	0.317 (0.042)	0.242 (0.053)	0.400 (0.064)	1.910*

Note: "Indemnity crop" refers to maize for the maize group and garden eggs for the garden egg group. Standard errors in parentheses.
*Significant at 10 percent.
**Significant at 5 percent.

First, if this interpretation is correct, historical price data at the farmgate should be lower and less volatile than historical price data at the market. Second, we should be able to document that farmgate buyers are indeed locking in prices for farmers before harvest. Lastly, default was large, with 58 percent of borrowers (no difference between treatment and control) in default as of May 2009.

Given the attrition (126 of 169 farmers successfully surveyed for the follow-up), Appendix Tables A2 and A3 show estimates on borrowing outcomes on both the final sample who could be reached for interview during the follow-up (i.e., same as in the primary tables) as well as for the full-original sample. Appendix Table A4 reports results of estimating Equation (2) using inverse probability weighting to correct for attrition. To obtain the weights, we run a probit regression of attrition on control variables plus those variables that distinguish attriters as determined in Appendix Table A1. The results in Table 4 are robust to this attrition correction.

DISCUSSION AND DIRECTIONS FOR FUTURE RESEARCH

Ironically, the surprisingly high take-up rate of credit made it difficult to assess heterogeneity in take-up that the study aimed to test. We specifically designed this product to be built in to the loan rather than as an add-on insurance. This, combined with the fact that the triggering event was measured by the Ministry of Agriculture, reduced the processing costs for the bank. We also integrated the insurance with the loan to avoid potential choice overload problems (i.e., when too many choices cause stagnation in decision making, see Bertrand et al., Forthcoming; Iyengar and Lepper, 2000). Giné and Yang (2007) also discuss this issue (and related issues of confusion that the insurance may generate to those unfamiliar with insurance) in a working paper version of their rainfall insurance experiment, in which take-up rates for credit plus

TABLE 4
Treatment Effects Dependent Variables: Each Row Represents a Different Dependent Variable

Specification:	Probit/Tobit	Probit/Tobit
Includes Baseline Covariates:	No	Yes
	(1)	(2)
Borrowing		
Applied for loan	0.053	0.030
	(0.061)	(0.048)
Loan principal (GHS)	7.667	6.644
	(30.673)	(26.762)
Had overdue balance in May 2009, borrowers only	0.014	0.034
	(0.125)	(0.137)
Had overdue balance in May 2009, all obs	0.033	0.052
	(0.126)	(0.131)
Cultivation and inputs		
Cultivated indemnity crop	0.074	0.088
	(0.142)	(0.072)
Cultivated garden egg	0.152	0.175**
	(0.147)	(0.081)
Cultivated maize	−0.073	−0.070
	(0.146)	(0.074)
Amount of land farmed in minor season (acres)	−0.423	−0.422
	(0.332)	(0.350)
Amount of land farmed: indemnity crop (acres)	−0.179	−0.075
	(0.683)	(0.489)
Used certified seed on indemnity crop, growers only	0.082	0.086
	(0.110)	(0.118)
Used certified seed on indemnity crop, all obs	0.100	0.115
	(0.102)	(0.091)
Total spent on chemicals for indemnity crop (GHS)	−4.35	−4.17
	(28.72)	(24.44)
Total spent on chemicals for indemnity crop, % all crops	0.212	0.231*
	(0.220)	(0.118)
Total labor days used	6.918	5.587
	(10.709)	(9.690)
Total labor days used on indemnity crop	4.073	4.358
	(13.019)	(9.573)
Sales and income		
Amount harvested from garden egg crop (kg)	282.28	417.62
	(662.35)	(560.28)
Amount harvested from maize crop (kg)	−257.30**	−270.35**
	(128.40)	(121.70)
Revenue for all crops (GHS)	−97.99	−106.16
	(104.97)	(82.00)
Sold indemnity crop	−0.020	−0.061
	(0.074)	(0.102)
Sold indemnity crop to market trader, growers only	0.186	0.254**
	(0.117)	(0.115)
Sold indemnity crop to market trader, all obs	0.158	0.185*
	(0.111)	(0.103)

Note: Marginal effects presented for probit and tobit results. Probits used for binary indicators and tobits for nonnegative continuous variables. Robust standard errors in parentheses. Control variables for column (2) are age, female, education, cognitive score, ambiguity aversion, perceived likelihood of price drop, and maize farmer (vs. garden egg group). "Indemnity crop" is maize for the maize farmer group and garden eggs for the garden egg group.
*Significant at 10 percent.
**Significant at 5 percent.

rainfall insurance were lower than take-up rates for credit alone (in their case, the rainfall insurance was priced at actuarially fair prices plus a load).[6] How to ensure that farmers truly understand such a product is a larger question that can be explored through further empirical research.

Due to the high take-up rates and thus little room for heterogeneity in take-up, we focus our attention on the impact, or lack thereof in significant ways, on farmer decisions. A few factors may be at work to generate few impacts. First, did farmers fully understand the indemnity clause? Priced fairly, the product undoubtedly makes financial sense for many farmers; by investing more in their crops they are more likely to earn increased farm income, and this product lowered the risk they faced with such investments. Second, perhaps 1 year is not enough time. The farmers needed to believe that the crop price indemnification loans would be offered for years to come in order to start making large investment changes. Third, the high rates of default we observe may indicate that the bank already effectively had in place a flexible "loan forgiveness" program, so the additional indemnification had little impact on behavior. Lastly, it could be that the crop prices were simply not causing that much volatility for farmers. Observed crop prices may have been volatile and may have been the focus of much attention, but through storage and optimal timing of sales, farmers are able to mitigate this risk at least partially on their own. Related to this, a study by Mahul (2000) suggests that farmers may jointly consider price and yield risk. It is possible that the impact of reducing price risk may be muted in the presence of unmitigated yield risk. Lastly, sample size of the study was small, and thus many of the results were positive but not significant statistically. In many of the cases, we are not able to rule out large and meaningful results.

This experiment tried to address a key question for development: does risk inhibit investment? Although many interventions try to mitigate risk by selling insurance or loans at market prices, the even simpler question remains: if the risk were removed, without any selection effects, how would behavior change? We tried to answer this through the simplest way possible: to give away the crop price indemnification rather than sell it (and thus only observe the intent to treat effect on those who want their crop-price risk mitigated). We see this approach as enlightening, to in a sense know how high the bar can be for the impact of insurance on investment. Further research needs to be done on other risks (e.g., rainfall), with larger sample sizes, and perhaps with training and longer term commitments to maintain a presence in a market.

[6]Giné and Yang (2007) is the working paper version of Giné and Yang (2009).

APPENDIX

TABLE A1
Analysis of Attrition

	Full Sample Interviewed at Baseline ($N = 169$) (1)	Interviewed at Baseline Only ($N = 43$) (2)	Reached for Follow-Up Survey ($N = 126$) (3)	t-Statistic (2) ≠ (3) (4)
General				
Treatment: selected for crop price indemnity	0.509 (0.039)	0.605 (0.075)	0.476 (0.045)	1.455
Age	42.905 (0.957)	41.419 (1.735)	43.413 (1.138)	0.908
Female	0.166 (0.029)	0.209 (0.063)	0.151 (0.032)	0.888
Number of dependents	5.840 (0.225)	5.395 (0.428)	5.992 (0.264)	1.156
Education score (0 = no schooling, 9 = highest)	4.254 (0.168)	4.605 (0.294)	4.135 (0.201)	1.219
Cognitive score (1 = lowest, 7 = highest)	4.609 (0.104)	4.512 (0.206)	4.643 (0.121)	0.547
Ambiguity aversion score (1 = not averse, 3 = very averse)	2.260 (0.062)	2.116 (0.130)	2.310 (0.070)	1.365
Do you have health insurance?	0.538 (0.038)	0.558 (0.077)	0.532 (0.045)	0.298
Lending history				
Taken any loan	0.592 (0.038)	0.581 (0.076)	0.595 (0.044)	0.159
Taken loan from financial institution	0.325 (0.036)	0.326 (0.072)	0.325 (0.042)	0.002
Prefer to borrow from bank, not relative	0.811 (0.030)	0.721 (0.069)	0.841 (0.033)	1.745*
Would use loan to buy farm inputs	0.964 (0.014)	1.000 (0.000)	0.952 (0.019)	1.458
Farming				
Perceived likelihood of price falling (1 = not likely, 6 = very likely)	2.414 (0.079)	2.023 (0.147)	2.548 (0.091)	2.941***
Maize farmer (vs. garden egg farmer)	0.538 (0.038)	0.419 (0.076)	0.579 (0.044)	1.833*
Number of crops planned	2.030 (0.070)	2.209 (0.135)	1.968 (0.082)	1.496
Planned to grow maize at baseline	0.627 (0.037)	0.581 (0.076)	0.643 (0.043)	0.717
Planned to grow garden egg at baseline	0.485 (0.039)	0.581 (0.076)	0.452 (0.045)	1.462

Note: Joint F-test of significance on being surveyed at follow-up: 1.84, p-value: 0.028.
*Significant at 10 percent.
***Significant at 1 percent.

TABLE A2
Analysis of Attrition: Loan Take-Up Decision for Full Original Sample Versus Those Reached in a Follow-Up Survey

Sample	Follow-Up Only ($N = 126$) Same as Table 2, Col. 1 (1)	Follow-Up Only ($N = 126$) Same as Table 2, Co l. 4 (2)	Full ($N = 169$) (3)	Full ($N = 169$) (4)
Treatment (loan included price indemnification)	0.020 (0.046)	0.195 (0.165)	−0.063 (0.060)	0.149 (0.220)
Age	0.003* (0.002)	0.004*** (0.001)	0.002 (0.002)	0.002 (0.002)
Female	0.031 (0.040)	0.036 (0.028)	0.033 (0.072)	0.041 (0.061)
Cognitive score (1 = lowest, 7 = highest)	0.045*** (0.015)	0.035** (0.016)	0.064*** (0.018)	0.067** (0.030)
Perceived likelihood of price falling (1 = not likely, 6 = very likely)	0.011 (0.023)	0.043 (0.027)	0.028 (0.023)	0.059* (0.034)
Has borrowed previously	0.121* (0.072)	0.040 (0.045)	0.119* (0.067)	0.108 (0.094)
Maize farmer (vs. garden egg farmer)	0.09* (0.051)	0.057 (0.043)	0.056 (0.060)	0.055 (0.061)
Cognitive score* treatment		0.007 (0.021)		−0.010 (0.037)
Perceived likelihood of price falling × treatment		−0.088** (0.038)		−0.073* (0.039)
Has borrowed previously × treatment		0.067 (0.063)		0.008 (0.120)
Observations	126	126	169	169
F-test: treat cognitive × treatment likelihood × treat loan × treat		6.79		3.97
Probability > *F*		0.15		0.41

Note: Robust standard errors in parentheses. Reported results are marginal effects.
*Significant at 10 percent.
**Significant at 5 percent.
***Significant at 1 percent.

TABLE A3
Analysis of Attrition: Treatment Effects for Full Original Sample Versus Those Reached in a Follow-Up Survey

Specification: Sample:	Probit/Tobit Follow-Up Only ($N = 126$) Same as Table 4, Col. 2 (1)	Probit/Tobit Full ($N = 169$) (2)
Borrowing		
Applied for loan	0.030	−0.059
	(0.048)	(0.061)
Loan principal (GHS)	6.644	29.180
	(26.762)	(28.951)
Had overdue balance in May 2009, borrowers only	0.034	0.038
	(0.137)	(0.092)
Had overdue balance in May 2009, all obs	0.052	0.069
	(0.131)	(0.098)

Note: Borrowing and repayment information was collected as part of Mumuadu's administrative data, so data were available for all 169 individuals. The results with the final sample of 126 are presented to keep a sample consistent with the follow-up outcomes. Control variables for column are age, female, education, cognitive score, ambiguity aversion, perceived likelihood of price drop, and maize farmer (vs. garden egg group). Robust standard errors in parentheses.

TABLE A4
Treatment Effects Using Follow-Up Sample With and Without Correction for Attrition

Specification:	Probit/ Tobit		Probit/ Tobit	
Sample:	Follow-Up Only ($N = 126$)	Attrition Corrected Probit/Tobit Follow-Up Only ($N = 126$)	Follow-Up Only ($N = 126$)	Attrition Corrected Probit/ Tobit Follow-Up Only ($N = 126$)
Includes baseline covariates:	No	No	Yes	Yes
	Same as Table 4, Col. 1		Same as Table 4, Col. 2	
	(1)	(2)	(3)	(4)
Cultivation and inputs				
Cultivated indemnity crop	0.074	−0.033	0.088	−0.007
	(0.142)	(0.099)	(0.072)	(0.032)
Cultivated garden egg	0.152	0.085	0.175**	0.050
	(0.147)	(0.116)	(0.081)	(0.052)
Cultivated maize	−0.073	−0.068	−0.070	−0.014
	(0.146)	(0.116)	(0.074)	(0.028)
Amount of land farmed in minor season (acres)	−0.423	−0.499	−0.422	−0.507
	(0.332)	(0.362)	(0.350)	(0.383)
Amount of land farmed: indemnity crop (acres)	−0.179	−0.772	−0.075	−0.831
	(0.683)	(0.520)	(0.489)	(0.567)
Used certified seed on indemnity crop, growers only	0.082	0.273	0.086	0.251
	(0.110)	(0.177)	(0.118)	(0.203)
Used certified seed on indemnity crop, all obs	0.100	0.226	0.115	0.223
	(0.102)	(0.188)	(0.091)	(0.186)
Total spent on chemicals for indemnity crop (GHS)	−4.35	11.09	−4.17	0.34
	(28.72)	(21.31)	(24.44)	(18.29)
Total spent on chemicals for indemnity crop, % all crops	0.212	0.231	0.231*	0.188
	(0.220)	(0.237)	(0.118)	(0.119)
Total labor days used, all obs	6.918	−16.477	5.587	−11.424
	(10.709)	(14.607)	(9.690)	(9.316)
Total labor days used on indemnity crop, all obs	4.073	−17.754	4.358	−10.042
	(13.019)	(17.649)	(9.573)	(9.990)
Sales and income				
Amount harvested from garden egg crop (kg), all obs	282.28	282.88	417.62	252.95
	(662.35)	(714.40)	(560.28)	(488.81)
Amount harvested from maize crop (kg), all obs	−257.30**	−410.72**	−270.35**	−390.60**
	(128.40)	(168.87)	(121.70)	(152.54)
Revenue for all crops (GHS), all obs	−97.99	−169.00	−106.16	−150.51*
	(104.97)	(132.89)	(82.00)	(84.49)
Sold indemnity crop, growers only	−0.020	−0.012	−0.061	−0.083
	(0.074)	(0.102)	(0.102)	(0.093)
Sold indemnity crop to market trader, growers only	0.186	0.066	0.254**	0.150
	(0.117)	(0.225)	(0.115)	(0.173)
Sold indemnity crop to market trader, all obs	0.158	0.037	0.185*	0.091
	(0.111)	(0.194)	(0.103)	(0.141)

Note: Marginal effects presented for probit and tobit results. Probits used for binary indicators and tobits for nonnegative continuous variables. Robust standard errors in parentheses.

Control variables for columns (3) and (4) are age, female, education, cognitive score, ambiguity aversion, perceived likelihood of price drop, and maize farmer (vs. garden egg group). "Indemnity crop" is maize for the maize farmer group and garden eggs for the garden egg group. Estimates in columns (2) and (4) were obtained using inverse probability weights. Weights were obtained from a probit explaining attrition, which included individual controls, plus the variables that we found to be significant at the 10 percent level or greater based on our analysis of attrition in Appendix Table A1.

*Significant at 10 percent.

**Significant at 5 percent.

***Significant at 1 percent.

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