

# **Protecting Financial Investment in Agriculture. An Exploratory Study of Agriculture Insurance In Ghana**

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Agricultural production is a very important economic activity in the Ghanaian economy. This sector employs about 60% of the working population in the country. It has also been a historically dominant sector contributing over 35% of GDP. Even though this sector has been important in the economic development of Ghana, it has over the years been bedeviled with challenges that have hampered its growth. This is evident in the country's agricultural sector growth rate which has been reducing over the years from 7.6% (2009); 5.3% (2010); 2.8% (2011) (ISSER, 2012). The sector has over the years suffered from inadequate financial investment. This is due to the fact that Ghana's agriculture productivity remains largely rainfall dependent and hence vulnerable to a range of climatic hazards notably droughts, excess rainfall, floods, pests and diseases as well as natural hazards like bushfires and localized windstorms. Workers in this sector over the years have been severely affected by a number of catastrophic weather events that have occurred in Ghana especially for years like 1983, 1997, 2002, 2007 and 2009 where droughts, floods and bush fires occurred in several places. Several areas in the Northern region, for example, have faced major river flood exposures in recent times.

Such extreme weather conditions usually cause severe damages to cereals, food crops like maize, rice, etc. as well as cash crops like cocoa, mango, banana and cashew plantations. Research has shown that, on the average, about 5.5% (US\$228m) of the national value of the production of principal food crops such as maize are lost each year due to a combination of all climatic, biological and natural perils (Stutley, 2010) is this the worldwide condition?. The agricultural sector in Ghana is therefore exposed to a lot of risks that tends to erode the financial investment of entrepreneurs in that sector (Miranda and Farrin, 2012). It is therefore not surprising it is becoming increasingly difficult to secure financial credit for agricultural productivity in Ghana. The lack of adequate protection for agricultural risks which periodically occur in Ghana also lead to loss of income to

peasant farmers who engage in subsistence farming leading to decrease in the productivity and the rate of growth of the sector because these farmers would not like to take additional financial risks by investing in their farms (Rosenzweig and Wolpin, 1993). There has therefore been the need to develop means of providing financial protection for those who invest in this sector especially against risks that they cannot do anything to overcome (Burke et al, 2010). This means of protection would also protect the incomes of household against similar risk, encourage the farmers to invest and therefore promote the growth in the sector (Hellmuth *et al.*, 2007). Protection against financial risks all over the world has been done through the purchase of risk management instruments prominent among them is agricultural insurance (Miranda and Farrin, 2012). Until recently, there was no tradition of agricultural insurance to mitigate agricultural production losses arising from such severe weather conditions in Ghana. As a result, farmers are adversely affected (income instability) and become vulnerable to the range of risks and constraints which impede socio-economic development. Weather shocks, thus, trap farmers and households in poverty; moreover, the risk of shock further limits the willingness of these farmers to invest in measures that might increase their productivity and improve their socio-economic situation.

Up to 2011, Ghana had no formal agricultural insurance program that offered actuarially fair insurance products to protect farmers from risks related to their farming activities. It is however worthy of mention that farmers in some selected communities in the Northern region of Ghana had received some form of protection from risks related to their farming activities through agricultural insurance purchase. The first of such insurance provisions that is documented to have been sold to farmers in those communities is the Takayuya agricultural insurance product that was offered by the Innovation for Poverty Action (IPA) which is a research organization that works with farmers mainly in the three northern regions of Ghana (IPA, 2008, 2009, 2010).

With the introduction of formal agricultural insurance program in Ghana, comes the following questions: what has been the evolution of agricultural insurance program in Ghana? What are the various challenges of the agricultural insurance program? What lessons can Ghana learn from the well established agricultural insurance programs around the world? And what posture should agricultural insurance program in Ghana assume going forward? The study therefore seeks to answer these questions.