

Smallholder Farmers' Willingness to Pay for Insurance Against Climate Variability Effects in Arid Land Areas of Kenya

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Abstract

The impacts of climate variability on societies around the world are increasingly evident. Kenya is one of the most vulnerable countries and economic sectors and livelihoods are already frequently experiencing the manifestations of the problem. Over the years, a range of risk management strategies has been used to reduce, or to assist farmers to absorb, some of these impact. Since insurance is potentially an important instrument to transfer part of the risk, this study assesses small holder farmers willingness to pay for selected crop insurance and examine factors that affect the maximum farmers are willing to pay for the selected crop insurance as a response to climate variability in Kenya. The data was collected from 392 sample households from Laikipia County in Kenya using close ended value elicitation format followed by open ended follow up questions. The study uses a Double bounded dichotomous choice model for data analysis. The mean willingness to pay values are found to be 58552.22 and 55923.38 KES per hectare with and without covariates respectively. The estimated willingness to pay for the study area was found to be KES 63930.79 per year. Occupation of household head and access to weather information had a positive effect on willingness to pay for crop insurance while access to extension services had a negative effect. Therefore, the study recommends provision of meteorological reports and alerts to farmers in understandable forms. There is a need for investment in the provision of up to date, relevant demand-driven extension services that provide localized response solutions depending on the agro ecological zone.

Keywords: Willingness to pay double bounded dichotomous choice, insurance, climate variability and agro-pastoralism.