

Index-Based Livestock Insurance, Social Networks, and Informal Risk Sharing: Evidence from Rural Ethiopia

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Abstract

We study whether index-based livestock insurance (IBLI) complements or substitutes for informal risk sharing among pastoralists in southern Ethiopia. Using random matching within sample social networks data, we find that both perceptions of and actual peer behavior are positively associated with both own insurance uptake and with respondents' willingness to make informal transfers to that same peer. We find no evidence that formal insurance crowds out informal transfers. These results are robust to a range of alternative specifications and estimators, suggesting complementarity between formal and informal insurance arrangements in this setting.

Keywords: index insurance, informal risk sharing, Ethiopia

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