

Application of Forward Contract and Crop Insurance as Risk Management Tools of Agriculture: A Case Study in Bangladesh

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Abstract : The principal aim of the study is to find out a way to effectively manage the agricultural risks like price volatility, weather risks, and fund shortage. To hedge price volatility, farmers sometimes make contracts with agro-traders but fail to protect themselves effectively due to not having legal framework for such contracts. The study extensively reviews existing literature and find evidence that the majority studies either deal with price volatility or weather risks. If we could address these risks through a single model, it would be more useful to both the farmers and traders. Intrinsically, the authors endeavor in this regard, and the key contribution of this study basically lies in it. Initially, we conduct a small survey aspiring to identify the shortcomings of existing contracts. Later, we propose a model encompassing forward and insurance contracts together where forward contract will be used to hedge price volatility and insurance contract will be used to protect weather risks. Contribution/Originality: The study adds to the existing literature through proposing an integrated model comprising of forward contract and crop insurance which will support both farmers and traders to cope with the agricultural risks like price volatility, weather hazards, and fund shortage. JEL Classifications: O13, Q13

Keywords : agriculture, forward contract, insurance contract, risk management, model

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