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Insuring peace: Index-based livestock insurance, droughts, and conflict

(with K. Gehring)

We provide quasi-experimental evidence of how an innovative market-based solution using remote-sensing technology can mitigate drought-induced conflict. Droughts are a major driver of conflict in Africa, particularly between nomadic pastoralists and sedentary farmers. The Index-Based Livestock Insurance (IBLI) piloted in Kenya provides automated, preemptive payouts to pastoralists affected by droughts. Combining plausibly exogenous variation in rainfall and the staggered rollout of IBLI in Kenya over the 2001-2020 period, we find that IBLI strongly reduces drought-induced conflict. Key mechanisms are an income smoothing effect and reduced migratory pressure for pastoralists, reducing the likelihood of miscoordination with other land users. Our study suggests that market-based solutions are a scalable, cost-effective pathway to mitigate conflict, complementing political solutions such as institutional reforms.