Indirect Financial Impact on Farmers

Similar to other economic sectors, farmers typically also suffer indirect losses. Disasters can prohibit access to markets, making it difficult for producers to sell their crops. They may also lower demand for products with a corresponding decrease in the earnings of producers.

In addition, a combination of factors, including the inherent riskiness of agricultural production, means that agricultural credit can be unavailable or carry high interest rates for smallholder farmers. The occurrence of a natural disaster may exacerbate these credit constraints by destroying output, subsequently increasing default rates and reducing lenders' willingness to lend. In Peru, the 1998 El Niño created microfinance loan repayment problems that lasted for years. In the north of the country, the increased risk of default associated with such El Niño events increased interest rates by approximately three percentage points (Collier and Skees 2012). Finally, the additional risks that comes with investing in high-yield farming practices (such as investing in improved fertilizer) are often too great for vulnerable households to bear, resulting in the adoption of lower-risk, yet low-yield farming practices.