Risk Management of Livestock during Drought in South Africa through Raindex: the Case of Kuruman

Jurgens Twyman, Wim T. Nell, H. J. Fouché
Department of Agricultural Economics, University of the Free State, Bloemfontein, South Africa

Drought forms an integral part of farming in arid and semi-arid parts of the world, especially in the Kuruman district (situated in the Northern Cape province of South Africa) where the risk is even higher due to a skew distribution of rainfall where the median rainfall is lower than the average. Farmers are constantly faced with critical decisions during drought spells. They must decide whether to buy feed or sell breedingstock. This poster demonstrates the risk of selling productive animals at low prices during drought spells and buy livestock back when prices are high after the drought due to a high demand for productive livestock, as apposed to buying feed for the livestock to maintain a core herd. The value and advantages of Raindex (an insurance package to assist rangeland farmers to reduce the risk of drought) will be showed to combat the business and financial risk of rangeland farming in South Africa. The effect of Raindex on beef production is demonstrated to illustrate the extent of thereof over a 40 year period. It is important to evaluate the effect on the cash flow as well as gross margin. It needs to be investigated if this product will be economically viable for the farmer. The return on investment must allow the farmer to generate optimal profit out of the core herd that will give the business a competitive advantage.

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