

# **DFID – E-Forum New Directions for Agriculture in Reducing Poverty**

## **RISK AND VULNERABILITY:**

**Moderator Team:** John Farrington and Cecilia Luttrell

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## **Objective and Key Questions**

**The consultation aims to seek views, opinions and examples of innovative and established practice in order to inform future DFID policy and investment. Your moderator will lead the debate with the short introductory paper below, provide regular summaries and guide the dialogue.**

### **Key Questions Asked:**

**How can DFID help to tackle risk and vulnerability factors that prevent poor people from engaging and investing in agriculture?**

### **Theme Outline – prepared by John Farrington and Cecilia Luttrell, 30 March 2004**

Efforts to “make markets work for the poor” are gaining ground rapidly. Markets (for products, labour or other inputs) are one of the two main mechanisms through which the benefits from growth can be transmitted to the poor – the other being transfers (e.g. social pensions, widows’ allowances, education allowances, orphans’ allowances, food for work, school meals programmes etc) which are funded either by internal taxes on growth, or by foreign aid. This latter group have traditionally been seen as welfare payments and still form part of the new “social protection” (SP) agenda. But SP is wider than this – it also encompasses measures such as insurance against risk which are very closely linked to the operation of markets (Conway and Norton, 2003). This note argues that earlier fears about the “welfare” element of SP – e.g. that it would be unaffordable in many countries, and perhaps inconsistent with production imperatives since it is operated by departments unrelated to the main production line departments such as agriculture – now appear less threatening.

If the poor are to benefit from growth through market mechanisms, then these have to function well for them. But there is plenty of evidence that markets fail in various ways. There is a substantial literature on conventional forms of market failure – high transaction costs attributable to weak infrastructure, poor information, weak insurance markets, weak contract enforcement mechanisms and so on (Omamo, 2003). What receives much less attention are failures attributable to the discrimination against women, ethnic and religious minorities, and lower caste groups that form the basis of segmented markets. Markets that are interlocked (as when the poor attach themselves to a local patron who provides them with advances in times of crisis but in return requires first call on their labour, and demands to be their sole supplier of credit and other inputs and marketer of outputs) have also received relatively little attention. But our concern here is not directly with these, but with the effects that risk and vulnerability can have on the capacity of the poor to engage in markets.

In what follows, I define risk as the likelihood of occurrence of shocks and stresses which can be either external or internal to the household (external include weather-based events, market crises and so on, internal include marriage expenses, sickness and death). Vulnerability is the susceptibility of households or individuals to specific risk events. According to their location, asset status, social

networks etc, some households will be more vulnerable to these shocks and stresses than others.

Risks of different kinds are found among all types of agricultural producer: the most market oriented (as in commodities such as coffee and cocoa) will be highly susceptible to the current wild fluctuations in world market prices; the most subsistence-oriented will be susceptible to climatic shocks, to attacks by pests and diseases, and so on.

The central argument here is that risk management can be handled at four levels which need to be sequenced and “nested” appropriately.

- First, the highest levels of policy (on fiscal and monetary matters, including exchange rates and interest rates, and sectoral allocations of public expenditure) can be more or less risk-reducing for particular categories of farmers, depending on how they are formulated.
- Second, decisions within productive sectors involve trade-offs, often between growth and risk – for instance, a policy on agricultural technology which simply “goes for growth” may require levels of purchased inputs that are too risky for those farmers who cannot control production uncertainties through e.g. irrigation. To go for slightly less growth may leave space for crop varieties that are more resistant to pests and diseases and drought-avoiding.
- Third, innovative ways in which farmers can protect themselves through insurance (initially with government support, eventually through the private sector) are being developed (Hess, 2003).

All three of these mechanisms can be handled either by central departments such as finance or planning, or production-focused government departments such as agriculture. These have far higher budgets than social welfare departments, and it makes sense to cover as much risk as possible through a combination of the efforts of these, plus private sector coverage such as insurance.

- Fourth – SP in the welfare sense – then becomes a “residual”, focusing on those who cannot be covered adequately by the first three of these provisions. A range of measures may be needed to cover different shocks and stresses – microsavings to help in building up assets, publicly-supported insurance of various kinds against sickness, injury and death, school feeding schemes, food (or cash) for work, and so on. Many of these will help to reduce both risk and vulnerability. Just as growth promoting measures within line departments such as agriculture can be more or less risk-reducing, the same applies to welfare measures, only in reverse – several can be more or less growth-promoting. Thus, cash-for-work may stimulate local staple food markets in ways which food-for-work cannot.

The World Bank’s Social Risk Management (SRM) Framework (World Bank, 2001) covers much of this ground, but does not adequately highlight the need to sequence interventions. Nor does it pay enough attention to the need to treat domestic and entrepreneurial spheres simultaneously – shocks or stresses within the household will drain resources out of farming if they cannot be covered separately.

There is a big agenda here: the risks facing the rural poor need to be reduced if they are to engage effectively in markets. The old fears that welfare departments

will have insufficient resources to do this and/or will work in ways inconsistent with production-focused departments remain valid to some extent, but as respective roles become clearer, so also do the challenges facing governments and donors to “mainstream” risk reduction into macro- and sectoral policy, making them coherent with efforts to reduce domestic risk and provide welfare transfers where needed. PRSPs provide a forum for discussion and planning on these issues as a first step in what will be the long haul of seeing them through to implementation.

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## **Welcome to the Agriculture Forum debate on Risk and Vulnerability, from John Farrington – 30 March 2004**

As moderator of the e-forum discussion on risk and vulnerability in relation to agriculture, I would like to welcome participants to this thematic group. I will be working with Cecilia Luttrell and Kate Bird of ODI to moderate the discussions.

Please take a few moments to read the introductory paper.

Given that this may be a fairly new thematic area for most participants, I propose to allow a free flow of discussion without, in the first instance, imposing any structure.

However, participants may wish to consider questions such as the following:

- \* How feasible are the proposals that risk reduction should be mainstreamed into high-level economic management and into policy decision-making within productive sectors such as agriculture? What modalities might help to support such mainstreaming efforts?
- \* How far is the private provision of insurance (whether for domestic or productive purposes) likely to penetrate the more remote areas in very poor countries?
- \* How far in reality can protection against domestic shocks and stresses be made to complement protection in the productive sphere? What implementation mechanisms might best be used?

These are merely three of a potentially wide range of questions that might arise. There is no intention to limit the discussion to these three, so please do feel free to raise the issues that you find most pressing in this broad sphere.

I look forward to a fruitful discussion and to interacting over the coming weeks.

John Farrington

## Message from Cecilia Luttrell, 23 April 2004

Many thanks to Elizabeth Cromwell for leading us off with this pertinent point. Following this email, and the discussion under the other themes in the DFID e-forum on agriculture, it is clear that this is a timely point for the issues of risk and vulnerability to spring more clearly out of the discussion. So for all of you out there who have been biting your tongues and waiting with anticipation for the ripe moment to launch your thoughts on this topic, let me encourage proceed without caution.

In his opening paper on this theme John Farrington poses the questions:

- 1.. How can risk reduction be mainstreamed in to policy making in the agricultural sector?
- 2.. How can the private sector assist agricultural growth in poor and remote areas?
- 3.. How can real protection against risk actually be implemented?

But what are the questions should we be asking? Or what are the questions that you yourself want to answer...?

- a.. What do kind of risks should we be looking at? Do we need to go beyond the traditional list of weather, price fluctuations, changes in demand and the occurrence of new pests and diseases?
- b.. What are the factors and outcomes associated with being risk averse?
- c.. How can the poor manage uncertainties associated with the market and its dynamic nature?
- d.. What role do subsidies and trade barriers play in increasing or decreasing vulnerability?
- e.. Is diversification really the answer?
- f.. How can the private sector be attracted to play a role in the promotion of risk reduction in agricultural growth? What regulatory reforms are needed?
- g.. Is it possible to actively promote informal institutions which act to reduce vulnerability?

So with your answers, further questions and thoughts please help us to understand, amongst other things, how the 'trampoline effect' can be put into practice to ensure that the poor are able to 'bounce back' higher and more quickly from shocks.

## **Message 1 from John Farrington, 30 April 2004**

The World Bank's Social Risk Management Framework, in principle, covers many aspects of risk and vulnerability, in both domestic and productive spheres.

But in practice, its focus has been on providing a "trampoline" so that those facing the risk of being forced out of productive activity (through e.g. price shocks, bad weather etc) can "bounce back".

The paper below, prepared by John Farrington for the OECD PovNet, sets out some of the shortcomings of the framework and suggests what would be needed to operationalise risk and vulnerability-reducing mechanisms more broadly. Are these ideas realistic, or do they demand too much of governments?

John Farrington

DRAFT

Social Protection and Livelihood Promotion in Agriculture:

Towards Operational Guidelines

Paper for OECD Povnet

John Farrington  
DFID, London  
March 2004

Executive Summary

The poor benefit from growth either through markets or (via taxation) through transfers. For many, markets do not work well because risks are high and ways of insuring against risk are unavailable. This paper asks how poor people can be protected against many kinds of risk -entrepreneurial and other. It argues that concerns over risk (often under the rubric of social protection) tend to have been treated separately from growth promotion, often by different departments within governments and international agencies. Recent efforts to treat them more coherently are to be welcomed. They are an important step in reducing poverty both directly and by promoting closer engagement by the poor in markets and in entrepreneurial activity. Taking agriculture as one example of a productive sector, and taking the World Bank's Social Risk Management (SRM) framework as a starting point, this paper argues that some modifications to the framework are necessary to ensure that the potential implications of agriculture policy decisions for social protection (SP), and vice versa, are taken into account, and that options and trade-offs within individual policy areas are considered. Modifications are also necessary to ensure that shocks and stresses in the domestic and productive spheres facing given households are treated coherently.

The paper argues that questions of how to operationalise the principles contained in the (modified) SRM approach are of crucial importance, but pose considerable challenges. More nuanced classifications of rural space, people and institutions are needed than the fashionable "Rural Worlds 1, 2 and 3" if these challenges are to be met. Questions of how to treat the chronically vulnerable (who cannot fully engage in productive activity) cannot be addressed through this classification, nor

does it take account of how, for instance, labour markets are constructed, what risks to livelihoods they entail, and how they link among Rural Worlds.

The paper proposes a number of guidelines on how the principles underpinning a modified SRM approach can be operationalised, viz:

Guideline #1. Identify how far policy at the highest levels (in relation to macro-economic and fiscal management; trade and investment, infrastructure, the legal framework...) is cognizant of SP and SRM requirements, and what scope there is for modifying it in order to mainstream these considerations.

Guideline #2. Repeat this process within the productive sectors, to identify within these the types of policy arena likely to impact on the poor, and how far the tradeoffs within these (typically between growth and social protection) have been examined to date, and how they can be adjusted to obtain balances between growth and social protection, which are favourable to the poor. Within these sectors, identify how far public expenditure has been substituted by private commercial engagement, what the implications have been for the balance between SP and growth, and how imbalances might be redressed

Guideline #3. Identify what measures such as insurance need to be undertaken to gain win-win outcomes by complementing production-focused measures

Guideline #4. Identify who from among the poor remain marginal to the processes outlined in Guidelines 1-3, and identify what can be done for them by way of direct SP measures

Guideline #5. Identify the major dimensions of risk and vulnerability within the country(ies) concerned, and how these vary according to such factors as: agro-ecology; infrastructure; links with market-oriented infrastructure and institutions; labour markets; the degree of market segmentation; location, particularly as it relates to market access and potential natural disasters, and social networks.

Guideline #6. Recognising that SP can be promoted at national, provincial, community, household and individual levels, identify the main groupings that require some difference of approach; identify in particular the differences in vulnerability among, and different types of risk faced by, for instance, men and women, male and female children, widows, and the elderly.

Guideline #7. On the basis of a sound understanding of the above, identify how coherence can best be achieved between domestic and productive spheres in terms of both SP and livelihood promoting measures.

Guideline #8. Use existing fora of donors and international agencies to obtain agreement on the principles underpinning greater coherence between social protection and livelihood promotion.

Guideline #9. Use Poverty Reduction Strategy processes as a means of discussing and implementing the principles on which these guidelines are based.

Guideline #10. International agencies, governments and NGOs need to experiment with new ways of adapting policies in the productive sectors to be more socially protecting, and of adapting SP policies so that they support pro-poor growth objectives. They should also experiment with new forms of public investment, service delivery and multi-agency partnerships to deliver these new approaches more effectively.

Guideline #11. New knowledge is also needed on how new SP measures impact on traditional mechanisms, and how they might be modified to build on these where appropriate.

Guideline #12. Capacity needs to be built among senior officials concerned both with SP and livelihood promotion so that each appreciates more fully the perspectives of the other, and takes decisions in a coherent manner.

### Background and purpose

Recent interest in how livelihood protection and promotion might better interface with each other has been driven by:

Ø Awareness that in many countries some two thirds of the poor are found in rural areas, and two thirds of these in remote and difficult areas which are weakly integrated into market-oriented infrastructure and institutions. Compounding this is an awareness that agricultural growth in these areas has been weak, and that, increasingly, people are moving out for part or all of the year to take up work in better integrated rural areas or in urban centres. In addition to the longstanding shocks and stresses faced by people in weakly integrated areas, this trend raises new needs in relation to e.g. family protection during periods of migration.

Ø On the social protection (SP) side, new conceptualizations that go beyond "social sectors" (such as health and education) and "social assistance" (e.g. welfare benefits for the elderly, sick or disabled). These see social protection both as a "trampoline" capable of helping those who might (for whatever reason) temporarily drop out of productive activity to "bounce back", and as a means of support to the critically vulnerable. The World Bank's Social Risk Management (SRM) framework (World Bank, 2001) is one of the best-known articulations of this view, and is gaining interest among donors and governments, but there are questions over how approaches of this kind can be operationalised, given for instance the administrative divisions between responsibilities for protection and promotion.

Ø An awareness that better joint management of protection and promotion is likely to be central to the promotion of "pro-poor growth". To address them is all the more urgent in the context of the high risks linked to growing commercial (including global) market exposure; reduced public investment in agriculture; the imperfections in agricultural input and output markets where privatization has been overhasty, and the constraints on recurrent budgets that any expansion of SP is likely to face.

Ø In areas seriously affected by HIV/AIDS, the need for coherent responses to both social protection and agriculture-related needs is particularly pressing.

The purpose of this paper is to generate operational guidelines that may lead to a more coherent management of social protection and livelihood promoting interventions for low-income households and individuals whose livelihoods depend primarily on agriculture. This is seen as a contribution towards the operationalisation of new approaches towards social protection, such as the World Bank's SRM Framework, and is consistent with the need for coherence and practical orientation among donors and governments in developing poverty reduction strategies, such as Poverty Reduction Strategy Papers (PRSPs). In pursuit of this purpose, the paper:

Ø first, examines definitions of social protection and livelihood promotion, including the concepts of risk and vulnerability, and their effects;

Ø second, outlines the main features of the SRM framework, and proposes a number of modifications;

Ø third, moves towards operationalising these by examining them against particular sub-groups of low income people in rural areas, indicating how particular aspects of the framework can be applied to these, and how the framework may need to be modified.

Ø Finally, it sets out a number of guidelines for operationalising the SRM framework in the context of a new architecture of aid in which the search for coherence in approaches to poverty reduction in the context of PRSPs features prominently.

Social protection and livelihood promotion - defining the scope

Social protection is concerned with reducing both risk and vulnerability. It comprises:

public interventions which (i) to assist individuals, households and communities to manage risk better, and/or (ii) which provide support to the critically vulnerable[1]

What makes current concepts of social protection new is that they represent a public commitment to reduce risk and vulnerability, different from the social sectors (such as health and education) and different from social welfare programmes, since they are concerned at least in part with the interface between protective measures and engagement by the poor in productive, growth-oriented processes. Others (Conway and Norton, 2002) have argued that a further novel feature of social protection is its concern with provision as a right, and not as paternalistic "handouts" by the state.

In all events, many of the components of social protection are not new: informal transfers within households, extended families or communities have long existed, both to meet crises and to support those chronically unable (or only partly able) to engage in the productive economy. For the better off, there has long been the possibility of purchasing insurance in the commercial market to cover certain types of risk. In some communities, there are voluntary mechanisms to provide funds to cover "stress" events, such as death donation societies. More formally, contributory pension schemes serve much of the same purpose. Many of these are discussed below. The challenge for SP addressed in this paper is that of bringing these and new SP measures together within some form of SRM framework so that interventions geared towards protection and those geared towards livelihood promotion complement each other, and this should not just be within the context of a productive sector such as agriculture, but also in coherence between measures addressed to the domestic sphere and those addressed to the productive sphere.

Risk is the likelihood of being affected by shocks or stresses. These can be external to the household (e.g. a natural disaster such as flooding, or an economic event such as price collapse), or internal, such as the loss of labour through sickness, injury and death, and the direct financial costs of these, as well

as of other intra-household events such as marriage or illness among children or the elderly. Individuals or households likely to be affected particularly adversely by such events are vulnerable, as a result of e.g. low asset status, low and variable income, disadvantageous location, a high proportion of dependents in household composition or weak social networks. There are important gender differences: certain types of shock or stress (usually, occupation-related) threaten men more than women, but others (such as caring for the sick or elderly) impact more on women. Women and children (in S Asia, typically girl children) are known to suffer more from reduced food consumption in times of crisis.

Livelihood promotion is concerned with enhancing the range of livelihood options open to the poor, and making these more accessible to them. Livelihood promotion has been interpreted primarily in terms of increased income opportunities, but this needs to be supplemented by measures which reduce the variance of incomes over time and space. For instance, agricultural research strategies concerned purely with raising incomes through increased per hectare crop yields are likely to require additional inputs of fertilizer and other agrochemicals, which exposes farmers to higher risk in the event of crop failure. A moderated strategy which sacrifices some growth in crop yield for greater stability (through e.g. drought tolerance, and resistance to pests and diseases) is likely both to increase incomes and reduce their variance. But some (such as Carney (ed) 1998) suggest that livelihoods embrace much more than income, such as status and "voice" (i.e. the ability to identify needs and articulate them to investment and service providers). The discussion below will not enter into these other dimensions of livelihoods in detail, other than to identify at appropriate points how voice can be strengthened.

The effects of high levels of risk and vulnerability are evident in several dimensions, and this constitutes the basis for growing concern among donors and governments. For instance:

Ø Entrepreneurial shocks and stresses can cause farming to fail, resulting in indebtedness, loss of productive assets and reduced income for present and future generations.

Ø Domestic shocks and stresses can likewise drive households and individuals into greater poverty and at the same time impact on entrepreneurship by causing funds to switch out of enterprise in order to meet the domestic crisis. This "fungibility" of funds means that domestic and entrepreneurial risk and vulnerability have to be treated simultaneously, a central argument in our analysis below. Poorer households, and women, children and the elderly within them, tend to be the most vulnerable and have access to fewer instruments to respond to risk.

Ø Perceptions of high entrepreneurial risk can discourage poor households from taking up new activities, often keeping them in low-productivity, and low-return but fairly secure livelihood activities. These might include informal arrangements such as (typically in S Asia) seeking the protection of a "patron" who will provide credit in times of need (and thereby provide a degree of social protection) but in return demand priority access to the household's labour, the sole right to market its output, and the sole rights to provide seasonal credit. This "interlocking" of labour, product, input and credit markets makes it extremely difficult for poor households to take up new economic opportunities of the kinds that market signals might indicate.

Table 1 provides examples of shocks and stresses according to the scale at which they occur (viz. micro, meso and macro). It is worth noting that micro-level shocks and stresses tend to be idiosyncratic - i.e. affecting individuals and households in a more or less random fashion - whereas at macro level they tend to be covariate - i.e. a drought or flood will generate a range of related negative impacts affecting in some way practically all the households over a wide area. Innovative ways are being sought of insuring against the latter (Hess, 2003) given that insurance companies operating on a limited scale are likely to be financially threatened by the scale of covariate adverse events.

SP covers a potentially wide range of arrangements, which can be grouped into three broad categories:

Prevention strategies, which reduce the risk of occurrence of adverse shocks or stresses. In the agricultural sphere these can include the breeding of livestock resistant to disease, and of crops resistant to pests, diseases and drought, or the implementation of soil and water conservation measures intended to reduce the likelihood of drought, landslides, erosion, flooding etc. In the domestic sphere they can include vaccination against illness or disease, improved diet, safer water, and so on.

Mitigation strategies, which reduce the potential impact of a shock or stress. These can include portfolio diversification strategies - such as the management of diverse farming systems combining elements which are not all subject in the same degree to the same covariate risks (such as drought or disease); insurance strategies (in both entrepreneurial and domestic spheres), and hedging against future price fluctuations.

Coping strategies, which relieve the impact once the event has occurred, such as relief operations in response to natural disasters or civil disturbances.

However, SP can also tackle vulnerability as well as risk. It can do so by enhancing the resource-base of rural households through increased income, and reduced variance in income, which, among other things will also translate into a strengthened asset base. It can also seek to (a) improve the access by poorer households (i.e. the most vulnerable) to information and to assets which they do not own, including water bodies, forest, grazing land (b) grant rights to poorer households, help in making them aware of these rights, enhance their capacity to make claims on the public sector in line with these rights, and promote stronger responsiveness by the public sector to such claims, and accountability to the claimants. To promote particular kinds of microsavings and credit may help in reducing vulnerability to shocks and stresses sufficiently to prevent the sale or mortgaging of productive assets such as livestock or land.

The need for a new initiative in Social Risk Management?

In addition to the requirements outlined above, a central perception among proponents of the World Bank's SRM Framework is that there is a need for a new initiative for two main sets of reasons. One is that traditional informal risk management arrangements, such as transfers within extended families, and intra-community support mechanisms, are breaking down as population pressure rises and employment patterns become increasingly casualised and migratory. In addition, new types of risk demand responses beyond the coping capacity of traditional mechanisms, such as the risks of greater product price instability driven by globalization, the risks of product rejection as a result of higher product standards imposed by supermarkets, the risks that inputs will not arrive, or products not be marketed as a result of overhasty liberalization. The "rolling

back" of the state has also impacted negatively on its capacity to reduce risk or vulnerability directly through traditional social protection measures such as transfers, or to do so indirectly through, for instance, public agricultural research which develops new crops resistant to pest or disease attack, or new approaches which allow risk to be spread through farming systems containing diverse and complementary elements - this is perhaps especially the case where such services have been privatized and new commercial research is more driven by "growth" than "growth with stability".

The main elements of the SRM framework are presented in Box 1[2], and Table 2 provides examples of types of SRM in both domestic and entrepreneurial contexts, and across the spectrum of informal, private commercial and publicly mandated arrangements.

#### Box 1 The World Bank's Social Risk Management Framework

Social Risk Management repositions the traditional areas of social protection (labour market intervention, social insurance and social safety nets) in a framework that includes three strategies to deal with risk (prevention, mitigation and coping), three levels of formality of risk management (informal, market-based, publicly-mandated) and many actors (individuals, households, communities, NGOs, governments at various levels and international organisations) against the background of asymmetric information and different types of risk. This expanded view of Social Protection emphasizes the double role of risk management instruments protecting basic livelihood as well as promoting risk taking. It focuses specifically on the poor since they are the most vulnerable to risk and typically lack appropriate risk management instruments, which constrains them from engaging in riskier but also higher return activities and hence gradually moving out of chronic poverty.

Source: adapted from Holzmann and Jørgensen (2000)

The World Bank argues that improved SRM is important in a static sense since it can contribute to:

∅ reduced vulnerability; enhanced consumption smoothing; and improved equity.

And, in a dynamic sense, enhance:

∅ income and consumption smoothing; the effectiveness of informal provisions, and the cost-effectiveness of public provision.

Implementation of the SRM is expected to contribute to poverty reduction by:

∅ reducing transitory (consumption) poverty;

∅ preventing declines into deeper poverty and destitution; and

∅ supporting upward trajectories out of poverty through its support for entrepreneurial risk-taking.

Public (government and donor) support for SRM is justified on the grounds that it has to substitute for widespread market failure, or get markets working. This applies to several types of market:

Ø first, markets for insurance are highly imperfect - knowledge is often imperfect, information asymmetric, and transaction costs high - so that many types of risk are in effect uninsurable;

Ø second, asymmetries in information and power act as barriers to entry in other markets (for products, labour and credit, for instance);

Ø third, some are excluded on social, ethnic or religious grounds from markets which are segmented, and in other cases, the poor attempt to avoid risk by entering relations with patrons that often result in interlocked markets.

The poor will always face difficulties of these kinds in entering markets; the provision of new forms of social protection will not guarantee that such barriers can be broken, but may provide a platform so that some, at least, can enter new markets.

#### Making the SRM framework operational

The main argument of this paper is that the SRM framework will not implement itself automatically. It has the potential to make substantial improvements to the livelihoods of the poor, but involves a number of potentially complex interactions and complementarities. Questions of how the SRM framework can be operationalised will require careful consideration in four dimensions:

Ø in relation to different categories of poor people;

Ø in relation to interactions between productive sectors (where entrepreneurial activity is focused) and domestic spheres (since funds are fungible between the two);

Ø in relation to the interface between protection and promotion options within the sector; and

Ø in relation to location-specific socio-cultural and economic conditions.

#### Addressing different categories of poor people

The OECD Povnet Agriculture group has been considering a concept of "Three Rural Worlds" advanced by the International Institute for Environment and Development as an aid to understanding who the clients of agricultural interventions are, and how they might best be reached.

Basically, the concept postulates:

Ø A Rural World #1, in which farming is well-established and well-linked into market-oriented institutions and infrastructure. Fluctuations in commodity prices

as a result of globalization and liberalization are a major component of entrepreneurial risk in this context.

Ø A Rural World #2, in which farming is less commercialized, and semi-subsistence, though with some commercial engagement. Links to market-oriented infrastructure and institutions are less strong, and major sources of risk include not only price fluctuations, but also unreliability of input supply and marketing, and climatic shocks.

Ø A Rural World #3, which is near-subsistence farming, often in more remote and agro-ecologically more difficult areas, so that major sources of risk are climate- rather than market-related.

Whilst this schema provides a crude but appealing categorization of production spheres and their relations with markets, it has a number of shortcomings as an aid to identifying how SRM might be operationalised. One is that it does not help in conceptualizing how those chronically unable (or only partly able) to engage in productive activity should be catered for, and whether this will differ across production spheres. The same applies to those mainly dependent on hiring out their labour, and an added problem here is that, in some contexts labour is seasonally migrant, and links both among rural worlds (and so partially confounds this schema) and between them and urban areas. Perhaps the major contribution this schema makes is that it suggests a spectrum in which those in RW #1 are concerned mainly with entrepreneurial risk, and rely mainly on private sector mechanisms for this, and so the main policy imperative is to get insurance and related markets to work better, whilst those at the opposite extreme (RW #3) need protection mainly against weather-based risk and against domestic shocks and stresses, and that combinations of informal and publicly-mandated approaches lend themselves best to achieving this. More nuanced policy analysis requires a breakdown between domestic and productive spheres, which is considered in the next section, and between different categories of labour, to which we turn later.

#### Addressing interactions between domestic and productive spheres

Funds are fungible, so that shocks and stresses in the domestic sphere may cause diversion of funds from the productive, and vice versa. This argues strongly for treating the two spheres jointly and not separately. However, in practice this has rarely happened, and the factors that have prevented it need to be addressed if the future prospects for joint treatment are to be better. These include:

Ø the fact that they are generally mandated to different government departments, and to different offices within donor agencies;

Ø the limited resources in most developing country governments for support to households through e.g. transfers; the pressure from the IMF and other agencies to keep down recurrent budgets;

Ø the weak political power of those unable to engage in the productive economy, so that no electoral advantage is perceived in supporting them; and

Ø the lack of interest among donors in even experimenting with innovative ways of making SP transfers (such as social pension payments) given their

perception that these are an open-ended commitment into which they do not wish to be drawn.

As Tables 2 and 3 suggests, there can be several ways of providing SP to the domestic sphere. These may include support for micro-savings and credit schemes (possibly on the Grameen Bank model), the provision of micro-insurance against sickness, injury and death, and regular payments such as social pensions to the elderly and widows, allowances to orphans or the disabled, school fee allowances, school feeding schemes etc. To transfer funds to those unable to engage in the productive economy is regarded by some as little more than a "handout". However, whilst such transfers may be too small to allow a build-up of assets, they do at least allow the recipients to engage in the economy as consumers, and may allow existing informal intra-household resource transfers to be switched into agriculture. Further, in some settings (e.g. S Africa - Devereux (2003)) there is evidence that part of social pensions paid to the elderly are invested in productive activity.

One of the benefits of a closer coherence between interventions in domestic and productive spheres is the prospect of avoiding negatives, such as are caused, for instance, when poorly-timed food aid disrupts local agricultural markets.

#### Identifying synergies between social protection and livelihood promotion

The World Bank's presentation of its SRM framework is presented largely as a "win-win" scenario, in which SP protects people against sliding into poverty, and at the same time allows increased entrepreneurial risk-taking by providing social protection. In principle this can generate synergies in the narrowly defined sense of making the whole greater than the sum of its parts. Table 2 provides examples such as migration, holding multiple jobs, and insurances where this can occur.

But many of these interventions are conceived as a "trampoline" which allow those producers who face temporary setbacks to "bounce back" into the productive economy. There are very few efforts to bring those largely outside the productive economy into it - along something of a trajectory from situations in which they mainly rely on social protection, to one in which they benefit more from livelihood promotion. This kind of trajectory represents synergy of a different kind. One such effort is the work done by the Bangladesh Rural Advancement Committee (BRAC) in its Income Generation for Vulnerable Group Development (IGVGD) programme (Matin and Hulme, 2003).

BRAC has faced a number of field-level implementation constraints in its IGVGD programme. To keep costs down, it is obviously desirable for community development workers (who would normally handle social protection) to cover interaction with the poor over both livelihood protecting and promoting issues. However, they may lack the skills or inclination to become advisers in micro-enterprise or agriculture. The same applies to agriculture advisers - they may be a poor second-best when it comes to providing assessments and advice in relation to SP. If this applies to the well-motivated staff of a dynamic NGO, it is likely to apply even more to public sector staff in social welfare or agriculture departments.

#### Addressing trade-offs within SP and within agriculture

Not all possibilities will be "win-win". In a productive sector such as agriculture, policy decisions supporting high levels of growth may generate high levels of risk, and some growth may have to be sacrificed in order to reduce risk. Decisions over how certain SP measures are designed and implemented can impact differently on a productive sector such as agriculture.

For instance, where transfers to the poor form part of the SP portfolio, the trade-offs between transfers in cash and in kind need to be assessed. Food transfers (as an example of the latter) tend to be politically popular, but are costly to administer and may suppress demand in local food markets. Cash transfers require robust transfer mechanisms if they are not to be diverted, but the advent of computerization may assist in automating payments. Cash transfers may boost demand for agricultural products in local markets.

On the agriculture side, trade-offs are found in many areas, including the decisions regarding priorities for agricultural technology: a policy which "goes for growth" may generate high-yielding, but also high-risk crop varieties. One which is more concerned with risk management may trade off some growth and so generate varieties which are resistant to pests and diseases, drought avoiding etc.

There is substantial unexploited scope for introducing the perspectives of the one into the design and implementation of the other, i.e. for giving aspects of SP more of a growth-promoting dimension, and for designing agriculture initiatives in ways aiming to reduce risk and vulnerability.

Areas in which this might be done include (Farrington et al, 2004a; 2004b):

Ø On the social protection side, SP can be growth promoting where, for instance, it stimulates thrift and credit schemes, creates physical assets through employment schemes, and promotes personal insurance, but (cash) transfer payments can also be indirectly growth promoting.

Ø On the agriculture side, several types of agricultural strategy can both promote growth and reduce risk, including revisions to legislation and regulation, investments in infrastructure and soil and water conservation, innovative types of insurance, and appropriately focused provision of services, including research and extension.

Addressing location-specific conditions

Risk and vulnerability factors in both productive and domestic spheres will clearly vary according to a wide range of conditions. It is not possible to consider the full range of these here, but a number of illustrations can be given:

Agro-ecological conditions will influence the "riskiness" of production, as will the extent to which infrastructure (such as irrigation) has been constructed to counteract these. Market-related risks will impact differentially according to the types of crop typically grown in different areas, the extent and quality of links with international markets, the international market conditions for such commodities and the extent to which these penetrate major consumer markets in a given country. Labour markets may be characterized by different levels of casualisation, different types and levels of migration, different pressures on wages coming from rural non-farm or urban labour markets, and different types and degrees of segmentation. Factors of this kind will determine the types of SP needed (such as employment creation schemes) and by whom. Location will also determine the likelihood of events such as flooding, which will impact on both

production and domestic spheres. Differences in social network will determine the extent to which informal protection mechanisms can be called upon during crisis.

Even these few examples suggest that policies seeking greater coherence between livelihood protection and promotion will have to be based on a clear understanding of contextual difference in spheres such as:

- Ø agro-ecology;
- Ø infrastructure;
- Ø links with market-oriented infrastructure and institutions;
- Ø the nature of labour markets;
- Ø the degree of market segmentation;
- Ø location, for instance in relation to market access and such shocks as potential natural disasters;
- Ø social networks.

Guidelines for making SRM operational

Mainstreaming SP and SRM

The major difficulty with SRM is that social protection can be provided at many different levels of intervention and in many different ways. At one extreme, policies to achieve macro-economic stability or greater transparency in fiscal administration or improved transport and communication infrastructure can in some measure, and to some groups of people, help to provide social protection. In some contexts, policies to reinforce the rule of law might be an important step towards social protection. At the opposite extreme, specific kinds of targeted transfer might be needed in order to meet the SP needs of very poor individuals and households. In between, lie a very wide range of options and requirements. The scope of this paper is sectoral. For this reason, it has not considered these higher-level policies, but that is not to say that they are unimportant - certainly they need to be addressed by others concerned with macro-level economic management.

The overwhelming reality is that ministries and departments concerned with the productive sectors have far more resources than those concerned with, for instance, social welfare, and, given the pressure to keep recurrent expenditure down, this appears unlikely to change. A logical conclusion therefore is that the policy areas covered by, for instance, agriculture departments, should be investigated with two things in mind: one is to review the scope of policy areas mandated to them, and to consider whether these might be broadened to include others that offering more scope for SP - promoting new forms of insurance (against crop failure, livestock death, price fluctuations etc) provides one example; the other is to consider trade-offs within existing policy areas, for instance how more social protection might be gained within them at the expense perhaps of a little less growth.

To ask then who is left out from such efforts to enhance SP from within the productive sectors leads to two further sets of conclusions: one concerns the other contributions that "freestanding" SP can make to the productive sectors by way of, for instance, personal insurance and credit schemes of various kinds. The other concerns the ways in which SP can address domestic requirements and yet still impact on the productive sectors through consumption effects (as with, for instance, cash transfers) or through allowing existing informal transfers to be diverted into the productive economy.

The first guidelines therefore concern the "mainstreaming" of SP and SRM:

Guideline #1. Identify how far policy at the highest levels (in relation to macro-economic and fiscal management; trade and investment, the legal framework...) is cognizant of the SP and SRM requirements, and what scope there is for modifying it in order to mainstream these considerations.

Guideline #2. Repeat this process within the productive sectors, to identify within these the types of policy arena likely to impact on the poor, and how far the tradeoffs within these (typically between growth and social protection) have been examined to date, and how they can be adjusted to obtain better balances between growth and social protection favourable to the poor. Within these sectors, identify how far public expenditure has been substituted by private commercial engagement, what the implications have been for the balance between SP and growth, and how imbalances might be redressed

Guideline #3. Identify what measures such as insurance need to be undertaken to gain win-win outcomes by complementing production focused measures

Guideline #4. Identify who from among the poor remain marginal to these processes, and identify what can be done for them by way of direct SP measures

A further set of guidelines is concerned with coherence of approach between domestic and production spheres, and with the need to recognize contextual differences.

Guideline #5. Identify the major dimensions of risk and vulnerability within the country(ies) concerned, and how these vary according to such factors as: agro-ecology; infrastructure; links with market-oriented infrastructure and institutions; labour markets; the degree of market segmentation; location, particularly as it relates to market access and potential natural disasters, and social networks.

Guideline #6. Recognising that SP can be promoted at national, provincial, community, household and individual levels, identify the main groupings that require some difference of approach; identify in particular the differences in vulnerability among, and different types of risk faced by, for instance, men and women, male and female children, widows, and the elderly.

Guideline #7. On the basis of a sound understanding of the above, identify how coherence can best be achieved between domestic and productive spheres in terms of both SP and livelihood promoting measures.

There are then important questions of how all of the above can best be achieved. Agreement on the guidelines is first required among donors and other international agencies, and the OECD Povnet provides a starting point. At country

level, there is already a mechanism seeking coherence in approaches to poverty reduction, in the form of Poverty Reduction Strategy Papers and the associated committees, and these provide an appropriate locus for discussing and implementing the principles on which these guidelines are based.

Guideline #8. Use existing fora of donors and international agencies to obtain agreement on the principles underpinning greater coherence between social protection and livelihood promotion.

Guideline #9. Use Poverty Reduction Strategy processes as a means of discussing and implementing the principles on which these guidelines are based.

What is clear from several assessments of PRSPs, however, is that, whilst they make strong statements of intent on poverty reduction, they are less clear on the ways in which public investment, service delivery and public-private partnerships will change in order to deliver these intentions. This calls for experimentation with new approaches in these areas, and a coordinated lesson-learning approach

Guideline #10. International agencies, governments and NGOs need to experiment with new ways of adapting policies in the productive sectors to be more socially protecting, and of adapting SP policies so that they support pro-poor growth objectives. They should also experiment with new forms of public investment, service delivery and multi-agency partnerships to deliver these new approaches more effectively.

Guideline #11. New knowledge is also needed on how new SP measures impact on traditional mechanisms, and how they might be modified to build on these where appropriate.

Guideline #12. Capacity needs to be built among senior officials concerned both with SP and livelihood promotion so that each appreciates more fully the perspectives of the other, and takes decisions in a coherent manner.

Table 1 Sources and forms of shocks and stresses, by scale

Micro (idiosyncratic)

Meso

Macro (co-variant)

Natural

Rainfall

Landslide

Volcanic eruption

Earthquake

Floods

Drought

Strong winds

Health

Illness

Injury

Disability

Epidemic

Life-cycle

Birth

Old-age

Death

Social

Crime

Domestic violence

Terrorism

Gangs

Civil strife

War

Economic

Unemployment

Harvest failure

Ethnic discrimination

Output collapse

Business failure

Riots

BoP, financial or currency collapse

Technology or ToT shocks

Resettlement

Political

Potential default on social prog.

Environmental

Pollution

Deforestation

Nuclear disaster

Source: adapted from Holzmann and Jorgensen (2000)

Table 2          Matrix of social risk management (examples)

Arrangements/ strategies

Informal/personal

Formal/financial market-based

Formal/publicly-mandated/ provided

Risk reduction

Less risky production

Migration

Labour standards

VET

Labour market policies

Disability policies

Risk mitigation

Portfolio

Multiple jobs

Investment in human, physical and real assets

Investments in multiple financial assets

Multi-pillar pension systems

Social funds

Insurance

Marriage/family

Community arrangements

Share tenancy

Tied labour

Old-age annuities

Disability/accident

Mandated/provided for employment, old-age, disability, survivorship, sickness, etc.

Hedging

Extended family

Some labour contracts

Risk coping

Selling of physical and real assets

Borrowing from neighbours

Intra-community transfers/charity

Sending children to work

Selling of financial assets

Borrowing from banks

Transfers/social assistance

Subsidies

Public works

Source: adapted from Holzmann and Jorgensen (2000)

Table 3 Managing shocks and stresses in relation to the agriculture sector

Types of rural household

Domestic

Production-related

Established farmers

Types of shock and stress

Illness

Injury

Disability

Death

Costs of weddings and other rituals

Collapse in prices resulting from globalisation

Extreme weather events (drought, hail, flooding)

Degradation of soil, water and other NR

Inadequate access to input, finance and output markets owing in part to failed liberalisation

Types of response

Promote private sector insurance schemes

Promote private sector input supply and marketing, and insurance schemes (which may require public start-up and regulatory controls); develop new types of

crop insurance and price hedging (Hess, 2003). Public/private partnerships to control erosion and soil

Marginal farmers

Types of shock and stress

Illness

Injury

Disability

Death

Costs of weddings and other rituals

Extreme weather events (drought, hail, flooding)

Degradation of soil, water and other NR

Inadequate access to input, finance and output markets owing in part to failed liberalisation

(Possibly) collapse in prices resulting from globalisation

Types of response

Promote micro-savings, micro-credit, micro-insurance

Promotion of private sector inputs supply and marketing may have to be accompanied by measures to reduce market segmentation and interlocking;

Insurance and savings schemes may require a strong public or community-based leadership

Labourers

Types of shock and stress

Illness

Injury

Disability

Death

Costs of weddings and other rituals

Loss of rural employment opportunities and/or reduction in real wages attributable to the above

Loss of opportunities for seasonal/permanent migration attributable to same or other causes

Types of response

Promote micro-savings, micro-credit, micro-insurance.

Investigate possibilities of occupation-linked insurance and pensions

Public works programmes

Support for seasonal migration through improved information, accommodation, education provision for children, easier means of making remittances etc

Those unable to engage fully in productive activity

Types of shock and stress

Illness

Injury

Disability

Death

Costs of weddings and other rituals

Reduction in informal intra-household transfers resulting from above shocks/stresses in agriculture

Reduction in opportunities for gathering fodder/fuel from commons owing to NR degradation

Types of response

Social pensions for the elderly, widows and disabled; school feeding programmes; promotion of infant health and nutrition; distribution of free or subsidised food

Social pensions for the elderly, widows and disabled; school feeding programmes; promotion of infant health and nutrition; distribution of free or subsidised food

Schemes to rehabilitate the commons and ensure equitable access

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[1] Adapted from World Bank (2001)

[2] Although the SRM stresses both the "trampoline" function of SP in preventing people from dropping out of productive activity, or bouncing them back into it again, and that of protecting the "chronically vulnerable" who are unable fully to engage in productive activity, in reality, much of the concern hitherto has been with the former, not the latter.

## Message 2 from John Farrington, 30 April 2004

John Farrington's messages earlier today ask how approaches like the World Bank's Social Risk Management Framework can be implemented.

Maybe a prior question is to ask how the benefits of growth are transmitted to poor people in the first place, what our assumptions are regarding these transmission mechanisms, and how valid these assumptions are.

A set of powerpoint slides accessible at <http://dfid-agriculture-consultation.nri.org/theme3/keypapers.htm> sets out the argument that transmission is via either markets or transfer payments. Markets for products can reduce poverty if, for instance, productivity improvements allow price reductions to consumers at the same time as allowing farmers to maintain a decent living standard. Markets for finance can have a crucial bearing on what the poor can or cannot undertake in the productive sphere. Most of the poor rely to some degree on selling their labour, so that an increase in the demand for labour which is reflected in the availability of more work-days, and/or higher wages, can generate benefits for them.

Key questions are:

1. How far are conventional assumptions regarding the performance of markets in transmitting the benefits of growth correct?
2. What types of market failure are common? Can these be addressed through a neoliberal "regulating and facilitating" agenda, or are they more structurally entrenched, such as market segmentation and interlocking tend to be, and so do they require more specific measures - if so, of what kind?
3. Can more be achieved through more poverty-sensitive growth processes, so that less dependence on transfers is necessary?

Questions of this kind overlap to some extent with debates over pro-poor growth - but it is essential to probe their risk and vulnerability dimensions if positive poverty impacts are to be identified, and negative ones avoided.

## **Message 3 from John Farrington, 30 April 2004**

The message earlier today from John Farrington set out ideas on what it would take to implement the World Bank's Social Risk Management framework, and how the framework might be modified. A set of powerpoint slides relating to these arguments can now be accessed at <http://dfid-agriculture-consultation.nri.org/theme3/keypapers.htm>

These pose a number of pressing questions:

1. is it realistic to expect policy at the highest levels (on exchange rates, interest rates, and other aspects of fiscal and monetary management) to be formulated in ways that take into account the needs of low-income farmers? What pressure might be brought to bear on such decisions? Will discussions between donors and governments on Poverty Reduction Strategy Papers and Medium Term Expenditure Frameworks provide a useful lever?
2. The same set of questions applies also at sectoral level: how and how far can we get Agriculture Ministries to "think outside the box" - e.g. of reducing the variance around crop yields (which is one indicator of risk) instead of just going all out for yield increases? Can we also get them to think of new forms of crop insurance and insurance against price fluctuations (which seem bound to get worse as markets liberalise and globalisation progresses)?
3. How do we get measures reducing risk and vulnerability in the domestic sphere (e.g. in relation to health, injury, death, marriage expenses etc) to complement those focusing on the productive sphere (e.g. in relation to climatic and price shocks and trends)? How far do micro-savings and micro-insurance go towards bridging this divide? Are there government-sponsored as well as NGO models that we might draw on here? What does it take to make these work?

Responses welcome!!

## Summary from John Farrington, 12 May 2004

This short note attempts to summarise the discussion so far, and to pull out new themes for the next round of discussions.

The two main (and related) points that I propose for further discussion are inspired in part by Czech Conroy's contribution (see below) and are the following:

i. how much do we know about whether/how poor people use assets they own (or to which they have access) as vulnerability-reducing measures in response to shocks and stresses. Are these assets essential to their production processes, or in some sense "surplus" to basic production requirements? If technological change could be introduced to improve the quality of some of these, this would increase their resilience. Similarly, a better enabling environment might avoid prohibiting the sale of certain assets such as trees on private land.

ii. Do we have examples of opportunities that people have taken to dispose of assets in times of crisis, or of what has prevented them from doing so (e.g. inadequate enabling environments), drawing out conclusions on appropriate types of policy intervention - technological, enabling environment, or any other kind?

Discussion on this site has been small in quantity but high in quality so far. Many thanks to all who have contributed. Here's my attempt to summarise some of the main strands of argument to date.

First, a clarification on the difference between risk and vulnerability, in response to one of Dirk Bezemer's emails: as I see it, the difference is this:

Risk is the likelihood of occurrence of a particular and potentially adverse event (such as a drought or flood). Risk prevention or mitigation would therefore be done at the broad level of, for instance, breeding drought-resistant crops, or setting up large-scale irrigation systems.

Vulnerability is the degree of exposure of individual households or individuals to such events, and their ability to prevent, mitigate or cope with the event. Vulnerability reduction would therefore be done at the level of one or a group of households - by increasing their asset base, increasing their ability to access irrigation or new varieties, and so on.

But there is also - as Elizabeth Cromwell rightly points out - a set of factors not related to risk ("stresses" in some writings) which also contribute to vulnerability, including gender, age, belonging to minorities etc. She asks whether coping strategies can be better understood and supported through such measures as improved vulnerability assessment indicators. But also suggests that capacities to mitigate and reduce risk may be achievable only through broader policies focusing on e.g. reduced social exclusion.

Vinay Chand's two interventions raise a number of interesting points: farmers can generally cope with one bad season, but how can they best be supported to cope with a succession of two or three? On price shocks, if these are cyclical, then commodity price stabilisation funds might be a good way of tackling them, but

the reality is that the skills to manage these adequately are rarely found in the public sector. If they are idiosyncratic, then buffer stocks might be a better mechanism, but these are typically costly to administer. There are, though, possibilities of contracting certain services out to the private sector, including warehousing and quality control.

Laurent Chazee stresses the importance of off-farm employment as a diversification (and risk-reduction) strategy. Like Elizabeth Cromwell, he points to a non-risk factor likely to increase vulnerability - in this case, traditional (male-line) inheritance systems that disadvantage women. He asks how far agriculture can be an engine of growth in circumstances such as those currently prevailing in Nepal, where the Maoist insurgency adds a new and very powerful dimension of risk and vulnerability.

A different aspect of risk and vulnerability is taken up by Diana Lee-Smith: many rural people reduce risk by moving to towns, or their peripheries. But to practise agriculture here may expose them to other kinds of risk, including risks to human health. She draws attention to a model developed by CIP which allows the trade-offs between yield increase and human health to be assessed. On a positive note, she notes the results of studies indicating that child nutrition is better in households practising urban agriculture than in other urban households.

The role of markets in helping to reduce risk and vulnerability is new dimension of the debate introduced by Dirk Bezemer. On the one hand, globalisation and liberalisation have profoundly altered market structures and permitted the transmission of greater price instability. On the other, markets can help to store wealth, and for this and for the more obvious reasons, improved access to markets is potentially important for poor people. This raises the further question of whether and how some of the virtues of parastatals and other arrangements could be revived, without the problems of rent seeking and inefficiency that they posed.

James Biscoe raises a number of questions, including that of whether and how we should focus on stabilising economic returns if, as seems plausible, these are more volatile than physical yields. He also asks whether banks can replace parastatals, since, like parastatals, they too must help in satisfying the "output" question of prices and yields on investment, so that clients can be sure of being able to afford the necessary inputs.

Czech Conroy takes the discussion in a number of innovative directions. He suggests that people's assets (that they either own or to which they have access rights) are an important part of traditional protection measures (since they can easily be liquidated), but are little understood. For instance, with privately owned assets such as chickens, mortality is high and hatching performance often low. Technological improvements here could help in enlarging this asset base. Similarly, trees grown on private land may be potentially an important source of social protection, but this role is impaired if regulations prevent the cutting of trees even on private land. Further, in relation to access to the commons, rights of access are often very poorly defined. There are thus both technological and "enabling environment" improvements that can be made so that these traditional assets become more useable as vulnerability reducing measures.

## **Overall Summary prepared by John Farrington, 2 June 2004**

How can DFID help to tackle risk and vulnerability factors that prevent poor people from engaging and investing in agriculture?

### **1. Definitions**

Risk is the likelihood of occurrence of a particular and potentially adverse shock or stress (such as a drought or flood). Risk prevention or mitigation would therefore be done at the broad level of, for instance, breeding drought-resistant crops, or setting up large-scale irrigation systems.

Vulnerability is the degree of exposure of individual households or individuals to shocks and stresses, and their ability to prevent, mitigate or cope with the event. Vulnerability reduction would therefore be done at the level of one or a group of households – by increasing their asset base, increasing their ability to access irrigation or new varieties, and so on. But some shocks and stresses may be related to status in some way, such as the particular vulnerabilities faced by adolescent girls, the elderly, minorities, HIV/AIDS sufferers, and so on – in which case the appropriate response is likely to be in higher-level policies directed towards these groups.

### **2. Understanding better who the vulnerable are**

Several discussants stressed the contribution that participatory vulnerability assessments can make to understanding which communities, sub-groups, households or individuals are vulnerable, why, and what can be done about it. Some saw a rights-based approach as an essential weapon in the struggle to ensure that the poor not only have access to resources, but also the power to use them to meet their requirements. At a different level, the right of women to equal treatment was also emphasized. Several saw these three dimensions: participatory assessment, prevention of elite takeover, and promotion of rights and gender equality as principal platforms for action by donors such as DFID. Others saw the need for donors to support better (i.e. more scientific) assessments of the risk attributable to e.g. natural events such as drought, flooding and so on. Underpinning much of the discussion was a view that power relations worked against the poor, and that their capacity to identify their own requirements, address them where possible from their own resources, and make demands on government where appropriate would have to be strengthened (see below).

### **3. Mainstreaming risk and vulnerability concerns into policy and planning**

The background document for this discussion group argued that a primary requirement was for governments to incorporate risk and vulnerability-reducing measures into their planning. The argument was given, for instance, that the imperatives to increase farm revenues (usually based on increased yields) tended to dominate agricultural policy, losing sight of the need to reduce the variance of revenue. Reduced variance might be associated with, for instance, slightly less intensive production strategies (so that some yield is traded off against stability – a notion which, at least implicitly, seems to have caught the attention of several contributors to the forum), and/or with such traditional practices as mixed cropping, intercropping, relay cropping, mixed crop/livestock/tree systems, and so on.

At a higher level, the background paper argued that even policy at higher levels than the agriculture sector could, if managed properly, be risk-reducing. Thus, policies in favour of one or other rate of interest, or foreign exchange rate, could be more or less risk-reducing for low-income farmers, depending on local circumstances.

One powerful argument raised in the e-discussion is that these arguments should be extended to an even higher level – namely that relating to international trade. Internationally marketed commodities face long-term international decline – but also medium-term price swings (as, for instance, Ethiopia experienced with coffee, its most important export, the revenue from which fell from \$420M in 1998 to \$175M in 2001, almost entirely as a result of price swings). Two possibilities were aired to deal with this situation: one was compensatory finance mechanisms, the other being agreements among producers to restrict supply. In each case, more nuanced approaches in both these possibilities would be needed than in the past. A third possibility – of reviving buffer stock mechanisms – would also help to deal with very short term supply fluctuations. Little prospect of success was held out for the types of “hedging” operations being tested by the World Bank. One (albeit perhaps cynical) view of these was that they were likely to do little more than generate work for stockbrokers. Several contributors argued that pressures emanating from Economic Reform Programmes towards greater reliance on trade exacerbated the impact of these price fluctuations (and no-one dissented from this view). One related question was how some of the advantages of now defunct parastatals could be re-captured without reintroducing also the negative factors associated with them. One suggestion here was that commercial banks might be able to take on some of the role of parastatals providing that other risk-reducing measures could be pursued, such as the granting of title to land so that it could be offered as collateral against loans or bank guarantees.

One view echoed in several of the contributions was that there is much that can be done within productive sector policies and procedures to reduce risk and vulnerability. By the same token, there is much that can be done within social sector policies (focusing on the reduction of risk and vulnerability) which in turn can promote production.

#### **4. Strengthening people’s asset base**

The vulnerability levels of individuals or households depend heavily on the type and volume of assets they own (or can access). The Sustainable Livelihoods framework sets out broad categories of assets, but much needs to be learned about the most appropriate types and management practices for assets particularly relevant to the poor because of the can be liquidated in “bite” sizes (such as chickens) to meet expenditure needs as they arise. Also, some assets (such as on-farm trees) might appear vulnerability-reducing, but regulations governing e.g. felling, may need to be reformed before these realize their full potential. Some discussants mentioned individual title to land in this context, and one contribution highlighted

how corporate land title permitted borrowing which revived some of the tea industry in Bangladesh, but few ventured into the newer arenas relating to land, such as the opportunities for improving leasehold markets, and for making inheritance arrangements more gender balanced.

#### **5. Transfers, insurances etc**

There was broad agreement that more needed to be done in relation to these. One correspondent was optimistic about engaging the private sector to deliver insurances of various kinds (possibly subsidized, in the first instance). Discussions on transfers largely focused on food entitlements. In some ways, this was the least complete part of the discussion: to mainstream risk and uncertainty in policy processes is essential, but only part of the necessary response. Transfers can be made in cash or kind, and either against local contributions (e.g. via food for work) or without any counterpart contribution.

These modalities have strengths and weaknesses which need to be matched to local circumstances. There are also trade-offs within broad types of transfer. Thus, the simpler the decision-rule over who is entitled to what, the stronger the prospects for developing elements of citizenship (capacity to make demands and insist on accountability of providers), but the greater the potential wastage in terms of errors of inclusion or exclusion. Also, the more sophisticated the decision rule, the more precise is (in principle) the targeting, but the greater the scope for (often corrupt) discretion by local officials.

## **6. 'Sustainable agriculture' versus livelihood diversification as risk reduction mechanisms**

One issue on which contributors' views differed was the role in enhancing production and reducing risk and vulnerability of 'sustainable agriculture and NR management' often linked with low external inputs and high levels of indigenous knowledge, versus 'engagement with the market'. The latter is associated with livelihood diversification and embraces not only in situ forms of diversification, but also diversification through permanent or seasonal migration, daily commuting, etc. Clearly, the which of these is preferable over the other will depend

largely on local conditions, but in contexts where urban sectors are growing more rapidly than rural (as in much of Asia) and are generating work for e.g. construction labour, where transport links have improved, and where there is some prospect of breaking out of traditional restrictions (as associated with the caste system) then it is not uncommon to note a preference for migration or commuting. Evidence from central India suggests that the commons accounted for some 25% of the income of poorer rural households 3 decades ago, against well under 10% now. This may be partly attributable to pressure on the commons (degradation, encroachment) but is undoubtedly also attributable in part to the improved opportunities on offer elsewhere. These changes have important implications not only for the management of risk and vulnerability, but also more widely for agricultural policy where farming is left in the hands of women or the elderly.

## **7. Area-based differentiation**

Several contributors explicitly distinguished between those areas well-integrated into market-oriented institutions and infrastructure, and those weakly-integrated. For the latter areas, several saw the need to strengthen community capacity to identify their own requirements, address them where possible from their own resources, and make demands on government. A central question here is how formal institutions (including government) can be transformed in order to support empowerment among disadvantaged groups. Some saw the role of donors as potentially influential here – in working with government to support local capacity to take decisions, strengthen ownership and demand accountability, in providing access to external technical knowledge and organizational knowhow, in minimizing the prospects of elite capture, and in supporting the collection, dissemination and discussion of data, at both outcome and process levels, on the

projects and programmes in which they have been involved. One contributor highlighted how donor engagement had particularly helped in strengthening women's community-based organizations. Another contributor, building on the strongly/weakly integrated dichotomy, made the general point that 'territorial' approaches had much to recommend them as a means of promoting coherence among interventions, and promoting interaction among public and private sectors.

The pendulum swung against integrated rural development projects some years ago on account of their high cost, overambitious agendas, and tendency to run in parallel with the public sector rather than in ways integrated with it. This was further reinforced by purist donor views to the effect that 'if it is subsidized, it is unacceptable'. However, views such as this do not reflect domestic practice in many donor countries, where investment incentives are widely used as a means of attracting commercial companies into more remote areas. There are therefore few grounds for imposing them on developing countries.

## **8. Roles for DFID**

A number of roles for DFID have been identified in the discussions and in moderator's summaries. These are at times explicit and at times more implicit. They include:

- i. Efforts to stabilise short/medium-term commodity price fluctuations in international markets
- ii. Efforts to mainstream risk and vulnerability considerations into national policymaking at macroeconomic and sectoral levels, and to have social protection planning specifically take into account potential impacts on production.
- iii. The development and promotion of innovative models for personal, crop and asset insurance
- iv. The development of transfer schemes (in cash or kind) that impact on the productive economy either directly or (through those unable to engage fully in the productive economy) indirectly
- v. Efforts to support more scientific assessment of risks based in natural phenomena (especially weather events)
- vi. Support for rights-based approaches in respect of access to and power over resources, entitlements to food, and protection from hazard, access to safety nets and social protection, and support especially for the more vulnerable rights-holders.
- vii. Support for participatory vulnerability analysis, and identification of critical interactions with other rights and vulnerabilities for example in relation to education, HIV/AIDS, and conflict.
- viii. Support for change in attitudes, beliefs and behaviours from local to international policy arenas, which lead to gender based discrimination and power inequality between women and men.
- ix. Support for capacity building among local community organisations to strengthen them in articulating and addressing their own needs, and resisting potential elite takeover.

- x. Greater emphasis on sustainable agriculture practices and on how they can contribute to reducing food poverty, improving water retention and the level of the water table, reduce soil erosion, and prevent the loss of diversity through the use of locally adapted landraces and varieties.
- xi. Collaboration with other large, international donors and apply pressure on public sectors to develop coherent pro-poor policy and intervention strategies, and achieve adequate staffing and operational capacity, plus accountability.
- xii. Support to the public sector in reaching the objectives of the previous point, including formal and informal training for public staff, and the re-engineering of public extension services.
- xiii. Funding for and dissemination of serious studies revealing the negative impact of the North's agricultural subsidies and trade policy on the rural livelihoods in the South.
- xiv. Finance for learning processes (methods, instruments, information) among development agencies to improve pro-rural poor interventions; these processes can be facilitated by international research organizations.
- xv. Support for livelihood diversification, possibly through business development services, through links with the private commercial sector, and possibly with an emphasis on appropriate services for identifying market opportunities, and stimulating the formation of small-scale farmer business associations.
- xvi. Additional support to the Fair Trade movement to increase its share in world trade.