Social Protection and Growth: The Case of Agriculture

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1 Introduction

Many poor people in rural areas continue to live in a context of long-term pervasive poverty, with stagnant growth and limited opportunities in agriculture. In recent years there has been a renewed recognition of the role that agriculture, via increased productivity, can play in poverty reduction, which has encouraged new policy initiatives and funding in the agricultural sector. However, numerous factors may prevent the poor from taking up new opportunities in agriculture and/or push them into less productive activities. Perceptions of potential shocks and stresses, rapid structural change and chronic cycles of indebtedness increase the risk for poorer households of investing in more productive agriculture, and keeps them trapped in a low-input low-output vicious cycle of poverty.

Risk reduction interventions through agricultural policies and social protection programmes to date have focused separately on productive (agricultural) and domestic (social protection) spheres. Yet in reality, resources are fungible and span the two. In relation to agriculture, well-managed social protection has the potential to reduce both *actual* shocks and stresses, and farmers' *perceptions* of likely shocks and stresses. In this way, social protection could both reduce the loss of productive assets, and encourage farmers' engagement in new, potentially more productive, enterprises, by reducing actual and perceived levels of risk. Additionally, productivity in agriculture is itself socially protecting if it leads to lower and more stable prices for consumers, creates employment opportunities, and stimulates growth in the wider economy.

The potential for exploiting the synergies between social protection and agriculture to support pro-poor growth, however, is often unexplored and the links between the two generally remain poorly conceptualised in policy and in practice.[1]

2 Lack of complementarity between agricultural and social protection domains

Managing vulnerability to shocks in the productive domain has predominantly relied on technical, economic and financial interventions. Managing vulnerability to shocks in the domestic domain, however, has largely related to social welfare interventions aimed at smoothing and raising consumption at the household level. While the concept of social protection as social assistance, and the thinking around agriculture for pro-poor growth are changing, these trends tend to be happening in parallel rather than synergistically.

In policy and in practice, agricultural policies and social protection are dealt with by different government departments and by different departments within international agencies. Production-related agricultural investments in the Ministry of Agriculture often have a strong relationship with the Ministry of Finance, given the potential for high growth and high returns from investment in agricultural productivity. Agricultural policy has largely focused on preventing or mitigating risk from shocks in the productive environment, such as crop failure and price crashes, through financial interventions such as crop insurance and price hedging. These interventions have been more relevant to large-scale than smallholder farmers. Social protection, on the other hand, typically falls under the jurisdiction of the relatively weak Ministry of Social Welfare or Labour, aiming to reduce vulnerability and risk created by shocks such as a drop in household income, or to provide a safety net for the most vulnerable in society (the elderly, disabled, orphans, etc.), who are unable to engage in the productive economy.

Table 1 **Schematic characterisation of rural households in relation to poverty, shocks and stresses**

Schematic characterisation of rural HH	Types of shocks and stresses – Domestic	Types of shocks and stresses – Production-related
Large-scale farmers	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 natural resources. Inadequate access to input, finance and output markets owing in part to failed liberalisation.
Marginal farmers	Illness Injury Disability Death Costs of weddings and other rituals	Extreme weather events (drought, hail, flooding). Degradation of soil, water and other natural resources. Inadequate access to input, finance and output markets owing in part to failed liberalisation. (Possibly) collapse in prices resulting from globalisation.
Farm labourers	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.
Those unable to engage regularly/fully in economic activity (very elderly, sick, disabled, very young ...)	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 due to natural resource degradation.

It is often assumed by government and international institutions that expenditure on social protection is 'non-productive', and this leads to a trade-off between these and expenditure on agricultural growth programmes. In a context where public expenditure is limited and social protection is often perceived as a drain on resources, the debate continues among governments and policymakers about what the appropriate balance of public expenditure should be – more for growth or more for social protection?

Where the potential synergies between the 'productive' and 'domestic' spheres are disregarded, the links between the two remain poorly conceptualised and compartmentalised, and governments tend to introduce agriculture policies that exhibit sub-optimal combinations of efficiency enhancement and social protection, and/or introduce social protection policies that either do much less than they could to support pro-poor growth or actually hamper growth. This has happened, for instance, where responses to predictable covariate shocks have distorted local markets. A case in point is the seasonal food crises in many countries which are claimed to be 'emergencies' but are often in fact more chronic than acute situations.

Financial interventions potentially complementary to agricultural growth: to address Shocks Risk reduction through:	to address Stresses and chronic poverty Reducing vulnerability by:
Price hedging; crop insurance. Facilitate and regulate market-based farm asset insurance and domestic insurances (health; life; assets) to prevent flight of capital out of agriculture.	Not necessary – assets adequate.
Crop 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 strong public or community-based leadership. Employment assurance schemes of some importance.	Promote asset accumulation by savings schemes, possibly including 'matching funds'. Targeted transfers to cope with stress of old age, prevent (and possibly reverse) outflow of capital from agriculture and enhance consumption of agricultural products. Promote micro-savings, micro-credit, micro-insurance.
Indirectly via interventions to stabilise prices and promoting and (perhaps initially) subsidising farm asset and domestic insurances insofar as they impact on food prices and job opportunities; domestic insurances likely to be particularly important. Public works programmes. Support for seasonal migration through improved information, accommodation, education provision for children, easier means of making remittances etc.	Promote asset accumulation by savings schemes, possibly including 'matching funds'. Targeted transfers to cope with stress of old age, prevent (and possibly reverse) outflow of capital from agriculture and enhance consumption of agricultural products. Promote micro-savings, micro-credit, micro-insurance. Investigate possibilities of occupation-linked insurance and pensions.
Indirectly through keeping food prices stable. Employment assurance irrelevant.	Targeted transfers, such as 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.

3 Making agriculture more socially protecting

Rural livelihoods are diverse and complex, and different households face different kinds of shocks and stresses. These can be classified in various ways, for example according to type and scale of engagement with the productive economy. At one extreme are those who through ill health, old age or youth, or a high number of dependants, are unable to work. At the other extreme are established farmers operating on a moderate or large scale. In between are agricultural labourers, who are not entrepreneurs, but nonetheless are dependent on agriculture for their livelihoods.

Until recently, agricultural policies relying on financial interventions to manage the risk generated by shocks have taken little consideration of how important these might be for different categories of the rural poor and how relevant they are for the kinds of risk that poorer households face.

Crop insurance measures, for instance, are likely to be implemented by individual crop type, and so are more relevant to commercial or semi-commercial farmers than to subsistence farmers growing a wide range of crops, or to labourers. And some types of risk, such as price fluctuations, are not insurable.

Table 2 Shocks, stresses, uncertainties and vulnerability – Productive context

Shocks	Stresses	Uncertainties
Idiosyncratic: price crashes	Erosion, pollution, deforestation	Re: taking on new productive activity, on- or off-farm
Covariate: adverse weather – low yields, high food prices, low livestock prices	Long-term decline in commodity prices	

Hedging has been promoted as a means of countering the negative effects of such fluctuations, but, for the same reasons, small-scale farmers who rarely make a profitable surplus are unlikely to benefit from hedging. Inadequate access to input, finance and output markets may mean that small farmers' perceptions of new agricultural opportunities are less optimistic than those of larger farmers. Households that depend on income from farm labour are more susceptible to the risk of seasonal unemployment, or reduction in real wages. In this way, social protection strategies that support risk mitigation and coping (e.g. through employment assurance), are potentially important for farm labourers and to some extent marginal farmers as a response to shocks. Agricultural interventions, through prevention and mitigation strategies (e.g. crop insurance or promotion of private sector input supplies) would be more relevant to marginal farmers to deal with potential shocks such as drought, but less important for farm labourers who rely on agriculture for employment.

Table 1 demonstrates how different types of social protection and agriculture-related interventions are more or less relevant to different categories of households for managing the risks they face in the domestic and productive (in this case agricultural production) spheres.

4 Social protection responses to shocks and stresses to increase agricultural productivity

In both agriculture and social protection, risk has largely been conceptualised in terms of shocks. This narrow view underestimates the pressures on households in the form of stresses such as long-term illness, declining soil fertility, or marriage and funeral expenses. Yet it appears plausible that responses to potential shocks will in some measure be conditioned by the ways in which households commit (or expect to commit) resources to meet stresses.

Tables 2 and 3 highlight that shocks, stresses, uncertainties and vulnerability may differ as between the productive and domestic spheres – but money is fungible and crises in the household affect productive capabilities. If there is no safety net in the domestic sphere, substantial resource flows out of agriculture might be necessary to finance unexpected or predictable but sizeable domestic expenditures. In South Asia, a moderately wealthy household may need merely to sell a few livestock to finance the wedding of a daughter, whereas a poorer household may need to mortgage land to a moneylender, with the prospect of losing this land if repayments cannot be kept up. Numerous types of stresses faced by poor households therefore threaten their financial base, and more particularly may either trigger a flight of capital from productive activity or absorb any creditworthiness they have to the detriment of productive activities (Farrington and Slater 2006).

The strengthening or protection of individually owned assets, and the guaranteeing of rights of access to assets that are not owned, is therefore of crucial importance in building long-term resilience to shocks and stresses. In this way, households are also more likely to make riskier investments in productive activities for higher returns.

Recent experience from innovative social protection interventions addressing risk and vulnerability at the household level aim to span the domestic and productive spheres, by explicitly smoothing or increasing consumption and enhancing productivity. Some key emerging lessons are discussed below.

First, the type of transfer is crucial. While the instrument should respond to the context and to

Table 3 **Shocks, stresses, uncertainties and vulnerability – Domestic context**

Shocks	Stresses	Vulnerabilities
Injury, death, sudden illness, divorce	Chronic illness, disability, marriage expenses, chronic indebtedness	… rooted in social inequities, gender inequalities and exclusion

need, it is very difficult for countries with low administrative capacity to implement transfers that respond to all categories of households. Malawi's programme of 'Targeted Inputs Distribution' in the late 1990s aimed to improve smallholders' productivity through providing access to seeds and fertilisers. For households with labour and land, the inputs increased agricultural productivity; but this intervention was less appropriate for vulnerable households with little labour or no access to land. Cash transfer interventions might be a more appropriate response to enable consumption-smoothing and increase productivity, as it gives different households the choice to spend it on their specific needs.[2] Evidence shows that even a small cash transfer to 'non-productive' households is often invested productively (Devereux *et al.* 2005).

Second, the timing and predictability of transfers is vital in enabling households to invest in longer-term asset building. Given that many rural households engage in agriculture, Ethiopia's Productive Safety Net Programme (PSNP) distributes cash directly to households who cannot work, and implements a public works scheme with cash payment for those who can work in the six-month agricultural slack season. Evidence from the first year of implementation has shown that cash expenditure varies across type of households, but that income was used for consumption as well as health and education expenses; it prevented distress sale of assets and allowed households to avoid working in uncertain casual labour markets, thereby freeing up labour to work on own or share-cropped land. The security of predictable household income also enabled some households who were previously risk averse to take credit packages and invest in productive assets, or savings (Slater *et al.* 2006). Thus, if well implemented, cash transfers and work requirements can bridge the gap in hungry and slack agricultural seasons; if they are predictable, households can start investing in riskier but more productive activities.

Third, the scale of transfer and need for additional investments has implications for households' ability to move out of poverty. While larger and/or more predictable transfers can achieve a bigger impact in terms of investment in health, education and income generation, because of their cumulative value over time (Devereux *et al.* 2005), it is unlikely given the reality of resource constraints, that governments will be able to distribute significant levels of resources universally (i.e. without some form of targeting). What is perhaps more important initially, is investment in additional and supporting services at the local level to get input and output markets working, provide access to credit facilities, improve road and infrastructure, and so on. PSNP public works participants in food secure but vulnerable households commented that, while a combination of the PSNP and other food security packages enables them to accumulate some assets, they require access to a wider range of options to diversify into new agricultural activities, especially high-value crop production and irrigated agriculture, to enable their 'graduation' from the programme, and get onto a trajectory out of poverty (Slater *et al.* 2006).

5 Conclusion

Recent experiences in social protection and agricultural growth policy are starting to challenge a dominant practice which has treated the two as separate entities: focusing on productivity in agriculture and addressing domestic vulnerability through social protection. This dichotomy has often led to sub-optimal growth and poverty reduction strategies. The emphasis on managing risk to external shocks has further marginalised policy responses to the impact of stresses and downward cycles, which have been a major cause of trapping poor people in low-risk low-return activities and/or pushing people further into poverty.

Emerging lessons from recent efforts to bridge the gap between production-enhancing and consumption-smoothing interventions point to some of the challenges in implementing both growth and protection objectives, including capacity constraints. They also highlight the importance of asset-based strategies and supporting interventions to build up the long-term resilience of households to deal with future shocks, stresses and uncertainties.

Notes

1 For a recent conceptual framework linking social protection and agriculture, see Dorward *et al.* (2006).

2 For a more detailed discussion on the benefits and challenges to cash transfers, see Harvey (2005) and Farrington and Slater (2006).

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