Agricultural growth, risk and social protection

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Purpose of the talk

- Revisit briefly some important questions:
  - Place of agricultural growth in broad-based growth and poverty reduction?
  - What are the main constraints on this process?
  - What can be done?

- In context of renewed attention for ‘direct transfers’ (conditional cash transfers and other social protection measures);

- In context of much talk about “poverty traps”;

- My context: some of the poorest countries, e.g. in Africa.
Conclusions

- Agricultural growth has a role in broad-based growth trajectories – but let’s not naïvely expect too much from it.

- There is a clear place and role for social protection in – but let’s not naïvely expect too much, and do it right.
Outline

1. Agricultural growth – its importance, scope and limitations.

2. Some specific constraints on growth in productivity for the poor.

3. Social protection measures for broad based agricultural growth
1. Agricultural growth

- Much thinking on importance of agricultural growth based on simplistic premises
  - “since poor are in agriculture, agriculture is the basis of poverty reduction”;
  - “agricultural growth has to be the basis for growth, or at least of the high growth required for poverty reduction”;
- My own take: “agriculture matters”
- But don’t forget basic ‘law’: “increased prosperity is linked to having fewer people dependent on agriculture for their prosperity”.
When is agricultural growth essential?

E.g. Heterogeneity in Africa – implications for way (pro-poor) growth should be pursued.

- **Resource-rich countries.**
  - Macro-management of wealth; Dutch Disease, governance,
  - ‘Distribution’ of wealth is important.
  - Role of agriculture? Unlikely as a growth engine, rather as one source of diversification, possibly as method of ‘distribution’.

- **Coastal and other well located countries:**
  - Trade opportunities; best placed to take advantage of world economic opportunities;
  - Managing advantage (markets, skills, regulation);
  - Role of agriculture: manage the pull out of agriculture [Lewis, Eswaran and Kotwal].
When is agricultural growth essential?

- Landlocked, resource-poor countries
  - Little scope; agricultural base?
  - Risk of marginalization highest (in terms of staying behind)
  - Skills, infrastructure – but hard to attract investment
  - Agricultural ‘growth’ is essential – but don’t expect any miracles.
Limitations to agricultural growth

- Some unpleasant arithmetic:
  - Much progress in agriculture is a “once and for all change”
    - e.g. adoption of fertiliser – increase in yield but not a persistent growth in yield;
  - A level and a growth change is rather different…
  - Any ‘growth’ effect largely depends on ‘linkages’;
  - But many of these linkages are wishful thinking.
2. Constraints on Agricultural Growth

Many possible issues:

here a focus on those that are potentially most effectively handled by direct ‘transfers’ and social protection, and that have large effects on productivity, not least of the poor.

- Risk
- Capital
- Spatial factors: “poor areas”
Risk and growth

- Much agriculture in poorest (and “marginal” countries) in high risk environment.

- Most focus on “shocks” and the way it affects “transient” poverty – but ignores crucial ‘growth’ effects.

- Risky events are ‘exogenous’ to the individual;

- Agents don’t passively undergo risk and shocks, but use risk strategies to shape outcomes.
Household actively try to manage risk…

- **Ex-ante strategies**: before the risk occurs, trying to *prevent* risk affecting the household or to *mitigate* the impact of risk

- **Ex-post strategies**: after the risky event occurs, reducing its impact (*coping*) (while ex-ante preparing for this)
Risk strategies (in agriculture)

**to mitigate and reduce risk ex-ante:**
- Diversification, Low risk activities
  - E.g. sweet potatoes in Tanzania, or dung cake and firewood sales in Ethiopia.

**to cope ex-post:**
- Savings as a Precaution (grain storage, livestock)
  - Cattle among the Wasukuma in Tanzania
  - Bullock sales in India

But in the end: all evidence points to still substantial direct income and welfare effects from shocks.
Bring back the economics...

- Risk is something different from ‘just transitory fluctuations’

- ‘Risk’ may cause (ex-ante and ex-post) serious losses in terms of growth and poverty reduction, since it may lead to poverty persistence and traps...

- Risk is a cause of poverty and low growth:
  - ex-post impact of risk
  - ex-ante or behavioral impact of risk
Risk as a cause of Poverty: ex-post impact

Shocks result in **lost human, physical or social capital**, reducing access to profitable opportunities in the future.

- recurring theme in many life histories across developing world
- nutrition: temporary ‘hunger’ leading to stunting, lower school attainment, earnings
  - E.g. **Zimbabwe**, impact 82/83/84 drought/war.
  - Shock on children, 16 years later 7 percent loss of lifetime earnings.
- In **Ethiopia** income and consumption effects:
  - persistent impact of drought in 84/85:
  - those seriously affected then, experienced significantly lower growth (minus 10-15%) in 1990s
Risk as a cause of poverty: the ex-ante impact

Uninsured risk implies that it may be optimal to avoid profitable opportunities. So, lower risk at the expense of lower returns

Examples:

Diversification, low risk activities, low risk assets:

• NOT simply due to ‘risk averse preferences’ but driven by lack of insurance (constraints)
• even possibly ‘choosing’ to be poor by lack of options…
ex-ante impact of risk

- **YES:**
  - many studies find significant effects, few quantify this fully
  - “investment” impact of risk – could be physical, financial, or human capital

- **Studies in rural South India and Tanzania**
  - providing the lowest wealth groups the same ‘protection’ as the highest wealth groups, results in 25-50% higher return per $ assets,
  - due to portfolio effects;
Fertiliser uptake in Ethiopia:

- application rates substantially lower because farmers’ inability to cope with consequences of a drought and its consequences:
- fertiliser application rates would be up by 43 percent, if downside risk were to be reduced by one standard deviation.
Conclusions

- When shocks occur, assets are lost permanently, and they may make or keep you poor.
- Given high risk, ex-ante strategies mean low return-low risk portfolio of activities and assets. This means ‘profitable opportunities’ are not taken. If you are poor, your poverty will persist. Getting into poverty is ‘easy’, getting out is ‘hard’.
- Narrative of a “poverty trap”
Other mechanisms

Initial poverty and market failures, not least related to risk, conspire to keep some persistently poor or even in a poverty trap.

- Risk
- Access to capital (credit market failure)
- Spatial externalities (curse of geography)

What does this mean for policy? What to do?
3. Social protection and other policies?

Is growth the solution?
Is redistribution a solution?
Are targeted transfers a solution?
Are insurance markets the solution?

Answers are largely empirical issues, even though theory can offer some principles…
Is growth the solution?

- “Growth” is a plausible mechanism to unravel these traps in many settings.

- But it needs a source of growth (and if agricultural growth is essential step, it may not occur);

- If “poverty traps”: growth will not simply lift all those trapped (e.g. they cannot take advantage of profitable opportunities offered by growth).
Is redistribution the solution?

Ability to cope is usually correlated with wealth. So, inequality exacerbates the impact of risk.

- So redistribution should work! Inequality reduction is efficiency increasing: the absence of an efficiency-equity trade-off is plausible.
- Most strikingly if poverty traps are present…
Is redistribution the solution?

■ HOWEVER:

■ the highest impact of redistribution on marginally “constrained” households (i.e. the not-so poor…);

■ Definitely so, if there are thresholds, fixed costs that lead to POVERTY TRAPS;

■ and ZERO impact unless it lifts the poor past these thresholds;

■ So “Small is not beautiful”
Are targeted transfers a solution?

- Renewed attention
  - Everywhere in the world, ‘cash’ transfer schemes
  - Subsidised micro-credit schemes also active everywhere.

- Face the same problem as growth or redistribution in general:
  - Schemes may well benefit most the not-so-poor;
  - If poverty traps exist, they may have ZERO return to the poorest, unless LARGE transfers.

- Better if targeted at the mechanisms that cause the poverty traps to emerge, including missing markets to handle risk.
  - A credible, permanent guarantee of some minimum income.
Insuring risk: what to do?

- In the context of activities to stimulate asset creation (along the spectrum of growth and redistribution),

- “Make markets work for the poor”:
  - some risk can be handled by “contracts”: insurance can be provided, either by market or other institution (employment guarantee schemes, strengthening ‘local’ institutions, mutual support and ‘friendly’ societies);
  - Use ‘market logic’ but not necessarily market.
Insuring risk: what to do?

- Some risks are “institutional” – from property rights, government failures to aid failures:
  - Solution requires ‘enforceable rights and entitlements’, in turn requiring ‘credibility’ and ‘agencies of restraints’.

- Some risks are actual reflecting Knightian uncertainty – can only be handled by credible guarantees by national or even international institutions (solidarity institutions).
Conclusions

- In some settings, agricultural growth essential part for broad-based growth – but don’t expect wonders.

- Social protection has a role to play
  - But don’t think just any transfer scheme has serious impact. Small schemes may just be a waste of money or at least benefit mainly the not-so-poor (the marginally constrained)
  - Think through the nature of the failure you try to address.
  - ?Conditional transfer? Conditionality has more to do with aid accountability than any ‘intrinsic’ value.