

GROWTH & SOCIAL PROTECTION WORKING PAPER 01**Building synergies between social protection
and smallholder agricultural policies**

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Abstract

The paper explores how social protection and agricultural policies interact, creating either synergies or conflicts between them. To the extent that social protection measures help poor rural people expand their assets, use them more efficiently and adopt higher return activities, there should be strong synergies with agricultural development. Reverse synergies can also arise, if agricultural policies help farmers improve their livelihoods and reduce their vulnerability. But conflicts can occur if policy objectives are inconsistent with each other, and these are also examined in this paper. We draw on numerous examples from the across the globe, but with specific emphasis from the African continent to highlight issues including, liquidity constraints, scale and threshold effects, timing, seasonality and policy complementarities. In conclusion we consider lessons for how the agricultural policies and social protection instruments can be designed and implemented to exploit welfare and growth synergies.

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1. Introduction

After a lengthy period of relative neglect, agriculture is back on the policy agenda of many African governments and international agencies. Smallholder farming is recognised by the Commission for Africa, NEPAD and others as central to rural livelihoods and therefore indispensable to food security and poverty reduction and the achievement of the Millennium Development Goals (MDGs) in Africa. At the same time, however, the multiple risks and vulnerabilities that smallholders face are increasingly well understood, and new policy frameworks are emerging that distinguish between different types and sources of risk (for example, idiosyncratic and covariant risk affecting agricultural production, markets and health) and between different response options (investment in crop or livestock protection, irrigation, market stabilisation and access, cash transfers, and so on). Reducing risk in smallholder farming requires agricultural development policies, and policies that create a conducive enabling environment for agriculture, while managing risk in smallholder farming requires social protection policies that can also contribute to reducing risk.

The paper analyses how social protection and agricultural policies interact, creating either synergies or conflicts between them. We explore both current and potential synergies and conflicts between 'welfare-promoting' and 'growth-promoting' forms of social protection and agricultural development. To the extent that social protection measures help poor rural people expand their assets, use them more efficiently and adopt higher return activities, there should be strong synergies with agricultural development. Reverse synergies can also arise, if agricultural policies help farmers improve their livelihoods and reduce their vulnerability. But conflicts can occur if policy objectives are inconsistent with each other, and these are also examined in this paper.

We draw on numerous examples from the across the globe, but with specific emphasis from the African continent to highlight examples of a range of issues, including, liquidity constraints, scale and threshold effects, timing, seasonality and policy complementarities. We conclude by drawing out lessons for how the agricultural policies and social protection instruments can be designed and implemented to exploit synergies.

2. Mapping interactions between social protection policy and agricultural policy

New thinking is needed about potential synergies between social protection and agricultural development policies. The social protection policy agenda expanded as a distinct policy focus at the same time and as a result of structural adjustment and market liberalisation policies that restricted the scope of state intervention in the economy, particularly in agriculture. New social protection policies were needed partly because of the loss of some aspects of social protection provided by agricultural intervention policies (such as input and output interventions to stabilise and subsidise prices to promote both national food self-sufficiency and cheap food). Paradoxically, therefore, some aspects of social protection policies had been integrated within growth policies in state-led agricultural development, but these were then separated into distinct policy spheres during structural adjustment and liberalisation. There are now moves to integrate them again, but under the banner of 'social protection' – reflecting the blurring of boundaries between 'protection' and 'promotion' policies that is responsible for much conceptual confusion, as noted above. Is there now an opportunity to reconsider lessons from these different growth and social protection policy approaches, and to move 'Beyond Liberalisation' to 'Developmental Coordination' (Dorward *et al.*, 2005), in both agricultural growth and social protection policies? If so, what would this involve and how could it be achieved?

In the search for new thinking about agricultural development and social protection policy synergies, it is important to learn from past successes and failures, taking account of the different contexts faced by poor rural economies today. A critical issue here is the need to recognise the changing challenges, opportunities and roles of both agriculture and social protection as rural economies develop: lessons from past successes in countries that have successfully transformed their agricultural sectors may be more relevant than simplistic attempts to transfer current policies whose success may be context dependent (and not readily transferable). Critical issues here include the state of market development, and current and potential smallholder access to and engagement with different input, service and output markets and market opportunities.

Synergies and conflicts between agricultural and social protection programmes arise at different scales. Synergies can arise at the macro-level if, for example, effective investments in agricultural development reduce budgetary requirements for social protection programmes and/or, by promoting growth, increase resources available over time for financing social protection. Synergies can arise at the micro-level where, for example, social protection policies can reduce seasonal cash flow bottlenecks, help poor rural people expand their assets, improve food security, nutritional status and labour productivity, use assets more efficiently and adopt higher return activities than they would otherwise, or where agricultural policies help people improve their livelihoods and assets for self or mutual insurance.

The relationship between social protection and agricultural growth is thus complex and multi-layered. Take the example of school feeding schemes. School feeding transfers food to the poor (welfarist), encourages investment in human capital through education (building resilience), and to the extent that the transfer is stable and durable, provides an insurance function against consumption shocks (risk insurance). It also provides a kind of 'old age insurance' for parents, in the sense that there is evidence that families that have at least one child who has completed primary school are much less prone to food insecurity. Most importantly for our purposes, if the necessary food commodities are purchased locally, school feeding schemes provide market outlets and production incentives to smallholders in the area.

There are, however, also potential conflicts at these levels. For example at the macro-level, agricultural and social protection policies are likely to compete for limited financial resources and influence, especially if they are seen as different spheres of policy and are implemented by different agencies. Returning to the example of school feeding, local sourcing of food might be preferable in theory, but too expensive and cost-inefficient in practice. At the micro-level, some forms of social protection may undermine incentives for investment in particular agricultural activities (for example, food aid may depress food market development and production), and some agricultural policies may increase the vulnerability of particular people (for example, by increasing food prices). Similarly, participation in labour-based social protection programmes may conflict with on-farm labour demands. Different synergies and conflicts may co-exist at both the macro and micro levels, and may differ between programmes, even between households within the same programme.

In addition to the direct multiple impacts of social protection measures, transfers affect peoples' behaviour in indirect ways that may be unintended and unanticipated by those who designed the instrument. Thus some conditional transfers, where receipt depends upon recipient behaviour (such as attending school to benefit from school feeding) or upon recipient characteristics (such as falling within a target group for unconditional cash transfers), may change the behaviour of potential recipients to improve their eligibility. These behavioural changes may have positive or negative impacts on other aspects of people's livelihoods (for example school attendance has educational benefits but may withdraw labour from other activities, and school meals might simply substitute for meals at home, reducing their net impact on child nutrition). Similarly the receipt of welfare transfers may lead to a wide range of different impacts on productivity – in addition to insurance and resilience

building effects they may (a) prevent the loss of productive assets, (b) allow otherwise unproductive people to enter the productive economy, (c) undermine or enhance incentives to undertake particular productive activities and/or (d) through consumption or production linkages and multipliers affect (positively or negatively) growth and welfare of others (by affecting prices or other aspects of local or wider economic and social relations).

Moreover, we can identify particular types of relationship between social protection instruments and growth, involving threshold and scale size of individual transfers and the proportion of the population that are in receipt of these effects concerned with both the transfers. The existence of micro-level poverty traps means that transfers that take people across an asset threshold may have much greater growth effects than transfers which do not. We therefore cannot expect simple linear relationships between the size of transfers and their productivity impacts – these impacts depend upon the distance that different recipients are from the threshold, and will vary between recipients in any situation, and between situations. Transfers that bring people into the productive sector may also encounter thresholds, or at least strong discontinuities. Growth impacts of social protection interventions may also be strongly context dependent because of the need to address multiple limiting constraints to growth.

Synergies and conflicts arise because of various design choices and implementation modalities, including: instrument selection, timing (eg seasonality), scale and threshold effects, policy sequencing, predictability, targeting (including gender), the political economy of policy processes, and linkages with informal social protection. These will be discussed in turn below.

3. Instrument complementarities and trade-offs

Social protection interventions play a crucial role in protecting vulnerable livelihoods, but can also have beneficial effects on agricultural production. This section explores three emerging synergies by discussing how various instruments can alleviate liquidity constraints for smallholders, create demand for farm products, and create multiplier effects throughout the local economy. Other synergies can also be assumed that are not discussed in detail here, for instance, social transfers could immediately improve the family's food security and nutritional status, thus improving labour availability and productivity at farm level.

3.1. Alleviating liquidity constraints

One of the major barriers to agriculture production is lack of access to seasonal liquidity to invest in agriculture inputs (Von Pischke *et al.* 1983; Kydd and Dorward, 2001; Ravallion, 2003). The 2008 World Development Report on agriculture argues that the costs of financial constraints for smallholders are huge, in terms of both forgone opportunities and exposure to risk (World Bank, 2007). The report provides evidence from Honduras, Nicaragua and Peru, where 40% of all agricultural producers are credit constrained. In Africa, the demise of single channel marketing boards, as a result of structural adjustment policies, has left a gap in the provision of agricultural finance (Winter-Nelson and Temu, 2005). Producers who lack credit are only able to purchase a fraction of inputs compared to their unconstrained counterparts. This translates into lower net incomes and lower returns to labour and capital (World Bank, 2007).

Evidence from recent conditional and unconditional cash transfer programmes reveals that they not only prevent damaging coping strategies (e.g. asset sales, indebtedness, removing children from school) but can also relax liquidity constraints for smallholder farmers and allow them to accumulate productive assets (Coady, 2004). Evidence on the use of cash transfers to purchase agricultural inputs comes from non-emergency contexts as well as emergency situations (Harvey, 2007).

Martinez (2004) argues that cash transfers can unleash untapped productive and income generating potential, by boosting household investments in farming as well as non-farm micro-enterprises. In Lesotho, Old Age Pension recipients also use some of their cash transfers as capital for income generating activities, such as rearing chickens and petty trading activities (Devereux *et al*, 2005). Participants in a pilot cash transfer programme in Kalomo District, Zambia have invested almost 30% of the cash received on purchasing seed for planting and goats for breeding (GTZ, 2005). It is important to put these synergistic impacts into context, however. Small proportions of small transfers received by some poor households may be invested in fertiliser and seeds, but this in no way substitutes for the function played by the old marketing boards, in terms of large-scale provision of access to (often subsidised) inputs.

The most rigorous evidence on investment uses of social transfers comes from large conditional cash transfer programmes in Latin America. Following implementation of the North America Free Trade Agreement (NAFTA), the Mexican government implemented *Procampo* in 1994, providing 15 years of support to farmers to compensate them for potential losses during the period of transition to the free market. The level of transfers varies across the programme's 3 million recipients, depending on total hectareage under key crops. Sadoulet *et al.* (2001) finds that *Procampo* generated a multiplier effect in the range of 1.5 to 2.6 pesos, being higher for farmers with larger landholdings. Farmers used the transfers to purchase agriculture inputs which allowed them to overcome a lack of access to credit. A recent analysis by Winters and Davis (2007) finds that this impact is also strongly influenced by access to irrigation and technical assistance.

Another cash transfer programme in Mexico, *Oportunidades* (formerly *Progresas*), provides seasonal transfers to poor households conditional on health check-ups and school attendance for children. Gertler *et al.* (2005) finds that in addition to spending the cash on direct consumption, *Progresas* participants invested part of the transfer income on investment in land and livestock, and were more likely to acquire or upgrade these key productive assets than control populations. *Progresas* participants also invested cash transfers in other income generating activities. These increased investments resulted in a 24% increase in consumption after six years, even following the termination of the programme (Gertler *et al.* 2005). Winters and Davis (2007) find similar results for *Oportunidades*. Both small and large farms increased their ownership of draft and production animals, while larger farms increased the number of hectares under cultivation.

“Taken together the analysis shows that *Oportunidades* appears to have had a substantial influence on investment in the productive activities of beneficiaries. They entered in animal production, invested in draft animals, initiated land use, and expanded the number of agricultural products produced and consumed, but only moderately appear to intensify production” (Winters and Davis, 2007: 22).

Some intriguing contradictory evidence comes from a recent evaluation of Nicaragua's *Red de Proteccion Social*, which found limited evidence of investment of transfers in productive activities, including agriculture, even though agriculture plays a much larger role in rural livelihoods in Nicaragua than in it does in Mexico (Maluccio, 2007). The explanation seems to lie in a combination of several factors: the transfer level in Nicaragua was lower and the recipients were poorer, while there was a strong emphasis in the Nicaragua programme on using transfers to boost household food consumption. The conclusion seems to be that programme design and implementation matters in terms of the investment impact of cash transfer programs; just because a transfer is in cash does not necessarily mean it will get invested (Carletto, Davis and Winters, 2008).

An important general question, raised by this review of experiences, is whether the investment use of cash transfers is merely a fortuitous secondary effect of programmes that aim primarily to boost access to food in poor families, or whether these synergies should be actively encouraged in

programme design and implementation. Interestingly, many cash transfer programmes in Latin America are increasingly recognising and explicitly promoting these linkages. In Ecuador, a conditional cash transfer program called *Bono de Desarrollo Humano* has been linked with a new programme called *Credito de Desarrollo Humano*, whereby the cash transfer serves as collateral for the credit. In Paraguay, each family receiving conditional cash transfers from the *Tekoporã* programme is assisted by a 'guide' who discusses, among other things, household livelihood strategies, including production strategies. In Brazil, *Bolsa Familia* is working with the \$4 billion PRONAF programme (credit to family farmers), whereby the programmes become linked for the poorest small farmer families (Davis, 2007).

3.2. Multiplier effects through locally sourced produce

While cash transfers can have direct positive impacts on agricultural production due to investment in inputs, food transfers can impact on agriculture either positively or negatively, in terms of food prices, production incentives, and spill-over effects on non-recipients. A key issue is whether food distributed is sourced locally (which is likely to create positive ripple effects throughout the local economy) or imported (which could impact negatively on agricultural production and trade). The belief that food aid causes disincentive effects on agriculture has been challenged by Barrett (2006), who cautions that there is little empirical evidence for this. A study by Abdulai *et al.* (2004) finds that while simple test statistics or regressions suggest that disincentive effects of food aid on household behaviour can be large and statistically significant, these adverse effects disappear when household characteristics are taken into account. This study also concludes that food aid increases labour supply to agriculture, wage work and business activities.

Barrett (2006) notes that food aid imports can cause harmful market effects for farmers, due to falling prices and commercial displacement. On the other hand, non-food aid recipients who are net food purchasers can be harmed if food aid is procured locally, driving food prices up. Coulter *et al.* (2007) finds that in the case of Ethiopia and Uganda, local procurement of food aid has led to larger price instability than tied food aid. In Ethiopia, though, locally procured food aid has also led to the development of export markets and food processing enterprises. Barrett and Maxwell (2005) conclude that well-targeted and well-timed food aid has minimal negative price effects, because it reaches households who are already priced out of the market. However, since food aid can affect local production, labour markets and consumption patterns they recommend that food aid is locally sourced whenever possible. Local sourcing should also attempt to develop the overall grain market as opposed to developing exclusive relationships with specific producer organisations (Coulter *et al.* 2007). If local sourcing is not possible or is unaffordable, attempts should be made to source locally preferred food from elsewhere within the region instead.

School feeding schemes or food-for-education (FFE) have similar impacts on agriculture as food aid. Local purchases of food for school meals can stimulate production by augmenting demand, not only for staple crops but also for vegetables, meat, eggs and dairy products. Ahmed and Sharma (2004) argue that this impact can be maximised through the simultaneous provisioning of both school feeding and take home rations. One success story comes from Guatemala, where the sourcing of food for school feeding has shifted from industrial suppliers to local producers. Parents of school children supply the food and participate in the preparation of school meals, thereby earning additional income. In Bangladesh, biscuits provided on the school feeding programme offer a new market opportunity for local wheat farmers (Caldes and Ahmed, 2004). During Indonesia's economic crisis in the 1990s, the government initiated a country-wide school feeding scheme, which stipulated that the local staple should not be included in school meals, to avoid meal substitution at home, and that only locally grown commodities should be used. Meals were prepared by local women, organised through local women's associations. A survey found that 72% of farmers interviewed said

that the school feeding scheme had given them more opportunities to sell produce from their fields and vegetable gardens (Studert *et al.* 2004).

An important but unresolved question is whether local sourcing is more or less expensive than shipping freely donated food aid. Local purchases could significantly raise rather than reduce operating costs for humanitarian interventions, school feeding and other food-based transfer programmes. Calculations of relative cost-effectiveness will depend upon local circumstances (eg whether there is a national food surplus or deficit), transport costs, import/export parity prices, how local purchases are managed (eg if private sector actors are involved), and whether the second round benefits are factored in (eg whether agricultural production and rural incomes are stimulated by this increased demand for local produce). WFP's new 'purchase for progress' (P4P) initiative should generate clearer answers on these questions.

Just as food for social protection programmes can be sourced locally, so can agricultural inputs. Critics of input distribution programmes argue that they misdiagnose the *inaccessibility* of inputs as *unavailability*, noting that farmers are usually able to source seeds even after severe droughts. While free input distribution has recently been popular among donors and has effectively boosted agricultural production and household food security in the short term, critics argue that these interventions undermine local seed markets and are inappropriate to local farming systems, since tenders tend to be awarded to commercial seed and fertiliser companies which do not adequately consider the local context and often source their seeds from neighbouring countries (Barahona and Cromwell, 2005). As an alternative to free seed distribution, Orindi and Ochieng (2005) argue that seed voucher and fair schemes strengthen local economies through the sale of local seeds, are substantially more cost-effective and provide opportunities for information sharing among farmers. One project in Kenya distributed vouchers to 35,000 farmers, entitling them to buy seeds at locally organised seed fairs where farmers and local traders were encouraged to sell seeds.

3.3. Multiplier effects through cash transfers

While local sourcing of food can generate demand for local production, cash transfers are likely to have more positive secondary and multiplier effects than food aid, because cash is spent on purchasing goods and services which in turn creates employment and income for the providers of these goods and services. These multipliers apply equally to transfers given to economically inactive groups (eg social pensions or child support grants) as to transfers given to small farmers, though the synergies with agriculture are likely to be higher if the recipients are farmers, who will spend some of this incremental income on farming. The magnitude and distributional impacts of economic multipliers depend on a number of factors, including the openness and structure of the local economy, its linkages with urban centres and other large markets (Taylor and Yunez-Naude, 2002), as well as the expenditure patterns of different groups receiving cash transfers (in terms of their expenditures on tradable and non-tradable goods and services). Although the macro-economic benefits claimed for cash transfers are based on limited empirical findings, and the evidence to date is ambivalent (Devereux and Coll-Black, 2007), there is sound evidence from Africa and Latin America for localised multiplier effects of social transfers.

Barrientos and Sabates-Wheeler (2006) find that the benefits of *Progresal/Oportunidades* spilled over to non-eligible households, resulting in positive consumption effects in both included and ineligible households in programme areas. Moreover, ineligible households in programme areas had higher probabilities of livestock and land ownership than ineligible households in areas where *Progresal* was absent. Another study, of a cash transfer programme in Malawi, found a significant regional multiplier effect, estimated at 2.11 (Davies, 2007). Local commerce and village traders were significant winners, with many cash transfer recipients purchasing goods from these groups.

Smallholder farmers gained more than larger farmers from the programme, because they were able to supply traders to meet the increased demand.

In Ethiopia, local traders indicated that they were indirect beneficiaries of the Productive Safety Net Programme, as cash transfers stimulated demand for their goods (Devereux *et al.* 2006b). One maize trader indicated that PSNP beneficiaries represented 10-15% of his clientele. Gebre-Selassie and Beshah (2003) also documented increased numbers of buyers and sellers of basic commodities in an Ethiopian cash-for-work programme. However, there is some concern about the potential negative impacts of cash transfers on local markets. Though traders are generally supportive of the PSNP, they acknowledged that it has had an inflationary effect on essential commodities (Guenther, 2007). This outcome is predictable, given the weakness of markets in rural Ethiopia, but might be only a transitional problem as traders adjust volumes in response to the purchasing power of PSNP participants.

3.4. Timing and seasonality

Although the detrimental effects of seasonality on smallholder poverty and vulnerability are well known (Chambers *et al.* 1981; Dercon and Krishnan, 2000), the implications of seasonality are inadequately reflected in agricultural development policies. Seasonal variability of grain prices in unimodal rainfall systems where markets are weak results in skewed access to locally produced food, with implications for hunger and malnutrition. Grain prices are typically lowest post-harvest when demand is lowest and begin to rise during the rainy season, peaking just before the next harvest, resulting in reduced food consumption (Devereux, 2007). Restricted access to food and increased malnutrition during the rainy season also correlate with increased vulnerability to diseases such as malaria (Chambers *et al.* 1981). Seasonal variability in rural well-being implies that interventions designed to support production and consumption must also be carefully timed, to address specific problems at the optimal time (eg ensuring that farm inputs are available at planting time, and that access to food is enhanced during the 'lean season') and to minimise the risk of conflicts (eg not implementing public works during peak times for on-farm labour needs).

Household vulnerability to seasonal variations in agricultural production, food and asset prices, labour demand and health status require timely and appropriate social protection interventions to mitigate such stresses. In regards to **agricultural production seasonality**, Devereux (2007) highlights the importance of facilitating access to inputs for smallholders who face seasonal cash constraints. While fertiliser subsidies or free inputs distribution are controversial due to their adverse market and distributional effects (World Bank, 2007), they have successfully boosted foodcrop production, notably in Malawi which has implemented the universal 'Starter Pack' programme, the 'Targeted Input Programme' and targeted input subsidies since the mid-1990s, with positive impacts on food production and household and national food security (Levy, 2005).

With respect to **commodity price seasonality**, fluctuations in food and asset prices undermine household food security by raising the cost of accessing food while reducing the market value of assets sold at 'distress prices' to buy food. Uncertainty in commodity markets makes it difficult for farmers to allocate productive resources efficiently, and may cause producers, consumers and traders to engage in risk-reducing strategies such as diversification into lower value but more stable products, not using purchased inputs, and not trading in remote locations (World Bank, 2005). Prior to structural adjustment, African governments typically intervened in grain markets in an attempt to ensure price stability throughout the year for both consumers and producers, through parastatals such as the Food Distribution Corporation in Ghana and mechanisms such as the Strategic Grain Reserve in Malawi (Devereux, 2007). Institutions such as the World Bank continue to advocate against 'interventionist' measures in favour of market-based solutions (World Bank 2005; 2007). Nonetheless, large countries like China, India and Brazil still intervene in grain markets to ensure

price stabilisation for the benefit of small farmers. In Africa, there are alternatives to parastatal interventions that arguably should be explored and supported, such as community-managed grain banks (which are common in West Africa) or activities undertaken by farmers' organisations.

While market-based tools such as futures markets are able to insulate producers from short-term price volatility, they are typically not accessible in low-income countries. Commodity exchanges and futures markets have been established in China, India, South Africa and Thailand but the establishment of such instruments are dependent on good financial and legal institutions (World Bank, 2007). The World Bank argues that governments should facilitate the private sector's adoption of measures such as warehouse receipts and the purchasing of futures and option; however, such market instruments are themselves dependent on integrated markets and may not be accessible to small-scale producers.

Seasonal price volatility also has implications for the design of social protection programmes, particularly cash transfers. In contexts where food prices are rising, either seasonally or during food crises, the purchasing power of a fixed cash transfer can quickly be eroded, undermining household access to food. Two recent interventions in Malawi responded innovatively to this challenge. The 'Food and Cash Transfer' (FACT) and 'Dowa Emergency Cash Transfer' (DECT) projects delivered cash transfers to drought-affected smallholders that were adjusted every month in line with changes in the local prices of food staples. By ensuring that households maintained access to a constant quantity of food, even when prices doubled, both projects succeeded in smoothing consumption during the food crisis as well as protecting households from damaging coping strategies (Devereux *et al.* 2006a). Another cash transfer programme implemented in Malawi and Zambia at the same time was less effective in smoothing household consumption, because the transfers were not adjusted for price inflation so their value in food terms fell steadily from month to month (Harvey and Savage, 2006).

In terms of **labour market seasonality**, well-timed public works projects can partly address the seasonal under-employment that is typical of rain-fed agriculture systems. As an 'employment-based safety net', food- or cash-for-work offers smallholders a supplementary source of food or income for consumption smoothing purposes when they fail to achieve production self-sufficiency. The best known employment-based safety net is Maharashtra's Employment Guarantee Scheme (MEGS), which was recently expanded to all of rural India, under the National Rural Employment Guarantee Act of 2005. The Act entitles every rural household to 100 days of employment at the local average agricultural wage. Apart from smoothing consumption in farming households during hungry seasons or bad years, the assets constructed by the public works activities are intended to boost agricultural production by enhancing market access and soil fertility. One risk with public works is that participation may force smallholders to divert their labour away from vital own-farm activities such as weeding, especially if employment is offered during periods of high agricultural activity – which is also the 'hungry season'. This creates a trade-off between social protection for immediate consumption needs and longer-term returns to agriculture (McCord, 2005).

3.5. **Thresholds and scale effects**

Vulnerability in smallholder households often arises from the existence of various 'thresholds' in rural livelihoods. Thresholds imply non-linear effects, such that livelihoods are particularly sensitive or vulnerable to changes over particular ranges of certain variables. Three 'thresholds' illuminate possible synergies and conflicts between agricultural and social protection policies. **Asset thresholds** (Carter and Barrett, 2007) arise where certain combinations or numbers of assets are needed to engage in certain livelihood activities (eg 2 oxen are needed for ploughing), or to support particular levels of welfare. Households without these minimum assets face 'poverty traps'. **Price thresholds** occur either where certain activities become worthwhile (or unprofitable) above (or

below) a particular price, or across import (or export) parity such that prices become highly variable above (or below) the parity price but are relatively constant below (or above) parity price. **Market thresholds** describe situations where increasing market players and volumes lead to falling transaction risks (of commitment failure and opportunism) and falling transaction costs, resulting in thresholds below (above) which investment is not (is) profitable, leading to low level, under-investment traps: a vicious circle involving low levels of economic activity with few market players and low market volumes, high transport and communication costs, high transaction risks and costs, weak contractual enforcement institutions, high physical and market risks, and supply chain investment disincentives and failures (Dorward *et al.* 2005; Dorward and Kydd, 2005). All of these constraints on rural livelihoods reinforce the argument made earlier in this paper, that there is a logical convergence between agricultural policy and social protection policy – interventions in assets, prices or markets could benefit both agricultural production and household food security.

A further source of rural vulnerability, which is also associated with price and market thresholds, results from multipliers (or externalities) and **scale effects**. When large numbers of people act in similar ways, this affects the environments in which they operate. This is true for example of the natural environment, where large numbers of people harvesting natural resources may lead to their degradation, and it is true of markets, where large numbers of people buying (or selling) products or services may lead to price rises (or falls).

Concern with moving poor and vulnerable people across asset thresholds has recently received much attention within the social protection literature and in several social protection programmes. Asset transfers are a feature of two large scale programmes in Bangladesh: ‘Challenging the Frontiers of Poverty Reduction: Targeting the Ultra Poor’ (CFPR/TUP), and the ‘Chars Livelihood Programme’. The thinking is that productive assets can generate future streams of income, so asset transfers to asset-poor households could reduce poverty more sustainably than food or cash transfers. BRAC’s ‘Challenging the Frontiers of Poverty Reduction’ programme recognises the limitations of market-based mechanisms, such as micro-credit, in reaching the chronic poor, and instead offers assets (livestock, leased land, tools, seeds) to rural women for use in income-generating activities, including agriculture (vegetable gardening or nursery cultivation). The programme also provides a ‘subsistence allowance’ for 18 months and access to health and legal services. The cash transfer was intended to cover part of the household’s subsistence food needs until the asset transfer started to generate regular streams of income. The project completion report concluded that the asset transfers had resulted in rapid and significant improvements in the livelihoods of extremely poor households, who now enjoyed more diversified and stable incomes (DFID Bangladesh, 2006). The ‘Chars Livelihood Programme’ includes a cash transfer to chronically poor farmers for the purchase of productive assets. A recent study reveals that cattle purchases have generated a 30% return, contributing to income diversification (Marks, 2007). The ‘Reducing Vulnerability to Climate Change’ (RVCC) project also transferred assets to vulnerable Bangladeshi farmers, encouraging the uptake of livelihood activities such as rearing ducks to enhance income and build resilience in the face of climate change (Mallik, 2005).

These examples appear to demonstrate that asset accumulation through targeted asset transfer programmes can enhance the productive capacity of farmers who are otherwise constrained from engaging in market-based initiatives. Indeed, the popularity of asset transfers seems to be rising, perhaps because they are seen as providing more ‘productive’ support than ‘welfarist’ transfers. But some concerns have also been raised. One question is whether giving assets to poor people is more effective than transferring the cash equivalent and allowing recipients to make their own spending choices. A second concern is that transferring large numbers of (the same) assets risks ‘flooding’ local economies, which could undermine local markets for these assets and/or their products. (An example from Ethiopia is provided later in this paper, where so many households were given the same ‘livelihood package’ that local demand was saturated and prices collapsed.)

An obvious solution is to provide a more diverse menu of assets or packages to choose from, but governments or donors may have limited options, and extension officers might not be trained to deliver advice on a wide array of livelihood activities. A related 'lesson learned' is that asset transfers need to be accompanied by adequate capacity building. In 'farmer field school' projects, for example, each group of 20–25 farmers receives an initial grant of \$400–500 to implement activities that correspond to their own identified priorities. As their capacity builds and the money grows, the group uses this fund in subsequent years to diversify into other production, processing or marketing opportunities. This is a gradual and cumulative – but potentially highly effective – process of organisational capacity building and empowerment (van den Berg and Jiggins, 2007).

In Africa, asset transfers have been dominated by livestock re-stocking after droughts, mainly in pastoralist areas, although the Small Livestock Project in Zimbabwe, under which DFID-funded NGOs transfers goats, sheep, pigs or poultry to vulnerable rural households (especially those affected by HIV and AIDS) has shown that this can be implemented as a non-emergency social protection measure (Dzingirai, 2007). On the other hand, the PSNP in Ethiopia is innovative in that it combines cash or food transfers over an extended period of time with 'livelihood packages' that include assets needed to generate sustainable and resilient livelihoods for vulnerable households. Other programmes such as LEAP in Ghana are grounded on similar principles.

The recent focus on household asset thresholds has deflected attention away from the critical complementarities (and possible conflicts) between household-level productivity improvements and market effects, including price thresholds. Development coordination (Dorward and Kydd, 2004) requires that threshold effects are not analysed in isolation from each other. Consider a 'livelihood package' targeted at poor farmers. This package may bring them above a specified asset threshold, but local markets may be so thin and imperfect that any productivity gains are not translated into higher incomes because of adverse scale effects (i.e. prices collapse because the market is flooded). A related point is the scale of the programme – the size of the livelihood package and of the target group. Even if local markets function well and are able to absorb increases in production, if the livelihood package does not bring enough households above a critical threshold there will be negligible multiplier effects and farmers may be unable to take advantage of potential economies of scale.

Dorward and Kydd (2005) provide evidence of trade-offs between asset and market thresholds in their examination of the potential for targeted or universal input transfers to support longer-term pro-poor growth in Malawi. Evaluations of the universal Starter Pack concur that it increased maize yields and harvests (Levy, 2005) and produced real income gains for poor smallholders. The size of these gains depends on changes in food prices and wages – higher maize production tends to lower maize prices and tends to raise rural wages – which are determined partly by the incremental production attributed to the Starter Packs. Dorward (2006) concludes that a targeted input transfer would lead to lower benefits for poor smallholders than a universal input transfer, since limited coverage would restrict the changes in rural wages and maize prices. Unfortunately, in both cases – universal and targeted input transfers – the relatively small real income gains do not provide enough of a stimulus to drive forward a process of growth. Even worse, by depressing maize prices, input transfers might undermine incentives for other smallholders to produce maize for the market. Paradoxically, therefore, input transfers "may undermine the important growth contributions of less poor households that engage in more intensive labour-demanding maize production" (Dorward, 2006: 274). In other words, scale effects matter not only in terms of market effects, but incentives might be different between the poorest and less poor households, with ambiguous implications for economic growth and poverty reduction.

3.6. Policy complementarities and sequencing

Dorward and Kydd (2005) argue that input, output and financial markets are very thin for goods and services in many smallholder areas in Malawi, due to the lack of a well-developed and diversified monetary economy, the crisis in commercial agriculture, limited migrant labour opportunities and alternative avenues for diversification, weak services and communications infrastructure, and low levels of education, literacy and farmers' organisation. Moreover, trading costs are high, information services are costly and there is a high risk of transaction failures for buyers and sellers. To cover these imperfections and risks, prices are high which depresses demand. The effect of these conditions as well as the risks associated with variable prices and yields (particularly of maize) is to trap different players in the supply chains into low-level equilibrium activities and perpetuate widespread market failure. "Specific supply chains needed for rural people to intensify farm production or to start adequately capitalized non-farm enterprises tend to be absent or very weak" (Dorward and Kydd, 2005: 262).

Dorward *et al.* (2006) note that where markets are thin in poor rural economies, market-based approaches to food security will not work – as demonstrated by Malawi's 2001/02 food crisis. In such contexts, they argue for a sequenced approach to food security and rural poverty reduction:

- 1) ensuring immediate food security requires policies that will work in the absence of effective markets, implying a dominant role for social safety nets (where the choice between cash and food transfers must be based on sound market analysis) and less focus on economic growth;
- 2) in the medium-term there is a need to develop effective markets and rural infrastructure, while maintaining social protection measures that are sensitive to local market conditions;
- 3) in the longer term, once markets and traders are well established and rural infrastructure is in place, then market-based policies can be increasingly relied upon to promote food security and rural economic growth.

The crucial point is that sets of policies must be selected that complement each other in achieving short- and long-term objectives, and they should be adjusted over time as circumstances change. In other words, policy synergies between welfare improvements and pro-poor agricultural growth must be exploited sensitively depending on prevailing conditions and evolving priorities at the time. Furthermore, policy instruments need to complement each other at different stages of market development. Sometimes instruments will need to be largely non-market based, but at other times the appropriate instruments should be predominantly market based (see Table 1).

Table 1 Policy requirements for short and long term achievements of food security, poverty reduction and rural economic growth

Policy Goals	Requirements for Short/ Medium Term Achievement (Policy purpose)	Requirements for Medium/ Long Term Achievement (Policy purpose)
Food security: Secure and affordable access to food	Increased food production self-sufficiency (especially for small farmers) with food delivery and/or productivity enhancing safety nets and humanitarian response	Increased household and national food market access (low and stable cost, secure, timely) through wider entitlements with (mainly) market-based safety nets and humanitarian response
Poverty reduction: Real incomes of the poor increase	Productive safety nets for poor farmers (such as input	Increased agricultural production and diversified rural

and are more secure, through low food costs, higher returns to labour, and safety nets	subsidies) to increase/ secure real incomes and develop/ protect assets	livelihoods; broad-based economic growth with opportunities and wages for unskilled rural labour, low food prices, and safety net and humanitarian response as above
Rural economic growth: Increased levels of local economic activity, with stable income opportunities supporting poverty reduction and food security	Achievement in the short-/ medium-term is not possible	Macro-economic stability and low interest rates; growth in agricultural and non-agricultural sectors tightening labour markets and raising real incomes with stable/affordable food prices. Development of market economy. Initial growth must be achieved without depending on (non-existent) markets or firms.

Source: Modified from Dorward and Kydd (2003)

3.7. **Predictability and risk-taking**

Nowhere are the synergies between social protection and agricultural policies more powerful than in the area of risk reduction. Social protection – specifically social insurance – plays a major role in reducing livelihood risk, which is a fundamental cause of rural poverty and vulnerability. Social protection interventions in the agriculture sector must recognise that uninsured exposure to risk traps smallholders in low-risk, low productivity farming. Dercon (2002) argues that asset and income levels determine risk preferences, with the poor adopting low-risk activities whereas the wealthy can afford to adopt riskier portfolios of activities and assets that generate higher returns. It follows that predictable and regular social protection mechanisms (e.g. cash transfers, seasonal public works, insurance schemes) can influence productivity by stimulating risk-taking behaviour (Holzmann and Jorgensen, 1999; Devereux, 2002a). Gertler *et al.* (2005) argue that if transfers are predictable and are perceived as a secure source of income, risk-averse households will be more willing to increase investment in productive activities, even in the presence of risk, because predictable cash transfers provide a form of ‘safety net’ insurance against future shocks.

The ‘Employment Guarantee Scheme’ provides low-waged unskilled manual labour for anyone in rural Maharashtra state (India) who requests it. The guarantee of paid work serves an insurance function, releasing scarce resources that were previously used as precautionary savings to more productive purposes. Farmers in Maharashtra plant higher-yielding (rather than drought-tolerant) crop varieties than farmers in neighbouring states (Ravallion, 2003). However, Dorward *et al.* (2006) caution that there is still little understanding concerning the magnitude of such insurance effects on risk-taking behaviour. Evidence from Mexico indicates that cash transfers on the *Procampo* programme were not sufficient to induce changes in cropping patterns among smallholder participants. Devereux (2002b) argues that most social protection measures do not induce risk-taking behavioural change, because they are neither ‘guaranteed’ nor predictable. This also undermines the sustainability of productive impacts achieved through social protection, which could be greatly enhanced through relatively minor changes in design and implementation.

Insurance mechanisms also have the positive effects of ensuring predictability and encouraging risk-taking. Most smallholders do not have access to crop insurance, which means that livelihood shocks (eg weather-induced harvest failure) lead inevitably to loss of productive assets, which could be prevented if accessible insurance markets or social insurance mechanisms were in place. Crop insurance for smallholders has failed for a number of reasons: high transaction costs, moral hazard, adverse selection, covariate risk and delayed payouts (Alderman and Haque, 2007; Hellmuth *et al.* 2007; Hess and Syroka, 2005), all of which make private crop insurance economically unviable for insurers and inaccessible or unresponsive to client needs (IISD, 2006).

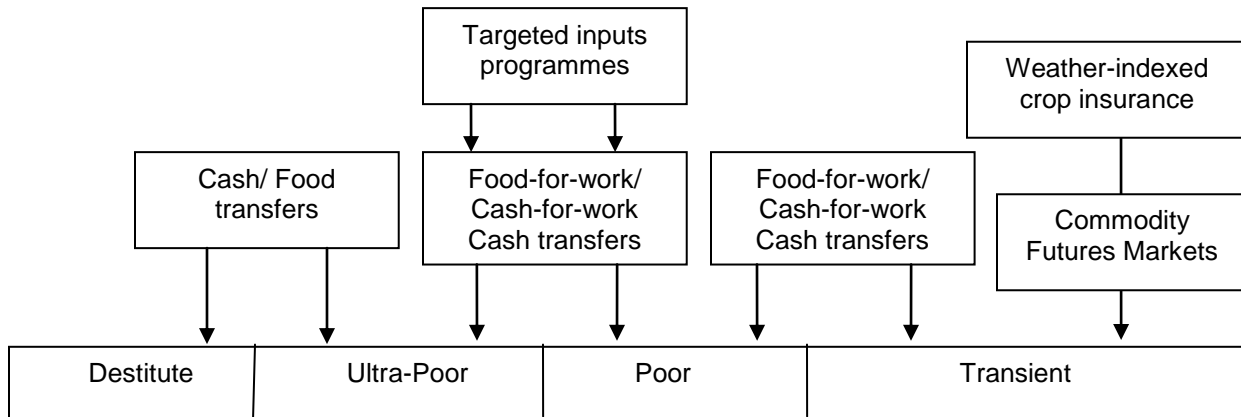
Recently, there has been a move away from insuring against poor crop yields on individual farms toward insuring against bad weather in the locality. A ‘weather-indexed’ approach writes the insurance contract not against harvest failure but against a local index – say, rainfall shortage or days of frost – that is correlated with harvest outcomes. Farmers collect insurance compensation if the index reaches a ‘trigger’ level, regardless of actual crop losses. Since variables like rainfall and temperature are exogenous to policy-holders, problems such as moral hazard and adverse selection are avoided. Index-based insurance products reduce transaction costs by eliminating the need for individual farm-level adjustments, so they can also provide more timely payouts. Indexed-based weather insurance can play both a protective and productive function. Because payments are disbursed rapidly, farmers are able to smooth their consumption following a poor harvest, while avoiding costly coping strategies such as selling productive assets. Since insured households and farms are more creditworthy, investment in productive assets and higher-yielding crops is also promoted (Mechler *et al.* 2006). Pilot weather-indexed insurance schemes are now underway in Argentina, Mexico, Nicaragua, Peru, Ethiopia, Malawi, Morocco, India and Ukraine. The main constraint is their cost – on a commercial basis, premiums are too high for smallholders and typically need to be subsidised by governments or development agencies.

3.8. Targeting and gender issues

There is an ongoing debate about whether social protection interventions that target the ‘poorest of the poor’ should be expected to generate productive impacts on agriculture and the wider rural economy, or conversely, whether social protection that aims to impact positively on agriculture should be targeted at the poorest, or at the slightly less poor. Cash transfer projects that target the poorest 10% in rural communities (eg in Kalomo District, Zambia and Mchinji District, Malawi) report only marginal and indirect effects on agriculture, because people in this decile rarely engage in agricultural production – they have either no land or too little labour (being orphaned, elderly or disabled). Because they are (i) easily identifiable as extremely poor, and (ii) dependent on others for support, targeting this group is usually uncontroversial or even popular, since it alleviates a heavy burden of care from the community. Cash transfers tend to be mainly consumed by this group, and there is little evidence of investment in agriculture. Any cash that can be saved is more likely to be used to buy a chicken or a goat than fertiliser or seed.

Cash transfers targeted at the poorest might have an indirect impact on agriculture, if it increases demand for locally produced food. This impact is likely to be negligible for pilot projects that reach only a few thousand households, but bigger programmes, such as *Bolsa Familia* which reaches 25% of the national population, might have significant impacts on demand, thereby stimulating an equivalent supply response, but these effects have not been rigorously evaluated. Holmes *et al.* (2007) argue that social protection programming should be designed and targeted according to different categories of households and the different sources of risk that they face. For instance, destitute people who are unable to work or farm will not benefit from public works or input subsidies, while smallholders who face occasional livelihood shocks could benefit from social insurance or private insurance mechanisms such as weather-indexed crop insurance or price hedging through commodity futures markets (see Figure 1).

Figure 1 Targeting social protection interventions by household categories



Source: Adapted from Slater, 2007

On the other hand, public works have been criticised for imposing onerous work requirements on poor people, and it could be argued that the ‘poor’ and ‘transient poor’ groups in Figure 1 should receive (unconditional or conditional) cash transfers instead, some of which they might well invest in agriculture or non-farm income-generating activities. The case for conditionality (rather than a work requirement) is that this links the provision of transfers to access to essential services that are beneficial in terms of both general well-being (especially health) and enhanced productivity (education and health). So cash transfers have productive potential if targeted at economically active people (such as small farmers), and conditionalities that contribute to human capital formation could magnify this productive impact, even offering a potential pathway out of poverty.

Social protection programmes have intended and unintended gender implications that are often ambiguous. For example, conditional cash transfer programmes, which are based on the concept of ‘co-responsibility’, have been accused of imposing heavy demands on mothers who are more likely than fathers to assume responsibility for meeting conditionalities such as ensuring that children attend school and clinics (Molyneux, 2006, 2007). Apart from reinforcing ‘traditional’ gender roles, these conditions can displace women’s labour from farming or income-generating activities. One evaluation of *Oportunidades* found that the increased workload of women was compounded by the fact that their children’s contribution to domestic tasks decreased as a result of school attendance (Adato *et al.* 2000). Similarly, Devereux (1999, 2002b) argues that efforts to target women in public works projects by setting gender quotas can lead to ‘perverse effects’, if women who are already ‘time-poor’ and over-burdened are obliged to increase their workload to access social transfers. In Ethiopia’s Productive Safety Net Programme, female public works participants complained of difficulties in managing their domestic and childcare responsibilities as well as the public works, and were forced to work extremely long days (Sharp *et al.* 2006).

There is less disagreement on the benefits of targeting women with transfers rather than men, given the evidence from many countries that men have a higher propensity to spend incremental income on themselves, while women have a higher propensity to allocate incremental food or cash to their families, especially their children (Haddad *et al.*, 1997). Argueo *et al.* (2006) find that the unconditional Child Support Grant in South Africa, which is usually given to mothers, leads to significantly greater children’s height. Similarly, Duflo (2000) found that old age pensions in South Africa given to grandmothers had disproportionately benefited girls under their care. Further, concerns that transferring cash, food or assets directly to women could increase domestic violence against them have proved to be unfounded. On the other hand, if the objective of a programme is to

raise household productivity and incomes, the case for targeting individuals who own and work with productive assets is stronger. For instance, if women have no access to land and men are responsible for ploughing, a programme that transfers draught oxen for ploughing to farmers might be more logically targeted at men than women, in order to maximise synergies between social protection and agricultural productivity.

3.9. The political economy of national and international relations

All policy choices come with opportunity costs – the cost of funding one social protection measure (e.g. safety nets) limits resources for other interventions in agriculture (e.g. irrigation). Many of these trade-offs are political: decisions such as the particular instrument chosen, levels of funding allocated and whether interventions are targeted or universal, will all be influenced by domestic politics and global donor priorities, which are not linear processes but complex and constantly evolving (Dorward *et al.* 2006). The political economy of food security is particularly complicated, since food security sits at the intersection of agricultural development and social protection policy. As an example of the politicisation and interconnectedness of agricultural and social protection policies, consider the global food aid system, where international donors deliver social assistance in the form of food produced with heavy subsidies by their own farmers. At the same time, food security is a major domestic political issue within low-income countries, where the opportunities that food handouts provide for politicised targeting are counter-balanced by fears of dependency, from household to national levels. If social protection and agricultural policies are manipulated for political purposes, domestically or globally, they can become regressive rather than progressive, leading to the exclusion and marginalisation of certain groups, and reinforcing established power hierarchies to the detriment of the poor and vulnerable (Cromwell and Chintedza, 2005).

On the other hand, one positive political trend relates to the extension of rights-based approaches to development, notably the ‘voluntary guidelines’ on the right to food, which many governments have now signed (FAO, 2004). Nonetheless, significant political barriers remain to expanding social protection in sub-Saharan Africa. One factor is elite perceptions of poverty and the poor: governments are hesitant to implement ‘welfare’ type measures which they perceive as creating dependency amongst the poor (Ng’ethe *et al.* 2004; Sabates-Wheeler *et al.* 2007). In Kenya, Ng’ethe *et al.* (2004) notes that the social protection agenda is hampered by political elites who regard the poor as undeserving. Similarly in Zambia, the discourse around social protection distinguishes between the ‘deserving’ and ‘undeserving’ poor, with policy being biased towards ‘vulnerable but viable’ households who are not the poorest of the poor but instead are clustered close to the poverty line (Barrientos *et al.* 2005).

These attitudes of local elites are coupled with the concept of ‘co-responsibility’ which emerged as a key feature of the ‘New Poverty Agenda’ in international donor circles. Co-responsibility or co-management attempts to prevent a ‘dependency culture’ by requiring programme beneficiaries to take on some responsibility to ‘help themselves’ (by providing labour on public works schemes and social funds, sending their children to school or clinic on conditional cash transfer schemes, and so on) (Cornwall, 2003). This approach is consistent with pressure on donors to demonstrate economic efficiency and cost-recovery. The popularity of ‘conditional cash transfers’ in many countries can also be partly explained in terms of governments needing to justify social protection expenditures to local elites and middle classes who believe that such measures simply increase dependency on ‘handouts’ (Dorward *et al.*, 2006).

In the planning stage for Ethiopia’s Productive Safety Net Programme (PSNP), some donors, notably USAID and the World Bank, argued that cash or food transfers should not be conditional only on public works employment but that beneficiaries should also be obliged to meet certain health and education requirements for their children. These conditionalities were eventually dismissed due

to inadequate public service provision and government capacity for monitoring. Nonetheless, the government of Ethiopia insisted on participation in public works for people able to work, and the government is also determined that programme participants will 'graduate' from the PSNP after no longer than five years. Both conditions are intended to prevent dependency (Sabates-Wheeler *et al.* 2007). Concerns about breeding 'dependency', coupled with an elite perception of poor people as 'undeserving', explains the reluctance of many major donors and national governments to embrace a rights-based approach to social protection.

Conflicts between donors and domestic political agendas are also evident in the case of Malawi's fertiliser subsidy programme (discussed in more detail below). Donors have resisted blanket fertiliser subsidies in Malawi since economic liberalisation was imposed in the early 1990s. On the other hand, DFID supported a targeted distribution of free inputs until 2004. During the 2004 election campaign, all leading candidates promised some support to the smallholder sector, with a consensus emerging around fertiliser subsidies for maize and tobacco producers. After the election, the government hesitated to implement a universal subsidy, choosing instead to enlarge the targeted input distribution programme. This hesitation was due to fears that a universal programme could jeopardise Malawi's eligibility for debt relief, with donors warning that the country's ability to reach the completion point would be compromised. The 2004/05 food crisis intensified the fertiliser debate, and in June 2005, despite donor resistance led by IMF and USAID, the president announced the introduction of a targeted fertiliser subsidy programme, with a budget entirely financed by the Malawian government. Following a successful first year in 2005/06, donors began to engage more constructively in this debate, recognising that the government had a democratic mandate for the programme (Chinsinga, 2007a).

The PSNP in Ethiopia and the fertiliser subsidy programme in Malawi both demonstrate that donors need to recognise the local political economy of agriculture policy and adopt a pragmatic approach, especially when governments have a mandate to deliver on election promises on an issue as politically sensitive as household food security. Agricultural and social protection policies and programmes must be designed to allow for political realities as well as technocratic factors, which also implies that they need to be politically as well as financially viable in the long term (Dorward *et al.* 2006). As Ravallion (2003) argues, not only are redistribution policies necessary for both growth and equity reasons, but they are most efficient if they are sustained over time.

3.10. Conflicts and synergies with informal social protection

Some researchers have suggested that public transfers may simply 'crowd out' private transfers between community members (Cox and Jimenez, 1995; Coady, 2004; Dercon, *et al.* 2006), and that such 'informal' social protection measures are collapsing under increasing stress (Devereux, 2006b; Ellis, 2006). This argument is particularly salient for agriculture growth, given that informal community-level mechanisms have been found to significantly influence access to assets and household resilience in the face of shocks (Mogues, 2006; Frankenberger *et al.* 2007).

Available evidence from cash transfer programmes challenges the 'crowding out' hypothesis. Tereul and Davis (2000) found that cash transfers from *Progresa* had no negative impact on the incidence or level of monetary or non-monetary private transfers between Mexican households. Conversely, some evidence suggests that cash transfers may facilitate growth or strengthening of informal social protection measures. In Zambia, Schubert (2004) finds that cash transfers enabled participants to engage in local rotating savings clubs, known as '*Chilimba*', by forming groups and paying a portion of their cash transfers into the fund each month. In Ethiopia, the Productive Safety Net Programme has fostered the regeneration of a rotating savings scheme known as '*ikub*'. Participants in the PSNP cash-for-work programme have accumulated sizeable sums in '*ikub*', which they have used to purchase livestock and agricultural inputs (Guenther, 2007). So it seems plausible that cash

transfers that increase income in poor households may rejuvenate informal social protection mechanisms, rather than displacing them.

4. Lessons and ways forward

There has recently been a striking convergence in policy debates between agricultural and social protection policies, especially in Africa, which can be explained by several interconnected factors, including:

1. the global resurgence of policy interest in poverty and hunger reduction, driven by the MDGs;
2. the recognition that African poverty remains predominantly rural, where livelihoods continue to be dominated by smallholder agriculture;
3. the neglect of agriculture by national policy-makers and international donors since the 1980s;
4. the emergence of social protection as a more ambitious policy agenda than 'social safety nets' for mitigating and reducing livelihood risks.

This convergence between 'social' and 'economic' policies for poor farmers was anticipated by earlier debates in the 1990s around 'linking relief and development' and 'productivity-enhancing safety nets', but has been sharpened by the 'colonisation' by social protection of many traditional agricultural policy instruments, including innovative approaches to crop insurance, agricultural input subsidies and even grain futures markets. The conventional view – that agricultural policies promote growth in yields and incomes, while social protection stabilises yields and consumption (when production fails) – has been challenged by evidence that both objectives can be achieved, over specific populations, in a single instrument. The evidence base for these positive synergies is growing rapidly.

Our first general conclusion cannot be emphasised strongly enough. The appropriate mix of policies and instruments needed to achieve both 'livelihood protection' and 'livelihood promotion' objectives in poor smallholder communities differs between countries and regions at different stages of development (i.e. with different levels of economic activity, infrastructure and market development). This means that lessons from areas with different characteristics should be applied with great caution to other areas with different conditions – there are no 'blueprints' that are easily transferable across different countries and contexts. For example, it cannot be assumed that market-based solutions that work well in countries which have already experienced some rural growth and agricultural transformation will drive growth and transformation in countries that are still dominated by low input, low output semi-subsistence agriculture.

To take a specific (and currently popular) social protection instrument, conditional cash transfers that link social assistance with social services have been very effective in parts of Latin America, but cannot be applied in many African countries where education and health services are much weaker and are often inaccessible to many of the poorest and most vulnerable rural families, who need social assistance most. Similarly, the effects of unconditional cash transfers or different kinds of insurance (and the demand for insurance against different kinds of risks) change with economic and institutional growth, and vary between different economies and cultures. Current preoccupations with promoting 'policy transfers' between Latin America, South Asia and Africa risk overlooking cultural variations and the importance of deriving context-specific solutions. This is a weakness of the World Development Report on agriculture (World Bank, 2007) – it sets out a generic 'stages of growth' typology, but assumes that market-based solutions that work well in what Dorward and Kydd (2004) label 'stage 2-3' transitions will help other countries make the prior 'stage 1-2' transition. This is not

necessarily so, especially given the very different market contexts in which the poor are engaged in these different 'stages' of agricultural development.

Three further lessons follow from this argument. The first is that successful rural development requires complex transitions not only in policy objectives but in the nature of instruments, notably in a switch from non-market to market-based instruments. A particular challenge here is that in the early stages of agricultural development non-market mechanisms must be deployed in ways that 'crowd in' rather than 'crowd out' market development – conflicts must be avoided between social protection and agricultural objectives. But policy-makers must also be alert to changing circumstances, and should respond flexibly by adapting policy mixes that are well adapted to these changing circumstances. For instance, food aid might be an essential social protection instrument at one point in time, but can become a drag on the attainment of other longer-term objectives if it becomes institutionalised (this might have happened in Ethiopia), and should be phased out in favour of other instruments as soon as this becomes apparent (Ethiopia is belatedly attempting to do this).

The second (apparently contradictory) point is that everyone who engages in agriculture-based livelihoods, including not just small farmers but traders, transporters and rural service providers, desperately need continuity and stability in the policies that affect their efforts to make a living. Farmers in Ethiopia who are unsure whether the government will confiscate and redistribute their land (again) at any time are unlikely to invest in productivity-enhancing inputs and equipment (so policy uncertainty inhibits productivity gains). Traders in Malawi who don't know whether fertiliser will be subsidised from one season to the next have little incentive to set up import contracts or invest in storage capacity (so policy uncertainty undermines market development). Conversely, all available evidence confirms that regular and predictable social transfers (eg social pensions in southern Africa) are not only consumed but invested in farming, non-farm enterprises and asset purchases (so predictability and continuity drives investment and asset accumulation).

This argument for consistency is not inconsistent with the argument for adaptability and flexibility. Policy should evolve as economies and societies change, but policy changes should be clearly and transparently articulated in terms of the longer-term vision that government is pursuing. 'The aim should be a policy set which provides consistency and complementarity of policies across different policy goals and time periods' (Dorward and Kydd, 2004: 263). In the short-term, policy reversals from year to year – especially, in this context, government or parastatal interventions in agricultural input and output markets – are only confusing and signal indecisiveness (or unhelpful donor interference), not flexibility.

The third argument follows from the previous two, and relates to analytical and implementation capacity. The complexity of agricultural transitions, the ever-increasing range of available policy instruments and the imperative to provide an enabling environment for producers, traders and consumers all imply a need for substantial and sustained capacity building at national and local levels. Policy-makers, analysts, bureaucrats and operational staff all need to acquire the relevant information and analytical skills in order to: (1) assess what mix of interventions is required at any given time; (2) select the most appropriate instruments; (3) design and deliver agricultural and social protection programmes effectively; and (4) adapt and switch these interventions as circumstances change, but without undermining the confidence of farmers and market actors.

Finally, we note six lessons for organisations engaged in promoting agricultural development and food security and maximising synergies between social protection and smallholder policies, for which the evidence presented in this review is fairly conclusive.

1. Social protection can promote food security and agricultural production directly, for instance if cash transfers are invested in agricultural inputs such as fertiliser, thereby alleviating the seasonal liquidity constraints that poor smallholders everywhere face. On the other hand, variations in programme design and implementation (eg imposing conditionalities on how transfers can be used, or not providing transfers to the holders of productive assets) can limit or negate these potential synergies.
2. Food-based social transfers can promote rather than inhibit agricultural growth, provided that food is sourced locally and impacts on production and markets are closely monitored. However, local purchase of food might be prohibitively expensive; more analytical work is needed on the relative costs and benefits of imported *versus* locally sourced food aid.
3. Maximising synergies requires that social transfers are guaranteed, predictable and regular so as to perform an effective insurance function and encourage moderate risk-taking by uninsured smallholders in high-risk agro-ecologies. Conversely, seasonality in agriculture requires transfers (such as fertiliser) to be carefully timed. This has implications for capacity building: Ministry of Agriculture staff need to learn about social protection, while social protection experts need to learn about the particular complexity of agriculture and the seasonality of rural livelihoods.
4. Asset transfers and ensuring access to agricultural inputs are essential components of any comprehensive plan to assist smallholders cross 'asset thresholds' and escape from 'low input, low output' poverty traps. However, the specific components of the strategy must be context-specific, based on an understanding of the fundamental constraints to productivity gains. Malawian agriculture, for instance, clearly needs to focus on achieving a major push in productivity, probably by assuring access to *inputs*. In highland Ethiopia the natural resource base is so stressed that there might be merit in the government's view that (sensitively facilitated) resettlement to new *land* is the only viable option for 'crossing the threshold'.
5. Agricultural and social protection policies must be acutely sensitive to the fundamental dilemma about appropriate food prices: low prices are good for poor consumers, but high prices are needed to stimulate investment in agriculture and raise smallholder incomes. Policy-makers and analysts need to be trained to differentiate between 'normal' price seasonality and abnormal price spirals indicative of market failure, and interventions need to correct for market failures without undermining incentives in the local food system.
6. A number of innovative agricultural policies that are being promoted under the 'new social protection agenda' (weather-indexed insurance, commodities exchanges, futures markets), have the potential to deliver 'livelihood protection' and 'livelihood promotion' in a single instrument. Although significant synergies between social protection and agricultural policy objectives can be achieved through these mechanisms, familiar problems remain to be resolved – the need for coordination rather than territoriality between different ministries and interest groups; the imperative for harmonisation rather than contradictions across policies; and the pooling of funds rather than diversion of resources to favoured projects or special programmes. The enormous opportunities for 'win-win' synergies, as demonstrated in this paper, will surely generate the necessary incentives to overcome these challenges.

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