

Chapter 3
Assisting farmers in managing risk



THE ROLE OF THE EXTENSION WORKER

Assisting farmers in managing risk

As extension workers you have a vital role to play in assisting farmers in making decisions regarding risk management. To be able to provide advice and support, you will need a sound and practical understanding of the risks that farmers in your area are likely to face and the range of risk management strategies open to them. You will need a good understanding of the sources and types of risk and some of the “good practices” of risk management described in this book.

With these skills you should be able to provide farmers with the information that they will need to better assess the risks that they face and their likely consequences. You should be in the position to help identify the most appropriate risk management options, assess their benefits and costs and the impact of the risk management strategies on the farm business.

In order to develop appropriate strategies you will need to consider them in the context of the farmer’s location, the unique goals of the farm family and the range of decision-making options open to them. For this to occur, you will need to have a good understanding of the farmer and his or her surrounding environment.

Preparing to develop risk management strategies

In preparing for an in-depth discussion of risk and risk management options, you should have a clear picture of the farms and farm households in your area, in addition to an understanding of their farming activities and practices. The following is a checklist of useful questions that you may find helpful in doing this.

QUESTIONS ABOUT THE FARM SITUATION

Goal setting

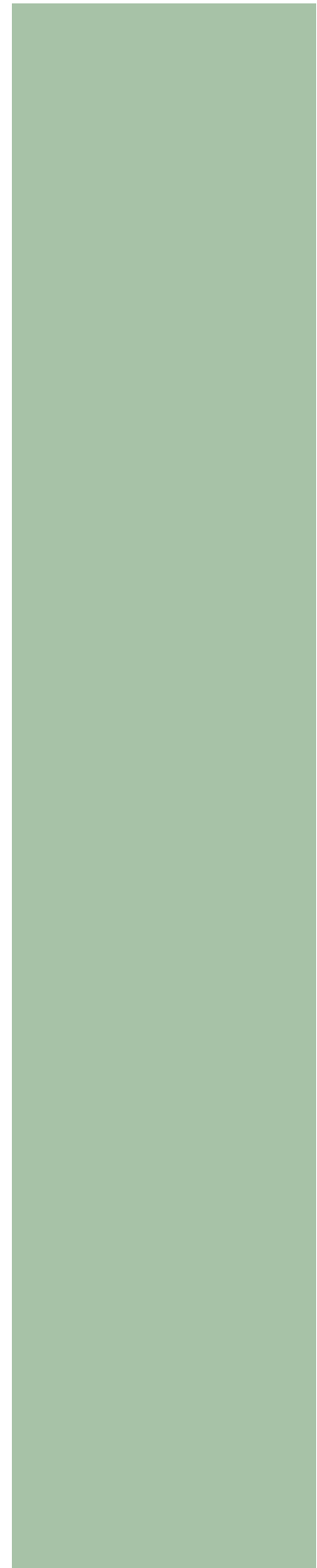
- _____ Are the goals set by the farmers reasonable and measurable?
- _____ Are they likely to be attained?
- _____ Are these goals shared by all members of the farmers' families

Farm records

- _____ Do farmers keep records?
- _____ If not, why not and how do you convince them of the benefits of doing so?
- _____ What kind of record-keeping system is appropriate?
- _____ What are the crucial records to keep?

Farm management

- _____ What understanding of farm management do farmers have?
- _____ What improved methods of farm management can they apply?
- _____ Do farmers prepare farm plans?



QUESTIONS ABOUT THE FARM SITUATION
(continued ...)

Understanding financial risks

- _____ What are the available sources of financing and their terms of repayment and interest charges?
- _____ How is interest to be calculated?
- _____ Are farmers clear on the terms and conditions of loans?

Finance

- _____ Do farmers know how to prepare cash flow analyses?
- _____ Do farmers have a positive cash flow?
- _____ What would be the financial risks if the farmer makes changes to the farming system?
- _____ What would be the risks of taking out a loan?

Family living expenses

- _____ Are family expenses recorded?
- _____ What alternative enterprises or employment opportunities are available?
- _____ Are all living expenses included in the farmers' cash flow projections?
- _____ Are household cash flow profiles positive?
- _____ In what months of the year could there be a cash shortfall?

Marketing

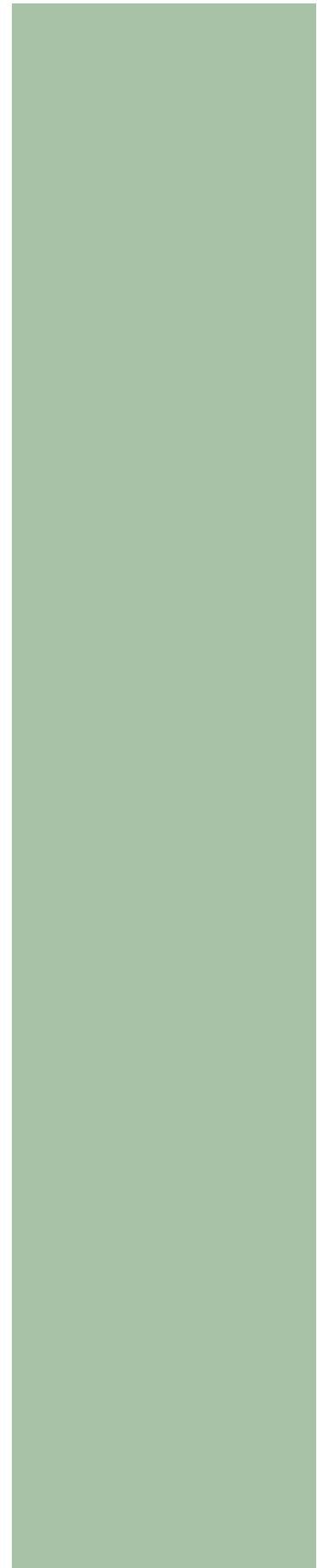
- _____ What is the farmer's understanding of marketing?
- _____ How can farmers learn about new market opportunities?
- _____ Is a better understanding of marketing likely to enhance income, reduce risk or both?

Marketing plan

- _____ Do farmers have a marketing plan?
- _____ Does the market plan cover the entire year?
- _____ Are all enterprises included in the plan?
- _____ Does the income from farmers' sales cover cash flow needs?
- _____ Have farmers calculated production costs and estimated yield to determine the break-even price?
- _____ Have contingencies been included in the plan?

Policy issues

- _____ What policies currently govern, limit or otherwise affect agriculture, particularly in your area?



The roles of extension workers are many and varied ...



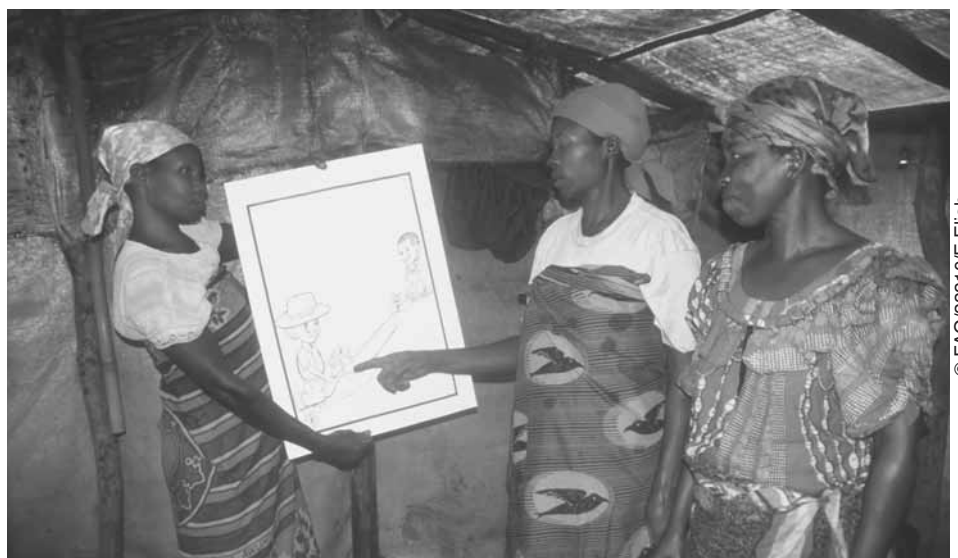
Extension worker showing women farmers how to prune olive trees – Jordan

© FAO/21411/J. Spauli



Extension worker training farmers in basic IPM techniques – Indonesia

© FAO/15828/J.M. Michaud



Extension workers teaching crop planting techniques – Tanzania

© FAO/22210/E. Elijah

© FAO/14122/J. Van Acker



Extension workers explaining about rice cultivation and seeds – Burkina Faso

© FAO/19352/R. Jones




Extension worker teaching forestry techniques to a farmer – Bolivia

© FAO/15304/S. Pintus



Extension workers identifying disease in rice plants with a farmer – Mozambique

*... they may
be found
assisting
farmers in
almost any way*



Once you have a good understanding of the situation of your farmers, their farm and their households, you are well placed to begin helping farmers to look at risk issues. Depending on the kind of help you are offering them, the questions on the following pages will assist you in opening the discussions with farmers. There are no fixed answers to these questions. You will need to consider them in the agricultural, marketing, economic and social context of your area. Individual farmers will need to consider any questions you ask in the context of their own particular circumstances.

QUESTIONS IN RISK MANAGEMENT

Risk-reducing inputs and new technologies

- _____ What technologies are most suitable for the farmer's household and production systems?
- _____ What is the economic benefit from the introduction of the new technology?
- _____ Is the technology consistent with the farmer's objectives and management capability?
- _____ Does adoption of the new technology reduce the farmer's risk?
- _____ Would it be more profitable to manage risk by purchasing risk-reducing inputs or by diversifying production?
- _____ How will this strategy affect risk in other areas?

Low-risk activities

- _____ What is the existing combination of enterprises?
- _____ What are the enterprise margins?
- _____ What are the risks involved?
- _____ Is there scope to substitute weaker enterprises for less risky ones?
- _____ What would be the costs and benefits of making these changes?
- _____ How will this strategy affect risk in other areas?

QUESTIONS ABOUT RISK MANAGEMENT
(continued ...)

System flexibility

- _____ What should be the optimum combination of enterprises?
- _____ What technologies and practices should be used?
- _____ What should be the optimum combination of resources?
- _____ What contingency plans could be applied in the event of risk?

Production diversification

- _____ What is the farmer's knowledge and management capacity for taking on a new enterprise?
- _____ Is the farmer seriously committed to the new enterprise?
- _____ Does the farmer have adequate capital to invest?
- _____ What additional labour is required?
- _____ Where are the new markets?
- _____ What is the change in income as a result of introducing the new enterprise?
- _____ Will the new enterprise provide effective diversification?
- _____ How will this strategy affect risk in other areas?

Inputs and food reserves

- _____ Is it feasible to keep a reserve of inputs and food?
- _____ Is there a problem of perishability?
- _____ How long can the items be stored?
- _____ What are the costs and benefits of storage?
- _____ Is there likely to be an impact of storage on other aspects of the farm business?
- _____ What are the likely risks?

Share leases

- _____ What operations could potentially be shared?
- _____ What would be the added benefits and costs from doing so?
- _____ Is there likely to be an impact on other aspects of the farm business?
- _____ What are the likely risks?



QUESTIONS ABOUT RISK MANAGEMENT
(continued ...)

Custom farming

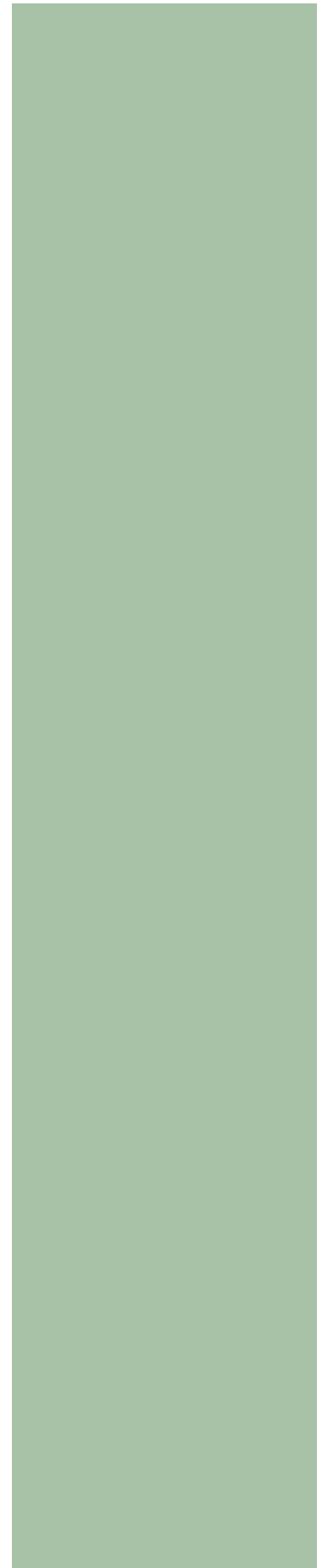
- _____ Can the farmer cope with the risks involved?
- _____ If not, in what ways can the risks be divided between farmers?
- _____ Would farmers in your village or vicinity be interested in this?
- _____ What would be the benefit of doing so?
- _____ What would be the benefits to the other farmer?
- _____ What type of contract is most suitable?
- _____ Is there likely to be an impact on other aspects of the farm business?
- _____ What are the likely risks?

Contract farming

- _____ Is market price information available?
- _____ Is it regularly collected and of good quality?
- _____ What are the costs and benefits in pursuing this strategy?
- _____ Are the terms of the contract understood?
- _____ Does the farmer require legal advice?
- _____ How will this strategy affect risk in other areas?
- _____ What benefits will a contract provide farmers?
- _____ What flexibility will the farmer need to give up?

Spreading sales

- _____ In which months of the year are product sales made?
- _____ For what products are staggered sales feasible?
- _____ What is the maximum amount that can be sold for each month?
- _____ What are the benefits of staggered sales?
- _____ What are the costs involved?
- _____ Does this require increased husbandry skills? If so, in what areas?
- _____ What are the opportunities for processing?
- _____ What are the implications of processing for the farm family?
- _____ What are the costs and benefits of processing?
- _____ Is there likely to be an impact of spreading sales on other aspects of the farm business?
- _____ What are the likely risks?



QUESTIONS ABOUT RISK MANAGEMENT
(continued ...)

Market information and market risks

- _____ Should the farmers aim at improving quality and attaining premium prices?
- _____ Should the farmers store their crop or are their cash flow needs such that they should sell directly after harvest?
- _____ What are the potential costs and returns associated with alternative strategies?
- _____ Should the farmers organize themselves into a marketing group?
- _____ Is there likely to be an impact on other parts of the farm business?
- _____ What are the implications?

Financial reserves

- _____ Does the farmer have financial reserves?
- _____ How large are they?
- _____ Where are they deposited?
- _____ What is the cost and benefit of maintaining reserves?
- _____ What is the cash flow situation of the farmer?
- _____ What is the debt that the farmer can afford to have?
- _____ How much credit does the farmer need and on what terms?
- _____ What is the farmer's debt capacity?

Leasing of assets

- _____ What is the cash flow situation of the farmer?
- _____ Is there an opportunity for leasing assets?
- _____ What is the farmer's attitude about leasing?
- _____ What assets can be leased?
- _____ What would be the costs and benefits of leasing a particular asset?
- _____ What is the new cash flow situation?
- _____ Is there an impact of leasing on other aspects of the farm business?
- _____ What are the likely risks?

Assets; investments; contingencies

- _____ What assets does the farmer have?
- _____ What is the cash flow situation of the farmer?
- _____ Does the farmer have enough cash or savings available to buy more assets?
- _____ Does the farmer need to take out a loan?
- _____ Does the farmer know when to replace an asset?
- _____ Does the farmer have a clear plan?
- _____ Does the farmer know if the investment is profitable?
- _____ Does the farmer have the skills to do so?

QUESTIONS ABOUT RISK MANAGEMENT
(continued ...)

**Assets; investments;
contingencies (continued)**

- _____ Does the farmer understand that buying or leasing of assets should be phased?
- _____ Does the farmer understand the need to take into account contingencies?
- _____ What effect will any new investments have on the cash flow?
- _____ How will the decision affect the other parts of the farm business?
- _____ What are the likely risks?

Liquidity

- _____ What alternative income sources are available?
- _____ What are the farmer's cash requirements for inflow and outflow items? What ways can be found to reduce cash expenses?
- _____ Does the farmer have cash shortfalls? What size of loan is required to cover the shortfalls?
- _____ What are the cash flow implications of crop failure or low market prices?
- _____ Does the farmer have a contingency plan for meeting cash needs after a crop failure or a period of low prices?
- _____ How will this strategy affect risk in other areas?

Insurance

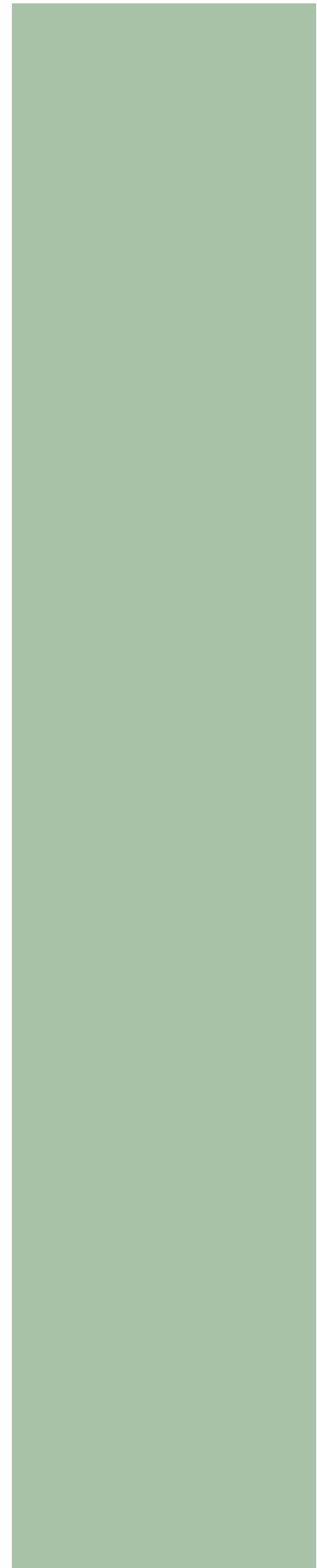
- _____ Is crop or weather insurance available?
- _____ What would be the implications of a crop loss on the farmer's debt obligations?
- _____ What are the major sources of production risk and what type of insurance coverage is needed to protect against those risks?
- _____ What are the costs of the various types of coverage?
- _____ How will this strategy affect risk in other areas?

Traditional institutions

- _____ What traditional organizations exist within the community?
- _____ Who are the leaders? How did they evolve?
- _____ How effectively do they function?
- _____ What are the weaknesses?
- _____ Can traditional institutions be strengthened and made to be more effective?

Producer groups and cooperatives

- _____ Are farmers organized in a group?
- _____ Is it formal or informal?
- _____ What are the functions of the group?
- _____ What range of services are provided?
- _____ Are members satisfied with services provided?



QUESTIONS ABOUT RISK MANAGEMENT
(continued ...)

Human resource management

- _____ What skills and competencies are needed?
- _____ What skills does the farm family have?
- _____ What skills do the hired farm workers have?
- _____ What employment/labour laws are in force?
- _____ What kind of communication do farmers have with their workers?
- _____ What safety measures are in place?
- _____ How are workers supervised?
- _____ How will changes in human resource management affect other parts of farm business?
- _____ Are there any new risks? What are they?

Labour performance and planning

- _____ What is the health condition of the family and its hired labour?
- _____ How productive is family labour?
- _____ Is hired labour easily available in the area?
- _____ Is sufficient labour available at peak times?
- _____ Are there months where labour is unavailable?
- _____ How productive is hired labour?
- _____ How can productivity be enhanced?
- _____ How prevalent is the occurrence of HIV/ AIDS and other diseases in the area?

Labour performance and planning (continued)

- _____ How do changes in labour productivity and supply affect other aspects of the farm business?
- _____ Are there any new risks likely to emerge?
- _____ What are they?

Risk management is itself a risk. You, as extension workers, will appreciate that assessing risk and choosing strategies for managing risk is not certain. Risk management operates with unknown variables, from beginning to end. There is uncertainty about many things such as prices, weather, labour disease and pests. Additionally, the strategies themselves are, at best, only estimates about how to cope with the possible range of risks.

The more experienced the farmer and the extension worker are in assessing and responding to risks in farming, the better they will be at making reasonable risk management decisions. It is important that they both understand that even with a lot of experience, the risk management strategies chosen are no guarantee that the farmer will be fully protected from risk. Risk aversion is, after all, risky.