

Linking Social Protection and Support to Small Farmer Development

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Stephen Devereux, IDS Sussex

Rachel Sabates-Wheeler, IDS Sussex

Bruce Guenther, IDS Sussex

Andrew Dorward, School of Oriental and
African Studies, University of London

Colin Poulton, School of Oriental and
African Studies, University of London

Ramatu Al-Hassan, University of Ghana

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Chapter 1 Introduction

This project aims to facilitate debate among bilateral donors, multilateral agencies, policy-makers, farmers' organisations and NGOs on synergies and conflicts in the design and implementation of social protection and smallholder policies in Africa, aiming at eradicating hunger and poverty and reaching the MDG goals: What synergies and conflicts exist, actually and potentially? Why is it important to maximise synergies and avoid conflicting incentives? How can this be done in practical terms? A second objective is to provide inputs to FAO in terms of the types of policies that can be promoted through national food security strategies and programmes.

The project has six substantive outputs: a **conceptual paper**, three **country case study papers** (Ethiopia, Ghana, Malawi), this **synthesis paper**, and a **workshop report**, which will follow a meeting at FAO in Rome on 17-18 January 2008, at which the project outputs will be presented and issues arising will be discussed.

This synthesis paper is structured around five main chapters. Chapter 2 explores the actual and potential synergies and conflicts that can and do arise between social protection and agriculture, arguing that 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. The next three chapters present case studies of these issues in three African countries. Chapter 3 explores the case of Malawi, with a particular focus on the complex and evolving politics and impacts of fertiliser subsidies. Chapter 4 examines the case of Ethiopia, where the Productive Safety Net Programme, the largest social protection intervention targeted at small-scale farmers in Africa, aims at short-term consumption smoothing and medium-term 'graduation' off social assistance. Chapter 5 presents the case of Ghana, which is introducing conditional cash transfers under the 'Livelihoods Empowerment Against Poverty' ('LEAP') programme, with both welfarist and livelihood promoting ambitions. Finally, Chapter 6 highlights critical synergies between social protection and agriculture, and draws general lessons about policy consistency and flexibility as economies develop and change.

1.1 Conceptual and policy issues

Smallholder agriculture in Africa has consistently under-performed, for reasons that remain only partly understood, despite a succession of theoretical paradigms and analytical frameworks that have been translated into policy prescriptions which have similarly failed to deliver sustained and significant increases in agricultural yields. For example, the radical reforms implemented under agricultural liberalisation programmes throughout Africa in the 1980s and 1990s were grounded in a theory that agriculture was being stifled by excessive interventionism by the state in agricultural production and marketing, while farmers and traders were undermined by unsustainable input and output subsidies. However, the shift from 'state-led' to 'market-led' agriculture achieved disappointing results, leading to a reassessment of both the diagnosis and policy prescriptions.

Dorward *et al* (2006) explain the failure of agricultural liberalisation in Africa in terms of deficits in the necessary enabling environment. The crucial supporting infrastructure – roads, transport, information systems and markets – were not in place to incentivise private traders to move into the vacuum created by the withdrawal of the state from agricultural production, marketing, research and extension services. In Asia, by contrast, the state's withdrawal from agriculture occurred only after the necessary investments had been made in infrastructure and market development, and once the private sector had full confidence that the state would not undermine their activities with policy reversals. An alternative explanation is that liberalisation failed because it was imperfectly and incompletely implemented, so that agricultural parastatals remained as actors in the market and continued to interfere with farmers and traders. A third point of view is that smallholder agriculture in Africa has under-performed because of a lack of protection of smallholders during their 'modernisation' phase, protection that was necessary against unfair competition from subsidised products from wealthy industrialised countries.

Although there are many ongoing debates on future possible trajectories for agriculture – such as the ‘small farms debate’ (see Ashley and Maxwell, 2001; Eastwood *et al.*, 2004; Hazell *et al.*, 2007) – there is no single dominant conceptual framework for agricultural policy. The 2008 World Development Report (World Bank, 2007) arguably comes closest, identifying three ‘worlds’ of agriculture: ‘agriculture-based’ countries, ‘transforming’ countries and ‘urbanised’ countries. Policies identified for agriculture-based countries (covering most of sub-Saharan Africa) include:

- (1) improve access to markets and develop modern market chains;
- (2) assist subsistence farmers to enter markets, and foster sustainable resource management;
- (3) achieve food security and improved livelihoods for those who remain as subsistence farmers, including improving the resilience of farming systems to climate change;
- (4) capitalise on agricultural growth to develop the rural non-farm sector.

The WDR suggests a number of steps to achieve these outcomes, namely, improvements in agriculture market chains, expanding exports, increasing uptake of yield-stabilising technologies, reducing weather risk through indexed-based crop insurance and price hedging (i.e. commodity futures markets), and diversifying income through off-farm employment. While the report differentiates conceptually between the ‘three worlds’ of agriculture, the policy prescriptions are remarkably similar. The same market-based solutions are assumed to apply to countries and regions that are agriculture-based and characterised by low productivity. Public provision of social protection is virtually absent from the proposed strategy for agriculture-based economies and is relegated to those in ‘transforming’ countries who are ‘left behind’ by an unfinished liberalisation project. The emphasis on market-based insurance against agricultural risks has been criticised as unrealistic, as this requires functioning markets, and insurance and credit are inaccessible to marginal smallholders (Holmes *et al.* 2007).

One dominant conceptual framework for social protection is ‘social risk management’ (SRM), championed by the World Bank, which categorises risks, actors and responses to risk. Although powerful and useful, this framework focuses narrowly on economic risk and income shocks while failing to recognise the structural and embeddedness of vulnerability, thus ignoring people who live in a state of chronic vulnerability. SRM has been challenged by approaches such as ‘transformative social protection’ and a ‘universal social minimum’, which elaborate on the social justice aspects of social protection. Both the ‘economic’ and ‘social’ dimensions of risk and vulnerability are important to consider, as are both ‘economic’ and ‘social’ responses – but this requires a more holistic approach to social protection. The following definition, proposed by IDS, captures the original ‘safety net’ emphasis from which social protection evolved, but also the broader concern with risk management and with social justice: “*Social protection describes all public and private initiatives that provide income or consumption transfers to the poor, protect the vulnerable against livelihood risks, and enhance the social status and rights of the marginalised; with the overall objective of reducing the economic and social vulnerability of poor, vulnerable and marginalised groups*” (Devereux and Sabates-Wheeler, 2004: 9).

So two topical strands of policy discourse are converging in this paper. 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. Dorward *et al.* (2006) propose a simple framework for differentiating between these strategies and objectives.

- (1) **Livelihood promoting** interventions are investments that increase returns to existing agricultural activities.
- (2) **Livelihood diversifying** interventions are investments in more remunerative and less vulnerable livelihood activities.
- (3) **Livelihood protecting** interventions are survival strategies or activities undertaken to maintain a minimum subsistence level.

All three categories, and their linkages, are important to consider.

Conventionally, livelihood promoting interventions are labelled 'developmental' while livelihood protecting interventions are labelled 'social protection', but current thinking emphasises the potential for synergies between 'protection' and 'promotion'. Rather than seeing social protection as 'welfarist' and agricultural investment as 'developmental', the new social protection agenda is conceptualised as aiming for both livelihood protecting and livelihood promoting outcomes. Simply shifting from (emergency or non-emergency) food aid to cash transfers, for instance, reduces agricultural disincentives and introduces income multipliers and market integration into rural economies. Current thinking on social protection incorporates not only 'welfare measures', but also 'risk insurance measures' and 'resilience-building measures'. Perhaps the way forward conceptually is to think of agricultural programmes and social protection for small-scale farmers as a continuum, rather than as two distinct, complementary or even contradictory policy agendas.

In fact, a kind of convergence is occurring between these agendas, as social protection is rapidly extending beyond its welfarist 'social safety net' origins and encroaching into the 'productive' sectors. Already in the late 1990s, the case for 'productivity-enhancing safety nets' was made on the grounds that it is more cost-efficient to support food production pre-harvest (with subsidised access to inputs) than to support food consumption post-harvest (with free food or cash transfers) (Devereux, 1999). This 'encroachment' of social policy into economic (agricultural) policy is justified by the fact that social protection is not a single sector but is multi-sectoral, just as 'food security' is multi-sectoral – and it could be argued that the (new) social protection agenda is closely related to the (old) food security agenda that it has in some senses displaced.

Recognition that positive synergies might exist between agricultural policy and social protection (or food security) is not new. Thinking on 'linking relief and development' in the early 1990s concentrated on efforts to generate agricultural growth through safety nets, by using public works programmes to simultaneously transfer food rations (for 'consumption smoothing') and also to construct useful economic infrastructure such as roads (to integrate markets), or to subsidise agricultural activities such as vegetable gardens (promoting production of secondary food crops). Negative interactions have also been noted, however. Public works are often implemented in the peak months of the farming season, creating competition for household labour with the family farm, compromising the next harvest and perpetuating the vicious cycle of agricultural stagnation and rural food insecurity. One policy response has been to try to time public works better, and it has been suggested that works should be undertaken before the farming season, with payments deferred until the 'hungry season'. An alternative approach would be to de-link the delivery of social assistance from any labour requirement: the asset creation benefits of public works are all too often negligible, while the most vulnerable households are typically labour-constrained.

The relationship between social protection for small farmers and agricultural policy is so close that many of the interventions discussed as 'social protection' in this paper could equally be labelled 'agricultural policy', especially interventions that enhance farmers' access to inputs, such as input subsidies or inputs-for-work. Where social protection for rural Africans is concerned, it could almost be argued that agricultural policy has become social policy. These linkages are usefully disaggregated in the Malawi country case study paper (summarised in Chapter 3 below), which identifies and explores five relationships between the two policy arenas:

1. social protection **from** agriculture (eg pan-seasonal or pan-territorial food prices);
2. social protection **independent** of agriculture (eg school feeding, or cash transfers, that can have strong synergies with agriculture);
3. social protection **for** agriculture (eg weather-indexed crop insurance);
4. social protection **through** agriculture (eg inputs-for-work, free input distribution);
5. social protection **with** agriculture (eg input subsidies).

It is striking how all the interventions in the above list, with the exception of school feeding and cash transfers, could be labelled as ‘agricultural policy’, but have recently been appropriated by the ‘new social protection agenda’.

1.2 Case studies

Three African countries have been selected for analysis of these issues: Malawi, Ethiopia, and Ghana. All three countries are currently engaged in major policy processes around the design and implementation of social protection strategies and smallholder-focused agricultural policies and programmes. Each country case study addresses the following topics: (1) sources of risk and vulnerability facing agricultural livelihoods; (2) national policies and programmes to promote agricultural development, poverty reduction and food security; (3) evolution of thinking and implementation of safety nets and social protection interventions; (4) actual and potential synergies between social protection and agricultural policies and programmes for smallholder households.

1.2.1 Malawi

The Government of Malawi is committed to delivering fertiliser subsidies to smallholder farmers, following positive experiences over several years with Starter Packs and the Targeted Inputs Programme (TIP). These interventions were found to have had significant impacts on maize production and on stabilisation of maize prices in Malawi, and have therefore been described as ‘productivity-enhancing safety nets’ – they have ambitions and impacts in terms of providing social assistance as well as contributing to agricultural growth. A preliminary report on the evaluation of the 2006/7 Agricultural Input Supply Programme, involving one of the authors of this paper, concluded that “increased input sales have no doubt contributed, with good weather, to a record maize harvest”.

The Government of Malawi is also engaged in the formulation of a National Social Protection Framework and Policy, with a heavy orientation towards smallholder families, considered to be among the poorest and most vulnerable households in Malawi. A number of pilot and emergency cash transfer projects have already been implemented by donors and NGOs in recent years, and the government’s own cash-based social transfer programme is currently scaling up from one to four districts, with a view to achieving national coverage in 5-6 year’s time.

It is unclear how these interventions relate to each other either conceptually or practically, let alone how they relate to broader agricultural policy. A separate debate between the Government of Malawi and its development partners concerns the potential for investment in smallholder and commercial agriculture to drive economic growth and poverty reduction, but that debate appears to be loosely integrated with the fertiliser subsidy and other programmes of support to rural households. This case study explores the linkages and suggests ways in which the synergies and linkages could be strengthened, to achieve both welfarist and growth objectives.

1.2.2 Ethiopia

The government of Ethiopia is implementing one of the largest social protection programmes in Africa, the ‘Productive Safety Net Programme’ (PSNP), which reaches 8 million people, most of whom depend primarily on smallholder agriculture for their livelihoods. The PSNP provides direct social protection in the form of cash or food transfers, and indirect support to agriculture through a

range of public works activities. Some PSNP beneficiaries are also receiving Livelihood Packages that intend to assist smallholders to diversify their incomes, either within or outside agriculture.

Ethiopia has also designed and implemented a number of relevant strategies and policies that affect smallholders directly. These include Poverty Reduction Strategies (SDPRP, PASDEP), Agricultural Development-Led Industrialisation (ADLI), and the Food Security Policy and Strategy, which incorporates the Productive Safety Net Programme (PSNP). These linkages are explored, in terms of synergies and trade-offs, drawing on recent research and advisory work involving some authors of this paper: on design and evaluation of the PSNP, on livelihood vulnerability in highland farming areas, and on the future of agriculture in Ethiopia.

1.2.3 Ghana

Poverty in Ghana is most severe in the rural northern regions, where dependence on smallholder agriculture is almost total and where safety nets and social protection programmes have focused, due to weather shocks, weak markets and undiversified livelihoods. This case study involves:

- understanding how the poor interact with the agricultural sector and with agricultural policies in Ghana (as producers, consumers and labourers);
- exploring major social protection policies (e.g. current initiatives around designing a social cash transfer programme) and their actual and potential impacts on agriculture;
- analysing how social protection has either beneficial or negative impacts on agriculture, detailing what these are and suggesting how positive impacts can be maximised.

Chapter 2 Synergies between social protection and smallholder policies

This chapter first analyses how social protection and agricultural policies interact, creating either synergies or conflicts between them. Drawing on Dorward *et al's* (2006) framework paper for understanding the interactions between agriculture transformation and social protection policies, 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 chapter.

Agricultural policies and social protection instruments should be designed and implemented to exploit synergies and avoid conflicts between them. Issues considered below (by section) include:

- 2.2 types of instruments (cash, food, inputs, or vouchers) and their likely impacts (eg improving food security, alleviating liquidity constraints, multiplier effects);
- 2.3 timing (with regard to seasonal agricultural activities and food and cash flows);
- 2.4 scale (the size and number of transfers have threshold and multiplier effects affecting social protection and agricultural outcomes in rural economies);
- 2.5 policy complementarities and sequencing (between food security, poverty reduction, and rural economic growth);
- 2.6 predictability and risk-taking (eg predictable social transfers or guaranteed social insurance encourages moderate risk-taking in agriculture);
- 2.7 targeting (including gender targeting);
- 2.8 political economy of national and international relations (social protection and agricultural policies are highly political and support for consistent initiatives depends upon the interests of various financiers, implementers and intended and unintended beneficiaries);
- 2.9 conflicts and synergies with informal social protection.

2.1 Current and potential synergies and conflicts

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 effects concerned with both the size of individual transfers and the proportion of the population that are in receipt of these 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.

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.

Another critical issue which is not sufficiently taken into consideration in policy discourses around agricultural development is the low levels of human and social capital in rural areas throughout Africa, and consequently the importance of investing heavily in adult literacy. A related imperative is to build the capacity of all forms of farmers' organisations, to empower them and improve their negotiating power with respect to commercial farmers, traders, buyers, local officials and national governments.

2.2 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.

2.2.1 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 *Progresa*), 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, *Progresa* 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. *Progresa* 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).

2.2.2 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.

2.2.3 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.

2.3 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 uni-modal 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).

2.4 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.

2.5 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 and are more secure, through low food costs, higher returns to labour, and safety nets	Productive safety nets for poor farmers (such as input subsidies) to increase/ secure real incomes and develop/ protect assets	Increased agricultural production and diversified rural 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)

2.6 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).

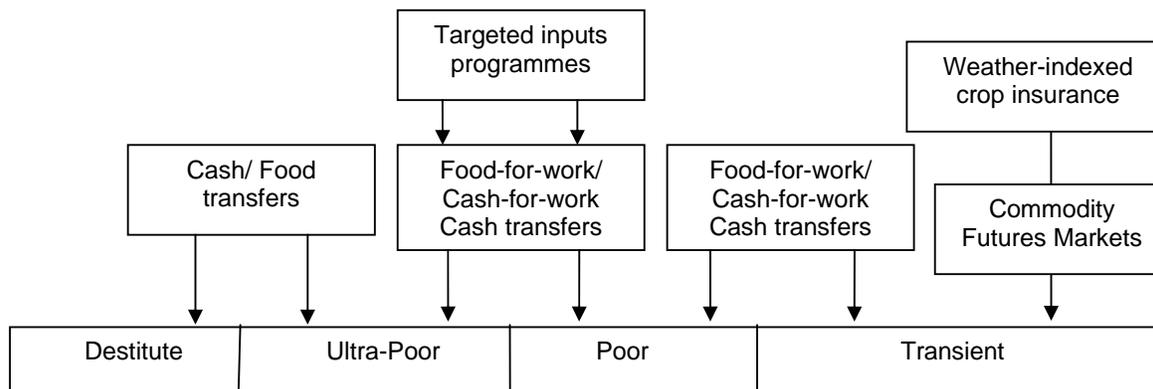
Recently, there has been a move away from insuring against poor crop yields on individual farms toward insuring against bad weather in the locality. A 'weather-indexed' approach writes the insurance contract not against harvest failure but against a local index – say, rainfall shortage or days of frost – 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.

2.7 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.

2.8 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.

2.9 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.

Chapter 3 Malawi Case Study: Fertiliser politics and donor U-turns

This chapter reviews social protection and agriculture policies in Malawi in order to explore the linkages, synergies and conflicts between them. It begins by arguing that agricultural and social protection policies must be understood in the context of both political issues and market and livelihood development. This is followed by a review of agricultural and social protection policies in Malawi, their interactions – social protection *from, independent of, for, through* and *with* agriculture – and their impacts on livelihoods and welfare. Specific attention is given to the evolution of input subsidy policies (i.e. ‘fertiliser politics’). We conclude with a discussion of lessons that can be learned from Malawi’s experience with agriculture and social protection.

3.1 Setting policies in context

Many determinants of economic stagnation and chronic poverty in Malawi can be located in the persistently poor performance of the smallholder sector. Inter-related factors affecting this include a dependence on rain-fed agriculture where rainfall is erratic and unpredictable; the promotion over several decades of white maize as the staple crop; small landholdings and intensifying land pressure; undiversified rural livelihoods and limited rural-urban linkages; high import and export costs due to Malawi’s landlocked location; high prevalence of AIDS and its adverse impacts on household demographics and labour power; recurrent natural disasters, economic crises and epidemics (eg cholera); and high rates of malnutrition which are transmitted across generations – all of which leave rural Malawians not just poor but extremely vulnerable (Devereux *et al.* 2006). Governance failures, macro-economic mismanagement, a political culture that is characterised as neo-patrimonial, and dependence on donor funding which is usually conditional and occasionally withheld, have all exacerbated rather than alleviated rural poverty and vulnerability among Malawian smallholders. This section looks more closely at the political and market contexts.

3.1.1 Political context

Although ‘neo-patrimonialism’ is a controversial concept, the notion that people in power use their positions to dispense patronage to their constituencies (regions, ethnic groups, social class) and influential interest groups (political elites, the military, urban middle class) is useful for analysing agriculture and social protection policies in Malawi since independence. Malawi’s first president, Kamuzu Banda (1964-1994), presided over a highly personalised and repressive regime. In the early years, economic growth through agriculture was achieved by promoting tobacco production for export in the estate farm sub-sector, and maize production for subsistence in the smallholder sub-sector, with smallholder families also serving as a low-cost labour reserve for the estates (Harrigan, 2003). The economy was heavily regulated. Subsidised fertiliser and credit bought the support of better off farmers, while the middle classes benefited from investment in education and from employment opportunities in the rapidly expanding civil service. Social protection received little policy attention in this period, because the government denied the existence of poverty in Malawi, although the government did respond to local food shortages arising from, say, drought or flood.

The fragility of the growth generated by these policies became apparent when the economy was hit by a number of external shocks in the early 1980s. The government was forced to seek heavily conditional financial assistance from the IMF and World Bank, which launched Malawi into its second post-independence policy phase – liberalisation – including scaling down government intervention in agricultural production and marketing, and the abolition of fertiliser subsidies. Deregulation also removed significant sources of patronage from government control, and this together with the failure of market reforms resulted in a series of food crises, culminating in the major southern African drought of 1992. Pressures for political reforms intensified and Malawi’s first democratic multi-party elections were held in 1994, ending Kamuzu Banda’s autocratic rule.

Malawi's second president, Bakili Muluzi (1994-2004) presided over a decade of macro-economic mismanagement, weakening of government capacity, and rampant corruption for both private gain and patronage purposes. Opportunistic privatisation, diversion of donor funds and the issue of bonds to finance budget deficits became major sources of patronage for a Southern Region elite that had commercial rather than agricultural interests. As the real value of civil service salaries collapsed, middle class patronage was promoted through the "democratisation of corruption" (Booth *et al.* 2006). With the government's political power base in the densely populated and food insecure Southern Region, the politics and mass patronage of maize self sufficiency became associated with the politics of fertilizer subsidies. Universal 'Starter Packs' of maize seed and fertilizer were introduced in 1998, with a range of populist objectives including promoting agricultural development and food self-sufficiency, social protection for vulnerable citizens and political patronage. 'Fertiliser politics' has subsequently become a major feature of Malawi's political discourse. Fertiliser subsidies were a major campaigning issue in the 2004 presidential election, which was won by Bingu Mutharika who subsequently introduced fertiliser subsidies which have had enormous economic, agricultural and political consequences.

Understanding the evolution of agricultural and social protection policies in Malawi also requires understanding changes in donor interventions, because donors are disproportionately influential due to the high dependence of the Malawian economy on foreign aid, and because donor policies are inconsistent both over time and between individual agencies. Donors were initially supportive of agricultural policies in the first phase of Banda's dualistic policy, described above. As concerns emerged about the problems facing Malawi's economy in the early 1980s, coinciding with an ideological shift against government interventionism in favour of structural adjustment policies (the so-called 'Washington consensus'), donors and international financial institutions imposed liberalisation policies on Malawi that were resisted by the government. Harrigan (2003) describes a series of 'U-turns' by the World Bank in agreeing to the reintroduction of fertiliser subsidies, then insisting on their removal and opposing their re-introduction as 'Starter Packs'. Chinsinga (2006, 2007) describes more recent differences between donors and changes in individual donor positions, which have been driven by domestic donor politics, economic ideology, humanitarian concerns, and personal concerns of (short-term) in-country staff.

A number of important insights emerge from this discussion. The use by different presidents of different approaches to delivering patronage to client groups with different regional interests has been a core determinant of the prominence and resources given to agricultural policies, and of the nature of these policies. A major challenge that both Banda and Muluzi faced was the need to deliver short-term patronage without compromising longer-term capacity of the economy to support such patronage. 'Patronage policies' were critical in the promotion of agricultural policies and investment under Banda, while failures of the policies in dealing with core poverty and food security problems led to their demise. Conversely, the failure of 'commerce-based' patronage policies under Muluzi led to a resurgent interest in fertiliser subsidies. This ebb and flow of political interest in agriculture has revolved around the different regional and patronage group interests in food, fertilizer and tobacco, and has at times coincided with, and at other times conflicted with, a different pattern of changing interests among donors. Social protection has featured in this only in the pursuit of food security in the agriculture/food security/fertiliser nexus, and in the provision of relief during food rises: Although it is a pillar in the Malawi Growth and Development Strategy, the development of wider social protection policy in Malawi has been largely a donor-driven process and has not centrally involved political debate or processes (Chinsinga, 2007).

We also note that the political preoccupation with food security in Malawi is entirely appropriate and legitimate, because food security is an important preoccupation for poor people, who spend a large proportion of their income on staple foods and are very vulnerable to price changes. The emphasis on fertiliser subsidies as a response to food insecurity is determined by recognition that (a) high price volatility in relation to domestic supply shocks results from a lack of integration of national and international maize markets, (b) the majority of poor food insecure people and of the electorate, particularly in the south, are rural deficit producers facing particular constraints in accessing fertilisers, (c) less poor rural people also face difficulties in accessing fertiliser for the production of both food and non-food cash crops, (d) most urban people have strong links with

rural people and rural interests. Core to the importance of fertilisers in the food security narrative, therefore, is an understanding of market failures in serving rural livelihoods, an understanding that has been shared by Malawian politicians and technocrats – but often not by donors. This difference in understanding of market failures has been an important reason for government/donor disagreements regarding instruments for pursuing the social protection and agriculture agendas of donors and the patronage and agriculture development agendas of domestic politicians, even where their interests in these agendas appear to converge.

3.1.2 Markets and livelihoods context

Two important features of rural markets and livelihoods in Malawi are relevant to our analysis of agriculture and social protection policy. First, major interactions arise between agriculture and social protection because of the major dominance of small-scale, low productivity and highly risky agriculture in the livelihoods of poor rural Malawians. Poverty is highest among smallholder families, and most of the shocks that threaten lives and livelihoods are related to agriculture, so social protection in Malawi must concern itself with smallholder agriculture. The second feature is the low levels of economic activity and market development in rural Malawi, where small volumes and high trading costs require high risk premiums and margins that depress demand, resulting in a low level equilibrium trap and failures of agricultural input, output and financial markets (Kydd and Dorward, 2004).

This analysis has important implications for understanding livelihood vulnerability in Malawi, and for the design and implementation of agricultural and social protection policies and instruments. Low levels of rural market development are identified as both a key constraint to development and food security on the one hand, and a result of poverty and vulnerability on the other. This suggests that without the existence of established and functioning thick markets, markets cannot be relied upon to deliver agricultural and food security services. Two major questions follow, which are central to wider debates about potential synergies and conflicts between agricultural and social protection policies:

1. How can agricultural service markets (principally for inputs and credit) and food markets be developed in the medium to long term?
2. How can agricultural services and food access be provided in the short term in a way that 'crowds in' rather than 'crowds out' market development?

3.2 Agricultural and social protection policies in Malawi

This section explores in more detail the major agricultural and social protection policies pursued in Malawi over the last 40 years or so, structured around Dorward *et al.*s (2006) classification of four relations between these sets of policies: social protection **from** agriculture, social protection **independent** of agriculture, social protection **for** agriculture, and social protection **through** agriculture – adding a fifth category of social protection **with** agriculture.

3.2.1 Social protection from agriculture

The pre-liberalisation policies for smallholder development promoted by President Banda until the early 1980s are a *prima facie* example of policies that promoted social protection *from* agriculture. After independence, smallholders were organised into groups that took input loans which they repaid in kind by selling their produce to the parastatal market board, ADMARC, which acted as sole seller of inputs to smallholders and sole buyer of smallholders' produce. These interlocking arrangements expanded access to purchased inputs for maize production, and achieved very high repayment rates by enforcing strict penalties for non-repayment (denial of access to inputs to all members of a defaulting group, confiscation of defaulters' assets). ADMARC also maintained pan-territorial prices to support producers and pan-seasonal prices to protect poor consumers. These policies had complex pro-poor and anti-poor elements (Chirwa *et al.* 2006). The interests of the poor were damaged by food prices frequently being held above import parity – although lower maize prices would have depressed incentives for investment in improved maize seed and

fertiliser. ADMARC also taxed smallholder cash crops and transferred the proceeds to the tobacco estate sector, which also benefited from cheap labour in an exploitative tenant system.

However, the system did promote national food self-sufficiency (through subsidising production) and local food availability (through ADMARC's network of village markets). The major social protection outcomes of these policies were stable pan-territorial, pan-seasonal food prices, and reliable food availability in most rural areas at most times. The failure of the government to sustain these policies illustrates the difficulties governments face in allocating limited resources between short-term patronage objectives (demands for distribution of benefits to different interest groups) and long-term economic growth objectives (demands for productive investments).

3.2.2 Social protection independent of agriculture

As market liberalisation, currency devaluations and multi-party democracy led to the demise of the interlocking smallholder agricultural credit system in Malawi, agricultural policies were no longer seen as part of a comprehensive vision of rural development. Instead, agriculture was seen as needing crop-specific market-based solutions. The best example is smallholder tobacco, which was widely adopted after restrictions against smallholder production were lifted in the early 1990s. Harrigan (2003) reports a number of benefits from this expansion: a major cash injection with multipliers feeding throughout the rural non-farm economy, the use of tobacco income to buy seed and fertilizer for maize production, and market development. On the other hand, among the poorest smallholders with very limited land, tobacco began to crowd out maize, leading to severe declines in maize production when devaluation of the Malawi Kwacha and the removal of input subsidies made the use of fertilizer on maize uneconomic.

As food insecurity in rural communities increased for a variety of reasons, including input price rises, rapid population growth associated with falling farm sizes and declining soil fertility, and the devastating effects of HIV/AIDS, a range of 'safety nets' and (later) social protection instruments were introduced. Instruments that could be considered as 'independent of agriculture' include targeted nutrition programmes, public works projects, school feeding schemes, food transfers and (most recently) cash transfers. However, synergies between social transfers and agriculture are well known: injections of cash or food into rural households during the 'hungry season' allows smallholders to work on their fields rather than seek work for cash or food elsewhere. On the other hand, cash transfers where markets are thin might highlight rather than alleviate fundamental weaknesses in rural economies – cash transfers can exacerbate food price inflation and do not address deeper structural problems in agricultural production, markets, policies and governance (Devereux, 2007). In general, the various safety net interventions in rural Malawi have had a mix of livelihood protection and promotion objectives, but their tendency to lack long term funding and consistency has undermined the extent to which smallholders can rely on them and undertake moderately risk investments in agriculture (Slater and Tsoka, 2007).

3.2.3 Social protection for agriculture

Growing interest in the potential for social protection to reduce livelihood risks and allow farmers to take higher yielding, higher risk investments to escape poverty have led to a resurgence of interest in different forms of agricultural insurance. Although crop insurance schemes failed in South Asia and Latin America in the 1970s, due to covariant risk, moral hazard, high transaction costs and political economy problems (Hazell *et al.* 1986), the new social protection agenda has coincided with the development of new weather-indexed approaches to smallholder insurance. The Government of Malawi, in partnership with the World Bank, Opportunity International Bank and the National Smallholder Farmers Association of Malawi (NASFAM), developed a pilot weather-indexed crop insurance scheme for 900 groundnut farmers in 2005/06, who entered into a loan agreement to access an input package, with an interest rate that incorporated a weather insurance premium. In the event of a severe drought, the borrower repays only a fraction of the loan, while the rest is paid by the insurer directly to the lender. Because the insurance functions as a guarantee against the loan, high-risk and low-income farmers are able to obtain credit to invest in inputs for higher yielding crops. The pilot scheme was favourably evaluated after its first

year, with 86% of farmers surveyed indicating that they wanted to continue participating (Suarez *et al.* 2007). However it must be emphasised that this scheme supports input credit for cash crop production. It is difficult to see how the approach might be extended to address risks faced in maize production and to promote greater input use in maize production by poor smallholders.

3.2.4 Social protection through agriculture

Recognition in Malawi of the importance of agriculture for food security and of the problems that farmers face in achieving maize self-sufficiency have led to a convergence between agricultural and social protection interests around ensuring smallholders' access to agricultural inputs (seed and fertiliser) for maize production. This sub-section and the next reviews three instruments that have been used in recent years to deliver inputs to poor farmers in Malawi: inputs-for-work, free input distribution, and a voucher-based input subsidy.

'Inputs-for-work' describes public works programmes where participants are paid with agricultural inputs, rather than with food rations (food-for-work) or cash wages (cash-for-work). In Malawi, inputs-for-work have been implemented only on a local scale, by NGOs with donor funding. An evaluation of a pilot project in two districts (cited by Devereux and MacAuslan, 2006) concluded that the project was more popular with participants than either food- or cash-for-work, because it was implemented before planting time when fertiliser prices were extremely high, it yielded a favourable return in terms of the value of incremental maize production. Further, it provided a means of forced savings, protecting recipients from 'dissipating' their earnings on short term requirements or on claims from relatives and neighbours.

Free input distribution has been much more widely used in Malawi, with large-scale distributions starting in 1993 in response to currency devaluation, the phasing out of fertiliser subsidies, the collapse of the input credit system, and drought (Devereux and MacAuslan, 2006). In 1998, the government implemented a universal 'Starter Pack' programme, funded by DFID, which provided every smallholder with enough maize seeds and fertiliser for 0.1 hectares. This together with good weather contributed to a 67% increase in maize output (Levy, 2005). Despite this success, Starter Packs were highly controversial, because they reflected different stakeholder interests and highlighted conflicts between perceptions of how best to achieve agricultural growth and food security in Malawi. For instance, although the Starter Pack was conceived as an agricultural development programme that would support crop diversification and the growth of rural input and output markets, in reality they functioned simply as a social protection instrument that promoted household food security through increased maize production. Moreover, the programme became politicised, being exploited as a source of patronage by the ruling party during the 1999 elections.

Donors were concerned about this politicisation, and also about the programme's high cost, its emphasis on maize rather than crop diversification, its displacement effects on input markets, and its inefficiency in terms of leakages to the non-poor. As a result the programme was scaled back in 2000/01 from universal distribution to the 'Targeted Input Programme' (TIP). Targeting raised a new set of problems, however, not only in terms of identifying 'deserving' recipients and excluding the 'non-needy', but in offering new opportunities for politicisation. More fundamentally, Levy (2005) argues that the universal Starter Pack generated two distinct food security benefits for the poor, firstly by increasing *household* maize production, and secondly by reducing maize prices through higher *national* maize production. The second benefit was lost when the programme was scaled back. Dorward and Kydd (2005) simulate the maize price and wage effects of universal and targeted input distributions, and find that even if perfect targeting could be achieved, a universal programme may be more cost-effective in delivering welfare benefits to the rural poor.

3.2.5 Social protection with agriculture

Food shortages and high prices following poor harvests in 2000/1 and 200/2 (following the scaling back of Starter Packs), caused food security to become a major political issue during the 2004 election campaign, with the two main parties both promising fertiliser subsidies. After the election the new government delayed the introduction of subsidies, perhaps because it needed to control

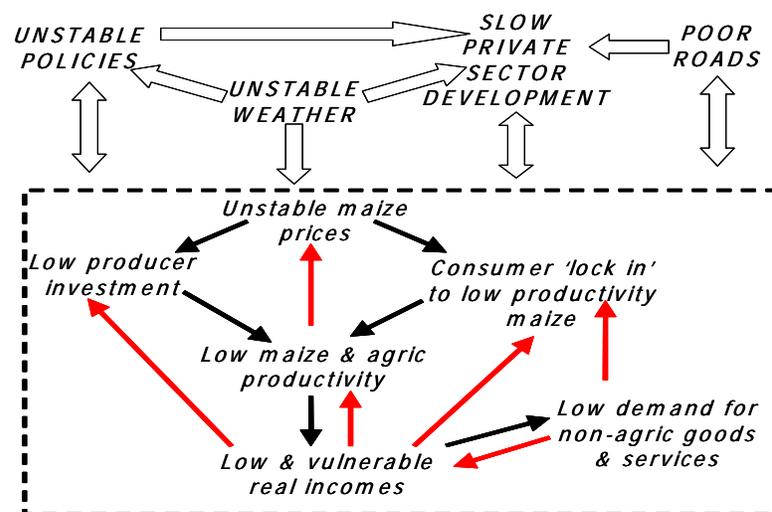
spending to qualify for debt relief (Chinsinga, 2006). Following another poor harvest, however, followed by food shortages, high prices and expensive imports, the government implemented a targeted input subsidy, delivered in the form of vouchers that could be redeemed at agriculture parastatals (ADMARC or SFFRM) for fertilizer and maize seed at one-third of normal retail prices (Imperial College *et al.*, 2007). The subsidy programme was not supported by donors – indeed several donors disapproved of it (Chinsinga, 2006) – and was financed from the government budget, though this obviously drew on direct budgetary support.

Malawi enjoyed a bumper harvest in 2005/6, due to a combination of favourable weather and the input subsidy. This evidence of success and the obvious popularity of the programme caused the government to implement it again in 2006/7. This time some donors, notably DFID, came in with financial support and technical advice about how to improve the programme. One major concern was that private sector sales of fertiliser were 50% lower in 2005/6 than in the previous year, suggesting substantial displacement of commercial input trade. In 2006/7, a number of innovative mechanisms were introduced to the input subsidy programme, to promote greater involvement of the private sector and greater choice for farmers. A preliminary evaluation of the 2006/7 input subsidy programme reported the following key findings (Imperial College *et al.*, 2007):

- Nationally, 54% of rural households received coupons, and 'less poor' households (by farm size and asset value) were more likely to receive coupons than 'poor' households.
- The displacement rate for commercial fertiliser sales was 40% (down from 60% the year before), and was higher where most coupons were received by 'less poor' farmers.
- Incremental production from the input subsidy was tentatively estimated at 700,000 tons of maize.
- Maize prices in 2006/7 remained relatively low and stable, and average rural wage rates were higher than in previous years, partly due to the 2005/6 and 2006/7 input subsidies.

While agricultural productivity and social protection both feature strongly in the objectives of the input subsidy, there is a lack of discussion on whether the programme should continue and how it contributes to longer term economic growth and development and sustained poverty reduction. Imperial College *et al.* (2007) argue that the market and livelihood conditions in rural Malawi mean that agricultural, rural and national economic development are constrained by a number of interacting poverty and productivity traps which themselves constrain the development of input and maize markets, investments in maize intensification, diversification out of maize into other agricultural and non-agricultural activities, the ability of smallholders to protect themselves against shocks, and broader local and national economic development. The result is a vicious circle of unstable maize prices that inhibit (a) net producers' investment in maize production, (b) net consumers' reliance on the market for maize purchases, and (c) poor producers' exits from low productivity maize cultivation. These factors in turn inhibit the growth of the non-farm economy. This vicious circle is exacerbated by unstable and changing government policies, unstable weather, poor road networks and transport infrastructure, and constrained private sector development. At the heart of this vicious circle are household, local and national vulnerability and poverty traps (see Figure 2).

Figure 2 The vicious circle of Malawi's low productivity maize production trap



Source: Imperial College *et al.*, 2007

This analysis suggests that input subsidies, implemented efficiently and consistently over a number of years, can contribute to achieving lower and more stable maize prices and higher maize productivity and rural wages, with the paradoxical long-run goal of encouraging less people to grow maize, but to grow it more productively. For these objectives to be achieved, however, input subsidies must be complemented by social protection interventions, agricultural policies and other investments, including (Imperial College *et al.*, 2007):

- policies that promote more **stable and lower maize prices** than have been achieved in the past, coupled with **social protection** policies to protect people against shocks (eg strategic grain reserves) by stabilising food supplies and consumption;
- agricultural **research and extension** for maize and other crops, and improved access to seasonal finance for other crops;
- **road construction**, and policies to promote growth of the rural non-farm economy;
- policies to promote **private sector development** in rural areas and across the country;
- investments in **health and education** services to promote a flexible and productive population that is better able to respond to and create new economic opportunities.

Viewing the subsidy programme in this way poses challenges and hard questions, including:

- What are appropriate prices for maize that will simultaneously allow local real incomes and demand for local goods and services to increase so that poor deficit producers can concentrate on more productive activities to serve this demand, while also giving other farmers incentives to produce a surplus?
- How can development processes and structural transitions be managed consistently, allowing consumers and producers to have confidence in maize markets and promoting non-farm and private sector development to occur even in more remote areas?

3.3 Conclusions: Lessons from the Malawian experience

This section concludes by highlighting six main lessons from Malawi's experience of interactions between agricultural policies and social protection instruments in the post-independence period.

1. Market and livelihood contexts are a major determinant of the evolution of agricultural and social protection policies in Malawi, and of interactions between them. Critical elements of this context include poverty, seasonality, low productivity, maize dependence, intensifying land pressure, weak market development, inadequate infrastructure, maize price variability, and the importance and fragility of casual labour markets in rural livelihoods.
2. The political context, both domestic politics and their interaction with donor interests, has been – and continues to be – another major determinant of the evolution of agricultural and social protection policies.
3. Complex issues and numerous stakeholders affect the development and impacts of different policies and instruments. Unresolved debates include: whether national and household food security should be achieved through food self-sufficiency; dependence on or diversification out of maize as the staple food crop; the food security potential of non-maize food crops and the commercial potential of cash crops; implications of switching to cash crops for food security, poverty and growth; government and private sector roles and relationships; the role(s) of markets; costs, private benefits and market externalities from different forms of transfers and subsidies; targeting mechanisms, their costs and effectiveness, and their social and political implications; and conflicts and synergies between short, medium and long term objectives.
4. Policy outcomes are complex and are determined by choice of instruments and means of implementation. The use of input subsidy vouchers and the ways they are distributed and redeemed has profound effects on policy impacts – in terms of overall welfare and growth, the distribution of these gains among poor and less poor people, and the development of commercial input delivery services.
5. It is important that long-term growth and development objectives are thought through and articulated, so that short-term policies and instruments are selected and scaled up in ways that are consistent and synergistic, rather than conflicting with, long-term aims and processes.
6. A mix of complementary social protection, agricultural and wider economic and institutional policies across different sectors are needed for effective promotion of short, medium and long term social protection, agricultural and non-agricultural development, and poverty reduction. The nature of this mix will depend upon the specific circumstances in different countries.

An important question arising from the Malawian experience as reported here concerns the wider applicability of that experience to other countries. The six lessons above are widely applicable, in that they identify the importance of particular features determining the evolution and outcomes of agricultural and social protection policies in Malawi, and also draw wider policy process lessons.

General answers to specific questions about where similar policies will be successful are difficult, as they depend not only upon context but also on quite specific features of programme design and implementation. It is clear, however, that such policies have the greatest potential to contribute to both short term welfare and long term development gains in countries where (a) there are large numbers of poor, food insecure deficit producers locked into low productivity subsistence production of staple cereals and (b) input subsidies, together with other policies as discussed above, have the potential to kick start productivity gains and livelihood diversification. These conditions will not apply in countries which have already achieved some measure of productivity growth in and diversification out of staple production. Even in countries where these conditions hold, analysis of the Malawian experience shows that serious questions need to be asked about the appropriate scale of the subsidy programme, size of the subsidy, and the mode of implementation and targeting, in the context of cereal and input prices, potential reliance on roots and tubers as alternative staples, the capacity of government and the private sector to implement the programme in different areas, and the structure of livelihoods in rural areas (in terms of the relative proportions of poor and less poor people with differing agricultural and non-agricultural livelihood activities).

Chapter 4 Ethiopia Case Study: The politics of land and 'graduation'

Agriculture and social protection are inextricably interconnected in Ethiopia. Smallholder farming is the dominant livelihood activity for most Ethiopians, but it is also a major source of vulnerability to poverty and food insecurity. Ethiopian farmers have received enormous volumes of food aid in recent decades, and early warning and emergency programming have become institutionalised within government structures. From the agricultural policy perspective, the government's belief in agriculture as the backbone and main source of economic growth is reflected in its view that land is the ultimate 'safety net' for rural households, who should therefore be prevented from selling it. From the social protection perspective, awareness that farmers are the main recipients of social assistance has fuelled the government's fear of creating 'dependency' in rural communities, which explains the predominance of public works projects as their preferred delivery mechanism, as well as recent shifts in safety net thinking towards cash transfers rather than food aid, with predictable transfers expected to lead to 'graduation' within 3-5 years.

The discourse on agriculture and social protection in Ethiopia can be expressed as a stark policy dilemma: in a high-risk environment, should you adopt conservative strategies that minimise risk but keep people poor, or push aggressively for growth and 'grow your way out of poverty'? In the past, the government has apparently been satisfied with the former approach, but recent policy statements, specifically the 'Plan for Accelerated and Sustained Development to End Poverty' (PASDEP), signalled its impatience with the evident failure of this strategy, and shifted Ethiopia's agricultural policy sharply towards commercialisation and export promotion. Given Ethiopia's history of chronic food insecurity and recurrent famines, it is hardly surprising that food security has been prioritised in successive development plans and strategies. But PASDEP departs from earlier policy preoccupations with achieving food self-sufficiency, in favour of diversification into high-value niche crops (Amdissa Teshome, 2006). Ethiopian farmers are urged to aim higher than subsistence. "The farming community should abandon the traditional system of agricultural production and adopt market-oriented approach and promote efficient system of marketing that encourage both sellers and buyers" (Government of Ethiopia, 2007: 105).

PASDEP's approach is consistent with the strategy outlined in the 2008 World Development Report on Agriculture, which argues for the development of market chains and expansion of export crops for agricultural-based economies (World Bank, 2007). At the same time, Ethiopia's 'Productive Safety Net Programme' (PSNP) represents an impatience with decades of food aid that have failed even to assure basic food security, let alone contribute to growth and poverty reduction. In a two-pronged attack on rural poverty in Ethiopia, therefore, the PSNP injects cash into a moribund agrarian economy, while PASDEP promotes market chains and export crops that will generate further cash income. This is a major move away from a 'survivalist' preoccupation with growing food for subsistence and delivering food aid when food production is inadequate.

This chapter explores the linkages between social protection interventions and support to small farmer development in Ethiopia. Section 4.1 argues that agricultural policies and social protection policies in Ethiopia have become increasingly synergistic. Section 4.2 explores the paradoxical relationship of smallholders to land. Section 4.3 analyses the components of the 'Food Security Programme', focusing on the 'Productive Safety Net Programme' (PSNP). Section 4.4 discusses innovative interventions that link social protection and agriculture: weather-indexed drought insurance, and Ethiopia's new commodity exchange. Section 4.5 concludes.

4.1 Agriculture and social protection: complementarity or convergence?

In the past, 'agricultural promotion' policies and 'social protection' interventions in Ethiopia were linked only by the fact that social protection ('safety nets' or humanitarian relief) was usually triggered as a response to agricultural failure. This separation followed a 'seasonal timeline', with agricultural support (eg inputs provision) delivered during the farming season and safety nets (eg food aid or food-for-work) delivered during the 'hungry season' some months later. Agricultural

policy and social protection interventions are a kind of see-saw: the more effectively farming fills household granaries, the smaller the annual appeal for humanitarian assistance, but in years of catastrophic crop failure, several million Ethiopians need humanitarian relief for several months.

Faced with 'low input, low output' agriculture, policy-makers might well assume that farmers face binding input constraints, and that the solution lies in the intensification of smallholder production to maximise yields. This thinking underpins 'productivity-enhancing safety net' interventions such as Sasakawa Global 2000, which delivers fertiliser and seeds to farmers on a revolving credit basis and has raised crop yields in Ethiopia, Ghana and elsewhere – for a while. Unfortunately, revolving credit schemes depend on reliable repayment, and SG 2000 projects are prone to collapse whenever production variability compromises ability to repay. In Ethiopia in the 1990s, some farmers who were encouraged to take loan inputs packages were imprisoned when drought left them with failed harvests. This experience highlights another 'negative synergy' between agricultural and social protection objectives, and raises questions about the logic of providing social assistance to poor people in the form of loans. More generally, efforts at building synergies in either direction (promoting agricultural growth through 'productivity-enhancing' safety nets, or achieving social protection through risk-reducing agriculture) are persistently compromised by the instability of Ethiopia's natural environment, especially fluctuations in rainfall. Neither investments in agriculture nor investments in social protection appear capable of dealing with this risk.

4.2 'Land politics' and social protection in Ethiopia

Successive regimes have located the source of Ethiopia's economic stagnation and vulnerability in the agriculture sector, yet they have also looked to smallholders as the source of economic growth, household and national food security and poverty reduction. In 2000, Prime Minister Meles Zenawi said: "The agricultural sector remains our Achilles heel and source of vulnerability. Nonetheless, we remain convinced that agricultural based development remains the only source of hope for Ethiopia." The key to understanding this ambivalence is the politics of land.

The overthrow of Emperor Haile Selassie after the 1974 famine signalled the end of a semi-feudal system in Ethiopian agriculture. The Marxist Derg regime believed that unequal landholdings and labour relations based on sharecropping were not only grossly unjust but explained Ethiopia's persistent vulnerability to famine. Between 1976 and 1991 the Derg implemented a radical agrarian transformation, confiscating and then redistributing all land equally per capita within rural communities. The intention was both egalitarian – to break the power of the landlords – and economic – to give all rural households the means to achieve sustainable increases in agricultural productivity and rural incomes (Devereux *et al.* 2005). The Derg also conceptualised land as a kind of safety net: as long as rural families enjoyed guaranteed access to land, they retained the potential to generate a subsistence livelihood, and in this sense the land redistribution can be seen as a crude form of social protection. Despite the failure of its many other agricultural policies (state farms, villagisation, forced resettlement), the land redistribution remains as the Derg's lasting legacy on Ethiopia's rural economy.

Since the Derg was overthrown in 1991, the EPRDF government has consistently resisted any suggestions that a land market should be encouraged to emerge in rural areas. The government fears that allowing smallholders to sell their farmland converts this essential livelihood input into a liquid asset that would inevitably be monetised through 'distress sales' for food during crises such as drought, forcing millions of smallholders off the land, concentrating farmland in the hands of a minority of rich landowners, reviving quasi-feudal labour relations in agriculture, and displacing rural poverty into urban slums. Only recently has the government officially sanctioned the informal rental of land that has been common practice between households in rural Ethiopia for decades.

Despite the land reform, agricultural livelihoods in Ethiopia remain extremely precarious, raising questions about whether non-transferability of land rights constitutes a 'safety net' or a 'poverty trap'. Certainly, evidence from many countries confirms that pro-poor land redistribution can boost agricultural productivity and raise smallholder incomes (Eastwood *et al.* 2004: 2). But recent thinking and empirical work on 'asset thresholds' reveals that farmers with inadequate access to

key productive assets (eg tiny landholdings, as in highland Ethiopia and southern Malawi) may be unable to 'grow their way out of poverty'. Worse, if livelihoods are subject to recurrent shocks such as drought, 'asset poverty' will be perpetuated as households sell off non-land assets for food, becoming chronically dependent on emergency relief (Carter and Barrett, 2007). In such contexts, land redistribution might only 'equalise poverty' and entrench agricultural stagnation, while prohibitions on land sales might be trapping millions of families in unviable livelihoods. What is needed instead is consolidation of fragmented landholdings into larger, economically profitable units, plus facilitating livelihood diversification for asset-poor families (Devereux *et al.* 2005).

Land redistribution has been identified as contributing to another source of rising vulnerability in rural Ethiopia: the decline of informal social protection, especially where the 'equalisation of poverty' has severed patron-client relationships that tied poorer and wealthier families together, in ways that were certainly exploitative but ensured that 'clients' had 'patrons' to turn to in times of crisis. A livelihoods survey in Wollo found that land redistribution plus other processes and shocks have precipitated a collapse in better-off groups within rural communities since the 1990s, which has contributed to both rising vulnerability and agricultural stagnation, because poorer families can no longer rely on wealthier neighbours for access to productive resources such as oxen for ploughing, or for informal social assistance during difficult times (Devereux *et al.* 2003).

4.3 Ethiopia's Food Security Programme

The Food Security Programme was initiated by Ethiopia's 'New Coalition for Food Security' after the 2002 food crisis. The programme aims to address food insecurity through interventions to boost agricultural productivity for the chronically (or 'predictably') food insecure, and to provide protection against agricultural vulnerability for the transitory (or 'unpredictably') food insecure. The Food Security Programme has three components: (1) the 'Productive Safety Net Programme', with two sub-components, Public Works and Direct Support; (2) 'Household Extension Packages'; and (2) 'Voluntary Resettlement Programme'. In 'social risk management' terminology (Holzmann and Kozel, 2007), resettlement and extension packages are instruments of *risk reduction*, while social transfers ('direct support') contribute to *risk coping*, and public works has elements of *risk reduction*, *risk mitigation* and *risk coping*, depending on which public works are undertaken.

4.3.1 Productive Safety Net Programme (PSNP)

The PSNP is the largest social protection scheme in Africa outside of South Africa's social grants. The PSNP delivers social transfers to some eight million Ethiopians, either through 'public works' activities or as 'direct support' for households that are labour-constrained, with three objectives:

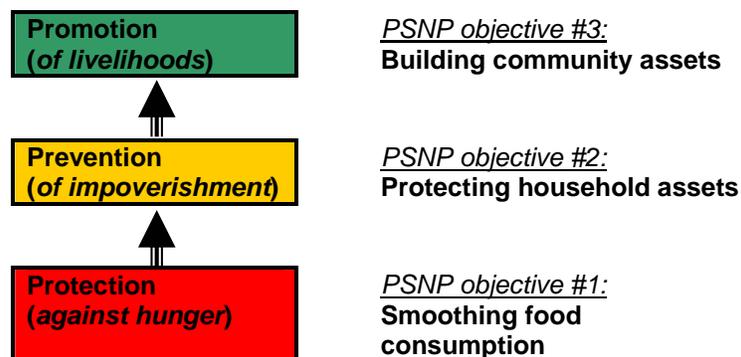
1. **smoothing food consumption** in food insecure households through food or cash transfers;
2. **protecting household assets** by minimising the need for damaging 'coping strategies';
3. **building community assets** through implementing developmental public works activities.

These objectives correspond to 'protection', 'prevention' and 'promotion' (see Figure 3, which illustrates social protection as an 'upside-down traffic light' – red for crisis to green for growth).

In terms of linkages between social protection and agriculture, the 'promotion' component is most relevant. This is also a crucial indicator of success for the Ethiopian government, which intends to 'graduate' PSNP participants out of the programme within 5 years of implementation. Importantly, graduation will be achieved primarily through linkages with 'Other Food Security Programmes', especially the 'Household Extension Packages' that generate complementary streams of income for farming families. This is because it is recognised that small transfers of cash or food are more likely to be consumed than invested, while the assets constructed by the public works activities will contribute to an improved enabling environment (eg feeder roads will stimulate trade) rather than directly generating additional income. Similarly, the 'Voluntary Resettlement Programme' aims to 'graduate' participants off chronic dependence on food aid by providing access to more and better land. It follows that the success of the PSNP in terms of graduation outcomes should be evaluated only in conjunction with these complementary programmes. The PSNP itself should

be evaluated mainly in terms of whether it smoothed household food consumption and protected household assets. The available evidence for both these effects is significant and positive.

Figure 3 Objectives of Ethiopia's Productive Safety Net Programme



In terms of *smoothing food consumption*, a survey of 960 households in 8 PSNP districts in 2006 found that 88% of households that received PSNP food transfers consumed all this food while 7% sold some (often to buy other food) and consumed the rest, and a few households gave some of this food to others (usually family members). Among PSNP cash recipients, 88% used some or all of this cash to buy staple food, and 11% bought other food. About 3/4 of PSNP households reported consuming more food, or better quality food, since the programme started (Devereux *et al.* 2006: 46). Comparing expenditure patterns of the two categories of PSNP participants, cash recipients spent significantly more on food than food recipients, which is consistent with expectations, since the cash transfers were primarily intended to ensure access to food for farming households that did not produce enough food and did not receive food aid in 2005/6.

In terms of *asset protection*, our survey found that non-participants were more likely than PSNP participants to experience falls in asset-holdings during 2005/6. Much of this asset depletion was attributed to sales of livestock to buy food. Conversely, 62% of PSNP households reported being effectively protected against 'distress sales' of assets, while 23% increased their asset ownership over the year. However, many PSNP households were forced to sell some of their assets, draw down their limited savings, or even rent out farmland, to survive the 'hungry season'. Loss of productive assets is concerning because this compromises future viability of agriculture-based livelihoods. So the objective of preventing further impoverishment of the most vulnerable farming families was only partially achieved, probably because the transfers were too small (the average contribution of PSNP cash to total household expenditure was just 12%), and often delivered too late, to cover household food deficits. Also, PSNP participants had lower initial asset-holdings, which is an indicator that the programme was well targeted (Devereux *et al.* 2006: 17).

In terms of *promoting agricultural livelihoods*, at least two clear linkages can be identified between the PSNP and agriculture: one direct (public works activities that support agricultural production) and one indirect (investment of PSNP transfers in agricultural production). The first linkage is a programme design effect; the second is a household behavioural effect. The success of the first depends on the quality and appropriateness of the public works activities. The success of the second depends on individual household choices – how many households decide to invest how much transfer income in their farming enterprises, with what impact on production.

4.3.1.1 Direct linkages: PSNP public works

Public works has a long history in Ethiopia, partly because the Government, fearing dependency, has always resisted free handouts in favour of making people work – even for emergency relief – and partly because massive infrastructure deficits are blamed for contributing to food insecurity, and public works mobilises unskilled labour at low cost for building roads and other infrastructure. For decades, food-for-work programmes in Ethiopia have pursued both consumption smoothing and asset creation objectives, but were criticised for failing to leave behind assets that were

maintained and generated sustainable benefits for local communities. The PSNP continues this tradition of delivering social transfers with a heavy work requirement; the main difference being that cash-for-work was offered instead of food-for-work in many (but not all) communities. Most activities implemented under the PSNP Public Works Programme are familiar from earlier food-for-work projects, and many have the potential to promote agricultural production or marketing. Activities that benefit agriculture directly, by either raising or stabilising crop yields and farmers' incomes, include small-scale irrigation, micro-dams, and soil and water conservation. Activities that could enhance agricultural incomes indirectly include construction of rural access roads and farmers' training centres, and improved water supplies (spring capping, ponds, shallow wells). Other activities, such as construction of social infrastructure (school classrooms, health posts) have no immediate income-generating potential, but rural families should benefit from improved education and health in the future, since these are investments in human capital.

The government commissioned a review of the PSNP Public Works Programme in 2006, which found many of the same problems that undermined the effectiveness of previous public works activities in Ethiopia. These "constraints and challenges" included:

"inadequate coordination and monitoring, untimely delivery of resources, high turnover of staff, inadequate assignment of personnel, lack of timely planning and implementation, inadequate technical support to field staff, inadequate supply of tools and equipment, low level of technical skills of field staff" (Government of Ethiopia, 2006: 1).

Most of the assets constructed under the PSNP failed to meet minimum technical standards, with the roads, irrigation and water supply projects being particularly problematic. There are variations across localities, reflecting regional differences in implementation capacity, but it is clear that insufficient attention is being paid to the quality and maintenance of public works assets, probably because the objective of transferring cash or food to poor people is the dominant priority of the PSNP. This raises a familiar concern about loading multiple objectives onto a single instrument. No attempt has been made to quantify any agricultural or income gains that might be attributable to public works activities, but our expectation is that these impacts are likely to be negligible.

4.3.1.2 Indirect linkages: investment of PSNP transfers

In terms of the indirect linkage with agriculture – households choosing to spend some transfer income on farming – the disbursement of regular and predictable transfers over an extended period should enable households to plan their spending, including saving some portion of each monthly transfer until they can purchase, say, a bag of fertiliser or some seeds. This predictability of transfers, reinforced by a shift away from food to cash transfers, is expected to generate a larger impact on production than occasional and unpredictable transfers of food. This thinking reflects a strongly-held view among policy-makers in Ethiopia that decades of food aid have generated 'vicious cycles' of dependency and disincentives to producers and traders, which predictable cash transfers will replace with 'virtuous cycles' of productive investment, asset accumulation, market stimulation and employment multipliers. "Through the provision of cash transfers rather than food, the programme will enable smallholders to increase consumption and investment levels and stimulate the development of rural markets" (DFID Ethiopia, 2005: 1).

Our survey findings on investment of PSNP cash transfers in agriculture reveals that more than one in ten households (88 of 768 participants =11.5%) purchased seeds while a smaller number (26 participants = 3.4%) purchased fertiliser (Table 1). Poorer and wealthier households were equally inclined to buy seeds, but most of the (more expensive) fertiliser was purchased by upper wealth groups. Interestingly, more than half the households that purchased livestock using PSNP cash (50 participants = 6.5%) were in the bottom two quintiles, possibly because poorer families took this opportunity to start rearing animals whereas wealthier households already own animals.

Table 2 Investment uses of PSNP cash transfers for investment

Use of cash	Poorest → Richest income quintile				
	1	2	3	4	5
Agriculture: seeds	15 (17.1%)	16 (18.2%)	27 (30.7%)	17 (19.3%)	13 (14.8%)
Agriculture: fertiliser	1 (3.9%)	6 (23.1%)	11 (42.3%)	3 (11.5%)	5 (19.2%)
Livestock purchase	9 (18.0%)	21 (42.0%)	13 (26.0%)	4 (8.0%)	3 (6.0%)
Business investment	2 (33.3%)	2 (33.3%)	2 (33.3%)	0 (0.0%)	0 (0.0%)
Debt repayment	23 (24.7%)	22 (23.7%)	22 (23.7%)	11 (11.8%)	15 (16.1%)
Education expenses	13 (14.1%)	26 (28.3%)	21 (22.8%)	13 (14.1%)	19 (20.7%)

Source: Devereux *et al.* (2006: 46)

One reason why investment in agriculture is relatively low is that the cash transferred is low and, in terms of food, highly variable across seasons and locations. Given 'Engel's law', that the proportion of income spent on food generally falls as income rises, it follows that poor people will spend most of any incremental income on food, leaving very little cash transfers after food and other basic needs have been met (unless the PSNP is badly targeted: people who invest most of their cash transfers probably should not have received cash transfers at all). As the value of PSNP cash transfers has fallen, due to food price rises averaging 10% per annum (Alderman *et al.* 2006) that have not been matched by increases in cash transfers, so households have presumably allocated ever greater proportions of this income to purchasing food and other essentials, leaving less for investment or asset accumulation. Partly because PSNP cash transfers have failed to maintain a constant purchasing power, 1.8 million cash recipients reverted to food transfers during 2006, and our survey evidence (reported above) confirms that most food transfers are consumed rather than monetised or bartered, so the investment effects of PSNP transfers are likely to have fallen among households that switched from cash back to food.

On the other hand, it must be noted that food price rises are ambiguous for smallholders. For *net producers* (those who produce marketable surpluses) rising prices signify rising incomes from crop sales, and are therefore to be welcomed. For *net consumers* (farmers who fail to meet their subsistence needs from the farm and must purchase some food from the market), rising food prices are potentially devastating and are a major cause of hunger and malnutrition throughout rural Africa. So rising food prices are generally good for agriculture but bad for food security, since they increase the resources that poor people must find to purchase the food they need. High or rising food prices also raise the requirements for social protection or humanitarian relief.

4.3.2 Household Extension Packages (HEP)

Household Extension Packages (HEP) are intended to assist PSNP participants to increase their incomes through diversifying into various agricultural and non-agricultural activities. Households select from 12 packages that range from livestock to improved vegetable seeds or treadle pump, to alternative livelihood packages such as beehives or silkworm raising kits. The packages are repayable at zero interest over 2-4 years (Vaitla, 2006). This is a two-pronged approach: social transfers are provided (usually with a work requirement) by the PSNP, while household incomes and assets are boosted through the extension packages. Although the packages are provided on credit, the knowledge that predictable transfers are also provided for up to 5 years should give households confidence to take on the loans. In practice, this thinking is undermined by two factors. (1) Budget constraints and political pressure to 'graduate' PSNP participants means that retargeting occurs frequently and social transfers are not guaranteed for longer than one year. (2) The size of the HEP loans are disproportionately large relative to the PSNP transfers, raising questions (similar to SG 2000) about the ethics and efficiency of assisting chronically poor and vulnerable people to escape from food insecurity by imposing onerous debt burdens on them. For these and other reasons, take-up of the HEP has been slow, and the target of reaching 30% of PSNP households each year for 3 years looks unlikely to be reached.

Three other concerns with the HEP should be noted. Firstly, skewed availability of packages means that choices are often constrained (Vaitla and Zerihun, 2006). Many participants in Tigray feel that beehives were imposed on them, rather than chosen (Slater *et al*, 2006). As a result, there is a real risk of flooding the market, in this case with honey. Secondly, delays in PSNP payments, or 'rotation' of households out of the PSNP, means that HEP assets and inputs might need to be liquidated for consumption needs (in the absence of PSNP cash transfers) rather than invested for income generation (Guenther, 2007). Thirdly, available evidence reveals that the packages were not well targeted, and even that poorest households were systematically excluded. Our survey found that three in four packages were taken by households in the top two wealth quintiles (Devereux *et al*. 2006). Another study found that the poorest households were screened out of the programme due to a bad credit history or lack of land to absorb HEP livestock (Vaitla and Zerihun, 2006). This skewed targeting is explained by skewed incentives. Staff are under pressure to recover the loans and to ensure that households 'graduate' rapidly out of food insecurity. This naturally leads to a selection bias towards households that are perceived as being creditworthy and have potential to generate income from the packages, rather than, say, labour-constrained households that are perceived as likely to default and unlikely to graduate.

4.3.3 Voluntary Resettlement Programme (VRP)

Resettlement schemes have both social protection and agricultural goals. Relocating farming families from areas where land is constrained, productivity is low and agricultural risk is high, to areas where land is more abundant, agricultural productivity is potentially higher and agricultural risk is lower, seems like an effective strategy for reducing vulnerability (a core social protection objective) and raising farm yields (a core agricultural policy objective). In practice, however, resettlement schemes in Africa have invariably failed, mainly because they are implemented too quickly with inadequate preparation (eg no basic infrastructure and services at relocation sites).

During and following the famine of 1984/85, the Derg regime imposed forced resettlement on many communities in drought-prone highland areas of Ethiopia that were designated as unviable for agriculture-based livelihoods. This policy was justified as a technical response to chronic food insecurity and acute vulnerability to weather shocks, but many analysts believed it was motivated by political expediency, and it caused great hardship and loss of life. Resettlement is also a component of the Food Security Programme, but the emphasis this time is on volunteering rather than coercion. The 'Voluntary Resettlement Programme', also known as 'Access to Improved Land', aims to relieve environmental stress and population pressure in the same highland areas as before, by relocating 440,000 households or 2.2 million people. Each settler household is supposed to be allocated a package of assistance that includes access rights to up to 2 hectares of fertile land, seed, oxen, hand tools, utensils, and food rations for the first eight months. Mindful of the failures of previous resettlement initiatives, settler communities should be well served with essential social infrastructure, including a clean water supply, health post and feeder roads. But the VRP is controversial and donors have been reluctant to support it, fearing the humanitarian consequences if it fails. Although some (critical) unauthorised reports have been written about the implementation and impacts of the resettlement programme, no independent evaluation has yet been conducted of its impacts, either as a social protection mechanism or as an intervention to stimulate smallholder agriculture.

4.4 Other social protection interventions for Ethiopian smallholders

Other social protection interventions in Ethiopia that are directly or indirectly linked to smallholder agriculture include weather-indexed drought insurance, and a new commodity exchange.

4.4.1 Weather-indexed drought insurance

Ethiopian smallholders face persistent risks of drought against which they are unable to insure, due to missing insurance markets. Experience from other countries suggests that insurance delivers both social protection for farmers (a guaranteed safety net against harvest failure) and

agricultural growth (confidence to take moderate risks like investing in high-yielding varieties). Missing insurance markets is common throughout Africa, and is explained by low incomes of farming households, information asymmetries, moral hazard and covariate agricultural risks. Conventional crop insurance is impractical in such circumstances, but weather-indexed insurance avoids some of these difficulties (especially moral hazard and asymmetric information), by using an index based on the relationship between lack of rainfall, crop failure and humanitarian needs.

In 2006 the World Food Programme launched the Ethiopia Drought Insurance pilot project. The project uses an index derived from 10 years of rainfall data from 16 weather stations across Ethiopia, calibrated against the scale and cost of corresponding relief activities. Analysis of these data shows an 80% correlation between rainfall levels and the number of food aid beneficiaries in each year, confirming that rainfall is a reliable indicator of drought-triggered vulnerability and social assistance needs. When total rainfall for the current agricultural season falls below a predetermined threshold, an immediate payout is triggered to finance relief activities. Severe rainfall deficits trigger larger payouts, ensuring that needs are comprehensively covered (Hess *et al.* 2006). This mechanism also ensures timely relief, since social transfers can be disbursed immediately after harvest, protecting household food consumption and assets. This is in contrast to initial experiences with the Productive Safety Net Programme, when transfers were often disbursed several months late, undermining its social protection role (Devereux *et al.* 2006; Guenther, 2007). In fact, no payouts were made from the derivative contract in the pilot year, as crop production in Ethiopia in 2006 was one of the best on record (Hess, *et al.* 2006). The sustainability of this project depends on whether donors and/or the government are willing to continue to pay the necessary premiums every year (Alderman and Haque, 2007).

4.4.2 Ethiopian Commodity Exchange (ECEX)

Prices of food staples in Ethiopia are highly volatile, due to erratic supplies and weakly integrated markets, reflected in high transport and transaction costs, which limit opportunities for smoothing prices through arbitrage across space (transport) and time (storage). Price volatility undermines both food security for consumers and incentives for food producers. Under the Derg regime, food trading was tightly controlled through the Agriculture Marketing Corporation (AMC); however, like many other African countries, Ethiopia underwent rapid market liberalisation in the 1990s, where price controls were eliminated and the AMC was 'downsized'. These reforms did not reduce food price volatility and have arguably exacerbated it (Gabre-Madhin, 2001). Market actors react sluggishly to signals of changes in food supply or demand, leaving producers highly vulnerable to food price collapses and consumers equally vulnerable to food price inflation. Following bumper harvests in 2001 and 2002, for instance, grain prices collapsed by 80%, which undermined smallholder incomes and left 300,000 tonnes of grain rotting in the fields because it was not profitable to harvest (Gabre-Madhin and Goggin, 2005; Jopson, 2007).

In an innovative attempt to address these high transaction costs, the Ethiopian government is working with the International Food Policy Research Institute (IFPRI) to establish an Ethiopian Commodity Exchange (ECEX), which is due to start trading in December 2007 and will cover six crops: coffee, sesame, haricot beans, maize, teff and wheat. A commodity exchange performs three basic functions: (1) *price transparency*: enabling access for everyone to a neutral reference price; (2) *price discovery*: ensuring that demand and supply developments are easily reflected in price levels; (3) *reduced transaction costs*: making it easier to find buyers or suppliers through a centralised market-place. Commodity exchanges can also reduce price risk by trading in futures contracts, and the ECEX will aim to do this in the near future (Gabre-Madhin, 2006).

The Ethiopian Commodity Exchange is expected to reduce transaction costs by: (1) facilitating contact between buyers and sellers, (2) enabling centralised grading of products, (3) ensuring that contracts are enforceable, (4) providing a mechanism for price discovery, (5) simplifying transactions with standard contracts, and (6) transmitting information about prices and volumes which will be enabled through the installation of price tickers at 200 rural sites, giving farmers independent access to price information from the exchange in Addis Ababa. The reduction of transaction costs will enable various market actors, including smallholders, to benefit from a

higher share of the final price. Increased information about market prices will also increase the bargaining power of smallholder farmers and enable them to make better investment decisions. This in turn, would generate incentives for increased production. Moreover, if the exchange is linked to a negotiable warehouse receipts system, this can also increase liquidity for farmers by facilitating access to credit borrowed against the receipt. At least on paper, the ECEX appears to be an excellent example of an intervention that has the potential to achieve both social protection and agricultural growth (i.e. livelihood protection plus livelihood promotion) in a single instrument.

4.5 Conclusion

Many policies and interventions that successive Ethiopian governments have initiated to provide support to small farmers combine elements of 'livelihood protection' and 'livelihood promotion'. Convergence between social protection and agriculture finds its fullest realisation in approaches to food security, a defining policy agenda in Ethiopia. The term 'food security' embodies notions of both agricultural growth (*increased* food production or income generation) and attention to improved risk management (*stabilised* food production). Food security policies in Ethiopia in the past have involved (1) *agricultural policies* and practices that reduce risk (eg crop diversification) and (2) *safety net interventions* that delivered social transfers through public works while also stimulating agriculture, either directly (eg vegetable gardens or watershed management) or indirectly (eg road construction for better access to input and output markets). More radically, two governments (the Derg in the 1980s and the EPRDF in the 2000s) have initiated resettlement programmes that relocated millions of small farmers from the high-risk highlands to lower-risk lowlands, with the dual objectives of *increasing agricultural production* and *reducing agricultural vulnerability*. Although these interventions failed, for a variety of social, political and technical reasons, they represent genuine efforts at 'linking relief and development', which is also a theme that is driving the new social protection agenda, with its emphasis on generating economic growth and poverty reduction through cash-based social transfers rather than food aid.

While positive synergies can be secured between social protection and agriculture, negative synergies can occur if different objectives conflict. In Ethiopia this has been most striking in the case of rural public works programmes, which are often implemented at times of year that compete directly with on-farm labour requirements. The simplest way to avoid competition for scarce labour between public works and agriculture in farming households is to eliminate labour conditionalities from all social protection interventions. But this recommendation is unlikely to find favour with the government of Ethiopia, given its preoccupation with minimising 'dependency', building a 'self-help' mentality, and 'asset creation' by and for communities.

Another non-negotiable issue for the government of Ethiopia is land reform, but it is our view that land redistribution (last implemented 15 years ago) combined with inflexibility around informal land reallocations have constructed more of a 'poverty trap' than a 'safety net' for small farmers in Ethiopia's high-risk highland agro-ecologies. There are many options for loosening allocation of land rights that stop short of full alienation and commercialisation, but which could free farmers to pursue more viable livelihoods elsewhere, and could release land to more productive use. These intermediate options (eg land registration, consolidation of fragmented plots and validation of an informal rental market that is already operating covertly) have the potential for positive synergies between livelihood 'protection' and 'promotion' for small farmers.

Other initiatives that have great potential to protect small farmers against the shocks that thwart their efforts to make a living and threaten their lives include weather-indexed crop insurance, and the commodity exchange that is about to be launched. Together with the drive for agricultural commercialisation and export-led growth as embodied in 'PASDEP', these developments could transform agriculture in highland Ethiopia from a moribund and highly risky economic activity into a more secure sector that generates pro-poor growth and poverty reduction.

Finally, the intervention that is receiving most attention and resources right now is the Productive Safety Net Programme. As discussed above, there is empirical evidence that recipients of cash transfers through the PSNP are using this income to reduce food consumption deficits in their

families, as well as investing in farming, small enterprises and education of their children. But these investment effects are limited by the depth of poverty and food insecurity within recipient households, as well as by the small level and erratic disbursement of PSNP transfers. There is also little evidence to date that the assets created under PSNP public works are sustainable. Maximising the synergistic potential of the PSNP requires ensuring that transfers are predictable and sustained (as intended) and adjusted to reflect rising food prices, and that linkages to other sectors (mainly agriculture, off-farm livelihood activities, education and health) are strengthened. There is great potential in the PSNP, as with PASDEP and the other initiatives discussed in this paper, to achieve synergies between agriculture and social protection. Much depends on how effectively these innovative ideas and good intentions are implemented in farming communities.

Chapter 5 Ghana Case Study: A LEAP in the dark

This chapter explores the persistence of chronic poverty and livelihood vulnerability among small farmers in northern Ghana, in a context of impressive progress on poverty reduction at national level. Formal and informal social protection mechanisms for addressing vulnerability in Ghana are addressed, from 'PAMSCAD' in the 1980s to the new National Social Protection Strategy (NSPS). The chapter concludes by discussing the proposed 'Livelihoods Empowerment Against Poverty' ('LEAP') cash grants that will be introduced shortly, speculates on potential synergies between LEAP and agricultural production, and argues that complementary interventions are essential.

5.1 Poverty, livelihoods and vulnerability in Northern Ghana

Ghana was one of the first countries in Africa to embark on structural adjustment reforms. 25 years on, Ghana's continuing commitment to reform for national economic development has yielded impressive gains in growth and poverty reduction – headcount poverty fell from 52% in 1991/92 to 28% by 2005/06 (Ghana Statistical Service, 2007). At current growth rates, Ghana should achieve MDG1 before 2010. However, these gains have not been experienced equally around the country, and poverty in the three northern regions – Northern, Upper East and Upper West – remains stubbornly high. In 2005 the northern regions accounted for 22% of the national population, but 45% of the headcount poor (Ghana Statistical Service 2007).

The relationship between poverty and subsistence-oriented agriculture in Ghana is strong, with poverty being concentrated among food crop farmers, who live disproportionately in the three northern regions. Poverty has fallen rapidly among export crop farmers (mainly cocoa farmers) but remains high among farmers whose livelihoods are dominated by production of low value food crops. A recent survey by the Ministry of Food and Agriculture (MoFA) disaggregates households in Ghana's northern districts according to their livelihood strategies (Table 3).

Table 3 Livelihood strategies of households in northern Ghana

Group	Characteristics	Assets	Activities
Vulnerable (5%)	high numbers of orphans, school drop-outs, youth, economic migrants, widows with children, elderly, disabled, chronically sick	0-0.5 acres of land per active member; no livestock but 0-5 poultry; basic house + cooking equipment and clothes only	sale of firewood, basket or rope-making, collecting wild products, sheanut gathering, buying and reselling foodstuffs
Poor (35%)	high proportion of widows with children, youth, semi-permanent migrants, migrants creating farms outside their tribal areas, small farmers with low labour capacity	0.3-2.5 acre per active member; 0-5 sheep/goats, 0-3 cattle per household; bicycle, roof sheets	food crop farming and livestock rearing; petty trade; collecting, processing and selling natural resource products; seasonal and semi-permanent migration
Medium (51%)	large family, high labour capacity (i.e. low dependency ratio)	1.5-4 acres per active member; 10-40 sheep/goats, 3-30 cattle; (semi-) permanent house; modest education and assets (sewing machine, shop, TV)	farm and non-farm activities
Well-off (9%)	large family and high labour capacity, higher proportion of skilled labour	1-25 acres per active member; 0-120 sheep/goats, 0-1,000 cattle; large permanent house with water, electricity, kitchen, toilet, fridge; tractor, car/truck; may have two houses – one in town, more modest on farm	agricultural: perennial (cocoa, rubber), non-traditional or food crops (on a commercial scale); livestock (including commercial poultry); non-agricultural: tractor or transport services, medium-large scale trading, shop/house rental, salaried job

Source: MoFA (2007)

Qualitative information collected during the MoFA survey reveals that the so-called 'vulnerable' group typically start with few inherited assets and/or have to cope with disability, then may be hit by further shocks, such as drought, bush fire, malaria, accident, widowhood or loss of animals through theft. Many no longer engage in agriculture at all. They struggle to obtain enough food during the annual 'hungry season' (March-July) and depend on family or community assistance, which is weaker for those who have migrated to town. The 'poor' group are more dependent on agriculture than the 'vulnerable', but are constrained by lack of labour (sometimes land) and hence are unable to accumulate capital. MoFA (2007) describes them as pursuing a 'survival strategy' rather than a 'development strategy'. By contrast, the 'medium' group can pursue a 'development strategy' based on saving through livestock (with resources acquired from crop sales or livestock husbandry), leading to investment in both agricultural and non-farm livelihood activities. Most households in this group have adequate labour capacity, so are responsive to commercial farming opportunities.

Households that depend on agriculture for their livelihoods are particularly vulnerable to climatic shocks (bushfires, droughts, floods), but also to market volatility (food price seasonality, rising input prices), and health risks (disease, malnutrition) (NDPC, 2004). Where they can, households take measures to reduce their exposure to risk (diversifying income sources through migration and remittances, planting improved seed varieties, multi-cropping). After a shock hits, households are forced to adopt 'coping strategies' that include sale of assets, including livestock; reduction in food intake; engaging in petty trade; migration; withdrawing children from school; self-medication; and reliance on families, community-based organisations or NGOs for assistance.

The MoFA (2007) study team asked respondents what they would do if they received a windfall lump sum transfer. Most 'vulnerable' households indicated that they would buy food for their families or engage in petty trading, while only a few stated that they would invest in agricultural production (crops or livestock), probably due to their lack of complementary assets (labour, land) and their limited ability to bear the risk involved in agricultural production. By contrast, the majority of responses from 'poor' households involved some form of agricultural investment (expand the food crop farm, buy small ruminants or poultry, buy agricultural inputs, hire farm labour). A larger majority of responses from the 'medium' group also involved agricultural investment (with similar priorities), with expanding trade or business being the top non-agricultural suggestion. Among the 'well-off' group, agricultural and non-agricultural investments were indicated about equally.

These responses illustrate that, while food crop agriculture is strongly associated with poverty in Ghana, many households in the northern regions still see agriculture as offering them their best opportunity for economic advancement, despite the challenges that agriculture faces. This is especially true for those with limited capital to invest, and limited education. The corollary is that there is a lack of non-agricultural opportunities for these households (Shepherd *et al.* 2005). This means that poor and vulnerable households are trapped in agriculture and unable to escape from poverty due to low asset levels that reduce their possibilities for saving and investing, in a highly risky environment where shocks regularly force them to liquidate their assets simply to survive.

5.2 Agriculture in northern Ghana: Why does semi-subsistence food production predominate?

In the 1970s, northern Ghana was seen as having the potential to supply the whole country with agricultural produce. The state therefore invested in a number of agro-processing ventures in the north, established large commercial rice farms and supported smallholders through subsidised tractor services and fertilisers, and with market support through the activities of the Ghana Food Distribution Corporation (GFDC). But many of these interventions were judged to be ineffective in stimulating agricultural development and, as they were also costly, were terminated during the structural adjustment reforms of the 1980s and early 1990s. The rice farms collapsed following the withdrawal of subsidies and liberalisation of markets, which saw surges in imports of rice, meat and other commodities, displacing domestic production. However, the withdrawal of these supports left the northern regions with no strategy for agricultural or broad-based development, only a series of targeted smallholder projects funded by donors or NGOs (eg IFAD, ActionAid).

Agricultural production in these regions remains dominated by semi-subsistence production of staple food crops (maize, rice, sorghum, millet, cassava, yam). About 60% of total arable land in northern Ghana is allocated to these crops, most of which is consumed at home rather than sold. A critical question is why smallholders devote so many resources to semi-subsistence production of staple foods, rather than producing higher value crops for market. Indicative crop budgets show that the returns to labour from producing groundnuts comfortably exceed those from a maize-sorghum intercrop in northern Ghana in a 'normal' season, even when the household is in food deficit.¹ In a poorer year, the returns to the maize-sorghum intercrop and to groundnuts are comparable. This suggests that production of staple foods is not a profit-maximising strategy. On the other hand, MoFA data show that groundnut production has recently been increasing rapidly in the northern regions (mainly based on area expansion), while maize and sorghum production has declined), suggesting that relative returns may play some part in farmers' cropping choices.

Two plausible explanations for smallholders' continuing preference for growing grains are, firstly, a cultural ethos of food self-sufficiency in farming communities, and secondly, fear of depending on weak and unreliable markets for food, given that prices can rise to unaffordable levels during severe hungry seasons. Another possible factor is that staple food crops appear to perform better than the main cash crops under drought conditions. A final explanation for the prominence given to semi-subsistence production of food staples relates to social organisation. In all three northern regions, 'households' are complex extended family units living in large 'compounds', and the head of the compound has authority to mobilise labour from all residents for the compound food plot, to ensure that a full year's supply of food is harvested for the compound granary.

Binswanger and McIntire (1987) argue that social institutions are a response to a combination of risk and failure in the markets (especially insurance, savings and credit) that could protect people against this risk. Pooling social institutions, such as the compound system, are well suited to absorbing idiosyncratic risk (eg embedded labour risk in disease prone areas), and while they can offer only imperfect protection against covariate risks, this may be the best protection available. The compound system can thus be thought of as an informal social protection system. However, as with all such systems, it comes at a cost: it imposes constraints on agricultural diversification by compound members, who can only grow their own crops at times when their labour is not demanded on the compound food plot. The resulting low or untimely application of labour to private fields can reduce yields on higher value non-food crops. North (1990) observed that informal institutions tend to evolve slowly. The compound system may have emerged in response to a particular problem of market failure in northern Ghana (thin and unreliable food markets, and absent insurance and credit markets), but it may be slow to change even if the efficiency of food markets improves. Though households might now be better off producing groundnuts for sale and using the proceeds to buy food, the compound system continues to prioritise maize production. However, there is some evidence of gradual change in the compound system, in terms of claims over family labour by the compound head slowly decreasing over time.

Key constraints to increasing production of staple food crops in northern Ghana include: limited irrigation; limited adoption of improved seed; limited use of fertiliser (because of high prices and lack of seasonal credit for smallholders); and limited use of animal traction (a function of unequal ownership of draught oxen). These observations suggest that smallholders face asset thresholds that they need to cross (particular in terms of animal traction) if they are to enjoy higher cereal yields that will enable them to invest significantly in production of higher value crops for market.

It should be noted that, having focused until recently on promoting agricultural growth (implying targeting resources to high potential areas), Ghana's Food and Agriculture Sector Development Policy (FASDEP) is currently being revised to give additional weight to the objective of poverty reduction among smallholders. In its 2007/8 Budget Statement, the Government also announced a 'Northern Development Fund', a response to the debate about poverty in northern Ghana and deepening inequalities between northern regions and southern/central regions.

¹ See the Ghana case study background paper for this project, for the detailed calculations.

5.3 Brief history of social protection policy in Ghana

This section considers whether social protection interventions could assist households to devote more resources to production of high-value crops, in the light of the reasons for semi-subsistence staple food production discussed above. The history of social protection policies and programmes in Ghana does not amount to a systematic evolution; instead implementation has been patchy and inconsistent, reflecting different stakeholders' agendas and interests at different times.

The most obvious social protection interventions are food transfers implemented through food aid and food-for-work programmes, initiated by the donor community such as USAID's PL480 Title II programmes. The US food aid programme in Ghana is implemented by Catholic Relief Services (CRS), Adventist Development and Relief Agency (ADRA) and Technoserve. CRS distributes food aid through direct feeding (maternal and child health projects), institutional feeding (school lunches and take-home rations for girls) and emergency relief (for disaster victims). ADRA got involved in the Title II programme in Ghana during the 1983/84 food crisis, and later expanded its relief programme to include developmental activities, such as food-for-work to support an agro-forestry project in which rural communities plant tree seedlings for harvest and sale as firewood. Technoserve has monetised food aid to support agricultural income-generating activities, such as palm-oil processing and marketing, cereals marketing, and non-traditional export development. Although CRS and ADRA programmes generally target the poor and vulnerable, Technoserve applies a principle of promoting the 'entrepreneurial poor' who have some assets and are already engaged in some form of economic activity.

A study of US food aid in Ghana revealed that: (1) direct feeding projects were mismanaged and did not contribute to development objectives, and (2) the Ministry of Agriculture's plans for achieving food security do not include long-term continuation of direct feeding programmes for vulnerable groups. Instead, the Ministry's focus is on increasing food production and raising the income of rural Ghanaians. The World Food Programme (WFP) also runs emergency and non-emergency feeding programmes in Ghana. WFP activities include food-for-work projects for railway, port, highway, and feeder road construction; supplementary feeding and nutritional education projects; and emergency food distribution for refugees. WFP's goal is to phase out imported food aid by 2010 and source all food for food aid programmes from local production (WFP, 2007). This strategy complements the government's school feeding scheme, which sources food locally to boost agricultural production.

The best known government initiated social protection programme is the Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD), which was conceived in 1987/8 as a safety net for Ghanaians who were adversely affected by structural adjustment reforms, particularly non-export crop farmers and retrenched civil servants. PAMSCAD included 23 projects grouped into 5 categories – employment generation, community initiative projects, help to the redeployed, basic needs for vulnerable groups, and education. According to an evaluation report (World Bank, 1992), PAMSCAD's effectiveness was limited by design weaknesses, including: (1) it contained too many projects relative to the implementation capacity of donors and government; (2) it did not target the poorest groups; (3) the long-term elements of PAMSCAD should rather have been implemented under the government's regular public investment programme. Other commentators suggest that PAMSCAD was used to alleviate the government's political problems by providing disgruntled Ghanaians (eg retrenched civil servants) with compensation payments. As a result of this politicisation, resources were spread very thinly and PAMSCAD's impact was negligible, especially in rural areas where implementation was hampered by lack of capacity (Herbst, 1993).

Under Vision 2020, Ghana aimed to "develop a comprehensive, sustainable and cost-effective social support system, especially for the disadvantaged and vulnerable" (Government of Ghana, 1997: 78). However, poor coordination between the lead institutions, combined with inadequate budgetary allocations, meant that the vision was not implemented successfully, and no social support system was developed within the medium term development planning period.

Smallholders and their children were one of 13 vulnerable and excluded groups identified in the Ghana Poverty Reduction Strategy (GPRS), which replaced Vision 2020. The GPRS problem analysis highlighted the extremely low and fluctuating incomes of the average farmer and lack of viable alternative economic activities, especially in the northern savannah regions. However, the proposed interventions focused on expansion of existing social security schemes, upgrading of urban slums, disaster management and coordination of service delivery – most of which excluded poor families pursuing agriculture-based livelihoods. GPRS II (2006-09) specifies a social policy framework for mainstreaming vulnerable and excluded people in human resource development. Policy areas include integrated child development (early childhood development, child protection); strengthening the family (eg family life education); HIV/AIDS; capacity development in social work and voluntarism; and strengthening institutions and improving their coordination.

5.4 Social protection through agriculture: Sasakawa Global 2000

The Sasakawa Global 2000 programme is often thought of as a social protection intervention since it aims to ensure household food security, by boosting food production through subsidised access to agricultural inputs. SG 2000 started in 1986 in Ghana and was implemented by the Ministry of Food and Agriculture's Extension Services Department. Maize seed and fertiliser packages were disseminated in the southern and central regions, while sorghum packages were disseminated in the drier north. Although access to the programme was untargeted, packages were given out on a revolving credit basis with repayment in seeds after harvest, so extension officers had incentives to select 'progressive' farmers who were seen as more likely to repay. The programme's initial success in terms of numbers of participants, area planted to improved seed and crop yields was marred by inadequate institutions to support its rapid expansion from 40 test plots in 1986 to 76,000 farmers in 1989 – and loan recovery rates fell from over 90% to 44%.

The programme was re-designed in 1990/1. It was scaled down to 5,000 plots, more diversified crops were promoted (rice, cassava, cowpea), and the private sector was engaged (Agriculture Development Bank provided credit; traders distributed inputs instead of MoA extension staff). Unfortunately the programme's crises occurred during a period when major policy shifts in input distribution and pricing, and financial market liberalisation were taking place, and there were no mechanisms to ease the transition from public to private input marketing. These experiences underscore the importance of well-functioning market institutions, and a conducive economic environment for programmes that focus on agricultural production. Poor access to markets in a context of increased production can lead to price collapses and subsequent default by farmers participating in credit-based agricultural programmes.

5.5 Current social protection programmes

Apart from traditional social protection arrangements that vary from culture to culture across the country, public social protection policies and programmes in Ghana currently include:

- **social transfers:** support to children in need of special care and protection, Capitation Grants to basic schools, school feeding, supplementary feeding, health exemptions;
- **labour market interventions:** National Labour Standards, minimum wage legislation, employment creation for youth, Skills Training and Employment Placement (STEP), regulations to protect the interests of workers;
- **social insurance programmes:** social security and pension schemes (for formal sector workers), National Health Insurance (introduced in 2003);
- **humanitarian relief:** disaster management, emergency food aid.

Gaps identified in current social protection interventions include: limited coverage, limited support to informal sector, weak targeting mechanisms, inadequate inter-sectoral linkages, inadequate co-ordination, weak institutional capacity, low cost-efficiency and cost-effectiveness, and limited recognition of gender considerations. Recognising these gaps and limitations, the Government of Ghana has recently drafted a Social Protection Strategy that aims

“to provide a coherent National Social Protection Framework to help lift the socially excluded and vulnerable from situations of extreme poverty and to build their capacity to claim their rights and entitlements in order to manage their livelihoods, to make their contributions and meet responsibilities towards national development” (Government of Ghana, 2007).

5.6 Ghana’s National Social Protection Strategy

The National Social Protection Strategy (NSPS) was published by Ghana’s Ministry of Manpower, Youth and Employment in March 2007. Noting that “uncoordinated delivery and poor targeting of most of the existing interventions have resulted in limited coverage and impact” (Government of Ghana, 2007: 10), the NSPS aims to target systematically the 15% ‘extreme poor’ in Ghana. The main instrument for achieving this is a social grants programme called ‘LEAP’ – ‘Livelihoods Empowerment Against Poverty’ – which has been under development during 2007. Drawing on a Poverty and Social Inclusion Assessment (PSIA), NSPS is based on the premise that “the roots of poverty are found in the multiple social risks faced by the poor, and in their vulnerability to the impact of these risks” (Government of Ghana, 2007: 11). The LEAP social grants will therefore assist the poor “to reduce, ameliorate, or cope with social risk and vulnerability”. Cash transfers under LEAP will be unconditional to “individuals with no productive capacity, eg the elderly poor, persons with severe disabilities etc”, but in other cases will be conditional on:

- enrolling and retaining all school-age children in public basic schools (attendance costs will be met out of an Education Capitation Grant which covers the costs of teaching children from poor households, these children will also benefit from School Feeding);
- all household members being registered within the National Health Insurance Scheme (NHIS contributions to be paid out of LEAP grants);
- new-born babies being registered with the Birth and Deaths Registry, attending required post-natal clinics and completing the Expanded Programme on Immunisation (EPI);
- no child in the household being trafficked or engaging in any activities constituting the ‘Worst Forms of Child Labour’.

Underlying these conditionalities is an intention that LEAP ensures increased access to education and health care for poor Ghanaians, to break inter-generational cycles of poverty: “household poverty undermines children’s nutrition and educational attainment, limiting their future prospects” (Government of Ghana, 2007: 12). However, it remains to be seen whether these conditionalities will be implemented in practice. Experience from other countries suggests that a high level of administrative capacity (involving coordination across health, education and other sectors) is required to monitor and enforce compliance with such conditions. More immediately, the cash grants aim to provide beneficiaries with basic livelihood security, thereby increasing their ability to plan for the future and freeing them “to engage in productive activities to support themselves and ultimately contribute to national development” (Government of Ghana, 2007: 12), including adopting more risk-taking livelihood strategies. Ultimately, it is hoped that LEAP beneficiaries will become micro-credit clients, so as to further develop their livelihood strategies.

The PSIA identified small-scale farmers as a leading vulnerable group in the country, due to the multiple risks they face. It also highlighted a link between gender and poverty, with women farmers being noted among the poorest in society. Accordingly, ‘subsistence farmers and fisher folk’ are the first of five target groups for LEAP, accounting for close to half of the total recipient population (360,000 out of 800,000). Other beneficiary groups are the extremely poor above 65 years, care-givers (for Children Affected By AIDS, children with severe disabilities and other incapacitated people), extremely poor people living with HIV/AIDS, and pregnant or lactating women living with HIV/AIDS. The basic LEAP grant will be equivalent to US\$8 per household per month.

5.7 Potential complementarities between LEAP and agricultural development

The NSPS fails to provide details of eligibility criteria for LEAP, or how recipients will be identified, beyond stating that a 'quasi-exhaustive survey approach' will be used. Eligibility criteria are critical to the impact of LEAP on poverty and agriculture in the three northern regions. Given the concentration of poverty in these regions, a large share of LEAP social grants will presumably be disbursed in these regions. But this requires strong political will, especially from a government whose parliamentary majority is firmly rooted in the south. The experience of PAMSCAD does not bode well for unambiguous targeting of LEAP grants to the poorest households in the country. A national targeting policy requires clear and simple targeting criteria that are applicable country-wide, and the capacity to administer these. In the absence of one or other, a fallback solution could be to use participatory, local identification of beneficiaries, as in Zambia (Schüring, 2007). In Zambia this led to a fixed quota of households in each community receiving support. This can be reasonably consistent with national poverty targeting as long as the scheme operates only in selected areas, but not if it is ultimately intended to be rolled out country-wide.

If LEAP grants are allocated according to national poverty-related targeting criteria, and if the scheme aims to reach the 15% of the population considered 'extremely poor', then around 38% of the population of the three northern regions should receive grants, given that 57% of the extreme poor are found in the three northern regions. Referring back to Table 2, this encompasses most of the so-called 'vulnerable' and 'poor' groups. As noted above, the 'vulnerable' group have only a modest engagement with agriculture – most fall into other LEAP target groups than small-scale farmers – since they lack the labour and sometimes also the land to undertake crop production. As has been reported on cash transfer programmes in Zambia, Ethiopia, Malawi and elsewhere, 'vulnerable' recipients might use a proportion of their transfer income to acquire poultry or goats. These are desirable outcomes in themselves, but are unlikely to take these households over any critical asset thresholds to embark on sustainable income generation and wealth accumulation. For most households in this group, social grants are likely to fulfil primarily a welfare function.

By contrast, the 'poor' group in Table 2 are engaged in semi-subsistence agriculture as a major livelihood activity, and see investment opportunities in agricultural expansion (if only because few alternative opportunities are open to them). It is indeed possible that access to social grants will enable them to expand their agricultural production. Having guaranteed access to some food during the 'hungry season' could enhance their health and strength, making their labour more productive. It may also remove the need for mid-season diversion of labour away from cultivation so as to meet immediate food requirements. However, because of the way the compound system functions, this may be less of an issue in northern Ghana than in Malawi or Ethiopia. Dynamically, access to grants may reduce the need for disinvestment in response to shocks, hence enabling households to retain and build up their productive assets over time. On the other hand, it seems unlikely that the size of LEAP grants will permit poor households to hire additional land or labour – the two main constraints to expanded production by this group noted by MoFA (2007). So any increase in agricultural production in northern Ghana as a result of LEAP is likely to be modest.

Agricultural impacts could be increased if LEAP grants are concentrated during the production season, with (say) a lump sum payment prior to planting enabling beneficiaries to afford either ploughing services (to expand cultivated area) or improved seeds or fertiliser (for higher yield). Further payments during the production season could finance labour hire or simply ensure that household members eat well enough to stay healthy and make the most of their own labour potential. Drawing inspiration from the Employment Guarantee Scheme in India, NSPS notes that "linkages will be established between LEAP and the Labour Intensive Public Works Programme, the Youth Employment Programme and the Cocoa Mass Spraying Programme to support the labour market". The nature of these linkages is not specified. However, concentrating the public works and youth employment schemes in the agricultural off-season would make it feasible to concentrate disbursement of LEAP grants on the critical agricultural production season.

Given the uncertainties surrounding the possible production response by 'poor' recipients of social grants, it is not possible to predict LEAP's impact on regional food markets. Food prices

could go either up or down, depending on whether any additional production as a result of social grants is greater or less than the additional demand stimulated by receipt of these grants. If the incremental production exceeds incremental consumption, the resulting lower real food prices will generate significant additional benefits for poor households. However, if prices rise, this will erode the real value of the grants to recipients and disadvantage many non-recipients.

Finally, we argue that, in Ghana's predominantly agricultural northern regions, social grants are only one step to lifting extremely poor households out of poverty. As MoFA (2007) showed, poor households that receive additional capital may well invest much of this in agriculture. However, under current circumstances semi-subsistence agriculture does not offer a reliable exit from poverty. For agriculture in northern Ghana to realise its poverty-reducing potential, an improved agricultural policy is required, as is more investment in irrigation, rural roads, extension and veterinary services. Since most poor smallholders also fall below critical 'asset thresholds', a complementary policy to targeted social grants for the 'poor' group would be the provision of animal traction services to LEAP beneficiaries, which could be piloted by an agricultural NGO. Other agricultural assistance would also be useful for this group, such as subsidies or loans for acquiring oxen, cattle or ploughs.

Ultimately, the NSPS hopes that LEAP beneficiaries can become micro-credit clients, taking input loan packages for livelihood diversification that are reminiscent of Ethiopia's Household Extension Packages. According to the NSPS (Government of Ghana, 2007: 55):

"The agricultural input support programme is a MOFA pilot programme that provides loans and agricultural inputs to poor smallholder farmers. ... The programme supports a broad range of activities such as the provision of seeds, fertiliser, improved planting materials, irrigation facilities, breeding stock, beekeeping, poultry and snail rearing, processing, storage, marketing, and training. Eligibility for assistance is based on the recommendations of the PSIA regarding the characteristics of the poorest people, and the applied criteria include availability of labour, ownership of land and lack of capital."

But little progress has been made in developing micro-credit schemes to support smallholder agriculture (especially semi-subsistence food production) anywhere in Africa, and the NSPS recognises that "access to micro-finance schemes for the extreme poor remains a major challenge" (Government of Ghana, 2007: 57). Our expectation is that, even when micro-credit schemes to support smallholder agriculture do begin to expand, they will target the better-off smallholders first (as with Sasakawa Global 2000), with the poorest 15% being excluded.

5.8 Conclusions

This chapter has taken the case study of agriculture in northern Ghana to illuminate broader issues around smallholder vulnerability, social protection and agricultural development policies. The four conclusions drawn here are specific to our analysis of northern Ghana, but also have relevance to similar semi-subsistence smallholder farming systems elsewhere in Africa,

1. High agricultural vulnerability and perceived market risks in northern Ghana encourage a subsistence orientation by smallholders, although this is not a profit maximising strategy.
2. Social institutions that evolve to ensure informal protection (such as the compound system) can become dysfunctional if they change too slowly as vulnerability factors change.
3. Crop diversification, assisting smallholders to cross asset thresholds, and stabilising food prices will all contribute to both agricultural growth and social protection outcomes.
4. Positive synergies could be achieved between LEAP cash transfers and agricultural policy, with the former equipping poorer households to benefit from the latter; but complementary interventions are vital to alleviate asset constraints and agricultural and market risks.

Chapter 6 Lessons and Ways Forward

As argued earlier in this paper, 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.

The many issues raised in this review of linkages between social protection and agriculture in Africa will not be repeated here. Instead we present some general and specific points arising from our analysis of conceptual issues and the country case studies.

The 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 FAO and others 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'. In northern Ghana the priority problem facing smallholders might be price risk associated with weak *markets*, requiring a very different configuration of policy responses.
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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