



**AgEcon** SEARCH  
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

*The World's Largest Open Access Agricultural & Applied Economics Digital Library*

**This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.**

**Help ensure our sustainability.**

Give to AgEcon Search

AgEcon Search  
<http://ageconsearch.umn.edu>  
[aesearch@umn.edu](mailto:aesearch@umn.edu)

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

### **Subject III**

## **Risk Management in Agriculture/Rural Sector**

### **Rapporteur: Bharat Ramaswami\***

The following themes came up for discussion.

#### *1. The Critical Importance of Extension and Support Services*

The issue came up first in the discussion of the adoption of vaccination as a strategy to reduce risk against disease in livestock. It was pointed out that institutionalised mechanisms for transmittal of disease and health information (especially regarding reproductive disorders) to livestock owners do not exist. Lack of awareness of the benefits of vaccination is a constraint.

The issue of lack of extension services was also raised in the discussion of the impact of integrated pest management (IPM) on the risks from pesticide use. Here too it was agreed that the success of IPM depends on dissemination and training.

New models of extension must be devised. The discussions considered in some detail farmer's clubs promoted by NABARD and rural banks. These are informal farmer groups which span two to three villages. It was argued that these clubs have done a good job of linking farmers with government agencies and technical experts. However, there are only about 20,000 such clubs and so the programme would have to be scaled up by about ten times to cover the country. It was agreed that the governments should support the initiative of NABARD and encourage the scaling up of this programme. The discussants also pointed out that it was unlikely that only one kind of farmer's groups would be able to meet the needs of the diverse rural population – so policy must promote and encourage other sorts of groups as well – especially self-help groups such as the Kutambashree movement in Kerala. All of these have the potential to serve as points of knowledge discovery and dissemination and therefore will raise awareness about the different kinds of health risks to human and livestock and ways to minimise them.

#### *2. Externalities in Adoption*

The discussion of adoption of vaccination and IPM programmes threw up a relevant fact: that significant externalities govern the adoption of the programme.

---

\*Professor, Planning Unit, Indian Statistical Institute, New Delhi – 110 016.

The social gains from their adoption are greater than the private benefit. This means that when the adoption is low, it will remain low because farmers may not wish to adopt unless others adopt as well. Such low-level equilibrium traps are hard to break unless there is co-ordinated action by the community. This is another reason why it is important to have farmers' involvement in extension in not just being passive recipients of information but also in setting agendas for community improvement. It would seem therefore this is yet another reason why the government should encourage farmers' clubs, self-help groups and other associations rather than adopt a top-down approach to extension.

### *3. Public-Private Partnerships*

The discussion highlighted the potential of public-private partnerships in nurturing and fostering new economic activities. Aquaculture in Himachal Pradesh was taken as an example of a new economic activity. In such activities, it takes many years before the growers gain the experience to be viable. It is important therefore that public bodies such as panchayats should be empowered to lease common water bodies for aquaculture for periods long enough for returns to be earned. In the discussion, it was agreed that revenues from these activities could be used by the local bodies to maintain and preserve common water bodies and other resources.

### *4. Importance of Price Risks*

Based on several presentations and the discussion, it was clear that price risks are a significant if not the major component of risks faced by farmers. What can be done about it?

Price support programmes have historically served to stabilise prices for the major field crops such as rice and wheat. But it was pointed out that these programmes are not feasible for high value perishable crops which cannot be stored for long periods. While futures markets can be useful in several ways, they are not likely to be directly accessed by the farmers. Instead, it is suggested a market for forward contracts that are transparently priced. The buyer of forward contracts can hedge their position in futures markets. Contract farming and the entry of corporate sector were also discussed for their potential to offer price insurance. It was pointed out that while there are a few successful examples, it is not always easy to replicate them in other settings, regions and crops. The model for contract farming would probably be specific to locale and environment.

### *5. Crop Insurance*

It was agreed that crop insurance has great potential to reduce exposure to production risks. However, so far, they have been plagued by many problems – in particular, the participants pointed to issues such as crop-cutting experiments which

provide the actuarial base, the inadequate coverage of the programme and the high premium cost for some crops.

The provision of insurance involves a trade-off between risk cover and moral hazard. Keeping that in mind, the participants agreed that a good idea would be for the government to fully subsidise a disaster insurance programme. Under this scheme, extreme crop losses (say losses greater than 50 per cent of normal yield) would be insured. Such a programme would offer a safety net to millions of small and vulnerable growers. At the same time, it would be cost-effective because it insures extreme and low probability events rather than frequently occurring small losses.

The discussion also pointed out the necessity to separate out government relief schemes from crop insurance programmes. The latter must be commercially viable.

#### 6. *Quality of Inputs*

The risk that inputs are spurious or low quality was identified as deserving serious consideration. How can this be rectified?

The discussions emphasised that governments can promote quality assurance by publicising certification and quality guarantees for inputs (such as the well known 'ISI' mark). Private entrepreneurs can use such labeling to offer quality services. In this context, the discussions also debated the entry of the corporate sector in providing inputs and services to agriculture. It was agreed that while such entry would improve quality, the impact of such entry on market structure would have to be monitored.