

# **INTERNATIONAL CONFERENCE: "WHAT MICROFINANCE FOR DEVELOPING COUNTRIES' AGRICULTURE?"**

**December 4, 5 and 6, 2007, PARIS (FRANCE)**

## **WORKSHOP 3: MANAGING AGRICULTURAL RISK: WHAT INNOVATIVE TOOLS AND PROCEDURES?**

### **THE ISSUES**

Rural households that are partially or entirely reliant on agricultural income face many risks.

Climatic (drought, flooding, cyclones, etc.) and market risks (price instability, payment conditions at harvest time) are among those that render rural households particularly vulnerable. They can be individual or covariant, i.e. they can effect an entire population in a given zone simultaneously.

Individual risks include unforeseen events (sickness, marriage, death, travel) that compromise the proper functioning of agricultural operations or expose the household to extraordinary expenses. For farmers, these kinds of incidents or accidents translate into reduced harvests, cash flow difficulties, loss of production tools, hunger or even famine.

Farmers and rural institutions in general have always sought out strategies to reduce these risks so as to limit their negative effects on income. The strategies may be preventive, or *ex ante* (water storage, monetary savings, in-kind savings, accumulation of stock, diversification of income generating activities, crop diversification, immigration), or reactive, *ex post*, (selling livestock or some other operation involving de-capitalization, withdrawing children from school, borrowing money from formal or informal moneylenders).

While these forms of risk management can be effective in some situations, they are rarely effective when confronted with covariant risks. Moreover, individual risk significantly increase the vulnerability of households. For a financial institution, this translates into late repayment and even the loss of capital in the event of total default.

It is within this context that agricultural and social insurance mechanisms have been developed.

### **EXPECTED OUTCOMES**

This workshop aims to better understand the vulnerability of rural households.

It will analyze the difficulties that come with setting up insurance systems and assess the potential of existing agriculture insurance products to help improve the risk management of southern farmers.