Risk Aversion and Diversification

Harry van den Burg works with Umlimi Lokhonile Seeds, Mbovane Marketing, in Mbabane, Swaziland. He wrote in response to the article on risk aversion that appeared in EDN 121, about "…the extent to which risk aversion may have been and even is overestimated, at the expense of hunger and exhaustion, as a leading limiting factor on agricultural productivity.

"Whereas I certainly think that the argument has merit…I do not think that risk aversion should be relegated to insignificance as yet. While it is certainly true that small farmers in developing countries do take risks, all the time, that does not mean that they like it, and that they will not try to minimise them whenever they can, as most of us will do. I would like to share with you a very instructive example from Swaziland.

"When analysing the smallholder agricultural system for bottlenecks to be addressed, an agricultural research team from Penn State University in the early to mid-1980s observed that two important factors were limiting maize production: late planting and labour for weed control. There was a clear relationship between area planted per homestead and available weeding labour, even in locations where land availability as such was not a problem. And even in years with early onset of the rains, planting was not done significantly earlier. The reason was that early planted crops would have to be weeded earlier, before the time when homestead members would come home from school and town employment for the Christmas holidays (in the southern hemisphere, the main long mid-summer holidays). Tillage or draught power was less of an issue, as many homesteads had oxen, and there was (and is) a subsidized government tractor ploughing service. And to avoid the queues at peak planting time, it would even be beneficial to make use of that early.

"In order to address this problem, the team looked at the possible introduction of herbicides. While liquid application was unsuitable for reasons of costs, application technology, health dangers and dosage, the use of granular herbicides looked promising. Suitable products, rates and application technologies (simple dosage measuring) were established on-station, and on-farm farmer-managed trials carried out. In the evaluation, it appeared that farmers were very interested. Yields were not that much higher compared with hand weeding, but labour requirements were cut dramatically. They were very interested in purchasing the product. And then, the big question: now that weeding is going to cost you far less time, are you going to plant more maize, or plant earlier? Eh, no, was the answer. I think I will take up making handicrafts, or brewing beer for sale, or trade in second hand clothing. In general,

people wanted to use the freed-up time for non-agricultural income earning alternatives! When asked why, most answers pointed in the direction of "not putting all eggs in one basket," and of spreading risks.

"There can remain no doubt that rain-fed agriculture is risky. And if one only has limited means (whether monetary or in kind, such as labour), to put them all into agriculture may result in no harvest AND no money to buy maize meal. A small subsistence farmer ignores this reality at his/her own peril!"

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