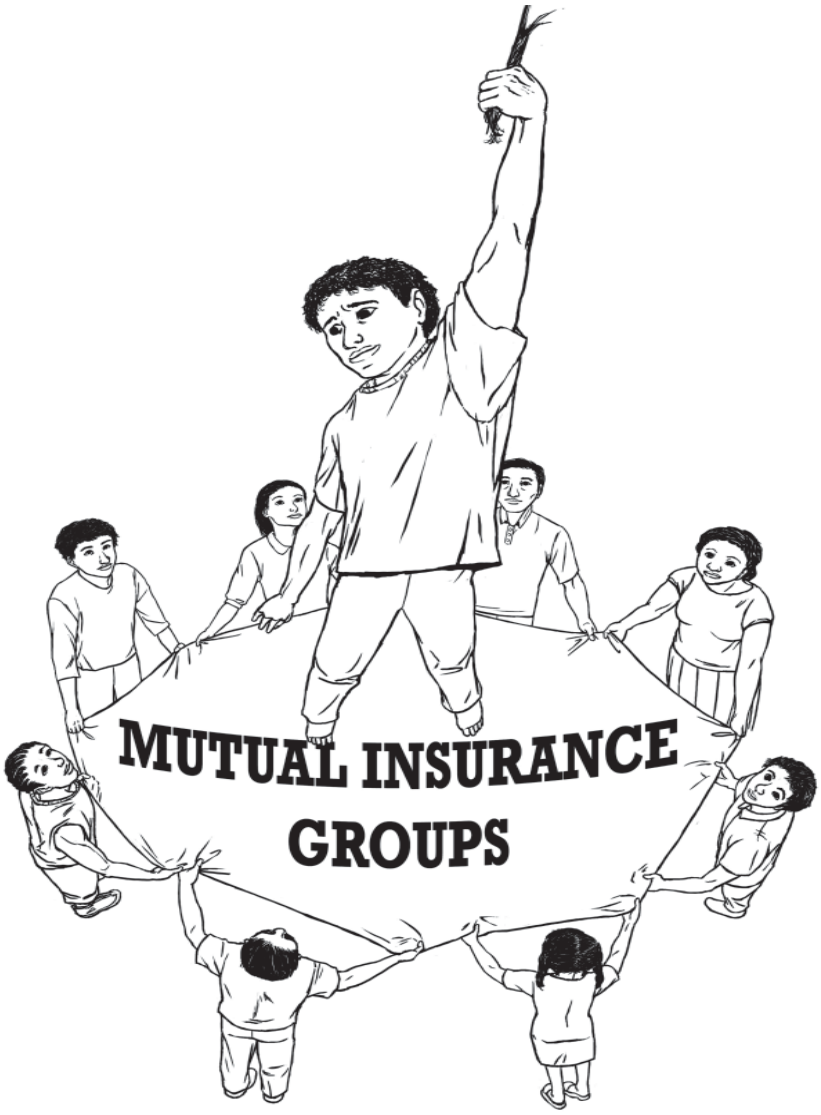
Collective Action, Property Rights and Risk



Poverty or well-being is determined not only by the assets and income of a household, but also by its degree of vulnerability to risks and shocks. Risks can be characterized by their frequency and probability; some occur frequently (rainfall variation), some with less frequency (elections resulting in change in government), and others rarely (revolutions, earthquakes). The more frequent the occurrence, the more likely that people know the distribution of possible outcomes and, thus, the probabilities of specific outcomes.

SOURCES:

Di Gregorio, M., K. Hagedorn, M. Kirk, B. Korf, N. McCarthy, R. Meinzen-Dick and B. Swallow. 2008. *Property Rights, Collective Action and Poverty: The Role of Institutions for Poverty Reduction.* CAPRi Working Paper No. 81. International Food Policy Research Institute, Washington, D.C.

Mwangi, E. and H. Markelova. 2008. *Collective Action and Property Rights for Poverty Reduction: A Review of Methods and Approaches.* CAPRi Working Paper No. 82. International Food Policy Research Institute, Washington, D.C.

The impact of risk is affected by spatial scale. Poor rainfall in a small area will have quite different effects from low rainfall over an entire region. Prices for agricultural produce in an isolated community will tend to vary with local weather events, whereas price fluctuations due to local weather events should be much lower in the wider economy. Conversely, shocks to national or international markets will affect integrated local markets, but not those that are insulated.

Classes of Risks

Individuals and households are vulnerable to three broad classes of risks: natural, economic or market, social or political (Table 1).

Table 1. Types of Risks and their Occurrence.

Type of Risks	Frequency and Probability of Occurrence		
	Frequent, Well-Known Probability	**Less Frequent, Imprecise Knowledge of Probability**	**Rare Events, Probability Unknown**
Natural	Seasonal Rainfall Hail Endemic Pest Infestations Frost	Drought Floods Morbidity/Mortality	Earthquake Forest Fires Epidemic/Disease Outbreaks Global Climate Change
Economic	Seasonal Prices Input Availability Informal Loan Rates Elections	Formal Sector Interest Rates Inflation Real Estate Values	Asset Bubbles/Stock Market Crashes Introduction of "Revolutionary" Technologies (electricity, computers)
Socio-Political	Petty Theft	Personal Security Property Security Ethnic Discrimination	Changing Regulatory Frameworks Warfare, Revolutions Genocide

Natural Risks. Natural risks differ substantially across regions and can affect all people differently. For instance, the poor might be disproportionately affected by natural shocks because they have fewer options with which to manage or cope. In contrast, the rich may have access to plots that receive more regular rainfall or are less prone to hail or frost; they may have access to a wider range of plots to spread these risks. However, like the poor, even the relatively wealthy farmers are unlikely to avoid exposure to natural disasters. Here, the ability to cope with a shock is more important — the rich having a clear advantage because they have a higher asset base with which to cope.

Economic Risks. Economic risks can occur with the same range of probability as natural risks. Unlike natural risks, however, fluctuations in many economic variables, for example, prices often follow both trends and deviations around a trend. Price fluctuations can occur regularly, e.g., seasonal price patterns, and prices can also fluctuate with local output, where these prices are a function of local climate conditions. In both of the latter cases, people may well be able to form expectations over these relatively short-term fluctuations. Discrete changes in government policies on import taxes or input subsidies might cause a sudden change in input or output prices — changes that do not occur regularly and are difficult to foresee.

Social or Political Risks. Political risks are closely related to the type of political regime and its practice of law and order. Political risks can be quite regular, as in countries with regular election

cycles. However, knowing the changes that will occur and their impacts is much less possible than with rainfall or seasonal prices. Political risk is often linked to the actions of political actors at higher policy levels. To some extent, it is socially produced in the particular political regime as with corruption, nepotism or clientelism. Social factors such as an influx of migrants or ethnic tensions may also increase risks such as theft or violence.

Often, people face multiple and overlapping risks. Natural, economic and political risks may reinforce each other. For example, natural disasters can cause price distortion and thus create further economic risks, or economic shocks precipitate political unrest. In this respect, risks that are predictable and calculable may coincide with uncertain, sudden events, resulting in changes in livelihood strategies.

Managing Risks

Given the risks and uncertainties, people can act in one of two ways. They can either move to mitigate exposure to various risks (*ex ante* risk management), or they can act after a negative shock has occurred (*ex post* risk coping).

Risk management includes any activities/choices that affect the exposure of the household to different risks. These strategies usually include income smoothing activities through income diversification (combining several sources of income, usually on-farm and off-farm) or income skewing (allocating resources to low-risk, but low-return activities). For instance, in areas where rainfall patterns tend to differ dramatically across even very short distances, farmers can acquire plots in different locations or they might choose to plant different species and varieties.

Risk coping strategies are things that people can do after an event has occurred. These mechanisms involve self-insurance through assets, savings, and informal group-based risk sharing, which usually consists of informal credit and gift transactions. Some coping strategies such as borrowing money or relying on family and friends can be sustainable; others such as withdrawing children from school or reducing food consumption reduce welfare in the long run.

Implications for Property Rights and Collective Action

Risks and uncertainties shape the benefits and costs to various property rights regimes and collective activities. They also provide opportunities for property rights or collective action to manage and/or cope with the impacts of the risks/uncertainties themselves.

Property Rights. Various types of assets such as land, livestock, and access to other natural resources are widely used for shock mitigation. However, access to an asset is not enough: its real value during a shock depends on the ability to manage it or transform it into income. Therefore, property rights become an asset to use during shocks and a mechanism to access other assets for dealing with uncertainty.

However, risk and uncertainty can reduce tenure security. In conflict situations, for example, farmers or herders may not be able to access their lands, lowering productivity in the short term and possibly also land value.

In times of political turmoil and weak governance, property rights may be unclear or subject to dramatic change. They may become part of the political game of who is excluded or included in

specific social or political groups. Similarly, property rights may be part of political class struggles, and the quest for secure property rights may expose households to a higher political risk.

Collective Action. Collective action is an important mechanism for dealing with shocks, especially among the poor, who may lack other assets. Social institutions based on cooperation are among the most used tools in the risk management portfolio of the poor. In times of uncertainty, mutual insurance schemes are often used for transfers such as gifts and loans.

Advantages and Disadvantages of Collective Action

Collective action may result in conflicting situations. It may lead to stronger, more cohesive, and more stable communities. On the other hand, it may divide a community or group. It is therefore essential not to assume that collective action has positive effects per se on buffering risk.

Since formal credit and insurance mechanisms are often absent, the poor establish informal networks for risk smoothing, which they can call upon in time of need. Most of such informal transactions are done between families (first tier) and neighbors or friends within the same village (second tier) for easier monitoring of reciprocity and repayment. For example, in Nigeria, such exchanges serve as a risk pooling mechanism on the village level, and repayment depends on who is affected: when there is a shock to the borrower, the rate of repayment decreases; when the shock occurs to the lender, the rate of repayment increases. Nevertheless, localized collective insurance mechanisms will not be enough to deal with widespread shocks that affect everyone in a community. In such cases, outside help from the state, NGOs, or other mechanisms is needed.

Networks of trust and mutual accountability linking individuals in communities are critical in helping the poor to diversify households' livelihood portfolios to cope with shortages of labor and inputs, and to protect themselves against unexpected expenditures in times of shock. Since collective action usually increases social interaction, participating in risk sharing networks and mutual insurance groups may also lead to stronger, more cohesive, and more stable communities, thereby diminishing risks of devastating socio-political upheavals and even reducing conflicts.

Shocks may also divide a community or group. This is true if collective action involves only part of the community or social group and results in the exclusion of others from the activities and benefit streams of the action. Hence, while collective action can be an effective mechanism for some individuals and groups to deal with risks, it may also create new political risks for others. Thus, efficiency (how effectively natural resources are managed) and equity (who profits from such policies) must be considered.

Conclusion

Both rich and poor rural people are exposed to many risks, but the poor are more vulnerable to the negative effects of shocks on their livelihoods. The poor often are unable to build up stocks of assets and/or to use formal credit and insurance institutions. For them, informal group-based insurance schemes are invaluable in times of uncertainty. Secure rights to resources enable people to use existing assets as a buffer during shocks. However, risks and shocks may also negatively affect the functioning of existing property rights structures and collective action institutions, and external insurance mechanisms are also needed for widespread shocks.

Suggested Readings

Dercon, S. 2002. *Income Risk, Coping Strategies, and Safety Nets.* The World Bank Economic Observer 17(2): 141-166.

Fafchamps, M. and S. Lund. 2003. *Risk Sharing Networks in Rural Philippines.* Journal of Development Economics 71:261-287.

Little, P., K. Smith, B. Cellarius, D.L. Coppock and C. Barrett. 2001. *Avoiding Disaster: Diversification and Risk Management among East African Herders.* Development and Change 32 (2001): 401-433.

Sourcebook on **Resources, Rights, and Cooperation**, produced by the CGIAR Program on Collective Action and Property Rights (CAPRi)