

Formal and informal risk pooling by pastoralists; complementary or substitute strategies?

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Jameel Observatory stocktaking webinar on overcoming and mitigating risks and their impacts on pastoralist livelihoods in the Horn of Africa, 27 January 2026



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Central Problem: A False Dichotomy

- There is a dominant assumption in academic debates that formal and informal risk pooling are substitutes.
- Two common claims/framing:
 1. Informal risk sharing acts as a barrier to the uptake of formal risk pooling.
 2. Formal risk pooling crowds out informal risk sharing.
- This framing misrepresents how risk is managed in pastoral systems of the drylands.

Why does it matter to address this issue?

Misleading: this dichotomous framing misrepresents pastoral risk management in two ways:

1. Overlooks that informal risk-sharing is overwhelmed by covariate risks, hence insufficient despite being effective: the reason why formal risk pooling is needed in the first place?
2. Misses the relational and moral foundations of informal risk sharing: informal risk sharing is embedded in moral obligations, reciprocity, and social enforcement. Getting this wrong can lead to wrong policy design or choice.

Key Insights: What Works?

Consistent emerging insights

- Strong social norms prevent informal risk sharing from crowding out by formal risk pooling.
- Complementarity dominates: formal risk pooling functions as a supplement, rather than a replacement for informal risk-sharing. Pastoralists integrate formal insurance into the existing risk management portfolio.
- Informal networks redistribute insurance benefits through informal risk sharing.

Key Insights: What doesn't work?

- Formal risk pooling can fail socially even when it works/performs technically
- Formal insurance is facing a challenge due to clients' misinterpretation of how it operates.
- Poor communication, inconsistent supply and lack of transparency frustrate pastoralists and erode trust.
- The accumulation of these challenges does not risk crowding out formal insurance but risks total rejection.

What Needs to Change

Policy makers:

- Design insurance as part of risk layering and social protection
- Be transparent about trigger, basis risk and communicate non-payout periods.
- Supply consistently and educate clients better about the mechanism and how it operates.

Practitioners:

- Stop treating insurance as a replacement for informal systems
- Recognise that relational and moral economy underpins informal risk sharing.
- Work through groups and trusted institutions

Take home messages

- The question is not whether formal and informal risk pooling substitute for each other.
- It is whether formal tools are better designed and implemented to work with pastoral moral economies.

The Jameel Observatory for Food Security Early Action is an international partnership led by the University of Edinburgh collaborating with the International Livestock Research Institute (ILRI), Save the Children UK, the Abdul Latif Jameel Poverty Action Lab (J-PAL) and Community Jameel.

Based at ILRI in Nairobi, Kenya, we combine the local knowledge and concerns of communities facing on-the-ground threats of hunger with innovations in data science and humanitarian action; teaming up to devise solutions that can predict, prepare for, and overcome climate-related food security and malnutrition challenges in dryland areas.

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