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THE IDENTIFICATION OF THREE RURAL WORLDS IN PRO POOR POLICY DEVELOPMENT

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1. INTRODUCTION

Sustainable livelihoods analysis is used by a number of development organizations as an analytical guide for their poverty reduction programs. The approach is becoming increasingly central to debates about poverty and discussions of effective pro poor policies and programs. However, there is limited experience with using sustainable livelihoods analysis as the basis for agriculture policy making. Several efforts are currently underway to develop closer linkages between sustainable livelihoods research and pro poor agriculture policies and investments. These efforts often draw upon the use of simple typologies of rural households, based on such factors as their asset holdings, access to services and commercial orientation, to begin to differentiate both the problems and opportunities for addressing poverty in rural areas.

The purpose of this paper is to examine the utilization of sustainable livelihoods analysis in pro poor policy dialogues linked to agriculture development. The paper is divided into two main sections, the first providing a brief overview of the sustainable livelihoods framework and the second a review of efforts that draw distinctions among rural households based on key variables associated with livelihoods research to facilitate policy dialogue.

2. SUSTAINABLE LIVELIHOODS

The Asset Pentagon

Sustainable livelihoods research dates back to the work of Robert Chambers and Gordon Conway in the 1980s and early 1990s. The term “livelihoods”, coined by these researchers, is quite broad, comprising “the capabilities, assets (including both material and social resources) and activities required for a means of living” (DFID 1999).

The principal unit of analysis of livelihoods research is the household with a focus on its stock of wealth or “assets”. Assets within the livelihood’s framework are broadly defined and do not simply include financial holdings such as savings, ownership of land, businesses or housing. Under this broader definition, “assets” also include the knowledge and skills of individuals, their social bonds and community relations, and their ability to influence decisions that affect their lives. An asset, in general terms, is a stock than can be drawn upon to produce “value” such as increased income as well as reduced vulnerability and consumption smoothening. The five main categories of assets include:

1. Further information on this topic is available on the POVNET website under <http://webdomino1.oecd.org/COMNET/DCD/PovNet.nsf>.

- **Financial holdings** which refer to cash or an equivalent that enables people to optimize the use of other forms of assets in pursuit of livelihood objectives. Common forms include savings, jewelry and for some social pensions.
- **Human capital** which refers to the skills, knowledge and health status of household members that enable them to pursue livelihood objectives. Human capital is required in order to make use of the other four asset categories.
- **Natural resources** which include natural stocks such as land, forests, water and air quality. Natural resources include both public and private goods and are central to the livelihoods of many poor rural households that depend upon the natural resource base for their livelihoods.
- **Physical assets** which include housing but which are also closely associated with community infrastructure such as water and sanitation, transportation and communication services.
- **Social bonds** which refer to the social resources people draw upon to sustain their livelihoods. Examples include kinship networks and community organizations. They also can include affiliation with networks that extend beyond the local community. Membership in political parties and trade unions are two examples of these vertical ties.

Livelihoods research not only broadened the notion of “assets” but also demonstrated the powerful complementarities across assets or the reality that for most poor households’ assets are closely intertwined, fluid and synergistic. This is best illustrated by example. Small holder productivity depends in great part upon a household’s ability to save and invest both the time (human capital) and the money (financial capital) in their farm operations. Access to credit can open up new opportunities and finance a shift to higher value crops for the smallholder with limited financial capital. Membership in a producers association (social capital) can enable a small producer to receive higher prices for hi or her products and with these increased profits invest in soil conservation measures (natural capital) essential for sustained production. The increased income resulting from this shift to new crops can also be used to finance home improvements (physical capital) or allow the small producer to send an older child to secondary school (human capital) in a nearby town thereby opening up wide range of new livelihood opportunities for the household.

While a large number of small holders have followed the above path out of poverty, many still remain trapped in low productivity livelihood strategies. Their life story might read more like this. A prolonged drought exacerbated by environmental degradation (natural capital) results in significant crop losses. Young girls are pulled out of school (human capital) to do household chores because the principal caretakers must now devote more time to petty trade activities. Household consumption is scaled back and the very youngest suffer lifelong consequences resulting from poor nutrition (human capital). Eventually their savings (financial capital) in the form of cattle are depleted and survival depends upon participation in informal “insurance” institutions (social capital) that can have the effect of turning them into agricultural laborers on their own land.

With a clear understanding of the extreme difficulties poor households face with regard to transforming their assets into pathways out of poverty, sustainable livelihoods researchers have come to recognize the critical importance of examining the broader environment in which asset allocation decisions are made. This broader environment has two main components, the vulnerability context and the institutional context. Both are discussed briefly below.

Risk and Vulnerability

The “vulnerability context” refers to the external environment in which households pursue their livelihood objectives. Factors that typically are included in the “vulnerability context” include trends, shocks and seasonality. **Trends** may or may not be benign and can include a wide array of variables such as population growth, improved governance, and natural resource degradation. **Shocks** are not benign and place household assets and their utilization at risk. Examples include natural disasters, conflict and economic crisis. **Seasonality** takes into account the dependency of many poor households on the seasonal fluctuations in prices, employment opportunities and production.

Understanding the vulnerability context highlights the fragility of poor households and the limited resources available to them to respond to stresses of one kind or another. Illness or injury can suddenly place an entire family in economic jeopardy. Harvest failure, fluctuations in the prices of basic commodities and job loss can each destroy a family's efforts to expand its asset stocks and improve the life chances of its children. Conflicts and pandemics such as HIV/AIDS can rapidly erode the familial networks and other relationships the poor depend upon to withstand shocks.

With extremely limited access to formal mechanisms such as insurance to help cope with these crises, poor households have little choice but to pursue livelihood strategies that limit their exposure to risk. Perhaps the most common means for reducing risk is livelihood diversification. Having alternatives for income generation can make the difference between minimally viable livelihoods and destitution. Migration in particular plays a central role in diversification strategies.

Diversification and other risk minimization strategies are quite rational given the options poor households have available to them. These strategies, however, often slow the accumulation of productive assets by poor households and in effect perpetuate the poverty of poor households. This is due to the fact that many of these risk management strategies are built upon low risk but low return activities. As Carter and Barrett (2000) have demonstrated in their research, poverty breeds insecurity and the reverse is also true, insecurity breeds poverty.

The Importance of Institutions

In addition to emphases on assets broadly defined and the vulnerability context, livelihoods research has also highlighted the importance of institutions in shaping livelihood strategies. The livelihoods framework defines institutions in the broadest of terms to include policies and regulations, social norms and custom, and organizations. Effective institutions have long been recognized as key poverty reduction. Within the livelihoods school, emphasis is on the roles that institutions play in influencing 1.) the access of poor households to various assets, 2.) the benefits they derive from their assets, and 3.) their incentives for the development of these assets.

Restrictive laws that effectively exclude women from inheriting family assets is perhaps the most stark example of how institutions affect access to assets and block asset accumulation. However, there are many other instances in which low asset levels are a direct result of the limited access small holders have to critical factors of production; factors such as land, water and finance as well as information, business services and market opportunities.

Institutions affect access to assets in a variety of ways. For example, if the rules controlling asset ownership and use are weak, thus increasing the risk of confiscation, households will adopt strategies that emphasize short-term, often low-return asset uses, ignoring longer-term investments that may be more productive, but more risky. Institutions affect returns on assets and incentives to accumulate them as well. For instance, bad government policies that foster high inflation tax household assets, reduce their market value, and shift household livelihood strategies away from asset accumulation to asset protection. In addition, complex government regulations that discourage the poor from obtaining property titles limit their ability to make full use of this asset (e.g., using it as collateral for a bank loan) and weaken their commitment to improve their natural resource holdings (e.g., adopting soil conservation measures).

Missing or incomplete markets obstruct growth and also limit economic opportunities for many poor households thereby adversely affecting the returns they receive on their assets. Interlocking markets for agriculture inputs, agriculture produce and credit is one example often cited in the literature. In such circumstances, small holders often have no alternative but to buy inputs for very high prices but sell their produce for below market values.

Livelihoods research on institutions pays close attention to the ability of the poor to influence their institutional surroundings. In general terms, livelihoods research underscores the reality that the relationship of the poor to the both public and private institutions reflects their broader position within society - a position of little power and influence. The poor's limited voice in local government decision-making processes is a common example of this phenomenon.

As a consequence of their limited say in local decision making and inability to influence local organizations, poor people have little trust and low expectations of the institutions that shape their livelihood options. Not too surprisingly, they rarely receive their proportionate share of benefits from public investments in physical infrastructure, schools, and health clinics. The inadequate services offered by both public and private institutions rob the poor of the opportunities and resources that those with influence are quick to seize. The end result is that the poor only receive a fraction of the benefits that could be derived from their assets and struggle to find possible pathways out of poverty.

3. THREE RURAL WORLDS

Through its focus on assets, vulnerability and risk, and institutions, sustainable livelihoods research has provided much of the empirical data underlying a greatly improved understanding of the multidimensional nature of poverty. Researchers working together with development practitioners are building on the findings of livelihood's analysis to improve their programs.

Food security monitoring has made important progress in this regard. Livelihood profiles describing how households meet their primary food requirements are increasingly serving as the basis for food security monitoring. These profiles are often combined with other data bases to

establish livelihood zones (geographic areas in which people share basically the same patterns of access to food) and wealth groups (typically distinguished from one another by differences in land holdings, livestock holding, education and labor availability). The objective of these data systems is to construct a decision-making framework that estimates the effects of a crisis on future access to food and to design appropriate interventions on the basis of this information. Livelihood profiles combined with classification by geographic zones and by wealth group enable decision makers to avoid relying on a one size fits all approach to programming. At the same time, the combined data sets are parsimonious enough so that decision makers are not left with an overwhelming set of options in their design of program interventions.

John Farrington's work (2004a and 2004 b) on risk and vulnerability constraints to pro poor agriculture growth is another example how differentiating rural households within a livelihoods framework can result in important policy considerations. Farrington stresses that segmentation of the poor by the types of risk they face and their vulnerability to these risks is key to understanding the failure of agriculture policies to deliver both growth and poverty reduction. He concludes that incorporating protection against risk and vulnerability into growth-promoting interventions is necessary to ensure that poor households can participate in and benefit from these efforts.

Research examining pathways out of poverty has also focused on differentiating rural households. Barrett and Swallow, for instance, identify four distinct livelihood strategies in their study of poverty traps. The four categories from least to most remunerative include: farm and farm worker; full time farmer, the mixed category (which includes non-farm employment), and the mixed skill strategy (which includes families who have a "salaried" member). Asset holdings underlie each of these livelihood strategies. Thus, full time farming is only an option for households that own sufficient land and livestock to absorb all the adult labor of the household. Likewise, skilled non-farm labor is an option only available to those households with sufficiently high levels of educational attainment or the necessary financial capital to start a business. Using these four categories as a starting point, Barrett and Swallow cite numerous studies that demonstrate that initial differences in asset holdings can have lasting effects on farm families' livelihoods. For the poorest households, in particular, asset holdings constrain options available for production and accumulation of more assets thus limiting their possibilities of escaping poverty. Agriculture policies, they conclude, need to emphasize opening up pathways out of poverty through such things as the introduction of transition technologies and financial products that enable the chronically poor to overcome barriers resulting from their initial asset holdings.

In his recent book, *Sustaining Agriculture: Policy, Governance and the Future of Family Based Farming*, Vorley makes a strong case for differentiating rural households in the formulation of agriculture policies. His work is based on research in both the developing and industrialized worlds and reflects the growing importance of globalization and agricultural modernization for both.

Vorley divides agriculture households into three rural worlds described as follows:

Rural World One (RW I)

Rural World I households make up a very small minority of rural households in the developing world. It is a group mainly comprised of large scale commercial farmers with the capacity to benefit from the increased market opportunities that accompany the globalization

process. Their members are generally well educated, with some business skills as well as a sound knowledge of new agriculture technologies and practices.

The one word that most aptly characterizes this group is competitive. RW1 households are often linked to regional, national and international markets. These households typically have ready access to finances for their farm operations as well as to information and knowledge of market trends which they use as a basis for business planning.

If for no other reason, the economic power of this group enables them to play an influential role in the political life of their countries. They often use this influence to shape public policies that favor their interests and to steer public expenditures to investment priorities that meet their needs.

RW1 households are well positioned to meet the strict new regulations related to agricultural products imposed by importing nations and/or processing and retail buyers expanding operations in regional and national markets. They often have close ties to key actors in all of these realms and are becoming indispensable links in global value chains related to agribusiness.

The participation of RW1 households in liberalized markets and high value crops requiring significant capital inputs places them in a vulnerable situation. Access to risk reducing instruments, such as insurance policies, is an important need for this group particularly if they are to be drivers of change in the rural economy.

More needs to be learned about the direct and indirect employment benefits generated by RW1 farm operations. An assumption is that improvements in their global competitiveness will induce greater demand for unskilled and semi skilled labor giving poorer rural households new pathways out of poverty. Reardon and Barrett (2000) concluded that; “the net effect of employment cannot be predicted generally, but depends substantially upon the ex ante spatial and sectoral distributions of the poor, the nature of the particular technologies introduced and the indirect effects created by overall economic growth.”

Rural World Two (RW II)

Rural World II households make up a sizeable proportion of rural households in the developing world. The one word that most aptly characterizes Rural World II households is “traditionalists”. Their farms are most frequently mixed cropping operations. Food is grown for home consumption and cash crops cultivated for additional income. Some grow traditional export crops such as coffee and cotton and today face considerable pressure due to the declining terms of trade for the majority of these commodities.

RW II households often have diversified income streams that include off farm sources such as trading and low level government jobs. Their children are becoming increasingly better educated and often migrate to the cities for improved livelihoods. Income from their wages can provide an important source of capital to finance innovations on the farm. Other sources of capital are traditional organizations such as cooperatives and state run banks. As these organizations play less and less of an intermediating role in rural economies, access to new sources of capital is becoming critical for this group.

While many RW II households have secure tenure, if not formal titles, they are reluctant to use their land assets as collateral for loans from commercial banks. This is due to the increased risk associated with agriculture production and to the important role land ownership plays in the family's economy.

RW II households are frequently part of the local elite but have little influence at the national level. The integration of local centers with national seats of power is jeopardizing the influence this group once had in local government matters. Moreover, RW II households have few ties to downstream agribusinesses which place them at risk in environments where agriculture trade and agricultural policies are being liberalized.

Vorley refers to RW II households as the "shrinking middle" of agriculture. He and others question the future of RW II in great part due to the changes in supply chains of food systems. "Small-scale, undercapitalized and often under educated farmers find it particularly difficult to meet the quantity, quality, timeliness and traceability requirements of the new supply chains." (Lipton, 2004) In many regions of the world, many RW II households will no doubt leave or be forced to leave agriculture and those who remain will have to become more like the RW I households with efficiency and competitiveness of utmost concern.

Others see a more hopeful future for RW II households and view them as key to spurring agriculture growth and poverty reduction. (Lipton, 2004; Hazell, 2004). They point out the wealth of data demonstrating the greater efficiency of small farms and the historically record that shows that all major poverty reduction successes began with big, employment-intensive productivity gains on small farms. They see a similar role for RW II households, especially in sub Saharan Africa, driven by productivity enhancing technologies that food staples.

Rural World Three (RW III)

Rural World III households can be characterized as survivalist households. A large majority of rural households in the developing world are a part of this category which includes pastoralists, small fisherman and indigenous groups as well as smallholders. Food security is the main concern of these households and the small plots they farm are almost totally dedicated to home consumption.

Many RW III households live in fragile ecosystems or less favored regions. Their communities are weakly integrated with local, regional and national markets. They have limited access to productive resources, i.e., land, labor and capital. In response to the many livelihood risks they face, RW III households pursue diverse livelihoods strategies and are becoming increasingly dependent upon migration and remittances to sustain themselves. Jobs they find in urban areas are unskilled, low paying and casual. The education levels for RW III members are generally low but improving.

RW III households have little influence in their societies and in the decision-making processes of their governments. They often depend upon strong ties with their community to weather crises of one kind or another. The spread of the HIV/AIDs pandemic and other factors are eroding the ability of RW III extended families and neighbors to support one another. Poverty rates in many RW III communities are remaining stagnant and in some others are on the rise.

Vorley refers to RW III as the “struggling underclass” and states that almost four fifths of the world’s hungry are members of this group. RW III, in other words includes not just the poor but the ultra poor or the chronically poor. This subset of Vorley’s RW III can be differentiated from other households in this group by their inability to accumulate sufficient assets (human, capital, land, etc) that would allow them to escape poverty in the future. For this group, Barrett and Carter write, “poverty is not primarily a transitory phenomenon [...] (and) time merely oversees the chronic reproduction of a poverty class.”

Rural Worlds Four and Five (RW IV and RW V)

Given the size and diversity of RW III, a strong argument can be made for dividing this category into two or even three separate worlds – Rural Worlds IV and V (Proctor, 2004). Research is just beginning on the size and characteristics of these ultra poor households. The Chronic Poverty Research Centre’s recent report (2004) puts the number at between 300 to 420 million. In Ethiopia alone, the number is estimated to be from 6 to 8 million who could not survive without food aid.

Most Rural World IV and V households are landless and family labor provides the principal means for survival. Rural World IV households often have a greater abundance of family labor than RW 5 households whose harsh conditions are often exacerbated by illness and disability or discrimination based on gender, ethnicity or a host of other socio-cultural factors. For both groups, wages received for their labor are low and jobs security non-existent.

Many of Rural World IV and V households are being pushed out of rural areas due to population pressure and resource degradation or to conflict that has forced entire families to flee from their homes leaving most of their assets behind.

The lack of income earning opportunities outside of agriculture is also a major push factor. In this regard, RW IV households are likely to benefit from growth in their local rural economies as it gives rise to new employment opportunities. Similar households in less favored regions can better benefit from policies favoring increased labor mobility and programs that support multi-locational livelihood strategies such as improved transport services and communication technologies.

Unfortunately, labor markets and labor mobility are areas in which little research has been done. Understanding the spatial dimensions of livelihood strategies of RW IV households is an important first step. The work of ODI, particularly the recent studies by Deshingkar, is adding considerably to this knowledge base. However, policy prescriptions related to labor markets will need greater analysis of the existing policy frameworks and how they do or do not open up new employment opportunities for disadvantaged rural households.

Many RW V households have fallen below a threshold of asset ownership and without special assistance will find it extremely difficult to escape poverty. Clearly targeted and efficiently managed social assistance programs are essential for these households to improve their welfare. A strong case can be made for targeting such assistance on the children in these households in order to prevent the lifelong disability so often associated with these most extreme poverty levels. Both types of programs as well as much greater access to health services including anti-retroviral treatments are most in need in areas significantly affected by HIV/AIDS.

4. CONCLUSION

Without the right policy environment, smallholder farmers are unlikely to participate in and benefit from expanding growth opportunities resulting from liberalization of trade and agriculture regimes. In the worse case scenarios, not only will they not benefit from these new opportunities but they will find themselves unable to compete even in their traditional markets, placing their livelihoods at risk.

Devising the right policy environment requires an in depth knowledge of the livelihood strategies of rural households and careful consideration of ways to both protect and promote these strategies. It also needs to reflect the large disparities amongst the different categories of rural households, or “rural worlds”. Policy priorities for each of these rural worlds are quite different and promoting pro poor agriculture growth must take these into account if its aims are to be achieved.