Unclassified **DCD/DAC/POVNET/A(2004)5/RD4**

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

15-Sep-2004

English - Or. English

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

DCD/DAC/POVNET/A(2004)5/RD4
Unclassified

DAC Network on Poverty Reduction

POVNET Agriculture Task Team Consultation

The Identification of Three Rural Worlds in Pro Poor Policy Development

20-21(am) September 2004

This Hot Topic paper was drafted Timthy Mahoney, USAID, Washington, USA, for the POVNET Agriculture Task Team Consultation on September 20-21(am).

Contact persons: Ebba Dohlman - Tel: +33 (0)1 45 24 98 48 - Email: ebba.dohlman@oecd.org
Annabel Muelder - Tel: +33 (0)1 45 24 84 57 - Email: annabel.muelder@oecd.org

JT00169165

English - Or. English

THE IDENTIFICATION OF THREE RURAL WORLDS IN PRO POOR POLICY DEVELOPMENT [1 & 2.]

1. INTRODUCTION

Sustainable livelihoods analysis is used by a number of agencies and organizations as a basis for their poverty reduction programs. It is becoming increasingly central to debates about poverty analysis and effective pro poor policies and programs. However, there is limited experience with using sustainable livelihoods analysis as the basis for agriculture policy making. Many efforts are underway to establish closer linkages between sustainable livelihoods research and pro poor agriculture policies and investments. One approach is to use categories of households, usually based on their asset holdings and returns received from these holdings, 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 sustainable livelihoods analysis and the second a review of efforts to 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 Conway in the 1980s and early 1990s. The term "livelihoods", coined by these researchers, is both broad and encompassing and comprises "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. The five main categories of assets include:

---

1. This Hot Topic paper was drafted Timothy Mahoney, USAID, Washington, USA, for the POVNET Agriculture Task Team Consultation on September 20-21(am).

2. 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 wage incomes, remittances, and pensions as well as savings, livestock and jewelry;

- **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. Limited financial capital, for instance, can be a major barrier to adoption of new agriculture technologies which enhance the returns from your agriculture lands or physical assets. Equally obvious is the adverse impact of the HIV/AIDs pandemic on the human capital of farm households and thus their ability to optimize other household assets.

Risk and Vulnerability

While household assets lie at the core of livelihoods research, of equal importance is the focus of these researchers on the “vulnerability context”. 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 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. These strategies are quite rational given the options poor households have available to them, however, these strategies often slow their accumulation of productive assets. This is due to the fact that many of these risk management strategies are built upon low return activities that in effect perpetuate the poverty of poor households.

The Importance of Institutions

In addition to emphases on the 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 access of poor households to various assets, the benefits they derive from their assets, and their incentives for the development of assets.

Institutions affect access to assets in a variety of ways. Restrictive laws that effectively exclude women from inheriting family assets are one example. Institutions affect returns on various assets and incentives to develop specific assets as well. For instance, complex government regulations affecting property titling that discourage the poor from obtaining formal titles to their property in effect limit the ability of the poor 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).

Livelihoods research on institutions pays close attention to the ability of the poor to influence their institutional surroundings. In general terms, 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, poor people have little trust and low expectations of the institutions that shape their livelihood options. For instance, 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 remain impoverished.

3. THREE RURAL WORLDS

Through its focus on assets, diversified livelihoods, vulnerability and risk, 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 a overwhelming set of options in their review of program development.

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 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 and skilled non-farm labor only available to those with education 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 affects 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 (RWI)

Rural World One households make up a very small minority of rural households in the developing world. It is 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 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 the country. They 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 bueyrs. They often have close ties to both are becoming indispensable links in global value chains related to agribusiness.

The participation of these 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 (RWII)

Rural World Two households make up a sizeable proportion of rural households in the developing world. The one word that most aptly characterizes Rural World Two households is “traditionalists”. Vorley refers to them as the “shrinking middle” of agriculture. 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.

RWII 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 critical for this group.

While many RWII 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 their self perceptions.

RWII households are frequently are 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 power and influence they once had in local government matters. Moreover, RWII households have few ties to downstream agribusinesses which places them at risk in environments where agriculture trade and policies are being liberalized.

The future of RWII is in doubt. Many will no doubt leave or be forced to leave agriculture. Those who remain in agriculture will have to become more like the RWI households with efficiency and competitiveness of utmost concern.

Rural World Three (RWIII)

Rural World Three 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 RWIII households live in fragile ecosystems are 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, RWIII 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 RWIII members are generally low but improving.

RWIII 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 RWIII extended family and neighbors to support one another. Poverty rates in many RWIII communities are remaining stagnant and in some are on the rise.

Vorley refers to RWIII as the “struggling underclass” and states that almost four fifths of the world’s hungry are members of this group. RWIII, in other words includes not just the poor but the ultra poor or the chronically poor. This subset of Vorley’s RWIII 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 call.”

Research is just beginning on the size of this ultra poor or chronically poor group. The Chronic Poverty Research Centre’s recent report puts the number at between 300 to 420 million. In Ethiopia alone, the number is estimated to be from 6 to 8 million. They could not survive without food aid. For policy purposes, it is important to recognize to distinguish between the chronically poor and the transitory poor both of which comprise RW III.

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 worst 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, the “three 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.