

## Strategic Guidelines for Sida Support to Market-Based Rural Poverty Reduction

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According to recent estimates about 70 per cent of the world's poor live in rural areas and in absolute terms the number of rural poor will remain high in the foreseeable future. Broadly speaking the incidence of rural poverty is higher among women than among men, as well as among ethnic minorities. This justifies giving particular attention to rural areas in the struggle against poverty.

Rural poverty reduction has to be addressed in all its dimensions which requires interventions in a wide spectrum of sectors or thematic areas. This, however, should not conceal the fact that there are some aspects of poverty alleviation that are of strategic and overriding significance.

*Improving Income among Rural Poor* focuses on one such aspect, namely the improvement of income among rural poor through gainful participation in markets. It reflects upon a number of issues of relevance, particularly for poor rural people, in respect of opportunities and capability to engage in markets of various kinds, leading up to a set of strategic guidelines for ways in which Sida can address this particular aspect of poverty alleviation more effectively in its support.

Monetary income is important as a means to satisfy a wide range of material needs, including food security, and increasingly also to satisfy other needs such as health services, education and safe drinking water and sanitation. In this sense income is a means to address a number of important dimensions of poverty although primarily that of material deprivation. In this perspective the improvement of income is essen-

tial for poverty alleviation. This justifies specific analytical efforts and reflection on the issue of rural incomes.

The livelihoods of the rural poor can be improved within the framework of subsistence production. However, there are decisive limitations on the potential for improvements within this production system. Significant and sustained improvements in people's income can only be achieved through a shift from a subsistence economy to a market economy. To a varying degree this shift has already taken place. There are hardly any rural communities and households that do not engage in markets in some degree, including the rural poor. With limited or no natural resources for subsistence production, the latter turn to labour markets and other service and product markets as means of survival.

Although continued structural change in economic activities from subsistence to market-oriented production is a necessary precondition for long-term and significant improvement in rural incomes, it is not sufficient in itself. This is proven by the fact that rural poor often participate extensively in markets without significant increases in their incomes. Extremely low remuneration explains the persistence of poverty. Therefore, the challenge is just as much to improve the terms on which rural poor engage in markets, as it is to increase their participation. The key challenge is thus to identify and address the factors, which prevent rural poor, men and women, from more gainful participation in product and service markets, including

labour markets. Part of that challenge is to explore opportunities to increase productivity in market activities and thereby reduce transaction costs, and to promote a fair sharing of such productivity gains.

Key factors that need to be addressed include:

- A macro-economic framework for and commitment to pro-poor and sustainable growth
- A policy and legal framework conducive to market-based private sector development reflecting the significance of informal actors
- Governance and law enforcement
- Improvement of market mechanisms incl. social and physical infrastructure
- Strengthening of urban-rural linkages and financial services
- Development of production technology promoting higher value products and productivity adapted to the situation of small producers
- Market information
- Entrepreneurial and business development
- Strengthening influence and bargaining power of the producers.

If the incomes of rural poor are to be improved significantly and continuously, yet another dimension of structural change is required. The opportunities for participation in product and service markets *outside agriculture* have to be expanded and made more remunerative.

While the paper has a decisively economic focus, i.e. income-poverty, other dimensions of poverty such as lack of secure tenure rights and access to re-

sources, powerlessness, gender inequality, deficient human capabilities, etc., directly or indirectly impinge on the possibilities available to poor men and women to take advantage of economic opportunities offered by markets. In this sense *Improving Income among Rural Poor* seeks to apply a multidimensional perspective on poverty within the context of the more specific issue of income improvements through the market.

The prime purpose of this position paper is:

- (i) to provide Sida staff with a common platform and understanding of factors of relevance and opportunities to improve income among rural poor, and
- (ii) to communicate this understanding to cooperating partners as one contribution to a joint analysis and dialogue in the search for a common understanding of how to address income poverty in rural areas.

*Improving Income among Rural Poor* outlines a set of strategic guidelines for ways in which Sida can address the issue of improving the income of the rural poor more effectively in its development support. It is presented as a position paper in the sense that it reflects our current thinking and knowledge of the subject. The learning process will, however, continue and the guidelines should not be seen as final or static. Sida is thus happy to receive, at any time, comments and feedback from the practical application of these guidelines.

The full document can be found at [www.sida.se](http://www.sida.se) under publications.

*Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.*



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