

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

Improving Income among Rural Poor



Foreword

This Position Paper summarizes the results of an internal learning process initiated in 2002 by Sida's Department for Natural Resources and the Environment (NATUR) with the aim of updating our knowledge on how Sida can contribute more effectively to poverty alleviation in rural areas. A working group consisting of staff from NATUR has coordinated the process which has also involved participants from other departments at Sida, e.g., INEC, DESA.

A number of factors prompted the need for initiating this learning process. Sida has a great deal of experience of supporting rural development projects in our partner countries. There is however a need to explore how Sida's support in this field could be made more effective in terms of poverty alleviation, not the least in the light of the Millennium Development Goals. The fact that Sweden recently adopted a new goal for its development cooperation which emphasizes poverty reduction as the single overriding goal, underscores this need. At the same time, a number of other development agencies such as the World Bank, IFAD, EU and others have recently formulated new policies and strategies for rural development which we could learn from.

Sida's overall policy document *Perspectives on Poverty* set the general framework for the work. Another important reference is Sida's policy guidelines for support to private sector development, *Making Markets Work for the Poor*. Two recent evaluations commissioned by Sida, one on *Area Development Projects* and one on *Rural Development and the Private Sector*, provided particularly valuable inputs to the process.

Sida applies a multidimensional perspective on poverty, that is poverty has to be addressed in all its various dimensions. This document does not pretend to cover all aspects of relevance for poverty alleviation in rural areas. It rather focuses on issues related to the improvement of income among rural poor, which can be achieved through gainful participation in markets. The reason being for this focus is that we believe this is a particularly important aspect of poverty reduction for which there is a need for better understanding, within Sida as well as in our dialogue with partner organisations.

This document 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.

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1. Introduction

The goal of Swedish Development Cooperation is to help creating conditions that will enable the poor to improve their lives. Sida's policy interpretation of this goal is elaborated in *Perspectives on Poverty*, where the essence of poverty is seen as lack of power, opportunities and security. Poverty manifests itself in many different ways including deprivation in terms of material well-being, ill health, ignorance, discrimination and insecurity, as well as denial of dignity and social status. The linkages between power, opportunities and security, as well as the manifestations of poverty, differ across time, location and gender. They are also mutually reinforcing in that, for example, empowerment and opportunities can reduce insecurity while the lack of security reduces the ability to make use of opportunities.¹

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.² 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.

This document 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.³

¹ Sida. *Perspectives on Poverty*, October 2002

² IFAD, *Rural Poverty Report 2001*

³ Fostering pro-poor market involvement is part of Sida's policy for Private Sector Development (PSD). See the background document *Making Markets Work for the Poor - Challenges to Sida's Support to Private Sector Development*, Sida 2003. See also Havnevik, K. et al. *Rural Development and the Private Sector in Sub-Saharan Africa – Sida's Experiences and Approaches in the 1990s*, Sida Evaluation 03/18. A list of other documents consulted in the process of preparing this paper is provided in Annex 1.

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 resources, 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 the discussion that follows 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.

2. Why focus on income and markets?

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 essential 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 early and decisive limitations on the potential for improvements within this production system. Significant, continuous 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 a 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.

Improving income among rural poor is crucial for addressing poverty and should be one of Sida's foci in support of rural poverty alleviation. Gainful participation in markets is the means to achieve this end.

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.

The key challenge is 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.

3. Preconditions for a market-based approach

Participation in markets holds the potential for sustained and continuous improvements of incomes of rural poor. However, a number of preconditions have to be met and constraints overcome to make market participation the avenue to increased incomes.

This section provides a general inventory of some of the most important preconditions and constraints. Needless to say they vary from country to country and even within countries and communities.

3.1 Overarching preconditions and constraints

The structural adjustment programmes were introduced in order to remove what were seen as major constraints to economic growth and poverty reduction. A considerably expanded role for the market was expected to increase efficiency in resource allocation and resource use as well as provide reductions in transaction costs. This was argued to be of particular importance in the agricultural sector, which prior to the structural adjustment programmes was subject to much state intervention in most partner countries. While these programmes have been significant in promoting economic growth, particularly in non-agricultural sectors, and hence in contributing to the reduction of poverty in certain areas and contexts, they have hardly proven to be a panacea to that end. The reasons are many and context-specific. Some relate to the reforms proper and their implementation. Other explanatory factors are unrelated.

In countries with large external debts the service of these debts results in crowding out private sector access to capital, thereby constraining the emergence and growth of private market actors.

In some instances the effects of the structural reforms have been reduced because implementation has been half-hearted and slow. In other instances private sector activities have been slow to emerge and have left a void when government production and processing activities and service provision have been curtailed. This has been particularly problematic in rural areas for a number of mutually reinforcing reasons. Poor infrastructure, limited private sector experience of market terms (as the state fulfilled most functions under administered conditions) and the inherent instability in production levels in the agricultural sector, have made private sector response to liberalisation far from adequate in rural areas in many partner countries.

A low level of non-diversified economic activities reduces the potential of a market-led approach to make an early and significant impact on poverty as the domestic demand for products and services is limited. The persistent large-scale agricultural subsidies in the EU and the US and quantitative trade restrictions influence price levels and access to export markets. Furthermore, concentration of food retail marketing and the growth of supermarkets as well as backwards integration in the supply chain has increased the demand for high quality and reliability in delivery. These demands are often hard to meet by poor countries and by poor producers.

A liberal market approach tends to favour resource-strong areas and individuals. Pro-active rather than *laissez-faire* policies and government activities, which reflect a genuine commitment to poverty alleviation in general and *rural* poverty alleviation in particular, will make a difference to the impact on poverty of a market-based approach. Such commitment is not always present.

Many countries and regions are ridden by social and political instability or military conflicts. Such conditions constrain any development effort, including market development, which is affected in at least two ways. Firstly, risk increases and thereby transaction costs, when risk is compensated. Secondly, as logistics and transport break down markets become fragmented and hence small and local.

The HIV/AIDS epidemic has become a decisive impediment to development in any form in many countries. Taking a heavy toll on human capital it reduces productive capacity as well as demand. In rural areas, where poor people largely depend upon their own subsistence production for food security, the need for a cash income to meet medical expenses and the reduction in family labour when family members are affected by AIDS imply a double squeeze on their livelihoods.

Many important preconditions, such as political stability and internal peace, can only be created by the partner countries themselves, while others such as the elimination of trade restrictions and reduction of external debts have to be tackled at the international level. Yet others are more amenable to country level support by a donor such as Sida.

The remainder of this section outlines a number of factors which more directly constrain the potential for a market-based approach to rural poverty alleviation and which may be addressed by Sida through its support to rural development. These are then elaborated upon more in detail in following sections. For explanatory purposes it is useful to distinguish between demand side and supply side in this context.

3.2 A demand side and a supply side perspective

When a farmer offers his or her agricultural products or services for sale, they act on the supply side of a market transaction. However, when they purchase agricultural inputs, for instance, they act on the demand side. The same goes for many rural traders, who may buy produce from farmers but also sell inputs to them. In other words, the same actors can appear on both the demand and the supply side, but in different transactions.

In this context interest is primarily focused on the participation of rural poor as sellers of products and services for the improvement of

their incomes i.e. as actors on the supply side. By the same token a range of actors (e.g. traders and transport providers) can be identified in their role as buyers of what the rural poor can offer. From the perspective of the poor they represent the demand side.

In the past, emphasis tended to be given to assist small-scale farmers to increase productivity and to diversify agricultural production. The focus was on the supply side, on *production*, on-farm. Considerably less attention was paid to the mechanisms that link producers/suppliers with consumers/users. Such market mechanisms consist of traders, transport providers, processors, exporters and “support function providers” such as financial institutions and mechanical workshops. When these mechanisms were referred to in the past, the references were often made with a negative connotation of inefficient and unscrupulous middlemen, who ought to be replaced.

These guidelines suggest a strategic reorientation by giving considerably more attention to the development of *effective and efficient market mechanisms* than was generally the case in the past. What is advocated is a *more balanced* approach, which recognises the importance of efficient market mechanisms and not only efficient production.

3.2.1. Preconditions and constraints affecting market actors on the demand side

The following preconditions and constraints often hamper the operations of actors on the demand side (traders, transport providers, etc).

- Deficient policy, legal and regulatory framework for private sector development.
- Weak governance and law enforcement.
- Inadequate and inappropriate social and physical infrastructure and services.
- Lack of investment capital and entrepreneurial skills.
- Weakly developed rural centres.
- The seasonality of most natural resource based production.

These conceivable preconditions or constraints will be discussed in section (4).

3.2.2. Preconditions or constraints affecting actors on the supply side – the rural poor

The following preconditions or constraints often limit the possibilities for gainful participation in markets by rural poor.

- Transport problems, lack of information on marketing opportunities, insufficient capacity to respond to packing, grading and quality standards of markets
- Weak bargaining power vis-à-vis market agents
- Insecure or insufficient access to land and other natural resources
- Limited access to production technology, inputs, capital, knowledge and skills

- Production risks and risks related to market involvement such as demand and price fluctuations, unfair international competition, quality requirements, and often risks for food *insecurity*.

Several of the above-mentioned constraints take on gender specific characteristics. Frequently such constraints are more severe to women than to men. The more specific nature of these preconditions and constraints will be discussed in section (5).

Sida should apply a more balanced approach by giving equal attention to the significance of effective market mechanisms that link producers with consumers and to the supply side.

3.3. Tradable and non-tradable goods and services

A distinction is often made between tradable and non-tradable goods and services, including labour. The former can be traded from one region to another region⁴. The latter are difficult or impossible to trade between regions. They are produced and traded on local markets within a region. A non-tradable good can be made into a tradable good. For instance, improved road conditions and access to refrigerated transport may make fish from a remote area tradable.

Selling tradable goods and services outside a region brings income to the region. This income is partly used to pay for goods and services that are ‘imported’ to the region, and partly to pay for goods and services produced and traded within the region. *Income from tradable goods and services is generally of decisive importance for the growth of market opportunities for non-tradable goods and services and for triggering a process of general growth in a region.*

In a rural setting the most important tradable goods tend to be agricultural products. This gives a particular role and importance to the agricultural sector.

Specific attention should be paid to the significance of production and sale of tradable goods and services, including labour. Such production and sale bring income to a region and are the key to the expansion of local non-agricultural activities, which often benefit the poor and notably women.

⁴ ‘Region’ should here be understood to mean any geographical area.

4. Development of efficient market mechanisms

Market mechanisms provide the link between producers and consumers and consist of traders, processors, transport service providers, and other agents, as mentioned above. The challenge is to promote the development of mechanisms that provide relevant, accessible and efficient marketing services for tradable as well as non-tradable products and services.

It should be emphasised that the constraints and opportunities that market actors face are context-specific and need to be established in direct interaction with them. This exploration is likely to bring out concerns in the following fields.

4.1 The policy, legal and regulatory framework

Policies, laws and regulations need to be framed with explicit recognition that most market actors in rural areas, whether men or women, operate in the *informal* economy and that those in the *formal* sector are often small and not too sophisticated. This means that policies, laws and regulations should be *supportive* of the informal economy rather than reflect a commonly held view that the informal economy is inefficient and should be discouraged in favour of the formal economy.

Small entrepreneurs are often disadvantaged in policy, legal and regulatory frameworks as a result of a negative attitude towards informal sector activities combined with modernisation aspirations, attempts to attract foreign private investments and the ambition to build an industrial sector. Resulting high regulatory and legal barriers to entry, far-reaching demands for reports and information to authorities, and high demands in respect of technical standards etc. often inhibit the emergence and growth of small enterprises in rural areas.

A reduction of such regulatory and legal barriers to entry is essential to address a number of constraints resulting from few and weak market actors, for example non-reliable services, monopoly pricing, extortion and high transaction costs. Measures in other fields such financial services and entrepreneurial skills development will also be necessary to reduce barriers to entry (see section 4.4).

The private sector is generally assigned an important role in macro-policy statements. However, there are often reasons to critically assess the extent to which such policy statements are implemented. Such an assessment may reveal subsidised government involvement in processing and

marketing thereby distorting competition, price controls, discriminatory taxation, poorly formulated or a lack of company laws, insurance laws, labour laws, financial legislation, etc. The development and enforcement of labour laws that protect poor women and children from exploitation and abuse is of particular relevance.

A donor can make a contribution in this field by providing exposure to experience gained elsewhere and by offering technical and other assistance in addressing different issues. In situations where the policy, legal and regulatory framework constitutes a serious constraint to market development, this needs to be made clear and communicated to the partner country concerned. Careful consideration should then be given to the usefulness of support to market development related activities unless serious constraints in the policy, legal and regulatory framework are addressed simultaneously.

Sida should pay particular attention to the policy, legal and regulatory framework which often is of decisive importance for the development of efficient market mechanisms and for creating opportunities for rural poor to gainfully participate in markets.

4.2. Governance and law enforcement

Sida addresses good governance as a development concern in a broader perspective than just market development. At the same time there are reasons to recognise the significance of good governance also in the latter context.

Corruption is particularly harmful to market development. It limits competition and it increases transaction costs by necessitating out of pocket expenses for bribes, for example to obtain contracts, licenses, permits, registration documents. Corruption also sets a standard of dishonesty in business transactions that permeates all links in the marketing chain. Furthermore, corruption promotes market actors on the basis of their willingness and ability to pay bribes and on the basis of relationships to licence providers, contract providers, etc., rather than on the basis of business efficiency and competence. In the end the resulting malfunctioning of the market mechanisms will limit the potential of the rural poor to engage in markets.

Corruption should be regarded as something serious and unfortunate, but not beyond remedy. A concrete and credible programme for addressing corruption should be part of any serious attempt to apply a market-based development strategy. Measures should also be involved to ensure the safety as well as sexual integrity of women and girls, who are otherwise susceptible to threats and violence, coercive measures or simply indecent proposals by otherwise powerful actors.

Governance is also about administrative efficiency. Red tape and unqualified political and administrative bodies can result in inefficiency that makes the operation of businesses in the formal sector difficult. Such inefficiency can be particularly harmful if the regulatory framework is complex and overburdened with requirements and involves many different government offices.

Finally, a legal and regulatory framework is only useful if it is enforced. An inefficient and corrupt judiciary system is a constraint, which tends to

favour those with power and seldom the poor. This also means that small market operators are disfavoured in business relations with bigger and more powerful operators. Like good governance, the development of judiciary systems is significant in a much broader perspective than just market development. Sida provides support to a number of partner countries in this area from which market development will benefit.⁵

4.3. Physical infrastructure

In less developed partner countries and in less developed regions in partner countries the provision and *maintenance* of transport infrastructure is often decisive in breaking isolation and enhancing market access. Emphasis should be given to the secondary and tertiary road networks.

Access to electricity and telecommunications is essential for many market actors on the demand side, particularly for those who are considering entering into processing.

Trading in grain generally implies movement, handling and storage of large quantities not necessarily by individual traders, but by all traders in an area. During previous agriculture policy regimes, grain stores were often constructed and operated by state agencies. Such storage facilities should be made available to private traders either through sale or leasing agreements.

Construction of market places for retail and wholesale trading, if located and designed to reflect the preferences of sellers and buyers, can contribute to easier access and reduced transaction costs.

4.4. Financial services and entrepreneurial skills

Marketing services are often constrained by inadequate financial services. Trading in agricultural inputs such as fertilisers, and more importantly, trading in agricultural output, is highly seasonal. Furthermore, the capital required to purchase crops put on the market at harvest time (notably grain) is large by any measure in many partner countries. The inability or unwillingness of financial institutions to fully finance traders to absorb the quantities offered to the market simply means a reduction in effective demand. As farmers often have a great need for cash, the result is flooded markets and a downward pressure on prices. Farmers may also face the risk of not being able to sell their output or to deliver produce to traders with a promise to be paid later, which means uncertainty and risk.

These problems have to be addressed from different perspectives (including the conditions on farmers' production loans and on-farm storage). One perspective is to see what can be done to ensure adequate funding of traders' capital needs.

In addition to financial services for the purchase of farm outputs, market agents may also require financial services for other trading transactions and for equipment (e.g. vehicles) and processing facilities. A capital constraint will increase barriers to entry and limit the capacity of those already in business to expand.

Market entrepreneurs would often benefit from improved skills and capabilities (managerial, administrative and technical) in their fields of

⁵ See *Digging Deeper – Summary of Four Reports on Democratic Governance in International Development Cooperation*, Sida Division for Democratic Governance, August, 2003

operation. This would increase their efficiency, thereby reducing transaction costs. The provision of training can contribute to this end and it can be designed and provided to reduce barriers to entry. If such training is given in selected centres, this can be a further attraction to establish businesses in these centres.

There is an intensive debate in the literature on micro-finance on the merit of a minimalist approach to micro-finance and the merit of a credit-plus approach. The minimalist approach implies that only financial services are provided (by a financial institution). In the latter case other services, such as training, are offered either with cost-coverage by charging clients or without charges to cover costs. This means that the services are subsidised (often by donors in project contexts). The following considerations provide some guidance on this issue which remains to be settled.

In line with the principles for development of sustainable finance service provision argued in section (5.4.4), additional services such as training should only be provided on a full cost-coverage basis by a finance institution.

Only reasonably mature finance institutions *that decide themselves* that it is in their interest to provide such services should do so. Less mature institutions should be discouraged from adding non-financial services.

This is to say that if training for business development is to be provided, and there may be good reasons to do so, it should generally be provided by another institution than a finance institution.

A donor such as Sida can support training and skills development of market actors (also without cost coverage) as long as this does not favour any particular actor. For instance, traders in grain in a centre or in an area can be given training in grain storage. Businesses engaged in small rural infrastructure construction (culverts, wells, etc.) could be trained in technical design and preparation of tender documents.⁶

4.5. Rural centres

The growth of rural towns and large villages is generally characterised by a process of market development in rural areas. Market actors and “support functions” (traders, transport providers, processing facilities, bank branch offices, mechanical workshops, petrol stations, construction entrepreneurs, etc) typically establish themselves or emerge in such centres.

A government can influence this development proactively in order to increase the pace at which market actors extend their outreach and penetrate areas with poor market access. A development of this type can be promoted by providing infrastructure (streets, electricity, telecommunications infrastructure, water and sanitation facilities, etc) and service facilities (such as education and health services) in such centres. These efforts will counteract the concentration of market actors to centres in the most developed parts of a country or a region, and to the larger or the largest urban centres.

Such investments will also contribute to the establishment of a critical mass of mutually supporting actors with synergy effects for the development process. For instance, transport providers operating from one such

⁶ Sida has already experience from such capacity development efforts.

centre will be more effective if there is a vehicle repair workshop located in the same centre.

Non-agricultural activities typically tend to be located and expand in such centres. These and other economic activities in these centres will provide opportunities for increased market participation by rural poor.

In selecting centres for pro-active investments and provision of government services, a balance has to be achieved between two somewhat divergent considerations. The effects in terms of increased market development will be higher if the investments are made in centres that are on track in respect of development and growth with a high-potential hinterland already oriented towards production for the market. The effects will also be greater if efforts on the supply side, particularly those related to agricultural activities, focus on more resourceful farmers, who tend to be somewhat better-off. The conflicting consideration would be the ambition to reach the very poor.

There can be no hard and fast rule for striking a balance between the efficiency and the distributive considerations involved. Some general lines of argument may be applicable, however.

Firstly, as already mentioned above, there will be linkages between developments in rural centres and hinterlands that can benefit poor people. As discussed above, it is particularly (but certainly not exclusively) the very poor who seek income opportunities in non-agricultural activities, which tend to grow in expanding centres.

Secondly, the expansion of market-based activities, on both the demand and the supply side, that are initially sustained by the somewhat better-off can also provide those who are less well-off with potential access to transport and traders in farm inputs and outputs.

Thirdly, somewhere on the continuum, the cost of making investments and providing services for promoting market mechanisms will be hard to justify if resource endowment and/or population density is too small for a sufficiently significant response on the supply side.

4.6. Dealing with poorly functioning markets

When private market actors do not provide expected services, or services of very poor quality, there seems to be a case for direct government involvement. However, rather than suggesting government involvement in service provision without further consideration, the following questions should be asked: *Why do private actors not provide the services?* or *Why do they provide poor services?* Then the means to address the answers to these questions should be explored before direct government involvement is considered.

There are compelling reasons to proceed in this order. The track record of direct government intervention in production, processing and marketing is generally discouraging. Government failures have been the rule rather than the exception. This does not mean that the private sector always is a convincing alternative, at least not in the short to medium term. There are indeed numerous examples of “private sector failures”. However, sight should not be lost of the ambition to develop efficient and largely private sector market mechanisms. To this end a government has a crucial role to play in creating the necessary preconditions.

5. Markets for primary agricultural products

The significance of improving market mechanisms as a means to expand gainful participation in markets by the rural poor was considered in the previous section. The focus was on the demand side. In this section and the next section the discussion will *focus on the supply side* i.e. the rural poor and constraints on them from increasing their incomes by participation in markets. This section deals with participation in markets with *outputs from agricultural activities*. Agriculture is defined to include the production of all unprocessed plants and animal products (i.e. it includes livestock, forestry and fisheries).

There are three main ways to increase farmers' income from participation in markets with (primary) agricultural products. Firstly, farmers need to obtain increased *gainful access to markets*. Not only access but gainful access. Secondly, agricultural production needs to gradually *shift to products of higher value*. In addition to higher prices, the demand for such products (e.g. livestock products) tends to increase more rapidly than demand for traditional low-value (staple food) products in an expanding economy. Thirdly, the *productivity* of agricultural production has to be increased in order to make small-scale farming more competitive.

There is generally a wide range of constraints to overcome in order to increase incomes by such means. Some of the more important constraints are discussed below.

5.1 Gainful market access for agricultural output – technical aspects

Farmers may face *off-road transport problems* that prevent them from bringing agricultural products to market outlets even when the road network is expanding.

Farmers may *lack information* on alternative market outlets, prices, employment opportunities, etc. However, this is often taken for granted without verification. Therefore it is essential to establish what additional useful information needs farmers may have and how these needs can be met effectively and by whom.⁷

The lack of (safe) *on-farm storage capacity* (for storable crops such as cereals) continues to be a serious constraint for many poor farmers.

⁷ Again a market failure should not automatically suggest a government intervention, if this is likely to lead to a government failure.

As agricultural product markets are liberalised in most partner countries, the flooding of, for example, cereal markets at harvest time tends to depress prices with resulting losses to farmers that are even more serious than they were in the past. The benefits of withholding some of the output in store have increased.

Poor packaging and limited attention to *quality and grading* tend to reduce prices received by farmers.

Traders, and particularly exporters and processors, demand *timely and reliable deliveries*. If farmers fail to meet such demands, and demands related to packaging and quality, they will not only lose on prices but also face the risk of being deprived of access to such market outlets.

There may be a case for looking for alternatives when there are few and perhaps ineffective and inefficient market outlets. One concept that is attracting an increasing amount of attention is to link small-scale producers of cash crops such as rubber, coffee, sugar cane, tobacco, cotton, cashew nuts, spices and fruits to large-scale producers for processing and/or marketing. Government intervention is often useful for initiating and facilitating such arrangements. Based on a concept of cost sharing, where the large producer takes on the role of assisting small-scale producers (with, for example, inputs, planting material/seeds, advice and training) and with the ambition on the part of the government to assist in the development of a farmers' association to balance the power of the large producer, such schemes can be highly beneficial.

5.2. Gainful market access for agricultural products – bargaining power

The *limited bargaining power* of an individual poor farmer is often a serious constraint to gainful market participation. Women are generally in a particularly weak position. Ill informed, pressed to sell, and with a small quantity to offer poor farmers are seldom in a position to bargain successfully with buyers of produce. This disadvantage is particularly harmful on poorly developed markets with limited competition. Furthermore, limited bargaining power also puts individual farmers at a disadvantage in sharing the gains from improvements in the efficiency of market mechanisms and hence reductions of transaction costs.

In these situations there is an obvious case for cooperation between farmers and for farmers' organisations. Support should be given to the development of such efforts. In promoting formal or informal organisations of this type there are two considerations to bear in mind:

Firstly, external agents (e.g. government agencies and NGOs) should be cautious about initiating and leading farmers' organisations. The rural poor are only too willing to form informal and formal organisations, not necessarily because they have a strong felt need and commitment to the idea, but because they have the expectation (often correct) that doing so will bring other benefits from the external agent, normally a project.

Secondly, it is essential to adjust the scope, level and sophistication of the activities of the organisations to the capacity and capability of poor farmers to succeed in managing them. In a context where farmers are poor, have limited education and limited experience of market-oriented production, such an organisation might be *informal*, have a *few members*,

focus on *bulk sales* and probably no other activities, and have a *simple management structure*.

5.3. Land Tenure and Property Rights

Natural resource tenure *insecurity* or unfavourable tenure conditions, for example in share cropping arrangements, tend to strike at the foundation of the livelihood systems of rural poor. Tenure insecurity that leads to loss of access can imply destitution. Furthermore, tenure insecurity discourages farmers from making investments to increase productivity and investments for the reorientation of farm production for the market.

Currently, the access of poor people to common pool resources, notably forest resources, is being reduced in several partner countries, whereas a case often can be made for increasing access and control of such resources by rural communities. For instance, attempts by forest departments to control and manage forest resources often result in open access situations with overexploitation and depletion of the resource as a consequence.

For these reasons the provision of tenure security for individuals as well as common pool resources for men and for women, will almost always be an essential element in a strategy to enhance natural resource based production and market participation.⁸

Careful analysis with explicit consideration of indigenous as well as formal tenure regimes and inheritance and family laws is called for, with special attention paid to the rights of women and children as well as ethnic minorities.

In some situations there are strong reasons to consider *redistribution of natural resources*, notably land, as a decisive means to provide rural poor with access to a production base. Redistribution may refer to private land as well as state-owned land. Efforts are made to develop market-based approaches to land reform in order to reduce the political difficulties generally involved with land redistribution.

5.4. Shifting production to higher value products and increasing productivity

Low value cereal staple food is the agricultural product that poor farmers tend to bring to the market. One avenue to increase farm income is to shift production and marketing to products that fetch higher prices, such as (generally) cash crops and livestock (including birds).

Small-scale agriculture also needs to increase productivity. This has become increasingly important, as the amount of land available diminishes and the size of holdings decreases. Without an increase in productivity, declining farm sizes are likely to *reduce* market participation. More and more farmers will have less and less to offer to the market. Furthermore, productivity needs to be increased to make small-scale farm production more competitive.

In undertaking a shift of production to higher value products as well as making efforts to increase productivity, farmers will face a series of constraints. Some of the more frequent constraints are discussed below.

⁸ See also section 8.2, where this issue is discussed from an environmental perspective.

5.4.1. Production technology

There has been repeated emphasis on the significance and profitability of agricultural research and the need for technology development for small-scale production in the development debate for decades. Yet, the result is hardly encouraging. Research specifically addressing the needs of small and resource-poor farmers has remained relatively limited. Furthermore, resource allocation to agriculture research (and to agricultural development for that matter) by donors and partner governments has shown a steady long-term decline. At the same time there is a rapid and strong trend towards privatisation of agricultural research and research results as well as genetic material (through patenting) by large multi-national corporations.

These trends need to be reversed. Expanded efforts have to be made in the field of agricultural research in general and research of relevance for small-scale producers in particular. This research has to respond to and encompass the changing socio-economic conditions and diverse pressures faced by men and women. National and international capacity to produce research results, which remain public goods, should be expanded.

Whereas the impact of a re-orientation of this type is long-term, there are technology improvements that can be made at present in order to increase the value of products that farmers bring to the market. These may include improved drying (of, for example, cereals and nuts), cleaning and purification (of, for example, cotton lint, raisins, wax and oils).

Water is often a serious constraint to increases in cropping intensity, improvements in yields and reduction of production risks. The failures of many large-scale irrigation schemes should not be taken as a reason to ignore the need for effective and controlled water use, including water harvesting and irrigation, primarily under small-scale schemes.

5.4.2. Extension services

The rural poor need different kinds of information to be able to gainfully participate in markets. Such information may refer to production technology, production methods, measures to increase value added on farm output, information on market potential for different products and services, price information, information about market outlets, etc.

Traditionally it has *a priori* been considered a government responsibility to provide such information. Extension systems were set up for that purpose. The experience of such systems is mixed, at best. The ability to deliver useful information to farmers, especially women farmers, was often questionable, and the cost of thousands and thousands of government extension officers and their mobility was high. The costs became increasingly hard to meet and often resulted in extension staff receiving salaries but no funding for any activities. There was also a strong male bias in staffing and in content of service provision, together with a general difficulty of providing rural women with the information as a male outsider, or simply due to problems of limited literacy and of limited majority language skills among the women.

The present approach to farmers' information needs is somewhat different. It is recognised that farmers satisfy their information needs from a number of different sources of which government extension services is

but one. A more strategic assessment of the important information needs that are *not* met from other sources generally gives a government extension service a smaller and more focused task. Past experience of what an extension service can usefully deliver, as the farmers see it, can also guide considerations related to government provision of this service.

Finally, it is being increasingly realised that the developments in information technology offer new and seemingly promising options for the transmission of information also to the rural poor. Further experimentation and promotion along these lines should be encouraged.

5.4.3. Rural financial services

Rural poor need financial services that go beyond provision of credit. There is evidence to suggest that *savings deposit services* are even more welcome by those who are poor. A deposit service can help to smooth income streams and to reduce risk. Income smoothing is particularly useful when income streams fluctuate as they generally do in economies that are dominated by agriculture. Income smoothing can reduce the need for forced sales at low prices at harvest time and avoid forced sales of assets and/or failure to maintain assets at times of crop failures, for instance.

Informal sector operators are the main providers of rural financial services. They perform a useful and important function. However, this service provision is generally limited in its scope and capacity. Savings deposit services are rare and long-term loans are seldom given. Furthermore, these providers operate on highly fragmented and non-integrated markets.

In promoting the emergence of rural financial services, it is essential to take a long-term perspective and promote sustainable service providers that are linked to the main financial system in a country. This presupposes that the services will eventually be provided on commercial grounds, without subsidies. It also implies that provision of these services will be increasingly taken over by the formal sector.

In this process of transition careful attention has to be given to the needs and constraints of women. In general women receive only a very small share of credit from formal financial institutions, often because they are unable to provide collateral. When women receive loans, these tend to be smaller than men's, despite their generally better track record of making repayments.⁹

Provision of financial services implies particular challenges in rural areas, where natural resource based production is characterised by particular risk elements (e.g. co-variance of risk) and highly uneven (seasonal) income streams and capital requirements. No single type of institution can claim to be *the only* solution to the problem of providing rural financial services. Rather it is a matter of promoting different types of institutions and service providers such as thrift societies, credit unions, rural banks, (agricultural) input suppliers and produce traders.¹⁰

⁹ Despite the fact that women account for 60% of the labour force and contribute up to 80% of total food production, they receive less than 10% of the credit to small farmers, and only 1% of total credit to agriculture in many African countries.

¹⁰ For a more exhaustive discussion see the micro-finance policy formulated by Sida/INEC

Support to small-scale agriculture producers is of great importance, i.e. to increase agricultural productivity, shift production to higher value products, secure access to and control of natural resources by both men and women as well to make sure that the natural resource base is used in a sustainable manner. Whenever possible, Sida should support the development of farmer- and other interest groups.

5.5. Market participation, risk and food security

Most farmers in Sida's partner countries partly remain subsistence producers and partly orient their production towards market participation. There are also farming communities where culturally determined value systems preclude them from looking at the use of a resource (e.g. land) or a line of production (e.g. livestock) as a business proposition.

Among the farmers who orient themselves towards markets but who also remain subsistence producers, the rationale is the importance of food security and the risks involved in safeguarding this security on immature and distorted markets. It is also typical that poor farmers participate in markets, if and to the extent they have a surplus in their staple food production. In doing so they also take into account alternative sources of food security (purchase of food with income from other sources, fishing, NTFPs, etc.) and their need for cash. The decisions involved are taken with regard to the perceived risks involved. It can also be noted that this market behaviour has a positive effect in stabilising price levels by withholding supply.

Farming activities are prone to a range of generic risks (related to weather, pests, diseases, etc.). The entry on to markets brings additional risks such as

- Fluctuations in demand and prices.
- Changes (increases) in quality or health-related standards which small-scale farmers may have difficulty in meeting.
- Market “imperfections” involving monopolistic pricing and cheating, and poor services from market actors.
- Disruption in the supply of essential inputs.

These “risks” are related to the risk of jeopardising food security. While it may be possible to accept the failure to satisfy many other needs, at least temporary, the need for food cannot be ignored. Hence, food security is always a basic concern to the rural poor.

The risks that may affect food security will be context-specific but they will also depend on the nature of market-oriented production. For instance, market participation with staple food products lowers the risks, as a farmer directly can exert an influence on the risk for food insecurity by deciding whether or not to sell (the staple food) on the market.

At the other extreme an investment in a slow-maturing tree-crop will not permit food needs to be regulated with income from that crop for a number of years. As an investment in a tree-crop (e.g. tea) is likely to have reduced the area for subsistence (staple food) production and depleted savings or increased indebtedness, the farmer is more vulnerable in terms of food security.

Production decisions and assessments of risk also have a gender dimension. For instance, in many communities women have the prime responsibility for staple food production. An expansion of cash crop production decided on by men may reduce the availability of land and labour for staple food production. The risks perceived by women farmers and men farmers in such a situation are likely to differ.

Therefore, understanding and recognising risk and vulnerability *as the women and men concerned perceive them* is important. Furthermore, what may seem strange, ineffective or conservative by the outsider quite often proves to be perfectly rational behaviour when risk factors are duly considered.

Families and communities that are victims of the HIV/AIDS epidemic are particularly vulnerable and often face serious risks of food insecurity, for example labour capacity is weakened. At the same time there is a need for substantial cash incomes (in relative terms) to pay for health services and medicines. Fulfilment of cash needs tends to be made at the expense of food security. In such situations specific analyses are called for to map survival strategies with particular focus on food security and cash requirements. These analyses should explore the implications for women and children, who tend to be particularly vulnerable.

This discussion demonstrates the close relationship between subsistence staple food production, market participation and food security. It also demonstrates the likelihood that food *in*security can be a major constraint to market participation. The outcome of this argument is that efforts to ensure food security, often through subsistence production, can be important for market participation.

In some situations the best approach might be to support subsistence production to ensure food security while simultaneously improve preconditions for market participation as a gradual process over time. In situations with high HIV/AIDS prevalence, specific analyses are needed to map out relevant strategies that satisfy the need for cash and the need for food security.

6. Limitations of small-scale agriculture

With reservation for considerable variations in preconditions, there are reasons to discuss *the long-term viability* of small-scale agriculture as a source of continuously increasing incomes for rural poor. A number of developments and trends prompt this discussion.

Farmers in general and small-scale farmers in particular in partner countries are seriously affected by the long-term trend of declining (real) international prices of a wide range of agricultural products, including cereals. For instance, over the past 50 years the real price of maize has more than halved.

The impact of declining international prices has been increasingly felt as a result of liberalisation of trading regimes as part of structural adjustment programmes. Trade liberalisation tends to align prices everywhere, including domestic prices in partner countries, to (declining) international prices.

The price trends for agricultural products are primarily the result of very significant productivity gains in industrialised agriculture production.¹¹

The downward pressure on international real prices has been exacerbated by the agricultural policies persistently pursued by the US and the EU. These policies provide for large-scale subsidies to farmers that result in overproduction of a range of agricultural products, which are dumped on international markets.

Declining real prices have tended to block the development of agriculture in general and small-scale agriculture in particular in partner countries. Poor farmers have become increasingly unable to accumulate capital for investments in productivity-increasing technology and to service loans taken for the same purpose.

Many farmers are pushed to a “threshold level” where they cannot renew their tools and inputs and buy the essential consumer goods they cannot produce themselves. Unless additional income can be raised, this is the stage at which a process of forced sales of assets and/or failure to maintain assets tends to set in which aggravates poverty and eventually leads to destitution.

¹¹ The gross labour productivity (in cereals production) increased from 10 tons per worker to some 2,000 tons per worker during the last century. At the same time the gap in productivity between highly mechanised farming and low technology based farming has widened dramatically, currently showing a ratio of about 1 to 500. Mazoyer, R. *Protecting small farmers and the rural poor in the context of globalization*. National Agricultural Institute, Paris/FAO, 2001.

The viability of small-scale agriculture is further threatened in situations where land is scarce. This scarcity in conjunction with population growth results in fragmentation of land into increasingly smaller holdings and forced movement on to marginal and unproductive land. This process is increasingly becoming the rule rather than the exception.

Increasing cropping intensity and shifting to high value products can also make an important difference to incomes on smallholdings. However, seen in a longer time perspective with the ambition of raising incomes beyond a meagre one or two dollars a day, small and declining holdings will not permit sustained and continuous improvements in incomes.

Present strategies and activities to improve small-scale agriculture in partner countries are not much different from those of the past. To a considerable degree it is “more of the same” that characterises the current debate. Many argue that the reorientation of macro-economic policies and notably the liberalisation of trade and price formation offer a context in which the strategies and activities will be more effective. However, for reasons discussed above liberalisation in combination with other factors may not be such a blessing for poor farmers. It also constitutes a threat.

The arguments above do not mean that small-scale agriculture can and should be ignored. The changes and trends discussed here will not have an immediate dramatic impact and the impact will vary. In most partner countries there is still an untapped potential, and often a considerable potential, for agricultural development, particularly in terms of increasing productivity. Furthermore, other sectors and employment on larger farm units will not be able to expand at such a rate to enable masses of marginalised rural poor to be absorbed. In combination, these reasons suggest that it is necessary to strive for improvements of small-scale agriculture, even if its long-term viability may be in doubt. At the same time, the arguments above suggest that there is a compelling need *to develop alternatives* (see Section 7, below).

This discussion raises the important question of whether agriculture can serve as the key source of tradable goods that will bring incomes into a region and stimulate non-farm activities and general growth as discussed in section (3.3.).

The answer will depend upon the degree to which agriculture in partner countries can undergo the structural changes that will make the sector competitive and result in surplus production of tradables.

A related issue is the type of farmers that will produce the tradable products. While individual contributions to a surplus will be small from small-scale production, the aggregate output from a large number of small producers may still be significant. At the same time somewhat more resourceful producers, including large-scale producers, can also make a significant, and sometimes, decisive contribution. Given the potential significance of tradables in generating demand for non-tradable goods and services, support may also be provided to more resourceful producers.¹²

¹² Care has to be taken, as large producers may not bring more than a fraction of earnings back to the region of production.

A somewhat problematic observation is that a production of agricultural tradable surpluses will not be easily achieved in some partner countries. This suggests an exploration of alternative or complementary tradable goods and services (increased local processing of primary products, tourism, labour migration, mineral extraction, etc.). The bottom line is that in some contexts it will simply be very difficult to initiate a process of change.

7. Income from rural non-agricultural economic activities

Non-agricultural rural activities include all activities outside the production of (unprocessed) plants and animals. Such activities include petty trading, handicrafts and cottage industries, simple processing, artisan work, casual labouring, and employment locally and far away through migration. An important part of such employment is found in urban areas.

The process of participation in markets for non-agricultural products and services has already made a great deal of progress. Unable to sustain themselves on their income from agriculture, the rural poor have increasingly looked for other sources of income. At present the rural poor in Sub-Saharan Africa as well as in Asia acquire no less than some 30–50% of their household income *from non-agricultural activities*. The share of economic activities undertaken in a market context (rather than on subsistence basis) and as non-agricultural activities has increased.

Rural non-agricultural activities have special importance for women. Women dominate many of the non-agricultural activities that grow most rapidly during structural transformation – activities such as food processing and preparation, trading and many other services. Therefore women will be key actors in the economic transition of the rural non-agricultural economy. This requires that their role be explicitly recognised through gender-disaggregated analyses and through interventions that take the specific needs and resources of women into account.

The diversification of sources of income with increasing importance for non-agricultural sources represents the direction of structural changes that was argued to be necessary and desirable in section (2). Structural change is *necessary* since an increasing number of rural poor simply cannot make a living from agriculture (alone). On the contrary, the changes that will lead to increased agricultural productivity are expected to *reduce* employment opportunities in agriculture, at least in a long-term perspective. The structural change is *desirable* since the potential for expansion and employment generation is much higher in other sectors (taken together) than in agriculture in a long-term perspective. A structural change of this type holds the *potential* for increasing the incomes of large and increasing numbers of rural poor.

Unfortunately this is not exactly what has happened so far. The figures on the significance of non-agricultural sources of income mentioned

above more often than not reflect a necessity rather than a wish to participate in non-agricultural activities. Typically many of these activities represent self-employment, are small, labour intensive, require limited capital and skills, and operate on highly localised markets. In other words, barriers to entry are very low and activities are easily replicated. Competition is often strong. Profit margins tend to be small and the return on labour is low and often very low.

To a considerable extent non-agricultural activities are undertaken in the *informal economy*. The informal economy is important and is growing in importance in many countries. In Africa this part of the economy is estimated to employ 80% of the non-farm labour force. The informal economy is particularly important to women.

Activities in the informal economy are undertaken outside a country's legal and regulatory framework. The reasons may be that they are too small or that the administrative, capital and other requirements for recognition in the formal sector constitute high barriers to entry. Actors in the informal economy may also prefer to remain there in order to avoid taxes and government supervision.

Experience suggests that it is not very common that operators in the informal economy enter a path of growth that makes them significant employers. By the same token it is uncommon that informal operators grow and "graduate" into formal sector operators. The importance of the informal economy is mainly its ability to provide a degree of income through a vast number of 'enterprises', its adaptability, easy entry and exit, and low transaction costs, and as an important source of livelihood for women.¹³ However, such small and non-growing activities may have linkages to larger, often formal, businesses. More generally it is being increasingly recognised that small enterprises often have beneficial linkages to larger or even large businesses.

A number of strategic outcomes seem to follow from these observations and the earlier discussion:

Firstly, the expansion of production and marketing of tradable rural goods and services is of key importance as a means to generate demand and hence sources of income from non-tradable products and services. This will include the generation of employment opportunities in trading and processing activities with tradables. Given the strategic significance of marketing and processing agents for tradable goods, their needs have to be addressed even though these actors often do not form part of the target group of Sida's support.

Secondly, there is a *concurrent need* to increase the productivity of non-agricultural activities and to lower market transaction costs in these activities.

Thirdly, since most of the rural non-agricultural activities by the poor are undertaken in the *informal economy*, it is essential that a possible negative attitude to the informal economy and the actors in that economy be replaced by active and supportive policies and activities.

More attention should be given to non-agricultural activities, including labouring, as this source accounts for no less than 30–50% of the income of the rural poor and is increasing in significance.

¹³ Making Markets Work for the Poor, Background Document to Private Sector Development Policy, Sida, October 2003.

8. Crosscutting issues

In addition to the more specific economic and institutional issues discussed above, there are a number of other issues of a more crosscutting or indirect relevance that need to be taken into consideration when promoting a market-based approach to rural poverty alleviation. Four such issues are discussed below: gender equality, sustainable use of natural resources, empowerment, and human capability.

8.1. Gender equality

The importance of taking gender aspects into account has been pointed out in various instances above. Sida has a policy to promote equality between women and men and therefore attaches great importance to gender equality in all its development work. Underlying differences in women's and men's resources, power, constraints, needs and interests should *be explicitly recognised and acted on in all situations*, at all levels in order to reduce gender inequality. In essence, a “gender mainstreaming” approach.¹⁴

Promoting gender equality is not simply increasing women's or men's participation; rather it is concerned with the terms of their participation. Increased participation of women in an unequal development process, in for example small-scale trade and market involvement, will not secure a significant change in options and opportunities for women, nor will it achieve gender equality, unless women are understood as equal and important actors, and a resource to be reckoned with, and where the underlying causes for the gender inequalities are analysed and addressed.

Preconditions for market development and market integration are likely to differ between women and men. Some of the more *basic* constraints faced especially by women include:

- lack of mobility (imposed by workload and/or tradition);
- heavy workloads and lack of time (multiple roles of women);
- low self-esteem and low status (including vulnerability to corruption and cheating, violence, exploitation and or physical/sexual abuse);
- lack of access to basic social services (including healthcare, childcare etc)

¹⁴ Promoting Gender Equality between Women and Men in Partner Countries. Sida Policy, 1997.

- limited opportunities for training and capacity development, including basic education and/or literacy;
- difficulties in accessing and/or understanding information (including extension services, legal documents etc).
- exclusion from decision-making at various levels, including development and private sector organisations, local government, communities and importantly even at family level, i.e. within the household.

Gender concerns of particular strategic importance relating to market integration and development are that women have secure access to and control over productive resources and services and are part of decision-making processes at various levels. Importantly this includes secure land tenure, property and inheritance rights (formal titling and registration), access to loans and credit, the right to sign and enter into legally binding agreements in their own right, and access to services, capacity development and training.

In order to ensure equal opportunities and benefits, as a rule all interventions supported by Sida should be subject to context-specific gender analysis.

8.2. Sustainable use of natural resources

One precondition for improved and sustained incomes for the rural poor is the preservation of the natural resource base on which so many depend, directly or indirectly. There must be incentives for users of the resources to care for long-term sustainability, and means to prevent others from exploiting or mining the resources. Secure tenure and self-interest can partly achieve this.

The significance of secure tenure and capacity to enforce exclusion is particularly striking for common pool resources. For instance, forestland and water resources including fishing resources with open access tend to be seriously degraded, whereas secure tenure provided to communities or user groups have proven that sustainable management and use are feasible.

Farmers have a self-interest in the sustainability of their natural resource base. However, under the pressure of poverty they may see no alternative but to sacrifice sustainability in order to satisfy their basic needs of today. One way in which this can be avoided is by raising productivity per unit of land and household incomes in general to reduce the need for overexploiting the resources. In addition, market incentives can be created for more sustainable and environmentally-friendly production through, for example, the promotion and growth of markets for eco-products.

At community level incentives for sustainable use can, as mentioned above, be fostered by granting communities or user groups, for example forest user associations, coastal fishermen, control over the natural resources they make their living from. This does not necessarily require full ownership rights. It can also be achieved by devolving management control over state or publicly owned resources to the actual users through different co-management arrangements.

Another approach is to create mechanisms for coordination and joint decision-making on natural resource management issues in an area involving all stakeholders including the poor. An example is watershed management committees.

Whatever the case, a government-sanctioned regulatory framework is also required, both to provide communities or user groups with the formal right to prevent intrusion by outsiders on the resources for which they are responsible, and to safeguard the resources against possible environmentally harmful practices and activities among the users themselves. Importantly, such regulatory frameworks should be designed together with the users to ensure their acceptance and support of the regulations in question.

8.3. Empowerment

Supporting various means to strengthen the empowerment of the rural poor in a broad sense of the term is also of critical importance in a market-based approach. Limited power to influence the formulation and enforcement of policies, regulations and laws, to influence the design and provision of government services in their favour and to bargain for gainful terms in market transactions, are some of the most serious constraints to gainful participation in markets by rural poor. Power relations are generally particularly disadvantageous for marginalised groups such as the very poor, women and ethnic minorities. Analyses of power disaggregated by gender should be the basis on which the specific needs of these groups are addressed.

As discussed above (5.2) organisation is essential if the rural poor are to balance the power of market actors in their favour. Individually they are weak but collectively they can be strong. External agents can play an important role in supporting such processes of organisation by providing capacity building, facilitation of organisational development and advocacy as long as they do not impose or try to lead such processes.

As also discussed above (5.3.), granting the rural poor secure rights to land and other natural resources is a means towards their empowerment since they would then have secure access and control over their basic necessities for life. The devolution of control of common pool resources such as forests, pastures, water, etc. to local communities or user-groups, is a way of strengthening local influence at the same time as it creates incentives for local collective action – a fundamental aspect of empowerment.

Decentralisation is often advocated as a means to increase the potential for local influence. Efforts to develop responsive, accountable and transparent modes of operation of decentralised political and administrative bodies may support a market-led development approach. Likewise, decentralised systems offer the opportunity to allocate investment resources to address local specific needs for market development. Furthermore, local bodies will implement much of the legal and regulatory framework of significance for market development in a decentralised system. This means that market actors will have easier access to the relevant decision-making bodies.

While this is true, it does not necessarily mean that decentralisation leads to improved opportunities for poor people to make their voices

heard. This can only be achieved if poor people can organise themselves and increase their self-esteem and self-confidence in a context where democratic rules permit criticism and the making of claims. Such a process of empowerment is basically a process “from within” individuals and communities that has to be fostered and developed by the poor themselves. However, a process of this type can be supported in the same way as the local organisation process to balance the power of market actors discussed above.¹⁵

8.4. Human capability

In the final analysis, development in any dimension is about people and their human capabilities. So far the discussion has primarily stressed the economic, structural and institutional constraints that need to be addressed to enable poor rural people to improve their income through gainful participation in markets. However, the human capacity and capability of the rural poor themselves also need to be taken into account. This makes human resource development in the broadest sense of the concept essential. Two dimensions i.e. education and health, are stressed here:

Formal and informal education and skills development have proven to raise general awareness and create a broader outlook, develop self-esteem, empower poor people, enhance gender equality and speed up adoption of new ideas and technologies. Hence, education and skills development will contribute to poverty reduction in all its dimensions. Directly and indirectly it will also contribute to improve the capability of rural poor to take advantage of market opportunities. For instance, it has been shown that education positively correlates with the propensity of farmers to innovate and switch to more profitable production patterns, e.g. they have better possibilities to inform themselves about the opportunities and risks involved. Literacy and arithmetic skills are important to negotiate successfully with outside traders, something of particular importance for ethnic minority groups as well as for poor rural women. Especially in remote and marginal areas where other opportunities are rare, education can also be essential for finding new opportunities, which may include migration to areas with a higher level of market integration.

Poor health conditions and malnutrition disable human resources. Much of the production and services for the market have a high labour input. Often it is a matter of labouring under hard and demanding conditions. This is why poor health and malnutrition can decisively reduce the capacity of a household to sustain food security and generate an income. Efforts designed to address poor health conditions and malnutrition are an end in itself as well as a means to indirectly address material deprivation.¹⁶

The HIV/AIDS epidemic implies large-scale human resource losses at all levels of society. It changes the demographic composition of entire populations with consequent increases in dependency ratios, reduction of labour capacity, loss of traditional knowledge and skills, etc. It also affects the capacity of government and other institutions in terms of extension and other rural service provision because of staff losses due to the dis-

¹⁵ For further details, see Digging Deeper, Sida Division for Democratic Governance, August, 2003.

¹⁶ Sida's Policy Framework for Health and Development is outlined in Health is Wealth, Sida, 2002,

ease. Apart from the need to adjust rural development interventions to limit the impact of the epidemic on the livelihoods of affected households, there is a need to form new cadres of staff to ensure at least a minimum of continuity in rural development support and service provision among the surviving population.

Education and health are values in their own rights, but are also pre-conditions for benefiting from market integration. Education and health are to some extent integrated in rural development, for example vocational training. In other respects these areas are handled by specific departments that focus on education and health. Hence, collaboration between the departments concerned is essential for successful interventions.

Gender equality, empowerment of the rural poor, sustainable use of natural resources and human capability are crosscutting issues that have to be reflected in the analyses leading to interventions for market development and in the interventions themselves.

9. Different approaches in different contexts

In the discussion above, a number of possible measures or intervention areas have been identified for improving the conditions of poor rural people to participate more gainfully in markets of various kinds. The relevance of these measures will however differ in each case depending on a host of contextual factors as well as the particular living circumstances of the poor themselves, their perceived interests and needs, etc. In other words, there is no single blueprint approach.

To illustrate this point one can imagine two situations with radically different preconditions for market involvement of the poor. The first situation is characterised by a relatively rich natural resource endowment with significant production and marketing of tradable (agricultural and perhaps other) products and expanding non-farm activities, good transport infrastructure, proximity to urban markets, etc. However, although preconditions for market integration are quite favourable, poverty may still be prevalent among a segment of the rural population due to unequal distribution of land or perhaps outright landlessness.

If land redistribution is not a feasible option, interventions in this situation may focus on strengthening the capacity of small-scale farmers to improve their productivity and competitiveness in own agricultural production for the market, possibly in combination with support measures to enable them and their families to take advantage of the demand for labour and other non-farm services existing in the area.

At the other extreme the situation may be one of poor natural resource endowment and inaccessibility due to distance or topography. The production and marketing of tradable goods is limited, and market oriented non-agricultural activities are few or next to non-existent. Most people are poor and make a living basically from their own subsistence production. The scope for boosting income through local production of tradable goods is clearly very limited and generally makes such an approach non-viable. Focus may instead be directed to the potential of tradable services such as labour migration. Apart from strengthening basic education, this potential can be enhanced by developing vocational skills in demand. In a short to medium-term perspective, there is also generally a case for focusing on food security through improved subsistence production. As common pool resources often are important for the poor in marginal areas, food security may also be improved by ensuring community access and control of such resources.

Many rural situations fall somewhere between these two extremes, however. Often there is a potential for increased local production of agricultural tradable goods due to a relatively abundant natural resource-base. However, this potential is untapped because of lack of roads to markets, unwillingness of urban-based private traders to operate in remote rural areas, lack of information about marketing opportunities, etc. Poverty in such a situation is thus not a result of lack of access to productive resources per se, but rather a lack of opportunities to make profitable use of the resources available.

A combination of interventions may be appropriate in this latter type of situation. For instance, building roads to facilitate access to market centres is one very important measure, perhaps supplemented with support to marketing operators to generate demand for local products. On the other hand, local farming families must be provided with extension support and possibly financing to be able to reap the benefits from the improved opportunities for commercial production as the market opens up. Finally, it is often important to ensure that local people have secure rights to land and other natural resources in their home areas since these may now become more attractive for outside speculators.

The upshot of all this is that interventions must be designed on the basis of a previous analysis of the specific situation at hand. Sida attaches great importance to PRSPs and other national development plans when identifying overall priorities for its support. The country strategy process represents the most important instance for defining in more detail the content of Swedish support.

While both the PRSP and the country strategy process usually include analysis and guidance on the ways in which rural poverty alleviation will be addressed in a particular country, the level of detail is often rather general and does not allow for the design of more context-specific approaches. For this there is a need for meso-level analyses which are both sufficiently general to be relevant for a larger rural area at the same time as they are sufficiently comprehensive and detailed to permit the identification and design of concrete interventions of relevance for the specific local poverty situation.

Such meso-level analyses, disaggregated by gender, may cover the following issues:

- Community/household livelihood strategies with focus on the poor and the constraints and opportunities for market participation as perceived by the poor (men and women) themselves;
- The relative importance and potential for production of tradable and non-tradable goods and services in the regional/local economy and their linkages as well as significance as sources of income for the poor;
- Systems and mechanisms for marketing of local products and services including constraints faced by marketing actors for operating in remote rural areas, market chains for selected goods and services of strategic importance for the local rural economy, rural-urban links in terms of marketing of produce, service provision and labour migration.
- The policy, legal and regulatory framework of significance for improvement of incomes of rural poor through market integration.

Today there are a number of methodological frameworks which contain elements of relevance for analysis of this kind. As examples, mention can be made of the Sustainable Livelihood Framework, Participatory Poverty Assessments (PPA), Participatory Rural Appraisals (PRA), conventional market surveys, etc. The challenge is to bring these together into one analytical, as well as practically manageable, methodological format.

Understanding the local context within the framework of the principles in these guidelines is a precondition for successful application. This calls for context-specific analyses.

10. Implications for Sida

The preceding analysis suggests a number of implications for Sida with regard to principles, approaches, priorities and modes of operation.

The more important ones are summarised below:

- a) Improving income among rural poor is crucial for addressing poverty and should be *one* of Sida's foci in support of rural poverty alleviation. Gainful participation in markets is the means to achieve this end.
- b) Gainful participation in markets presumes effective mechanisms for market transactions as well as efficiency on the supply side. In the past, attention focused primarily on the supply side (notably on agricultural production). Sida should apply a more balanced approach by giving equal attention to the significance of effective market mechanisms that link producers with consumers.
- c) Specific attention should be paid to the significance of production and sale of tradable goods and services, including labour. Such production and sale bring income to a region and are the key to the expansion of local non-agricultural activities, which often benefit the poor and notably women. The present role and future potential of tradable goods and services to benefit the poor need to be established as part of the analyses that should precede intervention.
- d) At present, in most rural settings tradable goods originate in the agricultural sector. In the short- to medium-term perspective this gives the agriculture sector particular significance for triggering general development.
- e) Rural poor should be supported to produce tradable goods and offer tradable services (e.g. migratory labour). When increased production of tradables is of particular strategic importance, support may also be given to more resourceful farmers, if this is expected to benefit poor people indirectly.
- f) The policy, legal and regulatory framework is often of decisive importance for the development of efficient market mechanisms and for creating opportunities for rural poor to gainfully participate in markets. Hence, Sida should pay particular attention to these issues, stress their importance in the dialogue as a prerequisite for meaningful support to more tangible activities, and offer support to improve the framework, when called for, in parallel with support to other aspects of market development.

- g) In addition to addressing the policy, legal and regulatory framework, support for the development of effective market mechanisms may involve investments in physical infrastructure, rural centres, financial services and entrepreneurial skills.
- h) Support to small-scale agricultural producers remains important. Constraints that limit gainful access to markets should be given particular attention. The potential to improve agricultural productivity and to shift production to higher value products should be explored. Secure access to and control of natural resources by both men and women is generally a precondition for this. In this process care has to be taken that the natural resource base is used in a sustainable manner. Devolution of control and access to common pool resources to rural communities can be an effective way to achieve this end.
- i) A basic precondition for realizing the commercial potential of small-scale agriculture in our partner countries is that subsidies and trade restrictions favouring agricultural producers in the richer world are removed. While this is an issue which has to be tackled at an international level, Sida can contribute by drawing attention to the problem in its dialogue with other Swedish authorities concerned, and support our partners with technical capacity for international negotiations, etc.
- j) More attention should be given to non-agricultural activities, including labouring, as this source accounts for no less than 30–50% of the income of rural poor and is increasing in significance. It is also imperative to give increased emphasis to non-agricultural activities, as the viability of small-scale agriculture as a source of significant and continuous improvement of rural incomes is in doubt *in a long-term perspective*.
- k) Rural poor in general, and poor women in particular, are at a disadvantage when dealing with powerful traders, other market actors and government authorities. By organising themselves, the rural poor can increase their bargaining power and power to make claims and criticism. Whenever possible Sida should support the development of farmer associations and other interest groups.
- l) Market participation with agricultural produce tends to bring new and additional risks to poor and vulnerable farmers, especially female farmers. In addition to other measures, such as provision of financial services, supporting subsistence production to ensure food security while simultaneously improving preconditions for market participation as a gradual process over time may be the best approach in many situations.
- m) Communities and households affected by the HIV/AIDS epidemic are particularly vulnerable and exposed to the consequences of risk. Interventions that attempt to satisfy the need for cash and the need for food security among these groups have to take this added vulnerability into account.
- n) Gender equality, empowerment of the rural poor, sustainable use of natural resources and human capability are crosscutting issues that have to be reflected in the analyses leading to interventions for market development and in the interventions themselves.

- o) Understanding the local context within the framework of the principles in these guidelines is a precondition for successful application. This calls for context-specific analyses which are designed in such a way that the interests and needs of those concerned, especially poor male and female producers and service providers, are taken into consideration in the design of programmes and other forms of interventions.
- p) As a matter of principle, such analysis should be the responsibility of the partner country concerned. Upon request Sida can support its partners in undertaking such analysis including development of local capacity. At the same time there is a need to develop methods and conceptual frameworks in a more general sense for analysis of this kind. Sida should collaborate with its partners, other donors, international organisations and research institutions in this endeavour.
- q) Guided by priorities set out in the country strategies Sida should use these guidelines in the dialogue with its partner countries. The ambition should be to seek a common understanding and platform for identifying and prioritising areas for cooperation. Sida should also use the guidelines in analyses of PRSPs and other policy documents.
- r) Sida should favour holistic and cross-sectoral approaches to rural poverty reduction. Applying a multidimensional perspective on poverty is especially important at the analytical and planning stage. However, interventions should avoid the flaws of broad multi-sector integrated rural development programmes of the past. The focus should be narrower with less demand on operational coordination irrespective of whether the intervention takes the form of a sector-wide programme or a geographically delimited area-based programme.
- s) The approach to rural poverty alleviation advocated in these guidelines requires closer collaboration between different departments at Sida. Some such inter-departmental cooperation or coordination already takes place, for example in relation to country planning processes, but needs to be strengthened. The embassies and Sida field offices will have an important role in coordinating the work on preparing specific contributions in accordance with Sida's field vision.

Annex 1.

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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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