

# The Challenge of Ending Rural Poverty

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*IFAD believes that the only way to reach the international poverty reduction target is to focus on rural development: in the early stages, with a strong focus on the production of food staples on small farms; in later stages, with more attention to commercial crops and the non-farm sector (itself strongly linked to agriculture). The key interventions are: better access for the poor to assets, especially land, water and human capital; improved technology, both 'old' and 'new'; better access to markets; and reform of institutions through decentralisation and devolution – all designed to achieve rapid reduction of poverty, through employment intensity and the exploitation of local linkages with agriculture. IFAD's approach and experience lay particular stress on supporting women and minorities.*

## Introduction

Today 1.2 billion people live in 'extreme' poverty (IFAD, 2001: 15-16). The great majority – 75% – work and live in rural areas. Despite rural-urban migration, and increases in urban poverty, the percentage of the poor living in rural areas will stay high. Even by 2020, 60% of the poor will be rural; the percentage is expected to drop 10 points by 2050.

In September 2000, the Member States of the United Nations resolved 'to halve, by the year 2015, the proportion of the world's people whose income is less than one dollar a day and the proportion of people who suffer from hunger ...'.<sup>1</sup> However, progress to date has been well below the target. From 1990 to 1998, poverty reduction in South Asia and Latin America was barely a third of what was required. In sub-Saharan Africa, it was only one-sixth of the target (IFAD, 2001). Furthermore, resources committed to achieve sustainable reductions in poverty have not been forthcoming. Between 1988 and 1998, the real value of official development assistance (ODA) contracted by half.

Less money is not the only reason for the slow progress. A host of environmental, health, social, economic and political factors such as droughts and desertification, the HIV-AIDS pandemic, financial crises, poor governance, civil war and large population movements, to name but a few, curtail efforts to reduce poverty.

IFAD's response is its *Rural Poverty Report 2001: The Challenge of Ending Rural Poverty* (IFAD, 2001). It argues that the only way to achieve the target of halving

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1. Resolution adopted by the Fifty-fifth session of the General Assembly: document A/RES/S5/2, 18 September 2000. A subset of the millennium development goals and targets in tabular format is available from the official web site of the Development Assistance Committee of the OECD.

poverty by 2015 and reaching other development goals as set out in the millennium declaration is to focus on *rural* poverty reduction, to reverse the decline in the flow of resources to the rural and agricultural areas and to ensure that the institutions in the rural areas are developed to increase the capabilities of the poor to help themselves.

## **The framework of analysis: halving rural poverty by 2015**

The rural poor suffer from multiple and linked disadvantages: they live mostly in remote areas, are usually unhealthy and illiterate, work in insecure and relatively unproductive jobs, and are subject to discrimination either as women or as ethnic minorities. Rural poverty flows from, as well as perpetuates, the lack of access to essential assets. Poverty reduction, therefore, involves changes in material factors such as land, water, infrastructure, technology and knowledge. It also involves changes in social and economic relations as well as in institutions that give the poor greater control over their environment.

IFAD's framework includes a number of aspects required for sustainable, sequential and cost-effective reduction in rural poverty:

**Improved allocation and distribution of water to increase the output of staples:** Securing efficient use of water and increasing its availability and quality for the poor is a major challenge, as groundwater tables are falling and surface water may become scarcer because of climate change and the heavy pressures to divert water to urban areas and industrial uses.

**Redistribution in favour of the rural poor:** This is critical. Where inequality is high, economic growth alone is not sufficient to halve poverty by 2015. The poor must be able to acquire access to and control of essential assets (land, water, etc.), institutions and technologies.

**Special attention for certain groups:** These include ethnic minorities and people living in hilly and semi-arid areas. In all cases, women need special consideration, especially to exercise direct influence over resources and policies.

**Participatory and decentralised methods:** These are especially effective. They are important in securing democratic control, developing human potential and improving the cost-effectiveness of a range of actions, from developing new seed varieties, through micro-finance, to providing rural schools and public works programmes.

These aspects can work only if they are backed up by responsive asset arrangements, technology policy, markets and institutions, all of which need to reflect the critical role of food staples in the livelihoods of the rural poor, while not losing sight of the non-staple sector. The rural poor build up their livelihoods from several sources. For a large proportion of the poorest, food staple production provides most of the work, consumption and calories. Those in extreme poverty receive 70-80% of their calories from staples, which also absorb most of their working time. While a rising proportion of the rural poor rely on income mainly derived from livestock, cash crops or non-farm

activity, in the early stages of development staples farming or off-farm employment provides most of their income.

The non-staple sector, producing cash crops, other food crops and non-farm commodities, becomes more and more important as successful staples development releases land, labour and skills for other specialisations. A transition from agriculture-based to non-farm-based occupations occurs. Widening of market access and liberalisation further allow rural people to escape from poverty by means of both staple and non-staple production. In this process of transition, non-farm assets and skills are critical.

Underlying all of these themes is the fact that labour-intensive approaches are appropriate for rural poverty reduction. Capital is limited in low-income countries, and land is scarce in more and more of them. Economic growth and poverty reduction require employment-intensive policies, technologies and institutions, since the poor have only their labour to offer. Therefore, subsidies to labour-displacing capital, such as tractors, can harm the poor, since small farms tend to use more labour and less equipment.

### **Access to assets: creating an effective, efficient and equitable environment**

Improving the asset holdings of the rural poor, whether physical or human, promotes equity. It also encourages efficiency, by stimulating higher productivity and economic growth. Assets empower the rural poor by raising their incomes, increasing their reserves against shocks and increasing their choices. An asset is pro-poor if it is labour-intensive, has low seasonal and annual variation and risk, is accessible to women and minorities, and is used to produce items that comprise the bulk of poor people's budgets, such as staple foods.

#### ***Land reform: the new wave***

Over two-thirds of the income of the rural poor comes from farming. IFAD's framework for poverty eradication gives priority to small farmers, who constitute a large majority of the dollar-a-day poor. A considerable amount of land is locked into large inefficient farms, whereas small, equally-sized farms promote employment, efficiency and growth.<sup>2</sup> Land reform, to create small, not-too-unequal family farms, is often cost-effective in reducing poverty. It also helps hired farm workers, as small farms employ more people per hectare than larger ones, and small farmers and employees spend more of their incomes on employment-intensive rural non-farm products<sup>3</sup>.

Women constitute more than half the rural poor. Allowing women rights to land empowers them and helps them take more control in existing relations, for example by improving their wages and hence enhancing their role within marriage. Aside from

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2. For some evidence of the relative efficiency of small farms vis-à-vis large ones, see IFAD, 2001: 79, Box 3.4.

3. For some comparative evidence on land reform in Latin America, Southern and Eastern Africa and ex-communist countries, see IFAD, 2001: 78-81, Boxes 3.3, 3.5 and 3.6.

religious and customary impediments to land ownership by women,<sup>4</sup> they suffer from higher illiteracy and restrictions on mobility, such as 'purdah', which also restrict interactions with markets. Since women's farm productivity is usually at least as high as men's, their exclusion from farm activities and control over land must be partly due to the structure of rural power. In spite of successful examples of collective action by women to secure individual control of land, the issue has so far proved intractable through market reforms and legislation.

Land reform can be supply-led and can push up the net supply of land by subdividing government-held public lands and large-scale farms for sale in small units to the landless or near landless. Or reform can be demand-led. With farmland increasingly scarce, this can induce high increases in land prices for only small rises in the quantity of land supplied from rich to poor. Even announcing pure willing-seller/willing-buyer reform can push land prices up. Such reform is expensive, and raises questions about what the taxpayer is able to afford. Supply-led reform is more promising. And where there are well-recorded individual land rights, even quite modest rates of progressive land tax can both increase land supply and steer it towards small sales, thus helping poorer buyers.

Where the land needs of the rural poor are suppressed over long periods, as occurs in many countries, conflicts will arise. Land invasions are regarded by some as illegal acts, by others as a last resort for desperate people. To fail to redress land inequality merely postpones civil conflict, as in Central America from the 1970s to the 1990s. While land invasions (as in Zimbabwe in 2000) can involve violence, destroy farm assets and alienate big farmers, they should be seen as a symptom, not the cause, of the land problem.

Even with suitable incentives, very unequal control over farmland – unlike the mode of that control through tenancy, sharecropping, communal lands, etc. – may persist because it enhances the power or security of the rich. That makes a strong efficiency and equity case for reducing extreme inequality in farmland control. But, given the distribution of that control, there is no obvious case for restructuring tenurial and managerial forms; with correct incentives, they reform themselves. Most attempts to replace land redistribution by imposing changes in tenurial and managerial forms, but without more equal rights in land, have been unsuccessful, often counter-productive, and sometimes disastrous.

### ***Water assets***

Water is essential if the poor are to receive the full benefits from farmland.<sup>5</sup> Irrigation bureaucracies are often biased towards the more powerful (financially) in setting water distribution policies (see Narain and Roy, 1980). Increasing water scarcity co-exists with subsidies to farm water, which reduce efficiency and harm the poor. This is ironic, as the rural poor share even less farm water than they do farmland. The fast decline in poverty in East and South Asia is in large part because 35% of the farmland is irrigated.

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4. Women suffer many obstacles in purchasing and owning land. For evidence, see IFAD, 2001: 86, Box 3.8. On the efficiency of women farmers, see Odii, 1995.

5. The IFAD-supported Southwest Rural Development Project in Bangladesh installed tubewells and provided input credits to the poor; after five years, net returns to a typical small one-acre farm rose by over 50% (IFAD, 2001: 92-3).

However, in sub-Saharan Africa, where rural poverty persists and agriculture is stagnating, less than 5% of farmland is irrigated (IFAD, 2001: 5). The NGO, Proshika, set up a project for groups of people in rural Bangladesh to establish sink wells using local credit suppliers. The income from selling the water has increased, and some groups are now providing credit to small farmers. This has improved their position in society, as their control over water has given them leverage over farmers when dealing with other issues.

Improving poor people's access to water depends partly on the redistribution of water-yielding assets and partly on incentives to use labour-intensive assets that save water. Appropriate water pricing and participatory water users' associations are integral parts of attempts at efficiency in rural water use. Overall, economic efficiency of water use in agriculture is low. It would benefit society if more resources were spent on reducing spillage, leakage, infiltration, evaporation and clogging.

Women's access to irrigation is especially challenging. Projects that address this issue by providing irrigation for a crop traditionally farmed by women – but without changing incentives, power structures or social norms – may inadvertently cause the crop to become a 'man's crop', in addition to men controlling the water-yielding asset (as with rice irrigation in an IFAD project in The Gambia; see IFAD, 2001: 93). However, such partial participation is perhaps still in women's interests. In The Gambia, women's water consumption improved but their status and asset control did not. Proshika has trained and financed groups, mostly composed of women, to control water-yielding assets and sell the water mainly to male farmers.

Strategies and programmes to assist the poor through the redistribution of water-yielding assets include: restricting pumping; responding to poor users' needs (e.g. supporting water harvesting); and providing credit, technical help or hydrological data to help the poor invest in wells. They also comprise facilitating private rent or sale of water-yielding assets for the poor; creating water users' associations representing the poor, to help control and manage systems; removing water subsidies; safeguarding the poor by allowing user groups to pay through maintenance work; and enforcing modest water charges.

### *Human and other assets*

Improving human assets means improving nutrition, health and education. Investing in the improvement of the human assets of the rural poor, especially women, is usually cost-effective, partly because these assets strongly reinforce one another. For example, women's education improves child health, nutrition and education. Nutrition improvement increases learning, productivity and wage-rates and cuts the risk of income loss due to illness. Yet, among the poor, calorie intake barely rises by 4% when income rises by 10%. Perhaps direct approaches are needed, such as helping the poor cope with fluctuations in food supply, or targeted nutrition interventions.

Although thought of as a mainly urban disease, HIV/AIDS is spreading faster in some rural areas of India, and in much of Africa it is as common in rural areas as in urban. HIV/AIDS is increasingly a disease of the poor. Poverty encourages migration and pushes women into prostitution.

The poor gain more from some improvement in the whole of schooling, nutrition and health, rather than from large amounts in one and none in the other. IFAD's more

recent projects focus on securing partnership with other agencies for investments in these critical aspects.

### ***Assets and the rural non-farm sector***

While farming and wage labour generally remain the chief occupations of the rural poor, the rural non-farm sector's (RNFS) share of rural employment has increased rapidly in Latin America and also accounts for about 40% of rural employment in Asia. Rural non-farm work is less skilled but more labour-intensive and stable, and is therefore much more pro-poor than urban non-farm work. The proportions of rural incomes earned from RNFS are higher for poor than for non-poor households in countries such as India, Pakistan or Mexico. However, in Africa the RNFS share in non-poor incomes may be twice that of the poor.

The RNFS is most likely to cut poverty if it is based on successful farmers and workers who demand services such as construction: RNFS activity interventions should then provide the poor with appropriate skills and education rather than with physical non-farm assets (see Binswanger et al., 1993). RNFS sub-sectors, such as shops, construction and transport, seldom flourish, however, where agriculture is torpid. Income from the RNFS can finance farm investment; however, the RNFS seems to need more credit than farm investment.

IFAD's strategy is that the linkage between agriculture and the RNFS should be strengthened in the longer term. Traditional crafts and services are likely to maintain large numbers of the rural poor in employment, keeping them alive if not carrying them out of poverty. In addition, those non-farm activities which bring about the most and the quickest poverty reduction should be encouraged. Lastly, unlike agriculture, where one can identify public goods for farming and public strategies for private asset support, the RNFS is diverse in its asset requirements. Subsidisation of RNFS activities, such as subsidised industrial estates, has a long history of failure. Benefits leak to the rich.<sup>6</sup> A policy of sustainable support must, therefore, be conceived in terms of appropriate credit and microcredit, bearing in mind health and safety concerns and competition from progressive urban sectors.

### **Making technology work for the poor**

Technology is crucial in reducing rural poverty. In much of Asia and Latin America from 1965 to 1985, a significant technology shift to high-yielding varieties and the use of chemical fertiliser increased yields of rice, wheat, and maize, enhanced employment and brought about a rapid fall in poverty.

However, the impact of technologies on poverty reduction depends on how far the technologies are scale-neutral. To achieve their targets, techniques to help the poor must be capable of benefiting the mass of the rural poor and adapted to the tightening constraints of water and land depletion and loss of biodiversity. Moreover, pro-poor, sustainable technical progress ought to seek robustness, yield enrichment and labour intensity.

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6. IFAD (2001: 102) cites the case of RNFS support in Central Africa where benefits leaked to the non-poor.

### *Existing vs. new technologies*

The major emphasis of IFAD support for the development of new technologies is that they should yield more per unit of input, and be more labour-intensive, adjustable to the seasonal demands for labour and food, robust against climatic risks, pro-poor in terms of the poor's choices, and less material cost-intensive.<sup>7</sup>

However, with respect to the new bio-technologies, particularly genetic modification, IFAD proposes to adopt a cautious approach. It is true that the new bio-agricultural technologies offer exciting new scope: bio-agricultural technology has proved its potential with the production of virus-resistant sweet potatoes in Kenya and the enhancement of rice yields in China. But GM technologies also present new challenges and constraints. It is important that they be field-tested and cleared with the knowledge and participation of the poor before they are adopted. Further, more public-sector research into transgenic food staples is needed if bio-agriculture is to assist in poverty reduction. This means attracting companies towards features and crops that are relevant to the poor.

The potential of existing technologies has not been exhausted; they should not therefore be 'written off'. Their ability to achieve high yields and sustainable development is often constrained by institutional factors such as lack of water and extension and of adequate support services. New technologies are not 'panaceas' for such problems.

An important element is the availability of information on technological options for the rural poor. The ability of the poor to assess options and the growing volume of advice is important. They have to be involved in the specification of need, the evaluation of responses and options and the choice of production strategies. Unless the poor are authorised to participate in deciding on their use of technology, it is unlikely that they will benefit from it.

### *Improved land and water management technologies*

Improved land management and water conservation technologies are vital to reduce land depletion.<sup>8</sup> Such technologies often require large-scale, capital-intensive operations. In addition, they need to show quick returns (higher yields) and should employ labour rather than equipment. Land and water technology should aim at outcomes attractive to farmers, with varieties fertilised for sustainably higher and more profitable yields.

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7. Since 1979, IFAD has committed about US\$ 99 million to research programmes at CGIAR centres, focusing on input-output relations in marginal rainfed environments, institutions and incentives to maximise returns and conservation for smallholder assets, and building local capacity for participatory research (see IFAD, 2001: 134, Box 4.3). For support to integrated pest management, see IFAD, 2001: 139, Box. 4.4.

8. By 1990, about one-fifth of the land in developing countries, apart from wasteland, was affected by soil erosion or nutrient loss, two-thirds of it badly enough to destroy or greatly reduce its usefulness for agricultural production. Every year, the average cropped hectare in Africa loses over 30 kg. of nitrogen, phosphorus and potassium. Land degradation in the late 1980s cost 3% of GDP each year in Java, 4-6% of agricultural GDP in Mali and 10% of agricultural production in Costa Rica (see IFAD, 2001: 141-7; Lipton and Longhurst, 1989).

Addressing water issues is a central part of IFAD's strategy for sustainable poverty reduction. With proper incentives and user institutions, water can be efficiently carried and used in ways that promote employment. In spite of justified pressure for economy in the use of water, more irrigation is needed in many countries.

IFAD has supported land reclamation and water conservation technologies in many countries, with a focus on making the gains from such technologies available to the rural poor. (For an example of a successful land-reclamation initiative, see IFAD, 2001: 146.) IFAD wishes to support accelerated progress in land and water management to complement the progress in new crop varieties, so that the combination of the two can be sustainable in the future.

## **Better access to markets**

Contrary to the stereotyped image of being isolated from trade and markets, the rural poor are becoming increasingly involved in local, national and, to some extent, global markets. They need access to competitive markets for their produce as well as for inputs and assets – such as land and water, technology, consumer goods, credit and labour.

However, many are passive participants in markets for food. They are often obliged to sell at low and purchase at high prices, with little choice of where, with whom, and at what prices they conduct these transactions. Remoteness can also impose huge institutional and transaction costs, and the poor have no choice but to be exploited by private traders and marketing boards. In addition, many rural communities where population densities are low have such limited demand for production inputs and so little to exchange that traders do not find it worth their while to visit them. Thus, roads are not enough to ensure that the poor derive benefits from their interaction with markets.<sup>9</sup>

Within the rural sector, liberalisation has reduced the price bias against farming, price distortions among farm products and other consequences of government intervention. However, it also offers special competitive advantages to those rural communities with better market access and contacts. At the same time, it also increases the vulnerability to world price fluctuations and therefore increases the uncertainty of the economic environment in which the poor operate. Liberalisation works best for the rural poor when access, skills and land assets are not too unequally distributed.

The evidence suggests that there are indeed benefits associated with liberalisation and globalisation that can be realised by the rural poor in a variety of different ways: as independent producers, as contracted producers or outgrowers, or as employees working in association with large commercial agricultural or agri-business enterprises. Commercialisation also usually improves the welfare of the poor. There is evidence that regions that produce commercial crops are generally better-off than those that do not, and that the poor in these regions have more job security. Commercialisation is most beneficial to groups with easy access to urban and export markets, human capital, infrastructure, technology and assistance with risk. Thus, it does not favour groups with

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9. It is possible that opening up rural areas to markets will increase, at least initially, the inequality in the distribution of income. In Zambia, for example, farmers nearer to the railway line received better prices for their products than those who lived further away (see Winters, 2000).



a very poor agro-climate, low access to technology and almost no access to modern education, risk management or credit.

Providing access for the poor to market opportunities by means of reductions in transaction costs is crucial for poverty reduction. IFAD's approach is to open up opportunities for the poor through the development of infrastructure and market institutions. The strategy is to follow a complementary approach which will tackle not only the physical aspects of market access but also the institutional aspects. The objective is to ensure the development of competitive markets, while at the same time safeguarding the poor from the risks associated with globalisation and commercialisation. This is why IFAD emphasises a degree of food security to ensure the poor's security and enthusiasm for participating in crop-based commercialisation.

### **Institutions: critical for empowerment and equitable distribution of benefits**

The distribution of benefits between the rich and the poor, urban and rural, men and women, depends on institutions, organisations and rules (customary or legal), such as those affecting the divisions of inherited land or landlord/tenant shares in a sharecropping arrangement. But unless the institutions are open to reform, the outcomes may become frozen in the interests of the existing controllers.

IFAD's approach lays strong emphasis on strengthening institutions for the rural poor. This involves supporting decentralisation initiatives to bring decision-making closer to the rural poor, promoting better governance, supporting farmers' and water users' groups, and working with civil societies in general to create enabling conditions for the poor to help themselves. In most cases, such support slows down the implementation of projects, as institution-building in a democratic and transparent way is not a quick process. Strengthening institutions also means pursuing a delicate balance between the rich and the poor, as most conventional institutions are dominated by the rich.

Decentralised control and management of natural resources hold much promise. It has been shown that centralised conservation is effective only with large expenditures, and privatisation is seldom a sensible solution to poverty reduction. There has recently been an increasing trend towards devolution in the control of natural resources, such as farmland, water, fisheries, wildlife, etc., from government agencies to local communities. Devolution leads to the increased accountability of those responsible for the management of these resources. Local users may have advantages in managing resources over government agencies, as they may be closer to the resource and have a better understanding of its importance to users and therefore be able to devise more efficient rules. In addition, the active participation of beneficiaries may lower the informational costs associated with anti-poverty interventions.

Co-ordination and partnership among stakeholders are necessary to make external support count in poverty reduction. Once partnerships are formed, it is important to develop genuine co-operation. Efforts have been made to co-ordinate available aid funds for joint initiatives towards fighting poverty. The World Bank's Comprehensive Development Framework (CDF), the United Nations' Development Assistance Framework (UNDAF), and the World Bank's recent Poverty Reduction Strategy Paper

(PRSP) process all provide frameworks for developing partnerships. The rural poor need these partnerships to support their own initiatives, but at the same time need to be free of the intrusiveness that is often inadvertently imposed by donors. With its considerable field experience, IFAD provides a critical link for building partnerships integrating overall national policy frameworks with field-level experiences, winning the trust of the poor and putting them at the centre of national poverty reduction strategies and efforts.

## Concluding remarks

There are no short cuts or quick fixes to poverty reduction. The process requires dedicated and consistent commitment that is flexible and involves both the poor and institutions. Poverty reduction in low-income countries depends on progress in farm yields and employment, followed by efforts towards promoting employment-intensive, non-farm activities, with a fall in the number of people involved in agriculture and an increase in urbanisation. Enhanced small-scale agricultural development can meet immediate poverty reduction targets and can help create new opportunities for employment and income in other sectors. There must be change in the access of the poor, especially women, to material factors such as land, water, infrastructure, technology and knowledge; and their participation in institutions and alliances is essential. It is necessary for broad partnerships to be mobilised. It is the poor who need to be given power and voice to be able to set up institutional frameworks that will work best for them in poverty reduction. IFAD's vision is to enable the rural poor to overcome their poverty. Its strategy is to build an enabling environment, both on the ground by ensuring better access to assets and technologies, and by supporting the development of markets and institutions.

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