Recent analyses of poverty and well-being have broadened their focus from money-metric measures of income and consumption to livelihood strategies, in order to enhance understanding of the causes of poverty, the processes of increased well-being or impoverishment, household responses to opportunities, shocks and stresses, and the outcomes of policy interventions. The aim of this article is to assess the policy implications of adopting a household livelihood strategies framework for understanding poverty and deprivation. It will identify typical policy recommendations which emerge from a conceptualisation of household strategies as managing portfolios of capital assets, and briefly review experience with a view to assessing whether this analytical approach provides a satisfactory basis for poverty reduction policy. The discussion explicitly considers the characteristics of the household strategies adopted by, and the effects of policy on, the rural and urban poor.

The household livelihood strategies of poor people

A consumption-based conceptualisation of poverty has been widely challenged on the grounds that the resulting categorisation may not coincide with the perceptions of the poor themselves, with respect either to who is considered poor, or to how their poverty and dependence are understood (Jodha, 1988; Rakodi, 1995a). It is clear from research on the perceptions and definitions of poverty used by the poor, first, that poverty is not defined solely in terms of income but encompasses deprivation and insecurity; secondly, that any attempt to place monetary values on these aspects of personal, household and social deprivation involves so many arbitrary assumptions that they are likely to be meaningless; and thirdly, that those defined as poor in consumption terms may
not capture all deprived and vulnerable households and individuals. Vulnerability is related to insecurity, sensitivity of well-being in the face of a changing environment, and households’ resilience and ability to respond to risks and negative changes (economic, environmental, social or political, including shocks, trends and seasonal cycles) and to opportunities. This is not to say that income and consumption are unimportant, but to draw attention to the greater vulnerability to insecurity, impoverishment and reduced self-respect of households which lack assets that they can mobilise and manage in the face of hardship (Moser, 1998).

A livelihood is defined by Carney (1998: 2) as comprising

the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is considered to be sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base.

At household, community and societal levels, the assets available constitute a stock of capital which can be stored, accumulated, exchanged or depleted and put to work to generate a flow of income or other benefits. Social units need, it is suggested, to be able to call on stocks of all types of capital (natural, produced/physical, human, social, political and financial), although there are trade-offs between them (Chambers, 1989; Chambers and Conway, 1992; Grown and Sebstad, 1989; Young, 1992; Holcomb and Rothenburg, 1993; Jelin, 1990; Kabeer, 1991; Wolf, 1990; Rakodi, 1995a, b; Wratten, 1995; Moser, 1996, 1998; Booth et al., 1998; McGregor, 1998). The types of capital available to households, with some rural-urban distinctions, are outlined below, before examining the types of management strategies which households may adopt and what determines their choice.

**Household asset portfolios**

Natural capital is made up of the natural resource stocks from which resource flows useful to livelihoods are derived, including land, water and other environmental resources (Carney, 1998; Booth et al., 1998). The natural resources on which the rural poor most depend may, because of their lack of access to private assets, be common pool resources. Direct access to and use of natural capital is, in some respects, less significant to the urban poor. However, land and security of tenure are major issues. Also urban residents are indirectly (and sometimes directly) dependent on natural resources, as they are the basis for supplies of food, energy and water to cities.

Improved access to physical or produced capital (basic infrastructure and the production equipment and means which enable people to pursue their
livelihoods) is an essential element of strategies to reduce household poverty. This applies both to rural people engaged in farming and other activities and to poor urban households, for whom infrastructure, including improved access and electricity supply, is important and for whom investment in productive equipment or housing is a means of earning improved incomes. In addition to physical capital, the financial resources available to people (including savings, credit, remittances and pensions) provide them with different livelihood options (Carney, 1998).

Both the quantity and quality of labour resources available to households are subsumed under human capital by some analysts (e.g. Carney, 1998). However, they are treated separately by others (e.g. Lipton and Ravallion, 1995; Moser, 1998), and some deal only with one aspect (for example, Booth et al., 1998 concentrate on quality). Households’ ability to manage their labour assets to take advantage of opportunities for economic activity is constrained, first by the levels of education and skills and the health status of household members, and secondly, by the demands of household maintenance. Thus both quantity and quality are important to the fulfilment of productive and reproductive tasks. Although evidence on the relevance of educational level to farm incomes varies (e.g. Rodriguez and Smith, 1994), the poor are excluded from well paid wage or profitable self-employment opportunities in the non-farm sectors by their low educational levels and lack of skills. The time available to household members to engage in income-earning activities is influenced by the household dependency ratio, the stage in the household life-cycle, and the technology for, and access to, household provisioning activities, including collecting water and fuel. Households may respond to economic stress or opportunities by resorting to low-return subsistence activities, increasing participation rates, or increasing returns to their labour by increasing its productivity.

Social capital is defined as ‘the rules, norms, obligations, reciprocity and trust embedded in social relations, social structures, and society’s institutional arrangements, which enable its members to achieve their individual and community objectives’ (Narayan, 1997: 50). It comprises social relations at household, community and societal levels. As a relational concept, it cannot be measured in its own right and assessment relies on proxy indicators (Booth et al., 1998). Thus in practical terms, in rural Tanzania, it is defined to include perceptions of trust, unity and a spirit of participation; associational activity; association with external groups, especially NGOs; and the presence of village facilities/institutions such as schools, markets and courts.¹ Narayan’s analysis of Tanzania, after controlling for a range of variables, concluded that village-level social capital is a powerful determinant of the levels of individual incomes.

¹ McGregor (1998) distinguishes a further category: cultural resources, defined as factors affecting household status, including religion.
The main intervening variables were found to be use of improved agricultural inputs and credit. Levels of social capital and ability to call on the social networks involved vary in space and time: breakdown may occur because of repeated shocks (e.g. drought), economic crisis, or physical insecurity (violence and crime) (Moser, 1996; Booth et al., 1998). Social networks are generally thought to be less robust in urban areas because of the mobility and heterogeneity of their populations (World Bank, 1996; Beall, 1997). Booth and his colleagues (1998) caution that not all social networks are supportive of the poor or effective as social capital.

Closely linked to social capital and not separately identified by some analysts (e.g. Carney, 1998; McGregor, 1998) is political capital, based on access to decision-making. Exclusion from the political process at the local level, which is an outcome of the relationship between local people, local institutions and external political bodies, is highly gendered and is best seen ‘as a gatekeeper asset, permitting or preventing the accumulation of other assets upon which successful poverty-reducing growth depends’ (Booth et al., 1998: 79).2

Livelihood strategies

Households aim at a livelihood which has high resilience and low sensitivity to shocks and stresses.3 Often the management of assets and activities pursued, both economic and other (e.g. fertility decisions), is opportunistic or reactive, as individuals and households adjust to unpredictable circumstances, rather than ‘strategies’ planned in advance (Lockwood, 1997). Nevertheless, the poor may be seen as managers of complex portfolios in which assets are inter-related, complementary and/or substitutable (Moser, 1998).

A variety of management options are potentially available, for example:

- investment in securing more of an asset, as a way of ensuring long-term security, a hedge against uncertainty and a means of generating flows of income or production. Investment may also enable intensification or diversification (McDowell and de Haan, 1997; Ellis, 1998);

- substitution of one asset for another, for example compensating for the declining availability or quality of natural capital by increasing inputs of

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2. Booth et al. (1998) extend the concept to incorporate access to power within the household, especially its gender and age dimensions.

3. The concept of household, appealing because of its apparent clarity and universality, is in practice problematic. Russell (1993), for example, in her analysis of Swaziland, discards it for rural areas in favour of the lineage-based ‘homestead’. Her argument is persuasive and the term continues to be used here only for convenience.
physical capital (produced or purchased, e.g. compost or fertilisers); substituting remittances from a migrant household member for his or her direct labour;

• disposal — the sale of assets such as livestock, land or jewellery, to compensate for a consumption shortfall or to release funds for investment;

• sacrifice, for example, inability to invest time and resources in fostering reciprocal social relations, thus reducing future ability to call on social capital; sacrificing children’s ability to earn adequate incomes in future by withdrawing them from school because of inability to pay fees or need for their labour.

In all these examples, households and their members may see the choices open to them, and the timing and sequencing of decisions, as being more or less constrained. In addition to asset management decisions, household strategies are also made up of consumption decisions.

For individual households or groups of households in settlements or regions, the strategies which they are able, or choose, to adopt vary over time and according to circumstances. Thus, households or communities/regions may experience different trajectories of impoverishment or improved well-being.

a) Households/regions locked into a *vicious circle of permanent poverty*. Such households can be divided into those containing members who are able to work and those with no members able to work (termed incapacitated households in the Zambia Poverty Assessment, World Bank, 1994). Their strategies are survival strategies. Communities in such circumstances include those in remote, resource-poor regions and some urban informal settlements (see, for example, Dutt et al., 1998 on slum communities in Calcutta).

b) Households vulnerable to or in the process of a *vicious spiral of impoverishment*. Evidence from World Bank-funded Poverty Assessments and other studies shows that both urban and rural households cope with impoverishment by intensifying or diversifying use of resources, and by adopting strategies to compensate for or limit declines in consumption (Table 1). Impoverishment may be temporary or permanent, related to either lifecycle factors or broader economic conditions.
Table 1
Typical strategies adopted by poor households to cope with impoverishment

Strategies to increase resources, by intensifying the use of natural, physical or human capital
• diversification of economic activities, including entering more household members into the workforce, starting businesses, migrating or renting out additional rooms
• increased own production of food and other crops and livestock

Strategies to change the quantity of human capital
• reducing household size by postponing or stopping having children or sending them to live elsewhere; migration
• increasing household size, by retaining or incorporating relatives, especially older women (who can assist with child care) and children of working age, including married children

Strategies involving drawing on stocks of social capital
• borrowing
• seeking charity/begging

Strategies to mitigate or limit a decline in consumption, many involving running down stocks of human, physical, social and natural capital
• reducing or eliminating consumption items such as new clothes or ‘luxury’ food and drink
• reducing the number of (cooked) meals per day and purchasing poorer quality or less food
• buying cheaper and second-hand clothes
• withdrawing children from school
• distress sales of assets e.g. land, livestock
• postponing medical treatment
• not repairing or replacing household/production equipment
• postponing house repairs or improvements
• reducing social life, including visits to rural homes by urban households
• embarking on or increasing foraging (collection of wild foods or fuel, scavenging waste)

Sources: Rakodi, 1995b; Beall et al., n.d.; Latapi and de la Rocha, 1995; Kim, 1995; Van Dijk, 1997; Moser, 1998.
c) Households which can potentially achieve or have already embarked on a virtuous spiral of increased well-being. Most commonly, such a strategy involves diversification, to reduce the overall risk of income failure, as well as intra-year and inter-year income variability. Diversification may incorporate expenditure-reducing and emergency strategies and includes the use of social and political capital, but it centres on diversification of economic activities. Farm households seek, where possible, complementary sources of farm income (in kind and cash), off-farm income (wage or exchange labour on other farms) and non-farm income (wage and self-employment, migration and remittances) (Ellis, 1998). Rural non-farm and urban households are likely to seek a similar range of income sources, although the balance between them will differ (Rakodi, 1995a, b; Moser, 1996, 1998; Reardon, 1997). Given evolving rural-urban and farm-non-farm interactions, a spatially extended concept of the ‘household’ or ‘community’ is needed, to take into account migration, commuting and remittances (Evans and Ngau, 1991; Russell, 1993; Heyer, 1996; Bryceson, 1997; Foeken, 1997; Rigg, 1997; McDowell and de Haan, 1997; Tacoli, 1998). A household strategy to increase well-being aims at:

- food security: sufficient and nutritionally adequate food on a regular basis throughout the year;
- ability to satisfy basic needs for a socially acceptable quality of clothing, clean drinking water and a sanitary environment;
- secure livelihood, yielding sufficient own produce and/or income to purchase necessities, including basic curative health care and to meet the cost of education to the desired level for a household’s children;
- accumulation of sufficient assets to provide a basis for production and for sale to enable a household to weather shocks;
- self respect and the ability to exert control over the future;
- resilience in the face of shocks and stresses.

Determinants of household choices

Key elements in determining the strategies open to households and the factors which enable some to flourish, others to cope and others barely to survive include, as discussed above (Jelin, 1990; Kabeer, 1991; Rakodi, 1995a), the portfolio of assets held by a household and the social relation of production and power within it, which influences its capacity to take advantage of opportunities, the distribution of material resources amongst its members, the gender division of labour, and the internal distribution of welfare outcomes. Additional determinants of household choices include:

- the household life-cycle, which influences the availability of, and calls on,
the time and energy of its members and other resources;

- the geographical situation of a household and the community of which it is a member, which influences the availability of natural and physical capital, as well as opportunities for economic activity and access to those services which help to determine the quality of human capital. Although there may be many poor households in accessible rural areas of high agricultural potential, remote areas with limited potential are likely to be particularly disadvantaged. Urban areas are seen as privileged, but residents in informal settlements, with poor access, unhealthy living environments and limited services, are as deprived as many poor rural households;

- the external economy of a household or settlement, including its relations with wider economic, political and social systems which influence its access to resources and shape the available opportunities. Changes in the external context propel households to change their asset management strategies, consumption decisions, and internal organisation, in the search for survival, security or improved well-being.

Policy implications of capital assets frameworks

The crucial determinants of households’ ability to achieve increased well-being are their access to capital assets and the effects of external conditioning variables which constrain or encourage the productive use and accumulation of such assets. A variety of levels and categories of policy may impact on these and the policy ‘cake’ may be cut in various ways. First, policies may be categorised as macroeconomic, meso- or local policies. Secondly, they may be sectoral or multisectoral/integrated. Third, they may aim to address directly the causes of poverty or the needs of poor households, or they may seek to reduce poverty indirectly.

The effects of macroeconomic fiscal and monetary policies are transmitted to the micro/household level by the conduits of markets and infrastructure (Behrman, 1993). It is difficult to assess their impact on the poor because of the complexity of the effects, which are both direct and indirect and also change over time, and the heterogeneity of poor groups (Killick, 1995). Fiscal and public expenditure meso-policies have an impact on secondary incomes (incomes after tax) and tertiary incomes (incomes after tax and the effects of public expenditure). They may reinforce, or compensate for, the possible poverty-increasing effects of macro-policies by their impact on disposable incomes, their influence on the prices of goods and services consumed by the poor by means of indirect taxes and subsidies, and their influence on the availability (and price) of publicly provided goods, especially health, education
and water (Stewart, 1995). Public expenditure meso-policies are typically sectoral.

At subnational (regional/local) levels, the incidence and characteristics of poverty result from the interaction between macro- or meso-processes and policies and the particular circumstances of regional/local economies, settlements and households. Local policies are constrained both by the effects of these policies and by the allocation of responsibilities for social and infrastructure expenditure (see, for example, Dillinger, 1993; Smith, 1997). The potential for action depends on the extent of local autonomy, which is limited in most countries, so that, although there may be scope for local decision-making on expenditure priorities and pricing/subsidy policies, the design of social policies and safety nets, and measures to support economic activities, the impact of local policies is likely to be outweighed by the effects of national policies. Nevertheless, devolution of decision-making to the local level potentially allows the initiation and design of policy packages appropriate to local conditions, the adaptation of national policies to local circumstances, and the adoption of a co-ordinated multisectoral approach to poverty reduction (de Haan, 1998).

The aim here is to assess the implications of a conceptualisation of poverty and well-being based on capital assets for the identification and implementation of policy. The remainder of this article will therefore examine policies designed to increase poor households’ access to capital assets, considering each type of capital in turn. Interventions may focus on enabling households to take advantage of opportunities by increasing their capabilities, removing constraints and assisting them to accumulate assets. However, the scope for and outcome of each of these are conditioned by the broader context, including national macroeconomic and meso-policies, so an attempt will be made to set the discussion in this wider framework.

**Natural capital**

Because of inequalities in access to land and insecure tenure, increasing the volume of land available to the rural poor or improving their tenure rights is often advocated as an essential component of a poverty reduction programme (e.g. Stewart, 1995). Land reform may, Lipton and Ravallion (1995) suggest, be either distributively neutral (land settlement schemes), redistributive (land reform) or both (transmigration of the landless). Past experience demonstrates, however, that the outcomes of land reform are often unexpected and not always beneficial to the poor. For example, Otsuka’s (1993) review of evidence from the Philippines, India and Sri Lanka finds that land-to-the-tiller reforms probably aggravated rural poverty by turning share tenants into landless labourers. He advocates strict enforcement of land ownership ceilings, from which owner-cultivator landowners are not exempt, combined with the
relaxation of tenancy regulations to allow landless labourers to get a foothold on the path to accumulating land assets, together with creation of opportunities for non-farm employment. Increasing the amount of cultivable land available and redistribution of land are financially and/or politically costly. In addition, unless land grabbing is controlled and suitable inheritance rights enacted in law, the possible benefits to the poor of first-round land redistribution may not be maintained over time. Many researchers note that land redistribution is insufficient if other necessary inputs are not made available (e.g. Lastarria-Cornhiel, 1997; Malik, 1998). Land titling may exclude some socio-economic groups, in particular women who, in the African context, may lose their customary rights of access to land when title is formalised and individualised, as often advocated to encourage investment. Recent research, for example in rural Ghana (Besley, 1995), concludes that, while better rights to land encourage or facilitate investment, these do not need to be formal transfer rights. There is insufficient clear evidence that indigenous tenure systems are a disincentive to investment to justify the external imposition of individual freehold (Sjaastad and Bromley, 1997).

Given secure access to some land, farmers may seek to increase their production and incomes by extending planting, selling a higher proportion of their produce, switching to higher value crops, purchasing more inputs and/or hiring additional labour or equipment. The scope for these strategies is influenced by the macroeconomic policy environment, the potential for substituting physical or human capital for additional land, and ways of reducing risk (see below). Poor farmers are relatively insulated from price changes as consumers, nor do they generally have access to improved technology, subsidies, public sector services and other inputs. Thus price liberalisation, reduced subsidies and declining public sector investment may have relatively little impact on them. Recent research has concluded that, because of improvements in rural terms of trade as a result of devaluation, liberalised marketing, higher producer prices and lower taxes, the incomes of the rural poor have, in general, increased marginally as a result of the economic policy reforms associated with stabilisation and structural adjustment programmes. However, producers of export crops, especially non-traditional crops, have gained more than other producers and only some food producers have benefited (Faruque and Husain, 1996; Sahn et al., 1996). Gaiha’s (1991) analysis of rural poverty in India in the first half of the 1980s showed that much of the reduction in the incidence of poverty was attributable to increased agricultural production, but that the ‘trickle-down’ effects benefited those just below the poverty line and not the households he labelled the ‘innately poor’.

The relationship between poverty and environmental degradation is complex. Enhancing the natural resource base can reduce poverty, for example where soil degradation is reducing yields on the farms of the poor, but can also increase it, for example, if foraging is stopped to protect common pool resources (Reardon
and Vosti, 1995). In Nepal, for example, nationalisation of forests has resulted in people treating them as open access systems, leading to poor management, deforestation and erosion. The introduction of modified community management led to more environmentally sustainable management practices, based on agroforestry and the planting of forage grass in gullies. This, in turn, reduced poverty, as women used the grass for stall-fed cattle (Hansen, 1993). It is generally hoped that reduced poverty will, in turn, lead to reduced resource degradation. This may occur where poverty is driving cultivation into vulnerable environments, or inhibiting investment in mitigating measures, but does not necessarily do so, for example, it is unlikely to reduce investment in livestock or deter the over-use of agricultural chemicals (Reardon and Vosti, 1995). There is evidence of poor farmers changing practices to cope with environmental degradation (e.g. in upland Java and upland Cebu) and less intensive agriculture being facilitated/permitted by the availability of off-farm income (e.g. in North-East Thailand), but shortages of farm labour may also lead to neglect of maintenance and environmental degradation (Rigg, 1997: 256). In some circumstances, action may be taken by farmers themselves, while elsewhere poor farmers may not be able to adopt improved practices or carry out environmental improvements without assistance, because of a shortage of household labour, capital or stocks to tide them over until new investment yields its full return. In such cases, public support will be needed and, where the social returns of more environmentally sound agricultural practices exceed the private returns, then there is a case for subsidies (Hansen, 1993).

Access to land is also a major concern for the urban poor, a declining proportion of whom are successfully purchasing or occupying land. House ownership, where it is a possibility, constitutes a favoured poverty-reducing strategy, especially for women. It provides increased security, a location for home-based enterprise, and a potential source of income from rent. Many households own their houses, but rent, squat on or occupy land under various forms of informal arrangement (see, for example, Rakodi, 1998). For such households, increased security of tenure is a priority, although as in rural areas there are alternatives to individual title.

Direct access to other forms of natural capital may be important to poor urban households, but it is highly contested, and means of resolving conflicting demands are needed. Continued cultivation of rural land to which urban dwellers retain rights and agricultural investment (e.g. in livestock) form an important component of the strategies of many urban households, especially in Africa. In addition, agriculture within or on the outskirts of the built-up area may be a (more or less) significant element in their strategies. As noted above, agricultural producers may not have been greatly affected by economic reforms, while food purchasers have often faced increased real prices. To the extent that the urban poor were buying essential goods (including food) in parallel markets before adjustment, their welfare was not adversely affected (Faruqee and
Husain, 1996). However, price liberalisation, attempts to reduce and/or target subsidies and increased taxes on goods consumed by the poor (food, beer, fuel for public transport) have, in many cases, been poverty-increasing (Stewart, 1995). There is evidence that, with economic recession, agricultural production has both increased in overall importance to urban households and increased its importance to middle-income households, both in Asia and Africa. The scope for households to engage in this strategy is determined by their access to land, which varies greatly both between and within cities and over time, as pressures on land increase and land markets are commercialised. Views differ on whether policy should actively support urban agriculture (e.g. by allocating land, providing extension services), regulate it, because of the environmental and health risks (e.g. of raising livestock in residential areas or growing crops contaminated by pollution), or merely refrain from harassing cultivators (see Smit et al., 1996; Ellis and Sumberg, 1998 for contrasting views).

Physical capital

Even where lack of access to land is not the major root cause of poverty, the absence of investment in physical capital constrains farmers from using appropriate inputs and accessing market opportunities. Many analysts emphasise the importance of investment in regional and farm physical capital, especially in Africa (see, for example, Heyer, 1996), but also elsewhere (for example, in India, Siamwalla, 1993; Bardhan, 1993; in Thailand, Ratanakomut et al., 1994; in the Philippines, Balisacan, 1993). In Mexico, where poverty increased amongst campesinos (the smallest farmers), landless farm workers and construction workers in the 1980s, investment in small-scale irrigation and roads has been advocated to assist in the revitalisation of agriculture and generation of construction employment (McKinley and Alarcón, 1995). Lipton and Ravallion (1995) point out that area-wide infrastructure may in principle, although not necessarily in practice, be either distribution-neutral (e.g. irrigation) or pro-poor (where the owners of the infrastructure are the poor and the infrastructure chosen appeals only to the poor, e.g. hand and animal tool supply and maintenance). Productivity-enhancing measures (e.g. improved maintenance) can likewise benefit all or be poor-oriented. Physical infrastructure investment (e.g. in roads, electrification) is also necessary for the development of non-farm economic activities in rural areas or small urban centres (Bardhan, 1993; Heyer, 1996; McKinley and Alarcón, 1995). Such infrastructure provides opportunities both for diversification of economic activities by farm households and alternatives to long-distance migration.

On-farm productivity-enhancing policies include yield-increasing technology, which may be poor-orientated by, for example, a focus on ‘poor people’s crops’ or livestock; and improvement or stabilisation of the price of inputs bought or outputs produced mainly by the poor (Lipton and Ravallion,
Alwang et al. (1996) and Bardhan (1993) emphasise the need for labour-saving investment to assist women. In the Zambian study (Alwang et al., 1996), interventions capable of reducing the labour constraints faced by female-headed households, in particular, include oxen for land preparation, hammer mills for grain milling and improved water supply.

Stabilisation and structural adjustment policies have led to falling real wages, increased prices for some wage goods and loss of public sector jobs, with knock-on effects on the rest of the economy. These have had a particularly adverse effect on some urban workers (Killick, 1995). In addition, over-rapid liberalisation has led to de-industrialisation (Goetz and O’Brien, 1995; van der Hoeven, 1995). Thus real wage reduction has been associated not with increased employment but with job shedding and increased casualisation of work. Demand for goods produced in the informal sector has sometimes increased because of their lower prices, although limits to the speed of response possible, declining aggregate demand and increased competition have also given rise to reduced informal sector earnings and increased unemployment (Humphrey, 1994; Zeleza, 1994; Basu and Stewart, 1995; Jamal, 1995).

The urban poor tend to be casual workers or engaged in trade, services and the least profitable branches of informal sector manufacturing. In some cases, therefore, improved availability of productive equipment will enable small-scale entrepreneurs to increase their profits or embark on more lucrative activities (Mazumdar, 1994). It may also benefit the poor through the creation of wage employment (for example, in Brazil, Humphrey, 1994). Investment in improved housing may be a higher priority than in rural areas because of its potential as an income-generating asset, as well as the greater health risks of poor quality shelter in precarious high density urban settlements (Satterthwaite, 1997; Moser, 1998).

Improving the access of the poor to physical infrastructure should, therefore, be a priority for public investment, especially but not only where it leads to increases in the productivity of the economic activities in which they are engaged. However, the extent to which individuals and households should contribute to the cost is a matter of debate. Investment in physical infrastructure has a mixture of both public and private good properties, and both capital and recurrent cost elements. Limited tax revenues and increasing budget deficits have led to increasing pressure on governments and service providers to move towards direct pricing systems. Both direct and indirect financing have distributive implications. While the introduction of direct charges may result in increased investment and improved services, it may also, without appropriate pricing policies, subsidies and/or exemptions, exclude or discriminate against the poor, thereby reducing not only the individual but also the social benefits of improved individual access to infrastructure. The most appropriate means of ensuring access by the poor will vary according to circumstances and may include geographical price discrimination (which may not be feasible where
regions, communities or residential areas are heterogeneous), individual price
discrimination (which may be efficient, in the sense that subsidies are narrowly
targeted, but is also costly and difficult to operate and liable to exclude many of
those eligible) or self-selection (by designing infrastructure so that it does not
appeal to the non-poor) (Gertler and Rahman, 1994). The debate may be
illustrated with reference to water and sanitation. Investment in water supply has
both directly productive purposes (irrigation in farming or the use of water in
industrial processing, for example) and a role in increasing the productivity of
labour, because of its impact on health, when combined with improved
drainage, sanitation, nutrition and health care. The improved health associated
with these and related investments benefits both individuals and their
households and the population at large, through the reduction in communicable
disease. The interactions and complementarities between different types of
capital are very clear in this instance.

Increasing the stocks of physical capital available to households requires the
allocation of public resources to appropriately designed infrastructure
investment programmes. However, in order to increase the volume or
productivity of the assets and enterprises of individuals and households and
their access to infrastructure services, household access to financial capital is
also required.

**Financial capital**

Policy interventions to reduce poverty have focused on increasing the access of
poor people to institutional credit, to enable investment in physical capital to
increase the productivity of assets (land and equipment), to provide working
capital for the purchase of inputs (including farm inputs, raw materials for
processing, stock for trading), and to allow for consumption smoothing
(enabling major expenses such as health treatment, school fees or
dowry/weddings/funerals to be met).

Experience with public supply of credit has been poor, although it is not
entirely ruled out by analysts (for example, Siamwalla, 1993, considers that,
once a viable new technology is available to farmers, increased public supply
of credit may be appropriate if the supply from other sources is inelastic in the
short run). A more appropriate public sector role is, however, likely to be in
encouraging the provision of financial services more generally (savings, credit,
insurance) to the poor by microfinance institutions, by temporarily subsidising
their management (Marr, 1999). There is no agreement on whether an
appropriate public sector role should include subsidies. Many analysts believe
that the volume of funds available to institutions lending to poor people will
never be sufficient unless market interest rates are applied to both depositors
and borrowers, and that it is the lack of available credit rather than its cost
which is the main constraint on improved access by the poor. However, Lipton
and Ravallion (1995: 2625) appear to favour selective capital or interest subsidies in order to improve or stabilise the prices of inputs bought mainly by the poor.

Although a recent study of the impact of lending by thirteen rural microfinance institutions found that the impact of credit on household income is greater for well-designed financially sustainable schemes (charging market interest rates and providing savings facilities, frequent loan collection, and material incentives to repay), even the most appropriately designed microfinance system may not include the poorest. The analysis also found that the impact of lending on a recipient household’s income tended to decrease as the recipient’s income and asset position improved, a relationship which can be explained in terms of the demand by the poor for consumption loans, their greater vulnerability to asset sales, and their limited range of investment opportunities (Mosley and Hulme, 1998). This finding lends weight to the view held by some that chronic poverty can probably not be reduced appreciably by credit-based interventions (Lipton and Ravallion, 1995). However, evidence is lacking on the relative effectiveness of support to microfinance service providers compared with other poverty reducing initiatives (Marr, 1999). In addition, access to credit has remained limited for the poor, so their ability to take financial risks, for example to implement production-increasing farm strategies, has depended on their access to income from other sources, including urban or rural wage employment, a non-farm business or acquisition of divestible assets such as livestock (Evans and Ngau, 1991).

**Human capital**

Policy may assist households in their responses to impoverishment or opportunities for improving their well-being by increasing labour market opportunities, improving the quality of human capital resources and enabling people to take advantage of economic opportunities. The discussions above on the productive activities made possible by access to natural, physical and financial capital and on the effects of economic and fiscal policies on production and employment are relevant to this section’s focus on households’ use of their labour resources. Although the emphasis is on the use of labour for production and earning income, this is closely related to the demands placed on household labour by reproductive tasks. Measures to reduce the latter may not only enable households to release more labour for production and income generation, but also result in improvements to education and health status.

**a. Increasing labour market opportunities.** Labour market opportunities are primarily determined by rates and patterns of economic growth, increases in which are generally associated with reduced poverty. However, this association is sensitive to the definition of the poverty line which is being used. Hanmer et
al. (1997) point out that economic growth is strongly associated with reduced poverty if half or more of the population is defined as poor, but not if the poverty line is defined to include only the very poor, who typically do not benefit from increased demand for labour or agricultural products. The association between economic growth and reduced poverty also applies only if inequalities in society are not extreme and if macroeconomic policies are combined with meso-policies which, inter alia, encourage investment in human capital (Quibria and Srinavasan, 1993; Mills and Pernia, 1994) (see below). In the medium to longer term labour market opportunities are expected to arise from renewed economic growth. Other possible interventions include enabling policies designed to foster economic development, especially in the small-scale rural and urban sectors (such as instituting appropriate regulatory frameworks, infrastructure investment and support to financial services provision); enforcement of laws against discriminatory employment practices (Lipton and Ravallion, 1995); and programmes to create employment directly. Discussion here will focus on the latter.

Public works programmes are generally seen as safety-net provisions, providing work during times of distress, (such as drought, recession, and after civil conflict) (Siamwala, 1993; Subbarao et al., 1997) or to those unable to access general labour market opportunities. They are likely to reduce the severity rather than the incidence of poverty. However, some analysts consider that they can play a long-term role in rural livelihoods, by increasing wage opportunities in agricultural slack seasons, for both men and women, and for both small farmers and the landless (Bardhan, 1993; Subbarao et al., 1997). They may also have a role in urban areas, especially in infrastructure installation in low-income residential areas. In practice, such programmes have often been poorly designed and implemented, have failed to involve beneficiaries in planning, and have resulted in leakages of benefits to the non-poor (Quibria and Srinavasan, 1993). In addition, their scale is often small in relation to the need, they are limited in duration (ILO, 1995), only a small proportion of the resources are transferred in wages to participants (Guhan, 1994), they do not work if they increase the burden on women’s time at very low wages (Buvinic, 1995) and there are trade-offs between employment intensity and the durability of the works constructed, such as roads (Subbarao et al., 1997). However, they are seen by many to be appropriate interventions, provided they do not clash with peak labour demand in agriculture and the (cash or in-kind) wages paid are only attractive to the poor (women as well as men). Stewart (1995) recommends that they should be open-ended, providing employment to anyone who seeks it at the minimum wage. Their value is enhanced if they are used to construct or maintain infrastructure which is accessible and of high priority to the poor, which some argue should be economic infrastructure (e.g. Barros and Camargo, 1995) but others social infrastructure, because of the difficulties experienced by the poor in taking advantage of the improved opportunities offered by economic
infrastructure (Stewart, 1995). Their value is also enhanced if they provide opportunities for learning new skills, and it has been suggested that they might have the beneficial effect of bidding up wages in agriculture (Guhan, 1994), although such an effect might contradict macroeconomic aims.

**b. Improving the general quality of human capital resources.** Tax and public expenditure policies mediate the flow of benefits from economic growth, but, because of data problems, there are few analyses of the net incidence of fiscal policy. A recent attempt regarding the Philippines finds the incidence of taxes broadly neutral, while health, education and infrastructure expenditures are broadly progressive, because of the concentration in poorer regions. Thus the net fiscal incidence is, unexpectedly, progressive (Devarajan and Hossain, 1998). However, regional figures do not capture intra-regional inequalities. Younger (1996) concludes that, although the Ghanaian Government’s success in increasing its revenue in the 1980s meant that everyone except cocoa farmers paid more tax, the increased burden on the poor was less relative to their expenditures than that for wealthier households, and this progressive trend was probably not offset by a regressive trend in patterns of public expenditures. In Bangladesh, on the other hand, although the tax structure is progressive, expenditure allocations are not pro-poor (Khundker et al., 1994: 25).

Sahn et al. (1996) note that total public expenditure in the social sectors, especially on education and health, has generally not fallen during adjustment. However, this is not to say that it was adequate in the first place, or well-targeted on the poor, let alone disproportionately so, as arguably is required to reduce poverty rather than merely prevent it worsening. More common are policies which benefit the poor about as much as middle- and upper-income groups (primary education and non-hospital health services) but which are generally allocated a small share of total budgets. In addition, some reforms designed to reduce expenditure and/or increase effectiveness, such as more cost recovery or more reliance on private sector providers, tend to affect access by the poor to these services adversely. One of the reasons for the good development performance of the advanced Asian economies, it is suggested, has been large allocations for the social services sectors, combining efficient allocation of resources for basic publicly provided education and health services with reliance on the private sector for higher levels of education and expensive curative health care (Mundle, 1998). There is clearly scope in the design of social policies to make them anti- or pro-poor.

Nutritional status, especially for children, is determined by food security, adequate care, and health, each of which is necessary but not sufficient. Food security and access to health care are universally high priority issues amongst both the urban and rural poor, and their significance is emphasised by research results. Food security is defined as having assured access to food which is adequate in terms of quality, quantity and safety, and is culturally acceptable
Hanmer et al. (1997) caution that although more education may be associated with higher consumption, it does not necessarily result in higher consumption. Individual food security is affected by household food availability, household decisions about food acquisition and intra-household allocation, and individual health status. The main thrust of policy must be to increase the food available on a stable basis to households, from subsistence production or through the market. However, there is also a need for safety-net provisions to ensure minimum nutritional intake for deprived individuals and households. There is a move against general food subsidies because of their unsustainability and distortionary effects, but there may still be a case for limited subsidies if they can be precisely targeted and are (preferably) transitional (Subbarao et al., 1997). More specific programmes are generally supplementary feeding programmes, targeted on specific groups or regions, again preferably not on a permanent basis. The extensive literature, which cannot be reviewed here, shows that such relief programmes are needed but can be costly and problematic, with considerable leakages. Even well-targeted supplementary feeding programmes (such as for schoolchildren or lactating mothers) cannot increase nutritional status and food security on a permanent basis unless they are complemented by a range of other interventions (Ruel et al., 1998).

Targeting health provisions and expenditure to meet the needs of the poor implies the allocation of resources to primary health care (both preventive and promotive services and basic curative care), involving pricing structures which do not deter use, efficient referral systems, and improvements in quality. The poor may be disproportionately concentrated in remote locations, illegal residential areas and unhealthy environments. Access therefore has spatial as well as socio-economic dimensions, which may be exacerbated by seasonal factors. Workable exemption systems based on means testing are extremely rare (Hanmer et al., 1997), so alternatives are preferable (such as providing basic services free at the point of delivery, the use of referral/price/insurance systems, exemption based on type of illness/condition) (Bennett et al., 1995; Cassels, 1995; Killick, 1995; Van Adams and Hartnett, 1996).

In African poverty assessments, education is not given the same universally high priority by poor people as health care. Nevertheless, basic education is regarded as important in breaking the cycle of intergenerational poverty, in reducing population growth (because of the association of lower fertility with higher levels of women's education) and in increasing the basic skills available to adults. Investment may focus on generating improvements in the availability and quality of (especially primary) education or, to maximise its poverty impact, be targeted on excluded groups such as girls, or areas where enrolment rates are relatively low. In countries where 100% primary school enrolment has been

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4. Hanmer et al. (1997) caution that although more education may be associated with higher consumption, it does not necessarily result in higher consumption.
achieved, it will be more appropriate to focus on mechanisms to increase the
access of the poor to secondary education (such as Ecuador, World Bank, 1995).

c. Enabling people to take advantage of economic opportunities. Possible
measures include skills training, provision of child care facilities, provision of
improved employment information and policies to increase other relevant types
of capital (physical assets, financial capital). Skills training may take the form
of extension services geared to the needs of the poor, especially women, in both
farm and non-farm activities, but may also focus on vocational skills for small-
scale economic activities in both urban and rural areas. Although there are well-
recognised problems with traditional government-sponsored vocational skills
training, there seem to be few systematic analyses of the effectiveness of
alternatives, including indigenous apprenticeship systems and NGO provision.
Views differ on the extent to which the delivery of credit and business and
vocational skills training should be linked.

Many of the policies discussed above concentrate on increasing the stocks of
human capital available to households which contain members able to work. However, some permanently poor households do not contain such members, and
impoverishment may threaten others because a breadwinner is prevented from
working, often because of illness. In these cases, safety nets and assured access
to services are needed. Transfers may be temporary or permanent, in cash or
kind. They include some programmes mentioned above, such as savings, crisis
credit, assistance to invest in disposable assets such as small livestock,
supplementary feeding programmes, public works programmes and free health
care and education. However, pensions and other welfare payments will also be
needed. It is estimated that in Zambia 10% of the rural and 5–10% of the urban
population are likely to need permanent transfers (World Bank, 1994). In
practice, such programmes may pose targeting problems, may create a poverty
trap for people just outside the eligibility boundary, and encourage dependency
(Subbarao et al., 1997). They are often inadequate in scale, do not reach the
poor, or are poorly administered (for example, in Pakistan, Beall et al., n.d.).
However, with government commitment and good administration, they can be
effective (as in Mozambique, Schubert, 1995) and need not take large amounts
of resources (Guhan, 1994, estimates 3–4% of GNP).

Social capital

Despite increasingly widespread recognition of the importance of household
relations and social capital in the livelihood strategies of poor households and
the extent to which these may be threatened by economic and social change or
some interventions, the policy implications have been little explored. Many
analyses, especially those concentrated on reducing income poverty, do not
explicitly acknowledge the significance of social relations in addressing rural
poverty (see, for example, Lipton and Ravallion, 1995). Elsewhere, recommendations stop at suggesting that care should be taken to ensure that interventions take into account and do not destroy social capital, generally by involving the poor in policy and project design, or by making funding available for community projects. Specific suggestions may focus on measures to redress perceived deterioration in social capital, for example increasing security in urban areas by ensuring the provision of safe public transport, improving policing and increasing security in living environments (Beall, 1997; Moser, 1998). The large literature on community development indicates that social organisation is a long-term process, which may not be very amenable to external support. Given the disparate interests and unequal distribution of power within communities, participation in policy and project design, and funding for community projects and community development do not necessarily produce pro-poor results.

**Political capital**

Despite the significance attached to powerlessness in the poor's own definitions of poverty, access to political capital is rarely addressed as an integral part of poverty reduction policy. Recommendations tend to focus on the involvement of poor people in local (specifically community-level) decision-making and rarely address wider issues of their access at local or national levels. Democratisation is considered important, and is expected to increase accountability and transparency. Decentralisation and, less often, devolution may also be advocated. However, lack of influence by disadvantaged groups generally persists. The right of people to make demands and set priorities has tended to be incorporated in the strategies of social movements, (some) NGOs and community-based organisations (CBOs) (especially federations of CBOs), rather than those of public sector agencies (Satterthwaite, 1997; Anzorena et al., 1998). Recent examples of where these rights have been, at least partially, incorporated in the wider political system come mainly from South America.

**Conclusion**

An advantage of the capital assets framework is that it places the reality of domestic groups (generally conceptualised as households) at the centre of analysis and policy, without ignoring the contextual economic, political and social factors which determine their ability to construct sustainable livelihood strategies. It provides a more adequate multi-dimensional understanding of poverty, impoverishment and increased well-being than analysis of income or consumption alone, in both urban and rural areas. There is some evidence of beneficial impacts of policies to increase the assets available to poor households.
and relieve constraints on their ability to cope with impoverishment or take advantage of opportunities to enhance their well-being. As yet, the literature provides little guidance on which policies are most effective in poverty reduction, sequencing (which assets should be strengthened first and for whom) or sustainability (non-reversibility of improved well-being and environmental sustainability). Criteria for judging priorities need to include their cost-effectiveness, political feasibility and fit with the expressed priorities of poor people. The latter can give important practical indications of priorities and policy design, but need to be supplemented by analysis of the outcomes and impact of macro- and meso-policies, and of detailed survey findings. As part of the Zambian poverty profile, for example, a smallholder household model was developed using linear programming, to identify the main determinants of poverty and smallholder decision-making (Alwang et al., 1996). Two policy priorities emerged: first, improving access to markets for farmers in remote regions, especially by investment in roads, and secondly, interventions designed to reduce the labour constraints faced especially by female-headed households. It was considered that priority should not be given to extending extension and credit services in remote regions until improved access to market opportunities created a demand for technology and inputs.

Analysis of household capital assets and livelihood strategies needs to be both dynamic and differentiated. Households and areas experience different trajectories, because of the assets available to them and external circumstances. In addition, labour availability is influenced by the household life-cycle. The resource base and economic opportunities available to households differ, especially between urban and rural areas and resource-rich and resource-poor regions, as does their access to social and political capital. Some authors (e.g. Rigg, 1997, with respect to South-East Asia) assert that the urban/rural distinction is now obsolete. However, this article comes to the conclusion that, despite important flows of people and resources between urban and rural domestic units and economies, and the dangers of an oversimplified dichotomous view, it is useful to make the distinction. Individuals and households need to be differentiated along various dimensions, of which urban and rural residence is one, because the impact of national policies and the nature of asset portfolios vary, necessitating explicit disaggregation of policy analysis and design. Different sets of interventions are needed to increase the well-being of households and regions in different circumstances and on different trajectories.

There is a danger that a capital assets framework leads to a focus on some of the poor (those with productive assets), and that the poorest (those unable to sustain themselves, the destitute) are neglected. Thus policies to assist households accumulate assets and take advantage of opportunities, by relieving constraints on their ability to do so, by building capacity at household or community level, or by creating an enabling environment, need to be
complemented by measures designed to protect them from impoverishment and programmes to ensure access by the poorest to basic minimum needs. Increasingly it is recognised that the design and sequencing of economic policies is key, not just to their impact on growth and restructuring, but also to their poverty impact. They and the social and infrastructure development policies which must accompany them should be designed, first, to maximise their poverty-reducing and minimise their poverty-increasing effects and, secondly, to take account of their distributional impacts (by, for example, gender, region or household asset portfolio). None of the above imply separate policies: specific anti-poverty measures need to be incorporated in an overall strategy, with explicit links between policies to achieve economic growth and restructuring, sectoral and safety-net policies, and policy packages appropriate for different geographical regions.

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