

# **Rural Poverty in Developing Countries**

## ***Implications for Public Policy***

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### **Preface**

The Economic Issues series aims to make available to a broad readership of nonspecialists some of the economic research being produced on topical issues by IMF staff. The series draws mainly from IMF Working Papers, which are technical papers produced by IMF staff members and visiting scholars, as well as from policy-related research papers.

This Economic Issue is based on IMF Working Paper [00/78](#) "Rural Poverty in Developing Countries: Issues and Policies." Citations for the research referred to in this shortened version are provided in the original paper which readers can purchase (for \$10.00 a copy) from the IMF Publication Services, or download from [www.imf.org](http://www.imf.org). Paul Gleason prepared the text for this pamphlet.

### **Rural Poverty in Developing Countries**

The causes of rural poverty are complex and multidimensional. They involve, among other things, culture, climate, gender, markets, and public policy. Likewise, the rural poor are quite diverse both in the problems they face and the possible solutions to these problems. This pamphlet examines how rural poverty develops, what accounts for its persistence, and what specific measures can be taken to eliminate or reduce it.

Broad economic stability, competitive markets, and public investment in physical and social infrastructure are widely recognized as important requirements for achieving sustained economic growth and a reduction in rural poverty. In addition, because the rural poor's links to the economy vary considerably, public policy should focus on issues such as their access to land and credit, education and health care, support services, and entitlements to food through well-designed public works programs and other transfer mechanisms.

About one-fifth of the world's population is afflicted by poverty—these people live on less than \$1 a day. Poverty is not only a state of existence but also a process with many dimensions and complexities. Poverty can be persistent (chronic) or transient, but transient poverty, if acute, can trap succeeding generations. The poor adopt all kinds of strategies to mitigate and cope with their poverty.

To understand poverty, it is essential to examine the economic and social context, including institutions of the state, markets, communities, and households. Poverty differences cut across gender, ethnicity, age, location (rural versus urban), and income source. In households, children and women often suffer more than men. In the community, minority ethnic or religious groups suffer more than majority groups, and the rural poor more than the urban poor; among the rural poor, landless wage workers suffer more than small landowners or tenants. These differences among the poor reflect highly complex interactions of cultures, markets, and public policies.

Rural poverty accounts for nearly 63 percent of poverty worldwide, reaching 90 percent in some countries like Bangladesh and between 65 and 90 percent in sub-Saharan Africa. (Exceptions to this pattern are several Latin American countries in which poverty is concentrated in urban areas.) In almost all countries, the conditions—in terms of personal consumption and access to education, health care, potable water and sanitation, housing, transport, and communications—faced by the rural poor are far worse than those faced by the urban poor. Persistently high levels of rural poverty, with or without overall economic growth, have contributed to rapid population growth and migration to urban areas. In fact, much urban poverty is created by the rural poor's efforts to get out of poverty by moving to cities. Distorted government policies, such as penalizing the agriculture sector and neglecting rural (social and physical) infrastructure, have been major contributors to both rural and urban poverty.

The links between poverty, economic growth, and income distribution have been studied quite extensively in recent literature on economic development. Absolute poverty can be alleviated if at least two conditions are met:

- economic growth must occur—or mean income must rise—on a sustained basis; and
- economic growth must be neutral with respect to income distribution or reduce income inequality.

Generally, poverty cannot be reduced if economic growth does not occur. In fact, the persistent poverty of a substantial portion of the population can dampen the prospects for economic growth. Also, the initial distribution of income (and wealth) can greatly affect the prospects for growth and alleviation of mass poverty. Substantial evidence suggests that a highly unequal distribution of income is not conducive to either economic growth or poverty reduction. Experience has shown that if countries put in place incentive structures and complementary investments to ensure that better health and education lead to higher incomes, the poor will benefit doubly through increased current consumption and higher future incomes.

The pattern and stability of economic growth also matter. On the one hand, traditional capital-intensive, import-substituting, and urban-biased growth—induced by government policies on pricing, trade, and public expenditure—has generally not helped alleviate poverty. On the other hand, agricultural growth—where there is a low concentration of land ownership and labor-intensive technologies are used—has almost always helped

reduce poverty. Finally, sharp drops in economic growth—resulting from shocks and economic adjustments—may increase the incidence of poverty. Even when growth resumes, the incidence of poverty may not improve if inequality has been worsened by the crisis.

## **The Rural Poor: Who Are They?**

The rural poor depend largely on agriculture, fishing, forestry, and related small-scale industries and services. To understand how poverty affects these individuals and households, and to delineate the policy options for poverty reduction, we first need to know who the rural poor are.

The rural poor are not a homogeneous group. One important way to classify the rural poor is according to their access to agricultural land: *cultivators* have access to land as small landowners and tenants, and *noncultivators* are landless, unskilled workers. There is, however, much functional overlap between these groups, reflecting the poverty-mitigating strategies of the poor in response to changes in the economy and society.

**Cultivators**, who form the bulk of the rural poor in developing countries, are directly engaged in producing and managing crops and livestock. Since these households cannot sustain themselves on the small parcels of land they own or cultivate, they provide labor to others for both farm and nonfarm activities inside and outside their villages. Some members of these households migrate to towns or cities on either a rotational or a long-term basis. In many countries, both small landowners and tenants are under increasing pressure to get out of the agriculture sector altogether. Underlying this process of "depeasantization" are market forces and policies affecting landholdings, rents, prices, credit, inputs, and public investment in social and physical infrastructure.

**Noncultivators** are perhaps the poorest among the rural poor. Their numbers have been rising rapidly because of the natural increase in population and depeasantization. These workers depend on seasonal demand for labor in agriculture and in rural informal, small-scale industries and services. The landless rural workers are vulnerable to fluctuations in the demand for labor, wage rates, and food prices. They find it even more difficult than small landowners and tenants to gain access to public infrastructure and services. In addition, unlike their counterparts in urban areas, they are often excluded from public sector safety nets (food rations, for example).

**Rural women** tend to suffer far more than rural men. Their poverty and low social status in most societies is a major contributor to chronic poverty. Substantial evidence from many countries shows that focusing on the needs and empowerment of women is one of the keys to human development.

## What Do the Poor Own?

To understand poverty creation in rural areas and its effects on different groups, we need to look at the assets that the poor own or to which they have access, and their links to the economy. The economic conditions faced by the rural poor are affected by a variety of assets (and the returns on them) held at the household, community, and supra-community levels. The poor's *physical assets* include natural capital (private and common property rights in land, pastures, forest, and water), machines and tools and structures, stocks of domestic animals and food, and financial capital (jewelry, insurance, savings, and access to credit).

Their *human assets* are the labor pools—comprising workers of varying ages, genders, skills, and health—in the households and communities. Their *infrastructural assets* are publicly and privately provided transport and communications, access to schools and health centers, storage, potable water, and sanitation. Their *institutional assets* include their legally protected rights and freedoms and the extent of their participation in decision making in households and communities, as well as at the supra-community level. The first two categories of assets are largely regulated through formal and informal networks among individuals and communities. Most rural people, particularly women and those in landless households, are greatly handicapped by inadequate assets and the low and volatile returns on them.

The differences among the rural poor are more clearly reflected in their links to the economy, which determine how they use their assets and participate in production. All of the rural poor are engaged in the production of both tradable and nontradable goods and services. Artisans and unskilled workers provide many nontradable services and some nontradable products (such as staple foods) that small cultivators also produce. Only cultivators, however, have access to small parcels of land through ownership or (sharecropping) tenancy. They are also the only groups of poor people who own or rent physical capital such as tools, implements, and machinery. Artisans and small-scale farmers have only limited amounts of physical capital. They have only limited access to financial capital and acquire it largely through informal agents or institutions, except for tenants, who can use their landlords as conduits to formal credit. Borrowed capital is often costly and is used to maintain consumption during hard times or to buy supplies and equipment needed for farming. Households' labor is used both within the family—for work done by unpaid family members—and to earn the wages paid to landless, unskilled workers in farm and nonfarm activities.

All groups of the rural poor are vulnerable to serious risk owing to changes in weather, health, markets, investment, and public policy. The resulting fluctuations in the prices and quantities of their assets and of what they produce can either deepen their poverty or give them opportunities to escape from it. The main reason is that the rural poor have a very low capacity to absorb abrupt financial shocks. In addition, economic crises and natural disasters can bring about sharp increases in poverty and make it more difficult for the poor to escape it.

## **How Rural Poverty Is Created**

Numerous characteristics of a country's economy and society, as well as some external influences, create and perpetuate rural poverty:

- political instability and civil strife;
- systemic discrimination on the basis of gender, race, ethnicity, religion, or caste;
- ill-defined property rights or unfair enforcement of rights to agricultural land and other natural resources;
- high concentration of land ownership and asymmetrical tenancy arrangements;
- corrupt politicians and rent-seeking public bureaucracies;
- economic policies that discriminate against or exclude the rural poor from the development process and accentuate the effects of other poverty-creating processes;
- large and rapidly growing families with high dependency ratios;
- market imperfections owing to high concentration of land and other assets and distortionary public policies; and
- external shocks owing to changes in the state of nature (for example, climatic changes) and conditions in the international economy.

Biases in national economic and social policies can contribute to rural poverty by excluding the rural poor from the benefits of development and accentuating the effects of other poverty-creating processes. Policy biases that generally work against the rural poor include:

- urban bias in public investment for infrastructure and provision of safety nets;
- implicit taxation of agricultural products through so-called support prices and an overvalued exchange rate;
- direct taxation of agricultural exports and import subsidies;
- subsidies for capital-intensive technologies;
- favoring export crops over food crops; and
- bias in favor of large landowners and commercial producers with respect to rights of land ownership and tenancy, publicly provided extension services, and access to (subsidized) credit.

These policies can have both short- and long-term effects on the rural poor. The effects are particularly significant in the context of the structural adjustment programs that many developing countries have undertaken to restore macroeconomic stability and expand the capacity of the economy to increase production, employment, and incomes.

## **Policies For Reducing Rural Poverty**

To design policies that have a chance of effectively helping the rural poor, the focus of policy should be on four major groups:

- **small landowners** who cultivate their land;
- **landless tenants** who cultivate other people's land;
- **landless laborers** who depend on casual or long-term employment in the farm or nonfarm sectors; and
- **women**, who could also be part of any of the three preceding groups.

All of these groups will benefit from good macroeconomic management—which helps keep inflation in check and maintains unsubsidized prices—because it facilitates sustained economic growth through private investment and competitive markets. Needless to say, unfair laws or poor enforcement of existing laws, exclusion of the poor from decision making, and pervasive corruption in the public sector are no less detrimental to the well-being of the poor than they are to the country's overall economic growth.

Achieving agricultural growth by applying new technologies is one of the most important ways to reduce rural poverty. The impact of such efforts on the rural poor, however, depends on initial conditions, the structure of relevant institutions, and incentives. Research shows that agricultural stagnation has harmed the rural poor in sub-Saharan Africa by creating food shortages and higher prices that have reduced their ability to buy food and find work. Conversely, experience with the Green Revolution showed that rapid agricultural progress made a big difference in reducing rural poverty in parts of South Asia. Researchers have found that higher crop yields reduce both the number of rural poor and the severity of rural poverty. But these effects are strong only if certain conditions are met:

- land and capital markets are not distorted by a high concentration of ownership of natural resources (agricultural land), including unfair tenancy contracts, and repression in the capital markets (with restricted access to finance);
- public policy on pricing, taxes, and the exchange rate does not penalize agriculture and encourage or subsidize labor displacement;
- public investment in basic education and health care is high and used effectively; farmer literacy and good health have great influence on farm productivity;
- public sector support for agricultural research is strong and resulting improvements are made available to small farmers is effective;
- physical capital, like irrigation systems, access roads, is adequately maintained;
- safety nets and social assistance are available for the very poor, particularly the landless (casual) workers and rural women, in the form of public works programs, microfinance, and food subsidies; and
- the rural poor are directly involved in the identification, design, and implementation of programs to ensure effective use of resources and equitable distribution of benefits.

Since the rural poor are a varied group, we need to understand how macroeconomic changes and policies can affect them. The three major ways in which policies affect the rural poor are through *markets*, *infrastructure* (including public services), and *transfers*.

The **markets** in which the rural poor participate are those for products, inputs (labor and nonlabor), and finance (from formal and informal sources). Several important features of these markets can affect conditions in rural areas.

The **infrastructure** that directly affects the rural sector's productivity and the rural poor's quality of life includes the economic (transport, communications, extension services, and irrigation) and the social (education, health care, water, and sanitation). Given that most elements of a country's infrastructure are provided through public funding, the level of spending, cost effectiveness, quality of service, and access of the rural poor to infrastructure and public services have important effects on human capital and productivity in rural areas.

**Transfers**, which are both private and public, provide some insurance against anticipated and unanticipated economic shocks. Most of the rural poor depend on private transfers among households, extended families, and other kinship groups. Public transfers can take the form of redistribution of such assets as land, employment on public works projects, and targeted subsidies for inputs and some consumer products. These transfers supplement or displace private transfers, depending on the policy instrument and how it is used. But these channels—markets, infrastructure, and transfers—do not work in the same way for all of the rural poor because each group has quite different links to the economy.

## **Key Policy Components Needed to Reduce Rural Poverty**

So, what are the key elements when crafting a policy to reduce rural poverty?

Competitive markets, macroeconomic stability, and public investment in the physical and social infrastructure are widely recognized as important requirements for sustained economic growth and reduced poverty. In addition, the first requirement of a strategy to reduce rural poverty is to provide the enabling environment and resources for those in the rural sector who are engaged in the agricultural production and distribution system.

Other policy components for national strategies—involving the government, the private (for-profit) sector, and civil society—to reduce rural poverty can include:

- **Information gathering.** The rural poor face many different problems and are not a homogeneous group. Therefore, a sustained effort must be made to gather information about the particular problems they face so that they can be adequately addressed.
- **Focus on building assets.** The government should assess what assets the poor need most to help them earn more. This could be agricultural land or other resources, access to credit, or improvements in health and education. Dependence

on raw labor, without a focus on building other assets, is the single most important source of persistent poverty.

- **The right to adequate land and water.** A broad-based land reform program—including land titling, land redistribution, and fair and enforceable tenancy contracts—is critical for reducing rural poverty. It can make small (marginal) landowners and tenants more efficient producers and raise their standards of living.
- **Basic health care and literacy.** The rural poor need to build and strengthen their human capital so they can get out of poverty and contribute more to the economy and society. Basic health care (immunization, provision of clean water, and family planning) and education (literacy, schooling, and technical training)—particularly for women and children—are essential building blocks and should be accessible at reasonable cost.
- **Local involvement.** The infrastructure and services associated with health and education can be funded and maintained best if the target groups are involved in making decisions about the design, implementation, monitoring, and accountability.
- **Providing infrastructure.** The rural poor cannot make the best use of their resources, including human capital, if either the quantity or the quality of some of the key parts of the country's physical infrastructure (irrigation, transport, and communications) and support services (research and extension) is inadequate. The social and physical infrastructure and services can be funded and maintained best—that is, they will be cost-effective and of reasonable quality—if the target groups are involved in designing, implementing, and monitoring them, as well as in ensuring accountability of the government officials responsible for them.
- **Targeted credit.** Informal and formal sources of credit often are too costly for, or unavailable to, the rural poor. Targeted public sector rural credit programs, especially if they are subsidized, benefit the nonpoor far more than the poor. The poor want credit that is available on acceptable terms and when they need it. Recent experiments with community-based credit programs, in which the poor actively participate in the making of lending decisions that are subject to peer accountability, have been successful in reaching target groups at reasonable cost.
- **Public works.** A large and increasing proportion of the rural poor depends on wage labor, because they have either no asset other than raw labor or very few assets: limited quantities of land and domestic animals. A flexible public works program can greatly help the near landless and the landless smooth out household consumption and avoid transient poverty. If it is used on a sustained basis, it can also strengthen the bargaining power of the poor in rural areas.
- **Decentralized food programs.** Some of the rural poor, both individuals and households, suffer from inadequate nutrition most of the time. They need different kinds of support, depending on their circumstances. These may include food supplement programs; food assistance provided through schools, health care clinics, and community centers; and cash transfers. Decentralized and targeted programs seem to work best.

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