Unit One: Rural Livelihoods: Importance and Definitions

Unit Information
- Unit Overview
- Unit Aims
- Unit Learning Outcomes

Key Readings

Further Readings

References

1.0 Why is understanding rural livelihoods important?
- Section Overview
- Section Learning Outcome
- 1.1 Setting the scene
- 1.2 The importance of rural livelihoods
- 1.3 Structural characteristics of rural livelihoods
- Section 1 Self Assessment Questions

2.0 Livelihoods analysis
- Section Overview
- Section Learning Outcomes
- 2.1 Livelihoods
- 2.2 Livelihoods: multiple linkages and multipliers
- Section 2 Self Assessment Questions

Unit Summary

Unit Self Assessment Questions

Key Terms and Concepts
UNIT INFORMATION

Unit Overview
This unit discusses the importance of rural livelihoods in the world economy and their distinctive features. Two aspects of this are, first, their dependence on both agriculture and natural resources on the one hand, and non-agricultural activities on the other and, second, the importance of activities which are not directly linked into the formal markets that form the context of much conventional economic analysis. These differences lead to recognition of the need for different analytical techniques in describing and understanding their activities and achievements and the opportunities and constraints they face.

The unit describes the use of sustainable livelihoods frameworks in analysing rural livelihoods and outlines some weaknesses of representation which omit market interactions, institutional failings, and technological changes from its conceptualisation.

The unit emphasises the complexity of studying rural livelihoods and the need to assess interactions within livelihood systems and between them and their wider economic, social, and political environments.

Unit Aims
- To assess the importance of rural livelihoods in national and global economies and communities.
- To examine the characteristics of rural livelihoods which distinguish them from other forms of livelihood and which need special attention from analysts, development practitioners, and policy-makers.
- To explain sustainable livelihoods frameworks and to identify some of their strengths and weaknesses.
- To explain the importance of considering rural livelihood interactions with different economic sectors and issues in assessing livelihood systems.

Unit Learning Outcomes
By the end of this unit students should be able to
- review critically the importance of rural livelihoods in national and international development processes
- outline the characteristics which define peasant livelihoods and discuss their relevance to rural livelihood analysis
- explain the livelihoods concept and critically appraise the use of sustainable livelihoods frameworks for rural livelihood analysis
- consider, with examples, the effects of interactions of change among peasant livelihoods within the rural economy and markets.
**Key Readings**


  This reading provides an example of analysis of diversification among primarily rural households in Zambia. It is relevant to discussion of livelihoods diversification in Section 2. You do not need to read or understand all of the paper. Begin by reading the abstract and introduction. Note down the main findings of the study; you may want to check these against the more detailed findings later in the paper.

  Now read Section 2, review of African evidence. Note down the main points that the authors draw from the literature. How do these compare with the points made in the study guide? (You should note that Bigsten and Tengstam use the term ‘distress diversification’ to describe diversification driven by ‘push’ incentives.)

  You may want to skip the next two sections. These contain interesting and valuable information on the study, but are not essential to drawing out the main points from the paper.

  Now spend some time looking at Section 5. Look at Table 2 and note how income structure changes between quintiles (quintile 1 is the poorest 20% of people, quintile 5 is the richest 20% of people, ranked by income). What are the main differences you note between quintiles? Do these agree with the authors’ comments in the text? Note down the main conclusions from the description of the pattern of income diversification. The authors then classify households by their combinations of source of income, to identify livelihood strategies. Tables 3 and 4 look interesting – but beware that for livelihood strategies with a very low frequency the small number of observations makes estimates of total income unreliable. This is one consideration driving the authors’ use of econometric analysis to go beyond the use of tables and descriptive statistics. Section 6 is largely taken up describing this analysis and you do not need to read it as its conclusions are summarised in the last section, on policy conclusions. As you read this section, in the context of the whole paper, do you agree with the policy recommendations? How far are they supported by the empirical findings from the paper, and how far do they take account of different linkage effects discussed in the study guide?


  This paper is relevant to Section 2. The authors recognise the strengths of sustainable livelihoods frameworks but also highlight weaknesses in omitting market, institutional, and technological interactions with livelihoods. Do not worry about all the detail but ensure you understand the key features by which these issues affect, and are affected by, rural livelihoods. The paper also provides a conceptual framework for understanding multipliers and linkages.


  This is an important text, defining and examining the characteristics of peasant livelihoods. Make sure you fully understand what is meant by the term ‘peasant’ and how one can distinguish peasants from other groups in society.

This chapter analyses the importance and nature of off-farm work in two different communities in the Peruvian altiplano, with a particular emphasis on how this is affected by seasonal issues, and how the nature and timing of off-farm work is affected by people’s other activities and by different aspects of their environment. Use this chapter as a case study to examine some of the points made in the study guide regarding the nature of rural livelihoods:

- Which of the structural characteristics of rural livelihoods listed in Section 1.3 of the study guide are found in the descriptions of the livelihoods of people in the two communities?
- How far does discussion of rural off-farm work in this chapter match discussion of the RNFE in Section 2.1 of the study guide and the patterns reported by Haggblade et al (2007)?
FURTHER READINGS


Available from: http://www.fao.org/docrep/w9500e/w9500e12.htm#P12-01
An early and stimulating discussion of rural non-farm diversification.

pp. 30–35 provide an overview of agriculture’s role and potential for development and highlights the important mixture of production for own consumption and for sale in developing countries.
pp. 84–89 discuss and emphasise the way that farmers’ options are determined by their assets. This also introduces wider issues relevant to development opportunities and constraints.
pp. 90–93 introduce the particular features and issues of small farmers.

REFERENCES


1.0 Why is understanding rural livelihoods important?

Section Overview
This unit discusses the importance of rural livelihoods in the world economy and their distinctive features. It defines peasant livelihoods and examines the reasons why their characteristics present a need for the use of different analytical techniques to those used in conventional economic analysis.

Section Learning Outcome
By the end of this section, students should be able to

- define peasant livelihoods and to discuss their relevance to rural livelihood analysis

1.1 Setting the scene
It is estimated that in 2005 there were 2.6 billion people living in poverty, that is, on less than US$2 per day, and about 1.4 billion people living in extreme poverty, that is on less than one US$1.25 per day (World Bank 2011). Estimates of the proportion of the world’s poor that live in rural areas vary but for 2005 this was estimated at 70% (with just 55% of the world’s total population living in rural areas) (IFAD 2010). It is further predicted that, despite urban migration, a little over one-third of the world’s population will live in rural areas by 2030, just under two-thirds of the world’s poor people will still be rural by 2030, and both poverty incidence and depth of poverty will continue to be greater in rural areas (World Bank 2007). Such global figures hide large regional and national variations but nevertheless emphasise the magnitude of global poverty, and rural poverty in particular.

The first Millennium Development Goal (MDG) is to eradicate extreme poverty and hunger with its two targets being, by 2015, to

- reduce by half the proportion of people living on less than a dollar a day
- reduce by half the proportion of people who suffer from hunger

(compared with the 1990 figures). It is clear that achieving this goal requires special emphasis on reducing rural poverty.

Other MDGs concern reducing infant mortality and improving health care and educational provision. Rural people tend to be dispersed and remote, and these features, among many, present particular challenges for progress towards many of the MDGs.
Agriculture is an important source of livelihood for the majority of rural people. It is estimated that 2.5 billion of the developing world’s 3 billion rural inhabitants are in households involved in agriculture, with 1.5 billion of these in smallholder households (World Bank 2007). (It should also be noted that all households have links with agriculture through their consumption of food, with poorer people spending a higher proportion of their income on food.)

Many smallholder farmers can be described as peasants, or share important livelihood features with peasants.

We are already using words that may have different meanings for different people. We therefore need to discuss what we mean by ‘peasants’ and what we mean by ‘livelihoods’. We also need to decide what it is about the livelihoods of rural people which demands a different socioeconomic analysis from that we would use to analyse other more commercially based livelihoods.

1.2 The importance of rural livelihoods

Between one-quarter and one-fifth of the world’s population derive their livelihood from small-scale agriculture. Most of these people are members of what we call peasant farm households or are dependent upon the activities of peasant farm households. The large number of rural people and their involvement in peasant agriculture and other activities makes the understanding of rural people, peasants, and their livelihoods important for many reasons.

- In global terms, poverty is predominantly a rural phenomenon (as noted earlier although there are large and increasing numbers of urban poor people, a greater proportion of poor people in the world live in rural areas and poverty tends to be more severe in rural areas).
- Many of the rural poor depend directly or indirectly upon peasant livelihoods.
- Peasant agriculture is significant in both national economies and the world economy in terms of
  - its contribution to production of livestock and of food, beverage and industrial crops
  - its effect on the environment and scarce natural resources (peasant agriculture is an important form of land use often found in marginal areas where land is vulnerable to degradation and subject to competing uses and other natural resources, such as water, may be scarce)
- Poor rural people’s livelihoods are significant in national economies and the world economy in terms of
  - the potential market for increased demand for consumer goods and services if rural people become more wealthy
  - their potential contribution to, or drain on, resources either as a dynamic and growing part of national economies generating employment, tax revenues, and so on, or as a stagnant sector demanding welfare support for a poor and large part of the population
Understanding these livelihoods is therefore important for our understanding of, and action to address, rural poverty, the resulting human suffering, and the pressures it then places on urban areas (through rural–urban migration, national, regional, and global economies, and the environment).

These points are illustrated by the impact of recent economic growth in China on the world economy. Until the mid-1970s China’s economy was dominated by a largely stagnant peasant agriculture, but then technical, institutional, and economic policy change allowed rapid growth in peasant agriculture in large areas of China, and these in turn led to a transformation of the economy with global economic, social and environmental implications. National and rural poverty rates have fallen dramatically. However, peasant incomes and growth (particularly in more remote areas and in areas with lower agricultural potential) now lag behind incomes and growth in the rest of the Chinese economy. Conversely, in many parts of sub-Saharan Africa, per capita agricultural growth was low and even negative for much of the second half of the 20th century with increases in both the incidence and severity of rural and national poverty, very poor national economic performance, and in many areas increasing pressure on limited natural resources.

For those of us who are not peasants or poor rural people there are, then, compelling arguments of compassion and self-interest urging us to work with rural people to improve their quality of life and to extend their control over their environments, resources, and destinies. However, if we are to assist them (as policy-makers, researchers or community development workers, for example), we must understand as far as possible both their environments and their behaviour within those environments. This is necessary for communication and partnership. It is also needed for analysis of what they are doing and why, for identification of strategies for improvement, and for prediction of their responses to change.

1.3 Structural characteristics of rural livelihoods

The majority of poor rural people are what we may call peasants, or their livelihoods have many of the characteristics of peasants’ livelihoods. These people engage in part-time farming activities with a mode of agricultural production distinct from that of other farms (such as commercial, smallholder family or co-operative farms) with multiple economic activities which are predominantly in small scale (often household) activities and enterprises in the informal economy. These activities also tend to have a heavy dependence on family labour and little use of capital. The distinctive features of poor rural people’s activities require analysis of the livelihoods of these people using different techniques from those generally used in analysing commercial agricultural or non-agricultural enterprises in the formal sector.

We have said that rural, and particularly peasant, livelihoods have certain distinguishing features. In this section we want to try to define these in terms of particular structural characteristics and, although it is difficult, reach a definition of peasants which would satisfy most people and is both operationally useful and theoretically valid. This involves making generalisations which are widely applicable, although, owing to the heterogeneity of peasant livelihoods, they will not be applicable in all cases. It is important that we recognise, however, that we are looking for a broad definition of peasants that identifies the principal features that we need to understand: we are not trying to compile a very precise definition that allows us to classify particular people or households as peasants or not peasants.
Characteristics that distinguish peasant livelihoods from those of other groups include

- **Partial integration into imperfect and incomplete markets**
  Partial integration refers to households only acquiring some of their resources through markets, and only disposing of some of their produce in markets: social networks, including the household itself, are important non-market institutions for exchange. Where, however, peasants do engage in market exchanges, then the markets for their resources (land, labour, credit) and produce are often imperfect (with few buyers or sellers dominating the market, for example, and very poor market information) and incomplete (with the market failing to operate and thus failing to supply or demand resources or produce at certain times of year or in certain localities or to certain types of people).

- **Part societies with part cultures**
  Peasants are part of larger societies but retain their own distinctive cultural identities. In a similar way to their partial integration in the economy, they are partially integrated in society, engaging with larger groups in some ways whilst maintaining their own social norms and customs. This leads to another widely stressed characteristic, that of transition.

- **Transition**
  Peasants are seen as representing some intermediate state between dispersed, self-sufficient families and fully integrated members of society and the economy. Transition implies change over time: it emphasises that peasant livelihoods are neither static nor fixed, they are dynamic, adapting to changes in their environment. It should be noted, though, that the direction and timescale of this change is not defined nor does it mean that peasants are necessarily becoming something else, ie 'non-peasants'.

- **Subordination**
  Partial integration (both economically and socially) means that peasants are dominated by larger more powerful groups. They are subject to the decisions made by and the behaviour of others and have limited ability to influence the nature and impact of these decisions. This places them in positions of risk where they may be exploited by more powerful groups.

- **Small scale agriculture using family labour**
  Most peasants are engaged in agricultural activities. This does not mean that peasants are purely subsistence farmers: most produce at least some food for their own consumption but peasants also hire out their labour to other farms and engage in other forms of employment, and they also often buy and sell staple and other foods. Thus in Eastern and Southern Africa net buyers of staple foods commonly make up more than 50% of smallholder farmers (and these tend to be poorer farmers), while the majority of other smallholders are net sellers of food: very few African farmers are strictly autarchic subsistence farmers (relying purely on their own food production and not engaging with markets at all) (Barrett 2008). Similarly, the use of family labour does not exclude the hiring in and out of labour to assist with own farm production and to supplement income – again poorer households tend to hire labour out and less poor households to hire labour in.
- **Multi-activity livelihoods**
  Non-farm activities frequently play a significant, and sometimes dominant, role in peasant livelihoods.

- **Dual economic nature**
  Peasant agricultural production is both for sale and for family needs. The peasant household is simultaneously the producer and the consumer.

- **Heterogeneity**
  In seeking to identify features characteristic of peasants there is a danger that peasants themselves are lumped into a single conceptual group. This is most definitely not the case. There is much differentiation within and between peasant communities.

It is nevertheless important that we have a broadly applicable understanding of the livelihoods of peasants, because (a) people whose livelihoods share important characteristics with peasant livelihoods make up a very substantial proportion of poor rural people (and indeed of poor urban people) even if their livelihoods do not always match all of the criteria used to define peasant livelihoods and (b) most poor rural people live in societies which are evolving from, and share important features with, peasant societies.

We now have a working characterisation of peasants that we shall use with very minor modification. This is

> Peasants are households which derive their livelihoods partly from agriculture, utilise mainly family labour in farm production, integrate household production and consumption activities and decisions, and are characterised by partial engagement in input and output markets which are often imperfect or incomplete.


This characterisation uses the ‘household’ as the unit of analysis. There are significant difficulties with using the ‘household’ in this way but nevertheless, in practice, much livelihood analysis does start from an analysis of households. There are important practical reasons for this, but understanding differences and the relationships between people within households is another important feature of rural livelihood analysis.

? Why do you think there may be problems in applying more conventional neo-classical concepts and techniques to the analysis of peasant livelihoods?

*Answer*

> Neo-classical economics is about producers and consumers engaging with markets, with the major assumptions being that consumption and production activities are separated by engagement in markets.

> Clearly, this assumption does not hold for peasant households. The household is both a producer and a consumer of food, much of which does not enter the market. Similarly, significant amounts of family labour are employed in productive activities within the household. Just as this partial
Integration into markets is a pervasive feature of peasant livelihoods (being just as common with land and capital) so it is often the case that these markets are often incomplete or inefficient, so that simpler neo-classical economic theories based on how competitive markets work are often not appropriate. While neo-classical analysis can provide important insights into peasants’ behaviour, it must be used with caution, recognising the specific circumstances and structures of peasant livelihoods.

Some literature emphasises the importance of own farm agriculture in peasant livelihoods. This is important for millions of people, but it is increasingly recognised that own agricultural production may make up only a small proportion of the income of many poor rural people, with many of the poorest rural people being landless or near landless. Although these may not be considered peasants according to a strict application of the definition used here, many of the other characteristics of peasant livelihoods do apply to them (for example, the importance of household labour, of integrated consumption and production activities and decisions, and partial engagement in imperfect or incomplete markets).

We see from our examination of the characteristics of peasant livelihoods that many of the assumptions of neo-classical economics do not apply to the analysis of peasants’ economic systems. This leads us to the conclusion that in order to understand many rural people’s behaviour and management of their livelihoods we will need to adapt more conventional analytical techniques developed for commercial enterprises and derived from neo-classical principles to take account of the special features found in peasant livelihoods.
Section 1 Self Assessment Questions

Question 1
List the main internal and external characteristics of peasants.

Question 2
True or false?
Urban and rural poverty are equally important in addressing the Millennium Development Goal to reduce by half the proportion of people living on less than a dollar a day.

Question 3
Which of the following present problems in applying neo-classical analysis techniques to peasant livelihoods?

(a) Peasant households combine production and consumption activities.
(b) The markets with which peasants engage are often imperfect.
(c) There are frequently barriers to market access.
(d) Peasant production is often of homogeneous agricultural goods.
2.0 LIVELIHOODS ANALYSIS

Section Overview

This section describes the use of sustainable livelihoods frameworks in analysing rural livelihoods and outlines some of their weaknesses if they omit market interactions, institutional failings, and technological changes from their design.

The section emphasises the complexity of studying rural livelihoods and the need to assess interactions within livelihood systems and between them and their wider economic, social, and political environments.

Section Learning Outcomes

By the end of this section, students should be able to

- define livelihoods and critically appraise the use of sustainable livelihoods frameworks for rural livelihood analysis
- summarise and provide examples of peasant livelihoods interactions and relationships with the rural non-farm economy and markets.

2.1 Livelihoods

‘Livelihoods’ is a term that we use in everyday life, and we probably all have differing ideas about its meaning.

The term ‘livelihoods’ has become increasingly important in development theory and practice, as it is seen to encompass a wide range of concerns, and to allow inclusion of the broad range of people’s activities and assets in considering how they support themselves, rather than focusing more narrowly on economic, income-generating or formal activities. One way in which this concept has been developed has been through the formulation of sustainable livelihood frameworks. Many different frameworks have been developed by many different actors and organisations, each with their own particular emphases, strengths, and weaknesses.
2.1.1 UK Department for International Development (DFID) sustainable livelihoods framework

Frameworks such as this aim to represent the main factors affecting people’s livelihoods and the relationships between these factors. They are not definitive and should be seen as tools highlighting the complexities involved in thinking about and interacting with livelihoods.

One of the key features of DFID’s framework is its emphasis on livelihoods assets and on the different types of capital that make up the ‘assets pentagon’. The framework stresses first that even poor people have assets (and development interventions should work from people’s strengths, their assets, rather than promote dependency by emphasising their weaknesses and problems), and second that people have many different kinds of asset (or capital) and of livelihood strategy and income.

We now explore these important strands of livelihoods by considering two sets of literature that illuminate our understanding of the role and importance of assets in livelihoods: literature on famine and on non-farm activities in rural livelihoods.

**Famine**

There is a rich and substantial literature concerned with exploring and explaining the causes of famine and the vulnerability of poor people to these causes. In general terms, famine is where people do not have enough food, leading to a major deficit in consumption of basic food and nutrition requirements. This lack of food may be due to environmental causes reducing crop yields, eg pest or disease attack or too little or too much water. It may also be due to economic constraints such as having too little money to purchase inputs or a shortage of land or labour to cultivate sufficient crops. These may be termed production failures, where, for whatever reason, not enough food has been grown.
Following seminal work by Amartya Sen (Sen 1981), however, much of the literature has been concerned with other, perhaps less obvious but more ubiquitous, causes of famine: this is where there is sufficient food in a locality or market system to meet people’s needs, but other factors present a barrier or constraint on people’s abilities to access that food. Such inability to access otherwise available food is termed exchange failure. Such constraints or barriers include civil unrest or poor infrastructure preventing or limiting transportation of food to certain areas or at particular times. A particularly important form of exchange failure is where food prices are too high in relation to the income and financial resources of poor people for them to be able to buy food. Sen uses the term entitlements failure to describe the inability of people to obtain food because they lack resources with which to buy or otherwise obtain it from others.

Vulnerability to famine is therefore a function of people’s ability physically to access food and of their ability to exchange the assets at their disposal for food. Swift (1993) identified the following range of assets which may be important in determining people’s ability to obtain food.

Investments in
- land, labour, and equipment for production
- education in learning new techniques or skills
- social and farming networks and market and product research

Use of stores
- directly of food
- financial or of value (e.g. jewellery) to buy food

Claims on
- other households, for food, production resources or labour
- patrons and village chiefs for help in need
- the government
- the international community

As in the DFID framework the ability of people to access food therefore depends on their assets. Assets act as a buffer between production, exchange and consumption. Assets are built up in times of surplus and can be converted into food or production inputs in times of need. Peasants, and, more generally, poor people tend to have fewer assets than other groups and may be constrained in the utilisation of those assets they do possess due to their partial integration in (imperfect) markets and society. Different assets have different roles in production, exchange and entitlements.

How would you compare the classification of assets in the DFID sustainable livelihoods framework and that in Swift’s analysis of assets which people use to obtain food?

We will try to compare the two categorisations using a table.
2.1.2 Asset categorisations

<table>
<thead>
<tr>
<th>Assets categorised by Swift</th>
<th>Assets in the ‘asset pentagon’</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investments</strong></td>
<td><strong>Human capital</strong></td>
</tr>
<tr>
<td>Education</td>
<td></td>
</tr>
<tr>
<td>Land, labour, and equipment for production</td>
<td>Natural capital, human capital, physical capital</td>
</tr>
<tr>
<td>Social and farming networks, market and product research</td>
<td>Social capital, human capital, institutions</td>
</tr>
<tr>
<td><strong>Stores</strong></td>
<td><strong>Financial capital</strong></td>
</tr>
<tr>
<td>Food stores</td>
<td></td>
</tr>
<tr>
<td>Stores of value</td>
<td>Financial capital</td>
</tr>
<tr>
<td>Money</td>
<td>Financial capital</td>
</tr>
<tr>
<td><strong>Claims</strong></td>
<td><strong>Social capital - horizontal</strong></td>
</tr>
<tr>
<td>On other households</td>
<td></td>
</tr>
<tr>
<td>On patrons</td>
<td>Social capital - vertical</td>
</tr>
<tr>
<td>On the government</td>
<td>Social capital - vertical</td>
</tr>
<tr>
<td>On the international community</td>
<td>Social capital - vertical</td>
</tr>
</tbody>
</table>

Source: unit author

Each approach has its relative strengths and weaknesses. The livelihoods categorisation in the asset pentagon is certainly simpler to understand and represent, and it places greater emphasis on the particular characteristics of natural capital, in particular. However, it seems to place less importance on the role of assets as stores for buffering consumption against fluctuations in production and exchange activities. Swift’s approach also gives more categorisations of different types of claims or social capital. Although not explained earlier, Swift also makes an explicit distinction between private and collective assets.

Rural non-farm (RNF) incomes

Peasant livelihoods are characterised by multiple activities: own farm production and consumption, off-farm employment and non-farm employment. The distinction between off-farm and non-farm is important. Off-farm employment describes wage earning activities undertaken away from the peasant’s own farm and includes the hiring out of labour to other farms. Non-farm activities are non-agricultural activities.

In the past there was an almost unconscious assumption that the term ‘rural’ more or less equated to agriculture and that agricultural earnings were the most important sources of revenue for rural people. There is now a large body of literature demonstrating that rural non-farm employment (RNFE) activities are very significant
for rural livelihoods. Evidence suggests that RNF activities provide an increasing percentage of household incomes: examination of the available data indicates that rural non-farm income (RNFY) comprises around 35% of household incomes in Africa and 50% of household incomes in Latin America and Asia. It should be noted that whilst the motives and opportunities for RNF activities vary considerably across time, location and demographic group, a large percentage of households engage in some form of RNF employment in addition to undertaking own farm and off-farm activities.

Reasons for participating in RNF employment tend to be categorised into push and pull incentives, distinguishing between movements out of agriculture because of improved opportunities in the RNFE (pull) and movements out of agriculture because of worsening or limited opportunities in agriculture (push).

- **Pull** incentives are dominated by the fact that RNF income tends to be higher than income from agricultural employment

**Push** factors vary considerably with location and circumstance but include:

- the seasonal drop in agricultural income during the off-season
- a trend of falling annual agricultural earnings due to reduced yields, price falls and unfavourable policy decisions
- difficulties in accessing or acquiring agricultural inputs
- utilising a range of income-generating opportunities to reduce the risks associated with reliance on a single activity or sector

The recognition of the importance of RNFY has led some agencies to emphasise non-agricultural opportunities at the expense of their interest in agricultural interventions and support. There are a number of reasons why such an approach may be disadvantageous, and these concern the relationships and linkages between agriculture and the RNFE.

- In poorer economies, in the first 'stage of RNF sector transformation', RNF activities are closely linked with agricultural activities, and heavily dependent on agriculture through direct production linkages, as well as through indirect expenditure linkages and investment linkages.

- RNF activities (particularly the more remunerative activities) often have entry barriers and require assets which the poor do not have (for example, financial capital, education, social networks, and links) and hence development of RNF activities may not benefit the poor.

- The nature of agricultural development (small or large scale, for example) affects the incentives (push and pull) and opportunities for different forms of local RNF development (through production, expenditure and investment linkages and through the pattern of labour availability for RNF activities) and for migration.

- RNF activities affect agriculture in terms of factor supply, demand, and prices (particularly for labour and finance).

- Expenditure on food constitutes a major share of poorer households’ total expenditure, and low productivity investments in food production constitute a major use of national resources by poor rural people, reducing factors available for investment in the RNFE and, reducing demand for RNF goods and services.
The implications of this analysis are very important: although the direct share of agricultural income in rural livelihoods may be smaller than was previously thought, the development of the agricultural sector remains fundamentally important to the livelihoods of the poor.

There is an important point here for wider socioeconomic analysis of peasant livelihoods: we need to look beyond simple statistics and to understand the structure of peasants’ livelihoods within the wider social, economic and natural environments and relationships in which they live, otherwise we can draw disastrously inappropriate conclusions from apparently ‘obvious’ facts. We cannot, for example, conclude that the lower proportion of on-farm income of rural people in poorer areas means that investment should be focused on the RNF sector rather than on agriculture: both need to develop together in an integrated and complementary way.

Despite the need for integrated and complementary investments in both agricultural and non-farm development, there is a tendency for development ‘fashions’ to lead to policy swings between over- and under-emphasis in agriculture and in non-agricultural activities. Thus mixed and changing emphases on urban industry and rural agriculture up to the 1980s gave way to greater emphasis on rural non-farm activities in the 1990s, with much less investment in agriculture. A number of agencies and governments began to re-emphasise the need for agricultural investment prior to the global food price rises in 2007 and 2008, and this gathered momentum when the 2008 food crisis led to the next turn in the fashion cycle, with agriculture coming right back to the forefront of development thinking.

Thus far we have looked at rural livelihoods as systems to analyse, with an emphasis on the different components of the system (assets, activities, etc). At its simplest, the livelihoods analysis approach provides a checklist of components to consider in analysing peasant livelihoods. However, it can also be used as the basis for a framework to think about relationships between different components – for example, between the different roles and types of assets, between farm and non-farm income, or between vulnerability, assets, and institutions.

Another way of looking at rural livelihoods is from the point of their management. One way of looking at management is as a set of related decision-making activities involving the design, choice, and implementation of strategies which allocate scarce resources to different activities in order to achieve particular objectives. Some of the key elements of this definition are illustrated and expanded in the figure in 2.1.3.
2.1.3 The livelihood management cycle

How would you express this figure in words?

Answer

*Rural people make decisions on the use of resources based on their objectives. These decisions are then implemented as activities, and these activities result in output. Intermediate output is then used as a further resource that can be allocated and final outputs affect subsequent objectives. The environment also affects the objectives and outputs, and also what resources are available.*

What about the time factor? Do all the elements in the figure in 2.1.3 take place simultaneously?

Answer

*The cycle presented in the figure does not explicitly show the role of time. However, decision-making, implementation, resource use, and the production of outputs all occur at different times. During the season the environment changes, the elements of a system may change and the information available changes. Change also takes place between seasons. If one is studying the behaviour and livelihood management of peasants one must always keep in mind the dynamic aspects of the management process.*
The figure emphasises the complexity of livelihoods management. As well as the flows shown in the figure, the flow of information is very important in the decision-making process. Different people involved in livelihood management may have different information about or perceptions of the objectives, resources, options, and environment, and this may lead to different decisions in apparently similar situations. The information required covers a range of disciplines including technical information on crop and livestock management; economic information on markets; and cultural and social information on the values and relations of the household and the people that make it up.

2.2 Livelihoods: multiple linkages and multipliers

It should be becoming clear that livelihoods analysis is complex! We now wish to raise your awareness of the importance of some issues and processes frequently overlooked in sustainable livelihood framework models. At this stage the important thing is that you are aware of them and remember that they need to be taken into account.

Livelihood frameworks: markets, institutions, and technology

Our consideration of rural livelihoods has characterised peasant livelihoods in terms of their ‘partial engagement in imperfect or incomplete markets’ and has emphasised both the importance of exchange capabilities in people’s access to food, and the importance of linkages in understanding the role of agriculture in rural livelihoods. Despite this it is very easy for us to focus on the way that individual people or households behave and forget that if many people behave in this way then this will affect the way that markets behave, which will affect prices, and this will then lead to these people behaving in different ways. Livelihood analysts must not overlook the interactions between markets and livelihoods, as this is critical to understanding rural livelihoods.

What would be the main effects on people’s livelihoods if a disease epidemic caused the incidence of sickness to increase in an area?

Although fully addressing this question requires a wide range of information, here we want to highlight the need for any livelihood analysis to examine the relationship between direct ‘individual livelihood’ effects and indirect effects through the market (sometimes these are referred to as first order and second order effects).

Households in which someone becomes ill will be directly affected, as they will lose labour and income, causing them to become poorer. In households which normally hire out their labour to others then sickness may reduce their hiring out of labour – or it may be that other members of the household will try to maintain the same income and hire out more labour, so that the household still hires out the same total amount of labour. In households which normally hire in labour from other households then sickness may reduce the amount of labour they hire in (because the sickness means they cannot afford to hire in so much labour) or increase the amount of labour they hire in (to replace the work of the sick family member or of other family members caring for the sick person).

In these situations we see that sickness might increase or decrease the supply of labour into the labour market, and decrease or increase the demand for labour. On
the one hand, if there are sufficiently large numbers of people becoming sick, and
the supply of labour were to decrease significantly and/or the demand significantly
increase, then wage rates would be expected to rise. This would mitigate the effects
of sickness on sick households hiring out their labour, but worsen the effects of
sickness on sick households hiring labour in. On the other hand, if sickness caused
the supply of labour to increase significantly and/or demand to fall, then we would
expect labour hiring opportunities and wages to fall, worsening the effects of
sickness on sick households hiring out their labour, but mitigating its effects on sick
households hiring labour in.

The impact of sickness on the labour market may therefore affect sick peoples’
responses to sickness and its impacts on them. However, we must also recognise
that if increased sickness in a community leads to changes in wages then this will
also affect households where no-one is sick – for example, if wages fall then poor
people who hire out their labour will be adversely affected by the epidemic even if
they do not fall sick themselves.

The important principle from this discussion is always to examine effects of, and
people’s responses to, change, taking account of market interactions by asking the
following questions.

(a) How may different people be affected by the direct effects of the change, and
   how may they respond?
(b) How may these responses affect supply and demand to and from different
   markets?
(c) How may changes in market supply and demand affect prices and wages?
(d) How may these changes in prices and wages affect the responses of people
   directly affected by the original change, how may it affect others not directly
   affected by the original change, and how may they respond?

Of course these new changes then lead back Question 2! The processes are dynamic
and feed into, and out from, intra- and inter-market interactions.

The insights above emphasise the importance of demand, supply, and prices in
exchanges of labour and products between livelihoods within a rural economy. These
are explored further below. It is important to note, however, that consideration of
demand, supply and prices in such exchanges does not depend upon neo-classical
economic assumptions regarding competitive markets: there are other schools of
economics which emphasise the importance of other forms of exchange and
interactions of importance to rural livelihoods. We highlight one approach, termed
new institutional economics, which is particularly relevant to the analysis of
situations where economic agents are ‘partially integrated into imperfect markets’.

**New Institutional Economics** (NIE) is a broad school which examines and
highlights the importance of transaction costs, institutional arrangements, and
collective action for economic opportunities and operation. Without needing to go
into detailed analysis it is important to realise that where economic activity is low,
markets are imperfect and transaction risks high (as is the case in rural people’s
economic environments) transaction costs tend to be high and institutional
arrangements tend to be incomplete, missing or ill-structured for poor people’s
livelihoods opportunities.

Such economic environments can result in the existence of a ‘low level equilibrium
trap’ for rural people, where poverty, low levels of economic activity, and constraints
to market and technical development all reinforce each other, as shown in the figure in 2.2.1.

### 2.2.1 Institutions and the Low Level Equilibrium Trap

The main points here are that market imperfections and both the types and processes of institutions play an important role in determining rural people’s abilities to access and utilise economic and livelihood opportunities.

A further aspect of agricultural and economic development omitted in many discussions of sustainable livelihoods frameworks, despite its historical importance in development, is technological change. Technological developments have played an important role in improving productivity, reducing risk (eg of labour shortages at crucial times) and enabling better management of production assets. But access to technological developments is dependent on financial and capital assets, investment constraints and information. As such there may be several ‘entry barriers’ to technology in many rural people’s situations.

**Multiplier**

In understanding the importance of markets for rural livelihoods we also need to recognise that markets are not just important in setting prices and allowing people to exchange goods and services, they also play an important role in economic growth by multiplying benefits of change in an economy. This aspect of market linkages between rural livelihoods is critical for rural livelihoods analysis.

How does this work? Consider what happens if one person or household gains an extra unit of disposable income, and extra $1.00 say. This $1.00 will normally be used and circulated within the economy: if spent or loaned then it will provide an income or loan to someone else, who will then also have an extra $1.00 to loan or spend, and so the benefits of that initial extra $1.00 will be ‘multiplied’ through the
economy, prompting changes in demand and supply and generating wider returns. These effects of expenditure, leading to a greater economic benefit than the face value of the initial income and expenditure change, are known as multipliers. They do not go on forever because some extra income is spent outside the economy on imports, savings or remittances (and so escapes), some leads to inflation, and some may just be stored away as cash.

Calculation of multiplier values is complex and multiplier values vary with location and situation. However our consideration of multipliers highlights the need to consider a wide range of other 'linkages' whereby income or other changes in some livelihoods or parts of the economy affect other livelihoods or parts of the economy. Thus, for example, the effects of increased disposable income in poor rural areas may include:

- **Direct effects**
  - Increased food consumption
  - Increased livelihood security
  - Reduced reliance on financial support from relatives, friends and patrons
  - Increased expenditures on different kinds of goods and services
  - Changes in hiring in and out of labour
  - Increased savings and investment

- **Indirect (or linkage) effects** from increased expenditure on goods and services leading to
  - Increased local business incomes (in turn, feeding back into increased demand for local raw materials)
  - Increased expenditure on health and education services (which can feed back into greater agricultural and RNF productivity and opportunities)
  - Changes in local prices
  - Changes in local labour markets with reduced supply and increased demand for labour leading to a ‘tightening’ of labour markets, reduced local unemployment and increased wages – unless there is investment in labour-saving technology or equipment or the local economy draws upon a large pool of migrant labour

The general picture is of benefits to a local economy exceeding the face value of the initial income changes, but it is important to note that effects vary (for example, with the openness of a local economy and its connection to other areas through different imports, exports and flows of labour and capital) and to think carefully about how livelihood opportunities interact with and through markets and how the wider socio-economic environment may respond to, and feedback into, such changes.

Using the list of direct and indirect effects above, try to trace through the impacts of either an increase food prices or reduced staple food crop yields due to climate change. Share and discuss your ideas on the online environment. How may consideration of diversity between households affect these linkages?
2.2.2 Direct and indirect importance of agriculture for rural livelihoods

Modelling of rural livelihoods in Malawi led to estimates that 64% of income came from non-farm activities. However, the high proportion of income from non-farm activities does not reflect the true importance of agriculture in the rural economy and hence in livelihood incomes. Much of the non-farm income is dependent on labor demanded in the supply of services to households who have derived a significant part of their income from agriculture. This becomes clear with a distinction between 'driver' and 'supporter' income sources (and the demand they generate) (see Poulton and Dorward 2003).

'Driver' income (and demand) is generated by production of tradables (agricultural products and externally financed employment for example), remittances and production of high average budget share non-tradables without the operation of multipliers and linkages (Dorward et al 2003). 'Supporter' income (and the demand it generates) arises from providing local, non-tradable goods and services to satisfy demand arising from driver and supporter income (through multipliers and linkages).

Applying these concepts to the modeling data, 'driver' income (net farm income, labor exports and remittance income) accounts for just under 70% of total net income, and farm income accounts for 50% or more of this driver income. The remaining 50% of driver income is derived from remittances and from labor ‘exports’, made up of formal and informal employment and transfers. Principal sources of these labor ‘exports’ are commercial (estate) agriculture, rural non-farm enterprises producing tradables (firewood, charcoal, crafts, etc), and government and NGOs (paying employees who provide services to and on behalf of these organisations and also providing transfers to the wider rural population through food for work, etc). Remittances and government and NGO expenditure are important for the welfare of rural people and for development of the institutional environment and other conditions necessary for rural growth, but they cannot be relied on to drive sustainable growth. There is then an empirical question regarding the proportion of ‘labor exports’ that is made up of such expenditure, and the proportion that comes from employment in agricultural and non-agricultural enterprises producing tradables. If, for the purposes of argument, the proportion were 50%, then smallholder farm income would account for around 70% of the potential growth-stimulating income. These rough figures demonstrate that even where farm income is a small proportion of rural incomes, this does not mean that it is unimportant in the rural economy and in rural growth strategies: smallholder agriculture may still be the most important activity with potential to drive economic growth.

Section 2 Self Assessment Questions

Question 4

Define the term ‘livelihood’.

Question 5

Fill in the missing words/phrases.

Rural non-farm activities are _______ for many rural households. The rural non-farm economy is _______ on agriculture through direct and indirect _______ and also affects agriculture in terms of _______, demand and prices.

Question 6

Distinguish between ‘human capital’ and ‘social capital’ as used in the asset pentagon.
UNIT SUMMARY

The importance of poor rural people’s livelihoods in the world economy derives from the number of people involved and their poverty.

- A poor rural economy either contributes to, or is a drain on, national economies.
- Peasant agriculture may have either a beneficial or a detrimental effect on the environment.
- Growth in poor rural people’s livelihoods provides the potential for increased markets.
- Rural poverty accounts for a major part of global poverty and of national poverty in poor countries.

Many poor rural people may be considered as peasants, and others which do not fit into a strict definition of ‘peasant’ nevertheless share many of their structural characteristics and are directly or indirectly dependent upon peasant agriculture for their livelihoods.

Examination of the characteristics of peasant livelihoods lead us to the following working definition of peasants

*Peasants are households which derive their livelihoods partly from agriculture, utilise mainly family labour in farm production, integrate household production and consumption activities and decisions, and are characterised by partial engagement in input and output markets which are often imperfect or incomplete.*


Livelihoods are defined as ‘the capabilities, assets, and activities required for a means of living.’

Sustainable livelihoods frameworks are models used to represent the components of rural people’s livelihoods and the relationships between them. Many of these models, however, do not fully take into account market:livelihood interactions nor the implications of imperfect markets and weak or incomplete institutional arrangements for rural livelihoods.

Peasants are partially integrated into their wider economic, political and social environments and these features affect, and are affected by their livelihood opportunities and choices. There are many linkages and interactions between peasants and their environments.

The Rural Non-farm Economy (RNFE) is important for many rural households and may provide a significant proportion of their income. The links between agriculture and the RNFE are also very important, especially in the early stages of economic growth where agriculture is a major economic sector and many RNFEs are dependent on or directly related to agriculture.
UNIT SELF ASSESSMENT QUESTIONS

Question 1

Match the missing labels from the list below.

Activities
Livelihood decision-making
Objectives
Outputs
Resources
The environment

Question 2

How might a local shock cause labour wage prices to increase or decrease?

Question 3

Briefly comment on the dynamics of rural livelihoods.
**KEY TERMS AND CONCEPTS**

**assets**
are those things people are able to use, singly or in combination, in their livelihoods.

**asset pentagon**
the asset pentagon comprises five forms of asset: human capital, natural capital, financial capital, physical capital, and social capital.

**human capital**
denotes the capabilities and attributes of the individual – their skills, knowledge, health, and labour enabling them to perform livelihood activities.

**institutions**
as used in New Institutional Economics, refer to the formal and informal rules and organisations that structure and constrain human behaviour and interaction.

**institutional arrangements**
refer to the nature of intra- and inter-organisational arrangements and structure necessary to facilitate exchange.

**livelihoods**
are defined as the capabilities, assets, and activities required for a means of living. They are how people use what they have to meet their needs and work towards their life objectives.

**multiplier effects**
are the cumulative use of expenditure, leading to a greater economic benefit than the face value of the initial income and expenditure change.

**off-farm**
activities are those undertaken away from the person’s own farm. They include agricultural employment on others’ farms.

**peasant**
is a term used to characterise households which derive their livelihoods partly from agriculture, utilise mainly family labour in farm production, integrate household production and consumption activities and decisions, and are characterised by partial engagement in input and output markets which are often imperfect or incomplete. Whilst a very useful categorisation, peasants are not a single homogeneous group, there is much internal differentiation within the group.

**Rural Non-Farm (RNF)**
activities are non-agricultural. This does not mean that they are not related or connected to agriculture, many RNF activities rely on agriculture for raw materials etc. The RNF economy is highly important for many rural people.

**RNFY**
is rural non-farm income.

**RNFE**
is rural non-farm employment or rural non-farm economy.
| **social capital** | denotes the social resources which can be drawn upon to assist with pursuing livelihood activities and strategies. It includes networks of acquaintances and friends, relationships with patrons, and memberships of wider groups. |
| **sustainable livelihoods frameworks** | are conceptual models used to represent factors affecting people’s livelihoods and the relationships between them. They can be used as a checklist of components to consider in analysing peasant livelihoods and also as a basis for thinking about relationships between different components. |
| **transaction costs** | are the costs incurred in obtaining information about potential contracts, negotiating contracts, and enforcing them. |