Pro-Poor Livelihoods: Addressing the Market/ Private Sector Gap[1]

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1 Introduction

This paper addresses three questions: What does sustainable livelihood thinking have to say about the private sector, markets and poverty reduction?; What does market and private sector thinking have to say about sustainable livelihoods and poverty reduction?; and What lessons can we learn, for analysis and action, by bringing these perspectives together? It focuses particularly on the SL approach as developed and applied by DFID.

We begin, however, by asserting the importance of markets and the private sector for poverty reduction, and hence for pro-poor livelihood development. This follows from four observations: first that the livelihoods of most poor people are directly dependent on their involvement in markets as private agents or as employees (and are indirectly dependent on the wider economy for the demand and supply of goods and services); second that major current and historical poverty reduction processes have depended on equitable private sector economic growth; third that in support of such growth, markets can provide the most efficient mechanism for exchange, coordination and allocation of many resources, goods and services, but they often fail; and fourth that poor people themselves often identify problems with markets as critical to their livelihoods.

2 What does Sustainable Livelihood thinking have to say about the private sector, markets and poverty reduction?

The SL approach says little explicitly about the private sector and markets and it does not appear to reflect their importance, as outlined above. However, the SL approach is not 'anti' markets and the private sector: it recognises their importance but it may be argued it has not emphasised and developed an appropriate response. Nevertheless, the principles and framework of the SL approach have much to offer to more market and private sector based approaches to poverty reduction, as the SL approach stresses the importance of people centred change, of access to different assets, of poor people's vulnerability, and of the multi-faceted nature of livelihoods.

3 What does market and private sector thinking have to say about sustainable livelihoods and poverty reduction?

Looking at sustainable livelihoods approaches from a more market and private sector perspective, some elements critical for economic growth and market and livelihood development tend to be missing from the framework and from 'basic' SL analysis. Fundamentally, demand for the outputs (goods and services) supplied by the livelihoods of the poor is often largely ignored, despite the large numbers of development interventions that have encouraged production of goods that have flooded limited markets and been unsaleable at worthwhile prices. This is linked to under-emphasis on the dynamic process of growth in local and national economies and on the two-edged sword of competition (both a force for increasing economic efficiency with lower prices for consumers, and a threat to particular stakeholders, poor and non-poor). Other critical elements that are recognised but not sufficiently emphasised are markets (for example their roles, their nature, the characteristics of pro-poor markets, the importance of, for example, labour

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markets), institutions, and the dynamics of livelihood change, of relations between the livelihoods of different poor and non-poor stakeholders, and of the processes of economic growth.

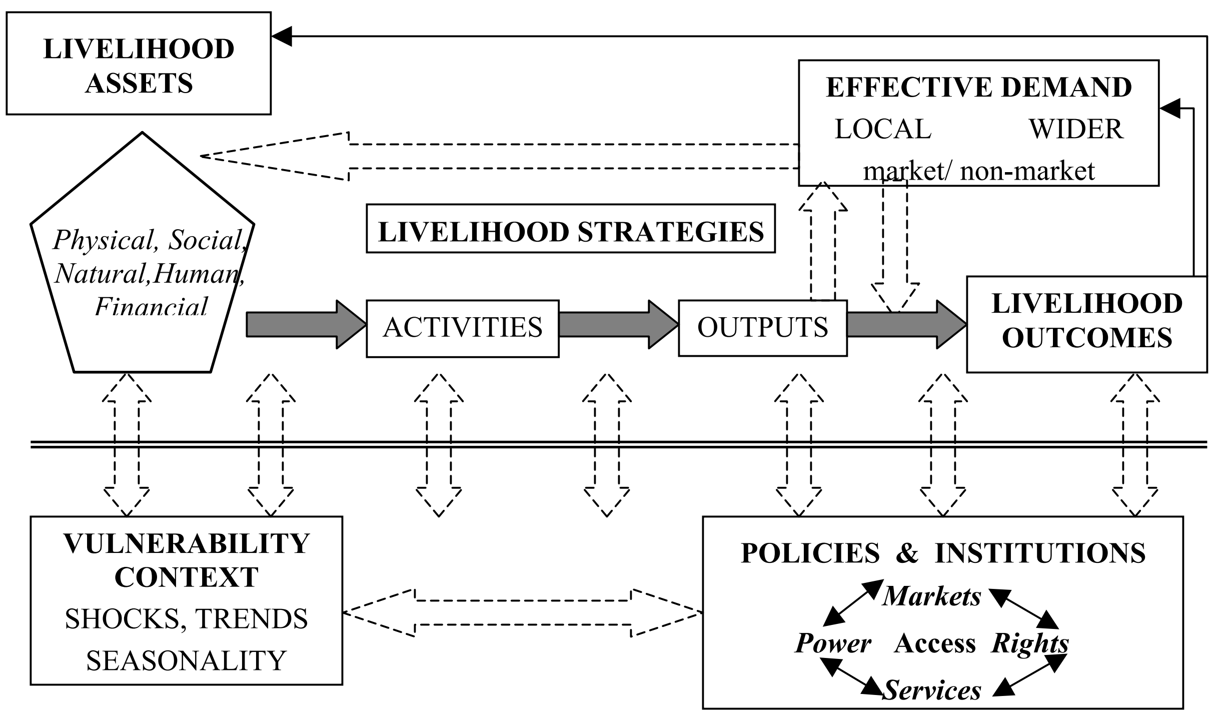
Some of these 'gaps' can be illustrated by looking at non-farm diversification in rural livelihoods. The growing extent and importance of rural livelihood diversification out of farming is increasingly recognised: typical observations in Africa are that (a) the less poor often have more effectively diversified incomes and (b) the poor tend to be stuck either in low return farm activities or in low return non-farm activities (with difficulties in agriculture pushing them into the latter). Taken at face value these observations can lead to simplistic policy responses to expand opportunities for higher return non-farm enterprises. However, more nuanced analysis of the dynamics of livelihood and economic development and of market access tends to show that (a) many non-farm activities are dependent directly or indirectly on agriculture, and (b) the poor often lack access to higher return non-farm activities through lack of financial, social and human capital. Polices that ignore agricultural growth and that support higher return non-farm enterprises without addressing the factors constraining the access of the poor to these opportunities may then end up helping the better off.

4 Lessons for analysis and action

4.1 General approach

The SL approach should be modified with a goal, principles, framework (see figure 1 and annex), and supporting tools that recognise the importance for poverty reduction of dynamic change in livelihoods and markets. More emphasis should be given to questions about demand and market access, and more detailed attention given to institutions and the dynamics of change.

Figure 1. Modify the SL Framework



4.2 Specific analysis

Livelihood analysis needs to focus much more on markets and on the dynamics of changes in livelihoods, markets, the wider economy, and institutions. Figure 2 suggests that people are concerned with livelihood strategies that involve pathways and transitions from one set of activities to another. This is related to wider processes of economic and population growth and institutional change affecting (among other things) market development, access to markets[3], and asset accumulation. The ability of people to move from one set of livelihood activities to another also involves 'exits' from particular asset portfolios and 'entries' to another. Markets may play a key role in allowing such exits and entries on more rather than less favourable terms.

Figure 2. Livelihood pathways

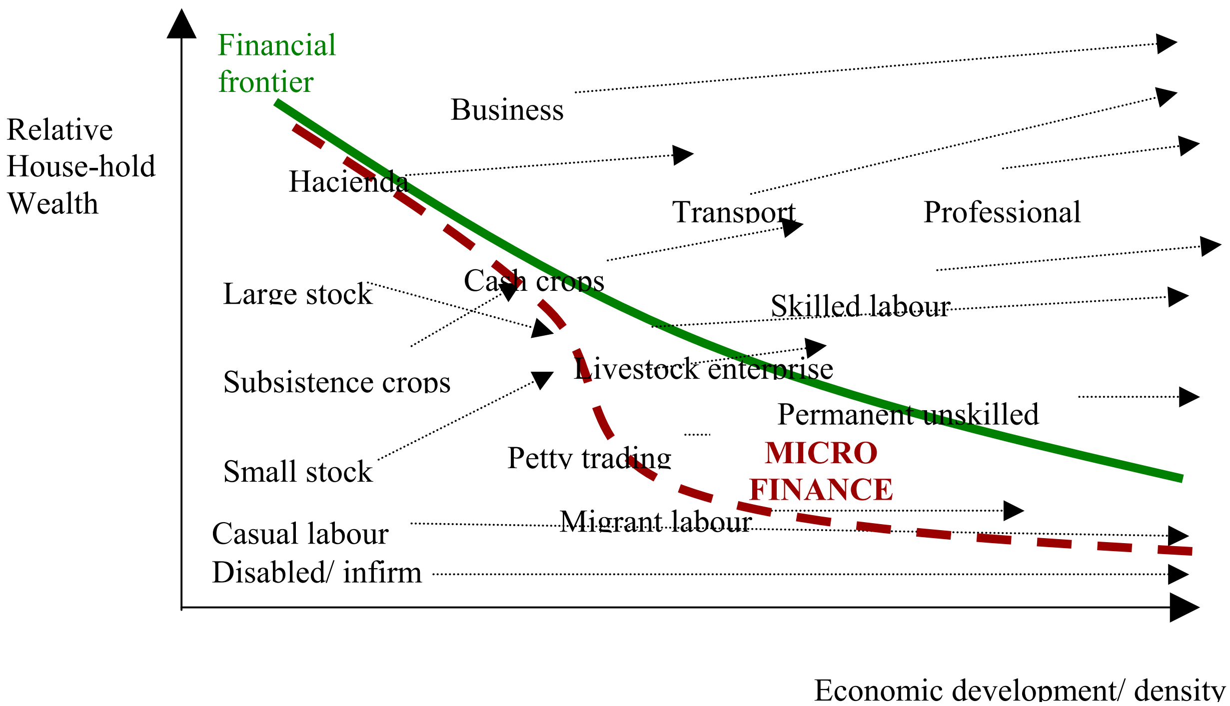


Figure 3 places these processes of livelihood change and market access in the context of wider processes of growth and a 'virtuous cycle' whereby production and consumption linkages allow the stimulus of some production or market opportunity to feedback into increased demand for labour and for locally produced goods and services. However, the 'leakages' from this virtuous circle also need to be recognised. Understanding of these linkages and leakages may help in understanding the markets and activities that will have wider positive impacts on the livelihoods of the poor and on the opportunities available to them[4]. Figure 4 illustrates how policy and institutional change require the cooperation of stakeholders whose livelihoods are affected by these changes. Progress in promoting institutions that enable (rather than disable) efficient and equitable exchange and coordination of resources, goods and services depends upon aligning the interests of both powerful and vulnerable stakeholders. These institutions may operate at household, community, national and international scales, involving, for example, gender relations, local trading regulations, macro-economic policy and international agreements.

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[3] Figure 2 illustrates changes in market development and market access by suggesting, in a highly stylised way, (a) a range of possible livelihood pathways, (b) the relationship of livelihood strategies and density of economic activities with the 'frontier' of access to formal financial markets, and (c) the contribution of micro-finance in shifting that frontier to extend access to financial services for poorer people in areas with moderate densities of economic activity

[4] DFID (2000) draw a distinction between markets that the poor participate in directly and markets that they benefit from indirectly as a result of such markets contributing to wider pro-poor economic growth.

Figure 3 Linkages & Leakages

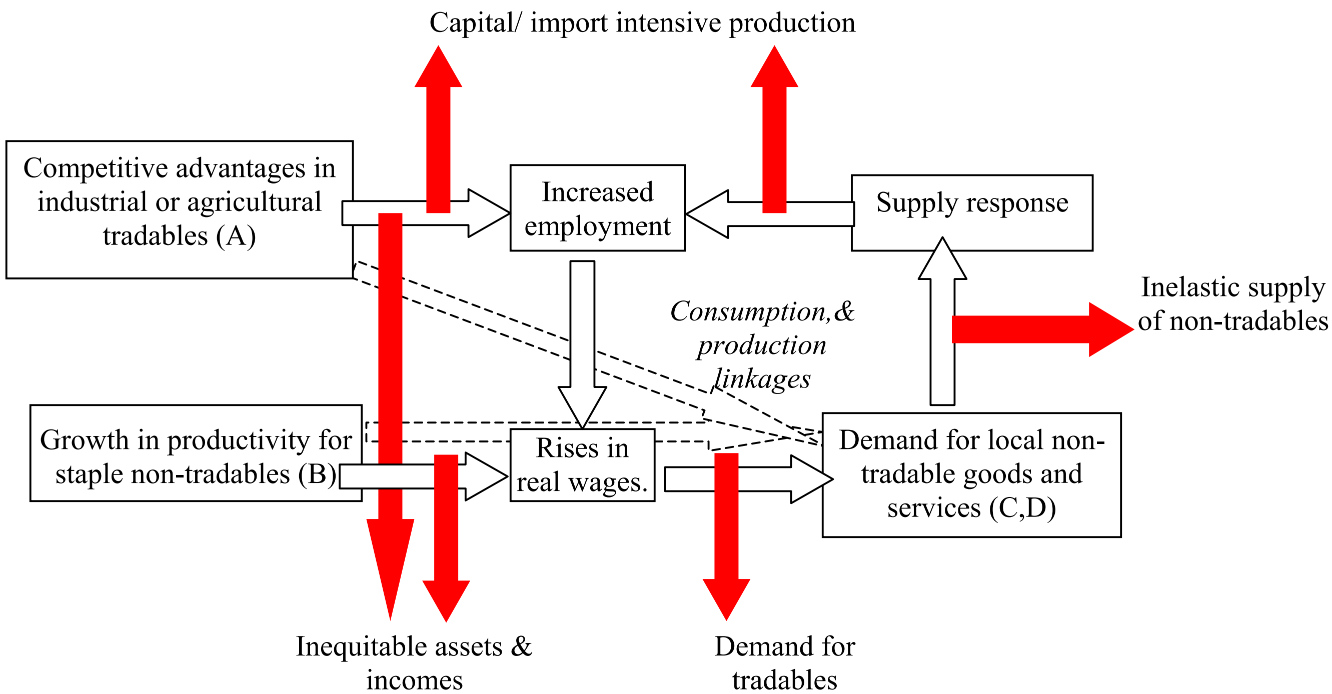
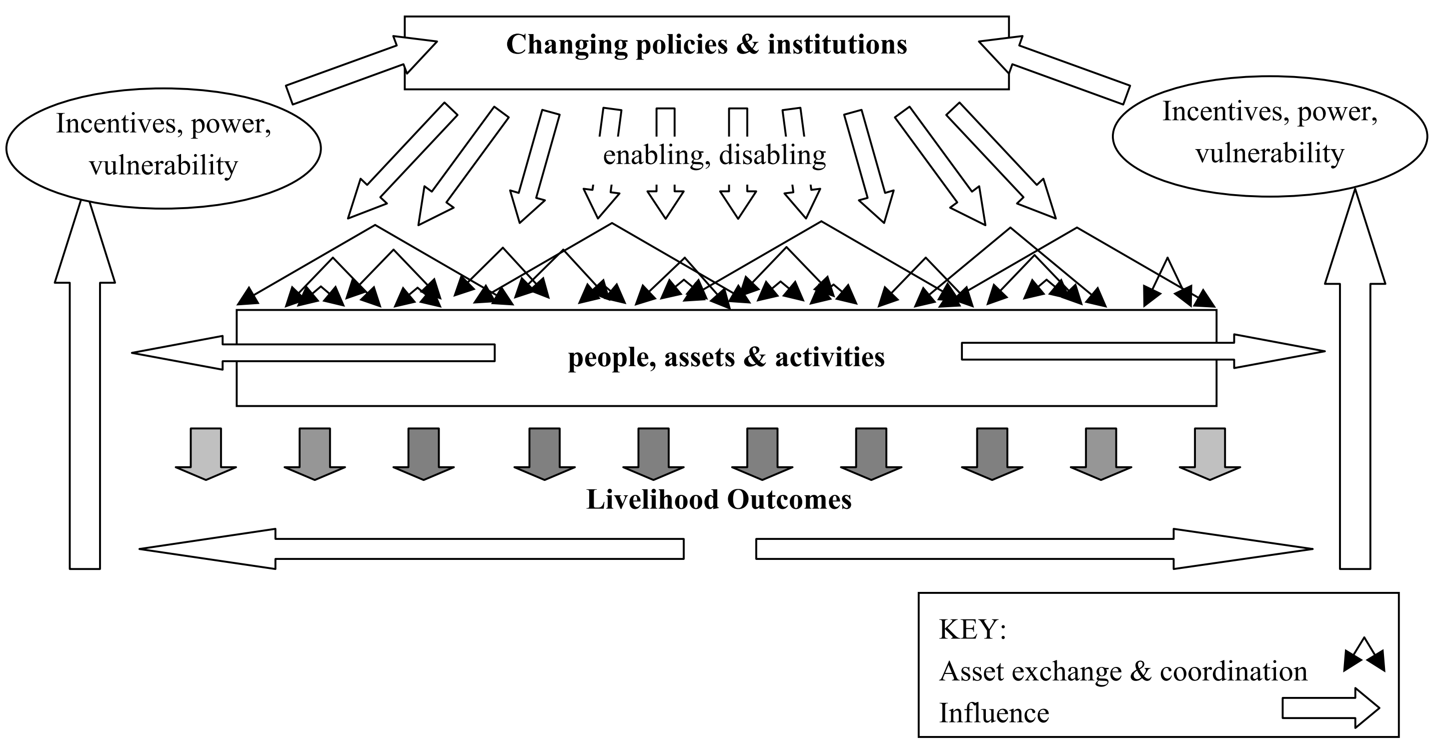


Figure 4. Policies, Institutions



Application of modified SL principles and of the concepts outlined above to pro-poor analysis of rural livelihoods and agricultural markets leads to the following (challenging) set of questions:

- Who are the poor, what are the assets that they hold, what activities are they engaged in, what are their aspirations and livelihood strategies?
- What markets are important for the livelihoods of the poor (or should be important for them) now or in the future, directly or indirectly[5]?
- How well do these markets currently serve the poor, in terms of ease of access, security of access and conditions of access?
- How do these markets fit into supply and value chains? How do these chains operate: where are the constraints, where are the high returns being made?
- What stakeholders are involved in these markets and what are their roles, their interests, their strengths, weaknesses, opportunities and threats (SWOTs)?
- What are the barriers to entry and the transaction costs and risks for different stakeholders?
- What is the institutional environment like and what are its effects on key markets– is it enabling or disabling? How could these be developed or modified to improve market access for the poor? Who are the important stakeholders in any processes of institutional change?
- What institutional arrangements are currently in place? Why are they in their current form? How could these be developed or modified to improve market access for the poor?
- How are these markets changing and how are they likely to change as a result of wider, external processes of change? What opportunities are there for support to wider process of growth?

This is a complex and challenging set of questions which can rapidly become unmanageable, and analysts need to use the earlier questions to rapidly narrow down the range of markets and issues that they focus on.

4.3 Action

Fundamentally, poverty reduction interventions should aim to improve access by the poor to more productive and less vulnerable asset portfolios, to a greater range of economic opportunities and services, and to rights. With regard to markets, interventions should aim to improve the poor's access to secure markets at better prices. This will involve support for an **enabling environment** (stable and effective macro-policy; appropriate laws and their enforcement; governance; property rights; local, national and international market regulations); for **appropriate contractual arrangements** to overcome market failure and inequity (for example competitive markets, interlocking, collective action); for targeted **asset building** (for example infrastructure, education, health, information, land distribution) (see figure 5 overleaf). Specific priorities for action will depend upon the answers to the questions listed above, and again careful prioritisation is needed to avoid over ambitious, impractical and unsustainable attempts to introduce change.

Selected further reading:

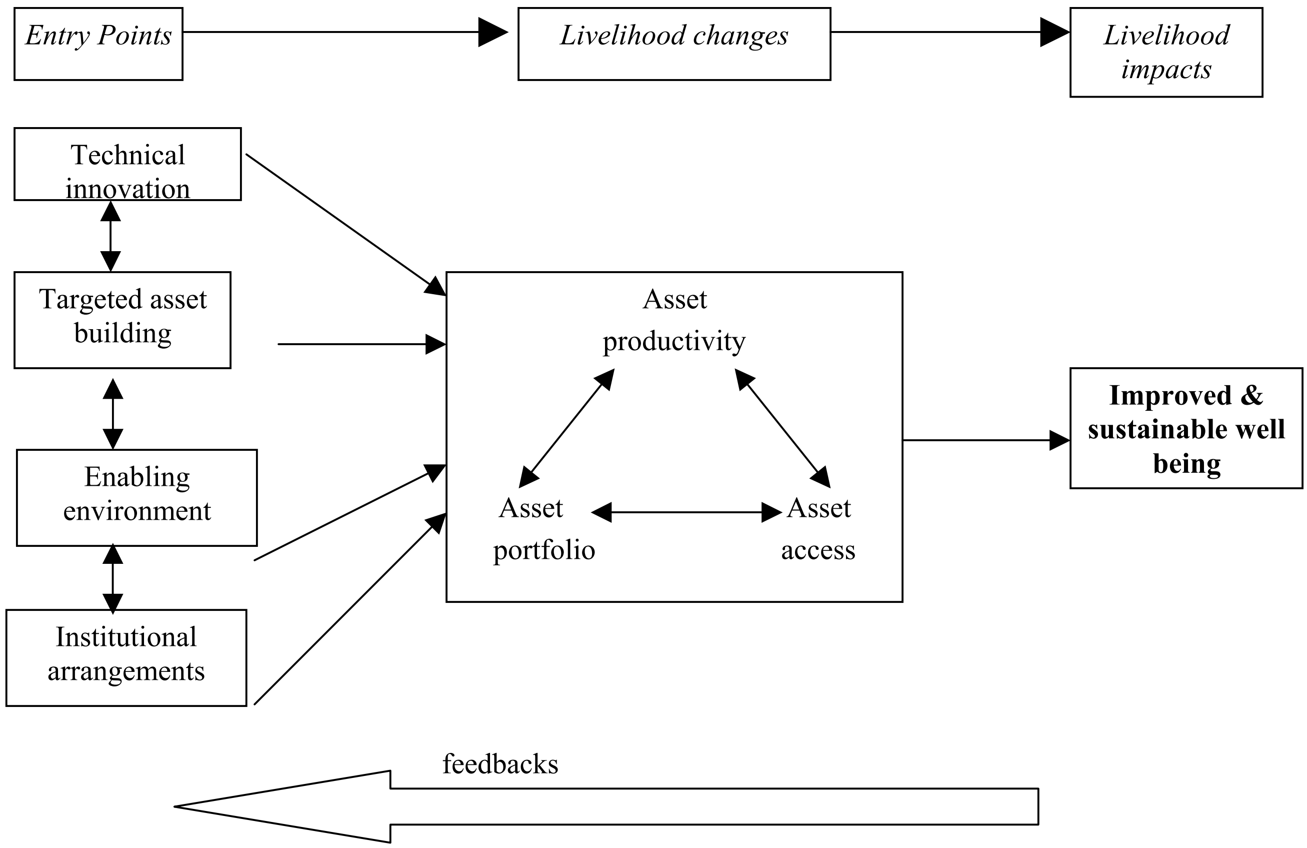
DIFD (2000) Making markets work better for the poor: a framework paper

Barrett C., Reardon T., Webb P. (eds) (2001) Income diversification and livelihoods in rural Africa: cause and consequence of change. Food Policy **26** (4) (special issue)

Morrison, J. et al (2000) Sustainable livelihoods and new institutional economics, Paper prepared for DFID Sustainable Livelihoods Programme, Policies, Institutions and Processes sub Group (http://www.livelihoods.org/PIP/pip/nieint.html).

[5] Relative emphasis on direct and indirect markets will vary with the nature and scale of livelihood analysis and anticipated action.

Figure 5. Entry points and livelihood change



Annex:

Pro-Poor Livelihoods, Markets and the Private Sector: Modifying the SL Approach

Goal: Poverty reduction through sustained and equitable growth in the access of the poor to assets, to economic opportunities, to rights, to health and education, and to technical & institutional change

Purpose: to promote effective *poverty reducing livelihood pathways* which

- Meet people's needs
- Produce goods & services for which there is effective demand
- Involve dynamic change in strategies, activities & assets
- Are dynamically & systemically sustainable
- Involve multiple actors & multiple level interactions
- Involve expanding access to more productive & less vulnerable asset portfolios
- Are supported by effective, dynamic and responsive institutions

Implications: principles for action: Poverty- focused development activity should be

- **People centred**: Sustainable poverty elimination will be achieved only if external support understands the differences between various groups of people and works with them in a way that is congruent with their current livelihood strategies, social environments and ability to adapt. *(unchanged)*
- **Demand led**: Livelihoods must generate incomes by providing goods and services for which there is effective market or non-market demand at prices and costs that provide a satisfactory return, and should allow people to participate in markets as consumers and buyers able and willing to obtain essential goods and services at the prices offered. Poor people must also be key actors in identifying and addressing livelihood priorities, and outsiders need processes that enable them to listen and respond to the poor. *(extension of existing 'responsive and participatory' principle)*
- **Dynamic**: external support must recognise people's aspirations for dynamic livelihood pathways, and must both plan for these and respond flexibly to changes in people's situation. *(extension of existing 'dynamic' principle)*
- **Sustainable**: Livelihood pathways involve changing demands on resources by households, communities and organisations. These may include stages that are not sustainable in the long term. A balance must be found recognising different elements of sustainability (economic, institutional, social and environmental) and the need for temporarily non-sustainable livelihoods in order to achieve long term sustainable poverty reducing livelihoods. *(extension of existing 'sustainable' principle)*
- **Multi-level**: poverty elimination is an enormous challenge that will only be achieved by working at multiple levels, ensuring that micro level activity informs the development of policy and an effective enabling environment and that macro level structures and processes support people to build upon their own strengths. *(unchanged)*
- **Holistic** (*unchanged)*
- **Stakeholder supported**: Livelihood improvement for the poor requires the involvement of multiple stakeholders in providing multiple services and an enabling environment for the poor. These stakeholders, predominantly in the private sector but also in government and civil society, each have their own interests and objectives. External agents must recognise and work with these stakeholders to support pro-poor change. *(extension of existing 'Conducted in partnership' principle)*

- **Expanding access to assets, opportunities and rights**: Poverty reduction interventions should aim to improve access by the poor to more productive & less vulnerable asset portfolios, to a greater range of economic opportunities and services, and to rights.

Modify the SL Framework – see figure 1

Expand SL Framework elements

More emphasis is needed on

- Livelihood pathways and the way that people accumulate assets to switch from one livelihood to another, and the way that the livelihood opportunities change with the overall density and extent of economic development around them. (see figure 2)
- Linkages and the importance of understanding particularly consumption linkages and leakages, the relative contributions of tradables and non-tradables, etc. (e.g. some argue that micro-finance cannot reach the very poor directly, but there are important benefits to them through linkages, and certainly linkage processes seem to have been very important in poverty reduction in Asia). (see figure 3)
- Institutions and the enabling environment: there are important conceptual issues in this with key practical implications – the emphasis on understanding the effects of enabling and disabling policies and institutions on key asset exchange and coordination processes, the importance of stakeholder interests and of impacts on their livelihoods and their power/ incentives/ vulnerability in implementing or blocking policy and institutional change. (see figure 4)**.**