



INNOVATIVE DEVELOPMENT: BASIS CRSP FINDINGS AND POLICY RECOMMENDATIONS

by BASIS CRSP

Delivering results

IN 2004, FIVE LONG-TERM PROJECTS completed their research agendas under BASIS. The projects had a common goal of developing solutions to global constraints preventing broadly-based, sustainable economic growth for the rural poor. Each project generated innovative ways of eliminating or side-stepping one or more of these constraints.

Findings and policy recommendations from the projects are delivered in several ways: research papers posted on the BASIS website or published in leading journals, *BASIS Briefs* geared toward helping policymakers form effective solutions to poverty in their country or region, and targeted policy discussions organized by project experts in conjunction with local researchers, policymakers, and donors.

Ultimately, BASIS takes project results to the larger development community through its comprehensive, global *BASIS Policy Conferences*, which seek lessons and synthesized approaches to effective policy action.

Combating persistent poverty in Africa

The first *BASIS Policy Conference*, held in 2004, examined ways to combat persistent poverty in Africa. The conference brought together researchers from BASIS projects in Ethiopia, Kenya, Madagascar, Malawi, and South Africa, along with other leading researchers, development professionals, and policymakers working in sub-Saharan Africa. The goal was to identify types of poverty in different regions of Africa, deepen understanding of the structural features and constraints that create poverty traps, and establish steps to combat these



Findings solutions to the causes of persistent poverty will increase the wellbeing for many agricultural families worldwide.
(Photo by Chris Barrett.)

problems. Knowledge generated by the conference was designed to help communities, local governments and donors proactively combat persistent poverty.

1. Laying the foundation for solutions

A preliminary workshop, held in November 2003 at Cornell University, outlined previous research in this area. Prior work shows a significant amount of turnover among the poor as households exit and enter poverty. Some of this mobility, or “churning,” can be attributed to a regular drop into or rise out of poverty due to variability in climate, prices, health, etc.

Other crossings into and out of poverty, however, can reflect permanent shifts in wellbeing associated with gains or losses of productive assets. Distinguishing this structural mobility from churning clarifies the factors that can facilitate important structural change. Conversely, it helps identify the constraints that may leave less fortunate households caught in a trap of persistent, structural poverty.

Held in Washington, DC, in November 2004, the conference examined an assets-based approach to the causes and dynamics of structural poverty. Commissioned background studies focused on ways in which households are able (or unable) to take advantage of new opportunities, as well as ways they can recover from major shocks that limit their opportunities. Results show why some households are able to move ahead due to changes such as market liberalization or new technology, while other households are unable to take advantage of the changes. Similarly, while the negative effects of shocks like drought, hurricanes, or political crises may be temporary for some families, others are never able to recover. These findings suggest the existence of a minimum asset threshold below which households cannot take advantage of positive changes or recover from negative changes; unable to re-accumulate important assets, these households are trapped in permanent poverty.

The following outlines some causes of persistent poverty and highlights possible solutions as identified by the conference.

2. Steps to combat persistent poverty

With the overwhelming majority of impoverished Africans depending directly or indirectly on agriculture for their livelihood, it is crucial to ignite rural farm and non-farm productivity growth, which can help households climb out of poverty and keep others from falling into poverty. In order to achieve this, it is imperative to (1) increase productivity of assets, (2) facilitate asset building and protection, and (3) remove exclusionary mechanisms.

Increased productivity of assets can be achieved through market access and improved technologies. Access can be improved by reducing the cost of market participation by improving roads to facilitate travel to and from markets, as well as establishing favorable contracts for a wider variety of producers. In addition, providing smaller producers with business skills, support services, and access to farmer groups can improve their market competitiveness.

Building many types of capital—human, natural and physical—can give households the asset base required to stay out of poverty. Human capital can be improved through education, which leads to more lucrative off-farm employment and helps facilitate uptake of new technologies that improve production. The improvement (or maintenance) of natural capital requires soil and water conservation, soil nutrient replenishment, and sound water management. Physical capital can be built through improved access to credit, as well as access to, and use of, savings instruments.

It may be necessary to remove exclusionary barriers that block pathways from poverty for certain segments of the population. A common barrier is a lack of access to financial markets. In order to protect themselves, families need the ability to borrow, insure and save. These financial tools can help people make decisions regarding productive assets, which can prevent them from falling into a poverty trap. Additionally, there are many mechanisms of socio-political exclusion that prevent certain populations from getting ahead. This can be addressed by improving access to public goods, including roads, electricity, education and health care.

The conference emphasized the importance of both cargo nets, which help households climb out of poverty, and safety nets, which help prevent them from falling into poverty. The goal is to give households the ability to make asset decisions that allow them to remain above poverty-trap thresholds while still meeting their subsistence needs. Improved health, access to credit, food aid, savings instruments, and education all can contribute to the long-term chances of a household avoiding poverty traps and protecting their productive assets.

3. Outreach: Putting solutions into practice

Since the conference, BASIS researchers have continued to develop and implement solutions to persistent poverty. In a particularly exciting effort, researchers are working with a broad data set on Ethiopian households to identify poverty thresholds. The plan is then to work with both USAID and NGOs to implement innovative targeting and delivery of food aid in order to maximize the development impact of relief efforts.

Also, BASIS researchers are holding national-level conferences to communicate the results of the persistent poverty research. Conferences are slated for early 2005 in Ethiopia, Kenya and Madagascar and will benefit both local governments and donors.

Global solutions to poverty

In addition to contributing to the policy conference outlined above, BASIS projects delivered innovative research solutions to constraints to growth in many regions of the world. The following are examples.

Kyrgyz Republic. BASIS shows that the country's agrarian structure remains very dynamic with roughly half of farms and enterprises showing growth in income, productivity and returns per unit of land and labor. However, the other half remain mired in poor economic performance. BASIS identified arrangements that would facilitate a rebalancing of assets and increased efficiency. The emphasis on land distribution and land sales should be broadened and deepened to include developing a land rental market in arable and pasture land, making it possible for legal entities to own land, opening the land market to outside capital/investors, upgrading property rights, supporting common property rights, and reforming share equity arrangements.

Madagascar. BASIS contributes important findings on market-level obstacles to growth among poor households leading to geographical poverty traps. Basic food markets that appear to operate quite efficiently at the local level appear vulnerable to non-competitive manipulation by traders at regional levels, and are largely segmented from one another on a national scale by poor infrastructure that drives transportation costs so high as to effectively preclude profitable trade across the whole island. The consequence is an economy segmented into distinct sub-markets, some of which lack market-level competition necessary for farmers to enjoy incentives to invest in productive new technologies.

Malawi. The World Bank is funding rehabilitation of the irrigation schemes being handed over to smallholders, and the Bank identified BASIS as having some of the most up-to-date information on the handover process. BASIS findings indicate that farmer training to date has been ineffective and that knowledge and authority concerning the schemes is concentrated in the hands of management committees. Therefore, farmers are poorly equipped to exercise their rights and obligations in the new governance structures. BASIS assembled development district officers, traditional authorities and members of local government to hear directly from the farmers that use the irrigation schemes about their experiences with the transfer process. The agency the Bank is funding to rehabilitate the schemes is using BASIS information to reorient its policies and procedures.

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South Africa. BASIS highlights the need to accelerate land redistribution by presenting detailed estimates of the rate of land redistribution in KwaZulu-Natal, and comparing the performance of private and government-assisted land transactions with respect to the quantity and quality of land redistributed and the gender sensitivity of these transfers. BASIS also details obstacles faced by equity-sharing schemes, where many opportunities for equity-sharing on commercial farms are lost due to the policy divide between land reform and housing. By identifying best institutional practices, BASIS helped the government reconsider procedures and criteria used to evaluate which equity-share schemes are given support and to find ways to make them successful.

Philippines. BASIS shows that the informal sector has established a thriving market for credit, yet provision of saving services remains the domain of commercial banks that operate in the nearby cities but have yet to penetrate the rural landscape or successfully design saving products that suit the demand patterns of the rural poor. Nearly 40% of households in the BASIS study transacted exclusively in the informal sector, yet non-agricultural households are increasingly able to access credit from formal and semi-formal sources, a likely result of microfinance institutions and microfinance products provided by the formal banking sector. Results suggests that better provision of credit to rural households might stimulate higher growth in the rural economy where poverty is still pervasive. Also, risk-reducing agricultural technologies or credit bureaus could increase poor households' access to credit.

Looking forward

Though 2004 marked the closure of its longest-running projects, BASIS in the coming years will continue to deliver policy recommendations directly to the development community based on the findings of those five projects.

1. Outreach: Enhancing agricultural competitiveness in transition economies

The *BASIS Policy Conference: "Government Policies to Enhance Competitiveness in Agriculture"* will focus on the evolving nature of factor markets in agricultural production in economies in transition. Targeted to policymakers, development professionals, non-governmental organizations and academics throughout Eastern Europe and Central Asia, the goal is to compare the experience of Russia with other countries



B A S I S B r i e f s

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<www.basis.wisc.edu/pubs.html#briefs>

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in the region, and focus on policies that may help ease the conversion to a market economy. The conference will look at four themes: organizational structure and performance in agriculture, land and property rights, rural labor, and financial institutions, credit and capital. For each theme, the goal will be to identify lessons for future agricultural policy and present recommendations to ease existing constraints.

2. Outreach: Innovations in Rural Finance

In June 2003, BASIS sponsored a major policy outreach conference, *Paving the Way Forward for Rural Finance*, which drew hundreds of participants to Washington, DC. As summarized in a synthesis paper, "Rethinking Rural Finance," the conference identified promising new areas for rural financial market innovation (see <http://www.basis.wisc.edu/rfc/index.html>). BASIS subsequently competitively solicited and funded four new research projects on rural finance. The results of this new research will be presented in the upcoming *BASIS Policy Conference*, "Innovations in Rural Finance," slated for June 2006.

In order to maximize the relevance and impact of this conference, pre-conference workshops will create the opportunity for researchers to interact with private and public sector innovators. Researchers will be challenged to put forward program innovations as though offering these to rural finance venture capitalists. Innovators will be asked to identify their priorities for research and the answers they need in order to expand and broaden access to rural financial markets.

The conference will be organized around three themes. The first will investigate the nature and severity of credit constraints in contemporary rural financial markets. Drawing on BASIS research in Guatemala, Mexico, Peru, the Philippines and South Africa, this section of the conference will employ new and innovative methods to explore both who faces credit constraints and the reasons behind the observed constraints.

The second theme will consider the benefits in relaxing credit constraints, especially for low-wealth households. A unique characteristic of BASIS research in this area is that it has a significant long-term component that allows a window onto the impact of credit access on asset accumulation and long-term poverty reduction.

The third theme will evaluate the impact of specific innovations: credit bureaus that improve lenders' access to information, and new lending rules that provide credit to borrowers who are rationed out by traditional credit-scoring methods. Drawing on research in Central America, the Philippines and South Africa, this section of the conference should provide a chance to gauge the effectiveness of policy innovations.

3. New research

Four new BASIS projects began in 2004, which will add significantly to knowledge about how to break the constraints to economic growth for the rural poor. In 2005, initial *BASIS Briefs* from the projects will outline:

- strategies for understanding the factors that lead to sustainable poverty reduction in multiple regions of the world
- ways that environmental service reward mechanisms can provide marginalized social groups with opportunities for generating income and obtaining secure rights to land and water
- how access to capital can help poor borrowers accumulate assets and working capital, and how microfinance institutions can expand their services to these borrowers
- state-of-the-art methods for measuring rural poverty in Brazil, leading to improved programs to increase rural incomes.

THROUGH BOTH RESEARCH AND OUTREACH, the innovative and responsive BASIS program continues to deliver effective policy solutions to help families throughout the developing world achieve lasting and sustainable prosperity.

