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**Research Report**

## Revamping the OECD's Five Rural Worlds model for poverty-oriented inter-sectoral analysis, communication and planning

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## Revamping the OECD's Five Rural Worlds Model for Poverty-Oriented Inter-Sectoral Analysis, Communication and Planning

### Summary

To discuss and plan overall development as well as specific interventions in rural areas of developing countries, it is important to have a comprehensive conceptual model at hand that facilitates communication across sectors involved and which allows generalisations across countries. It should be able to simultaneously bring poverty, economic growth and structural change into focus.

This paper presents a conceptual model that can serve these purposes. It builds on the "Five Rural Worlds" (5RWs) model of the Organisation for Economic Co-operation and Development (OECD). It centres on rural populations and classifies them based on a pragmatic, multi-criteria analysis of basic assets and endowments, competitiveness and growth opportunities, and needs, in particular with regards to poverty and food security. The Rural Worlds (RWs) distinguished are 1) large-scale commercial agricultural households and enterprises, 2) traditional landholders and enterprises, 3) subsistence agricultural households and micro-enterprises, 4) landless rural households and micro-enterprises and 5) chronically poor rural households (without family labour force). These distinctions may be crude and blurred, but they are sufficient in many instances to clarify basic assumptions. Being simple enough, they facilitate fundamental and inter-sectoral debates about policy interventions in rural areas.

We extend the OECD model to explicitly include interactions between the RWs as well as between these and the outside world. These extensions have been made to highlight the fact that rural areas are increasingly being

integrated into national and wider relations, and to allow these relations and their implications to be discussed comprehensively.

This modified RW concept has several advantages:

- It classifies the rural population into a limited number of ubiquitous groupings according to major, common constraints, needs and opportunities.
- It highlights the importance of land and agricultural technology/productivity as key starting points for poverty, food security and growth opportunities, without excluding the possibility of other livelihood options.
- It focusses on the rural poor and considers their heterogeneous potential to strive within and/or outside agriculture, in particular distinguishing the landless and chronically poor, who are often left out (or even damaged) by agricultural interventions.
- It invites thinking about not only the direct effects of policy interventions on different target groups individually, but also about systematically checking indirect second-round effects through the interaction channels.
- It reminds us of the growing relations between a given rural area and the rest of the world.

We advocate the 5RW concept for the inter-sectoral planning of rural development in developing countries, and for multi-sectoral research, in particular in rural sub-Saharan Africa (SSA). We acknowledge that, in addition, a gender and an environmental perspective must be explicitly taken into account, too, which is, however, easily compatible with the model.

This paper proposes a conceptual model to discuss and plan rural development in a comprehensive, inter-sectoral way. Before explaining the model, the first section sets out the renewed interest in rural development and several of the big changes ahead that will likely shape it. There is a certain regional focus on SSA, but many issues are valid beyond it.

### Why (yet again) a focus on rural development?

Rural development is a multi-sectoral, long-term process of change. Many sectoral policies are involved; indeed, most policy issues have a rural component. In contrast to urban areas and industrial development, rural areas and development are marked by landscape; low-density infrastructure; (relatively) low population densities; a strong dependence on natural resources and seasonality, often with agriculture as the lead activity and dominant lifestyle; local languages and ethnicity; and, importantly, a minimal presence of modern state institutions, while traditional institutions co-exist with – or even dominate – the formal ones.

Though these characteristics of rural areas imply high transaction costs in economic and administrative interactions and require highly location-specific interventions – which often make rural development both complex and complicated – rural spaces are the backbone of development in many poor countries by necessity, in particular in SSA. At present, more than half – and up to 90 per cent – of the population typically lives in rural areas, and absolute numbers are projected to increase until 2050 (though their relative importance may decrease in favour of urban dwellers). One argument is that poverty and food security are better fought where the poor live rather than letting them move elsewhere and helping later. That argument is disputed, and migration is seen by many as being part of a rural development strategy. Currently, however, urban growth in SSA does not have an industrial base; to the contrary, SSA is de-industrialising. Thus, rural development must be the backbone for tackling the challenges of poverty, food security and wealth in SSA in the near future and for achieving the Sustainable Development Goals of the 2030 Agenda, though pathways must be levelled for alternatives in the longer run.

### Increasing dynamics and segmentation

At the same time, rural economies, firm structures, labour markets, etc., are becoming increasingly segmented. Several drivers are contributing to that trend: high levels of economic growth – at first driven by the high price of raw materials and population growth – have been more nuanced since 2010, inter alia through economic diversification in many countries. Also, world agricultural prices boomed between 2006 and 2013. Although prices declined in 2014/2015, it seems that the time of very low food prices is over, due to growing future demand, limited natural productive resources, declining yield rates in key surplus world regions and climate change. However, agricultural prices are likely to become more unstable.

These developments create big opportunities for rural areas, including in SSA, where 60 per cent of global agricultural

land reserves are located and yields are far below their potential. Small farmers could be key: they constitute the bulk of the poor and hungry. Their positive supply response would increase both food availability and incomes, and thereby economic access to food. Unfortunately, they are particularly weak and reliant on outside support. The opportunities in agricultural markets do – and will continue to – attract new players into the rural space, large and medium-sized agricultural producers, agro-processors and traders. New technologies such as space observation, automation of agricultural production and progress in supply-chain management support this trend. Finally, the non-farm economy in rural areas will grow, if only because growth in agriculture usually induces more than proportional growth in other sectors (second-round effects). Improved connectivity through new technologies and infrastructure investments as well as targeted support can further improve non-farm growth.

In any case, people in rural areas also have needs that – even if they cannot cater to them themselves – have to be satisfied. Food, water, basic education, health, shelter, etc., are human rights that states and the international community are co-responsible for assisting with. In addition, people should not simply be victims of external (economic) forces; their agency should be strengthened in order for them to make their own decisions with a view to optimal future chances, including migration. Thus, however rural economic development is shaped, social services will have to be provided in rural areas to allow for a minimum standard of living, education will have to prepare people whether they decide to leave or stay and infrastructure must be created to link rural spaces to the outside world to generate options.

### An appropriate conceptual framework – the OECD model

In order to improve the understanding, analysis and planning of rural development in the increasingly segmented and interconnected rural areas, we need a conceptual model to understand the relations between sectors, professional groups and development partners. Differentiated policies and support programmes are needed for the various groups of people being addressed, but also with a view to the various resources at stake. At the same time, some general policies and programmes affect different groups differently. The required model should neither be too complex nor too simple to allow useful differentiation, global application and adaptation to individual regions and specific contexts.

Our advocated model fits these purposes. It is based on the 5RWs model presented by the OECD in 2006, which distinguishes five stylised farm/business/household groups according to pragmatic, multi-criteria analyses of basic assets and endowments, competitiveness and growth opportunities, and needs, in particular with regards to poverty and food security.

The 5RW model has several advantages. It distinguishes farm types – the basis of human life in most rural areas –

but not by absolute farm size (which is not the relevant dimension because this reveals little about the capacity of the farm to sustain people). This is important with regard to many agricultural and food-related policies. For instance, measures that increase the prices of agricultural products, for example import restrictions, may benefit the net sellers (RWs 1 and 2) but hurt net buyers (RWs 3, 4 and 5), at least in the short run. In the long run, this may change if producers can react to higher prices with increased production. One of the hottest current development debates – the role of agricultural trade and international prices for development, poverty and food security – is inconclusive, mainly due to the lack of clarity with regards to smallholders, since prices always have opposing effects on sellers and buyers.

The model also distinguishes within the group of the poor, which may run counter to a clear economic or socio-professional classification but is very useful when it comes to discussing anti-poverty measures such as agriculture, low-skill job creation and cash or food transfers. Agricultural support may help the poor directly when targeted to RWs 2 (and 3) and even 1 (if cheap food is the main issue), but only if it is appropriate in terms of technology, capital and credit demand or knowledge. However, many of the poor will hardly profit directly, in particular if they do not have land (RW 4) or are unable to participate in production (RW 5). Cash transfers may be the only way to help them out.

### Our extension – considering the linkages between the Rural Worlds and with the outside world

The distinctions between Rural Worlds are already a strong benefit of the OECD model, but if RWs are looked at individually, they lack complexity and are not sufficient for

understanding and thinking through the real rural dynamics described above. For instance, the previous example of RWs' reactions to higher prices is static and does not consider second-round effects and interactions. We propose that linkages between the RWs be systematically incorporated into the model. The most important ones are land and water, jobs and services, local food and agricultural markets. In addition, there are dimensions that link them at the institutional level, such as financial markets, taxes and public expenditures (see Figure 1 below).

The relations may be synergistic or antagonistic. For instance, the establishment of large commercial farms in RW 1 may cause land- and water-grabbing to the detriment of RWs 2 and 3. But the same investment may also create synergies, for instance if investment in irrigation benefits smallholders, too. Similarly, large investments can be linked to farmers of RW 2 (and 3) as outgrowers or contract farmers and support them in areas such as technology development and extension, input and credit supply or marketing.

Relatively good jobs, as well as low-paid jobs, are offered by RW 1, whereas RW 2 mainly provides the latter kind. Regarding food markets, complex relations exist here, too. An investment in RW 1 may bring additional food on the market, which can squeeze out RWs 2 and 3 if they are operating in the same market segments. But it can also dry up the markets for net consumers of RWs 3 to 5 if RW 1 (and by association RW 2) is re-orienting agricultural production for export. High levels of mechanisation can diminish the demand for jobs per area cultivated, whereas partial mechanisation and job-intensive processing can be important job-creating mechanisms. The more widely incomes are distributed, the more likely it is that strong second-round effects will materialise.

**Table 1: Types of households and enterprises in the Five Rural Worlds model**

<b>Rural World 1</b> <b>Large-scale commercial agricultural households and enterprises</b>	<ul style="list-style-type: none"> <li>• Very small minority of rural households and firms in the developing world.</li> <li>• Engaged in high-value, export-oriented agriculture.</li> <li>• Direct access to finance, risk-management instruments, information and infrastructure.</li> <li>• Influential voice in national policies and institutions affecting their enterprises.</li> <li>• Close ties to buyer-driven value chains.</li> </ul>
<b>Rural World 2</b> <b>Traditional landholders and enterprises, not internationally competitive</b>	<ul style="list-style-type: none"> <li>• Substantial number of rural households and agricultural firms in the developing world.</li> <li>• Frequently part of the local elite but with little influence at the national level.</li> <li>• Sizeable landholdings often devoted to both commercial and subsistence agriculture.</li> <li>• Had access to basic services, such as finance, before structural adjustments, but no longer.</li> <li>• Access to formal risk-management instruments is limited.</li> </ul>
<b>Rural World 3</b> <b>Subsistence agricultural households and micro-enterprises</b>	<ul style="list-style-type: none"> <li>• Very large number of fishermen, pastoralists, smallholders and associated micro-enterprises.</li> <li>• Food security is their main concern.</li> <li>• Assets are poorly developed.</li> <li>• Very limited access to services (credit), even before structural adjustments.</li> <li>• Severely constrained ability to take on higher levels of risk.</li> <li>• Often live in fragile ecosystems or less-favoured regions.</li> </ul>
<b>Rural World 4</b> <b>Landless rural households and micro-enterprises</b>	<ul style="list-style-type: none"> <li>• Frequently headed by women.</li> <li>• Main sources of income are sharecropping or working as agricultural labourers.</li> <li>• Often migrating to economic centres on a daily, seasonal or even permanent basis, but low education levels are a major barrier to migrating out of poverty.</li> </ul>
<b>Rural World 5</b> <b>Chronically poor rural households, many no longer economically active</b>	<ul style="list-style-type: none"> <li>• Often sold off or been stripped of their asset holdings during periods of crisis.</li> <li>• Remittances from relatives, community safety nets and government transfers are vital.</li> <li>• Often socially excluded from the larger community.</li> </ul>

Source: Organisation for Economic Co-operation and Development (2006)



The RWs are also linked institutionally. For instance RW 3 households can be linked more easily to financial institutions for savings and credit services if such institutions are also serving larger entities in RWs 1 and 2, though they will not do so automatically. Cash transfers to the poorest (RW 5 and partially 3) via telephone transfers (corruption-proof and low-cost) depend on financially viable mobile networks in rural areas, thus on better-off clients in RWs 2 to 4. Communities could better provide local services for all – and particularly for the poor – if they had stable tax revenues, some of which could be derived from taxing better-off local businesses of RWs 2 and 4, and particularly 1.

Also of particular interest is the planning of longer-term rural transition, whereby the composition of farms or the entire rural structure is changed substantially, historically in favour of larger entities. This requires land accumulation and, thus, land transfers and markets.

These few examples show that most interdependencies extend over several channels, are situation-specific and change over time. It is only in a holistic view that they become apparent – which is conceptualised in the extended model. It requires that policy and development partners ask more systemic questions about rural development, and challenge research to adopt new, inter-sectoral perspectives.

## Conclusions

The rural areas in poor countries, particularly in SSA, are being confronted with important new (and the continuation of not so new) opportunities and threats. These influences will affect rural populations in different ways, depending on their resources, capabilities as well as wishes and ambitions. Most likely, this will lead to rural and agricultural transformation in many regions, but not automatically, and it will not lead to pro-poor rural development without external support.

Rural development and the transformation process require a conceptual framework that is not sector-specific and is simple enough to allow for generalisations and stylised facts. It must also be fine-tuned enough not to blur the major

## References

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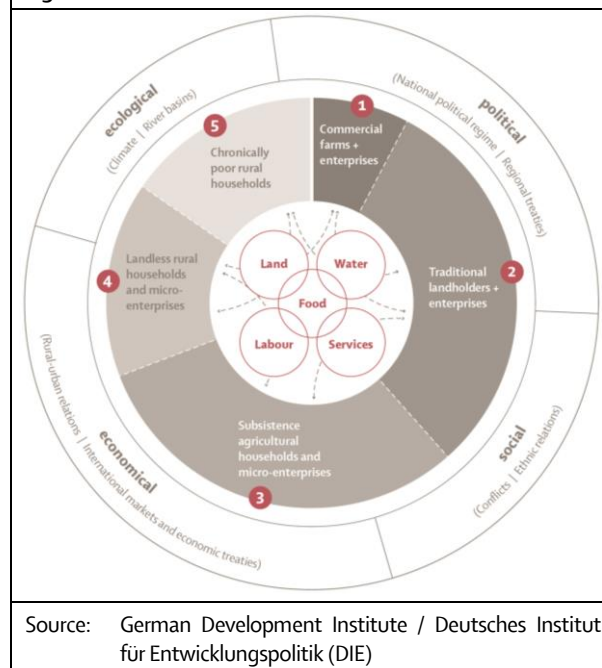
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Figure 1: The extended Five Rural Worlds model



Source: German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

differences of rural households (such as poverty, farm development options or other development potentials) and be able to react to emerging opportunities and threats.

Appreciating the advantages of the 5RW OECD model, we extended and improved it in such a way so as to include and incorporate linkages between the RWs and with the outside world.

This is not an invitation to oversimplify rural development planning. Rural development is difficult to standardise, due to its strong dependence on location-specific factors. In addition, some social groups may have to be considered as being systematically within or beyond the 5RW classification, for example children, women, youth and elderly. Also, repercussions on the environment and common pool resources are not automatically taken into account in this actor-centred approach.