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POLICY BRIEF

Asset-based Approach to Poverty Reduction

Applications to USAID's worldwide development programming


Laura Lartigue, USAID

An asset-based approach to poverty reduction focuses on assisting the poor to develop their stock of wealth and to use it effectively to achieve sustainable improvements in their lives. Learn more about poverty reduction at www.PovertyFrontiers.org

To be poor means not only to have a low income, but to lack assets, social services, and a voice in government. For over 2.1 billion people worldwide who earn less than $2 a day, poverty means increased vulnerability to disease, internal conflict and violence, environmental degradation, and natural or economic catastrophes.

To ensure that the poor can create sustainable improvements in their lives, they must be able to develop and maintain their stock of wealth. The Poverty Analysis and Social Safety Net Team (PASSN) in the USAID Office of Poverty Reduction encourages the use of an asset-based approach to poverty reduction because it focuses on assisting the poor to develop this stock and to use their wealth effectively to achieve positive changes in their lives. The approach emphasizes the need to enhance the ability of poor households to participate in, and benefit from, new economic opportunities, as well as the need to reduce the risk and vulnerability faced by these households. The asset-based approach also underscores the importance of the active participation of the poor in the social, cultural, and political aspects of their communities to ensure their interests are reflected in decisions affecting them.

"Assets" are broadly defined and multidimensional, including not only physical capital and financial assets, but also the knowledge and skills of individuals, their social bonds and community relations, and their ability to influence the policies and institutions that affect them. Low asset levels and the inefficient use of these assets are both causes and consequences of poverty.

Financial, human, natural, physical, social and political assets, described below, are all important parts of the wealth of poor households and all contribute to their well-being.

- Financial assets are cash, savings deposits, and other "paper" assets people use to make purchases and accumulate liquid wealth.
- Human capital is the skills, knowledge, and health status of household members that enable them to pursue productive social, political and economic lives. Human capital is required to make use of the other five categories of assets.
- Natural resources, such as land, forests, water, and clean air, are gifts of nature rather than the product of human effort—though, they can be enhanced or degraded through human activity. Many poor rural households depend on continual access to natural resources for their economic well-being.

- Physical capital includes tools and equipment owned by households and businesses, as well as infrastructure, such as roads, power and communications networks, and water and sanitation systems. Housing, livestock, and jewelry are other forms of physical capital important to many poor households.
- Social capital is the kinship systems and community organizations that people draw on in their livelihood strategies. Social capital fosters cooperation between households, often providing an informal safety net for the poor. It can also help them overcome market imperfections by facilitating information flows necessary for the completion of market transactions.
- Whereas social capital is based on trust, political capital (a newly defined asset) is based on the power relationships that affect poor people's access to assets. The exercise of political capital shapes institutions—the formal and informal rules or norms of a society.

The asset-based approach views the poor as strategic managers of their asset portfolios—managers who respond to changes in feasibility, relative costs, and expected returns. It recognizes the powerful relationships between assets: investing in education to take advantage of higher wages for skilled labor; seeking out secure savings mechanisms and investing in social capital as hedges against future risks; and using homes to generate revenue by renting out rooms or running microenterprises in-house.

Risk and Vulnerability. Though the assets mentioned above are the core of the asset-based approach, the vulnerability context—the external environment in which households pursue their livelihood objectives—is also extremely important. Trends, shocks, and seasonality are factors that typically affect vulnerability. Trends include an array of beneficial or harmful variables, such as population growth, improved governance, and natural resource degradation. Shocks comprise unexpected reductions in income, increases in the level of spending needed to maintain the household's standard of living, or direct reductions in household assets. Examples include natural disasters, conflict, and economic crisis. Seasonality is important because of the sensitivity of many poor households to seasonal fluctuations in prices, employment opportunities, and production.

Vulnerability highlights the fragility of poor households and the limited resources available to them to respond to stresses of one kind or another. The greater a household's vulnerability, the more limited its capacity to deal with economic problems. For example, illness or injury can suddenly place an entire family in economic jeopardy. Harvest failure, adverse changes in the prices of basic commodities, and job loss can each undermine a family's efforts to accumulate assets and improve the life chances of its children. Conflicts, natural disasters, and pandemics such as HIV/AIDS can rapidly erode the familial networks and other relationships on which the poor depend to withstand shocks.

With extremely limited access to insurance or other formal mechanisms, poor households often have little choice but to pursue livelihood strategies that limit their exposure to risk. Perhaps the most common means for the poor to reduce risk is to diversify their sources of income. Having diverse income sources can make the difference between minimally viable livelihoods and destitution.

Though quite rational given the options poor households have available to them, diversification and other risk minimization strategies often slow the accumulation of productive assets by poor households and in effect perpetuate their poverty. This is because many of these risk management strategies are built on low-risk, low-return activities. For example, poor households often enter into long-term, low-return jobs in wealthy households in return for support during difficult economic times.

Institutions. Institutions play an important role in shaping livelihood strategies. As the formal and informal rules or norms of a society, institutions are central to a society's development path. The asset-based approach emphasizes the role of institutions in in-

ADRA-Ghana

RIGHT: Ghanaian Doris Tetteh was able to diversify her income sources with the help of USAID. As a food vendor she was often taken advantage of by customers who did not pay, and she could not earn enough to support her family. In 1996, USAID introduced a food security program through which she began cultivating corn and later mangoes. Today, she is the main supplier of mangoes in the Krobo area and has generated enough income to purchase a vehicle, hire additional labor, and diversify further with livestock. Her success is an example of how those enabled to take on risk can diversify and free themselves from poverty.

fluencing the access of poor households to assets, the returns they derive from their assets, and their incentives to invest in those assets. For instance, legal institutions that makes it difficult or expensive for poor people to obtain clear title to property, or that fail to enforce property rights once obtained, limit the ability of poor households to make full use of their assets (e.g., using them as collateral for a bank loan) and weakens their incentive to improve their natural resource holdings (e.g., by planting trees, investing in irrigation, or adopting soil conservation measures).

In general terms, the relationship of the poor to public and private institutions reflects their position in society—one of limited power and influence (or low political capital). Their limited power and influence often result in a series of related problems. First, poor people have little trust and low expectations of the institutions that shape their options for accumulating and maintaining their economic resources. Second, they enjoy limited access to key public services, and those they do receive are often of poor quality. And third, the poor are unable to make the most productive use of their assets, thus remaining in poverty.

The ability of the poor to influence their institutional surroundings is important. This is one of the reasons for the emerging concept of political capital. Political capital can help poor groups effect changes in institutions. Real changes, as opposed to superficial ones, occur when formal and informal rules and norms are aligned.

Practical Implications of an Asset-based Approach to Poverty Reduction

The asset-based approach to poverty reduction is effective because the varied and complementary sets of assets address the different and interactive causes of poverty. Furthermore, the approach allows for interventions that address the particular needs of the poor because of its focus on the household or microeconomic context.

Fostering Resilience. Fostering resilience, or reducing risk and vulnerability, is a relatively new concern in poverty reduction programs. Recent research, in particular, has highlighted the importance of fostering resilience (Barrett and Carter, 2000). Their findings lead us to conclude that, while poverty breeds insecurity, the reverse is also true.

There are many programs in the Americas, Europe, Asia, and Africa that attempt to address the insecurity of poor households. Emergency food aid programs are one example. Though these programs help the poor to survive, they do not help the poor to emerge from poverty because they do not foster the resilience of the poor to risk and vulnerability.

There are many options to consider in an effort to promote the resilience of poor households. Access to life insurance and health insurance, participation in pension funds, consistent access to community lands, and access to secure savings instruments are just a few examples. Less direct measures, such as protecting access to the commons, may also be considered. Such efforts enhance the security of poor households and reduce their vulnerability to external shocks. With increased security and reduced vulnerability, poor households have a stronger foundation for building a better future.

Increasing Economic Benefits. In addition to protecting assets, steps need to be taken to enable poor households to enhance the returns they earn from assets they currently control, as well as to acquire new assets.

Pro-poor policies and an effective institutional environment are central to ensuring that the poor optimize returns on their assets. Pro-poor policies can range from national investment policies to payments to individual families to keep children in school. For example, reforming property systems offers the potential to increase the economic benefits poor households derive from their assets. Poor households often lack formal titles to their property, causing them to operate their businesses outside the formal economy. Operating outside of formal markets allows poor households to avoid paying taxes and ignore costly labor regulations. It also, however, limits their access to formal financial services and contractual mechanisms that they need to expand their businesses. In addition, without the protection of formal institutions, they are continually vulnerable to extortion in the form of informal payments demanded by government agents and others. An integral component of an effective poverty reduction strategy is thus to ensure that poor households have access to the formal economy. This would enable them to expand their economic opportunities by facilitating improved asset use and greater returns to investments.

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Increasing Social Benefits. In addition to fostering resilience and increasing economic benefits, an asset-based strategy to poverty reduction also improves social benefits. It encourages the social relationships to which the poor turn in times of economic crisis and growth and that are essential to the livelihood strategies of most poor households. It also focuses on increasing the poor's participation in local decision-making processes, which can sometimes be as simple as making information on local public expenditures available to the public, but often requires a more concerted effort to engage the poor in local, regional, and national processes and to provide them with the ability to articulate their interests in these processes.