EXECUTIVE SUMMARY

Why the urgency for better statistics on rural areas and farm household incomes?

Large amounts of **public funds** are used to support farmers and their households in OECD countries. The current round of multi-lateral trade liberalization negotiations will almost certainly require some degree of farm policy reform in developed – if not developing – countries. International trade agreements already point in the direction of the likely outcome - a requirement that domestic farm support distorts world markets as little as possible. To achieve this, market interventions are often replaced by direct payments to farm households. Understanding the ultimate market impacts of these direct payments depends on having data on farm households that includes the farm operation and also all their other activities. **Focus on farm accounts and business is not sufficient**.

Increasing sums are being spent on rural areas, the livelihoods and well-being of people who live there, and conservation of the natural environment. Agricultural policy reform is likely to move spending further in this direction. In the rural areas of developed economies farms are often **no longer the mainstay of the economy,** particularly in OECD countries. Many of the problems of farm families can only be addressed by creating economic opportunities outside agriculture. Statistics for **rural areas** need to **go far beyond agriculture** and cover a wide range of economic, social and environmental indicators.

Less developed countries, where agriculture is still relatively important in rural areas, **poverty** is a major policy issue. In such circumstances income may be displaced as an indicator by consumption. Nevertheless, household incomes are seeing changes that move them towards the patterns observed in the developed world. Economies in transition face particular statistical challenges concerning their agricultures and rural development.

Accountability is more than ever a requirement in governance, in both developed and developing countries. Objective assessment of the well-being of a nation's households is one obviously important indicator of success. The condition of the natural environment is another. For rural areas, these dimensions of the quality of life are important in sustaining agriculture but also other activities such as tourism. The need to understand the causal linkages between government actions and economic and environmental well-being puts renewed emphasis on the careful selection of indicators and their policy relevance. Quantification is the by-word of accountability.

What are the key issues in rural statistics?

In rural development it is particularly important to have clear understanding of what "**rural"** means and the **geographical areas** to which it is applied (which may range from the complete region to small local areas). Good practice includes the use of various levels to suit the problem at hand; sometimes the concern will be a large area (relevant to air quality for example) while for others (such as access to transport) something much smaller might be needed. It is also good practice to apply a system that covers the **entire territory**, so that comparisons are possible in a flexible way between rural and non-rural or between rural areas.

Indicators for the wide range of topics that rural statistics cover need to be drawn from many different data sources, as it is rarely possible to set up anything new. They must be reliable, timely and avoid the pitfalls that come with the need to work with existing data and to mix sources. The Handbook lists the desirable features of **quality** for indicators.

What are the key issues in agricultural household income statistics?

Similarly, when measuring **agricultural household income** it is necessary to settle on agreed definitions of a household, what makes it an "agricultural household" (for which several bases of classification are possible) and how income should be measured. A concept of an agricultural household that fits in OECD member countries is unlikely to be appropriate for many developing countries. Incomes of self-employed farmers contain elements that are particularly hard to value (such as food or fuel produced and consumed on the farm) yet which are of importance when comparing the income situation of agricultural households with that of other social groups. The choice by statistical offices on these fundamental methodological issues can seriously affect the results.

Are we measuring farmers' standard of living correctly?

The conventional way of assessing incomes in agriculture has been by measuring the rewards from farming. This ignores the fact that many farm families have **multiple income sources,** receiving money off-farm employment, business profits, pensions etc. in addition to what they make from the farm. For many, farming may be only a minor part of household income. Measuring profits from farming alone is clearly inadequate for establishing the standard of living of farm operators, for indicating how many are in poverty or for showing how their disposable incomes fluctuate over time. Explaining their savings and investments, and even the way they use the land, also requires a broader household view. A new approach is needed that covers **all income and wealth sources for the complete household**. What statistics that exist on this basis at national level are patchy, inconsistent and inadequate.

Are farm households more wealthy than other households?

The **wealth** of farm households has usually been ignored when assessing their well-being. This is highly unsatisfactory as, in OECD countries, farmers as a group are often wealthy compared to the rest of society. Ways of measuring wealth and of combining it with income in a single measure are considered in the Handbook.

How can we collect better data on farm household income and wealth?

The provision of **data** is, in practice, **the most fundamental problem** facing the development of statistics on the income and wealth of agricultural households. Without data the discussion of methodological issues and identification of good practice loses much of its relevance. Many OECD countries do not have a single satisfactory microeconomic data source, a group that contains several EU Member States. The Handbook draws attention to the relative advantages and disadvantages of survey and censuses of various kinds and administrative records. In developing countries surveys of households are often the only practical sources of data, their costs also implying that they must form part of a consistent framework of surveys.

How does this Handbook help?

This Handbook acknowledges the **need for better data and indicators** on the environment, rural economies and communities, and, very importantly, the farm household itself which in almost all countries is the most numerous type of farm unit. Present information is **hampered by large variations** in how results are calculated at national level, offering the possibility of **misrepresentation and false conclusions**. **International standards** in statistics for rural areas and agricultural household incomes are crucial if meaningful comparisons are to be made between countries. They are also important to the establishment of general patterns that hold true for a range of countries. The Handbook helps fill this major information gap by setting out principles and pointing to good practice.

By establishing the main elements in the methodology of statistics on rural development and agricultural household income, it is hoped that the Handbook will assist in identifying the **direction in which methodology and data systems should be moving**, if not the exact path by which they should get there.