

NATURAL RESOURCES INSTITUTE

**NRI Report No: 2753**

**Rural Non-Farm Economy**

**The rural non-farm economy,  
livelihoods and their diversification:  
Issues and options**

by  
**Junior R. Davis**

**July 2003**

*The views expressed in this document are solely those of the authors  
and not necessarily those of DFID or the World Bank.*



**Natural  
Resources  
Institute**

**DFID** Department for  
International  
Development



World Bank

# The Rural Non-Farm Economy, livelihoods and their diversification: Issues and options

REPORT 1

by  
Junior R. Davis (NRI)

## Contents

<b>1</b>	<b>INTRODUCTION</b> .....	<b>7</b>
<b>2</b>	<b>WHAT IS THE RURAL NON-FARM ECONOMY?</b> .....	<b>7</b>
2.1	COMPOSITION OF THE RNFE.....	8
2.2	WHAT MOTIVATES DIVERSIFICATION INTO THE RNFE? .....	9
<b>3</b>	<b>WHAT DETERMINES ACCESS TO NON-FARM RURAL EMPLOYMENT AND INCOME?</b> .....	<b>11</b>
3.1	DETERMINANTS OF ACCESS TO RNFE AT THE HOUSEHOLD LEVEL .....	11
3.1.1	Education.....	11
3.1.2	Social capital.....	11
3.1.3	Ethnicity and caste .....	12
3.1.4	Gender dynamics.....	13
3.1.5	Credit .....	13
3.1.6	Physical infrastructure, and information .....	14
3.2	WIDER FACTORS DETERMINING RNF EMPLOYMENT OPPORTUNITIES .....	14
3.2.1	Agricultural development .....	14
3.2.2	Natural resource endowments.....	15
3.2.3	Economic infrastructure.....	15
3.2.4	Levels of public service.....	15
3.2.5	Rural town development.....	15
3.2.6	Business environment.....	16
<b>4</b>	<b>ARE THERE RNFE DISTINCTIONS BETWEEN DEVELOPING AND TRANSITION ECONOMIES?</b> .....	<b>16</b>
<b>5</b>	<b>WHAT DO WE KNOW ABOUT POLICIES AND INTERVENTIONS FOR RNFE GROWTH?</b> .....	<b>18</b>
5.1	SOME INITIAL QUESTIONS .....	18
5.2	THE DEMAND SIDE.....	18
5.3	SUPPLY SIDE: INFRASTRUCTURE, FINANCE, INFORMATION .....	20
5.4	SUPPLY SIDE: INSTITUTIONS, TRANSACTIONS AND GOVERNANCE .....	20
5.5	INTEGRATING SUPPLY AND DEMAND: VALUE CHAINS .....	22
5.6	DEVELOPING RURAL PRODUCER ORGANISATIONS .....	24
5.7	LINKING TO PRSPs AND NATIONAL POLICY-MAKING.....	24
5.8	SUMMARY .....	25
<b>6</b>	<b>WHAT COULD DONORS DO TO PROMOTE RNFE GROWTH?</b> .....	<b>26</b>
6.1	WHAT DO WE THINK WORKS?.....	26
6.2	WHAT CAN DONORS CONTRIBUTE?.....	27
6.3	WHAT GENERIC STRATEGIES COULD BE USED? .....	27
6.4	HOW TO INTERVENE IN RESOURCE-POOR, LOW-POTENTIAL AREAS? .....	28
6.5	HOW TO DEVELOP PRIVATE SERVICE ACTIVITIES? .....	29
6.6	WHAT ROLE FOR WAGE EMPLOYMENT PROMOTION? .....	29
6.7	HOW TO ENSURE SUSTAINABILITY? .....	30
6.8	HOW DO WE PRIORITISE POLICIES & INTERVENTIONS? .....	30
<b>7</b>	<b>REFERENCES</b> .....	<b>34</b>
<b>8</b>	<b>APPENDIX 1: A GUIDE TO THE CASES REVIEWED</b> .....	<b>37</b>

## Acronyms and abbreviations

CEEC	Central and Eastern European Countries
CIS	Commonwealth of Independent States
DFID	Department for International Development, UK
EU	European Union
FAO	UN Food and Agriculture Organisation
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (German Society for Technical Cooperation)
HH	Household
HHH	Head of Household
IFAD	International Fund for Agricultural Development
IGA	Income generating activity
IHS	Integrated Household Survey
IUDD	Infrastructure and Urban Development Department of DFID
LAC	Latin American Countries (South and Central America)
LDC	Less Developed Countries
LED	Local Economic Development
M&E	Monitoring and evaluation
MSME	Micro, small and medium sized enterprise
NGO	Non-governmental organisation
NRI	Natural Resources Institute
NSS	National Statistical Service
PRA	Participatory rural appraisal
PRSP	Poverty reduction strategy paper
PRP	DFID, RLD Policy Research Programme
Q&A	Question and Answer
RLD	Rural Livelihoods Department of DFID
RIMISP	The International Network of Methodology for the Investigation of Systems of Produccio'n (RIMISP), South America.
RNF	Rural non-farm
RNFE	Rural non-farm economy
SLA	Sustainable Livelihoods Approaches
SME	Small and medium sized enterprise
SWOT	Strengths, Weaknesses, Opportunities, and Threats
WB	World Bank

## **Acknowledgements**

This document was commissioned by the UK Department for International Development's (DFID's) Rural Livelihoods Department. It was, edited and co-authored by Dr. Junior Davis (NRI). The report has been compiled in close collaboration with Felicity Proctor (DFID/World Bank), Dr. Dirk Bezemer, Mr Tiago Wandschneider, Dr. Steve Wiggins, and a range of individuals and organisations that have contributed their expertise in promoting rural livelihood diversification and the rural non-farm economy in developing and transition countries.

I would particularly like to thank a number of colleagues for the time and effort devoted to drafting and commenting on core sections of the report. These include: Professor Paul Hare (Heriot-Watt University), Jim Harvey (DFID), Donal Brown (DFID), Andrew Keith (DFID) and Dr. Gerd Fleischer (GTZ).

While commissioned by DFID, and drawing on the experience of other agencies, this report does not represent DFID's thinking and policy or that of other agencies. Full responsibility lies with the author.

## Executive Summary

This report summarises the findings from more than 55 studies of rural economies and the rural non-farm economy (RNFE), most of them financed by DFID. It relates these to the existing understanding of the RNFE in the literature and tries to draw out policy implications.

In brief it reports that:

- The RNFE is an important part of the rural economy in almost every case, providing between 40 and 60% of incomes and jobs in rural areas;
- Much of RNF activity arises in trading and in the processing of agricultural and other primary products. Rural manufacturing tends to comprise only a small part of the RNFE;
- Much of the RNFE provides goods and services for the local, rural economy. Little of it is tradable and earns incomes outside of the immediate rural context. In large part, then, its growth depends on that of other rural activities, above all, agriculture;
- The RNFE may be seen as divided into much activity that is small-scale, uses little capital, and which is low productivity and offers low returns, often little better than farm labouring; and activities that operate at larger scale, with more capital investment, and generating better returns to labour than can be had in most kinds of farming;
- Since the former category is accessible to the rural poor, the RNFE is essential in mitigating poverty and preventing destitution, but it is less clear that it can eradicate poverty. Moreover, since it is the better-off who can generally access the well-rewarded RNF activities, the RNFE may exacerbate inequalities. But much depends on the ability of RNF enterprises to create jobs and so distribute the benefits across rural societies. At the same time, if some rural non-farm activities provide support to growth sectors (e.g. in the case of agriculture, input supply, equipment manufacturing and distribution, transport, repairs, etc) then it may indirectly play an important role in poverty alleviation by enabling poverty reduction elsewhere (in this case in agriculture).

*Policy implications include:*

- The RNFE cannot be expected, in most cases, to drive the rural economy. There may however be niche markets to exploit; such opportunities would benefit from targeted interventions such as reduction of import duties, corporate taxes, and administrative and bureaucratic requirements; improvement in communications and in transport infrastructure; and provision of credit, extension and advice services. None of this is entirely novel to development practitioners; policy for the RNFE may be more a matter of attending to some well-known areas rather than advocating novel approaches. A clear need is to identify models of successful intervention in these areas (for example in rural manufacturing, tourism and non-agricultural primary activities).
- Basic elements of an RNFE policy include the importance of having the physical infrastructure in place and universal education. There is much to be done to resolve the credit and finance bottleneck. Fortunately, the lessons of micro-finance are being learned and may provide useful lessons and application for the RNFE. Providing business support services in training, technical assistance and information is indicated, but it is not clear where the models lie.

- If there are novel departures, then the advocates of supply chain analysis, and of the potential for clustering of rural business, have ideas that merit attention. But their ideas may apply first and foremost to rural manufacturing, tourism and non-agricultural primary activities that may, in most cases, apply to a minor part of the RNFE.
- In drawing up PRSPs, policy-makers have given little or no explicit attention to the RNFE. Nevertheless, strategies that see only farming in the countryside can miss RNFE opportunities and issues, and policies that stress decentralisation (e.g. predatory and capricious local governments) may actually produce threats to the micro businesses that make up a large and important part of the RNFE.
- Generally speaking, rural areas are poorly serviced with the physical infrastructure required to access national market centres, or export points. Planning departments need to ensure that the rural-urban split of resources dedicated to infrastructure provision is fair, and this may necessitate lobbying by local government and other relevant agencies.
- Information on market opportunities should be made more readily available. This should include not only an initial study to identify viable markets for rural producers, but a regular flow of information that provides reliable market intelligence. It could be used not only to give producers an idea of price trends, but also, for example, opportunities for product customisation.
- It is well recognised that poorly functioning financial systems in rural areas are an impediment to growth, but the development of credit co-operatives and micro-credit organisations should be complimented with training on how to develop business plans and approach financial institutions. Issues relating to the effective targeting of credit and appropriate terms of repayment require further research, although the notable successes in the field are numerous enough to provide some useful guidance.
- An important component of good practice projects, training can be delivered through a variety of media. Training should be delivered not only to 'core' project clients but also to other key players in the product chain, although how to do this over wide areas, while catering for a variety of stakeholders is at present unclear.

## **1 Introduction**

This report is part of growing volume of empirical work on the rural non-farm economy and livelihood diversification among the poor. The work presented in this report is based on a review of 55 DFID financed RNFE and livelihood diversification projects, programmes and research comprising rural household survey and other field-related research projects representing a broad range of methodologies borrowed from economics, sociology and social anthropology. Over the past three years, DFID has funded policy research work and dialogue in four regions of the world on aspects of the RNFE through the WB-DFID collaborative programme. In particular, this has included work in Africa (Uganda), Asia (India and Bangladesh), Latin American Countries (LAC, South and Central America) and Central and Eastern European Countries and the Commonwealth of Independent States (CEE/CIS) (Armenia, Georgia, and the Balkans).

This document is intended to be read in conjunction with the following papers: (i) by Davis & Bezemer (2003) on key emerging and conceptual issues of the rural non-farm economy in developing and transition countries; (ii) RNF access issues and best practice in RNFE project design by Wandschneider (2003); and (iii) key issues on the RNFE by Wiggins (2003). The rural non-farm economy (RNFE) is of interest to governments, bilateral and multilateral donor agencies, non-governmental organisations (NGOs) and development practitioners because of its prevalence in both developing and transition economies. In many parts of the world, the number of poor people in rural areas exceeds the capacity of agriculture to provide sustainable livelihood opportunities. Even with a decline in fertility rates and a slowing of population growth, this situation will not change significantly. Out-migration is not possible for all types of people, and urban centres cannot (or should not, for economic and social reasons) be assumed capable of providing adequate livelihood opportunities for all those unable to make a living in agriculture. For these reasons, a healthy RNFE holds out the prospect of improved livelihoods for people living in rural areas. This set of circumstances puts the spotlight on the RNFE as a potential vehicle for poverty reduction in rural areas.

## **2 What is the rural non-farm economy?**

The rural non-farm economy (RNFE) may be defined as comprising all those non-agricultural activities which generate income to rural households (including income in-kind and remittances), either through waged work or in self-employment. In some contexts, rural non-farm activities are also important sources of local economic growth (e.g. tourism, mining, timber processing, etc). The RNFE is of great importance to the rural economy because of its production linkages and employment effects, while the income it provides to rural households represents a substantial and sometimes growing share of rural incomes. Often this share is particularly high for the rural poor. There is evidence that these contributions are becoming increasingly significant for food security, poverty alleviation and farm sector competitiveness and productivity.

The RNFE can be defined/ classified on many dimensions: on-farm/off-farm, wage/self-employment, agriculturally related/otherwise, etc. An ideal classification of the RNFE should capture some or all of the following distinctions:

- Activities closely linked to farming and the food chain, and those not part of that chain - since agricultural linkages are often important determinants of the RNFE's potential for employment and income generation;
- Those producing goods and services for the local market, and those producing for distant markets (tradables) - since the latter have the chance to create jobs and incomes independently of the rural economy; and,



- Those that are sufficiently large, productive, and capitalised to generate incomes above returns obtainable in farming, and those that offer only marginal returns - since this reflects the RNFE capacity to generate local economic growth. Although low return activities can maintain households above the poverty line; they usually do not foster growth.

Why are policymakers and economists interested in the RNFE? And why should policymakers and donors invest in rural areas (and thus in the RNFE)? Just because most of the poor live in rural areas is as much an argument for social welfare as economic development. Most development economists (reflecting mainstream economic thinking) have maintained that underinvestment in rural areas and the RNFE is largely due to: a) there being one primary economic activity, namely farming; b) that in theory the share of agriculture as a primary sector declines in the course of economic development; and c) labour moves out of agriculture and rural areas. Accelerating the importance of the RNFE is the disproportionate increase in demand for non-farm output as incomes rise (the theory of “economic transformation” where the share of the farm sector in gross domestic product (GDP) declines as GDP per capita rises over time, termed Engel’s Law (Haggblade et. al., 2001)). This is the structural transformation of a successful developing economy. The role of the RNFE in the process of economic development might comprise three stages (see Start, 2001): (1) large in ‘pre-developed’ countries; (2) decreasing as development, urbanisation, and agricultural specialisation takes off; and (3) increasing again with urban congestion.

The transformation process is not identical in all countries and regions, and is shaped in part by such factors as a region’s comparative advantage in the production of tradable products (especially agriculture), population density, infrastructure, location, and government policies. Regions with significant recreational, mineral or trade advantages (e.g. a port or highway) may be less dependent on agriculture as a motor of growth, and hence may expand and diversify their RNFE much earlier in the development process. Growth of the RNFE can also be de-linked to varying degrees from agriculture by market and trade liberalization policies that enhance non-agricultural opportunities, and these possibilities are increasing with globalisation. Many rural regions have greater opportunity today to find additional motors for growth. Moreover, the “motor” does not even have to be local, as long as the local economy is “open” in that workers can commute and local farm and non-farm firms can sell to the area where the motor is providing job opportunities and generating growth. For example, a mine or a big city in a coastal region could induce non-farm employment growth in the nearby highlands. Nonetheless, in terms of the importance of the RNFE for economic development two key arguments should be stressed: (i) the potential multiplier effects (demand-led growth linkages between the RNFE and farming); and (ii) the integration of farming into national and international value chains, shifting value addition to rural areas (see Davis and Bezemer, 2003). This should assist rural areas in taking advantage of the potential benefits of globalisation and improve local incomes.

## **2.1 Composition of the RNFE**

For most rural people in developing and transitional economies, rural non-farm activities are part of a diversified livelihood portfolio. The rural population in developing countries derive important income shares from rural non-farm activities. Ellis (2000) states that 30-50% is common in sub-Saharan Africa, and FAO (1998)<sup>1</sup> gives a mean figure of 42% for SSA. In Asia and Latin America, FAO estimates the figures to be 32% and 40% respectively (Ellis (2000) gives

---

<sup>1</sup> The FAO study summarises data from over 100 studies - focussing mainly on farm households - undertaken over three decades (1970’s to the 1990’s).

appreciably higher estimates for South Asia). Bezemer and Davis (2003) found that the average non-farm income shares of rural households in some CEE/CIS countries is between 30 and 70%.

**Table 1. Rural Non-Farm Income Shares by Region**

<i>Region</i>	<i>Average Share</i>
Africa	42
- East/South	45
- West	36
Asia	32
- East	35
- South	29
Latin America	40
Eastern Europe & CIS <sup>2</sup>	44

Source: Reardon et al (1998) FAO the State of Food and Agriculture; Bezemer and Davis (2003).

Table 2 below shows a composition of RNF employment in LDCs and transition economies. Agriculture still dominates, as the most important sector of economic activity for LDCs. Manufacturing is less important in terms of income and employment than the services and commerce sectors. Indeed, in our review of DFID financed projects and research in this area, we found that these sectors seem to be both higher growth sectors and of particular importance to the poor. Within the RNFE, earnings from self-employment and non-farm wage employment dominate agricultural wage earnings and remittances.

**Table 2. Composition of RNF employment by Region (primary workers)\***

<i>Region</i>	<i>% Rural workers employed in RNF activity</i>	<i>% Women of total rural workers</i>	<i>% Of total in manufacturing</i>	<i>% Of total in trade and transport</i>	<i>% Of total in other services</i>	<i>% Of total in other activities</i>
Africa	10	26	23	21	24	30
Asia	24	20	27	26	31	14
Latin America	35	27	19	19	27	33
West & North Africa	22	11	22	21	32	23
Eastern Europe	47	37	38	20	26	15

Source: Haggblade, Hazell and Reardon (2002).

\* These are indicative rather than precise unweighted averages.

## **2.2 What motivates diversification into the RNFE?**

In poor rural areas some households will make a positive choice to take advantage of opportunities in the rural non-farm economy, taking into consideration the wage differential between the two sectors and the riskiness of each type of employment. Rising incomes and opportunities off-farm then reduce the supply of labour on-farm. However, other households are pushed into the non-farm sector due to a lack of opportunities on-farm, for example, as a result of drought or smallness of land holdings. This may result in a similar pattern of rising non-farm

<sup>2</sup> This figure represents surveys conducted by NRI and partners on six CEE and CIS states. The average rural non-farm income shares range from 31% in Armenia to 68% in Bulgaria.

incomes, but the motivations are quite different. For policy makers it is important to understand why an individual is entering the non-farm rural market. One of the key areas of discussion in the literature is to understand if individuals respond to new opportunities in the RNFE. This has been discussed with reference to many dichotomies which essentially refer to the same distinction: demand-pull/distress-push, coping/accumulating, need/opportunity, etc. *Demand-pull diversification* is a response to new market or technological opportunities, while *distress-push diversification* is driven because there are no opportunities on-farm - Islam (1997) suggests that factors that lead to demand-pull diversification include the increased income of lower and middle-income households and increased demand from urban areas for rural products. He identifies successive droughts that depress income and hence increase the need for alternative incomes offering low-skill income as a distress-push factor. As evidence of distress-push, marginal wages or incomes are likely to be lower in the non-farm rural economy than on farm agricultural earnings.

Recent work by Bezemer and Davis (2003) on Armenia, Georgia and Romania shows that distress-push diversification is what drives the majority of the rural poor into RNF employment and income generating activities. Davis and Pearce (2000) discuss the importance for policy-makers to make this distinction between distress-push and demand-pull since each may require different policy responses. The former may require policymakers to develop appropriate social safety net and interventionist policies to mitigate the short-run negative effects that sometimes accompany this type of diversification (for example, over-rapid urbanisation, negative environmental impacts etc.). Where demand-pull factors are driving the process of diversification, policy-makers might seek to provide a suitable “enabling environment” to support the development of the RNFE and sustainable rural livelihoods. However, deciding on whether demand-pull or distress-push factors are at work may not be straightforward.

### **3 What determines access to non-farm rural employment and income?**

#### **3.1 Determinants of access to RNFE at the household level**

This section is a summary of reviewed DFID project and research evidence regarding the importance of six factors which determine access to RNF employment and income in Uganda, Tanzania, India, South America and three CEE/CIS countries (Armenia, Georgia and Romania): i) education and skills; ii) social capital; iii) ethnicity and caste; iv) gender dynamics; v) financial capital; and vi) physical infrastructure and information. There are clear patterns in access to RNF opportunities.

##### **3.1.1 Education**

Education is critical since the better-paid local jobs require formal schooling, usually to completion of secondary school or beyond. Education also makes migration more likely to be successful. But it is far less clear that schooling, beyond primary level and the achievement of literacy and numeracy, provides skills that matter in the majority of RNF activities. Nevertheless, the correlation of education with RNF business success is often reported. Is this because there are other concomitants of success that correlate with the chance to complete secondary school - such as access to savings? Or are there intangible benefits of schooling that accrue - such as the ability to interact with public servants and other gatekeepers, or the forming of social bonds at secondary school and training colleges that later serve in business? Or does formal education make it easier to learn new skills that are highly relevant to one or other RNF activity?

There are markedly different attitudes to education reported in different communities. East and Southern African cases frequently report the extraordinary priority that parents place on getting their children through secondary school. In parts of West Africa parents are more circumspect of the benefits of state education - and indeed, in some accounts, look to religious schools to instil culture and discipline in their children.

These differences are not necessarily related to wider cultural differences. Attitudes to formal education can be polar opposites in Mexican villages no more than 60 km distant from one another. In one village, great store had been set by formal education for at least two generations, with the result that the village had several sons and daughters working as schoolteachers. In another community, the main and most lucrative activity was producing vegetables for the markets of Mexico City. Parents in Mexico City saw secondary education as unnecessary, compared to cultivation skills, driving pick-ups and negotiating with wholesalers (Wiggins, Keilbach et. al, 1999).

##### **3.1.2 Social capital**

Social capital at the individual level, defined by Fafchamps and Minten (1998) as the degree of interaction with others in the context of social networks, can enable economic agents to reduce transaction costs and partially address access constraints arising from imperfect markets. Social capital can translate into access to relevant market information and buyers, wage employment and business opportunities, formal and informal loans, cash advances, inputs on credit, skills, shared resources for production and marketing, and migration opportunities. Many examples of social networks and contacts being used by individuals and households to enhance their asset base and access income-earning opportunities were observed and reported in all studied regions.

Using data from Sub-Saharan African countries and regression analysis, Fafchamps and Minten (1998) show that social capital has a positive effect on traders' sales and gross margins. In his study of the non-farm economy in Mexico, Lanjouw (1998) found that rural communities with a higher social capital index were less likely to be poor. Data on social capital is rarely available, and therefore it is unsurprising that few studies have tried to measure quantitatively the impact of social capital on rural non-farm employment and income. Although none of the studies here reviewed attempts to estimate the importance of social capital as a determinant of non-farm employment and incomes, they provide useful insights into this issue through the use of qualitative research methods.

A very unequal distribution of social capital can lead to social and economic outcomes that are both unequal and inefficient. The experience of many post-socialist transition countries illustrates this problem. Members of the old *nomenclatura*, including government officials and managers of former state enterprises and co-operatives, have capitalised on strategic contacts and personal relations developed during the socialist era to access assets, resources, information and opportunities (Janowski and Bleahu; 2002; Kharatyan, 2002; Kobaladze, 2002). The concentration of critical social capital in the hands of a privileged minority has acted as a barrier to entry into business by the majority of the rural population, thus inhibiting competition in product markets and reducing confidence in state institutions.

Group strategies illustrate the potential of social capital to address credit and market access constraints, improve access to service provision, and overcome barriers to entry into income generation activities. In Uganda, severe disruption to traditional family structures during the 1990s because of AIDS and the consequent rise in the number of widows and orphans, has led to the spontaneous formation of women self-help groups that pursue common social and income-generating objectives (Zwick and Smith, 2001). Producer groups have also emerged in many parts of the country, often with the support of NGOs. Group enterprises in Uganda have been found to enhance access to non-farm activities and to improve the returns associated with those activities, but their benefits and sustainability remain critically dependent on the entrepreneurial skills of group leaders and the extent of intra-group conflict (Cannon and Smith, 2002; Zwick and Smith, 2001).

### **3.1.3 Ethnicity and caste**

Ethnicity is an important determinant of participation in the RNFE, and can play both an enabling and constraining role. For example, the Iteso in Uganda are traditionally agro-pastoralists, and have only recently started to diversify into sedentary agriculture and non-farm employment, therefore lacking basic business experience and skills (Smith and Zwick, 2001). More generally, the spatial distribution of Uganda's ethnic groups have in the past influenced the allocation of public investment, with Baganda areas in the central and south-western parts of the country benefiting from relatively advantageous access to economic infrastructure, education and health provision (Smith, 2002). Higher levels of public investment in those two regions contributed to wider economic opportunities than elsewhere in the country.

The caste system remains a major stratifying force in rural India, especially at the village level. Field research in Madhya Pradesh and Orissa shows that members of the upper castes tend to dominate local power dynamics and to enjoy better asset endowments, higher social status and capital, and more favourable access to education and information (Dasgupta *et al*, 2002; Pandey *et al*, 2002; Rath *et al*, 2002; Som *et al*, 2002). While participation in economic activity is gradually transcending the traditional caste-based division of labour, the latter continues to play a

significant role. Ethnicity was also identified as a determinant of rural employment patterns in Romania (Davis and Cristoiu, 2001; Janowski and Bleahu, 2001).

### **3.1.4 Gender dynamics**

A gender perspective adds significant insight into rural poverty and livelihood issues. In the reviewed studies, gender has emerged as an important factor influencing participation patterns and trends in the RNFE. The role of gender in enabling or restricting access to economic activity also varies from country to country.

In rural Uganda women participate more actively in crop farming than men, whilst the latter are more involved in non-farm activities (Newman and Canagarajah, 1999). There has been a gradual shift since during the 1990s towards non-farm employment, especially among men and female-heads of household (Smith, 2001). The need to sustain the household, combined with greater control over resources, seems to have pushed female-heads, whose number has increased significantly following the spread of AIDS, into non-farm. In India, rural non-farm employment over the past decades has expanded more rapidly for men, and recently there has been some overall decline in female participation (Coppard, 2001). Preliminary research findings in some communities of Madhya Pradesh suggest that mechanisation is displacing labour in agriculture, and that the non-farm employment opportunities emerging from such developments, for example in repair and transport activities, are being almost exclusively taken up by men (Som *et al*, 2002).. In Madhya Pradesh and Orissa women strictly carry out many non-farm activities<sup>3</sup> while other jobs are exclusively undertaken by men<sup>4</sup> (Pandey, 2002; Rath, 2002; Som *et al*, 2002). Women are rarely involved in enterprise management and in higher-level positions in the public sector. Generally, both men and women work in agriculture, but average female participation rates in the non-farm sector are low compared to those for men (Coppard, 2001). In the rural areas of Armenia, Georgia and Romania it is men who generally start and manage small and medium-size non-farm businesses, often combining that activity with farming (Kharatyan, 2002; Bezemer and Davis, 2003; Davis and Gaburici, 2001; Davis and Mezkhidze, 2001).

### **3.1.5 Credit**

The single most commonly reported obstacle to investment and entrepreneurship is inadequate access to capital; however, demand constraints may also be a factor underlying restricted access to credit. Prospective rural investors do not lack all access, but loan size and maturity are often limited. Given lack of access to formal credit, the main source of funds is often from the savings and assets of the (extended) household. In this regard, the Ladder studies in Uganda and Tanzania note that households with assets can find ways to convert one or other asset to investment capital - an example of this would be cattle (see Ellis & Mdoe, 2002, and Ellis, & Bahigwa, 2001). Initiatives from NGOs and government to promote micro-finance have in some cases made access better, but coverage is still incomplete and often still excludes the poor. Private sector loans remain important as does informal financial services because domestic savings capacity is often limited. However foreign direct investment also matters, for example agri-processing firms have utilised significant amounts of FDI in the transition countries via European bank for Reconstruction and Development (EBRD) co-financing of joint ventures etc (Davis and Pearce, 2001).

---

<sup>3</sup> For example, broom and mat making, vegetable marketing, *papad* and *bati* preparation, and puffed rice production.

<sup>4</sup> For example, driver, mechanic, mason, carpenter and livestock trader.

### **3.1.6 Physical infrastructure, and information**

Rural roads that allow reliable and regular motor vehicle access serve both the farm and RNF economy. Rural electrification is also mentioned, although less frequently. This is particularly important for manufacturing activities (including agro-processing) of some scale. Reliable and abundant supplies of (preferably clean) water can allow some RNF activities to take place. Surprisingly little explicit mention appears of the value of technical know-how and market information. Whether these are really not key variables, whether they are less visible when lack of capital and poor physical infrastructure bulk large, or whether education is picking up the value of knowledge, is not clear, perhaps respondents in the studies looking at these issues are not aware of it.

While the influence of individual factors on non-farm employment was analysed separately, it must be noted that this offers a rather simplistic view. Assets have a degree of interdependence and fungibility, as suggested by the livelihoods framework (Ellis, 2000). First, the value of a specific asset often depends on other, complementary assets, which may be owned by others than the household or be held in public ownership. Second, the importance of particular assets varies with the type of employment. For example, education and contacts are particularly important for accessing formal jobs in government or the private sector, whereas skills acquired outside the schooling system and access to finance and market networks play a significant role in the development of entrepreneurial activities. Third, the availability of a particular asset often influences the level of other assets. For instance, social capital may enhance access to financial resources; education tends to be positively correlated with social capital and access to formal credit; land availability can serve as collateral for bank loans; and so on. Finally, asset endowments are neither static nor necessarily cumulative over time. For example, households may decide to alienate certain assets, such as land or savings in kind and cash, in order to acquire other assets, such as education and equipment.

## **3.2 Wider factors determining RNF employment opportunities**

We also found several factors beyond the household level which affect the viability of the RNFE; among them agricultural development, natural resource endowment, economic infrastructure, level of public service, rural town development, and the business environment.

### **3.2.1 Agricultural development**

The DFID-financed research in Uganda, Tanzania, India, South America and three CEE/CIS countries (Armenia, Georgia and Romania) confirms the critical importance of agricultural development for creating an environment in which the non-farm sector can prosper. Demand dynamics arising from agricultural growth are usually very significant. Agriculture stands out as the most obvious activity with potential to increase rural incomes due to the sheer number of people directly involved in this activity and its production linkages. Increased produce supplies enable the growth of upstream and downstream activities. Agricultural development also generates increased saving surpluses, which can be channelled to rural non-farm activities by farming households or the financial system. Labour flows between the agricultural and non-agricultural sectors are less predictable and dependent on whether the agricultural transformation releases or absorbs labour. The latter scenario sometimes characterises the initial stages of agricultural intensification.

Agricultural development generates a virtuous cycle, in which the expansion of agriculture fuels non-farm sector growth, and vice-versa. The relative importance of rural non-farm employment may either increase or decline during the initial stages of agricultural development, depending on

changes in the intensity of labour use in agriculture as it modernises. The impact of agricultural growth on the local non-farm sector also depends on the strength of supply and demand linkages within a particular region. These linkages are critically determined by land distribution patterns; the share of local agricultural produce processed within production areas; the intensity of input use in agriculture; the proportion of local savings that are channelled to investment within the region; and the local component of consumer demand.

### **3.2.2 Natural resource endowments**

The DFID research shows that the development of the non-farm sector in a particular region is intimately dependent on its *natural resource endowments*. Apart from agriculture-linked activities, the non-farm sector comprises wood processing and trading, alcohol production, fish processing and trading, mining and quarrying, construction and tourism. Hence, in most contexts, favourable natural resource endowments are a necessary, albeit not sufficient, condition for the development of the non-farm sector and the rural economy in general.

### **3.2.3 Economic infrastructure**

*Economic infrastructure* shapes the development of the RNFE by influencing the scope for developing certain economic activities, the operational costs faced by enterprises, and the conditions for accessing outside markets. The influence of rural towns, which can function as growth hubs as well as transport infrastructure (and services), is especially important.

#### **Box: 1 Uganda's rural infrastructure**

In Uganda road infrastructure has improved significantly over the past decade, but progress in power and water supply to rural areas has been marginal, and weaknesses in these services remain an important obstacle to an expansion of the non-farm sector, particularly in agro-processing and non-food manufacturing (Cannon and Smith, 2002; Marter, 2002). Interestingly, lack of access to power supply and to fixed telephone lines were not identified as a major constraint by field respondents, presumably because limitations in these spheres are considered normal. The lack of fixed lines in rural areas is largely behind the recent expansion of mobile phone use, but this is relatively expensive and essentially restricted to the wealthier entrepreneurs, namely in the trading sector. Within Uganda, economic infrastructure and public services are particularly under-developed in the northern region.

### **3.2.4 Levels of public service**

The relative importance of the state for the development of non-farm economic activity is likely to be greater in poor regions, which typically lack other significant sources of demand. For example, public investment in schools, training centres, health clinics, roads, irrigation systems etc, can provide a major boost to local construction and related activities. Moreover, the development of public administration and services generates salary employment and income, which will partly be spent locally. Some public services, for example in education, may also give rise to linkages with upstream non-farm activities. In all the studied countries, the scope for public investment and an expansion of public administration and services is limited by tight budget constraints. Rural areas will generally be at a disadvantage vis-à-vis urban areas due to the common urban bias in the allocation of public expenditure (Lanjouw and Feder, 2001) and the tendency for public resources to be allocated taking population density and economic potential criteria into consideration. Poor areas often score low on both accounts.

### **3.2.5 Rural town development**

Rural towns play multiple economic roles, some of which strengthen local inter-sector linkages and contribute to the development of the RNFE. Given the concentration of economic activity and population, rural towns may serve as important market outlets for manufactured goods



produced within surrounding villages and as employment centres for villagers who commute on a regular basis in order to sell services or their labour. Because these towns tend to attract people from surrounding areas or in transit, they generally host a range of services catering for their needs, including car repair workshops, petrol stations, retail shops, hotels, restaurants and bars. In addition, rural towns usually offer better conditions than villages for the development of agro-processing industries and other manufacturing activities due to the availability of administrative and support services, a concentration of consumers, and better access to transport and public utility infrastructure. They also tend to host enterprises dedicated to the manufacturing of agricultural inputs and the provision of essential support services to agricultural and non-farm activities located in the surrounding areas. Finally, rural towns can constitute important links between the rural hinterland and more distant markets, playing the role of intermediate marketing centres.

### **3.2.6 Business environment**

Private sector investment levels and enterprise development in rural areas can be either facilitated or hindered by the business environment, depending on how the latter impacts upon investment risks, entry barriers (including start-up costs) to economic activity, and/or production and marketing costs. Important dimensions of the business environment include the macro-economic situation, degree of policy consistency and stability, direct and indirect taxation regimes, investment and licensing regulations, red-tape levels, labour laws, corruption levels, security situation, effectiveness of the judicial system, state of economic infrastructure, and availability and quality of enterprise support services. In some cases, public policy restricts RNF activity by negatively affecting the business environment - examples include restrictions on artisan fishing and shrimp capture, and regulations applying to the cooking and serving of food and drink. In the cases of Uganda and Tanzania, the danger of a predatory and capricious decentralised local government is highlighted as a current problem for rural business and a future menace.

## **4 Are there RNFE distinctions between developing and transition economies?**

Here we summarise what has been learned from DFID research about the RNFE distinctions between developing and transition economies. There is very little systematic knowledge about the RNFE in transition countries compared to developing countries. Several survey efforts have been recently completed but not yet fully processed and analysed (Davis, 2003; Bezemer and Davis 2003).

In most CEE and CIS economies under socialism the RNFE was large. Agro-industrial complexes and manufacturing co-operatives were widely located in rural areas as a means of developing and industrialising the country. On transition in 1990, most of this rural industrial and manufacturing base largely collapsed because it was heavily dependent on state subsidies and the continuation of soft-budget constraints (Kornai, 1996). The RNFE may now be reappearing in a small-scale and less capital-intensive form. Although, as compared to most developing countries, these countries have a favourable endowment of rural infrastructure and high education levels, this legacy from socialism is now eroding.

In those countries where large-scale wage labour farms are still the dominant form of production in agriculture (i.e. in most countries except Poland, former Yugoslavia, Albania, Latvia, Moldova, Armenia, and Georgia), a relatively large share (relative to developing countries) of the RNFE is probably connected to farm organisations. This is where the human and social capital for the RNFE is, and policies should consider this.

Throughout the region, there is not a general process of rural depopulation or re-population (with the possible exceptions of Albania and Romania). However, migration rates both within but particularly external to these countries have risen.

How will the RNFE in transition economies develop? First, it seems that the RNFE in most developing countries is driven by agricultural development, such as the Green Revolution. Given the current precarious situation of agriculture in CEE and CIS, this is unlikely to be the way forward there in the short term, but agricultural development could drive growth in the future.

Second, in the Central European countries, urban and perhaps foreign demand for rurally provided services and products is a possible motor of growth for the RNFE. This potential is greatest for European Union applicants. In other countries, urban purchasing power is probably not significant. Here transport and market transaction costs may create local advantages for the RNFE. However, this would be economic activity predicated on underdevelopment - and it questionable whether it is desirable to support this over the long-term as a major source of growth.

In comparison with most developing countries, transition economies have the following RNFE features:

1. Similar average rural non-farm income shares in CEE and the CIS households as compared to most developing countries (see Table 1); but lower if we exclude social payments (Bezemer and Davis, 2003).
2. Rural credit markets in developing and transition countries are poorly developed.
3. The RNFE is primarily services and small-scale trade (e.g. shuttle trade).
4. Foreign direct investment and the role of multinationals outside of Central Europe is limited.
5. Remittances are probably less important in most transition countries (perhaps with the exception of Albania).
6. Governments are typically insensitive to RNFE development and the agricultural paradigm very much dominates.

As previously noted, the three stages of the RNFE as outlined in Start (2001), are (1) large in 'pre-developed' countries (2) decreasing as development, urbanisation, and agricultural specialisation takes off; (3) increasing again with urban congestion. In most of CEE and CIS, the reverse has happened: from (stage 1) an (artificially) large RNFE and a relatively high level of (socialist) economic development to (stage 2) transition, which implied collapse of much of the (rural) economy and a cessation of urbanisation - in some cases a reversal of it. This means high (though often hidden) rural unemployment, much subsistence agriculture and distress-push RNF diversification where possible: the current RNFE is mostly a poverty-refuge. This means that resumed general economic growth would lead to a decrease in the RNFE, contrary to the Sub-Saharan African case. Supporting it may be a successful poverty reduction strategy, but is unlikely to lead to sustained rural economic growth.

## 5 What do we know about policies and interventions for RNFE growth?

### 5.1 Some initial questions

In many of the reviewed accounts, the RNFE appears as a subordinate and ancillary entity, waiting to take its cue from the drivers<sup>5</sup> in the rural economy, only a few of which - for example, tourism - fall within the RNFE itself<sup>6</sup>. If the RNFE is largely responsive rather than a driver, then we need policy to assist this response, in qualitative and quantitative terms. Still, there will be opportunities for parts of the RNFE in particular cases to constitute the economic base. This raises the question of how and when to identify these openings and provide support that allows them to be followed. In addressing this issue, we must study both the demand and the supply side of RNF activities.

### 5.2 The demand side

Demand makes possible RNF activity and greatly influences the returns obtained. As previously noted, demand arises locally for many of the products and services of the RNFE. This then makes the growth of the RNFE largely dependent on the incomes generated by those sectors that produce tradable goods and services. This is mainly comprised of sales of agricultural and other primary goods, and payments for labour services in the form of remittances. The RNFE is more active when and where the local farm economy is prosperous. These areas either tend to have good natural resources or are well connected to urban markets, or both.

Closeness to urban markets may create opportunities for RNF activities. This applies particularly in peri-urban areas, where possibilities exist for earnings from commuting, and from leisure, amenity, and residential services to those working and living in the cities. Closeness to cities is not always an advantage. Some RNF manufactures, usually those produced within the household, are highly vulnerable to competition from factory-made substitutes sold in rural market centres and villages.

Some concerns have been raised about the nature of local rural demand for the outputs of the RNFE (see for example Ellis, and Baghiwa, 20001; Haggblade et. al., 2002). In some cases, it is stated that the main part of spending on these comes from the better-off and rich households. In other cases, these households may see local goods and services as inferior and spend most of their income on products brought in from cities.

One RNF activity that has location advantages that can attract the demand of urban consumers and resist urban competition is tourism. However, in the studies reviewed, there were very few cases where tourism had been developed to any degree (see Box 2). Tourism had tended to develop as an enclave, with urban firms organising facilities using goods and services imported from the urban economy or even internationally. It may be that the supply of sufficiently attractive locations for international tourists and domestic demand for leisure is limited.<sup>7</sup>

---

<sup>5</sup> An (economic) “driver/ motor” is an economic activity that creates growing demand for other economic activities, by two routes: (1) it raises incomes which then are the source of growing consumer demand for the products of the other activities; (2) it creates derived demand on the input (upstream) side for inputs to it from other activities, and creates derived demand for processing and commerce downstream from it.

<sup>6</sup> However, it should also be noted that linkages may also work from non-farm to farm sectors, even if the latter is the principal driver.

<sup>7</sup> Tourism and leisure is surely an important component of the rural economy in the long run. As the UK found out last year, rural tourism in the UK is worth much more than farming. But this was in a context of highly, urbanised

However, it should be noted that there are other examples, such as Bali and Cancun where the urbanisation (de-ruralisation) of these regions is largely a consequence of the success of the tourist industry (see Wiggins and Davis, 2003; Tambunan, 1995; Wiggins et. al., 1999).

### **Box: 2 South African & Tanzanian Rural Tourism**

*South Africa since 1994.* In a country where some longstanding occupations such as mining are stagnating and where levels of unemployment and poverty in the former homelands are unacceptably high, there has been a vigorous search for new sources of activity and jobs in rural areas. Tourism is one option. International arrivals have more than doubled since 1994. There have been a series of local initiatives to combine local government leadership with central government funds to stimulate private investment into tourist facilities. In the case of Still Bay, Western Cape, the results have been dramatic. In a former fishing village of just 4,000 persons, some 700 new jobs have been created in tourism. But this may be exceptional, both in terms of the natural attractions of the coastline and the dynamism of local community leadership. But in other cases, experiences are less promising or incipient. On the Wild Coast of Eastern Cape, attempts to combine conservation, community development, decentralised local government and private investment have seen the last take precedence, as outside companies have entered to develop the potential. Local leaders have sometimes joined in: local communities have largely been marginalised. In part this may be case of powerful interests seizing on assets in disregard of local interests. But in part it reflects the great difficulties that locals, lacking capital and education, have in participating in such developments. (Sources: Bins & Nel 2002, Scoones 2002, Ashley Ntshona 2002). In the Serengeti-Ngorongoro region of northern *Tanzania* Game reserve there is little link from the foreign visitors to local businesses. The transport and lodges are enclaves that buy in their food, drink, and employ staff from other areas. Even the 'Maasai' dancers who perform at the lodges are neither local nor Maasai - they are outsiders who dress up as Maasai! For the locals, tourism does not feature as a livelihood. Instead the men migrate out to work as security guards: one job where the Maasai 'brand' is respected (Sources: Ashley et al. 2002, Homewood et al 2002).

The South African cases are all those of domestic tourism and intra-regional tourism is large and growing. A key lesson must be that of demand and markets particularly when the RNFE involves a supply chain to a distant market, where producers are not in daily contact with local consumers. Even at the local level, however, suppliers may not have a good idea of unmet demands that could be serviced locally and must develop awareness of possibilities. There are few reports of programmes and policies to guide interventions in this area (see Humphrey & Schmitz 1996, Rosenfeld 2002). Bringing producers and potential customers together in trade fairs and the like is one favoured option (see Wandschneider, 2003).

Several of the reviewed case study interventions have explicitly forged linkages between project participants and other sub-sector players. This has assisted producers' integration into target markets while at the same time enhancing their access to critical services and reducing their reliance on project agencies over the long term. In a context of high transaction costs and weak marketing networks, market linkage promotion facilitates information flows and communication between producers and input suppliers or buyers (Coote and Wandschneider, 2001). Similar reasoning applies to the promotion of linkages between project clients and public or private service providers in areas such as training and credit.

---

affluent economy with millions of urbanites willing to spend money of trips into the countryside. For most parts of the developing world, the market for tourism is largely made up of foreign, long-haul tourists. The domestic market is small, and in some cases made all the smaller by the preference of the local wealthy for taking any vacations in cities rather than rural areas.

### **Box: 3 RIMISP, promoting market linkages**

The RIMISP and the San José workshop case study interventions illustrate a vast array of linkage development initiatives. Examples include organising visits to markets and trade fairs, facilitating contacts between producers and other sub-sector players, providing project participants with information on clients and service providers, and vice-versa. Organising visits by potential clients or key market intermediaries and promoters to project areas, and arranging meetings between them and local producers or service providers, can be a very effective promotion strategy, as in the case of initiatives to develop tourism and handicraft production for export markets (see RUTA, DFID and the World Bank, 2002).

### **5.3 Supply side: infrastructure, finance, information**

If remoteness is a serious cost that the RNFE bears, then investment in infrastructure that cuts the costs of distance - in roads, telecommunications - must be a priority. However, roads can also expose local production to outside competition. Similarly, it is a severe handicap to local business if supplies of electricity and water are inadequate and unreliable. Given that resources are scarce, this raises the question of priorities, and whether when it comes to providing physical services, government should try and ensure that critical nodes - selected rural market centres - are serviced, rather than trying to provide all services everywhere, and stretching thin resources. Other supply side bottlenecks are readily observed at the household level, and have already been discussed. They include lack of technology, training, information, and finance. Particularly the area of finance and credit is often mentioned as the most acute limitation to business development. For at least two decades there have been many micro-finance initiatives promoted by governments, donors and NGOs to overcome these problems. There have been notable successes in this field, and probably enough models<sup>8</sup> to provide useful lessons. It is interesting that in the studies reviewed, in few cases had micro-finance programmes reached the subjects of the study. Replicating successful financial innovations clearly has a long way to go (see Box: 4).

### **Box: 4 Bangladesh Micro-credit schemes**

Bangladesh has become a model for organisations across the developing world seeking to develop credit services for the poor. The remarkable expansion of micro-credit delivery systems over the past two decades has allowed many amongst the rural - and urban - poor to engage in non-farm income-earning activities. Despite these achievements, the fact that micro-loans have been used mostly in low-paid and often casual activities with very low entry and exit barriers, and that relatively few amongst the beneficiaries have managed to graduate to more remunerative self-employment, must be borne in mind. The development of micro-credit systems in Bangladesh has certainly played an important role in enabling the poor to develop diversified income portfolios and has enhanced their resilience to natural and social shocks. But while it has contributed to reduce the extent of extreme deprivation, on its own it has failed to lift the majority of beneficiaries out of poverty. Furthermore, while much attention has been paid in Bangladesh to micro-credit services, the financial needs of other economic agents, namely small farmers and small-scale businesses, have been somewhat neglected (Basix, 2002).

### **5.4 Supply side: institutions, transactions and governance**

Most case study interventions involve more than one entity. Local, regional and national governments and rural development agencies are in many instances the main funding and implementing organisations. Some programmes and projects are funded or co-funded by bilateral and multilateral donor agencies. Cases exist in which other institutions also participate as

---

<sup>8</sup> Even if the Grameen Bank model has too often formed an overly restrictive template for initiatives in places well removed from Bangladesh.

implementation partners for example, national training bodies, research and extension agencies, etc.

An interesting approach, applied in Brazil and Panama (Berdegue et. al., 2000; Lanjouw, et. al., 2000), is the use of existing or project-sponsored local associations and municipal councils as consultative forums. Forum composition can vary but normally comprises a wide range of local actors, both public and private. These forums can generate ideas, identify needs and constraints, co-ordinate community-level actions, and facilitate interaction with regional and national bodies. Community-level consultation may provide insights into local needs and priorities, improve the targeting of project clients, and enhance their interest and participation in projects.

Municipal and regional governments can prove particularly helpful partners, especially when they show strong commitment to the development of their geographical areas. Their strategic importance is further enhanced by the multi-sector nature of the RNFE, with no line ministry or government agency having the specific mandate to promote its development, which falls under the responsibility of too many institutions. This institutional vacuum and fragmentation, which not only reflects the relatively limited attention awarded to the RNFE in the past but is also a natural consequence of its huge diversity and the multi-sector and geographically disperse nature of the support required, provides in itself a strong rationale for developing flexible and wide-ranging institutional coalitions (Haggblade et al, 2002).

Despite the potential advantages of broad private and public stakeholder alliances, it is important to acknowledge the difficulties of forming and managing such networks. The larger the number of agencies involved the more time consuming and complex is the task of co-ordinating project execution. Consequently, a selective and strategic approach to institutional partnerships, whereby networking efforts are explicitly linked to the importance of a particular stakeholder to project success, is essential.

Wandschneider & Davis (2002) have highlighted the importance of institutional coalitions for successful promotion of rural non-farm employment and income. Donor conditions for project funding usually include the development of partnerships between different public and private stakeholders; at both national and local level, and that pilot initiatives are developed to test the appropriateness of different partnership models. Some interesting models are currently being developed under DFID-funded rural livelihoods programmes (see Box 5).

#### **Box: 5 Innovative institutional RNF coalitions in Moldova & Russia**

In Moldova, local government employment centres are responsible for providing professional retraining services and start-up loan provision to target programme clients. Village councils also co-operate by charging affordable rents for premises under their control to programme participants who have been assisted to develop much-needed community services. In Russia, the regional and local administrations have contributed to programme funding and have established a rural development foundation, which currently runs a credit programme, a rural consultancy centre, a third party arbitration court, and an agricultural input and output marketing agency. Also in Russia, a pilot programme aims to institutionalise enterprise development initiatives in the tourism sector within Russian National Parks. The success of the project is largely measured in terms of its capacity to influence national park management policy and strategy at federal level. Successes to date include the granting of protected area logo to certain parks, a crucial step towards mobilising state resources, improving park management, and attracting increased tourist flows. Wandschneider and Davis (2002).

Institutionalisation process can be based within existing bodies, such a sub-sector or rural development agencies, or involve the creation of new ones. Whatever the format, new structures

should essentially play a facilitator and technical role and serve as information channels between different stakeholders and the relevant government agencies.

One possibility consists of creating small secretariats supported by consultative forums and structured around key sub-sectors and/or themes. Thematic bodies and forums are especially relevant in contexts where problems and opportunities cut across sub-sectors, as in the case of rural-based private sector development or agro-industrial export promotion. In some contexts, there may be a need for a regional, multi-sector focus. The role of technical secretariats would be to manage consultation processes in a participatory way, initiate studies and reviews, identify needs and opportunities, and instigate action as and where required. The latter may include projects and programmes, to be implemented by government and/or non-government agencies, with or without public funding. This type of experience is in place in many countries and should be subject to scrutiny for lesson learning and dissemination purposes.

There is much less in the reviewed accounts than might be imagined about the problems and possibilities in these areas. However, there are several accounts of the dangers of poor governance. For example, in Uganda, Tanzania and Malawi, commendable attempts to decentralise government were being implemented with little attention to detail. Consequently, local politicians were mounting tax systems that were narrow and weighed heavy on production and trade (see Ellis et. al., 2002). Others were realising the rents that come from allocating permits to carry out one or other activity, for example, fishing.

A variant on this concerns property rights when the ownership and management of public resources is handed from central and regional governments to local government. The rhetoric stresses local empowerment: the reality may be that such resources become appropriated by local elites who often dominate local political fora. This was found to be problematical in Zimbabwe and South Africa, when wild lands were devolved (Ellis, 2001).

In other cases, national regulations on the environment had been formulated that tended to penalise activities carried out by the poor. In response, Okali & Sumberg (2000) have called for a 'livelihoods precautionary principle' - the idea being that if in doubt about the effect of new regulations on livelihoods, err on the side of caution and hold back the regulation. Government should avoid making errors by implementing high-minded national policies without adequate consideration of local responses and impacts.

## **5.5 Integrating supply and demand: value chains**

The discussion above highlights the importance of adopting a holistic approach to RNFE project design and implementation, which considers the whole supply chain and sub-sector environment. Once target markets have been identified, project agencies must define interventions down the supply chain to ensure that goods and services satisfy market requirements and are produced for a profit. Producers must adopt the "right" production and marketing practices, have access to appropriate inputs at the right time and at a reasonable cost, and successfully develop links with markets and buyers. Good practice project interventions rarely focus on an isolated activity and set of producers since their success ultimately depends on the functioning of the whole supply chain, from input provision up to production and marketing. Critical bottlenecks along the whole product chain must be addressed, and this often implies assistance to players other than target project beneficiaries, including research and technical institutes involved in input technology development and dissemination.

More generally, a sub-sector approach should permeate the entire project cycle (Haggblade and Gamsler, 1991; Haggblade et al, 2002). This approach accounts for market trends, linkages between participants and their position within product chains, constraints and opportunities, the policy environment, and the entire range of supportive institutions. It can inform the choice of activities to promote based on their growth prospects and potential contribution to local development and poverty reduction. It can moreover help project agencies to target specific sub-sector players and decide how they can best position themselves vis-à-vis other actors. It can also constitute a good starting point for identifying technological bottlenecks; critical policy reform and support infrastructure needs, and appropriate institutional coalition building and business linkage development strategies. Systemic interventions in these areas can potentially benefit large numbers of sub-sector players facing similar constraints and opportunities. In short, the sub-sector approach can assist in the identification of economic drivers and has the potential to inform pro-poor agendas, while offering a road map for comparing alternative RNFE project interventions and for designing and implementing the chosen options in a holistic and cost-effective manner.

New thinking emphasises trying to integrate demand, supply, policy and governance issues into a single analysis that has practical application and can involve a range of stakeholders. This is expressed in ideas about supply or value chains, and in promoting industrial clusters.

There are two elements here. One stresses the value of integrated analysis that cuts across issues of demand, supply, and policy; focuses on interactions and transactions; and seeks to improve competitiveness through negotiation on possible improvements and coordination. Included in such consultation would be representatives from the major stakeholders in the chain - including firms, government, consumer groups, and civil society organisations.<sup>9</sup>

The other stresses the potential of forming and fostering clusters (see Humphrey & Schmitz 1996, Rosenfeld 2002) of similar and associated businesses to create external economies, to coordinate and cooperate, while stimulating competition between firms that will deliver productivity and competitiveness. The attractions of clusters are twofold: clusters can be made up of small enterprises - being small does not debar firms from competing even on the world market; and, clusters can arise in regions that have not had previously industrial advantages.<sup>10</sup> These are precisely the conditions that face rural areas in the developing world when beginning to industrialise.

Just how widely applicable these ideas are, is a matter for debate. The examples given of successful clusters in the developing world are in places that are already urbanised with much physical infrastructure in place - for example the leather and shoes complex of the Vale do Sinos, RGS, Brazil. Moreover, observers point out that policy to support clusters only works once the cluster has come into being, and admit that they have no clear theory of how clusters emerge. Finally, these approaches may only be of full use where there are enterprises producing for distant markets, but this may apply to only a fraction of the RNF enterprises.

---

<sup>9</sup> This proposal is outlined in Haggblade et al. 2002. In practical policy, it is a major recent proposal in Mexico, where the Agricultural Secretariat has announced that for each major agricultural and food sub-sector there should be a forum created at national, state and municipal levels to bring together actors in the chain for consultations and negotiations.

<sup>10</sup> For example, in Europe, successful clustering has been observed in regions such as north-east and central Italy, south-west Germany, mid-Jutland in Denmark, and in Ireland - all regions that fifty years ago or even more recently were industrial backwaters. They were also predominantly rural regions with less urbanisation and less manufacturing than other parts of their countries.



## **5.6 Developing rural producer organisations**

Many good practice RNFE interventions target rural producer organisations. Projects may work with existing organisations or support the formation of new ones. These organisations may be formal or informal, vary in size, be community-based or have broader geographical scope. They may have been established at the primary, producer level or consist of higher-tier federations of sector, sub-sector or activity-based organisations.

A gradual (step-by-step) and participatory approach to group enterprise development, which supports genuine grassroots initiatives, seems preferable. Training and market linkage development seem critical components of effective support packages.

Shared ownership of assets and joint production activities often prove problematic, placing a significant burden on management capabilities and enhancing the scope for free-riding and intra-group conflicts. These potential problems are less acute in service provision in areas such as joint input procurement and product sales.. Moreover, groups with close ties to large, successful firms may have greater chances of succeeding due to their advantageous position in terms of access to inputs, markets and/or support services.

## **5.7 Linking to PRSPs and national policy-making**

To date, the processes of formulating Policy Reduction Strategy Papers have paid little attention to the level of detail that would demand an analysis of the RNFE. That does not mean there are no consequences of the PRSPs and associated strategies on the RNFE. On the contrary, the cases reviewed already report the following links:

- For Tanzania, Ellis & Mdoe (2002) argue that the country's Poverty Reduction Strategy Paper (PRSP) identifies problems in the public provision of roads, education and health - about which programme funding can do much to remedy - and in markets, credit access and cost of inputs, where it is less easy to see effective public action to correct failings. But the PRSP, barely considers the local institutional environment. In common with the strategy for Uganda, the assumption is that decentralisation will allow local solutions to be devised effectively to cope with local issues.
- This is convenient for senior policy-makers who prefer to focus on macro-level issues of economy and governance. But the (unwelcome) findings of studies in both Tanzania and Uganda is that there is an uncomfortably high chance that decentralisation, as currently implemented, will bring few of the expected benefits. Worse, it can re-create an environment of rent-seeking at the local level that both donors and governments have made concerted efforts to combat at the national level.
- In the Tanzanian example, the PRSP is criticised for emphasising improving farm productivity to the exclusion of other issues affecting the rural economy.
- From Southern Africa come reports that attempts to transfer ownership and management of common natural resources to local-level bodies is not producing either efficiency or equity, and indeed, may be adding further layers of ambiguity and confusion to property rights. The problem diagnosed is one of taking simple, uniform models of decentralisation and applying them to diverse contexts.
- In common with many other studies, these reports include several cases where the retreat of the state or privatisation of state assets has created as many or more problems than it has solved. Typically, the withdrawal of a state service in providing credit, technical

assistance, input supply or marketing has led to a vacuum into which private actors have been unwilling to step.

Hence, we are presented with a problem. Formulating PRSPs may already be such a complex exercise that one can hardly expect or demand that the RNFE be given detailed and thorough treatment. Even more so, when the RNFE is so diverse that the very concept would be as likely to introduce confusion as useful clarity to public debates on development strategy. But we can already see that failure to consider some aspects of the RNFE can produce both strategies that are lacking, and policies that may have serious shortcomings. Furthermore, it is not the case that decentralisation will allow RNFE issues to be dealt with at an appropriate level of subsidiarity. On the contrary, it is at the local level that the issues may be dealt with unsympathetically.<sup>11</sup>

A livelihoods approach to analysing rural poverty may help policy-makers appreciate the importance of the non-farm elements of the rural economy. But it is far from clear that the livelihoods framework helps shed light on key RNFE issues - with the possible exception of the importance of access to financial services. However, the framework has no spatial dimension. Transactions may be included in the framework, but they do not have the prominence that may be needed to appreciate rural business development.

If one were to try and ensure that RNFE issues were not ignored when national strategies, plans and policies are formulated, then the following two questions could be added to the list of considerations:

- *The economy of the RNFE.* What is the economic base to the RNFE? (Major question: is the base typically agriculture, fisheries, or forestry?) How can this base be stimulated? How then do linkages apply to ancillary activities? In addition, to what extent can public action enable and facilitate both the base and the linkages? (Provision of hard infrastructure, creating institutions, setting parameters in the macro-economy and for governance, investment in education, training, health etc.)
- *Social aspects of the RNFE.* To what extent does the RNFE allow the poor and those disadvantaged by gender or other characteristics, access to jobs and incomes? How can the RNFE be stimulated to improve equity and growth?

## **5.8 Summary**

Based on our review of 55 DFID projects, the RNFE cannot be said to definitively act as a driver for the rural economy, independent of agriculture or other primary activities. However, certain non-farm activities are not only reactive to rising production and income in primary sectors but can also facilitate or even initiate growth in these primary activities. Linkages work both ways, from agriculture to non-agricultural sectors, and vice-versa. Although rewards to participation in the RNFE are often unequally distributed, and tend to skew income distributions even further from equality, it is also important to make a clear distinction between inequality and poverty. The RNFE may in many contexts contribute to reduced poverty while at the same time generate increased inequality.

---

<sup>11</sup> Is there a correlation between centralised governments and success with the RNFE? 'Yes', perhaps - look at China, Taiwan and compare to India. But then again, what of Korea? And if centralised governments were good at rural industrialisation, then Latin America would have much rural industry: instead that region is marked by pronounced urban and industrial concentration.

There are two main narratives reported. In one, the RNFE alleviates destitution since it becomes a refuge for the poor - and to the wider rural community when crops fail - but do not necessarily eradicate poverty. In the other, clear correlations between the extent of the RNFE and reduced poverty are reported. These correlations may also arise from other causes, as for example when it is success in farming that has reduced poverty, and that this stimulates the local RNFE, with further second-round reductions of poverty.

For some households with resources, RNF activities are a way out of poverty and indeed into modest prosperity. But for the majority of rural inhabitants, the RNFE provides a low-level livelihood, a safety net, and perhaps not even one that lifts them above a poverty line. It does reduce the depth of their poverty, even if it may not offer a route to any degree of material comfort. However, some non-farm activities (input supply and crop processing) may enable households to obtain higher returns from agriculture, and in this sense they may have a positive impact on poverty.

Hence we come back to the vision presented earlier: the RNFE prevents destitution, but can we really expect it to alleviate mass poverty in the absence of other drivers - based on primary activity - in the rural economy? Are there cases where the RNFE, independently of farm incomes and remittances, has significantly reduced rural poverty? It becomes difficult to find a single case in among the 55 studies reviewed. Outside of peri-urban zones and some, small areas that are favoured for tourism, the prospects seem limited.

The majority of the cases reviewed in our study support the argument that much RNF activity distributes income as unequally as primary activities. The poor, the discriminated, females, remote areas - all seem more often to be at disadvantage in accessing RNF opportunities compared to those who already hold important advantages. Indeed, Reardon et al. (1998) have highlighted the paradoxes of the RNFE: that it works best for people and areas that need the boost least, and usually does much less for those who lack resources and education, and for remote areas. Those few studies that look explicitly at income distribution see self-employment businesses in the RNFE as widening income differences; but also that waged jobs tend to close the gap. This suggests that the key point in reducing inequalities and disadvantage is creating jobs in the RNFE, rather than businesses in themselves.

Similarly, there are very few mentions in our review of 55 DFID studies and projects of the impacts of the RNFE on the physical environment. What little is reported sometimes argues that RNF income can be invested on farm to allow more intensive use of the land, including practices such as terracing and tree planting that conserve resources. On the other hand, there is the observation that in Swaziland, remittance incomes have allowed villagers to invest in stock that are grazed on communal pastures that are under heavy pressure (Wiggins, 2003).

## **6 What could donors do to promote RNFE growth?**

### **6.1 What do we think works?**

The multifarious economic activities with differing pro-poor growth potential and implications for policy intervention make it important to focus on key issues and activities (e.g., tourism, construction, transport services etc.) which have growth potential. At the same time, the importance of linkages and multiplier effects in the rural economy implies that governments and multilateral agencies need to move away from traditional sectorally compartmentalised thinking of rural areas towards more “joined-up” models of multisectoral, mutually symbiotic growth. Our

review of DFID projects and research suggests that rural economic drivers generally lie within primary sectors, agriculture in particular. Furthermore, we maintain that supply-chain and sub-sector approaches should inform many rural development policies and interventions aimed at promoting RNFE growth. The issue is not so much whether we intervene in the primary sector or rural non-farm sectors, but rather to acknowledge that potential engines of growth (e.g. agriculture) are intimately linked to other upstream and downstream activities, which are non-farm. The two should develop in tandem since linkages operate both ways: while raising productivity and incomes in agriculture foster growth elsewhere, improvements in agricultural service provision (e.g. input supply and marketing) and processing may play a critical role in stimulating agricultural production.

## **6.2 What can donors contribute?**

Policies and interventions aimed at developing agriculture will need to address bottlenecks outside the sector. The policy entry point may lie in the RNFE or even urban areas. For example, port and air cargo services may need to be improved if horticultural exports are to take-off. The enabling environment for private sector activity may need significant improvement if agribusiness firms are to invest in processing activities within rural areas. In short, RNFE policies and interventions may be required to release the potential associated with “dormant” drivers of rural growth.

Donors and some developing country governments could take the RNFE sector much more seriously in terms of project, programme and investment plans (although a continued focus on agriculture is necessary). Donors need to work more closely together; work across disciplines; look at non-traditional areas/ sectors e.g. infrastructure and regulatory frameworks; work with government agencies; and work through existing institutions.

Donors can also assist governments in creating an enabling environment for rural development through technical assistance and support with the legal framework for enterprise, the regulatory environment for service delivery and provision, contract enforcement, RNF pro-poor growth strategies as part of PRSPs etc, and a functioning financial system.

Donors can facilitate policy integration and harmonisation through public-private cooperation and the development of shared donor and government platforms on best practice and evaluation of rural development initiatives and poverty reduction strategies. The RNFE in developing and transitional economies is fundamentally private. Donors can assist the development of the private sector and facilitate its involvement in RNFE investments, planning strategies and job creation to promote growth.

## **6.3 What generic strategies could be used?**

Key strategies include: assisting government in the identification the key constraints to RNF development with different types of market failures: labour, credit, commodity, infrastructure and skills-mis-match. For example, DFID India disaggregates to identify potential growth engines in specific areas; and disaggregates gains to identify those sectors that provide a combination of growth and employment opportunities. In certain cases, the use of donor subsidies to promote growth in for example less favoured areas may be viable where these take the form of “greenfield” investments aimed at attracting further private sector or foreign direct investment (e.g. joint ventures, infrastructure projects etc) through demonstration effects.

However, donors should primarily intervene from the demand side, not the supply side (however, some supply side interventions also require action for example training). Most services and products from the RNFE is non-tradable - i.e., dependent on local consumption. In addition, low per capita income reduces demand even if there is demand; so supply-side interventions may be inappropriate if demand is stagnant. Alternatively, donors could help make non-farm products tradable in their own right (through assistance with marketing, business services, training, labelling, product development and investment). For example, if we consider eco-tourism, the main demand is local and the key constraint is low income; thus agriculture remains very important. The engine is taking growth from the main exports from a region: forestry, mining, manufacturing. Donors need to examine supply chains and look for bottlenecks to be loosened (and opportunities to be stimulated), never mind the sector in which they may arise, or whether that point is geographically rural or urban. There is a history of blind spots in agricultural development, when enormous effort has gone into gearing up on-field production, with little attention to post-harvest issues (a deficiency that the DFID RNR programme has tried to address directly).

Tools for RNFE analysis exist however donors should try not to do everything. We have shown that using research to link and evaluate action is practical and useful. Also investing in local level public goods (perhaps in some cases with the state as facilitator) and perhaps safety net provision (short term) would be useful. Donors also need to look wider than just self-employment in the RNFE, but also at businesses (SMEs) that employ 20-30 people as part of a waged job creation strategy.

#### **6.4 How to intervene in resource-poor, low-potential areas?**

The economic potential of a particular rural area largely depends on its natural resource base and location due to its impact on market access. Low-potential areas tend to score low on both accounts, in that they lack the economic resource base and suffer from remoteness. The economic and social infrastructure is generally poor and human capital levels are low. Because of the lack of economic opportunities, these areas normally export labour to other more prosperous regions within the country or abroad. It is important to note, however, that not all under-developed regions have low economic potential. Some may possess resources and dormant engines of growth, which have not been developed due to infrastructural constraints, bad governance, or conflict.

Whilst RNFE interventions in low-potential areas may be desirable from a poverty reduction perspective, project agencies must be well aware of the difficult challenges ahead. Given the paucity of growth engines, infrastructural development in these regions may generate few employment and income opportunities while exposing them to increased competition from the outside, a scenario that would exacerbate economic distress and intensify migration outflows. In these adverse environments, the higher intervention costs, the need for a longer intervention timeframe, the difficulties of generating significant impact, and the potential sustainability problems must also be borne in mind. Still, even resource-poor regions may offer scope for cost-effective, demand-driven interventions. Livestock, forestry, fisheries or handicraft activities can often be targeted. Cultural specificities and natural beauty may in some cases present opportunities for developing tourism.

Despite the fact that some case study programmes and projects have intervened in poor communities and areas, knowledge on how to promote the RNFE in remote and low-potential areas is still insufficient. What sort of interventions should be developed for resource-poor and remote areas which lack clear growth opportunities? What sort of balance should be reached

between support to higher and lower potential regions? Resources are scarce and difficult allocation choices must be made.

### **6.5 How to develop private service activities?**

Services are weakly represented in the studied RNFE interventions, which emphasise manufacturing activities, especially food processing. Within the case studies that involve service activities, tourism clearly predominates. Biases in the sector composition of RIMISP case studies are partly a consequence of the fact that many RNFE project interventions in Latin America reflect local communities' interest in adding value to their agricultural production. These imbalances may also result from insufficient knowledge by programme and project designers of recent empirical work showing that in Latin America services account for a much larger proportion of RNFE incomes than manufacturing (Reardon et al, 2001).

The fact that services are important to the livelihoods of many poor rural households cannot be neglected, nor can the fact that some of them play a supportive role in the development of key sub-sectors<sup>12</sup>. While it is true that in the past RNFE interventions have shown a tendency to overlook such activities, this feature may be somewhat overstated. Some examples of micro-credit and micro enterprise development initiatives in Latin America with clear impacts on rural service activities could have been assessed (RUTA, 2001). An evaluation of these experiences could then translate into lesson learning and the development of guidelines for rural service activity promotion. Dissemination of this work could prove important in addressing current sector imbalances within RNFE initiatives.

### **6.6 What role for wage employment promotion?**

Nearly all studied interventions emphasise self-employment. This contrasts with recent empirical evidence, which shows that in rural Latin America and South Asia non-farm wage employment is equally - if not more - significant (Mandal and Asaduzzaman, 2002; Reardon et al, 2001). The excessive focus on self-employment may perhaps result from perceptions of its less exploitative nature and its strategic importance for poverty reduction. Although true in some contexts, these perceptions are debatable. Integration of the poor into the labour market can prove a much valid complement, and sometimes superior alternative, to strategies centred on self-employment promotion in the informal or formal sectors.

A greater balance between promotion of self-employment and support to small and medium enterprise development has implications in terms of the spatial focus of programme and project interventions. The latter requires using rural town centres as an entry point to a greater extent, since small and medium enterprises tend to locate in centres where they can benefit from improved access to services, economic infrastructure, markets, and labour.

Although there may be some scope for project support to large enterprises, this option is limited since external bottlenecks to firm growth tend to dominate. Because of their costly and public good nature, external constraints are largely beyond the intervention capacity of individual projects, and must be addressed through selective sub-sector interventions by local and central governments and project networks. Key bottlenecks may include, for example, inadequate power and water supply, poorly developed telecommunications; weak transport infrastructure etc.

---

<sup>12</sup> This is the case, for example, of repair, trading and transport activities.

## **6.7 How to ensure sustainability?**

Most sustainability analyses are conducted before, during or immediately after project interventions, often as part of project design, monitoring and evaluation. The analysis undertaken is generally forward-looking and somewhat speculative rather than based on objective indicators. Comparative analyses of different case study experiences are rare. Sometimes, those involved in the analysis lack the incentives to undertake an objective and critical assessment or disseminate findings to a wide audience. For all these reasons, and despite many decades of rural development interventions, not enough is known about sustainability. Dissemination of lessons learned has also been erratic and far from effective in changing perceptions and practices.

Future research should address current knowledge gaps and stress dissemination among relevant agencies and organisations. Focussed case studies, conducted by independent analysts some time after projects or programmes have phased out, could prove rather useful. Examples of similar strategies that have succeeded or failed in different parts of the world would be particularly illustrative.

## **6.8 How do we prioritise policies & interventions?**

As the RNFE in both developing and transition economies covers a lot of ground the above may be a little general. Few if any expected points are omitted. But a policy-maker might wish for more guides in prioritising amongst the many good things that might be done. How do we go about prioritising? We need to be able to classify sets of policies by some criterion such as phase of development, or geographical characteristic of the RNFE - remote areas, middle countryside, peri-urban areas. The following is expressed as phases, although the three phases could be re-labelled as remote, middle and peri-urban areas requiring only a few adjustments (see Table 3 below). This is hardly surprising if for many rural areas there has been, is and will be a sequence of moving from remoteness to peri-urbanity (but this should not be over-stated: there will be places that will not necessarily make these transitions). Table 4 provides a summarised best practice guide to RNFE interventions. Table 4 highlights key principles, strategy, activity and rationale for donor or government intervention. The key principles include:

1. Prioritise activities targeting attractive markets
2. Support producers to meet market requirements
3. Improve market access
4. Whenever relevant and feasible, promote the development of common interest producer associations and co-operatives
5. Develop flexible and innovative institutional coalitions
6. Adopt a sub-sector approach
7. Develop sustainability strategies from the beginning

**Table 3. Phase & context of RNFE development: prioritising interventions**

<i>Phase &amp; context</i>	<i>The agricultural &amp; food chain</i>	<i>RNFE</i>	<i>Policy implications</i>
I. Isolated rural economy, little development	<ul style="list-style-type: none"> <li>• Production to cover local subsistence. Processing takes place within village.</li> <li>• Only surpluses produced are for products that are higher enough in value to weight to bear high transport costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Highly diverse, since needs to produce for most of the village</li> <li>• Main products: construction materials, utensils, tools, furniture, clothing</li> <li>• Services: repairs, construction, transport, trading</li> <li>• Education, health &amp; healing, religious, entertainment</li> <li>• Migration may be important source of funds.</li> </ul>	<ul style="list-style-type: none"> <li>• Investments in basic physical infrastructure, above all roads.</li> <li>• Education &amp; primary health care, including vaccination campaigns.</li> <li>• Drinking water &amp; sanitation.</li> </ul>
II. Rural economy becomes more closely connected with urban economy	<ul style="list-style-type: none"> <li>• Production rises, with an increasing fraction of farm output destined for the market. More specialisation.</li> <li>• Some processing may now shift to cities.</li> <li>• Inputs - fertiliser, chemicals, tools &amp; machinery - bought in from urban industry.</li> <li>• Some food products brought in from other regions.</li> </ul>	<ul style="list-style-type: none"> <li>• Imports from urban industry replace some local (artisan) manufacturing - e.g. textiles, plastic goods, &amp; ironmongery.</li> <li>• Increased local purchasing power stimulates some parts of the RNFE, above all retailing, construction, transport, &amp; entertainment.</li> <li>• Increasing government spending on formal education, health services, physical infrastructure &amp; utilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Supply side policies: technology extension</li> <li>• Remedying market failures, above all in financial markets. Possible input supply &amp; marketing.</li> <li>• Formal institutions: property rights, weights &amp; measures.</li> <li>• Expanded &amp; improved physical infrastructure - including telecomm &amp; electrification - &amp; social investments.</li> </ul>
III. Rural economy well integrated into national economy	<ul style="list-style-type: none"> <li>• As above, only more so.</li> <li>• Farming may find itself facing higher land costs in competition with housing &amp; industry in peri-urban zones. Access to water may be contested in such areas: pollution may become a charge on farming.</li> </ul>	<ul style="list-style-type: none"> <li>• RNFE becomes larger, driven by increased local &amp; govt spending, but becomes more specialised as goods &amp; services are brought into the village or else villagers travel to urban centres to seek goods &amp; services.</li> <li>• RNFE thus focuses on non-tradables: retailing, transport, education &amp; health, construction.</li> <li>• Emergence of new opportunities in leisure &amp; tourism.</li> <li>• In peri-urban areas, provision of urban services in housing.</li> <li>• In some cases, decentralised manufacturing sets up in rural areas - seeking lower labour &amp; land costs. Operates on sub-contract to urban firms.</li> <li>• Govt spending may become a significant fraction of rural incomes, if policy is to provide comparable services in rural areas to those in urban areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance of physical infrastructure &amp; supply of social investments.</li> <li>• Facilitating private investment, information flows - generally trying to reduce transaction costs</li> <li>• Land use planning &amp; regulation in peri-urban zones</li> </ul>



**Table 4 Best practices: a guide to interventions**

<i>Key principles</i>	<i>Strategy</i>	<i>Activities</i>	<i>Rationale</i>	<i>Comments</i>
1. Prioritise activities targeting attractive markets	Identify remunerative markets	<ul style="list-style-type: none"> <li>• Formal and informal market appraisals</li> </ul>	Capitalise on activities with good growth prospects to achieve impact and contribute to local economic development	Most higher potential activities will cater for non-local markets
2. Support producers to meet market requirements	Improve production, marketing and managerial skills Promote access to credit Ensure access to intermediate inputs and technology	<ul style="list-style-type: none"> <li>• Provide on-the-job and formal training/link producers to training providers</li> <li>• Promote exposure visits</li> <li>• Develop business advisory services/link producers to business advisory service providers</li> <li>• Deliver credit/ link producers to credit suppliers</li> <li>• Develop saving and loan groups and credit co-operatives</li> <li>• Support input production/ link producers to input suppliers</li> <li>• Promote effective sub-contracting systems.</li> </ul>	Produce what the market wants at competitive prices	
3. Improve market access	Develop market linkages Stimulate demand Improve transport infrastructure Develop producer organisations	<ul style="list-style-type: none"> <li>• Organise exposure visits to markets and trade fairs</li> <li>• Organise visits to production sites by buyers</li> <li>• Facilitate contacts between producers and buyers</li> <li>• Provide information on buyers</li> <li>• Advise producers on product labelling and certification and advertising and selling strategies</li> <li>• Engage in dialogue with relevant public stakeholders to develop critical public infrastructure and market promotion efforts</li> <li>• Assist producer group formation and development. Etc</li> </ul>	Enable producers to access remunerative markets through a reduction in transaction costs, development of customer loyalty, and/or an increase in scale	Linkage promotion is most effective when producers have some minimal scale. Infrastructure development is often beyond the scope of RNFE projects, and normally requires government action.

**Contd.**

<i>Key principles</i>	<i>Strategy</i>	<i>Activities</i>	<i>Rationale</i>	<i>Comments</i>
4. Whenever relevant & feasible, promote development of common interest producer associations & co-operatives		<ul style="list-style-type: none"> <li>• Provide training and advice on group leadership and management, marketing strategies, etc</li> <li>• Provide business advisory services</li> <li>• Promote market linkages Etc.</li> </ul>	Reduce service delivery costs, foster scale economies, and improve bargaining position and lobbying capacity of small-scale producers..	The success of past experiences in group formation and development has been mixed.
5. Develop flexible and innovative institution coalitions	<p>5.1 Sensitise and mobilise a wide range of relevant players and supportive institutions.</p> <p>5.2 Support capacity building within relevant public and private organisations.</p>	<ul style="list-style-type: none"> <li>• Form multi-stakeholder local consultative forums.</li> <li>• Develop dialogue with local, regional and national governments. Etc.</li> </ul>	Attract funding for projects and programmes, build on the strengths of different institutions and service providers, attract government investment in critical public goods, promote key policy reforms, ensure continuity of service provision after project lifetime, etc.	Need for a selective and strategic approach to institutional partnerships to reduce the complexity of co-ordinating project execution and stakeholder dialogue.
6. Adopt a sub-sector approach		<ul style="list-style-type: none"> <li>• Market appraisal</li> <li>• Supply chain analysis</li> <li>• Institutional analysis</li> <li>• Identification of leveraged interventions</li> </ul>	Intervene taking into account the whole supply chain and the sub-sector environment (market players, support institutions, policies, constraints, opportunities, etc).	
7. Develop sustainability strategies from the start	<p>7.1 Support financially viable economic activities</p> <p>7.2 Strengthen capacity of project participants</p> <p>7.3 Promote effective linkages to service providers and buyers</p> <p>7.4 Lobby for supportive public investment and policies</p> <p>7.5 Develop appropriate time frame for implementation</p> <p>7.6 Use subsidies strategically, emphasising innovation and services with public good component</p>		Ensure that critical support services and promoted economic activities continue beyond project lifetime.	Lack of sustainability is often the weakest element of RNFE project interventions.

## 7 References

- Ashley, Caroline, Ntengua Mdoe & Lou Reynolds, 2002, 'Rethinking wildlife for livelihoods and diversification in rural Tanzania: a case study from northern Selous', LADDER Working Paper No. 15, March 2002, Overseas Development Group, University of East Anglia, Norwich.
- Barrett, Christopher B. & Thomas Reardon, 2000, 'Asset, activity and income diversification among African agriculturalists: some practical issues', Discussion Paper, Department of Agricultural, Resource & Managerial Economics, Cornell University, Ithaca NY 14853-7801.
- Berdegúe, Julio, Thomas Reardon & Germán Escobar, 2000, 'Empleo e ingreso no agrícolas en América Latina y el Caribe', Paper to 'Development of the rural economy and poverty reduction in Latin America and the Caribbean', New Orleans, Louisiana, March 2000 in conjunction with the Annual Meeting of the Board of Governors of the Inter-American Development Bank and the Inter-American Investment Corporation
- Bezemer, D. and J. Davis (2003) The Rural Non-Farm Economy in Armenia. Forthcoming in: Spoor, M. (ed) Transition, Institutions, and the Rural Sector in series: Lerman *et al* (eds) Rural Economies in Transition. Lanham, MD: Lexington Books.
- Bezemer, D. J., and Davis, J.R. (2003) The rural non-farm economy in Armenia: Overview of findings. NRI, unpublished mimeo.
- Bezemer, D. J., and Davis, J.R. (2003) The rural non-farm economy in Georgia: Overview of findings. NRI, unpublished mimeo.
- Bezemer, D. J., and Davis, J.R. (2003) The rural non-farm economy in Romania: Overview of findings. NRI, unpublished mimeo.
- Cannon, T. and D. Smith (2002), *Rural non-farm economy project: Uganda fieldwork case study synthesis report*, NRI Report No. 2701, Chatham: NRI.
- Coote, C. and T. Wandschneider (2001), *Training manual on NGOs and Agricultural marketing: Principles, interventions, and tools*, NRI/CARE Bangladesh.
- Coppard, D. (2001), *The rural non-farm economy in India: A review of the literature*, NRI Report No. 2662, Chatham: NRI.
- Dasgupta, N., Khanna, N., Singh, A. and L. Singh (2002), *Local governance institutions in two districts of Madhya Pradesh, India*, NRI Report No. 2688, Chatham: NRI.
- Davis, J and Pearce D (2001) The Rural Non-farm Economy in Central and Eastern Europe. in Lerman, Z and Csaki, C. (2001) 'The Challenge of Rural Development in the EU Accession Process' World Bank Technical Publication. Washington DC, World Bank.
- Davis, J. and A. Gaburici (2001), *Non-farm Employment in Small-Scale Enterprises in Romania: Policy and Development Issues*, NRI Report No. 2637, Chatham: NRI.
- Davis, J. and Cristoiu, A. (2002) Patterns of rural non-farm diversification and employment in Romania: A county level analysis. *NRI Social and Economic Series Report No. 2639*.
- Davis, J.R. and Bezemer, D.J., (2003) Key emerging and conceptual issues in the development of the rural non-farm economy in developing countries and transition economies. Report 2, DFID unpublished mimeo.
- Ellis, F. (2000a) The Determinants of Rural Livelihood Diversification in Developing Countries. Journal of Agricultural Economics. Vol. 51 (2): 289-302.

- Ellis, Frank & Godfrey Bahiigwa, 2001, 'Livelihoods and rural poverty reduction in Uganda', LADDER Working Paper No 5, November 2001, Overseas Development Group, University of East Anglia, Norwich, UK
- Ellis, Frank & Ntengua Mdoe, 2002, 'Livelihoods and rural poverty reduction in Tanzania', LADDER Working Paper No 11, February 2001, Overseas Development Group, University of East Anglia, Norwich, UK
- Ellis, Frank, 2001, 'Rural livelihoods, diversity and poverty reduction policies: Uganda, Tanzania, Malawi and Kenya', LADDER Working Paper No 1, September 2001, Overseas Development Group, University of East Anglia, Norwich, UK
- Ellis, Frank, Milton Kutengule & Alfred Nyasulu, 'Livelihoods and rural poverty reduction in Malawi', **LADDER Working Paper No. 17**, June 2002, Overseas Development Group, University of East Anglia, Norwich
- Haggblade, S.J. and M.S. Gamsler (1991), *A field manual for sub-sector practitioners: Tools for micro-enterprise programs*. Gemini Project, Development Alternatives Inc.
- Haggblade, Steven, Peter Hazell & Thomas Reardon, 2002, Strategies for Stimulating Poverty-Alleviating Growth in the Rural Nonfarm Economy in Developing Countries, **Paper** prepared for the World Bank, March 25, 2002, International Food Policy Research Institute, Washington D.C. – unpublished mimeo.
- Homewood, K. M., M. Thompson & E. Coast, 2002, 'In-migrants and exclusion in East African rangeland buffer zones', Mimeo, Department of Anthropology, University College London, London.
- Humphrey, John & Hubert Schmitz, 1996, 'The Triple C approach to local industrial policy', *World Development*, 24 (12), 1859–1877.
- Indian Grameen Services (BASIX), 2002, 'A study of micro-diversification pattern of livelihoods in Andhra Pradesh', Draft Report for ODI
- Janowski, M. and A. Bleahu (2002), *Factors affecting household-level involvement in rural non-farm economic activities in two communities in Dolj and Brasov judete, Romania*, Paper presented at the workshop "Rural non-farm employment and development in transition economies", University of Greenwich, London, 6-7 March.
- Kharatyan, H. and M. Janowski (2002), *Factors affecting involvement in the rural non-farm economic economy in villages in Armenia*, Paper presented at the workshop "Rural non-farm employment and development in transition economies", University of Greenwich, London, 6-7 March.
- Kobaladze, K. (2002), *A study of non-farm activities in FSU Georgia: A regional focus*, NRI Report No. 2681, Chatham: NRI.
- Lanjouw, P. (1998), *Poverty and the Non-Farm Economy in Mexico's Ejidos: 1994-1997*. Free University of Amsterdam and DERCG, World Bank. (mimeo)
- Lanjouw, P. and F. Ferreira (2000) Rural Non-Agricultural Activities and Poverty in the Brazilian Northeast. [Economics Department of PUC-Rio Discussion Paper 428](#).
- Lanjouw, P. and G. Feder (2001), *Rural non-farm activities and rural development: From experience towards strategy*, mimeo. Washington D.C.: The World Bank.
- Mandal, M.A.S. and M. Asaduzzaman (2002), *Rural non-farm economy in Bangladesh: Characteristics and issues for development*, Paper presented at the workshop "The Rural Non-Farm Economy in Bangladesh", Dhaka, January 22-23.
- Marter, A. (2002), *The rural non-farm economy in Uganda: A review of policy*, NRI Report No. 2702, Chatham: NRI.

- Mihahilescu, V. (2002), *Householding and rural development*, Paper presented at the workshop “Rural non-farm employment and development in transition economies”, University of Greenwich, London, 6-7 March.
- Pandey, R., Cannon, T., Jena, G. and T. Wandschneider (2002), *Rural non-farm employment in Nayagarh District of Orissa: Findings from a participatory rural appraisal*, Chatham: NRI. (draft)
- Rath, A., Cannon, T. and T. Wandschneider (2002), *Rural non-farm employment in Bolangir District of Orissa: Findings from a participatory rural appraisal*, Chatham: NRI.
- Reardon T, Stamoulis K, Cruz M-E, Balisacan A, Berdegue J and Banks B (1998) Rural Non-Farm Income in Developing Countries. The state of food and agriculture 1998: Part III Rome, Food and Agricultural Organisation of the United Nations.
- Reardon, T., Berdegue, J. and G. Escobar (2001), Rural non-farm employment and incomes in Latin America: Overview of issues, patterns and determinants, *World Development*, 29 (3), March.
- Rosenfeld, S, (2002), A governor’s guide to cluster-based economic development, National Governors Association, Washington DC.
- RUTA, DFID and the World Bank (2002), *Taller Promoción del Empleo Rural No Agrícola para el Desarrollo Económico Local y la Eliminación de la Pobreza Rural en Centro América*, Final Report, San José, Costa Rica, 19-20 March 2002.
- Scoones, Ian, 2002, Sustainable livelihoods in southern Africa: governance, institutions, and policy processes. Annual Report, June 2002, IDS Sussex.
- Smith, D.R. and K. Zwick (2001), *Access to rural non-farm livelihoods: Report of preliminary field work in Kumi District, Uganda*, NRI Report No. 2596, Chatham: NRI.
- Som, R., Kleih, U., Kumar, Y. and S. K. Jena (2002), *Rural non-farm employment in Madhya Pradesh: Findings of a participatory rural appraisal in 8 villages*, NRI Report No. 2694, Chatham: NRI.
- Start, D. (2001) The Rise and Fall of the Rural Non-farm Economy: Poverty Impacts and Policy Options. Development Policy Review, 19 (4): 491-505.
- Wandschneider, T.S (2003), Determinants of access to rural non-farm employment: evidence from Africa, South Asia and transition economies. Report 5, DFID, unpublished mimeo.
- Wandschneider, T.S. (2003), Best practices and strategies for promoting rural non-farm employment through project interventions. Report 4, DFID, unpublished mimeo.
- Wandschneider, T.S. and J. Davis (2002), *Rural non-farm employment and development in transition economies*, Proceedings of a workshop held at the Old Royal Naval College, University of Greenwich, London, 6-7 March 2002.
- Wiggins, S. (2003) The Rural Non-Farm Economy: Key issues. Report 3, DFID, unpublished mimeo.
- Wiggins, S. and Davis. J. (2003) Types of RNFE activities and their returns: framework and findings. DFID, unpublished mimeo.
- Wiggins, Steve and Sharon Proctor, 1999, ‘Literature Review. Migration and the Rural Non-Farm Sector’, Mimeo, Department of Agricultural and Food Economics, University of Reading
- Wiggins, Steve, Kofi Marfo and Vincent Anchirinah, 2001, Environmental policies and livelihoods in the forest margins of southern Ghana, Report to NRSP, RNR, University of Reading, Mimeo, December 2001
- Wiggins, Steve, Nicola Keilbach, Kerry Preibisch, Sharon Proctor, Gladys Rivera and Gregoria Rodríguez (1999) 'Changing Livelihoods in Rural Mexico' *DFID Report* to Grant R6528.
- Zwick, K. and D. Smith (2001), *Access to rural non-farm livelihoods: Report of preliminary field work in Rakai District, Uganda*, NRI Report No. 2596, Chatham: NRI.

## 8 Appendix 1: A guide to the cases reviewed

<b>Region or country</b>	<b>National data</b>	<b>Survey at District or village levels</b>
<b>Africa</b>		
Eastern & Southern Africa	<i>Mead 1994 on Botswana, Kenya, Malawi, Swaziland, Zimbabwe</i>	
Botswana		<i>Panin et al. 1993 on Kgatleng D.</i>
Ethiopia		Carswell 2002 on Wolayta
Ghana	<i>Canagarajah et al. 2001</i>	Okali & Sumberg 1999 on tomatoes in Pamdu, etc. Jones et al. 1999.
Kenya	<i>Daniels 1999, Livingstone 1991</i>	Gichuki et al 2001, Nelson 2000 on Makueni. <i>Evans &amp; Ngau 1991, Lewis &amp; Thorbecke 1992 on Kutus. Hunt 1995 on Mbeere</i>
Malawi	Sen & Chinkunda 2002	<i>Tellegen 1998 on Machinji &amp; Salima. Orr &amp; Orr 2002 on southern Malawi. Ellis et al 2002 on Dedz. &amp; Zomba D.</i>
Niger		Drylands Research 2001 on Maradi
Senegal		Faye et al 2001, Faye & Fall 2001 on Diourbel
South Africa		Soussan et al 2002 on Bushbuckridge D, KwaZulu-Natal Scoones 2002 on Wild Coast, Eastern Cape. <i>Slater 2002 on Qwaqwa, Free State. Bins &amp; Nel 2002 on E. Cape &amp; KwaZulu-Natal</i>
Swaziland	<i>Leliveld 1997</i>	<i>Simelane 1995 on Southern Swai</i>
Tanzania		Ellis & Mdoe 2002, Lyimo-Macha & Mdoe 2002, Ashley et al. 2002 on Morogoro D. Homewood et al. 2002 on Ngorongoro
Uganda	Balihuta & Sen 2001 <i>Canagarajah et al. 2001</i> <i>Deninger &amp; Okidi 2001</i>	Frank & Bahiigwa 2001, McDonagh & Bahiigwa 2001, Dolan 2002 on Mbale, Kamuli & Mubende D. Smith et al. 2001; Zwick, in Rakai and Kumi.
Zimbabwe		<i>Berkvens 1997 on Mutoko. Piessé et al 1999 on Chiweshe &amp; Gokwe</i>
<b>Asia</b>		
Bangladesh	<i>Mandal 2002, Toufique 2001</i>	Greeley 1999, Toufique & Greeley 1999 on Chandina & Madhupur
China		<i>Cook 1999 on Shandong. Murphy 1999 on S. Jiangsi</i> <i>Wang 1997 on the Shenyang-Dalian corridor</i>
India,	Dev 2002, Salagrama 2000	Basix 2002 on Andhra Pradesh. <i>Unni 1996 on Gujarat</i> <i>Simmons &amp; Supri 1997 on Punjab, Dasgupta et. al., (2002) on madhya pradesh; Wandschneider et.al., Bolangir, 2003, 2002; Marter, Madhya Pradesh (2001, 2002); Kleih (2003).</i>
Indonesia		<i>Leinbach &amp; Smith`1994 on south Sumatra. Tambunan 1995 on Ciomas, W. Java</i>
Nepal		Adhikari 2002 on Pokhara region. Blaikie et al. 1998, 2002 on West-Central Nepal
Pakistan	<i>Adams 1994</i>	
Philippines		<i>Leones &amp; Feldman 1998 on Eastern Visayas, Leyte</i>
Sri Lanka		<i>Balasuriya et al. 1998</i>
<b>Latin America &amp; Caribbean</b>		
Brazil		<i>Roberts 1995 on Carajás, Pará</i>
Mexico		Wiggins et al. 1999 on central Mexico
Region wide		RIMISP, 2000, 2001. RUTA, 2002. Wandschneider, 2002.
<i>Transition Economies</i>		
Armenia	Davis et.al. 2001, 2002; 2003	Davis et.al., 2001, 2002. Bezemer & Davis, 2002. Armenia.
Georgia	Davis et.al. 2001, 2002; 2003	Davis et.al. 2001, 2002. Kakheta, Guria.
Romania	Davis et.al. 2001, 2002; 2003	Davis & Gaburici, 2001. Janowski & Bleahu, 2001 in Brasov and Dolj.
Russia		ADAS Intl., 2001. Case studies
Ukraine		ADAS Intl., 2001. Case studies
Uzbekistan		Kandiyoti 1999
Region wide		Wandschnieder & Davis, 2002; Davis & Pearce 2001; Davis and Bezemer, 2003.

Cases in italics refer to studies **not** funded by DFID.



FS 54723  
ISO 9001



THE QUEEN'S  
ANNIVERSARY PRIZES  
2000 & 2002

Enterprise Trade and Finance Group  
Natural Resources Institute  
University of Greenwich at Medway  
Central Avenue  
Chatham Maritime  
Kent ME4 4TB  
United Kingdom

Tel: +44 (0)1634 883199  
Fax: +44 (0)1634 883706  
Email: [nri@greenwich.ac.uk](mailto:nri@greenwich.ac.uk)  
<http://www.nri.org/rnfe/index.html>