Access to rural non-farm employment and enterprise development

Background Paper for the IFAD Rural Poverty Report 2011

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Summary
This Background Paper for the Rural Poverty Report 2009, one of a set of six, sets out what is
known about the rural non-farm economy and the processes that drive its development,
explains the implications of changes in the wider environment on the sector, identifies key
factors for success and the challenges both by potential policies and programmes as well as in
the processes of planning and implementation.

Setting the scene
Non-farm activities are increasingly important in rural areas: a growing share of households
participate in them, while they provide increasing proportions of rural household income. In
addition, rural households are ever more likely to have migrants who have moved within the
country, to neighbouring countries or to a distant international destination. In sum, rural
households are generally adopting an increasingly diverse range of activities.

Conditions vary greatly in rural areas, above all by the ease of access to the main cities and
markets within country, and by the nature and quality of the resources found locally.
Depending on these, opportunities both on and off the farm may be broad or narrow,
attractive or simply jobs of last resort. In some cases, the local options may be so limited that
migration is a better bet.

These conditions and the opportunities change during development. In an initial stage, rural
economies are often remote from urban centres, isolated by transport costs. The wealth of the
rural economy thus depends in part on the richness of local resources, and in part on the
ability to find activities that can earn revenues beyond the local economy; revenues that can
both pay for goods and services brought in and which when spent locally can stimulate
manufacturing and services. Rural non-farm activity is thus likely to be closely linked to the
prosperity of an economic driver, often agriculture, but possibly also mining or tourism.

At a later stage, as cities grow and transport costs to urban areas fall, there is more scope for
interaction with the rest of the national economy and indeed with the global economy. Rural
areas may be able to provide services for the urban economy in leisure and recreation,
environmental maintenance including water supply, and housing for commuters. Some rural
residents may be able to commute into towns and cities and earn their living there. Although
closer links may see rural craft industry wither in the face of competition from factory-made
goods, some urban industries may seek green-field sites to save costs, or may contract with
rural units to manufacture parts, thereby stimulating new manufacturing in rural areas.

In the best cases, such diversification represents taking up opportunities to improve
livelihoods and reduce poverty, or at least ways to reduce risks and vulnerabilities. At worst,
it can reflect a desperate search for ways to make ends meet in the face of rising population
and insufficient jobs in longstanding activities.

Stark dichotomies of ‘pull’ and ‘push’ factors overstate the case: in most situations
diversification responds to a combination of these forces. Indeed, whether forces that tend to
push households out of agriculture lead to poverty or prosperous diversification very much
depends on the strength of ‘pull’ factors.

Future developments
Urbanisation, economic growth and migration are likely to see rural economies increasingly
respond to urban fortunes and correspondingly are less reliant on agriculture and other
natural-resource based activities. Globalisation and concentration of supply chains will create
opportunities, but may mean stronger competition in local markets from goods manufactured
in urban areas. Requirements to meet international standards for quality, safety and labour
will increase.
The need to conserve the environment and mitigate climate change will be felt in primary production, create a demand for environmental services, and give a relative advantage to services with low carbon footprints.

Advances in information and communications technologies should allow remote areas to provide services to distant urban markets. Higher energy prices may raise transport costs and put remote areas at a disadvantage, and depress tourism. On the other hand they may stimulate the development of non-traditional energy production — such as biofuels and solar capture — possibly liberating remote areas from dependence on imported energy.

The rapid growth of large emerging economies such as China and India may make it more difficult to develop manufacturing in smaller countries. On the other hand, it may create new markets for exports — including tourism; while some areas may benefit from capital and know-how as Asian companies invest in other parts of the developing world.

Recent experience suggests there will be surprises. That uncertainty itself implies that having a wide range of options, as seen in the rural non-farm economy, allowing adaptation to changing circumstances will be valuable.

**Key factors for success**

Many factors can make for rural diversification that reduces poverty. They can be grouped in a hierarchy extending from conditions in the national economy, to requirements at the regional level, to those applying at local level of village, household and individual.

Three things are important for the development of the non-farm economy:

- At national level, a growing economy with urbanisation that creates jobs for migrants from rural areas, a demand for rural goods and services, and a tax base that allows the state to invest in public goods and human capital;
- At regional level, drivers for the rural economy — activities that have sufficient comparative advantage to earn income beyond the regional rural economy; plus infrastructure and institutions that encourage other activities that respond, through linkages in either production chains or through consumption, to the driving activity, thereby creating additional jobs and incomes; and,
- At local level, investment in education, health and nutrition that allows the poor to take up options; accompanied by a social and legal framework that prevents discrimination against people who differ by gender, age, ethnicity, amongst other characteristics, and ideally gives them equal opportunities. A political system that allows their interests to be reflected in national policy-making and empowers them is highly desirable (although, as some countries show, this may not be necessary).

The combination of factors for success will vary by circumstances, including the degree of development and growth of the national economy, the dynamism of the rural economy, and the distribution of assets. The circumstances of remote areas are often particularly challenging.

**Policy options**

At all levels from national to village level there are policy options. Some of these are well understood and the actions necessary well known — for example, investing in roads and primary education. Others remain more challenging, in that significant obstacles are found for which solutions are neither straightforward nor tailor-made.

These key challenges include:

- At national level, creating an attractive climate for investment;
- At the regional level, facilitating the development of efficient and effective supply chains; and enabling factor markets to work more effectively, especially financial markets; and,
• At the local level, developing services to support enterprises, providing appropriate post-school training, combating discrimination and breaking the transmission of poverty across generations, providing social protection against loss of assets, and facilitating voluntary migration.

In addition, there are challenges in planning and implementation, including:

• Finding ways to combine public programmes with private sector initiatives;
• Building the capacity of decentralised government; and,
• Given the importance of adapting principles to particular circumstances, developing the capacity of all agencies and actors to monitor, evaluate and learn from experience.
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APPENDIX: CASE STUDIES IN THE DEVELOPMENT OF RURAL NON-FARM EMPLOYMENT AND ENTERPRISES 54
Introduction

Rural households are increasingly earning their livelihoods from activities other than farming: the rural non-farm economy (RNFE) is growing. Effective development of the RNFE can make major contributions to economic growth and poverty reduction, often by helping multiply and spread the benefits from growth in sectors such as agriculture, and by linking urban to rural areas.

This Chapter has been prepared as Background Paper to the Rural Poverty Report 2009, one of a set of six that have been structured around a framework that sees improved rural livelihoods and pathways out of poverty as being a matter of providing better access of poor rural households to natural resources, agricultural technology, production and financial services, transparent markets, and opportunities for non-farm employment and enterprises. All these take place within a socio-political and governance context that governs access to local and national policies; and within a wider environment in which forces of demography, globalisation, climate change, and others create changing conditions and opportunities for the rural poor.

This Chapter begins by describing what is known about the RNFE, its size, composition, effects on equity and poverty; and the processes by which diversification into non-farm activity takes place at regional and household levels. Likely future trends in the wider environment and their possible impacts on the RNFE follow.

Key factors of success for the development of the RNFE are then considered, using a framework that develops the socio-political and governance context of the overall schema, differentiating issues that arise at international and national, regional, and local levels. The section explains how key strategic issues, above all that of regional and rural economic growth, vary by circumstances.

This is followed by more detailed discussion of the particular options for policies and programmes to stimulate the RNFE and ensure that it reduces poverty. Since there are many potential interventions that could be considered, the section focuses on the key challenges — important objectives that nevertheless confront significant obstacles — typically arising; and thus omitting those policies and programmes that are relatively well understood and straightforward to implement. The challenges by theme are complemented by a discussion of the challenges that arise in planning and implementation.

Setting the scene

The importance of the rural non-farm economy

Non-farm activities are increasingly important in rural areas: a growing share of households participate in them, while they provide increasing proportions of rural household income. Primary employment data, which offer the most widely available indicator of the scale of rural non-farm activity, suggest that the rural non-farm economy (RNFE) accounts for about 30% of full-time rural employment in Asia and Latin America, 20% in West Asia and North Africa (WANA), and 10% in Africa (Table 5.1). Inclusion of rural towns — which frequently depend on the rural hinterlands for both inputs and markets — raises non-farm employment shares by an additional 10 to 15% (Hazell and Haggblade 1993). Because these employment data typically measure only primary occupations, to the exclusion of secondary and seasonal pursuits, they often understate the importance of rural non-farm activity.

In addition, rural households are ever more likely to have migrants who have moved within the country, to neighbouring countries or to a distant international destination. Even if national data on migration are scarce and systematically underestimate the extent of
migration, smaller-scale household surveys show substantial percentages of households have one or more members who migrate. For example, a survey of some 39 publications dealing with migration in selected developing countries concluded that a median of around 25% of households had a member who was a migrant of one kind or another. (Wiggins & Proctor 1999)

Table 5.1. Composition of rural non-farm employment, by region (percent)

<table>
<thead>
<tr>
<th>Region</th>
<th>Nonfarm share of rural workforce (percent)</th>
<th>Women's share of rural nonfarm employment (percent)</th>
<th>Manufacturing</th>
<th>Trade &amp; transport(1)</th>
<th>Financial and personal services(2)</th>
<th>Construction, utilities, mining and other (3)</th>
<th>Total rural nonfarm employment (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>9</td>
<td>39</td>
<td>19</td>
<td>31</td>
<td>35</td>
<td>15</td>
<td>100</td>
</tr>
<tr>
<td>Asia</td>
<td>24</td>
<td>24</td>
<td>27</td>
<td>29</td>
<td>31</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>Latin America</td>
<td>31</td>
<td>36</td>
<td>22</td>
<td>23</td>
<td>34</td>
<td>24</td>
<td>100</td>
</tr>
<tr>
<td>West Asia and North Africa</td>
<td>21</td>
<td>11</td>
<td>23</td>
<td>22</td>
<td>36</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Notes: 1. Trade and transport includes wholesale and retail trade, transport and storage.; 2. Other services includes finance, insurance and community and social services. 3. Other includes mining and quarrying, utilities, construction and other non-classified activity.; 4. Country data weighted by size of total primary work force. Source: 31 population censuses as summarized by Hazell, Haggblade and Reardon (2007), Table 1.2. Regional aggregates weighted by size of total primary workforce.

Income data, which include earnings from seasonal and part-time activity, offer a more complete picture of the scale of the RNFE. Evidence from a wide array of rural household surveys suggests that non-farm income accounts for about 35% of rural income in Africa and roughly 50% in Asia and Latin America (Table 5.2). Standing roughly 20% higher than comparable employment data, these income shares confirm the economic importance of part-time and seasonal non-farm activities.

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2 Lack of data arises partly since most migration concerns movements within national borders and so movements are not registered at border crossings, and partly since so many of the internal movements are temporary and are not recorded in censuses.

3 In measuring income, the classification of migrant remittances and income transfers are not standardized. Generally, earnings from commuting or temporary and seasonal migration by family members who remain part of a rural household are included as rural nonfarm income. However, transfers by government, former household members or relatives are often classified separately, as transfer income. Many studies, however, fail to distinguish clearly among these various sources of nonfarm income. To help establish rough orders of magnitude, Table 5.2 breaks out locally earned nonfarm business and wage income from remittances and transfers.
Table 5.2. Non-farm share of rural income

<table>
<thead>
<tr>
<th>Region</th>
<th>Nonfarm share of rural income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>total nonfarm earnings</td>
</tr>
<tr>
<td>Africa</td>
<td></td>
</tr>
<tr>
<td>excluding Namibia</td>
<td>34%</td>
</tr>
<tr>
<td>Namibia</td>
<td>75%</td>
</tr>
<tr>
<td>Asia</td>
<td>51%</td>
</tr>
<tr>
<td>Latin America</td>
<td>47%</td>
</tr>
</tbody>
</table>

Source: Reardon et al. (2007), Table 6.1, summarising 54 rural income surveys from the 1990's and 2000's. Total citations include 23 for Africa, 2 for Namibia, 14 in Asia and 17 in Latin America.4

Rural non-farm employment holds special importance for women. Women account for about one-quarter of the total full time RNFE workforce in most parts of the developing world (Table 5.1). Given their frequently heavy household obligations and more limited mobility, women also participate in part-time RNFE activity, particularly in household-based manufacturing and service activities.

Likewise, rural landless and near-landless households depend heavily on non-farm income sources. Those with less than 0.5 hectare earn between 30 and 90 percent of their income from non-farm activities (Hazell and Haggblade, 1993).

Composition of the rural non-farm economy

The rural non-farm economy houses a highly heterogeneous collection of trading, agro-processing, manufacturing, commercial and service activities. Even within the same country, strong differences emerge regionally, as a result of differing natural resource endowments, labour supply, location, infrastructural investments and culture.

The scale of individual rural non-farm businesses varies enormously, from part-time self-employment in household-based cottage industries to large-scale agro-processing and warehousing facilities operated by large multinational firms. Often highly seasonal, rural non-farm activity fluctuates with the availability of agricultural raw materials and in rhythm with household labour and financial flows between farm and non-farm activities.

Sectorally, despite a common policy emphasis on rural industries, manufacturing typically accounts for only 20-25% of rural non-farm employment, while trade, transport, construction and other services account for 75% to 80% (Table 5.1).

Spatially, the composition of non-farm activity varies as well. While home-based cottage industries predominate in rural areas, towns and urban centres support an increasing

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4 The Latin American estimates appear low, but this may arise from their uneven distribution. Across the region the overall value of international remittances runs at just 3% of GDP; but for individual countries with high levels of emigrants, their contribution to GDP can exceed 10% — Guyana (30%), Honduras (25%), El Salvador (18%) and Nicaragua (15%) are good examples (IFAD 2007). Country-level variations are often matched at village level where there can be great variation in flows of remittances both between settlements, and amongst households within any given centre. Hence the 6% recorded for the surveys may be plausible.
concentration of factory manufacturing, services and trade (Table 5.3), owing to access to infrastructure and services, as will be explained later.

### Table 5.3. Employment shares by activity and size of locality

<table>
<thead>
<tr>
<th>Country (year)</th>
<th>Total Labor ISIC Code</th>
<th>Agriculture</th>
<th>Total Nonfarm</th>
<th>Manufact.</th>
<th>Commerce and Transport</th>
<th>Personal, Community Services</th>
<th>Construction, Utilities and Mining</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Country</td>
<td>1</td>
<td>2-9</td>
<td>3</td>
<td>6 &amp; 7</td>
<td>8 &amp; 9</td>
<td>2, 4 &amp; 5</td>
</tr>
<tr>
<td>Bangladesh, 2000</td>
<td>Rural</td>
<td>100</td>
<td>58</td>
<td>42</td>
<td>10</td>
<td>17</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Intermediate urban</td>
<td>100</td>
<td>16</td>
<td>84</td>
<td>27</td>
<td>28</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Chittagong and Dhaka</td>
<td>100</td>
<td>8</td>
<td>92</td>
<td>26</td>
<td>29</td>
<td>32</td>
</tr>
<tr>
<td>Chile, 1984</td>
<td>Rural</td>
<td>100</td>
<td>65</td>
<td>35</td>
<td>5</td>
<td>9</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Intermediate urban</td>
<td>100</td>
<td>7</td>
<td>93</td>
<td>14</td>
<td>29</td>
<td>41</td>
</tr>
<tr>
<td></td>
<td>Santiago</td>
<td>100</td>
<td>1</td>
<td>99</td>
<td>20</td>
<td>26</td>
<td>46</td>
</tr>
<tr>
<td>Zambia, 2000</td>
<td>Rural</td>
<td>100</td>
<td>90</td>
<td>10</td>
<td>1</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Intermediate urban</td>
<td>100</td>
<td>22</td>
<td>78</td>
<td>7</td>
<td>31</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Lusaka</td>
<td>100</td>
<td>0</td>
<td>100</td>
<td>14</td>
<td>22</td>
<td>54</td>
</tr>
</tbody>
</table>


The composition of services differs as well. While rural areas house small retailers, basic farm equipment repair services and input supply firms, other services such as primary schooling, health clinics, barber shops, milling and transport facilities tend to locate in small towns. Larger settlements attract cinemas, restaurants, wholesale distributors and higher-level school, health and communication facilities (Wanmali, 1983; Renkow, 2007).

Government services, likewise, provide significant rural employment opportunities in some instances. In rural Egypt, government employment generates over 45% of rural non-farm incomes, while in rural Pakistan government jobs provide about 25% of rural non-farm earnings (Adams and He, 1999; Adams, 2003). In rural India, government jobs account for nearly 20% of rural non-farm employment (Fisher et al., 1997).

Remittances account for a large share of rural income in some locations. In the mining economies of Southern Africa, remittances may account for as much as half of all rural household income. They Likewise form an important part of household income diversification and risk reduction strategies (Barrett et al., 2001; Ellis and Freeman, 2004). In most rural settings, however, local business and wage income account for a majority of non-farm earnings, while remittances and transfers — including those from international migrants — typically account for 15% to 20% of non-agricultural rural income and 5% to 10% of total rural income (Table 5.2).

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5 The total volume of international remittances sent to developing countries was estimated to be US$300 billion in 2006, in no less than 1.5 billion transactions. (IFAD 2007)
**Links to Equity and Poverty**

The extreme heterogeneity of rural non-farm activity results in widely varying productivity and profitability. Returns vary substantially, normally as a function of differing physical and human capital requirements. Poor people dominate many of the low-return activities such as cottage industries, small-scale trading and unskilled wage labour used in construction, portering, and many personal services. Wage labour, in both agriculture and non-farm business, also accrues primarily to the poor. In contrast, white collar jobs such as medicine, teaching, accounting and administration figure most prominently among higher income households (Table 5.4).

**Table 5.4. Income sources by quintile in rural India, 1999**

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Agriculture</th>
<th>Nonfarm Income</th>
<th>Total income (percent)</th>
<th>Real Per Capita Income (rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cultivation</td>
<td>Wage labor</td>
<td>Self employment</td>
<td>Regular Employment</td>
</tr>
<tr>
<td>Lowest</td>
<td>38.2</td>
<td>15.8</td>
<td>11.4</td>
<td>4.4</td>
</tr>
<tr>
<td>Q2</td>
<td>38</td>
<td>14.7</td>
<td>16.8</td>
<td>7</td>
</tr>
<tr>
<td>Q3</td>
<td>45.2</td>
<td>10.1</td>
<td>16.3</td>
<td>11.7</td>
</tr>
<tr>
<td>Q4</td>
<td>50.1</td>
<td>6.1</td>
<td>14.6</td>
<td>18.6</td>
</tr>
<tr>
<td>Highest</td>
<td>64.5</td>
<td>2</td>
<td>7.9</td>
<td>21.1</td>
</tr>
<tr>
<td>Total</td>
<td>54.9</td>
<td>5.9</td>
<td>11.5</td>
<td>17.1</td>
</tr>
</tbody>
</table>


Poor households tend to dominate those types of non-farm businesses that are labour intensive and can be conducted competitively on small scales and with limited capital. For this reason, many policy makers view the rural non-farm economy as a potentially important contributor to poverty reduction. Others, however, fear that an abundance of labour-intensive, low-return rural non-farm activities may signal distress diversification and an absence of more productive opportunities given that low capital frequently translates into low productivity and low returns to labour (Shand, 1986; Islam, 1987).

Because of the differing equity impact of its various components and because of the differing composition of rural non-farm activity across settings, the overall impact of non-farm earnings on rural income distribution remains mixed (Table 5.5). In some instances, aggregate non-farm earnings improve equity across household groups. In other cases, they exacerbate inequality. And in some settings, the relationship between household welfare and non-farm income shares proves U-shaped. Empirically, no consistent pattern emerges.  

**Table 5.5. Mixed equity impact of rural non-farm income**

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<table>
<thead>
<tr>
<th>Quintile</th>
<th>Rural Nonfarm Income as Share of Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equity enhancing</td>
</tr>
<tr>
<td>poorest</td>
<td>59%</td>
</tr>
<tr>
<td>2nd</td>
<td>52%</td>
</tr>
<tr>
<td>3rd</td>
<td>51%</td>
</tr>
<tr>
<td>4th</td>
<td>53%</td>
</tr>
<tr>
<td>highest</td>
<td>38%</td>
</tr>
</tbody>
</table>


Empirical evidence on the link between RNFE growth and poverty reduction also requires careful sifting given the complex inter-relationships among agriculture, rural non-farm businesses and the national economy. Strong correlations between growing rural non-farm income and falling rural poverty, as in China since the 1980’s (Ravallion and Chen, 2004), do not necessarily imply causality. Nor do they rule out the possibility that independent third factors, such as agricultural technology, may be driving both (Lanjouw, 2007).

Available household panel data sets, which offer the best means of isolating these effects, remain sparse. One such study, from rural Viet Nam concludes that growth of the rural non-farm economy is unlikely to serve as a primary motor of poverty reduction for the bulk of Viet Nam’s poor (van der Walle and Cratty, 2003). In contrast, a panel study of 240 villages from India suggests that rural-based, export-oriented manufacturing may contribute significantly to rural poverty reduction (Foster and Rosenzweig, 2004).

A study of migrant remittances using household panel data from poor regions of China finds that having a migrant increases rural household per capita income by 9% to 13%. Yet the study concludes that the overall impact of migrant remittances on poverty remains modest, simply because most poor people don’t migrate. The authors estimate that migrant remittances decrease rural poverty headcount rates in poor regions of China by just 1%, from 15.4% to 14.4%, (Du, Park and Wang, 2005). A more general review of the migration literature concludes similarly that,

‘Research on the effects of migration on areas of origin is relatively scarce, but generally it shows that, at the macro-level, remittances contribute relatively little, and out-migration usually does not radically transform poor areas.’ (de Haan and Rogaly, 2002:5).

However, overall rural non-farm earnings may reduce poverty significantly in specific settings. A time-series econometric study from China suggests that overall rural non-farm earnings, which accounted for 36% of rural income in 1997, have likely proven highly significant in reducing rural poverty. Looking at different allocations of public expenditure, the study finds that government spending on education and rural infrastructure generate significant reductions in rural poverty, an impact they attribute largely to the stimulus these investments provide to rural non-farm employment (Fan, Zhang and Zhang, 2002). Clearly, results differ across studies and across settings.

7 Investment in agricultural research and development (R&D) also proved highly effective in reducing rural poverty. These estimates project that 10,000 yuan spent on education pulls 9 people out of poverty, while that same expenditure on agricultural R&D reduces poverty counts by 7. Spending on rural roads, electricity and communications reduce poverty by 2–3 people for each 10,000 yuan spent (Fan, Zhang and Zhang, 2002).
Summing up, a recent review concludes that the direct impact of rural non-farm earnings on rural poverty rates ‘proves muted in practice’ but that non-farm activities nonetheless perform an important safety net role, preventing families from falling further into poverty during crises. Moreover, the study suggests that the indirect effects of rural non-farm employment, through labour market tightening and rising rural wage rates, are ‘possibly very significant’ for the rural poor (Lanjouw, 2007).

Explaining diversification into non-farm activity: the regional economy

The processes of diversification of the rural economy can be seen at both the level of the rural economy as well as at that of households. This section deals with the former; the next looks at household processes.

Many RNFE activities produce goods and services that are consumed almost entirely within the region in which they are produced — for example, many retailing and personal services, highly perishable agricultural products, and the processing of local agricultural outputs. Expansion of these activities is constrained by growth in local demand, which in turn depends on growth in regional income and in the volume of goods produced that need to be processed and traded.

But what determines regional income and the overall volume of goods produced? Economists distinguish between those goods and services produced in a regional economy that have their most important markets outside the region — so called ‘tradables’ or ‘exportables’, and those that are mostly consumed within the region itself — termed ‘nontradables’. Tradables play the key role in determining the level of output and income in a region. Because their demand lies mostly outside the region and the price they receive is largely independent of the amount the region sells, then growth in tradables output is determined primarily by supply side constraints. By overcoming these supply side constraints, a region can expand its production and sale of tradables, and this leads to additional income and demand for local nontradables. Tradables production thus acts as an powerful motor of economic growth, and this motor in turn generates additional demands for local nontradables to supply inputs, process outputs or furnish consumer goods and services to workers in the tradables sector (Mellor, 1976; Haggblade, Hammer and Hazell, 1991). Consequently, direct promotion of tradables output can generate significant second-round benefits by propelling demand-led growth in rural nonfarm activity. Tradables output propels the regional economy and serves as the engine of rural growth, while the ancillary activities become handmaidens of growth, their prospects governed ultimately by the rate of growth in tradables output.

Agriculture, as the largest employer, income generator and purveyor of raw materials in most rural areas, clearly plays a predominant early role in influencing the size and structure of the RNFE. Thus the process of rural development normally begins with a countryside populated by primarily agricultural households producing for themselves most of the farm and non-farm goods and services they require. Trade and commerce remain marginal given the subsistence orientation of agriculture, the prevailing low-input farm technologies, and the limited transport and communications infrastructure in rural areas.

In zones of rapidly growing agricultural productivity, however, the composition and patterns of growth observed in the RNFE differ markedly from those in stagnant rural settings. For this reason, the following discussion distinguishes between processes and outcomes operating in these two very different environments.

The ‘pull’ scenario in dynamic agricultural regions

Where new agricultural technologies and modern farm inputs become available, they lead to agricultural surpluses in some commodities and increased opportunities for trade. In these settings, a growing agriculture stimulates growth of the RNFE through a number of key

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Regional economists refer to the tradables sector as the ‘economic base’ of a region’s economy (Richardson, 1985).
linkages. Rising labour productivity on the farm increases per capita food supplies and releases farm family workers to undertake non-farm activities. For this reason, green revolution India has seen agricultural labour fall from 75% to 65% of rural labour force in the first 25 years following the release of green revolution rice and wheat varieties (Hazell and Haggblade, 1991). Equally important, increases in farm incomes, together with high rural savings rates, make capital available for investment in non-farm activities. These savings rates have reached up to 25–35% in many areas of green revolution Asia (Bell, Hazell and Slade, 1982; Hazell and Ramasamy, 1991).

Increasingly productive modern agriculture requires inputs and services such as seeds, fertilizer, credit, pumps, farm machinery, marketing and processing of farm produce which, in turn, create a growing demand for non-farm firms that can provide these services. Farm households, as their incomes grow, increase their expenditure share on non-food items, thereby accelerating demand for non-farm goods and services such as housing, clothing, schooling, health, prepared foods, visits to town, to the cinema and to the tea shops, all of which dramatically increase demand for rural transport services. To meet this growing demand, rural households increasingly diversify into production of rural non-farm goods and services.

In regions where agriculture has grown robustly, the RNFE has also typically enjoyed rapid growth. A large growth linkages literature suggests that each dollar of additional value added in agriculture generates US$0.6 to US$0.8 of additional RNFE income in Asia, and US$0.3 to US$0.5 in Africa and Latin America (Haggblade et al., 2007).

Some non-farm activities, initially undertaken part-time by farm households for self-consumption, spin off as separate full-time commercial activity. Others, particularly labour-intensive household manufacturing of baskets, pottery and roof thatching, die out, displaced by the import of cheap plastic pails, iron pots and corrugated roofing. For this reason, household manufacturing typically shrinks over time.

The demise of low-productivity household manufacturing explains, in part, why employment in services and commerce frequently grow faster than in manufacturing. Evidence from 13 countries for which 10- to 20-year time-series data are available suggest that rural manufacturing employment typically grows at only 1% per year while employment in rural trade and services grows over three times as fast (Haggblade, Hazell and Reardon, 2007, Table 4.4). Changes in consumer spending likewise contribute to faster growth in services and commerce. Consumption data indicate that, as incomes rise, rural households increase spending on services such as education, health, transport, cinemas, prepared foods and transport faster than they do on local manufactured goods.

As towns grow, they attract more workers from the rural hinterland, leading to a rise in migration and even rural-to-urban commuting. As a result, the share of agriculture in the total workforce begins decline, even though absolute levels of agricultural output and employment may continue to grow for some time. Over time, agriculture becomes progressively less important as the economic motor for the regional economy. After several decades of agriculture-led growth, for example, India’s urban economic growth has stimulated corridors of rural non-farm development along major highways and transport routes (Bhalla, 1997). Eventually, agriculture becomes a relatively minor economic activity in some rural regions as well as in many national economies.

9 See, for example, Mellor and Lele (1973), King and Byerlee (1978), Hazell and Roell (1983) and Hossain (2004).

10 Hymer and Resnick (1969) have dubbed these declining rural manufactures “Z-goods.” See Anderson (1982) for empirical evidence of this bifurcated transition.

11 See King and Byerlee (1978), Hazell and Roell (1983), Hazell and Ramsamy (1986), and Hossain (2004).
The composition of rural non-farm activity changes perceptibly over time in these buoyant agricultural settings. Increases in real wages raise the opportunity cost of labour, thereby making low-return non-farm activities uneconomic. This leads to the demise of many low-return craft and household manufacturing activities and to the growth of higher-return non-farm activities such as mechanical milling, transport, commerce, personal, health and educational services. Growing agricultural incomes attract labour into more productive, higher return rural non-farm services.

In this setting, poor households benefit both directly and indirectly. Growing consumer demand translates directly into business opportunities for self-employment, particularly in rural commerce and trade. Indirectly, rising rural wage rates for unskilled labour clearly benefit the rural poor.

Changes through time are not restricted to the rural economy itself. As national economies develop, urbanisation takes place, both increasing the number of towns and cities and their density across the landscape. Governments are able to invest in roads and railways, thus reducing the costs of transport between rural and urban areas. Hence rural economies that initially may be partly insulated from national and international markets through such transport costs, become more integrated into the wider economy.

That brings both opportunities and threats. The latter are exemplified by the case of rural craft manufacturing that is always likely to face stiff competition from good produced in urban factories when transport costs fall. But increased access to cities not only can stimulate agriculture for the urban market, but also may allow rural areas to provide other services to urban areas — including recreation, housing for urban commuters looking to escape urban crowding, environmental services such as protecting the catchments for urban water supplies, and green-field sites for urban industries, or their rural sub-contractors. Looking for cheaper accommodation. For some rural residents, new roads and bus services bring the chance for them to commute into newly-accessible towns and take up urban jobs. Thus not only does the scope for rural diversification increase with economic growth and urbanisation, but also many of the new opportunities may have few links to agriculture or the economic base of the rural economy, and instead be linked directly to the urban economy.

The ‘push’ scenario in stagnant agricultural zones

In regions without a dynamic economic base, patterns of growth in the rural non-farm economy unfold very differently. Sluggish income growth in agriculture leads to anemic consumer demand, limited agro-processing and agricultural input requirements and stagnant wages. Taken together, these tendencies stymie both entrepreneurial and wage-earning opportunities in the rural non-farm economy.

Where population growth continues unabated for many generations, land availability diminishes and, ultimately, in the absence of careful land management, so does soil fertility. Without technological advance in agriculture, labour productivity and per capita farm production fall. In such settings, growing landlessness pushes labour force increments into non-farm activity by default (Table 5.6). Falling agricultural labour productivity, low opportunity cost of labour and declining household purchasing power induce diversification into low-return, labour-intensive non-farm activities such as basket making, gathering, pottery, weaving, embroidery and mat making. Specialized non-farm enterprises and households emerge, not to exploit potential productivity gains, but because of an absence of opportunities in agriculture and a shortage of both rural savings and investible capital.

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12 Taiwan is an example where much of rural industry has been set up by entrepreneurs who are sub-contracted to produce components by urban factories.
Table 5.6. Distinguishing good news from bad: contrasting sources of rural non-farm employment growth in a stylized Asian rice-growing economy

<table>
<thead>
<tr>
<th></th>
<th>The Green Revolution (Pull)</th>
<th>The Sponge (Push)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial shock</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improved agricultural</td>
<td></td>
<td></td>
</tr>
<tr>
<td>technology,* labor using</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resulting changes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>rural nonfarm employment</td>
<td>1.9%</td>
<td>1.9%</td>
</tr>
<tr>
<td>total rural employment</td>
<td>6.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>rural wage rate</td>
<td>6.6%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>nonfarm income</td>
<td>1.1%</td>
<td>-4.7%</td>
</tr>
<tr>
<td>total real per capita income</td>
<td>7.4%</td>
<td>-4.4%</td>
</tr>
</tbody>
</table>

Note: Using a semi-input-output model, with stylized data drawn from the Muda River region of Malaysia, these results simulate the following impact: * labour-using technical change in agriculture that increases foodgrain output by 80% and is adopted by 50% of farmers; and ** population growth rate of 6% over 3 years, just sufficient to generate an equivalent increase in rural non-farm employment.


Declining economic conditions likewise motivate labour migration in search of more favorable opportunities elsewhere. Thus, in these agriculturally backward regions, migration serves an important role as a regional safety valve as households seek farm and non-farm employment opportunities in more distant regions.

Rural residents seek out exchange opportunities in these settings, too, but mainly as they try to identify market outlets for their labour-intensive cottage industry goods. Rural towns, rather than accelerating agricultural advance, become evacuation points for rural labour and for labour-intensive rural non-farm exports. A stagnant, low-input agriculture generates little demand for inputs or high-value repair, processing and personal services. Many describe this bleak downward spiral as a process of ‘agricultural involution’.

A study comparing stagnant and rapidly growing agricultural regions in India summarizes the contrasting situations aptly.

‘The difference between the faster growing agricultural areas and others is primarily in terms of the productivity and income levels in rural industries ... Slowly growing agriculture not only fails to introduce any structural changes in rural industries ... but also tends to keep those engaged in rural industries at a subsistence level of productivity and income.’ (Papola, 1987, p.104).

For poor households, falling wage rates and sluggish consumer demand result in diminished opportunities for both business start-up and wage earnings. In these settings, prospects for the rural non-farm economy remain bleak.

Explaining diversification: households

Why do households diversify their livelihoods, and why is this apparently increasing?

Some reasons for diversification arise from seasonality in agriculture and similar activities based on natural resources. Other activities will be taken up to make use of surplus labour and resources in the farming off seasons, and to smooth consumption when income sources are seasonal.

Some diversified activity is undertaken to reduce risk. This includes ex-ante measures to reduce exposure to risk in particular activities, by undertaking different activities whose risks do not co-vary. It also includes ex-post management of the impact of shocks by taking up
activities to generate incomes to compensate for those lost. These may involve undertaking activities that are ill-paid, arduous, and onerous — for example, cutting firewood, making charcoal; demeaning — for example, begging and commercial sex work; or criminal — for example, rustling livestock, gold panning. Those who can migrate in such emergencies, typically younger males, to find better options often do.

Some diversification responds to failures in factor markets. Inability to access credit can lead households to undertake supplementary activities to raise the funds necessary for investment in their main activity. For example, migration to work long hours and in hard jobs — some mining, for example — may be accepted as a way to generate capital for farming and other enterprises. Similarly, if land markets work imperfectly, it may be better to farm the land even if the household’s capital and labour might otherwise be better deployed in other activities, since the alternative is an unused asset.

The reasons to diversify tend to apply most strongly in weakly developed rural economies that depend heavily on agriculture, forestry and fishing. As rural economies develop, seasonality tends to become less important — even in farming, investments such as irrigation promise to extend the growing year. Risks still exist, but households may be more resilient since they have savings, assets and insurance policies and may not need to diversify their livelihoods to cope. Markets for credit and other financial services and to rent out land also tend to develop.

Thus the development of the rural economy may see less diversification, but this tendency is usually offset by the opportunities that arise in prosperous and growing rural economies. These include branching out into activities linked directly to a thriving agriculture, in servicing farming either through the provision of inputs or the handling of output — transport, storage, processing; or into those linked indirectly, in providing local services and some goods to meet the demand from farm households with increased incomes — construction, retailing, transport, manufacturing of items such as furniture. As urbanisation and economic growth occur, increasing access to the cities then there will be options to provide the services demanded by the cities — recreation and tourism, environmental protection, housing for commuters; and possibly also to take up jobs in factories set up in rural areas that are linked to urban industries. Opportunities also include migration to places that offer jobs that are markedly better paid than those available in the village.

The options are more limited when the rural economy is growing slowly or not at all, and especially when the rural population is increasing and reducing the amount of land that households can access. In the worst of circumstances, increased pressure on the land may lead to the degradation of land and water, thus making it all the more important to find some other way of earning a living than farming. Off-farm may then be undertaken of necessity if not sheer desperation, as a way to avoid destitution. At worst these constitute a poverty trap, where those engaged never have the time to find better jobs — and, in the case of child labour, the time to go to school and get the education that would give them a better chance.

13 These form part of ‘coping strategies’, whose other components include reducing consumption and selling off assets. Coping often goes through stages defined by the degree to which future livelihoods are imperilled: in great distress households will eventually sell their tools, their land, and in the extreme, their future labour in bondage, to survive, albeit in destitution.

14 In the C20 in Southern Africa it was common for young men to spend years away from their home villages in the mines of South Africa, in the hope that they would generate enough savings to return home, get married and buy livestock and thus be able to set up a viable farming household.
A common distinction made is that between 'pull' and 'push' factors in diversification, but this may well oversimplify. In reality households and their members usually face forces that stretch across a continuum with varying degrees of attractiveness and compulsion. Table 5.7 illustrates the way in which pull and push factors may interact.

The extent to which households are pushed into activities with poverty returns depends in large part on the strength of pull factors. Finding a job in the slack season for farming will be easier and the job better paid if pull factors are strong. Similarly, coping with harvest failures will be much less painful when there is a thriving non-farm economy and productive interactions with cities. Hence the same push factors may in one context encourage diversification into productive and well rewarded activities, but in others lead to poverty wages.

Given the many gradations of context, from thriving rural economies well linked to urban centres, to stagnating rural economies remote from cities, it is not surprising then to see that push factors can have rather different consequences. Where they lead to destitution it is not just the result of the push: it is also owing to the lack of alternatives in the particular circumstances.
Table 5.7: The range of options for diversification under differing conditions

<table>
<thead>
<tr>
<th>Need to find some other livelihood</th>
<th>Attractiveness of economic opportunities in non-farm activities</th>
<th>Weak pull</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong push</td>
<td>Strong pull</td>
<td>Weak pull</td>
</tr>
<tr>
<td>Stagnant farming, smaller farm sizes, growing population</td>
<td>Vibrant agriculture</td>
<td>Low to moderate growth of agriculture</td>
</tr>
<tr>
<td></td>
<td>Good links to growing cities</td>
<td>Cities relatively remote, costly to reach</td>
</tr>
<tr>
<td>Out-migration by educated persons for urban white-collar jobs, and by the less educated to find jobs in construction, factories and the urban informal sector</td>
<td>Some out-migration, but the prospects for those with little education and few skills are limited and they may have to take up badly-paid or hazardous work. Widespread resort to poorly-rewarded crafts or carrying out local services for low returns — firewood, laundry, cooking snacks</td>
<td></td>
</tr>
<tr>
<td>Those unable to migrate take up poorly rewarded local jobs such as cutting firewood. Some jobs in construction as remittances from migrants are spent on improved housing</td>
<td>Most off-farm work responds to seasonality, spreading risk and overcoming failures in markets for finance and land. Widespread engagement in a range of low-paid activities to generate some earnings, but for limited periods</td>
<td></td>
</tr>
<tr>
<td>Weak push</td>
<td>Agriculture (forestry, fishing) offers a reasonable livelihood</td>
<td>Jobs in agro-processing, rural services and recreation, etc., allow people to work full- or part-time off the farm Some migration, especially of educated youth Commuting to nearby towns Possible jobs in rural factories linked to urban industries</td>
</tr>
<tr>
<td>Need to find some other livelihood</td>
<td>Future developments in the rural non-farm economy</td>
<td></td>
</tr>
</tbody>
</table>

What may be the future of the rural non-farm economy given likely developments within the national and international economies? Table 5.8 sets out seven sets of changes and summarises their possible implications for non-farm activities.

Urbanization, national economic growth and migration

Rising urbanization and national economic growth, together with improved transport and communication networks, provide important economic linkages between urban and rural areas, opening up new opportunities for rural households (Tacoli, 1998; Tacoli and Satterthwaite, 2003). Evidence from India, for example, suggests that rapid rural non-farm growth is occurring along transport corridors linked to major urban centres, largely independent of their agricultural base (Bhalla, 1997). Similarly, in Southeast Asia and in China high population density and low transport costs have led to rapid growth in urban-to-rural subcontracting for labour-intensive manufactures destined for international export markets (Otsuka, 2007).
Opportunities for migration are likely to multiple, even if the importance of migration and remittance income proves highly context-specific, varying both locationally and over time. Internationally, it is estimated that there are 150M migrants. (IFAD 2007) However large this figure, there are many more who move domestically. Most startling has been the growth in China, where migration — mainly within the country and typically from rural to urban areas — has increased rapidly since the late 1980’s when government relaxed generation-long controls on population movement (Zhao, 1999a). Between 1999 and 2003, the number of Chinese migrants doubled, from 52 to 98 million. China’s 2000 census suggests overall migration rates of 8.5% of the workforce, with roughly 30% heading to local townships, 30% to other counties in the same province and 40% representing movement across provinces (Du, Park and Wang, 2005).

Table 5.8: Expected changes and their implications for the rural non-farm economy

<table>
<thead>
<tr>
<th>Changes</th>
<th>Implications for the RNFE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>National economies</strong></td>
<td></td>
</tr>
<tr>
<td>Urbanisation, economic growth and migration</td>
<td>Rural economies that increasingly respond to urban fortunes and correspondingly are less reliant on agriculture and other natural-resource based activities</td>
</tr>
<tr>
<td>Demographic transitions</td>
<td>Window of opportunity as dependency ratios fall: higher average productivity with either increased savings to fuel investment or consumption that stimulates the economy Aging population with increasing demand for leisure and health services, retirement homes</td>
</tr>
<tr>
<td><strong>National and international developments</strong></td>
<td></td>
</tr>
<tr>
<td>Globalisation and concentration in supply chains</td>
<td>Increased potential for exports Greater competition in local markets Requirement to meet international standards for quality, safety, child and core labour standards, fair trade, organic</td>
</tr>
<tr>
<td>Environmental pressure and mitigation of climate change</td>
<td>Services likely to become more important owing to their low carbon footprint Carbon sequestration services compete with conventional farming Export of water from humid areas to those facing water deficits</td>
</tr>
<tr>
<td><strong>Mainly international factors</strong></td>
<td></td>
</tr>
<tr>
<td>Technology advances</td>
<td>Information and communications technologies allow remote areas to provide services, better and more timely advice on opportunities Advances in non-traditional energy production — see below — may generate new activities, possibly liberating remote areas from dependence on imported energy</td>
</tr>
</tbody>
</table>

15 This may be a small underestimate: in 2003 the Chinese workforce was estimated at 760M, so that 98M migrants would represent 13% of them.
Higher energy prices | Increased transport costs put remote areas at greater disadvantage, depress tourism
Stimulus to alternative energy production — including biofuel stocks, solar capture, wind, marine, hydro-electric, geothermal

Rise of China and India and other large emerging economies | Less chance for manufacturing in smaller countries? Demand for energy and raw materials push up prices. More opportunities for mining. FDI from Asian giants; transfer of capital and know-how

Rural-to-urban commuting has also become significant in some densely settled Asian and Latin American settings. A recent study from India, of six villages in Andhra Pradesh and Madhya Pradesh, found that 10% of rural households have at least one member commuting daily to work in nearby towns and cities, while a further 47% deploy members in temporary migration (Deshingkar, 2004). Similar studies from Chile and Peru document sharp increases in daily commuting from rural areas to nearby towns, particularly during the 1990s (Berdegué et al., 2001; Escobar, 2005).

Empirical evidence suggests that migrant remittances may serve to increase rural investment, finance schooling, house construction and agricultural inputs in some locations (Francis and Hoddinott, 1993; Marenya et al., 2003). In some cases, migrants contribute to common funds for local public investments — as applies when migrants from the same locality form an association at the destination and encourage each other to contribute to collective funds. Remittances may stimulate the rural economy through linkages, a prime example being when the monies received are invested in improved housing thus creating jobs for local masons and carpenters — as seen, for example, in rural Egypt in the 1970s and through much of central Mexico in the 1990s.

On the debit side, migration can expose those moving to additional risks and hazards: illness, accidents, and crime. Migrants may lose their rights and entitlements at destinations, such as access to health care and schools — even when they remain within their own country. They may also be vulnerable to exploitation in low pay, poor conditions and abusive treatment, since migrants often have little bargaining power with employers, on whom they may also depend for temporary shelter and food. At destinations migration may exacerbate social tensions as newcomers rub shoulders with longstanding residents. Large numbers of migrants

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16 In Ghana migrants expelled from Nigeria in the early 1980s brought back vehicles, chain saws and generators that allowed them to create new businesses (Dei 1991). In Qwaqwa, South Africa, Slater (2002) recounts life histories that shows how those returning or expelled from the cities brought back taxies or funds to set up small stores. For villages in Michoacán, Mexico, Taylor & Wyatt (1996) argue that when capital is scarce, the shadow value of remittances may be high — and demonstrate that migration allows households to overcome capital market limitations.

17 Capturing the full impact of remittances on the rural economy is possible through modelling. Taylor (2002) reports on the work of De Brauw, Taylor & Rozelle (2000) in China. This shows that although labour loss from migration does hit farming and rural businesses, the remittances have strong multipliers in the rural economy — of 2.78 for farming, and 4.50 for self-employment income flows. Similarly for villages in Michoacán, Mexico, models show that migration does reduce labour supply and encourages activities that are less intensive in labour, in this case, grazing livestock. But remittances stimulate local incomes, encourage investments, including in livestock, and in schooling. This confirms earlier analyses for the same villages (Adelman et al. 1988).
may place a strain on services, a worry that is often expressed by city governments when poor rural dwellers move to towns.

The future is very likely to see increasing migration both domestic and international. The challenge will be to facilitate beneficial movements, and mitigate the less favourable ones.

**Demographic transitions**

As fertility rates fall in most developing countries, populations that were once predominantly made up of the young will age. The dependency ratio between those of working age and those not yet able to work will fall, creating a window of opportunity. This promises higher average productivity with either increased savings to fuel investment or consumption that stimulates the economy. It should also allow for higher public spending on the education of children with benefits in the future.

Dependency ratios may dip to a historic low before rising somewhat as the fraction of retired persons increases in a generation or two. Hence the phase of demographic transition that many developing countries are entering represents a temporary dividend that can accelerate growth.

When the next stage an increasingly aged population is reached, there will be increasing demand for leisure and health services and for retirement homes. Rural areas will have an advantage over cities in some respects, offering a more restful environment; although they may suffer if they cannot provide rapid access to medical care.

**Liberalization and Globalization**

Beginning in the 1990s, widespread economic liberalization has opened up the rural non-farm economy as never before—to new opportunities and to new threats. Liberalization, by reducing direct government involvement in production and marketing, has opened up new market opportunities for the private sector, particularly in agricultural processing, input supply and trade.

Relaxed controls on foreign exchange and investment have unleashed a flood of foreign direct investment into Latin America, Asia and Africa. As a result, large exporters, agribusiness firms and supermarket chains increasingly penetrate rural economies of the developing world, altering the scale and structure of rural supply chains as they do (Reardon, et al., 2003; Reardon and Timmer, 2005; Reardon, Stamoulis and Pingali, 2007).

This rapidly changing environment opens up opportunities for some rural suppliers to access new markets.

In Bangladesh during the second half of the 1980s, liberalization of the import small diesel engines, as part of agricultural policy reforms intended to boost irrigated rice production, simultaneously but quite unexpectedly launched a veritable revolution in two major rural non-farm activities. After the cropping season, millers harnessed the new diesel engines to power 30,000 seasonal hammer mills, transforming the structure of rice milling and dramatically increase competition in rice markets. Later, during the rainy season, metal smiths and boat makers adapted the engines to power thousands of river boats, converting these classic dhows from cheap-but-slow to cheap-but-rapid inland water transport (Jansen et al., 1989; Haggblade, Reardon and Hyman, 2007).

Similarly in Thailand following World War II, retired OSS operative Jim Thompson began working with silk weavers in Northeast Thailand, improving production technology and quality in rearing, reeling and weaving. In the process, he helped to develop an international reputation for the unique quality and design of Thai silk. The resulting growth in silk exports transformed opportunities for over 60,000 village women, enabling them to access international markets and roughly quadruple returns to labour in the process (Haggblade and Ritchie, 1992).
But liberalization and globalization expose other rural businesses to new threats, as quantity requirements and quality standards impose new ways of doing business that risk excluding undercapitalized rural enterprises on which the rural poor often rely. In Latin America, where supermarkets now account for over 60% of food retailing, the risks of this increasing market concentration have been most pronounced (Reardon, Timmer, Barrett and Berdegué, 2003). Available evidence suggests that rapid concentration has triggered the bankruptcy of thousands of small firms in recent decades. Over 60,000 small food retailers closed their doors in Argentina from 1984 to 1993 (Gutman, 1999), while over 5,000 small food retailers ceased operations in Chile between 1991 and 1995 (Faigenbaum, Berdegué and Reardon, 2002). Although many of these bankruptcies affected urban traders, emerging evidence suggests that small rural traders and the wholesale markets they serve likewise risk being displaced by larger, specialized wholesalers. The leading supermarket chains in Guatemala and Nicaragua, for example, have shifted away from rural small-scale brokers for procuring fresh produce. Instead they now procure through several large, specialized wholesalers (Balsevich, Schuetz and Perez, 2006; Flores and Reardon, 2006; Hernandez, Reardon and Berdegué, 2006). The same trend has emerged in the beef sector in Nicaragua and Costa Rica (Balsevich, Berdegué and Reardon, 2006).

Even in sub-Saharan Africa, South African supermarket chains have expanded aggressively northward following the advent of majority rule in 1994 and the demise of economic sanctions that had previously prevented these investments. Two major chains, Shoprite and Pick ‘N Pay, have opened outlets in cities and rural towns in Zambia, Malawi, Mozambique and Uganda and are considering forays into West Africa. In each locality, their entry has altered product selection and market share in favor of imported South African brands at the expense of local farmers, processors, food suppliers and retailers (Weatherspoon and Reardon, 2003). Evidence from Kenya suggests that local supermarkets there have similarly tended to replace rural traders and wholesale markets with specialized large-scale suppliers. While traditional brokers and wholesale markets supplied 70% of fresh fruits and vegetables in 1997, managers project that share will fall to 10% by 2008 (Neven and Reardon, 2004).

Some categories of rural non-farm activity have thrived in the past because of protection from outside competition by high transport costs, restrictive production policies (such as reserved handicraft industries in India) and trade policies (including barriers to cheap imported consumer goods), subsidized inputs and credit, and preferential access to key markets (as in town and village enterprises in China). Globalization and market liberalization remove many of these barriers, effectively ‘deprotecting’ the RNFE. The transition may prove brutally abrupt for many traditional small-scale manufacturing activities whose products cannot compete with higher quality, mass-produced goods. For this reason, the initial stages of deprotection can lead to significant job losses in the RNFE, even though many of these may later be recovered as new types of rural non-farm activity sprout up, as in India during the 1990s (Bhalla, 1997). Since poor households and female-dominated activities predominate among the low-investment, low-productivity rural non-farm activities, they tend to face the most difficult adjustment during this transition.

In addition, if rural business is to take up opportunities to export to international markets, and even to some of the national markets, they will increasingly find that they need to meet standards for quality of products as well as those applying to the process of production such as child and core labour standards — and be certified for compliance with these standards. If fair trade or organic markets are to be tapped, then again there are demands for certification. Most clearly these apply to exports of agricultural produce, but they equally can apply to services such as tourism, as well as high-value crafts.

Just how powerful are the new opportunities provided by urbanization and globalization, and to what extent can they substitute for agricultural growth as the main driver of the RNFE? Although empirical evidence has begun to trickle in, these processes are still unfolding in
many settings and firm conclusions will require more time and new field studies. Based on the fragmentary evidence available to date, it appears that the new forces of globalization and urban-led rural transformation are proving most powerful in densely populated, rapidly growing countries like India and China. Evidence from India likewise suggests that the correlation between agricultural growth and growth of non-farm income and employment has become weaker in many rural areas (Harriss-White and Janakarajan, 1997; Foster and Rosenzweig, 2004). In these settings, where urban congestion, soaring rents and higher wages raise the cost of doing business in metropolitan centres, rural-to-urban commuting, temporary migration and urban-to-rural subcontracting become economic (Otsuka, 2007). Increased rural-urban flows can benefit rural areas by providing injections of remittance earnings as well as growing urban markets for a range of rurally produced tradables.

Opportunities for this sort of urban-led rural growth appear more limited in poorer, less densely populated and more slowly growing economies, such as much of Africa. Controlling for national context, regions with better infrastructure and market access seem more likely to benefit from urbanization and globalization, and these are often the better off regions to begin with. As a result, rural areas with good infrastructure and market access and which are located in successfully growing countries appear likely to gain most from urbanization and globalization, while remote backward regions in poor, slow growing countries will gain the least (Reardon, Stamoulis and Pingali, 2007).

Environmental pressure and mitigation of climate change
Agriculture is likely to come under pressure from policy-makers and the general public to reduce adverse environmental impacts. Heavy use of agro-chemicals is likely to be controlled or discouraged, irrigators will be expected to adopt more efficient ways of watering crops to save on water, and conversion of forests to agricultural use restricted or banned. Farmers may increasingly be given incentives to manage parts of their farms for environmental services. At community level, there may be schemes to conserve forests, especially in watersheds. Most intriguing of all are the prospects of payments for carbon sequestration which would favour conservation of woodlands.

For the rural non-farm economy there are two clear likely consequences. One is that some farmland may go out of production, or farmers may have to use their land less intensively, and thus there will be more incentive to take up off-farm jobs and activities. Rural services that generally have a low carbon footprint will be at an advantage. The exception here could be long-distance tourism to rural sites of outstanding beauty, heritage or wildlife that could be discouraged by the carbon footprint of air travel.

The other development will be the growth of environmental services: conserving forests and biodiversity, assuring water supplies, and possibly the export of water from some humid areas to areas with water deficits.

Technology advances
Changes in technology are difficult to predict, even though their impacts can be dramatic. Currently, rural areas in developing countries are seeing an impressive diffusion of information and communications technologies in cellphone coverage and the arrival of the internet in cafes in small rural centres. These technologies are already having an impact on trading with faster diffusion of accurate information on conditions in distant markets, and the requirements to deliver produce to them. In the last few years, schemes to use cellphones to make money transfers have been started that could reduce the often high cost and uncertainty of sending remittances home.

There is some potential for relocation of urban services to rural areas once reliable internet access can be provided, although this may be restricted to peri-urban zones given the need of such workers to meet others face-to-face periodically.
Higher energy prices
With warnings that peak oil production may have arrived or soon will arrive, and the recent sharp rise in the price of oil, the search for alternative forms of energy may encourage production of energy in rural areas.

Biofuel is one possibility, especially when the second generation technologies that can use low-value cellulose come on-stream. More sites for hydro-electricity generation will be economic if energy prices rise, although some schemes that involve dams and flooding will face objections on the grounds of their adverse environmental and social impact. In areas with the required conditions, geo-thermal energy stations may become more attractive.

Other options include wind power and solar capture — the latter having enormous potential in arid zones where clouds rarely obscure the sun. Coastal areas may have options in tidal and wave power. These options, however, depend very much on technological breakthroughs that will lower the cost of energy generation from these renewable sources.

Rise of China and India and other large emerging economies
The rapid growth of the economies of some developing countries with large populations, notably China and India, holds both a threat and a promise to other developing countries and their rural economies. The threat lies in their developing such economies of scale in manufacturing, that smaller countries cannot contemplate developing manufacturing in the face of a wave of cheap imports. There is also the possibility that the demand for raw materials in what will soon become very large economies indeed, could force up the cost of energy and raw materials on world markets affecting the rest of the world.

The promise, however, is substantial. An increasing demand for energy and raw materials represents a market for developing countries with natural resources, most of them located in rural areas. Mining is likely to be stimulated where ores are present, as known but currently uneconomic deposits become economically useful, and as renewed efforts are made to prospect for reserves.

While initially the manufacturing prowess of a country such as China looks formidable, at some point in the future it will run out of cheap labour and when that happens it is likely that investments will be made overseas in countries that do have unemployed labour. The combination of Asian investment with industrial know-how could transform the manufacturing prospects for some countries. While such development would likely first take place in urban areas, there could be some spillover into rural areas as well.

In conclusion, both threats and opportunities for the rural non-farm economy can be seen for the future. There are two probable implications.

One is that the impacts will be very varied by location, and amongst social groups. Most probably those rural areas that have diversified and prosperous rural areas with reasonably well-educated and informed citizens will be able to take up the opportunities and ward off the threats. Hence striving to improve matters today is wise in the face of future uncertainty.

The other implication is that diversification in itself is likely to pay off in the face of uncertainty: rural economies that have developed a wide range of options will find it easier to adapt to changed circumstances.

Key factors of success
Can we identify key factors for success in creating opportunities in the rural non-farm economy? Yes, it is easy to compile a long and familiar list of desirable conditions. Given the diversity of both circumstances and possible non-farm activities, it is not surprising that there can be a long list of factors for success — which is why different observers can stress very different factors, in good faith, with evidence to back up their arguments. As Ahmed and colleagues (2007) note:
And so we are forced to conclude, like a long parade of past observers, that growth in the RNFE will require favorable public policies, adequate infrastructure, human skills, and well-functioning market and credit institutions. But compiling lists is not the challenge. We know that in favourable circumstances, the right kind of things happen. What we need to know is the converse: what to do when most things are not favourable, and when remedying all the deficiencies is simply not possible in the short term.

The rest of this section looks at setting potentially important factors within a framework that helps structure thinking. The subsequent third section then looks at policies, programmes and projects in more detail.

A framework for thinking about the issues

One way to comprehend the welter of factors is to set them in a hierarchy, running from factors applying at levels from international and national to regional, district, village, and household, as shown in Table 5.9. The household and its members remain the centre of attention, but the hierarchy helps structure the forces in the socio-political and governance context that condition the opportunities open to households.

Table 5.9: Factors for success in rural economies

<table>
<thead>
<tr>
<th>Macro factors: international and national</th>
<th>Investment, business climate</th>
<th>Good-enough governance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Macro-economic stability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Economic policy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Formal economic institutions</td>
</tr>
<tr>
<td>Trade opportunities</td>
<td>World markets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trade policy and agreements</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mesa: regional factors</th>
<th>Public goods</th>
<th>Physical infrastructure: roads, electricity, telecommunications</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Education, health</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Water, sanitation</td>
</tr>
<tr>
<td>Effective and efficient supply chains</td>
<td>Information</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Collective action</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Specific and informal institutions</td>
<td></td>
</tr>
<tr>
<td>Functioning markets</td>
<td>Esp. Factor markets — financial services, labour, land</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Micro factors: district, village, household</th>
<th>Effective and efficient enterprises</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Skills and training</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Physical access to markets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Economic access to assets</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Investing in people and breaking inter-generational transmission of poverty</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Absence of discrimination</td>
</tr>
</tbody>
</table>

From this framework, three sets of factors are important for the development of the non-farm economy:

The context is part 5 of the conceptual framework for the Rural Poverty Report. The scheme offered here just adds detail and hierarchy to that context.
• At national level, a growing economy with urbanisation that creates jobs for migrants from rural areas, a demand for rural goods and services, and a tax base that allows the state to invest in public goods and human capital;

• At regional level, drivers for the rural economy — activities that have sufficient comparative advantage to earn income beyond the regional rural economy; plus infrastructure and institutions that encourage other activities that respond, through linkages in either production chains or through consumption, to the driving activity, thereby creating additional jobs and incomes; and,

• At local level, investment in education, health and nutrition that allows the poor to take up options; accompanied by a social and legal framework that prevents discrimination against people who differ by gender, age, ethnicity, amongst other characteristics, and ideally gives them equal opportunities. A political system that allows their interests to be reflected in national policy-making and empowers them is highly desirable (although, as some countries show, this may not be necessary).

These tiers of factors can be seen as necessary but not sufficient conditions for rural growth that reduces poverty. If the national and international context is one in which investment and growth are discouraged, opportunities at regionally and in the rural economy are restricted. If the meso factors are not in place, the efforts of individual households and enterprises are likely to be frustrated. And if the economy at all levels is not functioning, then improving the welfare of the poor will prove difficult.

An example of the importance of the higher level factors comes from Acharya’s (2003) comparative review of Cambodia and Laos with Thailand and Vietnam. In the latter two countries, the economy and agriculture have been growing quite rapidly creating the opportunities for rural businesses to develop and flourish. In the former two, economic growth has been less and from a lower base, so that their rural economies remain rudimentary and only a small range of non-farm enterprises have been developed. In similar vein, Bland’s (1995) review of USAID experiences of employment creation in several countries, some of them concerned with small-scale business in rural areas, found that too often programmes did not pay enough attention to the overall economic environment affecting the success of the enterprises.

From this schema, formulating a good strategy for rural development in any given country needs to do three things. First of all, overall analysis to establish where the key blockages may lie: are they at macro, meso or micro level? And at each level, what are they?

Second, carry out more detailed analysis of the bottlenecks and critical problems and consideration of options to overcome them.

Third come considerations of tactics: detailed planning with the emphasis on finding ways to reach objectives in the light of the possibilities of implementation. In most rural economies, this will probably be a learning process and needs to be recognised as such, since rarely is there sufficient information in advance to predict with any certainty the response of the system to planned interventions. (Korten 1980)

Some principles established, the argument now addresses the difficult question of stimulating rural and regional growth.

The necessity of a growing rural economy: challenges in different circumstances
Contemporary ideas on economic growth stress specific analysis of country contexts, using fairly simple heuristic tools such as growth diagnostics to identify obstacles to growth (Haussman, Rodrik & Velasco 2005) or analyses of the investment and business climates, rather than blanket application of general solutions (PREM 2003).
For growth in the rural economy, key questions that arise include identifying potential drivers of growth capable of generating a surplus that can be sold outside the region, and how they may be promoted. With flourishing drivers, other parts of the rural economy may well thrive as well through linkages in production and consumption.

In many cases, the main driver of the rural economy is agriculture as may be expected given the importance of land. The scope for developing other drivers in the rural economy, for linking these to other non-farm activities, and for those activities to generate jobs and livelihoods for the rural poor varies much by context. It thus helps to have a typology based on key dimensions of situations encountered in practice, of which three stand point: national context; type of economic base; and the distribution of assets. Combining the three dimensions of the typology leads to twelve types of rural regions. Not all are empirically important and Table 5.10 shows the more important cells for setting strategic priorities.

Table 5.10: Strategic priorities for promoting the rural non-farm economy

<table>
<thead>
<tr>
<th>National economy</th>
<th>Regional economic base</th>
<th>Asset distribution</th>
<th>Strategic priority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dynamic</td>
<td>Sluggish</td>
<td>All</td>
<td>RNF exports: people, goods, or services; build up agricultural and natural resource exports where profitable</td>
</tr>
<tr>
<td>Dynamic</td>
<td>Equal</td>
<td></td>
<td>Growth-enhancing RNF supply chains, migration</td>
</tr>
<tr>
<td>Dynamic</td>
<td>Unequal</td>
<td></td>
<td>Equity-enhancing RNF supply chains, migration</td>
</tr>
<tr>
<td>Stagnant</td>
<td>Sluggish</td>
<td>All</td>
<td>International migration, export of traditional handicrafts</td>
</tr>
<tr>
<td>• Resource poor</td>
<td></td>
<td></td>
<td>Build up the rural economic base: agricultural growth or natural resource-based activity</td>
</tr>
<tr>
<td>• Unexploited potential</td>
<td>All</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dynamic</td>
<td>Equal</td>
<td></td>
<td>Growth-enhancing RNF supply chains</td>
</tr>
<tr>
<td>Dynamic</td>
<td>Unequal</td>
<td></td>
<td>Equity-enhancing RNF supply chains</td>
</tr>
</tbody>
</table>

National economic context. The national economic context in which a region is located circumscribes many of its RNFE opportunities. In fast growing and urbanizing countries like China and India, new opportunities abound for migrants from rural areas and fast growing urban and industrial areas can generate strong backward demand linkages to rural areas. In these contexts, rural non-farm activity can be propelled forward even in many sluggish agricultural regions, as long as they have reasonable infrastructure and market access.

Indeed, access to cities tends to improve with rising levels of development. As economies develop they invariably urbanise: existing cities grow larger, while smaller rural centres grow to the point where they become fully-fledged urban centres.  

19 This stems from the economic base theory of growth that states that the growth of a region depends on the growth of its export industries. This makes local growth dependent on external demand. Any increase in the export base leads to a multiplier process, with the multiplier equal to total regional output divided by total exports.

20 Vigorous urbanisation rapidly increases the share of the countryside that is effectively peri-urban.

21 An important point to bear in mind is that there is no one definition of ‘rural’ and there are quite large differences between countries in the ways the criteria they
On the other hand, rural regions located in stagnant national economies, as has applied in much of Africa until recently, face far fewer opportunities beyond their borders, and rural non-farm activity in all types of regions must depend much more on traditional motors of growth, such as local agriculture.

**Economic base.** The type of economic base is crucial to understanding both a region’s opportunities and constraints. The local demand for the goods and services produced by the RNFE is conditioned by the level of output and income generated by the tradables sector (or economic base) of a region’s economy. Unless RNFE activities have access to vibrant markets outside their region’s economy, then their growth is inevitably constrained by growth in the local tradables sector.

There are three possible situations for a given region’s tradables sector. First are resource poor regions, endowed with vast tracts of marginal land in which an absence of fertile soil, water or exploitable natural resources prevent resource-based tradable activity — for example, the northern part of the West African Sahel, much of North Africa and West Asia, the Indian state of Bihar, the Andean zones of Ecuador and Peru. Prospects for growth in rural non-farm activity are bleak, and especially in stagnant national economies because of an absence of viable migratory opportunities.

In the absence of these standard motors of rural economic growth, efforts will need to focus on export markets and on local urban areas whose economies are based on entrepôt commerce, public sector activity, foreign assistance and migration remittances. Labour migration — the export of services — offers one standard response in these settings, especially in regions with an inequitable distribution of assets. Export of local crafts or artwork may prove feasible, provided marketing links can be established with outside buyers. Provision of processed foods, clothing and services to local urban areas is also feasible, as Woldehanna (1999) illustrates in the case of Tigray, Ethiopia.

Educational levels and local skill mix will influence opportunities as well. The rise Internet service providers and cell phones opens up prospects for offshore delivery of labour and skill-intensive activities such as data entry, drawing and drafting. For example, entrepreneurs in the US ship digital photographs to China where rural painters produce oil portraits and then ship them back by courier service. Linked by a former NGO employee turned businessman, Bangladeshi draftsmen produce architectural drawings to order and then digitally transmit them to the US. Valued at US$600 million per year, these offshore, electronically transmitted services, of course, require good external contacts and communications facilities (Chowdhury 1999). The assembly plant (maquiladora) industries of Mexico and Central America use local plus imported inputs to make inexpensive manufactures for foreign markets. Though growing in many locations, these activities take place primarily in urban areas of the Third World where supervision is easiest and communications are most reliable.

Though daunting and difficult, promotional efforts in these zones can succeed, and sometimes even become commercially viable. For agencies mandated to work in these areas, the key will be to focus on development of external markets that match local skills and meagre resources with consumers outside the region. Marketing, grading, assembly, and transport services will serve as key engines of growth in these cases. Likewise, strategic infrastructure investments apply. In Asia, it is common to define urban as settlements with 10,000 to 20,000 persons living contiguously. In Latin America, the same criterion of settlement size is applied, but with settlements of 2,000 or 5,000 persons being classed as urban. This makes a major difference to reports of rural industrialisation. Rural workshops other than the smallest craft units tend to be set up in rural market centres where are services, roads, and electricity. In Asia the workshops could be in quite large settlements, but still be seen as rural industry; in Latin America anything in a large village is classed as urban.
in road transport or telecommunications may prove necessary to reduce transport and transaction costs necessary for opening up viable economic activity in the region.

However, potential interveners must recognize that returns to public investment here will normally prove lower than in other settings. Fine judgment may be needed, at least in the early stages of development, between the returns to such investments against simply facilitating out-migration.

A second situation arises in regions where the tradables sector is currently feeble, yet unexploited potential exists. This may happen, for example, where fertile soils, minerals, a strategic location or great natural beauty exist, but exploitation of this economic potential requires investment in infrastructure (irrigation or roads, perhaps), technology, human capital or marketing arrangements. This situation arose in Bangladesh from the 1950s through to about 1985, in the Indian Punjab during the 1950s, in Cancun, Mexico before 1980.

In such cases, some sort of investment or collective action proved able to ignite impressive growth — agriculturally led in the Punjab and in Bangladesh and via tourism development in Cancun after the government invested in hostelry and infrastructure in the 1980s. In these types of regions, priority should be given to developing the potential of the tradables sector, thereby creating new demands for nontradable RNFE outputs through within-region multipliers. Once this has been achieved then investments in the supply side of the RNFE such as injections of micro-credit become more worthwhile.

The successful growth of the Chilean wine industry offers a good example. Agricultural research investments helped the wine-grape growers, food technology and investment programmes helped the wine makers, infrastructure over the entire area was improved, and the government helped with wine market information to expand markets.

In general, these broad, subsector-based interventions will require good diagnostics, continual monitoring and often changing emphases as developments proceed and new opportunities or constraints become binding (Hyman and Kirk 1996; Bourgeois and Herrera 2000). These efforts will frequently require attention to specific subsectors over a period of many years, possibly even a decade or more.

A third case occurs when a dynamic economic base already exists, as in the agricultural boom of Central Chilean plain during the 1980s and 1990s, the Punjab of the 1960s and 1970s, and in Uganda’s agricultural recovery during the 1990s. In these cases, rapid growth in rural agriculture stimulate widespread growth in ancillary rural non-farm activities and opportunities abound. For this reason, large corporations most frequently establish in these settings. Their activity opens up additional opportunities as well as threats for unskilled and small-scale rural non-farm producers.

Equity issues emerge prominently in these settings, particularly when assets are unequally distributed. With an even distribution of assets, scope exists for broad-based rural non-farm growth following steady growth in agriculture, as in rural Taiwan during the 1940s through the 1960s (Ranis and Stewart 1993; Ho 1986; Johnston and Kilby 1975). Yet in polarized settings, where huge disparities in land ownership, livestock, financial capital and political power exist, as throughout much of rural Latin America, agricultural growth may simply lead to more profits for a few monopolistic trading families (de Janvry 1981). Therefore, equity-based interventions may prove most necessary in these settings. And in the presence of growing rural markets, business development services or micro-credit programs aimed at the rural poor may in fact facilitate their access to these growing market segments.

Each specific region houses its own particularities, resources and strengths. The three general categories proposed help to classify situations and identify general strategies for locating additional sources of export growth. To tailor interventions further will require focus on
specific economic activities and on sparking a growing network of lead commodity subsectors.

Asset distribution. Within a given rural region, regardless of its economic base, the current distribution of assets, income, power and wealth may vary substantially as well. This will have important implications for whether RNFE growth reduces or worsens inequality and poverty. In unequal settings, growth of the tradables sector may trigger accelerating inequality as differential access to education, technology, capital, commercial and political power translate into first mover advantages for the elite.

This disparity becomes even more important given the extreme heterogeneity of non-farm firm sizes and technology. Typically these settings include large numbers of very labour-intensive, unskilled home-based non-farm activity — such as basket-making, embroidery and weaving. Though highly important to the poor households who undertake them, these activities prove vulnerable to changing circumstances that emerge during economic growth or liberalization. For example, small-scale producers of hand implements or processed foods are not easily integrated into modern retailing systems because of the low quality and safety of their products, and hence may be rapidly wiped out as supermarkets and mini-markets begin to dominate. Policy makers concerned with equitable rural non-farm growth need to look carefully at competitive and complementary relationships between large and small enterprises, and at differential opportunities and threats in these situations.

Policy options for the rural non-farm economy

From the previous section, it is clear that if there is no blueprint for rural growth that reduces poverty, then the policies, programmes and projects that may be deployed constitute a menu of options to be used as circumstances may indicate. The first part of this section sets the options within a framework, and reviews the more challenging of them; the second part then discusses their costs, benefits and impacts and the way in which they be deployed.

Options and challenges

Table 5.11 builds on the hierarchy of success factors seen in Table 5.9 to create a menu of options, and the key actors in planning and implementation.

Table 5.11: Options for policy-makers

<table>
<thead>
<tr>
<th>Policies, programmes, projects</th>
<th>Key actors in planning and implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Macro factors: international and national</strong></td>
<td></td>
</tr>
<tr>
<td>Investment, business climate</td>
<td>Good-enough governance</td>
</tr>
<tr>
<td></td>
<td>Macro-economic &amp; general economic policies</td>
</tr>
<tr>
<td></td>
<td>Fostering formal economic institutions</td>
</tr>
<tr>
<td>Trade opportunities</td>
<td>Trade policy and agreements</td>
</tr>
<tr>
<td><strong>Meso: regional factors</strong></td>
<td></td>
</tr>
<tr>
<td>Public goods</td>
<td>Physical infrastructure: roads, electricity, telecomms</td>
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<tr>
<td></td>
<td>Education, health</td>
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<td></td>
<td>Water, sanitation</td>
</tr>
<tr>
<td>Effective and efficient supply</td>
<td>Information</td>
</tr>
<tr>
<td></td>
<td>Collective action</td>
</tr>
</tbody>
</table>
### Micro factors: district, village, household

<table>
<thead>
<tr>
<th>Functioning markets</th>
<th>Specific and informal institutions</th>
<th>NGO</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Esp. Factor markets — financial services, labour, land</td>
<td>Informal enterprise Groups of farmers, citizens</td>
</tr>
</tbody>
</table>

**Effective and efficient enterprises**

- **Information**
  - Government Formal private enterprise NGO
- **Skills and training**
  - NGO

**Participation by poor households**

- **Physical access to markets (as above, public goods)**
  - (see above)
- **Economic access to assets, esp. financial services (see above) and land**
  - Central government NGO
- **Investing in people and breaking inter-generational transmission of poverty**
  - Central government + donors NGO
- **Absence of discrimination**
  - Central government NGO, civil society Grassroots groups

**Facilitate (voluntary) migration**

- Central government NGO

**Social protection**

- Central government NGO

Some of the interventions listed in the second column of this table are relatively well understood — for example, investing in roads and primary education. Others may be equally important, yet finding effective ways to intervene is less straightforward. These constitute key challenges for developing the rural non-farm economy. They include:

- At national level, creating an attractive climate for investment;
- At the regional or meso level, facilitating the development of efficient and effective supply chains; and enabling factor markets to work more effectively, especially financial markets; and,
- At the micro or local level, encouraging the development of services to support enterprises, providing appropriate training beyond primary and secondary schools, combating discrimination and breaking the transmission of poverty across generations, facilitating voluntary migration, and providing social protection that underwrites risk-taking and protects the vulnerable from destitution.

The rest of this section will address these in turn.

**Investment and business climate: governance, economic policy and institutions**

Thinking about the overall conditions for investment and growth has progressed over the last 25 years from faith in the tenets of the Washington Consensus in which the role of government was to stabilise the macro-economy, liberalise trade, provide public goods, establish standard institutions and otherwise facilitate and encourage private enterprise and the markets; to the more qualified and complicated terrain of improving the investment
climate. While the former set of actions may be, in most cases, necessary preconditions for creating an investment climate, they are often not sufficient.

Since the early 1980s several things have become apparent. One is that governance is complex, specific to context, and likely to develop sequentially through time. While it is easy to see the extremes of bad and good governance, the road from bad to good is not clear. Commentators have repeatedly pointed out that most Asian economic successes of the last twenty years have occurred with conditions of governance, at least initially, that fell far short of ‘good governance’. Moreover, they add, in many developing countries contemporary standards of governance are better than those in place at the time the industrialised countries achieved their economic take-off. Some have thus argued that governance is an outcome of development, not a precondition.

But this would be to ignore simple and obvious truths: rampant crime and disorder, unstable and capricious government with a penchant for predating on enterprise, all other things being equal, do not encourage investors, national or foreign. The search is thus for ‘good-enough governance’: a set of conditions that are both feasible and sufficient to allow initial investment and growth and that can later be improved. (Grindle 2007)

These not just issues at national level. The investment climate may vary regionally. In an otherwise stable national polity, the district investment climate may be very poor, marked by, for example, cattle rustling, disputes over land ownership, predatory local politicians running what amount to protection rackets, and local taxation that weighs heavily on business and especially on small enterprises. In the last few years the World Bank has sponsored studies of rural investment climates, the results of which have proved revealing.

The Indonesian account is an example (World Bank 2006): a detailed enquiry into the situation of small and very small businesses in the countryside, with challenging policy recommendations. It stresses the difference between the limitations faced by small rural businesses compared to that faced by large-scale corporate enterprise in urban areas:

Demand constraints, access to credit, poor roads and unreliable electricity top the list of concerns faced by micro and small enterprises at the Kabupaten level. This is in marked contrast to macroeconomic instability, policy uncertainty, corruption, the legal system and taxation issues, which are the main concerns of large formal firms. Thus a different emphasis is needed both at the national and the regional level to stimulate the growth of micro and small non-farm enterprises in the regions.

Another progression from the original Washington Consensus is the attention given to institutions, in the sense of the ‘rules of the game’. Not only are institutions seen to be central to growth and development, but also it is recognised that what matters is not their form but their functioning. (Rodrik 2004) Hence another search is to find what makes institutions function within particular settings.

But some ideas have not changed much since they became predominant in the early 1980s. One is the value of policy neutrality and the dangers of granting special favours to enterprises and sub-sectors of the economy. There are many things that governments can do as part of its economic policy to favour particular interests, including rural enterprise. A brief list, and the potential drawbacks, include:

- Subsidising capital through cheap loans — costly, favours capital-intensive techniques and reduces job creation, may undermine financial markets;
- Licensing and controls on opening and closing of enterprises and their location — for example requiring new industries to locate in economically-depressed or rural areas — likely to deter investment and introduce distortions and added costs to business;
• Public underwriting of innovative private ventures — requires considerable skill if this is not to become a straight subsidy to inefficient enterprises; and,

• Direct public investment in enterprises — risks creating inefficient enterprises loaded with additional political and social objectives that undermine the business.

Such policies are not automatically failures: there are cases of all of the above measures used judiciously in particular cases to good effect. But they require political and administrative skill and prudence to avoid the dangers that all too often have materialised.

**Improving supply chain functioning**

**The issues**

With increasing integration into markets and associated specialisation of production, the supply chains that link production through processing, storage, and transport to consumers are becoming longer. Increasingly it is difficult for small-scale producers and intermediaries to know what is happening in the chain through personal knowledge. Chains are increasingly being organised by large-scale players, such as supermarkets in food chains, who set the standards and performance expected of all those in the chain.

Small-scale rural producers can be disadvantaged in their dealings with other actors in the chain, owing to two main failings, each a prime example of ‘market failure’. One is the undue power in the markets of monopolists or oligopolists who can exploit this to gain high profits — rents in effect — from others in the chain. Small-scale rural producers, in contrast, rarely have monopoly power since they are atomised producers, competing with many other similar producers.

The other problem is information about market possibilities and conditions, and about the competence and moral character of those they deal with. Information is typically held asymmetrically, inviting opportunism by the party who holds the knowledge, and prompting uncertainty, mistrust and caution by the other party. A typical consequence is that potentially attractive deals are simply not realised. These problems are heightened when possible investments have no other possible use — ‘asset specificity’, when dealings between parties are infrequent, and when there are cultural barriers between the parties. The consequences are most clearly seen in the case of formal credit: bankers are reluctant to lend to small farmers since they know too little about their abilities and consequent capacity to repay loans, or about their moral character and their willingness to repay debts. But the same issues arise in many other chains, when small rural producers interact with people from outside their village and their kin networks. At worst small producers can be marginalised and excluded: at best they face high transactions costs in their interactions with other actors.

If rural producers are to take full advantage of market opportunities, ways to overcome or reduce these problems have to be found. What are the options?

**Policy responses**

In the past, states have tried to overcome some of these problems by playing key roles in the chains. In farming, parastatals have at times been a one-stop shop for small farmers providing inputs, credit and technical assistance, and buying up the output as well. But most of those agencies have been closed down or have scaled back their activities. Most supply chains today consist mainly of private enterprises of varying scales, with at most some attempts at regulation and facilitation by government and occasionally by NGOs and producer organisations.

**a. Reducing monopoly power**

Faced by monopoly power, the state may consider anti-trust legislation or may regulate monopolies that are more or less natural on account of economies of scale or transport costs. But action in these spheres is not easy: state agencies often lack information on business
practices and underlying market forces that makes it difficult to act with confidence. 
Regulating monopolies in societies where business and politics are closely linked, as often applies in the developing world, can be very difficult.

Hence other measures may be more effective. One would be to encourage other actors to enter the supply chains at the points where there is monopoly power. In some cases, the monopolist may be quite a small actor, as applies for example, where the local shopkeeper owns the only truck in the village and can dictate the rates charged to ship goods to the nearest market town. In such a case offering a line of credit to potential transport operators to acquire vehicles might solve the problem.

Another approach is to confront monopoly with countervailing bargaining power, by organising small producers into groups to negotiate over sales of output or purchase of inputs, to obtain credit, and to arrange technical assistance.

Grouping rural producers has a history: there was a time, roughly from the late 1950s to the mid-1970s, when there were high hopes for farmer co-operatives dealing specifically with marketing and input supply. Based in part on the success of some farmer co-operatives in parts of Europe, and partly on a political preference for co-operatives rather than private enterprise, many developing countries encouraged the formation of such associations with the active support of donors. Although some co-operatives were undoubtedly effective and successful, there were also many disappointments — arising above all from inefficiency and corruption in leadership and management. Consequently, enthusiasm for farmer co-operatives waned notably in the 1980s and 1990s.

Three issues face producer associations. One is their size, diversity of membership, and breadth and depth of activities undertaken. The previous era of co-operatives showed how such associations can fail when they become too large with too diverse a membership, when they pursue too wide range of objectives, and when activities become so complicated that members can no longer exercise effective control over leaders and hired managers.

Another is whether the organisation seeks vertical integration as farmers take on supply chain functions, such as transport to market, storage, processing, input supply, etc.; or whether the aim is for horizontal co-ordination of farmer activity and joint negotiation with other intermediaries in inputs, finance, transport and marketing.

Finally the scope of such organisations needs defining: is their function solely pragmatic in fulfilling roles in supply chains and reducing transactions costs, or might they aim to change the rules of engagement by lobbying government? There is a legitimate democratic function in drawing the attention of policy-makers to anomalies, unintended consequences of policies, and the need to redress some market failing or social concern. But it can also entail the outright pursuit of protection and privilege over the rest of society. Activist organisations may also become vehicles for the political careers of the ambitious.

The answers to these questions will clearly vary by context. Given the potential complexity of the issues and the many uncertainties that apply in given situations, common sense suggests that groups should begin small with limited functions and only expand membership and functions as experience and competence are gained. Even then, they may need some assistance and guidance early on from outsiders — but who is best placed to offer support and mentoring in the initial stages is another question.

Common sense, of course, is always likely to be sacrificed to the ambitions of members and their leaders, partly since people are unlikely to want to join a group that apparently has limited ambition. If there are some early gains that can be realised fairly easily, this can encourage such groups.

b. Increasing trust and information in supply chains

Providing more information about markets to villagers has proved more difficult than imagined in the past. State-led efforts have often struggled to provide the information that
farmers find useful, partly through misunderstanding their needs, and partly since state agencies have too little incentive to perform such roles. More recent initiatives have seen private providers more active, greatly assisted by the potential of new media such as cellphones and the internet to provide information while being able to charge for it.

In other cases it is not information on markets that matters, but assurance about the quality of goods — be they inputs used by rural producers, or their outputs. Examples include, for inputs, items such as seeds, veterinary drugs, and even petrol.22

For outputs, an awkward and increasingly prevalent issue surrounds ‘credence’ characteristics — attributes of produce that cannot be verified by inspection of the product itself. These include whether the product was produced using child labour, by poor producers who may be entitled to fair trade premia, and whether industrial chemicals were used in production affecting designations such as ‘organic’. Certification schemes are a clear response to these issues, but for small producers this invites questions about who inspects and how they keep down costs when they have to deal with many small producers. Having groups of producers may help reduce costs of inspection.

Questions of trust and the associated risks of other actors reneging on deals can be dealt with in several ways. One is by interlocking transactions. For example, lack of credit for inputs may not be a problem if buyers in the chain are prepared to advance the inputs deducting their costs when they buy the product. Contract farming schemes operate on this basis. But whether for farming or for some other activity, it only works if the buyer can prevent clients from selling products on the side to some other buyer. The conditions for that are either those of monopoly or collusion amongst buyers that invite other problems discussed earlier in this section.

Another solution is that a third party underwrites the risks assumed by the parties to the deal. Government or an NGO, for example, could underwrite a bank loan, or promise to buy output at a guaranteed price in case a private buyer cannot be found.

Potentially there are other ways to solve or mitigate the problems depending on the particular case. There is great scope for working with those in the supply chain to find fixes and institutional innovations. Who might do this, and how, is a question addressed later in this section.

**Improving factor market functioning: financial services**

Lack of appropriate financial services plague the lives of rural households and businesses. It is not surprising that for decades there have been major efforts in this area; initially through direct government action to provide or direct credit; more recently through promotion of micro-finance mainly by non-governmental agencies.

The details of these interventions are omitted here since they are dealt with in the Background Chapters on access to services and markets.

In summary, although much useful experience of micro-finance has been generated with some notable successes — such as Bangladesh’s Grameen Bank, the village branches (‘Unit Desa’) of the Indonesian commercial banks, and Banco Sol in Bolivia; there remain many challenges in finding effective ways to provide financial services in rural areas and especially to the rural poor themselves. Part of the challenge is to adapt the lessons from the successes seen to different contexts. But in part the challenge is to find solutions to problems that micro-finance has still not addressed, as Haggblade et al. (2007) argue:

> Microfinance has demonstrated how lending organizations can be created to serve the demand for working capital by micro-firms, especially in trading. But

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22 Sierra Leone has recently seen cases of adulterated fuel being sold, resulting in increased breakdowns and higher maintenance costs to the transport fleet.
it has learned little about how to make longer-term loans to finance the fixed capital investments of larger-scale enterprises. Most crucially for those interested in the RNFE, micro-credit has not significantly advanced our understanding of how to lend successfully to farm and non-farm enterprises in rural areas where population densities are lower and where the seasonality in cash flows, lending costs, and risks typically prove greater.

**Enterprises: information, skills and training**

Some of the earliest attempts to stimulate the rural non-farm economy in the developing world were focused on creating businesses or improving the performance of existing enterprises, generally looking to provide an integral set of services:

From initial feasibility studies to entrepreneurship and management training, technical research and extension, marketing assistance, and the provision of common workshop facilities, power, road infrastructure, and finance, the India model offered cradle-to-grave support for assisted firms. Generally subsidized, these services and programs typically revolved around a network of industrial estates with contiguous classrooms and office facilities for extension and technical support staff. (Haggblade et al. 2007)

Of the main components, providing premises with services has proved the least effective and the most costly. With hindsight, it seems clear that many small firms can start using very simple workspaces: rooms in houses and the open air perhaps with a canopy for shade. For Haggblade et al. (2007) there is no mincing words: industrial estates have been a ‘colossal failure’.

**Business development services** can be valuable, but programmes to provide them have a patchy record. That is, of course, when the record is actually known; since, according to Haggblade et al. (2007), there is a shortage of evaluations:

Reviews of 34 technical, management, and policy assistance projects indicate that slightly over half generated more income benefits than costs, while the remaining half of benefit/cost ratios hovered around 1 or below. Many hundreds of other project assessments failed to report both benefits and costs, suggesting a probable reporting bias in favor of the better performers.

Box 5.2 summarises the experience of one such programme that was evaluated, the Ghana Rural Enterprise Project.

**Box 5.2: Rural Enterprise Project, Ghana**

At the time of the 2000 interim evaluation, the project that began in 1995 and was expected to run until 2002 had been very largely successful in stimulating business and creating jobs. It operated in Ashanti and Brong-Ahafo Regions, rehabilitating rural roads (74 km achieved), providing loans to entrepreneurs, setting up Rural Technology Service Centres in three Districts, and establishing thirteen Business Advisory Centres.

The package had mixed results: feeder roads and financial services provided services to all in the areas served, but not necessarily to the entrepreneurs targeted. Providing them took up much of the attention of

23 ‘The Rural Finance services activities of the project have allowed poor and under-capitalised small-scale business people to access the formal credit sector. More than half were women. Up to 70% of the 1 330 loans made as at December 1999 went to businesses which previously had no access to bank loans. However, this is less than half the number of new businesses started and a quarter of total businesses supported. Loan recovery rates have increased from an average of 43% in the Pilot districts at the end of 1997, to an average of 87% across all districts in June 2000. Savings rates in the formal sector have increased by up to 30%.'
project management that would have been better used to manage other elements.

The Technology Centres worked to some degree, but were costly compared to benefits:

‘Technology transfer activities were successfully implemented through short and long term training at the Centres for apprentices and for master craftsmen. The training for master craftsmen was one of the most effective of the Technology Centre activities. Technology Centres successfully undertook workshop operations including repair services, manufacturing services and dissemination of information.

However, because of the high cost of capital equipment, the relative allocation of Centre resources amongst its various activities, and the relatively limited numbers of clients served, benefits generated do not compare well with total costs. Technology development has been less successful than expected.’

The Business Centres were the most successful component, having trained 4,000 individual clients, as a result of which 1,900 new firms had been set up employing 6,000 people. Another 3,500 existing business had received advice on business skills, and this was claimed to have allowed to take on another 5,000 workers. Most of the additional jobs had been taken up by females.

Had the Centres had more resources and been able to offer wider services they would have been even better:

‘The success of the Business Advisory Centres has been to a large extent derived from the enthusiasm and drive of their staff and the degree to which the services they did offer corresponded to needs of a large number rural people, especially women. It appears that BACs could have achieved even greater success and higher levels of impact were it not for insufficient funding, limited technical backstopping, low levels of management support and inadequate supervision from responsible institutions. Partly due to these factors, Business Advisory Centres have missed opportunities not originally foreseen at the time of project design such as working to facilitate skills training and support to the traditional master craftsmen through their trade associations.’

Working with existing trade associations, many formed initially for social purposes, had been fruitful in identifying clients and their needs.

Source: IFAD 2000

In reviewing business services, Haggblade et al. (2007) make three points. One is that it is more effective to focus on clusters of businesses and address just the most pressing bottlenecks affecting them, rather than offer a full range of services to individual firms. A second point is the importance of paying attention to demand, markets, and access to them. Improving business skills will have little effect on businesses that are not sufficiently orientated to demand. The third is that it makes sense to see business development services as businesses in themselves, probably provided by the private sector or by NGOs — some, such as Technoserve, are specifically dedicated to this line of work. If charging for services threatens to exclude the poor, then either contract — using public funds — service providers to attend to them, or give the poor who operate enterprises vouchers that they can exchange for assistance and allow them to chooses their provider.
Almost all countries have schemes, some longstanding, for *vocational training*. By and large agricultural and rural vocational education gets second priority after the training needs of urban-based manufacturing and services. All too often public resources for rural training are few, and sources of additional finance are equally scarce — private employers with the size and vision to invest in training are few and far between, and the potential client population tends to be poor and has little to contribute in fees. Firms and individuals tend moreover to be unaware of the potential returns to training that makes client contributions all the less likely.

Not many countries have clear government structures for rural training. Ministries of education focus on formal education, while sometimes ministries of industry and the like provide some craft training. Ministries of agriculture look to production programmes first and foremost, leaving agricultural education as a Cinderella. Training for rural skills other than agricultural barely figures on the official mandates. Public budgets for rural training of any kind are limited. Facilities are thus often lacking, and the quality of staff may be deficient.

To some extent NGOs may help cover some of the public deficit in rural training, but information on the coverage and approaches is dispersed and cannot readily be assembled. What NGO training there is in rural areas is known to be diverse, covering a wide range of subjects; and, taking quite different approaches — from experiential learning to formal teaching, from developing overall awareness, analytical and problem-solving abilities to learning highly specific and practical skills — that are often quite contentious.

In an international review of promoting skills for rural development, Atchoarena, Wallace, Green & Gomes (2003) emphasise the changing context of rural areas: less farming, more diversification — implying a need for training to provide people with new skills for new and changing livelihoods. They identify some promising initiatives: community skills development centres in Namibia, farmer field schools in the Philippines and Thailand — also seen in many African countries more recently, community polytechnics in India, 4HC clubs in Thailand, Education for Work in Honduras and Brazil’s National System for Rural Apprenticeship (SENAR) — see Box 5.3.

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<th>Box 5.3: Brazil’s National System for Rural Apprenticeship (SENAR)</th>
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<td><strong>Although Brazil has since 1942 funded industrial training through payroll taxes, the system hardly touched rural areas until the 1990s. SENAR was started in 1993 to correct this.</strong></td>
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The Federal Government founded SENAR as an institution directed towards vocational education and training as well as to social promotion (Act No. 8,315, dated 23 December 1991). The *Confederação Nacional da Agricultura* (National Agricultural Confederation), an employers’ association, was given responsibility for organizing and managing it. The National Board, the most important administrative branch, is composed of one representative from the Ministry of Labour, one from the Ministry of Education, one from the Ministry of Agriculture, one from the *Organização das Cooperativas Brasileiras* (Organization of Brazilian Co-operatives), one from the agro-industrial sub-sector, five from the *Confederação Nacional da Agricultura* and five from the *Confederação Nacional dos Trabalhadores na Agricultura* (National Confederation of Agricultural Workers). Its funding still followed the traditional model, having as its main source a 2.5% payroll tax. (Atchoarena et al. 2003, 291)

Senar provides vocational training with social promotion, maintains close links to civil society and employers, and tries to be flexible and responsive,
with low fixed costs.

Local planning is central: the programme mobilises to identify needs with unions and employers, and then arranges courses accordingly. Senar trains 15–20,000 groups of around 16 clients at time, and 250–350,000 clients a year. Courses are short, around 30 hours, and focused mainly on farming skills. Drop out rates run at 20%.

A general problem faced is the low general education of clients. The programme has been criticised for responding to employers’ needs for ‘how to do’, rather than providing a more critical education.

Source: Atchoarena et al. 2003

But many of these initiatives have been quite small-scale and short-lived. They comment:

More recently, innovative approaches have begun to be tried, particularly by NGOs and the private sector and also in the public sector. These efforts, however, are often restricted to isolated case studies at the micro-level. They are frequently donor-led initiatives and hence neither replicable nor internally sustainable. They do show what good practice can achieve and provide models and hope for aspiring innovators.

For Atchoarena and colleagues the key issues comprise:

- Demand for training: who identifies what is needed? One response is employers, but this can lead to highly instrumental training that does not develop broader capabilities. At the other extreme are the groups that focus on developing consciousness along the lines advocated by Paolo Freire who want a more general and questioning approach to training;

- Curricula: Important questions include the balance between providing practical skills for immediate application andremedying the often deficient education of would-be rural trainees — it is difficult to train people who are functionally illiterate and innumerate in skills such as business administration however basic. How much should training be specific to the context of trainees — always more difficult in rural areas since potential clients are scattered across a diverse landscape — or general and standardised? How much should training be for today’s needs as opposed to those that may be more useful in the near future? And,

- Funding: without a clear, institutionalised funding system be it from government, employers, or the trainees, initiatives come to depend on donors and NGOs whose commitment tends to be temporary. Payroll taxes that are earmarked for training are one answer, but these may only apply in middle income countries where enough work is formalised that such taxes generate sufficient funds. When funding is scarce there is a danger of trying to provide more training than can be properly resourced, with the risk of diluting quality. The way forward presumably lies with getting more commitment from employers and potential trainees, but developing awareness and commitment may take time.

On this last point, there may well be scope for developing models of how government, enterprises, civil society and individual trainees can co-fund training in rural areas. There may well be scope for replicating some of the features of SENAR and other innovative experiences in other contexts.

By and large efforts to stimulate business by focusing on individual entrepreneurs and their businesses have not made the progress that some advocates might have expected. In large parts
this is down to the preconditions that apply at levels further up the hierarchy: if national and regional factors are deficient or discouraging, then no end of good training and advice will make a business successful.

With time, it seems that these programmes have come to be less ambitious in their coverage of issues, and more inclined to focus on the key constraints, partly in an effort to become more cost-effective.

**Measures to allow the poor to participate in the rural non-farm economy**

**Combating discrimination**

Prejudices can exclude the working poor from getting some jobs, or can result in them being paid less than others, or being ill-treated at work — on the grounds of gender, age, caste, ethnicity, race, etc.

Not all discrimination is readily apparent, unless we have indicators that reveal the extent and patterns of disadvantage. These require that data is collected and analysed geographically and by social group (see also Vandemoortele 2004). Careful analysis of such data may be necessary to distinguish between overlapping causes of disadvantage. For example, some of the poor are disadvantaged simultaneously by gender, ethnicity, and age. Being aware of such patterns matters to avoid universal generalisations that are unhelpful — as for example, about the circumstances of female-headed households.

Action to end discrimination includes getting legislation in place to outlaw discriminatory practices, although passing laws is relatively simple compared to the more difficult business of actively monitoring compliance and enforcing of regulations. Success often depend as well on those experiencing discrimination organising to demand equal treatment.

**Breaking the transmission of poverty across generations**

A major issue in rural areas is breaking the inter-generational transmission of poverty by ensuring that new generations get a decent start in life, safeguarding their health and nutrition in the critical periods before age three, and later ensuring that they get satisfactory primary education.

Poor rural children have long — too long — suffered high rates of malnutrition and poor health that for too many cause their early death, and for even more leave them with a life-long disadvantage in their physical and mental capabilities. Many also go to school for only a few years, with high rates of desertion to work as child labour, and even when they are at school

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24 In the specific case of women, there are some international indices to capture gender inequality — including the Gender Development Index that adjusts the Human Development Index (HDI) for gender disparities by comparing dimensions of ‘longevity’ (female and male life expectancy at birth), ‘knowledge’ (female and male literacy rates, and female and male combined primary, secondary and tertiary enrolment ratios), and ‘decent standard of living’ (estimated female and male earned income, to reflect gender-differentiated command over resources).

‘In all countries in the world, the GDI is lower than the HDI which means that gender inequality applies everywhere, albeit to different degrees and in different ways …’ (Chant 2003, 18).

There is also the Gender Empowerment Measure (GEM) made up of: the share of parliamentary seats occupied by women; the proportion of legislators, senior officials and managers who are women.; the female share of professional and technical jobs.; and the ratio of estimated female to male earned income.

While these are useful, they do not capture inequalities in the domestic sphere.
learning is poor for lack of staff, books, and facilities — leading to minimal levels of literacy and numeracy.

There is growing political recognition that this dire state of affairs can be put right, and that certainly in lower middle income countries with minority rural populations, the cost of doing so is affordable. Moreover, evaluations now show that it can be done in practice.

The conditional cash transfer (CCT) programmes of Latin America, of which the earliest and best-known, Mexico’s Oportunidades (né Progresa), is the standard bearer — see Box 5.4, offer households cash transfers conditional on their children attending clinics and schools. Evaluations of Oportunidades have been positive, as they have of other such programmes.

**Box 5.4: Mexico’s Oportunidades — breaking the transmission of rural poverty**

Originally started in 1997 under the name ‘Progresa’, the programme combines social protection, poverty alleviation and investment in human capabilities. It consists of the following components:

- **Cash transfers, conditional on participation in the other elements, including that beneficiary households:**
  1) enrol all their children under 18 years old in elementary or secondary (high school) authorized schools and assure their regular attendance;
  2) enrol youngsters up to 20 years old in the authorized medium high education institutions and assure their regular attendance;
  3) register in the corresponding health unit;
  4) attend programmed visits of all of the families’ members in order to receive the interventions available under the Basic Health Services Package;
  5) the main beneficiary must attend monthly health education sessions;
  6) promote and help the medium high education scholarship beneficiaries to attend health education sessions specially dedicated to them; and
  7) use cash help to improve the family’s wellbeing, particularly regarding children’s nutrition.

Non-compliance with these activities means the immediate suspension of the cash aid.' Cash transfers are paid directly to mothers or other child carers. (Nigenda & González 2005)

- **Education:** increasing secondary school attendance;
- **Health and nutrition:** providing free basic health care, monitoring the nutrition of infants, providing nutrition education and dietary supplements, and training on hygiene for mothers;
- **Pensions for adults aged over 70 (since Jan 2006) intended to reach more than 760,000 persons; and,**
- **Youth programme (Jóvenes con Oportunidades) — since 2003 — that opens a savings account for secondary school children, with payments for every year after the third grade, the funds to be used after graduation for either further studies, investment in a project, housing improvement or health insurance.**

The programme has added new components to the original basic package in an apparent effort to create a wider system of social protection and investment in capabilities.

Targeting begins by identifying areas considered to be poor, households within these are selected on poverty criteria, and lists of potential participants are verified at
community meetings.

Coverage has been impressive with 5M households served by 2004, 70% of them in rural areas (Table 5, Nigenda & González 2005). In 2004 the programme cost US$2.5 billion or 0.3% of GDP — an average cost of US$500 a family.

Oportunidades has been evaluated externally. The results are positive, including: more children in secondary education, fewer drop-outs, more use of health facilities, less disease, and better nutrition. Girls, who get higher rates of subsidy, seem to have benefited more from the programme: their educational indices have increased more than the boys. Poverty rates have fallen for households participating.

Might the programme encourage adults, with their cash transfers, to work less? Apparently not, report Skoufias & di Maro (2006), on the basis of surveys of 320 localities where Oportunidades was implemented and 186 control localities.

What about the impact on child labouring? Bando et al (2005) look at the most serious dimension: child labour amongst indigenous groups, who are both poorer than most Mexicans and more likely to have their children out of school and in work. They found that Progresa was effective in reducing child labour rates, and especially so with indigenous communities. As more indigenous children went to school, so the gap between them and other Mexican children narrowed.

Problems are those of demand outstripping supply of services, too little information for clients on the programme, too little scope for complaints by participants and the dangers of political interference. On the last point, Oportunidades is a federal programme implemented by central ministries with little or no scope for local discretion.


In this case, there are questions about the feasibility of replicating the experience in other countries, especially in Africa. CCT programmes assume there is insufficient demand for schooling and infant health care; rather than a lack of provision. In many parts of Africa provision is a problem.25

While Oportunidades and other CCT show great promise, there are many other things that can be done to address the rural deficit in giving poor rural children a decent start in life: immunisation, control of disease vectors, de-worming, use of oral rehydration therapy, growth monitoring, provision of clean water, better sanitation, and improved rural schools, etc.

Technically these interventions are straightforward and proven: what is usually absent is the political will to fund them and to press for effective implementation. One way to make progress, even if usually not sufficient in itself, would be to facilitate the voice of the rural poor and especially of mothers — see below.

**Protecting the poor against risks**

Access to assets such as land and capital provide the basis for rural livelihoods, but may be vulnerable to risks — poverty is often the consequence of loss of assets once held, rather than never having had any (Hulme & Shepherd 2003). The rural poor are usually vulnerable to shocks — such as droughts, cyclones, sudden rises in the price of food, loss of employment,

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25 And not just in Africa: when a similar programme, the Red de Protección Social, was introduced in Nicaragua, it was soon realised that spending on transfers had be complemented by increased investment in public provision of schooling and health centres in the pilot operational areas.
etc. — and face significant stresses — such as the expenses incurred in dealing with sickness, 
funerals and marriage. While the poor usually do not compromise their productive assets 
except as a last resort, their vulnerability means that too often they are pushed to this extreme 
and find themselves selling livestock, tools, and land, or else using a seasonal crop credit or a 
microfinance loan to pay off bills and debts. Hence the importance of social protection that 
offers insurance against shocks.

While governments have so far provided some form of social protection, often the range of 
policies is quite narrow with an emphasis on dealing with acute emergencies affecting many 
simultaneously — for example, offering food aid after a harvest failure. Less attention has 
generally been given to dealing with more chronic conditions, especially when these apply to 
small numbers of individuals at any given moment, or are perceived to be longstanding and 
‘natural’. 26 There is, however, growing awareness that there are a wide range of social 
protection options appropriate for different persons and households in varying circumstances 
— see, for example, Farrington et al. (2004) and Holzmann & Jørgensen (2004).

These include:

• Private insurance schemes against hazards such as fire, bad weather (storms, drought), 
thief, ill health, accidents, disability and death. Subsidies may be offered on these to 
the poor;

• Targeted transfers, including pensions for old age and disability; and,

• Public employment schemes to provide emergency access to income when there is 
little work on the market.

The challenge is to develop forms of social protection that are effective, can be implemented, 
and are affordable in given circumstances.

**Facilitating voluntary migration**

Most governments do not favour migration, except under official programmes of rural 
resettlement such as Indonesia’s Transmigrasi settlement of the outer islands, or the 
‘coloniazación’ programmes in vogue in many parts of Latin America from the 1950s to the 
1970s. The thought of large numbers of rural people, many poor, arriving in cities where 
housing and public services are already straining to cope with demand alarms them.

Even more governments worry about international immigrants in their countries looking for 
work, even if in the past there have been official programmes to recruit staff for mines and 
plantations, fearing that this will exacerbate unemployment or lead to local wages being bid 
down.

Moreover, there are concerns that when people migrate they are vulnerable to all kinds of 
deprivations and hazards, in addition to the social strains of leaving family and friends.

Whatever officials may fear many rural people do move, primarily within their own national 
frontiers, and that short of fairly drastic measures that few countries could contemplate, 27 
migration is a reality. There is, moreover, plenty of evidence that much of the migration by

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26 A frequent frustration for nutritionists and health professionals is that parents of 
children who are stunted perceive the lack of growth of their children as normal and 
to be expected.

27 China used to operate a registration system in which someone registered in a rural 
area cannot obtain education, health care and other benefits nor obtain a formal 
urban job without an urban permit. Despite this considerable disincentive, many rural 
Chinese migrated to the cities, whether or not they had the right registration. (de 
Brauw et al. 2002)
rural people seen in recent times benefits the sending communities and that when local jobs are scarce, migration may be the best option for adults of working age.

Given this, the question is how to facilitate those movements that do help migrants, how to reduce their vulnerability, and how to make sure that migration can benefit the sending communities. Thus a three-part policy agenda for assisting migrants has been proposed in McDowell & de Haan (1997), de Haan & Rogaly (2002) & SARD/FAO 2007:

- Provide information on employment opportunities and conditions in distant locations — including information on the rights of migrants as workers;
- Improving bargaining power when seeking jobs, and terms and conditions of employment — including access to health, education and child-care facilities. This might be addressed in large part for domestic migrants by making their rights to public services portable and not solely provided when in their home areas. Helping migrants establish networks capable of giving stronger voice to their needs can also help; and
- Facilitate remittances, promote financial literacy amongst migrants, reduce deductions in money transfers, and encourage their investment in home areas. In some cases private initiative has found ingenious solutions to the difficulties and costs of transferring funds, but in other cases they remain a problem.

Attitudes are changing and increasingly governments are prepared to facilitate movement. For example, China has removed requirements for migrants to have permits to move to cities. Vietnam is also reviewing registration rules. In both countries, donor-funded programmes have started to cater to migrants, including informal movers. In India, Rajasthan is piloting mobile ration cards for 5,000 migrants in small and major towns; while in Madhya Pradesh, DFID is funding a comprehensive migrant support programme in eight tribal districts that aims to provide information on opportunities and improve bargaining power by enhancing skills. Several NGOs, such as the Gramin Vikas Trust in Madhya Pradesh and Adhikar in Orissa, have migrant support programmes to improve the efficiency, safety and cost of remittance mechanisms. Mexico has programmes to support migrant farm-workers within the country, as well as a programme to assist compatriots in the USA. But it is not known how effective they are and how much coverage they offer.

Costs and benefits, tactics and approaches
With so many options, a key question becomes: on what to work?

The principles can be drawn from Figure 5.11 that sets the various measures in a hierarchy. Each level represents a condition that is necessary but not sufficient in itself. The higher the level, as a broad generalisation, the greater the impact, and, to some extent, the lower the cost per beneficiary, and hence the greater the cost-effectiveness. This is also reflected in the thinking of Haggblade et al. 2007 as presented in Table 5.12.

<table>
<thead>
<tr>
<th>Table 5.12: Cost-effectiveness of alternative interventions for promoting rural non-farm activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impact</td>
</tr>
<tr>
<td>System-level interventions (multiple-firm impact)</td>
</tr>
<tr>
<td>1. Policies</td>
</tr>
<tr>
<td>2. Public investments</td>
</tr>
<tr>
<td>a. Physical infrastructure</td>
</tr>
</tbody>
</table>
### b. Education

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Moderate</th>
<th>High</th>
</tr>
</thead>
</table>

### c. Credit institutions

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Often unmeasured</th>
<th>Rarely measured but potentially high</th>
</tr>
</thead>
</table>

### 3. Large firm intermediaries

<table>
<thead>
<tr>
<th></th>
<th>High</th>
<th>Low</th>
<th>High, but appropriate only when large and small firm interests coincide</th>
</tr>
</thead>
</table>

**Direct assistance to individual firms**

### 4. Credit

<table>
<thead>
<tr>
<th></th>
<th>Moderate</th>
<th>Low, though often unmeasured</th>
<th>Rarely measured, though available indicators are moderately optimistic</th>
</tr>
</thead>
</table>

### 5. Business development services

<table>
<thead>
<tr>
<th>a. To individual firms</th>
<th>Low</th>
<th>High</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Affecting many firms</td>
<td>High</td>
<td>Variable, but low if focused on simultaneously critical minimum constraints</td>
<td>Variable but potentially high</td>
</tr>
</tbody>
</table>

Source: Haggblade, Mead & Meyer 2007, Table 12.3

The implication is clear: if there are critical obstacles up the hierarchy, look to work on these first and foremost; and then turn to issues located further down the hierarchy.

A similar consideration is the advice of Haggblade, Mead & Meyer (2007) to focus on clusters of enterprises and supply chains, rather than individual firms — simply because this is likely to be far more cost-effective.

These proposals raise a question for those working directly with the rural poor. What can be done from the village level, when the obstacles are international, national, or regional? The answer is decidedly not ‘nothing’. Organising locally so that the rural poor can speak with a louder and more effective voice helps. Outsiders can assist by getting information to move up and down the hierarchy: making sure that national opinion-formers and decision-makers understand the effects of national and international policies on the rural poor; and making sure that the rural poor are informed about debates, policies and programmes formulated at higher levels that affect their livelihoods. Box 5.4 gives some examples.

### Box 5.4: Information, rights and development in India

**The right to information on public programmes**

The Mazdoor Kisan Shakti Sangathan (MKSS) — Workers & Farmers Power Organisation — in Rajasthan State brings together poor people, mainly in

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28 It is remarkable how often outsiders working at the district and village level stress issues and therefore programme work at those levels. The client population, on the other hand, sometimes have a clear sense that the main problems are located at a higher level.
Rajsamand District, and a few committed activists to confront the State administration and undertake mass action.

In the late 1980s and early 1990s MKSS began to challenge the State over underpayment of wages on emergency works programmes and overpayments made to suppliers. They demanded access to official accounts, then used these to conduct public hearings at village level where locals were astonished to see the disparities between the official records and what they had experienced of benefits paid and works carried out. Large-scale protest has been started as a way to ensure access to public documents, other than those dealing with national security. Prosecutions against local level officials and suppliers have begun.

Source: Jenkins & Goetz 1999, Piron 2003

The right to public works

The Employment Guarantee Scheme of Maharashtra, in operation since 1975/76, provides jobs for the poor on a massive scale, half of the employment to women. Funded equally by a tax on professional and formal jobs and by general revenues, the scheme includes legal entitlements so that whenever 50 jobseekers demand work, jobs must be provided.

The formal entitlement to work, and the legislated nature of the programme, makes it worthwhile for local activists (politicians mainly) to help form groups to demand the work. There is little scope for bureaucratic discretion: groups are entitled to have their way.

Source: Joshi & Moore 1999

With whom to work, and how, are also key considerations. The first and most striking point is that in liberalised economies, private enterprise will be a key actor:

Large private firms have partially usurped many classic public roles, including the provision of market infrastructure and the establishment of key market institutions such as food safety standards, grades, and regulations. (Haggblade, Mead & Meyer 2007).

But how can agencies from the public sector and civil society engage with large-scale private enterprise? One consideration is that sometimes firms working in particular activities have formed a producer association. If this is representative and functional — although not all are — working with the association gives economies of scale. A well-run association should recognise its public role, and be prepared to engage in policy debates and initiatives in ways that individual firms cannot.

Private enterprise may further be engaged through participation in forums that bring together key players in particular sectors or supply chains. For example, in Tanzania a forum to bring together government, industry and small farmers all concerned with cotton was successful in finding ways to tackle the problems of declining quality of cotton (Poulton et al. 2004).

Where it is recognised that there are problems in the supply chain, private enterprises may be prepared to participate in joint studies and action research — so long as they can see that this will lead to improvements.

Where to work and at what level is another consideration. Decentralised government can play a useful role: locally based leaders and civil servants are more likely to be aware of local circumstances and issues than national actors. That said, experience with decentralised
government has been mixed. If decentralised government is to be effective, some fairly
demanding conditions have to be met. The decentralised body needs to be granted the
political authority and funds\(^29\) commensurate with its remit; its leaders should be accountable
to the electorate; and it requires sufficient administrative capacity. (Manor 1999)

Decentralisation, as Manor stresses, is not a one-off reconfiguration of government.
Decentralised government, and local administrations in particular, need to develop their
capacity and competence. Most reviews of Bolivia’s experience since 1993, when central
funds were allocated directly to municipalities, report that while many of the local
administrations struggled at the start, many have since learned lessons, and gained capacity,
competence, and confidence. (Whitehead & Gray Molina 2004)

Closely associated with decentralised government is the idea that development strategies
should be formulated on the basis of regions so that spatial processes that encourage growth
can be harnessed. Geographers have long been interested in how location affects economic
growth. An early expression was Perroux’s ideas (1949) about growth poles in which linkages
from dominant industries would encourage further investments and growth, an idea that
although not initially expressed spatially was soon extended to geography. It was proposed
that if thriving urban centres were created in rural areas, then they would dynamise the
surrounding rural economy. Although the idea was popular, attempts to put it into operation
were not that successful.

Later in the 1970s and 1980s a similar way to integrate rural and urban development was
proposed: the ‘agropolitan’ approach. This proposed the district town as a centre for both
political and administrative functions as well as for non-agricultural activity. It would be
close enough to rural areas to allow decentralisation and democratisation, but would have the
economies of agglomeration to permit effective action. (Douglass 1998) Once again,
however, attempts to put the concepts into operation had limited success.

Such ideas have been linked to considerations of how the nature of the urban hierarchy, in
terms of the relative sizes and functions of different orders of cities from metropolitan centres
to secondary cities to district centres, may affect rural and regional development. By and large
studies of urban hierarchy have not yet provided policy-makers with easily applicable
principles to foster regional development.

Indeed, even in OECD countries, strategies to stimulate regional development have a long and
largely indifferent history. While there are clear variations in regional performance within
national economies, public policy to influence this has not usually been effective. For
example, offering businesses grants and tax exemptions to invest in disadvantaged areas has
been tried repeatedly, but often with meagre results. It is not obvious that new investments
taking up the offers would have located elsewhere in the absence of incentives.

In rural areas of developing countries, integrated rural development programmes popular with
government and donors in the 1970s constitute a significant experience of area development.
These programmes were based on the idea that there would be synergies between
complementary public investments in physical infrastructure, promotion of agriculture and
enterprises, and in education and health. Although some enjoyed success within their area of
operations, they were usually too expensive and administratively demanding to be replicated
beyond the selected districts they covered, and by the late 1980s most had been abandoned.
(Howell 1990)

\(^{29}\) Or the authority to raise funds locally. This, of course, has its dangers: Ellis (2001)
observing local government in Malawi, Tanzania and Uganda, notes the danger that
local governments can impose heavy and regressive — flat rates imposed on firms
however large or small — taxes on local businesses.
Notwithstanding the experiences, another round of interest in spatial development has come to the fore, variously described as ‘local economic development’ or ‘territorial development’ (desarrollo territorial). Again the assumption is that interactions of factors within regions allow very different rates and patterns of economic growth even within the same national economies. An important inspiration for this has been the growing awareness of industrial clusters — classic examples being those in northern Italy for knitted textiles, or for shoes in southern Brazil — and their potential for economic growth through the development of small firms. Studies of such clusters suggest that it is not necessary to have very large investments in large plants with economies of scale to have rapid and productive industrial growth: progress can be made from sequences of smaller-scale actions.30

Territorial development approaches share these interests and approaches, but take a slightly wider view of local interactions. It is not just economic factors, but regional and local social networks, cultural norms, and the institutions that arise out of such matrices that are the focus in this case. It can readily be seen that here the approach comes close to that of looking at the investment climate, broadly defined, at the regional and local levels.

A final point, mentioned before, but worth restating. The principles of developing a vibrant and diversified rural economy are known, but the relevant details for particular cases can be elusive. The challenge — and it is no simple matter — is to adapt and tailor principles to the particular context.

Only by luck will any plan get it right first time: in most cases, monitoring and evaluating outcomes and adjusting programmes accordingly is critical. Learning must take place. Some agencies however are reluctant to admit mistakes and shortcomings and thus find it difficult to learn. This suggests that good environments for learning will have a diversity of actors engaged — since this will give more likelihood of innovation as different agencies try different measures, while some institutional rivalry may lead to informal monitoring of the efforts of other agencies and stimulus to improve performance.

Conclusion: lessons and challenges for improving access to rural non-farm employment and enterprise development

Rural economies are becoming more diversified and less dependent on agriculture, increasingly linked to urban, national and international economies. These changes offer new options and opportunities of the rural poor, both in developments at the local level and through migration. The rural non-farm economy be an important means of spreading the

30 Haggblade, Meyer & Mead (2007) expand on the way in which local economic development draws on previous work:

The local economic development practitioners have borrowed analytical and implementation tools from the other schools and have made some advances of their own. Frequently they draw on the work on competitive advantage and economic clusters of related firms, a concept closely allied with value chains, supply chains, and subsectors that has come out of agricultural marketing and small enterprise development. They have developed and refined an assortment of assessment tools, including participatory analysis of competitive advantage and subsector analysis, as aids in assessing promising key activities, mapping and understanding competitive and input supply relationships in the supply chains, and developing concrete interventions that can stimulate economic growth among economic clusters of enterprises linked together in what are commonly termed supply chains, value chains, or subsectors.
benefits from the growth of agriculture in the early stages of development, and later, with increasing urbanisation, can be the means by which rural economies interact productively with their urban counterparts.

For the RNFE to grow and to generate broad-based benefits requires that conditions for growth be established at national, regional and local levels; and that the barriers to participation by the poor are removed. While potentially this creates a long list of policies and programmes, in any given case some conditions will already be in place, while the necessary actions to establish others are relatively well understood and straightforward.

The key challenges, in terms of critical issues where obstacles are frequent and for which solutions are neither straightforward nor tailor-made, include:

- At national level, creating an attractive climate for investment;
- At the regional level, facilitating the development of efficient and effective supply chains; and enabling factor markets to work more effectively, especially financial markets; and,
- At the local level, developing services to support enterprises, providing appropriate post-school training, combating discrimination and breaking the transmission of poverty across generations, providing social protection against loss of assets, and facilitating voluntary migration.

In addition, there are challenges in planning and implementation, including:

- Finding ways to combine public programmes with private sector initiatives;
- Building the capacity of decentralised government; and,
- Given the importance of adapting principles to particular circumstances, developing the capacity of all agencies and actors to monitor, evaluate and learn from experience.
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APPENDIX: CASE STUDIES IN THE DEVELOPMENT OF RURAL NON-FARM EMPLOYMENT AND ENTERPRISES