POLICY PLANNING AND IMPLEMENTATION

14 Non-Farm Income in Rural Areas

DFID Department for International Development

The purpose of these *Key Sheets* is to provide decision-makers with an easy and up-to-date point of reference on issues relating to the provision of support for sustainable livelihoods.

The sheets are designed for those who are managing change and who are concerned to make well-informed implementation decisions. They aim to distil theoretical debate and field experience so that it becomes easily accessible and useful across a range of situations. Their purpose is to assist in the process of decision-making rather than to provide definitive answers.

The sheets address three broad sets of issues:

- Service Delivery
- Resource Management
- Policy Planning and Implementation

A list of contact details for organisations is provided for each sub-series.

Overview of the debate

Over the past five years the debate on rural non-farm income has focused on:

- The rising contribution of non-farm income to rural livelihoods (particularly of the poor);
- How far such changes affect the poor, especially in terms of poverty, vulnerability and inequality;
- What makes non-farm growth pro-poor, and whether small-scale or large-scale non-farm enterprise development is preferable;
- The role of agriculture in non-farm growth, and the scale and magnitude of such linkages;
- The potential for rural sectors to act as growth engines in their own right, and how efficiency can be improved by clustering and sub-contracting;
- The cost and benefits of promoting a rural non-farm economy, especially in relation to decentralised patterns of national economic growth.

Key issues in decision making

Rural non-farm income (RNFI) includes earned and unearned income received by rural people from the urban economy (via temporary migration, remittances, welfare, pensions, interest) and the rural non-farm economy (RNFE, which includes activities based in rural towns). When thinking about sectoral definitions of 'non-farm' it makes sense to follow national accounting classifications. Thus all secondary (including manufacturing, processing, construction) and tertiary (including transport, trade, finance, rent, services) sectors are non-farm, as are some primary sub-sectors, such as mining. Crop and animal husbandry are 'farm' activities (including silviculture, horticulture, aquaculture, apiculture and sericulture, and wage labour in any of these) while forestry, fisheries or hunting and gathering on common-property resources are sometimes called 'off-farm'. Thus it is important for donors to be clear what is or is not included in any local debate about RNFI.

What contribution does RNFI make to rural incomes? Most recent studies agree that cash and in-kind RNFI is a substantial contribution to total household income. The contribution from the RNFE alone is 40–45% in sub-Saharan Africa, Latin America and SE Asia, and 30–40% in S Asia. Including urban income, total RNFI contributions may be closer to 70% in some cases. In most areas these shares have been rising as smallholder farming is threatened by weakening international terms of trade and, more debatably, corporatisation through out-contracting. This leads to the question: what can be done to enhance existing self-employment opportunties for the poor?

How important is RNFI to different social groups? The RNFE and urban labour markets are highly diverse, in both the type of economic activities and the returns available. The top end is lucrative, with formal salaried jobs and modern enterprises giving higher, more stable returns than most farming. At the bottom end, traditional artisanal skills, petty trading, and manual or domestic labour predominate. Entry barriers are low at this end, and this is where the poor are to be found.

Many of the markets and institutions that govern access to non-farm opportunities are highly segmented by socio-economic class, gender, ethnicity and other social markers. Lack of economic assets, including capital, labour, skills and information, are key constraints, but social structures, including social networks and kin groupings, are important too. Culture and tradition may also dictate who can or cannot participate in different economic activities, particularly when it comes to gender or caste. This can work both ways: often it excludes the least dominant group from new opportunities, but a growing sector may also empower those with a traditional stake in it. With the decline of smallholder agriculture in parts of Africa, many men now earn less than their wives. This contributes to women's empowerment but also increases intra-household tensions.

What are the impacts of RNFI on well-being? On the *positive* side, non-farm activities may:

- tighten labour markets that the poor depend on, checking any downward trend in rural wages;
- help manage risk, both ex-ante (by providing opportunities to spread risks), and ex-post (by providing coping strategies);
- complement other activities – providing employment in the agricultural off-season, making fuller use of agricultural assets (capital, contacts, markets, etc.) or providing part-time, home-based work which fits with women's other domestic work;
- add value to farm activities (processing, trade, storage, etc.) and provide opportunities to learn new skills, make new contacts or gain entry to new markets.

On the *negative* side non-farm activities may:

- provide incomes too low for basic needs, and conditions inadequate for basic human rights;
- have highly differentiated returns with strong sector segmentation producing structural inequality;
- be insecure due to mass under-employment and the highly casualised nature of labour markets;
- be located in distant cities and regions, dispersing the rural labour force and contributing to the breakdown of families and communities and eroding possibilities for collective action and political 'voice'. Rights of non-local workers may be ignored or more easily suppressed.

Is agriculture the main impetus for RNFE growth? Many would agree that the RNFE is mainly agriculture-led, a result of rising farm productivity and demand. But the non-farm sector plays a

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Experience

- DGIS: Burkina Faso, Macedonia, Mali, Nicaragua, Tanzania, Zambia
- DFID: Collaboration with World Bank
- Cooperation between NOVIB, ICCO, HIVOS and CORDAID with NGO partners

Expertise and websites

- Consultative Group to Assist the Poorest, www.cgap.org
- Enterprise Development Website, www.enterweb.org
- IFPRI, www.ifpri.cgiar.org
- ILO, Small Enterprise Development, www.ilo.org/seed
- Natural Resources Institute, www.nri.org/work/rnfl.htm
- Strohalm Foundation, www.strohalm.nl
- World Bank
  - Local Economic Development, www.worldbank.org/urban/led/
  - Markets and Agribusiness, http://lnweb18.worldbank.org/essd/essd.nsf/Agroenterprise/agro_guide
  - Private Sector Development, www.worldbank.org/privatesector/
  - Small and Medium Size Enterprise Dept, www.ifc.org/sme
  - Workshop on non-farm rural development, www.worldbank.org/research/rural/workshop.htm

critical role, by providing cheap and effective goods and services, and adding value to farm commodities. Production linkages – both forward (processing, trade, storage) and backward (inputs, tools) – and consumption linkages (household goods and services, restaurants, retail, entertainment, transport) are key. Such linkages are especially strong where regional income growth is distributed evenly, strengthening the case for supporting small-scale farming. Rural services and bulky or perishable goods often have the highest growth potential because they are less tradable, so are protected from urban competition. They are also the most likely to survive as improved infrastructure and rural purchasing power increase competition from urban goods.

Can the RNFE grow independently of agriculture? Some rural non-farm sectors act as growth engines in their own right by supplying urban, rather than rural, demand. They complement rather than compete with urban enterprise and thrive on increased urban connectivity. They include: tourism, extractive industries, those enterprises based on traditional skills, cheap rural labour or any form of activity that requires temporal or spatial proximity to rural materials. However, such activities are still disadvantaged by poor economies of agglomeration, proximity and scale found in urban areas. The following targeted interventions can help:

- market-linkage and development programmes that help rural enterprises trade with larger urban and industrial enterprises through out-sourcing and sub-contracting;
- producer groups or trade associations which are able to develop economies of scale in procurement, marketing and lobbying; manage cross-industry quality standards; and support the provision of focused financial, technical, business and training services;
- enterprise zones providing infrastructure, services and tax incentives, that harness the spatial and sectoral synergies of clustered development.

Supporting local economic development across sectors Attempts to identify a RNFE 'sector' should not encourage planners to focus on non-farm-led (as opposed to farm-led) growth strategies, or vice-versa. It may be more important to address cross-sectoral constraints to local economic development: infrastructure (roads, electricity, telecoms), human capital (skills, literacy, health), supportive regulatory and taxation policies and activation of key markets (financial, information, input and output). Often rural towns or 'growth points' – providing a nexus for information, markets and services – are key entry points for such rural enterprise development strategies.

What scale of enterprise to support? Micro, small and medium-sized enterprises – much of the 'informal' economy – provide most employment in developing countries. Small and micro-enterprises create livelihood opportunities and can yield very high returns to investment. Labour productivity can be low, however, and many start-up enterprises fail quickly. Medium-sized units provide the best medium-term potential for growth and employment creation, though labour and environmental standards can be poor. Large-scale investment may be necessary, but the local economy may benefit little unless there is strong local sourcing and profit-sharing from taxation.

What is the prospect for rural non-farm livelihoods? In the long term, rural locations may offer some economic advantages over congested urban sites, while small-scale units may provide flexibility firms need in fluid, competitive global markets. However, attracting pro-poor, linkage-rich investment into rural areas requires a policy that favours, and subsidises, participatory, decentralised development and marginal regions. Such a policy does not come cheap. In the short term, governments must accept that chronic rural underemployment breeds multi-spatial livelihood strategies, and that the cycle of migration and remittances should be supported rather than hindered.

Key literature

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Key Sheets are available on the Internet at: www.keysheets.org
or through the websites of DFID and the Netherlands Ministry of Foreign Affairs

Department for International Development
Rural Livelihoods Department
Tel: +44 (0) 20 7023 0022
Fax: +44 (0) 20 7023 0624
Email: rl-policy@dfid.gov.uk
Website: www.dfid.gov.uk/

Netherlands Ministry of Foreign Affairs
Department for Sustainable Economic Development
Tel: +31 (0) 70 348 4229
Fax: +31(0) 70 348 5956
Email: dde@minbuza.nl
Website: www.minbuza.nl/English

Overseas Development Institute

Series Editor: John Farrington
Administrative Editor: Paul Mundy

October 2002