

The Rural Non-Farm Sector

Characteristics - Importance - Policies



Criteria

RNFE is related to employment, income and livelihoods not directly derived from crop and livestock production.



Rationale

- Increased focus on RNFE leads to a more holistic view on rural development, and reflects the reality of growing economic diversification amongst rural households.
- Expansion of RNFE and diversification of income are desirable policy objectives, because they give individuals and households more options to improve livelihood security and to raise their own living standards.



“push factors”

- Population growth
- Increasing scarcity of arable land and decreasing access to fertile land
- Decreasing fertility and productivity of land
- Decline of the natural resource basis
- Declining return to farming
- Increasing monetarization of people's lives
- Temporary events and shocks
- Lack of access to farm input markets
- Absence of rural financial markets



“pull factors”

- Higher return on labour in RNF sector
- Higher return on investments in RNF sector
- Lower risk of RNF compared to farm activities
- Generation of cash in order to meet family objectives
- Economic opportunities, often associated with social advantages, offered in urban centres and outside the region or country
- Attractiveness of urban life, in particular to younger people.



Positive correlation

- higher income level of rural families
- higher potential for diversification of income sources (RNFE)
- higher productivity in agricultural activities

However, the interdependence between cause and effect is complex.

Analysis is needed case by case, before discerning patterns and clusters.



Characteristics I

- The prevailing conception is that RNF activities have close links with AGRICULTURE.
- The growth of RNF sector is linked to the nature and performance of agriculture.
- With increasing diversification, the links to agriculture tend to decrease.
- With increasing diversification the seasonal character of RNFE is inclined to decreasing and it shows a trend towards more perpetuity.



Characteristics II

- There usually exists a positive correlation between:
 - higher income level of rural families
 - higher potential for diversification of income sources (RNFE)
 - higher productivity in agricultural activities.
- However, the interdependence between cause and effect is complex and has to be analysed case by case, before discerning patterns and clusters.



Characteristics III

- Research has shown a positive correlation between:
 - level of education
 - quality and access to infrastructure
 - quality, objectives and organisation of services
 - opportunities created through local, regional and national government policies
 - access to credit and financial services



Characteristics IV

- Key to understanding of RNFE:
 - RNF activities are usually market based and trade driven.
- Hence,
 - strategies and policies have to be market biased, e. g. oriented towards small-scale agro-industries, agro-processing, business services, marketing, trade, financial services.



Characteristics V

- Basic features/traits of the functioning of RNFE:

- requires established links between sectors.

Hence, RNFE

- asks for operational links between institutions (e.g. ministries) and organisations (e.g. development banks, commercial services)

- Government has to play an enabling role creating linkages between partners, not separating them and locking them into “sectors” and “departments”.



Importance I

- Research has shown the general importance of RNFE with regard to
 - poverty alleviation
 - economic growth
 - rural development and increasing potential sustainability of natural resources
 - gender
 - food security
 - prevention of rapid or excessive urbanisation.

Importance II Share of non-farm income and employment in total rural income and employment

Source: State of Food and Agriculture 1998, FAO, Rome

<i>Regions and subregions</i>	<i>Non-farm income share Meant³ (%)</i>	<i>Non-farm employment share Meant³ (%)</i>	<i>Average per caput GNP,² 1995 (\$)</i>
AFRICA	42	-	726
East and southern Africa	45	-	932
West Africa	36	-	313
ASIA	32	44	1 847
East Asia	35	44	2 889
South Asia	29	43	388
LATIN AMERICA	40	25	2 499

1 The data given are regional averages of country cases. The income shares represent the share of non-farm income in the total income of households that are mainly farm households (including the rural landless). The employment shares represent the share of households in the rural population (in both rural areas and small rural towns) for which non-farm activity is the primary occupation.

2 Average per caput GNP is calculated as the simple average over the countries covered by the case studies. It is based on estimates from World Bank. 1997. World Development Report 1997. Washington, DC.

3 the mean refers to the mean over the case studies considered for each region and subregion.



Importance III

- Productivity of labour and return on investment in RNF sector is in general higher than productivity of activities related directly to agriculture.
- Poor people have to overcome higher “entry barriers” and their capacity for diversification is lower. Major reasons are low educational level, lack of financial capital, weak social capital.
- The importance of RNFE varies along regional agro-climatical lines. The trend towards diversification and RNFE is higher in more favourable climatic areas. Whereas in more marginal lands, diversification and RNFE is usually lower.



Importance IV

- In regions with lower productivity seasonal or long-term migration can be important producing substantial contributions to rural livelihoods.
- The impact of RNFE and the relationship with migration are not yet clearly understood.
- In some cases (i.e. SOFA 1998) migration is not considered a RNFE. However, some economic systems exist on a sustainable basis, only under the condition that they are supplemented through migration.
- In the work of Frank Ellis migration is regarded as an integral component of rural economic diversification.



Importance V

- RNFE improves capacity of resource allocation of poor people in rural areas. Therefore, their capacity to pursue “non-erosive” livelihood strategies and to make more rational economic and social decisions will increase.
- The role of RNFE in increasing inequality vs. equality is not yet well known. However, research has brought forward substantial evidence that poor families have more difficulties to overcome “entry barriers” RNFE and small-scale business.



Policies & Strategies I

- Characteristics of “old” (rural development) policies
 - Public sector based;
 - Agriculture sector planning focused on food production;
 - Lack of strategic linkages between potential partners;
 - Inefficient government driven rural services
 - Financial services and credit schemes limited to agriculture
 - Training focus on agriculture



Policies & Strategies II

Various policies have been implemented to promote the non-farm sector:

- Small enterprise promotion
- Financial support programmes and Credit schemes
- Growth through agriculture promotion
- Regional planning

However, in the past projects rather than policies have been the primary method for promoting rural industries.



Policies & Strategies III

Research on RNFE provides with evidence showing that

- Education is improving access to RNFE
- Functioning Infrastructure is key to increasing RNFE and income, because reducing transactions costs for small scale industries, agribusiness, etc.
- A liberalised economic policy environment is a pre-condition for promoting RNFE
- Rural financial markets are required to increase RNFE and small scale industries
- Support through Business services enhances the basis for RNFE and small scale industries



Policies & Strategies IV

Policies and strategies have to

- take a broader strategic perspective
- get away from the traditional sectoral approach
- transcend the old paradigm, where the role of agriculture was to feed people (e. g. food production)



Policies & Strategies V

Process of policy formulation and decision making

- Decentralised policy design and implementation seems to be required to promote the non-farm sector corresponding to specific local and regional conditions.
- The distributional impact of RNFE may require close monitoring to enhance and broaden the beneficial impact.
- Agricultural policies should be designed in a way to attain maximum impact on RNFE, and vice versa.

