

# **Policies & programmes supporting rural livelihood diversification in the context of EU accession**

## **Some observations**

**UN-FAO Conference: Farm Commercialisation & Income  
Diversification on the Road to the EU Accession  
Prague, Czech Republic**

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# Presentation Structure

- Why is the RNFE important?
- Determinants of access to the RNFE
- RNF enterprise in Romania
- So what next ....
  - What's the economic potential of RNF activities?
  - Is the RNFE a potential driver of growth?
  - What generic strategies & interventions?
- Concluding remarks

# Why is the RNFE Important?

- The development of the RNFE can contribute to agricultural and rural development, improved food security, pro-poor growth, and sustainable rural livelihoods.
- An increased focus on the RNFE leads to a more holistic view of rural development and reflects the reality of growing economic diversification amongst rural households.

# Key stylised facts

- Non-farm sources account for a significant proportion of rural employment and incomes in transition economies.
- Wage employment is often more important than self-employment.
- Most rural non-farm activity involves agro-processing, trading, and (public and private) services.
- Non-farm economy activity is very heterogeneous in terms of scale, technology and location.

# Objectives of RNFE presentation

- What are the characteristics of the RNFE in providing employment & income diversification opportunities in transition economies?
- To inform policymaking (particularly among government and donors) that promotes sustainable livelihood strategies in the RNFE.

# What is the RNFE?

- The RNFE is all those activities associated with waged work or self-employment in income generating activities that are not agricultural but are located in rural areas.

# Approach

- Our approach has four components:
  - Rural RNF Enterprise Surveys (2 regions per country)
  - Formal household-level survey (approx. 1,100 households in each country)
  - Qualitative research (focus groups, case studies & participant observation in 2 regions per country...)
  - RNF feasibility and “best practice” studies

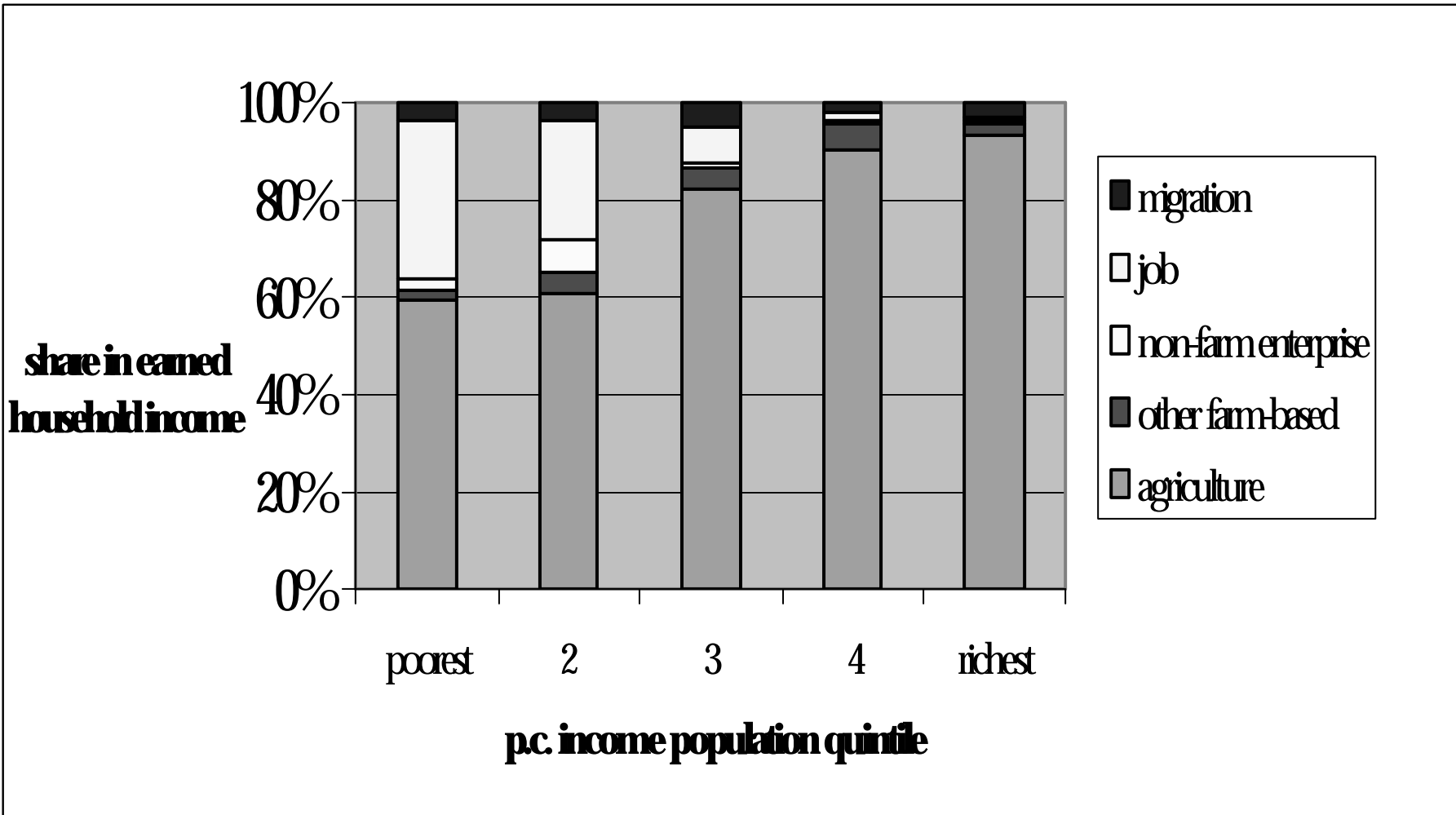
# The survey ....

- 3 Stratification criteria:
  - Peri-urban & rural
  - Regional characteristics (poor-rich)
  - LFA or MFA (NR & agricultural potential)
  
- 4 types of household
  - Full-time farms
  - Part-time with wage employment
  - Part-time with self-employment
  - Non-farm household (abandoned agriculture)
  
- Data is disaggregated according to income quintiles. We refer to the poorest as those in the lowest income quintile; bottom 20% of sample

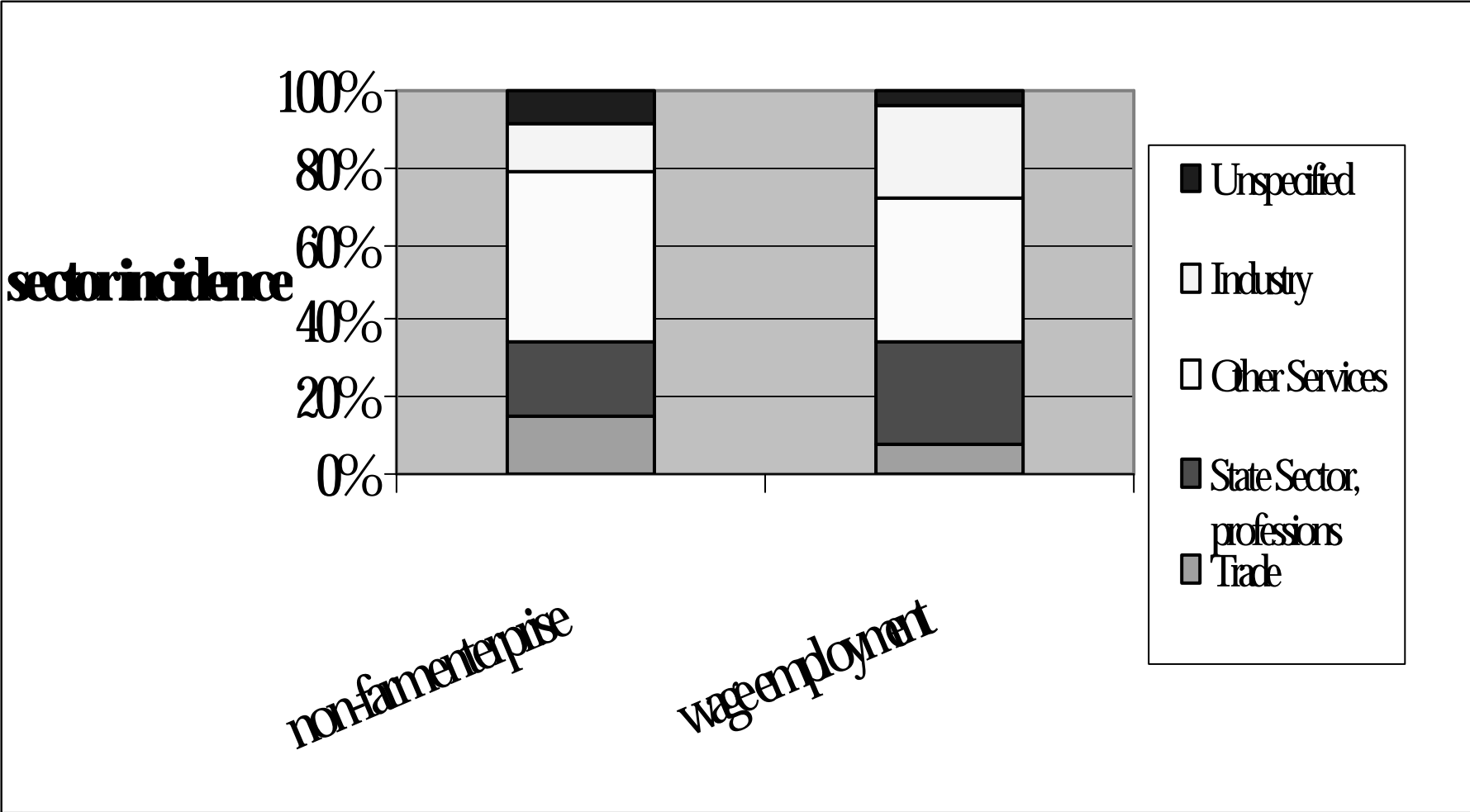
# Romania: Sources of household income (%)

Share of household income from varied sources ... (%)			Total sample
	Non-poor	Poor	
Agriculture	58	37	56
Other farm based	2	1	2
Non-farm based	1	2	1
Wage employment	3	18	4
Migration labour	2	1	2
Social transfers	35	42	35

# Romania: Earned income non-farm shares



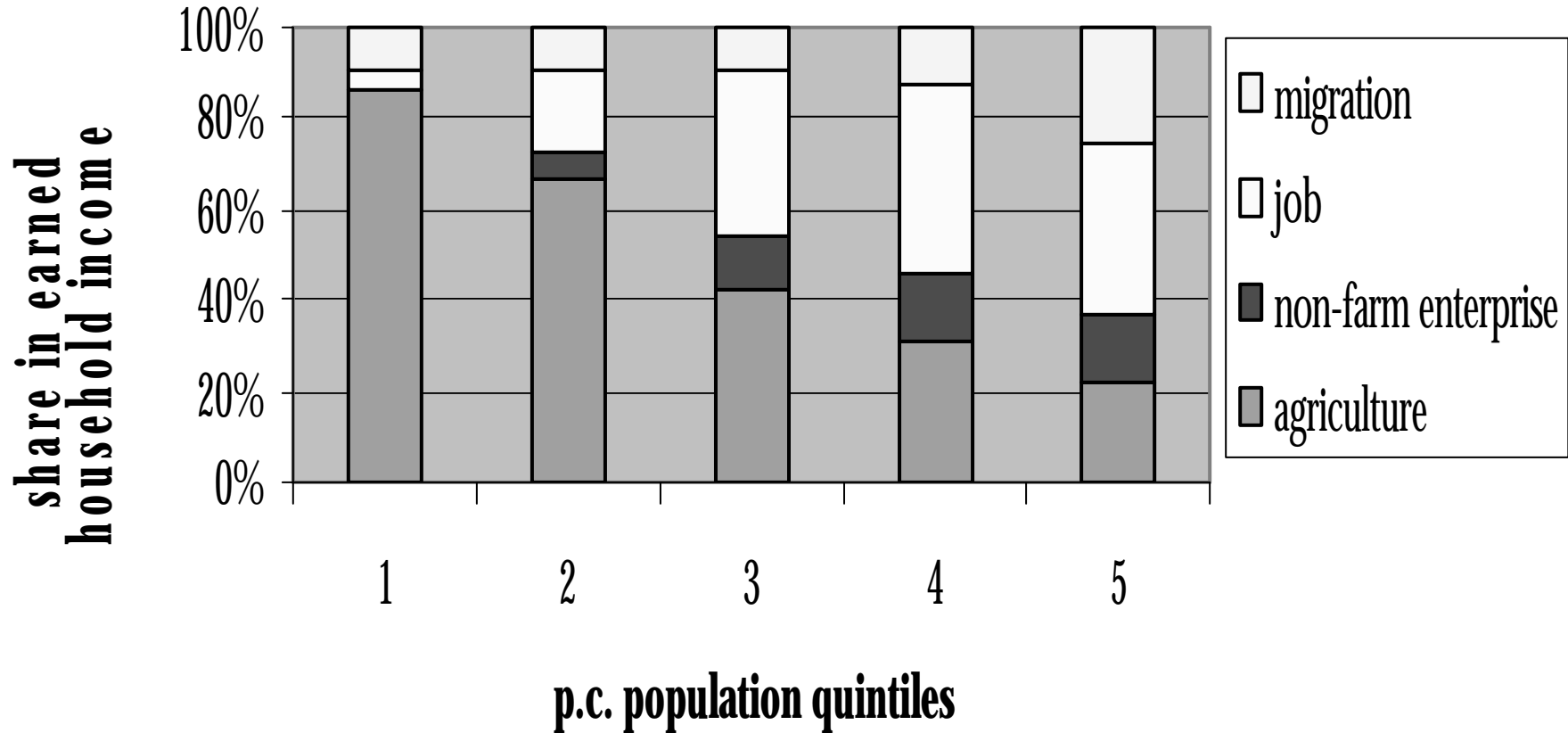
# Romania: Sectoral composition of the RNFE



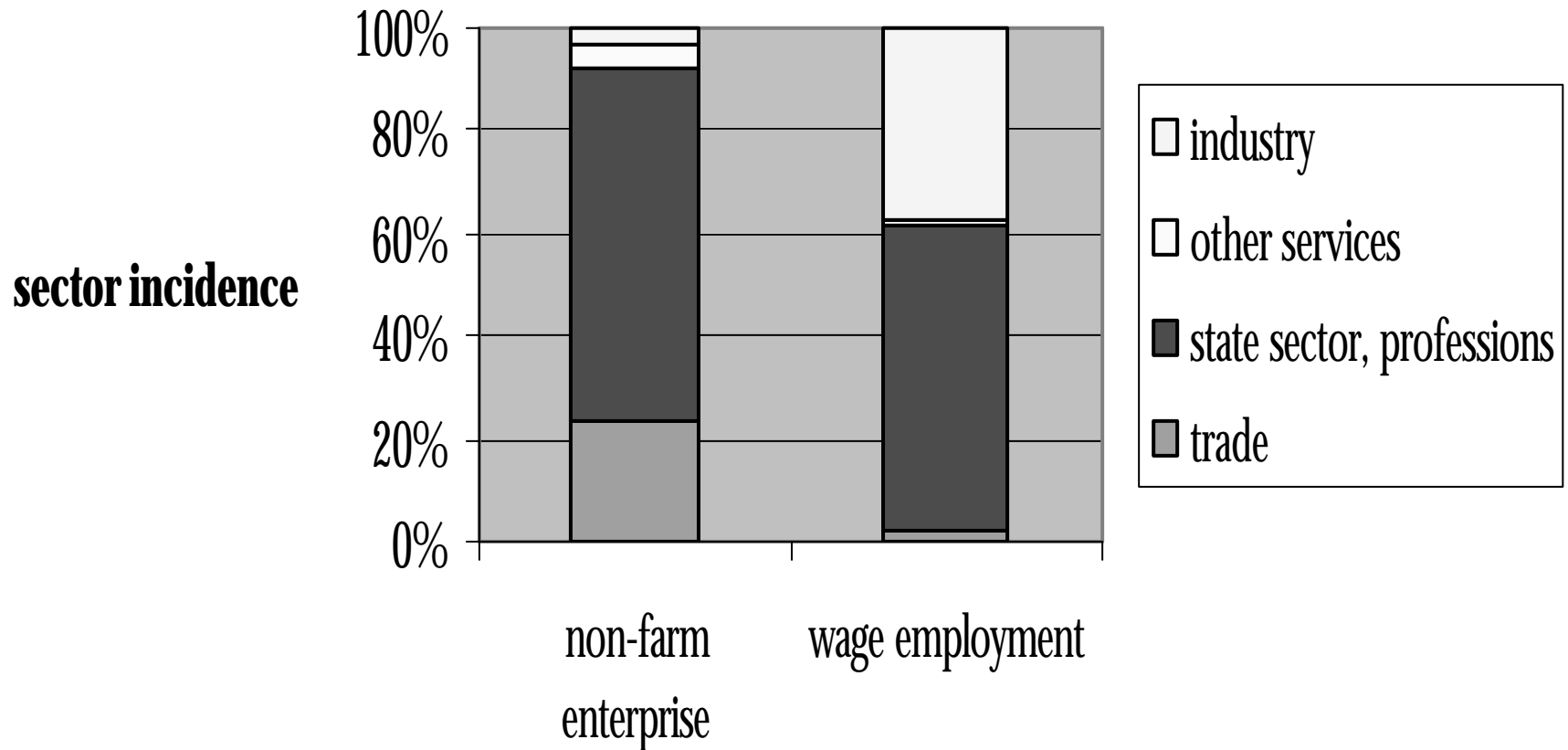
# Georgia: Sources of household income (%)

Share of household income from varied sources ... (%)			Total sample
	Non-poor	Poor	
Agriculture	31	68	35
Other farm based	0	0	0
Non-farm based	11	0	10
Wage employment	31	4	28
Migration labour	12	7	12
Financial assets	4	1	4
Social transfers	11	20	12

# Georgia: Earned income non-farm shares



# Georgia: Sectoral composition of the RNFE



# Non-farm activities and poverty alleviation

- Households in MFA & peri-urban areas have a lower risk of poverty
- Larger farms in revenue terms imply a smaller risk of poverty
- Those households with diverse sources of income (particularly access to NF income) appear best placed to cope with poverty & livelihood insecurity
- NF enterprise is associated with on average higher education levels
- More land & livestock appears to bind people to their locality, decreasing the likelihood of migration
- Migration labour is positively associated with a low dependency ratio & youth enabling NF income generation on a seasonal/ temporary basis.

# Romania RNF Enterprise Survey

- 74 registered firms were randomly selected for interview in Romania: Brasov County (31) and Dolj County (43).
- Survey provides a snapshot of the situation at the time of the survey but does not provide much insight into the dynamics of change.

# Enterprise Characteristics

- Size
- Profitability
- Market networks
- Fields of activity
- Access to credit

# Enterprise Characteristics: Size

Romanian non-farm rural firms are typically small

- Most firms are micro enterprises (< 9 employees)
- Average net profit = US\$ 3,390

# Enterprise Characteristics: Fields of Activity

Trading	25	33.7%
Other services	9	12.1%
Agricultural and product processing	7	9.4%
Wood processing	7	9.4%
Health, social services	6	8.1%
Hotel, restaurant and confectionery	5	6.7%
Bakery	5	6.7%
Repair services	4	5.4%
Other fields	4	5.4%
Construction	1	1.3%

# Enterprise Characteristics: Profitability

- Most firms recorded a net profit in 1999, 5 firms recorded a suffered losses while 4 businesses broke even
- Most profitable profitable activities: wood processing, construction, repair services and hotel-restaurant
- Education levels of enterprise owners/managers and access to formal credit appear to be important profitability determinants

# Enterprise Characteristics: Labour Force

- Most enterprise labour comes from owner/manager of firm
- Family labour is a very important component of the labour force, but two-thirds of the enterprises surveyed employ non-family members
- Average number of (full-time) workers is 4.6

# Enterprise Characteristics: Market Networks

- Enterprises are largely confined to local markets
- Input supplying networks are wider but remain largely localised

# Access to Credit

- The majority of firms in our sample have received no formal bank loan between 1995 – 1999.
- Firms that were refused a loan over the past two years reduced investment and expenditure on inputs.
- Lack of access to credit is due to several factors, including high interest rates, complicated loan procedures, low profit and lack of collateral.
- Firms in the milling, trading and forest exploration sectors enjoyed better access to credit.

# Key Constraints to RNF Enterprise Development

- Lack of working capital and investment funds
- Lack of managerial expertise and know-how
- Unstable market environment
- Poor and ineffective legislation (competition, contracts, property rights and corruption)
- Inadequate economic infrastructure (roads, railway, water supply)
- Cost of electricity

# Strategies for RNF Enterprise Development

- Public investment in economic infrastructure
- Provision of business and vocational training
- Provision of market information and market linkage promotion
- Support to the development of private sector associations and agribusiness co-operative firms

# So what next ....?

- What do we know about the economic potential of RNFE activities?
- Is the RNFE a potential driver of rural economic growth?
- What generic strategies could be used to promote RNFE development and livelihood diversification?

# Potential activities driving rural economic growth

EXPORT OF TRADABLE GOODS AND SERVICES TO  
NON LOCAL MARKETS IS CRITICAL FOR RURAL  
ECONOMIC GROWTH

# Potential activities driving rural economic growth (...)

Potential dependent on natural resource base

- Agriculture: potentially high consumption and production linkages.
- Extractive industries, forestry and fisheries: typically low consumption and production linkages.
- 
- Tourism: potentially high but very localised consumption and production linkages.

Potential not dependent on natural resource base

- Manufacturing (excluding agro-processing)

# Can rural non-farm activities drive rural economic growth?

- Yes, in some cases:

agro-processing, timber processing

tourism (location specific)

Mining (location specific)

other manufacturing (rare)

- However, most non-farm economic activity is local/ non-tradable: retail trade, barbers, repair services, domestic services, local transport, construction, public services, etc
- But, some non-tradable activities facilitate the development of tradable activities which are potential drivers of growth: finance, input supply, equipment repairs, transport, etc

# Determinants of access to non-farm employment at household/individual level

- Education, skills and information
- Social capital
- Gender
- Land
- Finance

# Wider determinants of access to non-farm employment

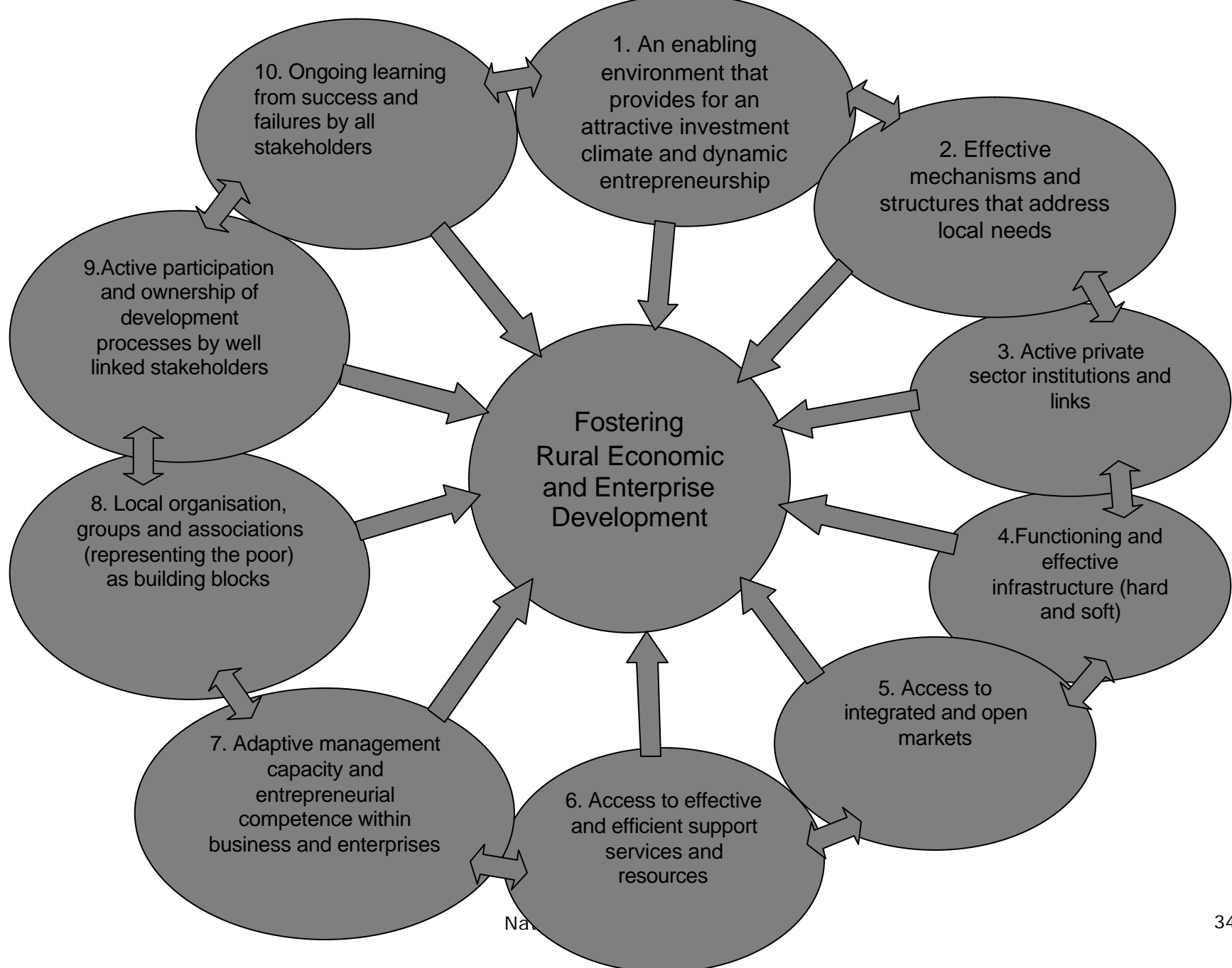
- Agricultural development => level of local demand
- Physical infrastructure => competitive production + access to outside markets
- Rural town development => consumer centres + links to wider markets + service provision
- Business environment (legal and regulatory environment, policy framework, taxation, corruption)

# Strategies for promoting rural non-farm employment

- Adopt sub-sector/value chain approaches
- Support activities facing favourable demand conditions;
- Identify remunerative target markets;
- Promote market linkages;
- Provide access to key assets (skills, credit, hard infrastructure);

# Strategies for promoting rural non-farm employment

- Ensure access to intermediate inputs and equipment;
- Develop sustainable rural producer organisations;
- Develop innovative and responsive institutional coalitions
- Institutionalise the RNFE
- In conclusion .....



# Thanks for your attention!

The reports this presentation is based on  
are available at:

The Natural Resources Institute website

<http://www.nri.org/rnfe/index.html>