

Policy Series 4

NON-FARM RURAL LIVELIHOODS

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PREFACE

This series is principally concerned with current policy issues of importance to developing countries but also covers those relevant to countries in transition. The focus is upon policies which affect the management of natural resources in support of sustainable livelihoods. Much of the series will be devoted to concerns affecting the livelihoods of poor people in rural areas, recognizing the linkages with non-natural resource-based livelihoods. It will also include the interests of the urban poor, where these are linked to the use of natural resources as part of livelihood strategies.

The series will take a holistic view and cover both the economic and social components affecting livelihoods, and associated factors notably with respect to health and education. The aim is to provide topical analyses which are based upon field research where appropriate, and which will inform development practitioners concerned with issues of poverty in development.

The series is timely, given the increasing focus upon poverty and poverty elimination in the agenda of the development community. It is also timely with respect to the growing body of recent work which seeks to replace earlier, simplistic structural adjustment programmes, with more flexible approaches to livelihoods, institutions and partnerships.

Policy analysis is often assumed to be the remit of social scientists alone. Whilst it is recognized that social science may play a pivotal role, interactions with other disciplines may also be critical in understanding and analysing policy issues of importance to the poor. The series therefore draws upon a wide range of social and natural scientific disciplines reflecting the resource base at the Natural Resources Institute.

EXECUTIVE SUMMARY

Renewed emphasis on poverty reduction has led development agencies to review critically the ways in which rural livelihoods may be strengthened. The purpose of this paper is to contribute to the design and implementation of policies and instruments for the development of non-farm livelihoods for the rural poor. It presents the findings of a review undertaken in 1998. The results are based on information collected from secondary sources and key informants. The study was led by a team from the Natural Resources Institute of the University of Greenwich with selected inputs from other experts. The work was funded by the United Kingdom's Department for International Development (DFID).

There is increasing evidence that diverse livelihoods are widespread and enduring, even in relatively undiversified economies. These 'secondary' sources of income are often ignored in official data. Livelihood diversification can be regarded as a 'good thing'; it offers potential to reduce vulnerability by smoothing income and reducing risk associated with dependence on a single activity. Moreover, growth in the non-farm sector is associated with more developed economies, where agriculture has provided the initial boost with linkages and multipliers to other sectors.

Much of the previous work has taken a sectoral focus on multipliers and 'picking the winners' essentially trying to identify interventions which will generate the most employment or income. The new 'livelihoods' literature pays more attention to the factors which determine poor people's access to employment. Thus Ellis (1998) elaborates a framework in which rural household livelihoods are enabled by access to assets, in the context of institutions and social relations, modified by trends and shocks, with effects on livelihood security and environmental sustainability. Clearly insights from both schools can inform the development of a pro-poor rural non-farm sector strategy.

The agricultural sector is almost always the key to the development of a robust non-farm sector, with consumption linkages (agricultural incomes being spent on consumer goods) usually stronger than direct linkages to agriculture (input supply or agro-processing). Population density, widely distributed benefits of growth, infrastructure, education and access to financial services are also important. Rural–urban linkages facilitate market access and the transfer of finance and skills.

Entry points for policy and direct intervention to strengthen the rural non-farm sector can be divided into four categories: promotion of broad-based growth; sector-specific and targeted approaches; poverty-led approaches; and other nexi which affect the sector but in a less direct way. The first of these is a key foundation stone but not specific to the sector. The opportunity for greatest impact arises in using poverty or livelihood analyses to inform the selection and *modus operandi* of targeted interventions. The last entry point (where effects on the sector are less direct) offers scope for ‘mainstreaming’ the rural non-farm sector in a manner analogous to the way in which some organizations have mainstreamed gender into other policy areas.

Three possible strategies for country-level work are elaborated: learning from in-country experience and piloting strategies based on the lessons learned; ‘learning from doing’, i.e. implementing and monitoring pilot strategies based on what is currently known; and undertaking further research. Practical and methodological issues likely to arise in the development of country-level work are highlighted, along with consideration of appropriate institutions and partnerships.

1

INTRODUCTION

This is one a series of papers which seeks to elaborate the relationship between poverty, rural livelihoods and key policy areas. The papers are targeted at a wide audience in developing country governments, donor agencies, research institutes and other organizations concerned with development or governance. They are intended to contribute to an increased focus on poverty in development by informing and stimulating debate, policy and action amongst key players in the development process.

This paper is about the non-farm rural sector, its importance to the livelihoods of poor people in rural areas, and potential entry points for the development of appropriate policy or direct intervention. It summarizes the results of a Department for International Development (DFID)-funded review undertaken by the Natural Resources Institute (NRI) of the University of Greenwich and partner organizations in 1998.

This introductory section provides background and outlines the desk research on which the paper is based. The next section summarizes the results of the work focusing particularly on the factors which influence the size and nature of the rural non-farm sector, and on household access to non-farm rural livelihoods. The third section presents conclusions and recommendations for development agencies interested in taking forward initiatives in this important sector.

BACKGROUND: THE WHITE PAPER AND THE DAC¹ TARGETS

The 1997 White Paper on International Development (DFID, 1997) places the elimination of poverty at the centre of an agenda for sustainable development:

“We shall refocus our international development efforts on the elimination of poverty and encouragement of economic growth which benefits the poor. We will do this through support for international sustainable development targets and policies which create sustainable livelihoods for poor people, promote human development and conserve the environment.” (White Paper, p8)

DFID’s elaboration of these goals follows its commitment within the Organization for Economic Co-operation and Development (OECD) to tangible impact targets for international development policy. These targets reflect priorities identified in a number of inter-governmental meetings. The new agenda explicitly recognizes a need for concerted action on a broad front to achieve poverty-focused development goals.

Donors are re-thinking their strategies. The World Bank has developed a new strategy for rural development (World Bank, 1997) which centres on four inter-related key challenges: poverty reduction; economic growth (in both agricultural and non-agricultural sectors); food production; and environmental sustainability. DFID is also considering how its activities need to expand or change to promote sustainable livelihoods for poor people, and it is in this context that the work reported here was commissioned by DFID’s Natural Resources Policy and Advisory Department.

WHAT THE NRI STUDY AIMED TO ACHIEVE

The purpose of this study was to contribute to the design and implementation of policies and instruments for the development of rural non-farm livelihoods for the rural poor (not only employment but also livelihoods derived from migration and remittance income).

¹ Development Assistance Committee of the OECD

The NRI-led team² sought to develop a framework which would:

- categorize non-farm rural employment in a manner relevant to policy design
- provisionally identify factors which influence employment patterns
- provisionally identify types of pro-poor instrument and programmes relevant to enhancing rural non-farm employment.

RESEARCH ACTIVITIES

Information from secondary sources and key informants was rapidly collated to inform the development of appropriate policy, direct intervention or research. The study comprised:

- initial round of consultations, principally with DFID staff
- review of outputs from DFID-funded research on livelihoods
- development of a livelihoods framework
- identification of dynamic influences on non-farm rural livelihoods
- five country case studies (using secondary data)
- identification of factors which influence private investment in rural areas, and
- expert consultation to review and elaborate preliminary conclusions.

The choice of activities reflected a wish to: identify key parameters affecting the development of the sector; learn from relevant work already funded by DFID; take account of different perspectives; and review different country experiences – then to use the results to inform a more proactive role in the sector. The initial consultations highlighted particular concerns and issues which helped guide the component studies.

This paper provides a summary of the results. The conclusions build on the main findings to outline ways in which this work may be further developed at country-level. Practical and methodological issues likely to arise in country-level work are also highlighted.

² The core team comprised Ann Gordon, Duncan Overfield, Chris Collinson, Nandini Dasgupta and Chris Rock (all of NRI), Frank Ellis (University of East Anglia), John Meadley (Rural Investment Overseas Ltd) and Jeremy Swift (Institute of Development Studies). Inputs by Martin Hebblethwaite and Alan Marter (both of NRI) are also gratefully acknowledged.

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RURAL NON-FARM SECTOR: APPROACH AND FINDINGS

RURAL NON-FARM LIVELIHOODS

The rural livelihoods concept used here is based on that provided by Ellis (1998):

“A livelihood comprises incomes in cash and in kind; the social relations and institutions that facilitate or constrain individual or family standards of living; and access to social and public services that contribute to the well-being of the individual or family.” (p6)

There is increasing recognition that households and individuals frequently have multiple sources of livelihood, and that this is widespread and enduring, even within relatively undiversified economies. Official data often give little indication of this because of the informal nature of many activities, sensitivities about providing information on income, and a tendency for surveys to neglect secondary sources of employment or income. Yet an understanding of this complexity is central to the development of appropriate policies and intervention strategies to help poor people improve their livelihoods.

Potential entry points

Anyone researching the means to improve non-farm rural livelihood opportunities is quickly confronted with a plethora of potential entry points. It is useful to review these briefly, and to keep them in mind as important context for the more focused studies reviewed later. This backdrop comprises a multi-dimensional web whose threads cut across and link geographical hierarchies (global, national, local), disciplines (economists,

agriculturalists, engineers, social anthropologists, accountants), sectors (public, private, rural, urban, agricultural, rural non-farm etc.), development paradigms and methodological approaches.

Notwithstanding this complexity, conceptually, entry points can be divided into four categories:

- promotion of broad-based economic growth
- sector-specific and targeted approaches
- poverty-led approaches
- other nexi which affect rural livelihoods but in a less direct way.

Box 1 summarizes the main factors which influence non-farm rural livelihoods. Each of the entry points encompasses a range of associated initiatives and each is informed by different data and methodological approaches. For example, sector approaches may be informed by research on economic multipliers. Political decentralization may help empower local communities, contributing to the definition of local needs, relevant to poverty-led and sector-specific approaches.

The factors which help promote broad-based economic growth are essentially the foundation stones for development of non-farm rural livelihoods. More specific impacts may be achieved by targeted or poverty-led approaches (probably some combination of both). Additionally, non-farm rural employment can be 'mainstreamed' within more general interventions. Thus infrastructure projects can be implemented and maintained to maximize local employment opportunities. Health and education services can be provided to respond to target group needs and, possibly, to enhance local employment opportunities in service delivery. The policy framework for foreign investment can take account of (a) potential to generate employment in rural areas and (b) appropriate state interventions (if any) to make this an attractive proposition for investors.

Rural livelihoods are also affected by trends in the global economy. There is little scope to influence these though international lobbying may be effective in some areas – but national policies on trade and investment, if informed by an understanding of critical international linkages, can help limit the negative consequences of globalization. For example, trade liberalization and changes in money market transactions have made it easier for international companies to switch between suppliers. Low-income countries, keen to attract foreign buyers and investors, will want to

Box 1 Non-farm rural livelihoods: potential entry points

Broad-based economic growth

Non-farm rural livelihoods are affected by the general conditions which affect economic growth. These include natural resource endowment and international market factors (both beyond a country's immediate control). However, private investment and economic activity are also influenced by government policies and actions. Key amongst these are those which provide for:

- economic stability and confidence; macro-economic management
- political stability and confidence
- private sector development
- beneficial participation in the global economy
- infrastructure development
- health and education.

Sector-specific and targeted approaches

Targeting is typically informed by economic theory, and local economic research or existing data, almost certainly including some information provided by the target group (which is likely to be a broad constituency). Interventions are targeted to particular sectors believed to offer greatest potential for economic growth, possibly in geographical areas where economic development has lagged:

- sector investment programmes
- small and medium enterprise development
- strengthening capacity in the informal sector
- area development programmes, including investment incentives
- infrastructure focused on the development of particular areas
- agricultural and food sector initiatives
- technology interventions (e.g. an oil press project or local workshops)
- strengthening institutional capacity to deal with specific issues
- expanding rural banking services.

Poverty-led approaches

The distinguishing factor in these approaches is that they build on information provided by the target group, whether through informal data collection methods or formal surveys. The focus of subsequent interventions will vary depending on the results of these surveys, which include:

- poverty profiles
- livelihoods analysis
- gender analysis
- participatory approaches, including work with groups
- analysis of social networks
- income, employment and expenditure surveys.

Indirect influences on non-farm rural livelihoods with possible scope for 'mainstreaming'

Analogous to mainstreaming gender, non-farm rural livelihoods can be influenced by actions in a number of areas, where they are not necessarily central. In some cases, dialogue and negotiation may help increase benefits to the local economy (e.g. in mineral exploitation). Examples include:

- correcting for urban bias
- infrastructure construction and maintenance
- education and health
- foreign investment policy
- influencing benefits from mineral exploitation by reviewing technological choices
- planning tourism investments to assure maximum benefit to local economy
- initiatives to encourage the productive investment of remittance income, so that local economy benefits even if remittance income falls
- environmental policy elimination of hidden subsidies to urban industry and levying taxes on environmentally harmful activity.

benefit from this liberalization without exposing themselves to undue instability, and will need policies that are able to attract, and sustain, this foreign interest.

Despite this multiplicity of potential entry points, there are few institutions that can be identified as natural partners in any initiative to strengthen the rural non-farm sector – though there are many which interface with part of the sector. We return to this in the final section.

A livelihoods framework

Ellis (1998) has elaborated a framework which describes the context within which rural non-farm livelihood activities are undertaken (Table 1). It is an extended version of the 'assets–institutions–activities' framework often used in research on poverty and livelihoods. In this framework different livelihood activities of rural households are enabled by access to assets, in the context of institutions and social relations, modified by trends and shocks, with effects on livelihood security and environmental sustainability, leading to changes in rural people's vulnerability and environmental stability. Building on this framework, Swift (1998) identifies three critical factors which affect the livelihood choices: assets, household strategies and macro-economic policy; and explores the influence of five types of capital: natural, physical, financial, human and social.

Table 1 Framework for thinking about diverse rural livelihoods

A	B	C	D	E	F	G
Means of survival	Livelihood activities	Enabled by	In context of	Modified by	With effects on	Leading to
Diverse Rural Livelihoods	NR based Collection Cultivation (food) Cultivation (non food) Livestock Non-farm NR	Assets Natural capital Physical capital Human capital Social capital Financial capital	Institutions Markets in practice Property rights Civil institutions The state and policy	Trends Population Migration Technological change Non-farm options National economic World economic	Livelihood security Income level Income stability Seasonality Degrees of risk	People becoming Less vulnerable More vulnerable
	Non-NR based Rural trade Other services Rural manufacture Remittances Other transfers		Social relations Gender Class Age Ethnicity	Shocks Drought Floods Pests Diseases Civil war	Environmental sustainability Soils and land Quality Water Rangeland Forests Biodiversity	Environments Improving Stabilizing Degrading

Source: Ellis (1998)

Note: NR = natural resources

- Natural capital.** A condition for sustainable livelihoods is that natural capital – the resources of the natural environment in so far as they are available for use by rural communities – is maintained, improved or created, which implies that the livelihood system as a whole – and not just the income or consumption of individual households – is on an upward trajectory. Swift highlights the potentially important role of access to different ‘ecological gradients’ – types of natural capital as occurs, for example, with different altitudes – which broaden the scope for employment and trade opportunities, and may help mitigate the effects of marked seasonality in one agro-ecological zone. Seasonal non-farm employment may help balance/smooth labour demands. Farmers often look for other work in the dry season – and postpone non-urgent, non-seasonal activities until the dry season – and in some sectors this may coincide with peak demand for labour, e.g. tourism, construction, etc. Climatic risk generates a considerable need for livelihood adaptation on a wide scale.
- Physical capital.** In discussing physical capital, Swift emphasizes the importance of roads and other forms of communication network in facilitating the flow of goods and labour between rural areas, and local

urban markets and global markets. This is likely to be more of a constraint in less densely populated areas, for instance, in much of Africa. Where rural populations have access to urban markets, this may parallel Swift's income-smoothing effect of access to multiple ecological gradients, opening up opportunities for the processing and trade of agricultural produce. Electrification is also an important factor in the development of non-farm enterprise and, again, likely to place many parts of Africa at a disadvantage.

- *Financial capital.* His discussion of financial capital distinguishes between savings and credit and underlines the importance of access to financial capital as a key determinant of the need, and opportunities, for livelihood diversification. Personal networks and remittance income can play a key role in access to financial capital.
- *Human capital.* Swift illustrates the importance of human capital as a determinant of household involvement in both farm and non-farm activities, referring to household size and composition, level of education, and cultural practices. He points out that participation in off-farm employment is much more common among men than women. Gender and age are clearly important determinants of the type of activities undertaken. Women are often involved in micro-enterprise (much of which involves work at or near the home), which is an important source of women's cash income (food processing, preparation and trade, basketware, etc).
- *Social capital* ("authority relations, relations of trust, and consensual allocation of rights which establish norms", Coleman, 1994 p300) is a key building block for sustainable livelihood strategies. Such personal networks help people identify and access alternative income sources by providing information, and facilitating access to natural and financial capital. Whilst some of this capital is traditional, it can be adapted and extended to meet new needs; strong women's groups, for instance, may be able to access finance and training. Conversely, some traditional institutions may be strained to breaking point in the face of greater commercialization or the introduction of new interest groups. See, for example, the effect of the development of urban dairy markets on the traditional gender allocation of cow's milk in rural households in Mali (Gordon, 1997).

Swift identifies three (non-exclusive) categories of strategy for poor rural households – agricultural intensification, livelihood diversification and migration – and important trade-offs between options. Social networks help provide information about options and trade-offs. Swift claims that diversification is more often driven by need (related to insecure or inadequate farming incomes) than opportunity, although evidence from the case studies (see below), particularly Sri Lanka, suggests that opportunity and favourable macro-economic policy are very important. In all areas there will be some opportunity-led, rather than needs-driven, livelihood diversification but this is likely to be more prevalent in areas where there is a vibrant agricultural sector, or in areas close to important towns. In discussing migration, Swift emphasizes the importance of rural-rural migration for poor households. Migration has important consequences for the population profile in communities which have experienced high outmigration, leading to ‘labour gaps’, and changes in labour use and allocation often with negative consequences for agricultural sector development. In such communities remittances are likely to be a significant source of income. Migration tends to build on and reinforce existing networks such that migrants from one area move to the same destination, and may even tend to work in the same trade.

In addition to constraints relating to skills, cultural practices, poor infrastructure and seasonal labour demands faced by many rural families, the diversification options available to poor households may also be limited by:

- lack of economic or agro-ecological opportunity
- lack of working capital (as credit or savings) for diversification or migration
- weak or less ‘useful’ personal networks.

Also Swift stresses the importance of the macro-economic policy for livelihood diversification and opportunity, but is unable to draw firm conclusions on the impact of structural adjustment programmes, given the considerable variability and selectivity in their content and maturity, and the importance of location-specific considerations. Even where programmes are deemed successful, the very nature of adjustment means that there will be winners and losers. However, given the emphasis on tradeables – and the importance of agricultural exports to many low-income countries (though not necessarily to the poorest households) – a

'successful' adjustment programme may provide a boost to rural economies. In particular, there are likely to be increased opportunities relating to traditional and non-traditional exports (marketing, transport, processing, packing, small workshops). Public sector employment opportunities (often one of the few sources of formal sector work in rural areas – though rarely important for the lowest income groups) may decline.

Finally, Swift emphasizes the importance of recognizing whether households (individually and as a community) are embarked on upward or downward 'trajectories', with implications for reversibility, and the way diversification is approached and carried out.

EXPERIENCE FROM COUNTRY CASE STUDIES

Five case studies were selected to highlight experience with the rural non-farm sector in Africa (Ghana and Tanzania) and Asia (Sri Lanka, India and Papua New Guinea, (PNG)), and to explore marked differences in policy and outcome (Collinson, 1998; Ellis and Collinson, 1998a and 1998b; Dasgupta, 1998; Overfield, 1998). For example, the India study focused on three states: Punjab which has strong agricultural and rural non-farm sectors; West Bengal where the agricultural sector has performed poorly until recently, and where there are few non-farm opportunities in rural areas; and Gujarat where the State Government is now trying to extend the successful urban industrial development experience to rural areas. Sri Lanka provides an example of extremely successful rural non-farm sector development (in textiles).

Each comprised a short desk study, drawing on existing secondary data, other relevant studies and previous research conducted by the respective authors. Notwithstanding the inevitable problems of data comparability, the studies nonetheless highlight certain common trends and significant differences between countries and/or regions. Basic country data are provided in Table 2. The contribution of agriculture to gross domestic product (GDP) ranges from 57% for Tanzania to 24% for Sri Lanka (compared with 32% for all sub-Saharan Africa excluding South Africa).

Table 2 Country profiles

	GNP/ capita (US\$)	Population		Agric- ulture as % of GDP	Adult literacy (%)	Urban pop [†] (%)	Gini index*
		(millions)	density/km ²				
Papua New Guinea	1240	4.2	9	28	72	16	n/a
Sri Lanka	640	17.9	271	24	90	22	30
India	320	913.6	278	30	52	27	34
Ghana	410	16.6	69	46	64	36	34
Tanzania	140	28.8	30	57	68	24	38
Low-income countries	380	3182.2	79	28	66	28	n/a
Sub-Saharan Africa	460	571.9	24	32 [†]	57	31	n/a
South Asia	320	1220.3	238	29	50	26	n/a

Source: World Bank (1996) data are for 1994

Note: * See footnote 3

† not including RSA

Patchy data on sources of rural employment and income indicate that the non-farm sector is an important contributor to household livelihoods but is not necessarily the principal or year-round income source. Income from remittances is also consistently important (though apparently notably lower in Tanzania than elsewhere in Africa). The importance of individual sub-sectors varies; typically food processing (and other household-level micro-enterprise based on local raw materials) and trade are important, along with public sector employment.

The studies strongly support the ‘agriculture as the engine of growth’ model, although they suggest (in common with other studies on multipliers) that the consumption linkages may be stronger than the agriculture input/output linkages. In other words, a vibrant agricultural sector creates demand for consumption goods (and employment) in the non-farm rural sector.

The pattern of settlement also appears to be important although settlement patterns may reflect cultural as well as economic factors. In the Punjab, for example, a thriving agricultural sector has undoubtedly contributed to the development of multiple small rural towns which are a significant source of non-farm rural employment. A similar situation occurs in southern Ghana which is markedly more urbanized than the northern half of the country; some of the urban development there may, however, be associated with external trade, industry and the public sector centring on ports, major border crossings and Accra. A contrasting situation can be seen in West Bengal – an extremely densely populated state but not intensely urbanized if the Calcutta effect is excluded. This seems to be

related to the relatively undeveloped agricultural sector which has experienced little growth until recently.

Sri Lanka is perhaps the most interesting model, although there are inevitable location-specific characteristics which limit its literal application elsewhere. It is densely populated with around 270 people/km² – almost the same as India – and sufficiently small that few areas could be regarded as really remote. It has experienced rapid economic growth (per capita GNP increased from US\$ 640 in 1994 to roughly US\$ 700 in 1995) but has a relatively low Gini index³ (indicating more equal income distribution than any of the other countries studied). Adult literacy is high. The dominant sectors are plantation agriculture⁴, paddy and textiles – the latter apparently reflecting a concerted development policy to boost income and employment in urban and rural areas.

Some tentative conclusions about the rural non-farm sector can be drawn from these studies

- Agricultural sector development is a key determinant of the rural non-farm sector.
- Agriculture is often a part-time occupation – and non-farm employment and remittances are important sources of income.
- The inescapable importance of education and rural infrastructure – particularly roads and electrification.
- Sri Lanka was very successful in the development of a textiles industry, which included measures to promote the location of plant in rural areas; and detailed analysis of these policies would be instructive. Gujarat has recently switched its successful industrial promotion activities from an urban focus, where opportunities are perceived to be relatively 'saturated', to a rural focus; their experience will also be interesting to review.
- Not surprisingly, the former heavy state involvement in trading activities appears to have stifled development (in farm and non-farm sectors) in Tanzania and West Bengal – but the Sri Lankan experience suggests that the State can play a useful role in the development of productive enterprise.

³ The Gini index is a measure of income inequality, where values approaching zero indicate equality of income distribution and values approaching one indicate extreme inequality.

⁴ Note also the observations in the section on private sector perspectives which suggest that plantation agriculture may generate considerable associated employment opportunities.

- The mining sector seems to be associated with relatively small employment and multiplier effects.
- The need to identify key local factors which may constrain flexibility and opportunities – for instance, both the Sri Lanka and PNG studies highlight the negative effects of existing land tenure arrangements.

REVIEW OF DFID-FUNDED RESEARCH ON LIVELIHOODS

A brief review of recent and current DFID-funded research projects (Ellis and Hussein, 1998) reveals that between 10 and 20 research projects are being undertaken which focus, either directly or indirectly, on the diverse livelihood strategies pursued by rural people. These studies examine the complexity of rural people's livelihoods, highlighting the way in which they normally, both now and in the past, complement income, goods and services gained through agriculture, with non-farm activities of various kinds. The findings are based on project documents and publications produced by 17 of the projects, focusing on livelihoods in Africa and Asia.

Although the review provides detail on individual projects, the observations made here are confined to two broad issues: the identification of significant issues consistently neglected by the research; and further contributions to the development of policy and intervention strategies.

The review highlights three issues which receive less attention than (probably) merited: migration and migration remittances are rarely analysed in detail as a form of livelihood diversification; few studies bring a gender perspective to their analysis of livelihood diversification; and no study has as yet linked analysis of macro- and micro-level performance (though one new project proposes to do this).

The policy conclusions from these projects highlight the need to:

- overcome gender differentiation in access to land and labour markets
- promote appropriate participation in the implementation of development projects
- implement specific recommendations on reducing food marketing costs
- improve transport and communications
- analyse effects of institutions (e.g. land tenure) on livelihoods of poorest

- consider land reform to benefit poorest
- improve 'basic' services (especially education and health)
- facilitate the use of remittance income as a source of investment in rural areas
- develop mechanisms to promote private provision of credit to farmers
- integrate consideration of diverse livelihood strategies into agricultural research
- provide information to policy makers on livelihood diversity
- improve access to credit
- identify and address specific constraints faced by poorest.

A surprising conclusion is that, whilst all the studies acknowledge that diversification out of agriculture is critically important to the ability of rural people to construct sustainable livelihoods, most of the researchers appear reluctant to recommend policies which would facilitate diversification.

PRIVATE SECTOR PERSPECTIVES ON RURAL INVESTMENT

A study was commissioned on the determinants of private investment in rural areas (Rural Investment Overseas Ltd, 1998) to include consideration of inward investment and domestic investment, and the links between the two. Apart from providing an overview of the importance of factors such as infrastructure, economic and political stability, size of local market, red tape, fiscal and foreign exchange policy, and labour costs and skills, the report provides considerable detail on specific mechanisms and individual country experience. The focus here is on the strategic issues highlighted by the Rural Investment Overseas (RIO) report.

Inward investment (foreign direct investment or FDI) is increasing rapidly. In 1997, low-income countries as a group received a total of US\$ 22 billion of private flows (representing just over 10% of net private flows from DAC member countries to aid recipients). This was less than the previous year because of the impact of the Asian financial crisis in the second half of 1997. China and India are the main low-income recipients of FDI and other private flows (which include lending by banks and grants by non-governmental organizations, NGOs). Countries in sub-Saharan Africa, including South Africa, received only US\$ 2 billion in FDI and roughly the same amount in bank flows. The sources of FDI are changing – for instance Malaysia is now investing heavily in Africa. Policies are very important in determining levels of FDI, as illustrated by China's

performance and progressive attitude to FDI. Interestingly, within southern Africa, South Africa is very successful in attracting FDI but has the fewest official FDI incentives (tax incentives etc.). Its strong performance illustrates the irrelevance of the incentive framework in the absence of other key factors, such as well-developed infrastructure, a large immediate market, relatively stable economic and political context, and existing business contacts – as well as the attraction of globally scarce mineral resources. Many of these factors will also tend to make rural areas appear less suitable for investment than urban or peri-urban areas.

The RIO report gives examples of how FDI creates employment in associated sectors (e.g. investment in South Africa's plantation sector has created additional employment in fencing, transport, pruning and packing) but points to the poor experience where governments have tried to make such links a condition for foreign investment. The report does, however, suggest a number of mechanisms to encourage local sub-contracting although it suggests that the opportunities for large-scale non-farm investment in rural areas are fairly limited. The main areas for potential are tourism, mining, agricultural processing, and a limited amount of manufacturing based on minerals (e.g. cement). The location of such industry will reflect a number of location-specific factors and other issues governing individual company decisions, including consideration of alternative investment proposals in other countries; agro-processing is the only sector amongst those identified which is intrinsically linked to rural areas.

Most non-farm employment opportunities in rural areas are likely to be with small and medium-sized, domestically owned enterprise in the formal sector, and with informal sector micro-enterprise. In many low-income countries, there may be relatively few companies which fall in the former group – and those which do are subject to problems associated with weak management, insufficient working capital, debt, and difficulties in obtaining suitable premises and staff.

Micro-enterprise is the overwhelmingly dominant type of enterprise in rural areas, which can be characterized as:

- survival is the main motivation
- operating in a local, low-value, overcrowded market (prone to saturation)
- low costs of entry and exit
- 'low tech'
- significant focus on petty trading

- little experience of sustained growth and shifting to the formal sector, and
- access to finance is a key constraint.

Clearly there are many issues which impinge on non-farm rural employment opportunities. The report provides various examples of lessons and best practice in these related areas, including legislative frameworks, financial services, training, business centre development and micro-finance.

FACTORS WHICH INFLUENCE OPPORTUNITIES

This section is drawn largely from two review papers by Islam (1997) and Lanjouw and Lanjouw (1997). The livelihood frameworks developed by Ellis (1998) and Swift (1998) identify the factors which determine rural people's **access** to non-farm livelihoods. In the past, this aspect has been rather neglected and the analysis has focused on factors which help create employment opportunities. Both sides of the equation are important to the development of an effective strategy to improve non-farm employment opportunities for the rural poor – so it is useful to summarize briefly the main points arising from the literature on multipliers and promotion of the rural non-farm sector.

There is an overwhelming consensus in the literature that non-farm employment is positively associated with agricultural incomes. The most important link is via consumption, so higher farm incomes – and more equal distribution – create more jobs in the non-farm sector. Modernization of agriculture (such that irrigation and mechanization increase) creates an expanding market for simple, inexpensive tools which can be produced, serviced and repaired locally. High transport costs may offer some protection from outside competition. Hazell and Haggblade's (1990) work on multipliers is widely cited. Their empirical studies in India showed that infrastructure, rural population density and per capita income in agriculture are important determinants of non-farm rural employment and income. Vaidyanathan (1983) also conducted studies in India in the early 1980s and found that the non-agricultural share of total employment rose with farming income, more equal income distribution, and unemployment (implying that the non-farm sector played an important role when agriculture was unable to provide widespread employment). The clear message here is that policies which promote agricultural development also

promote the non-farm sector. Increasing the incomes of middle-income agricultural workers has the greatest effect on the non-farm sector through consumption linkages since the better off are more likely to spend additional income on urban-produced goods, and the lowest income groups will spend additional income on food.

Development of the rural non-farm sector is also affected by the same factors which promote broad-based economic growth – hence economy-wide policies relating to education, trade, foreign exchange, financial services, taxation, small business development, labour, industrialization, infrastructure and public services are all important. There is almost always urban bias in the provision of social, human and physical infrastructure; correcting for this is particularly important. Urban bias may also be apparent in pricing policies where controlled prices penalize rural producers, stifling the development of the rural sector.

The rural non-farm sector can also be targeted more specifically, usually by programmes and projects which provide financial assistance, credit and technical services for medium-scale, small-scale and micro-enterprise. Few of these businesses graduate to large-scale enterprise, and many do not survive the first few months or years of trading. Technical assistance is most effective when tailored to the needs of a cluster of enterprises producing identical goods and services.

Assistance may include helping small producers form groups. Many such initiatives involve NGOs, which may play a critical intermediary role in the provision of credit, training and institutional development. Assistance may also be channelled through local small business development agencies – part of the government machinery or set up as part of specific projects focused on enterprise development.

Non-farm employment opportunities which specifically benefit the poor are most likely to be in wage employment (for unskilled labour) and micro-enterprise. In targeting the poorest it is important to identify and understand those people who are driven into the non-farm sector out of need, as compared to those whose position makes this a choice – as with skilled labour for instance. The non-farm sector tends to be important where there is abundant rural labour; labour surplus (and proxies for this, such as landlessness or size of land holding) is a key indicator of the importance of the rural non-farm sector.

3

CONCLUSIONS AND RECOMMENDATIONS

WHAT CHARACTERIZES THE RURAL NON-FARM SECTOR?

Non-farm rural employment (including self-employment), remittances, and income earned by rural residents who commute to towns make important contributions to rural livelihoods – though not necessarily as the principal or year-round income source. The sector contributes 20–50% of rural employment in most developing countries (Islam, 1997). The importance of individual sub-sectors varies: typically food processing (and other household-level micro-enterprise based on local raw materials) and trade are important, along with public sector employment. Household industries have declined over time, whilst small-scale, full-time, specialized rural industries have expanded.

Country-level data on the sector are almost always incomplete, unreliable and incomparable between countries. Data collection is beset with problems of definition and scope, the informal nature of many activities, sensitivities concerning information on income and remittances, and a tendency to neglect secondary sources of income.

WHY FOCUS ON THE RURAL NON-FARM SECTOR?

The non-farm sector offers potential to absorb a growing rural labour force; slow rural–urban migration; contribute to national income growth; and promote a more equitable distribution of income (Lanjouw and Lanjouw, 1997). In several countries this sector is growing faster than the urban and rural farm sectors. It links to environmental concerns – economic opportunities in rural areas help stem the negative effects of urban growth;

and non-farm income may be ploughed back into farming, contributing to higher farming incomes and, sometimes, more sustainable practices.

HOW DOES RURAL POVERTY RELATE TO THE RURAL NON-FARM SECTOR?

Poor rural people seek livelihoods in the non-farm sector to (a) complement seasonal agricultural incomes, (b) supplement inadequate (or absent) agricultural incomes and (c) take advantage of opportunities arising in the non-farm sector. For the poorest, (a) and (b) are the most important. Diversification helps reduce vulnerability by smoothing income and spreading income risk across several activities. Household-based activities in the non-farm sector are particularly important for the rural poor, including women. Livelihood diversification is important – and measures which increase poor people’s flexibility and mobility will help them construct more robust livelihoods.

WHAT DRIVES THE RURAL NON-FARM SECTOR?

There is an overwhelming consensus in the literature that non-farm rural employment is positively associated with agricultural incomes. Policies which promote agricultural development, including those which correct for urban bias, also promote non-farm rural employment. The multiplier works via increased demand for agricultural inputs and, especially, consumption goods, and via the processing of agricultural raw materials. A stagnant agricultural sector, without the capacity to absorb a growing labour force, may also push people into the non-farm sector, but into low paid and low productivity activities.

Population density, widely distributed benefits of growth, infrastructure, education and access to financial services are also important. Urban linkages are important but work both ways: urban industrial production may compete with rural industry, or provide a source of important sub-contracts, particularly in rural areas within 25–30 miles of an urban nexus. Industrial estates or commercial centres in rural areas yield ‘agglomeration benefits’ which facilitate the growth of small enterprise, but these ‘growth poles’ have not generated the local economic benefits anticipated. Urban–rural linkages are also important in financial and skills transfers, and in providing markets for the outputs of rural small and medium enterprise.

WHICH INSTITUTIONS SERVE THE RURAL NON-FARM SECTOR?

Institutions in the rural non-farm sector are as diverse as the sector itself – yet few are specific to the sector, nor a natural interface or conduit for intervention. (The term ‘institution’ is used here in the narrow sense, i.e. to mean ‘organization’.) Table 3 lists institutions present in rural economies which represent, link or deliver services to rural populations.

Table 3 Institutions in rural economies

Category	Institution	
Private individual	Household, extended family, residential area	
	Workers groups and unions	
	Private trader (/other commercial) networks	
	Personal networks	
	Daily or periodic markets	
	Local development committees	
	Informal financial sector	
	Self-help groups	
	Employers (as an institution for employees)	
	Co-operatives	
	Political parties	
	Religious groups	
	Private commercial sector	Banks
		Chamber of Commerce
Trade Associations – formal sector		
– informal sector		
Large companies		
Transport companies (could be public)		
Commercial networks based on ethnicity		
Non-governmental organizations	Radio and newspapers (could be public)	
	Individual national NGOs	
	Co-ordinating organization for NGOs	
	International NGOs	
Public sector	International NGOs with local NGO network	
	Banks	
	Utility companies	
	Health and education services	
	Local government (as a function of decentralization)	
	Business development services	
	Universities and research organizations	
	Agricultural extension services	
	Political	Political parties – national offices
		– regional offices
External	Foreign traders and investors	
	Investors and traders from outside the area	
	Personal networks (migration/remittances)	
	Donors	

Some institutions are more important to the poorest people; these are likely to be area-specific, depending on local circumstances, including:

- self-help groups, savings groups and credit unions
- rural transport providers
- large employers of unskilled labour
- religious groups
- co-operatives
- local development committees
- local government, especially education and health services for women
- external traders who buy local products
- private networks for migration and remittances
- private networks based on household, family or residence
- radio
- NGOs
- daily or periodic markets.

WAYS TO PROMOTE THE RURAL NON-FARM SECTOR

At the beginning of Section 2, four different potential entry points were noted – all working at different levels. The greatest scope for poverty impacts centres on (2) and (3):

1. *Macro-economic management and economic growth promotion.* It is important that this is in place but there is no need to elaborate here since there is an extensive literature and considerable experience of growth-promoting macro-economic economic conditions.
2. *Targeted interventions in specific sub-sectors.* There is already considerable experience of targeted interventions, particularly with enterprise development – though these initiatives have often failed to reach their intended clients.
3. *Poverty-led approaches to improve livelihoods of poor.* This partly explains the current interest in a 'livelihoods approach', which takes poor people's resources as the starting point for analysis of their strategies and options. The opportunity for impact arises in using poverty or livelihoods analyses to inform the selection and *modus operandi* of targeted interventions.
4. *'Mainstream' non-farm rural employment into other areas.* Mainstreaming the rural non-farm sector in other areas is more experimental and merits review. Box 2 lists ways in which this could be done.

Box 2 Mainstreaming the rural non-farm sector

Analogous to mainstreaming gender, non-farm rural livelihoods can be influenced by actions in a number of other areas. In some cases, dialogue and negotiation may help increase benefits to the local economy (where local input suppliers can be used by a mining company for example). Mainstreaming would entail policy analysis, to guide the development of guidelines and legislation or regulation, as appropriate. Examples include:

- correcting for urban bias in policies
- infrastructure construction and maintenance – potential for employment in construction, management and upkeep, use of local material, etc.
- education and health services – additional benefits in employment generation potential but may require training inputs
- foreign and local investment policy – provision of information on rural areas; encouraging investments by providing infrastructure or tax incentives
- increasing benefits from mining, by reviewing technological options
- planning tourism investments (and associated requirements) to assure maximum benefit to local economy
- environmental policy – adjusting taxes to reflect the environmental costs of urban industry.

PROMOTING THE NON-FARM SECTOR: PROPOSALS FOR IN-COUNTRY WORK

The literature and research reviewed underline the importance of the non-farm sector to poor people in rural areas. There is considerable information available on the dimensions of poverty and on livelihood patterns. Little of this work has centred on the non-farm sector *per se*, but there is sufficient information with which to move forward to country-level work. At country level there are essentially three options:

- learning from experience and on-going work in-country, and piloting strategies based on the lessons gained
- learning from doing – implementing and monitoring pilot strategies based on the findings here and other relevant experience
- undertaking further research to test key hypotheses derived from the existing literature.

These are elaborated in Box 3 with some of the gaps in understanding listed under further research. All three options, after being pursued in-country, should add to our understanding at a non-country specific level.

Box 3 Options for country-level work

Learning from experience

The aim would be to develop, pilot and monitor a country-level strategy, based on existing best practice in-country. Central to this is a review of country experience:

- describe/quantify key components of the rural non-farm sector
- assess impact of relevant policy and direct intervention, including unforeseen negative consequences
- identify factors critical to non-farm sector growth (policy, direct intervention or other factors)
- identify key institutions and partnerships
- identify interventions/policies most critical to livelihoods of poor
- highlight critical questions which remain.

This would go well beyond the desk country studies reviewed here. It would draw on all relevant secondary data and reporting, the critical views of in-country experts, data collection to plug any critical information gaps (where this can be achieved rapidly, using participatory and/or formal survey methods as appropriate), and dialogue and brainstorming with a broad constituency of stakeholders.

Learning from doing

The aim would be to pilot and monitor interventions based on existing research results and experience. Pilot intervention strategies would be identified with partners. Examples might include:

- mainstreaming the non-farm sector in other policy areas
- systematically reviewing and correcting for urban bias in policy, taxation and pricing
- concerted, flexible and participatory programmes to improve women's labour skills
- experimenting with investment mechanisms for remittance income
- investing in rural infrastructure (particularly roads and electrification)
- business development activities, informed by livelihoods analysis, and insights from New Institutional Economics on reducing transaction costs
- institutional strengthening explicitly focused on poor people's access to rural non-farm livelihoods
- decentralized policy design and implementation to respond to specific local needs.

Interventions would be monitored and modified as necessary, in a flexible process approach, which sought to rapidly build on existing knowledge to improve rural livelihoods.

Undertaking further research

This is particularly important where the evidence is unclear on potential powerful interventions (see Islam, 1997, for a discussion of important research questions). For example:

- how do poor people acquire and use improved numeracy/literacy skills?
- is there a critical minimal 'package' of interventions which is particularly effective (such as roads, electrification, credit and literacy/numeracy)?
- which institutions are most critical to poor people's livelihoods?
- what was the role of the state in Sri Lanka in promoting the textiles industry?
- do rural growth poles work – what are the critical factors?

PRACTICAL AND METHODOLOGICAL ISSUES IN COUNTRY-LEVEL WORK

Country selection

The widespread and diverse nature of rural non-farm livelihoods has been noted, along with the multifarious factors which facilitate and drive rural diversification. This calls for decentralized and participatory processes, which recognize diversity and take account of local needs. At the same time, policy-makers in Government and donor agencies need tools which help them focus, diagnose problems and develop an appropriate strategy for policy or direct intervention.

Careful country selection will pay dividends at a later date by permitting generalizable lessons about what works in particular situations. Inevitably, pragmatic considerations (e.g. concerning Government and donor country priorities, interest and capacity to work on the rural non-farm sector, existing experience in the sector, and established stakeholder networks) will play a part in country selection. However, country selection should ideally capture variation in the key factors which affect the size of the rural non-farm sector. Box 4 gives an example of how this could be done.

Box 4 Country selection to capture variation in critical factors

A categorization based on three factors known to be important and positively associated with non-farm rural employment is proposed: per capita agricultural incomes, infrastructure (preferably taking account of rural electrification and road access) and population density. This categorization yields eight different situations (if each variable scores as low or high). These 'boxes' can then be used, initially, as an aid to country selection, subsequently as a potential framework within which to synthesize findings and seek some generalizations and, ultimately, to help in developing appropriate strategies. If they have insufficient explanatory power, i.e. they do not yield different rural employment situations, then the descriptors could be added to or replaced. Note, however, that this categorization may not be useful in the presence of, for instance, a significant mining or tourism sector, neither of which is widespread or intrinsically associated with rural areas.

Other descriptors were considered, and rejected in the first instance, because there was either: insufficient empirical basis for their inclusion; their influence was small or captured by the three selected; or data availability or reliability was likely to be a problem. Close contenders were health or education indicators (likely to be particularly important in respect of livelihoods for women, the old and the poor); indicators of labour surplus (or landlessness, or land holding size – but data are likely to be problematic); domestic market indicators (or possibly settlement patterns – but both likely to be captured in agricultural incomes and population density).

A framework for categorizing rural livelihood situations

	Low population density		High population density	
	Agricultural incomes		Agricultural incomes	
	Low	High	Low	High
Good infrastructure	1	2	5	6
Poor infrastructure	3	4	7	8

With additional information, the boxes can be used to define and prioritize rural non-farm sector needs. They can be applied to regions, countries or parts of countries, to describe and analyse different aspects of rural development. Thus, they can be used to:

- describe the situation in one geographical area relative to another
- locate absolute numbers of poor and their share of total population (and hence provide pointers on priorities)
- characterize the poor (employment, gender, age, education, resources, etc.)
- identify appropriate interventions to improve access to non-farm rural livelihoods (refer to Ellis framework)
- identify appropriate interventions to improve opportunities in rural non-farm sector
- identify areas where more information is needed
- develop and test hypotheses on the rural non-farm sector and how they relate to area characteristics
- provide preliminary pointers on pro-poor policy for the rural non-farm sector.

Data collection

Country-level work will involve an initial review of secondary data sources which could include poverty profiles, employment surveys, population statistics and household census data. Definitions vary considerably between countries (i.e., rural area, non-farm sector, villages, small rural towns). Common definitions would be helpful, but at the very least, awareness of these differences is certainly important when making inter-country comparisons.

The importance of understanding the context in which rural people make livelihood decisions has been stressed. Rural people develop highly diverse livelihood decisions reflecting diverse circumstances. There are likely to be important differences within a single household, reflecting the age, gender and skills of its members. It is important that this diversity is recognized and understood, and that potentially less visible sources of income (micro-enterprise in the home, activities by women and children, seasonal activities, remittance income, etc) are not overlooked. This diversity implies a particular role for participatory approaches in data collection and intervention design.

Building consensus

The development of appropriate policy and building consensus around policy objectives is clearly of critical importance. This may be difficult because:

- the rural non-farm sector has rarely been a focus – it cuts across numerous sector and stakeholder interests with few precedents for linking them
- interventions targeted to the needs of the poor might comprise a series of enabling activities designed to give poor people more choice – measures which may be perceived by policy-makers as insufficiently visible or concrete
- where a livelihoods approach is proposed to better address the needs of the poor, it may challenge established ‘truths’ and approaches, calling for different capabilities and institutions.

Facilitation, workshops, wide consultation, participation and dialogue (and even training) are likely to be very important in building consensus – and in identifying innovative opportunities to strengthen rural non-farm livelihoods.

Appropriate and innovative choice of partners

The dearth of ‘natural’ institutional partners for developing the rural non-farm sector was noted above, but it is also clear that there are many organizations present in rural areas, some of which are more accessible to the poor than others. Some may turn out to be unusual but useful collaborators and information sources. For instance, there may be scope for partnership or leverage with a large local employer (a factory or a mine). Bus companies are another example – in Gujarat, rural transport is an important factor enabling rural populations to work in local towns. Improving women’s literacy and numeracy may mean working through informal community groups (focusing on residential units perhaps), or health services accessed by women.

Poverty focus

The depth of poverty focus is a critical issue. It has important implications for data collection, and subsequent intervention and partnership. Targeting the ‘poorest of the poor’ need not necessarily preclude interventions with other groups, however, where this can increase employment opportunities

for the poor. This issue is more important in the rural non-farm sector – as compared with the agricultural sector – since the sector depends on surplus labour. Any initiatives aimed at strengthening the rural non-farm sector are likely to include consideration of how to boost employment opportunities in private enterprise.

In addition to an enabling policy environment, new and innovative institutional structures or mechanisms are likely to be very important in achieving a sustained impact on poverty. This will require partnerships between donors and governments, and between the public sector and the private sector. These synergies will be critical to sustained growth in rural economies.

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LIST OF ACRONYMS

DAC Development Assistance Committee of the OECD

DFID Department for International Development (UK)

FDI	foreign direct investment
GDP	gross domestic product
GNP	gross national product
NGO	non-governmental organization
NRI	Natural Resources Institute
OECD	Organization for Economic Co-operation and Development
PNG	Papua New Guinea
RIO	Rural Investment Overseas (Ltd)
Y	Income