

# **The Rise and Fall of the Rural Non-farm Economy: Poverty Impacts and Policy Options**

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*The rural non-farm economy (RNFE) is gaining prominence in debates on rural development. Rural household strategies, and rural economies with them, are often increasingly diversified. But how much do we know about the RNFE's development and impacts, and about how to support it effectively? This article suggests that the RNFE goes through distinct stages of growth, demise and recovery. Understanding these is important in designing policy support. Several interventions are indicated, but three cautions are noteworthy: policies should be fine-tuned to the stage of rural economic development; the RNFE they target may have variable impacts, particularly on inequality; and supporting the rural non-farm economy may be an expensive option, especially if national job creation is the primary objective.*

## **Introduction**

Evidence from most continents over the last decade suggests that the share of household income from non-farm sources is growing. Recent surveys suggest that non-farm sources account for 40-45% of average rural household income in sub-Saharan Africa and Latin America and 30-40% in South Asia, with the majority of this coming from local rural sources rather than urban migration (Barrett et al., 2001; Bryceson and Jamal, 1997; Reardon, 1997; Reardon et al., 2001; Lanjouw and Shariff, 2001; Seddon and Subedi, 2000). Such patterns of diversification promise to transform the structure of rural economies and societies.

But how should governments respond to this change and intervene to support sectors beyond agriculture in rural areas? Answering these questions requires greater understanding of the dynamics of diversification and evolution of a rural non-farm economy (RNFE). It also requires realistic assessment of the potential of the non-farm sector to reduce rural poverty.

This article starts by clarifying some key terms related to diversification and the RNFE. It then addresses three issues. First, it reviews the main theories of RNFE development and outlines a simple model for thinking about stages of diversification in rural development. Secondly, it briefly considers the diverse impacts on poverty, inequality and well-being that can be caused by participation in the RNFE. Finally, it considers policy options, outlining the choices and trade-offs that face rural planners and policy-makers.

Five issues need clarification before a discussion on diversification can begin.<sup>1</sup>

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First, diversification can refer to an increasing mix or multiplicity of activities, regardless of the sector, or it can refer to a shift away from traditional rural sectors, such as agriculture, to non-traditional, often non-agricultural activities associated with the growth of the RNFE. The article focuses on the latter interpretation of diversification.

Second, diversification can take place at different levels of the economy. Thus, diversification of a rural economy (and thus the expansion of the RNFE) is separate from the diversification of a household or individual economy (and thus the expansion of rural non-farm income shares). Clearly there are links between these levels, but they are not always direct.

Third, 'non-farm' or 'non-agricultural' are sectoral definitions and, if we are to retain consistency between micro and macro levels of analysis, the National Accounting concepts of primary, secondary and tertiary enterprises are a useful benchmark to follow.<sup>2</sup> Fourth, and related to this, 'rural' is a spatial definition<sup>3</sup> and includes small rural towns, growth centres and their industries. Often these are where the largest share of the RNFE is situated.

Lastly, there are other useful conceptual dimensions beyond sector and space to consider in thinking about livelihood and economic activities. These include: (i) degree of linkage to agriculture or other sectors; (ii) the relations of production;<sup>4</sup> and (iii) the level of technology, capitalisation or 'modernisation', which often has direct bearing on (iv) the levels of productivity and associated returns.

## Linkages and leakages: stages of RNFE development

Classic theories of structural transformation are an important starting point in understanding development of the RNFE. Longitudinal and cross-sectional analyses of developing countries suggest that the diversification of the national economy is a critical determinant of development (see, for example, Kuznets, 1966, 1971; Chenery et al., 1986; Syrquin and Chenery, 1989). Productivity gains lead to increased demand for non-agricultural goods. Such theories also predict that urban areas will produce these goods, given their massive economic advantage of agglomeration, proximity and

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1. The literature on the RNFE and livelihood diversification is clouded by conceptual ambiguities, many of which relate to imprecise terminology. See Barrett et al. (2001) for a useful review.
  2. Primary sectors refer to agriculture, mining and other extractive activities. Agriculture or farm activities are a subset of primary activities; the broadest definitions include any activity in the production or gathering of unprocessed crops, livestock, forest or fish products from natural resources. Non-agricultural then covers all other forms of activity and income including processing, transport or trading of unprocessed products. Sometimes a distinction is made between on-farm and off-farm, the former referring to livestock and crop enterprises on private land, the latter referring to gathering enterprises on common lands. It is not always clear if these off-farm activities fall within the non-farm sector. For this article we will assume not.
  3. The population density per square kilometre usually determines the distinction between urban and rural. In some literature rural non-farm income is used to mean *any* non-farm income earned by a rurally located household, including that income from urban jobs and remittances. We assume rural income to mean any income earned in rural areas, whether local or not.
  4. At a rural economy level this refers to the structure or scale of production; whether mainly small-scale or larger-scale units. At a household level this refers to whether the worker is employed or self-employed; it measures the degree to which the worker has control of the productive assets used in the activity and bears the full financial risk for the undertaking. Barrett et al. (2001) use the term 'functional classification' in place of relations of production.

economies of scale. Thus, urban areas grow and the structure of the national economy is transformed.

**Emergence of the RNFE through local agricultural linkages**

In reality, however, markets are imperfect, particularly between urban and rural areas, and many goods are at best only partly tradable: bulky staples, fresh perishables and rural services in particular. The regional growth linkage school (e.g. Haggblade et al., 1989; Hazell and Ramasamy, 1991)<sup>5</sup> explains how an agriculturally-driven non-farm

**Table 1: Agricultural growth-linked RNFE activities, by sector**

Linkage to agriculture	Secondary sector (Construction and manufacturing)	Tertiary sector (Trading and services)
Production: Forward	Processing & packaging industries. Construction of storage & marketing facilities.	Transportation & trade.
Production: Backward	Agricultural tools & equipment.	Agricultural & veterinary services. Input supply.
Consumption	Household items. Home improvements.	Domestic services. Transportation. Sale of consumer goods.

sector can develop in relatively isolated rural areas, because of the protection that such imperfections provide, coupled with the inability of poor people to afford urban imports. Such linkages between agriculture and the local RNFE take many forms. Typical consumption and production linkages are outlined in Table 1.<sup>6</sup> Consumption linkages are thought to be particularly significant, because of the propensity of poor, small-scale producers to spend on rurally produced goods. In addition, there is a range of less direct linkages between sectors, mediated via investments, infrastructure, skills and networks, as outlined in Box 1.

**The fall of the RNFE through leakages and urban competition**

Regional growth linkage theory provides a convincing picture of rural growth in which both agricultural and non-agricultural expansion go hand in hand. However, the practice depends on the containment of economic activity within the locality. As development reduces transport and transaction costs, the costs of urban imports drop. As rural purchasing power grows, rural preferences shift towards modern, urban products and

5. National growth linkage models, a precursor to regional models, explained national industrialisation also in terms of national inter-sectoral resource transfers, particularly from agriculture to industry. Inspiration for these models came from the (rather untypical) case of Taiwan (e.g. Lee, 1971; Mellor, 1976).

6. The conventional consumption and production multipliers are particularly relevant to agriculture. They are often lower in modern, non-traditional non-agricultural ‘growth engines’ such as mining or tourism, because the skills and inputs for extraction and processing are not available within the local economy or are sourced outside.

### Box 1: Other cross-sectoral linkages

Beyond production and consumption linkages, there may be other less direct but equally important inter-sectoral linkages in the rural economy:

- **Financial capital linkages**, or investment linkages, allow locally accumulated capital to be reinvested locally and so act to capitalise rural areas (e.g. Reardon et al., 1994).
- **Human capital linkages** allow skills learnt in non-farm sectors to improve agricultural productivity (e.g. Timmer, 1995). Likewise, improved nutrition from more advanced agriculture will have knock-on effects on labour productivity in other sectors.
- **Labour linkages**: Hart (1998) suggests that the persistence of part-time subsistence farming can lower the cost of living and therefore lower the cost of rural labour, contributing to multi-sectoral growth.
- **Infrastructure and service linkages**: Investments in the power, water, communications and transport infrastructure necessary for agriculture will contribute to growth across sectors.
- **Social capital linkages**: Likewise development in market and business networks in one sector will help economic development across other sectors too (e.g. Timmer, 1995).

services. The protective barriers of market failure are eroded and rural leakages begin to appear. 'Rural industrial activities shed their rural linkages and locations as they modernise or are competed away' (Saith, 2001:86). There are two effects.

First, as the locus of non-farm production shifts towards urban customers, and rural-urban linkages improve, so rural communities become increasingly multi-spatial. Straddling both rural and urban economic domains, rural people increasingly depend on urban labour markets, urban remittances, urban trade and urban social networks (Bryceson, 2000).

Second, only sectors with real competitive advantage survive. As Wiggins and Proctor argue in this issue, rural non-farm enterprises have an economic advantage only in specific sectors. These include the natural resource-based extractive industries, traditional rural skills (e.g. crafts), tourism and, in addition, any industry that requires temporal or spatial proximity to the point of extraction or production, or that places a premium on cheap labour. These sectors act as rural exports, fulfilling urban rather than rural demand, and creating rural growth.<sup>7</sup> If they are nurtured, they can act as the main engines of rural non-farm growth.

### *Revival through modern linkages to the urban economy*

As urbanisation proceeds, the same factors that led to economies of scale, proximity and agglomeration quickly lead to urban congestion, limited resources and soaring costs. Peripheral suburban locations quickly fill; soon industry is locating outside urban areas, along main transport corridors between cities, and where resources are cheap. Slowly, it

7. We could draw a conceptual analogy here to models of export-oriented growth that emphasise the role of foreign trade in national development (e.g. Porter, 1990).

reaches back out into the countryside again, providing growth points of RNFE development that take advantage of low land, water, power and labour costs. However, its reach across rural areas is very uneven.<sup>8</sup>

At the same time, global competition and pressures for restructuring industry also have implications for the RNFE. From the rigidity of Fordism comes the flexibility of ‘Toyotaism’. Economies of scale are replaced by economies of scope (Harvey, 1989; Harriss, 2000), which in turn depend on outsourcing production to cheap, flexible production units. Often this means small, sub-contracted, decentralised enterprises, or casualised, migratory labour forces. In theory, both open up new opportunities for rural workers and producers to link remotely to industry (see below). Rural-urban linkages prosper, but this time rural enterprise is complementing urban centres, not competing with them.

These stages of RNFE development are summarised, in a highly stylised manner, in Table 2. In pre-modern situations, ‘Stage One’, the economy is rurally located and

**Table 2: Stages of development in the RNFE**

Stage of RNFE	Stage of agricultural development	Level of rural remote-ness	Level of urban-ation	Locus of non-farm production	Level of RNFE technology, capitalisation & returns
One – Traditional	Pre-modern & subsistence	High	Low	Rural (RNFE limited by low purchasing power)	Low: Traditional subsistence products
Two – Locally linked	Initial technology-led agricultural growth	High	Low	Rural (RNFE expands through agricultural-led growth)	Low to Medium: Some technology & capital improvements
Three – Leakages to urban areas	Improved urban marketing	Low (new roads open urban markets)	Low	Urban (RNFE competed away by urban goods & services)	Medium to High: As urban location allows investment & economies of scale, RNFE must modernise to survive
Four – New urban linkages	Increasing urban demand	Low	High (congestion & costs rise)	Shift to Rural: Flexible specialisation able to exploit rural advantage	Low to High: From cottage industry out-workers to modern ‘clustered’ & sub-contracted units

8. In India in the 1980s the RNFE grew in output, productivity and employment. Yet in the ten years since structural adjustment the RNFE has shrunk (Bhalla, 2000). Capital has relocated to urban areas and small-scale units have been competed away. New ‘rural’ industries have grown up only on major inter-state highways, or where important resources such as water, land and labour are available cheaply.

subsistence in nature. As agriculture, or possibly some other growth sector, emerges and modernises in Stage Two, productivity increases, a surplus is produced and incomes grow, fuelling rural diversification. However, as development proceeds, in Stage Three, both increased income and reduced transport and transaction costs spell the demise of the RNFE, due to urban competition. Finally, in Stage Four, a new set of linkages to a congested, globalised urban economy develops.

The growth, demise and recovery model may suggest a sequential process and homogeneous pattern of development across region and nation. In reality, different parts of the economy will develop at different rates and many rural locations will display varying degrees of all stages concurrently, including migration to urban points of production (typified in Stage Three). The actual position and mix will depend on levels of agricultural development, rural income, rural infrastructure and urbanisation. However, there are further factors also at play.

First, should agricultural growth decline, through recession or natural disaster, the RNFE may regress. An area which is reasonably prosperous and developed at Stage Three may see the expansion of a Stage Two RNFE if purchasing power falls and customers switch to inferior, locally produced products (Chandrasekhar, 1993), a process Harriss (1991) refers to as involution of the RNFE.

Second, detailed ethnographic research suggests that investment linkages often follow ethnic and kin ties outside the region or locality (Harriss, 1987), what Hart refers to as the social logic of investment (1998). These social structures and networks further modulate economic factors to create a highly diverse pattern of RNFE development that is temporally, spatially and socially specific.

## **Impacts of diversification on livelihoods and well-being**

Given that different stages of RNFE occur concurrently in time and space, it should come as no surprise to discover that the RNFE is a very diverse sector: highly lucrative at the top end with mainly formal wage employment and modern capitalised enterprises, but very menial at the bottom end where traditional artisanal skills and poorly paid manual labour predominate.<sup>9</sup> These sectors are often highly segmented, with movement between enterprises or jobs extremely difficult. Often, access to these opportunities mimics existing patterns of power, wealth, gender, class and race. Existing patterns of inequality tend to reproduce themselves as new opportunities make themselves available (e.g. Boyce, 1993; Berry, 1989).<sup>10</sup>

While it is not possible to assess the impact of each type and stage of RNFE

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9. Often the highest returns from the RNFE are higher than the highest returns from agriculture and the lowest returns are lower than the lowest returns from agriculture. In these cases non-farm income shares will form a U-shaped distribution against wealth group. However, while this would lead to the poorest having higher shares of non-farm income than the middle groups, the middle groups may still earn considerably more absolute non-farm income than the poorest.

10. However, some cases are noted where uptake of non-farm opportunities enables the poor to break through existing institutional norms and gender roles, or to learn new skills that can lead to graduation from poverty. Epstein (1973) records the tale of two villages in India: the one that enjoyed irrigation, agricultural success and stability retained its hierarchical structures of patronage and tied agricultural labour. In the other, with no irrigation, people were forced to diversify and migrate. Many of the traditional, regressive institutions broke down, thus suggesting that economic diversification contributed to social mobility.

activity on the livelihoods of households involved, it is important to recognise the spectrum and type of impacts. In order to distinguish between high and low return activities, a simple distinction can be drawn between accumulating strategies that people enter into through choice and that lead to the generation of a surplus, (so-called 'pull' strategies, Hart, 1998, or 'positive adaptation', Davies, 1996) and immiserising strategies, often called survival or coping strategies (e.g. Davies, 1993), which involve stocks being run down (so-called 'push' strategies or 'negative adaptation'). A similar dichotomy can be found in the literatures on economic diversification. Theories of structural transformation reviewed above equate diversification with growth and development, yet writings on livelihood coping and deagrarianisation (e.g. Davies, 1996; Bryceson, 1996; Scoones, 1998; Francis, 2000) associate diversification with a more negative phenomenon, in which the RNFE makes up a 'residual sector' or 'bargain basement' (Saith, 1992; Chandrasekhar, 1993).

What is the likely impact of the 'residual' RNFE on livelihoods and well-being? First, on the positive side, even low-productivity economic activities add to per capita national income and act to tighten labour markets. Non-farm strategies fulfil other functions in the management of livelihood portfolios, risk and vulnerability as well (summarised in Box 2). In harsh years, this part of the economy acts as a buffer or

### **Box 2: Understanding multiple livelihoods**

More often than not, rural livelihoods draw on a diverse range of activities, assets and income sources that usually include elements from the non-farm economy. Three broad factors help explain how economic decision-making leads to such multiplicity in livelihood portfolios:

1. **Predicting risk and uncertainty.** Allocation of resources across several, non-co-varying sectors helps to spread risk and manage uncertainty (e.g. Alderman and Paxson, 1992; Dercon and Krishna, 1996). As most activities enjoy economies of scale, diversification leads to reduced but more predictable income. The risky nature of agriculture helps explain the high levels of diversification in rural areas.
2. **Responding to variability and discontinuity.** In contrast to *ex-ante* insurance strategies to manage risk, multiplicity is often an *ex-post* coping response to variable production factors (e.g. drought, pests) or institutions of exchange (e.g. casual labour markets and uncertain product markets). These may be in the form of shocks, trends or cycles (Maxwell, 1984). It is important to emphasise that secure, full-time occupations simply do not exist for most people in the developing world, however much people desire them, and that even if they do the returns or work available are often not enough to satisfy basic needs, thus forcing diversification into other activities to make ends meet.
3. **Building on complementarity.** Multiplicity can be an efficient strategy for building on complementarities. Thus home-based, part-time work may complement home-based, part-time domestic chores; own production may complement processing or trade; capital raised in labour markets may complement agricultural investment; urban contacts made during urban work may facilitate trade. In addition, better-off households may like to vary the degree of risk they encounter and thus complement high-risk high-return activities with those that are low-risk low-return.

safety net for the poor. In normal years, it provides employment and income in the agricultural off-season, when labour might otherwise be idle. For those who are bound to the house, it may complement existing responsibilities, while overall it is another means by which people can retain flexibility, in order to smooth income and respond quickly in a variable economic world. More indirectly, growth in the RNFE often supports the growth of agriculture, enabling it to expand beyond supply-side constraints, and, for those who participate, leads to the development of new skills and contacts.

However, negative impacts are often closely associated with the positive, and some of the trade-offs are summarised in Table 3. First, presenting a residual sector as a safety net may disguise the fact that employment is often exploitative, with incomes too low to meet basic needs and a work environment too poor to meet basic human rights. Second, as mentioned, low-return activities and segmented sectors contribute to structural inequality; opportunities for social upliftment through sectoral or spatial economic mobility are rare. Third, livelihoods are often highly insecure, due to mass under-employment and highly casualised labour markets. Fourth, the sectoral and spatial dispersal of the rural labour force erodes possibilities for collective action and thus political ‘voice’.

**Table 3: Variable impacts of diversification on well-being**

<b>Feature of the RNFE</b>	<b>Dimension of well-being</b>	<b>Negative impacts</b>	<b>Positive impacts</b>
Many parts of the economy are low-return ‘residual’ sectors. Many are informal with no regulation; many are located away from home.	Income & working conditions.	Low returns, limited possibility to graduate from poverty. Poor work standards. Stress of travelling & living away from home.	Acts to check falling wages rates in agriculture. Acts as coping strategy & safety net.
The RNFE is diverse; with some very lucrative sectors.	Inequality.	Excludes those without access to resources.	Provides possibilities for regional growth, possibly reaching the poor through ‘trickle-down’.
Labour markets are highly casualised.	Security.	Insecure work – looming possibility of unemployment. Difficulty of collective action.	Efficient for business & growth. Allows a degree of livelihood flexibility, though few may desire this.
Labour market opportunities are non-local. Livelihoods are multi-spatial.	Social & political empowerment.	Migratory labour forces are dispersed & foreign, reducing bargaining base & civil rights respectively.	Provides opportunities for experience outside an agrarian economy. May bring new experience, skills, contacts, & thus break down traditional institutional structures.

## **Policy and planning for the RNFE**

The diversity of the RNFE, in both its variable impacts and multiple, often contiguous, stages of development, means that there are no simple formulas for policy-makers: different areas, at different stages of development, will require different interventions; trade-offs between pro-poor and pro-growth approaches will need to be considered carefully.

### *Different strategies for different stages of development*

In remote areas with pre-modern agriculture, more emphasis is needed on linkage-rich, small-scale agriculture that will fuel the diversification of the rural economy. The RNFE will in turn supply the growing needs and incentives of an agricultural economy too remote to be serviced efficiently by urban goods and services. Indeed, while agriculture has consistently been promoted as the source of rural multiplier effects, non-farm goods and services are often critical limiting factors to agricultural growth and value addition (Delgado, 1995). Broad-based, cross-sectoral interventions for local economic development include (Reardon et al., 2001): investments in roads, electricity and telecommunications, at trunk and feeder levels; investments in education, health and people; and activation of credit, capital and land markets.

Essential points of entry for many of these interventions are rural towns or growth points, which provide a nexus for markets, services and information. They link rural producers into sources of urban demand, and likewise enable access to urban goods and services.

For agriculturally prosperous areas with a good economic infrastructure, traditional agriculturally-linked RNFE may have declined, because of urban competition. Those enterprises with strong rural comparative advantage can still be promoted, but the challenge is to win back investment from urban sites, taking advantage of cheap labour and resources and new, more flexible production arrangements. The most successful rural enterprises will often be involved in one or more of the following overlapping, mainly institutional activities: sub-contracting, sub-sectoral promotion and clustering.

Sub-contracting and out-sourcing are special forms of rural-urban linkage that allow rural producers to access assured, high value markets, by linking into a vertical, sometimes international, commodity chain. In return, the urban-based unit is able to decentralise some production and processes to small-scale, often cottage-based units and thus benefit from cheap, flexible contracts which do away with the need for managing an expensive, permanent urban workforce.<sup>11</sup> The end result is a more integrated rural-urban mode of production, in which the two sectors complement rather than compete. There are roles for government to support the search and transaction costs of bringing willing rural and urban parties together.

Sub-sectoral promotion includes the activities of producer groups and trade associations. It covers a wide range of interventions to enable small producers to access economies of scale, particularly in procurement, credit, marketing, quality control and

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11. Taiwan is the main example of this type of initiative. However, the innovative out-sourcing arrangements with manufacturers that have evolved are no doubt helped by Taiwan's educated rural workforce and excellent rural-urban transport links.

lobbying. Such bodies can address imperfect markets for information both for producers, who need to source inputs and credit and carry out market research, and for consumers, who need assurances of quality and information on availability. While such bodies are most successful when they evolve endogenously, the government can help with capacity-building, start-up costs or technical assistance. Government-created organisations are more prone to failure and need to focus carefully on providing services their clients need; an element of cost-recovery should be built in to ensure this. If the sub-sector in question is still very small, the biggest danger is creating a supply-side push of credit and subsidy that is unsustainable and does nothing to address demand-side realities (Mahajan, 1993).

Industrial clusters<sup>12</sup> evolve when similar businesses locate themselves in close proximity to one another. The benefits of such synergy within a cluster are well known and include (Schmitz and Nadvi, 1999): personalised contracts, reducing transaction costs; ease of information exchange; and subdivision of component production and processes, and often with sub-contracting within the cluster and incremental technological evolution. In addition, there are benefits for policy-makers in the reduced costs of infrastructural provisioning and the administrative costs of regulation (Harriss-White 1999).<sup>13</sup> The relevance for rural areas is that such clustered development, often in rural towns, may be able to retain most of the collective efficiencies enjoyed by larger urban areas, but in a network of sectorally specialised, regionally decentralised, growth centres (see Box 3). However, it is debatable how easily new clusters can be catalysed by policy intervention, particularly in rural areas where clustering is less common anyway and efforts would need to be greater.

### **Box 3. Regionally dispersed clusters: Tamil Nadu, India**

Harriss-White (1999) and Rukmani (1996) describe the well dispersed nature of rural town development in Tamil Nadu. The factors leading to this are: i) the even regional spread of irrigation infrastructure and agriculturally-based rural development; ii) the relative absence of large-scale industry and prevalence of home-based and workshop industry; and iii) the decentralised and dispersed physical infrastructure. A remarkable feature of these dispersed towns is the degree to which their economic bases are specialised: the Palar Valley and leather, Cheyyar and mats, Arni Kanchee and silk, Vellore and Salem, construction; Tiruchengodu: drilling equipment and lorry bodies; Salem, Bhavani and textiles; Tiruchirapalli and gems; Coimbatore: textiles and engineering; Tiruppur and knitted cotton; Sivakasi and matches; Palladam and chewing tobacco; Annur and cooking oil; Kangeyam and cattle, and so on.

12. Industrial 'clusters' cover a bundle of concepts including 'industrial districts', 'networks' and 'collective efficiency' as defined in Holmstrom (1998), quoted in Harriss-White (1999).

13. There are negative sides to clustering as well, also due to 'synergy'. 'Operationally small and split units may mask concentrations of ownership, whose objective may be a cost and welfare *minimising* response to implemented factory legislation. Collective efficiency may mask collective power. Many small firms may be dependent on a few powerful controlling enterprises for information, contracts and facilities or derived markets such as credit, transport, processing and storage. Clusters may be symptoms of unequal exchange and economic dependency. Unproductive and illegal activity can also be clustered, where the risks of state harassment and law-enforcement are outweighed by the benefits of agglomeration.' (Harriss-White, 1999:Ch 5)

### *Small is beautiful? Scale of production in the RNFE*

The balance between small-scale and large-scale, and between employment and enterprise opportunities of the poor, needs to be revisited when considering support to the RNFE rather than to agriculture. Inherent in much rhetoric on rural poverty alleviation is the assumption that small-scale, presumably informal, enterprises are best placed to provide jobs and livelihoods for the poor.<sup>14</sup> Certainly it is through small-scale informal sectors that many of the poor participate in the RNFE. In some cases step-wise expansion of these enterprises can act as a highly effective escape route out of poverty. Also, there is an ideological attraction to keeping capital small and locally owned. However, there are several reasons to be cautious.

First, many of the poorest may not wish to become micro-capitalists. In fact, bearing such debt and risk may be highly inappropriate for them (e.g. Rogaly, 1996; Rutherford, 1998). Very few have the business skills or capacities to invest new funds effectively, to expand or to upgrade. Second, though it may be tempting to draw parallels with models of efficient, linkage-rich family-sized agriculture, rural non-farm micro-enterprises may not share these same diseconomies of scale. Many RNFE enterprises have very low capitalisation and productivity and are only hindered by their small scale. Third, many RNFE micro-enterprises may use female or child labour, adding to the work burden of women and depriving children of education and childhood.

Real opportunities for growth and employment creation are much more likely to be found in small to medium-sized enterprises, often in rural towns. These provide the best target for development support. But there are still problems. The environmental, health and safety conditions at this scale are worse than in larger-scale industry, because of evasion and corruption (Saith, 2001). Job insecurity is also very high, with little protection against redundancy.<sup>15</sup>

In the long term, in most rural areas, workers aspire to jobs in more formal labour markets and the improved working standards and remuneration they provide. However, larger capital has few incentives to invest in risky, remote rural areas while there are much richer pickings elsewhere. The extractive industries such as forestry and mining are an exception, but, in these, employment generation and local economic linkages are notoriously low. Tri-sector partnerships between business, community and state do offer some hope for more mutually beneficial outcomes, though the scope and modalities of these have yet to be proven (e.g. te Velde, 2001).

In areas where investment can be attracted, the challenge will be, first, to strive for employment opportunities that are labour-intensive enough to provide jobs for the poor and, second, to ensure that health, safety and job security standards protect the rights of the poor without stifling private sector development. If control of, or partnership with, employers to achieve this is impossible, the government can still help facilitate more equitable access to existing jobs, perhaps by providing information and by supporting broad-based education. Equally, it can improve the well-being of migrants by

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14. Note in particular the rise of micro-credit schemes aimed at small-scale rural entrepreneurs.

15. Labour market casualisation is a widespread trend leading to what Breman (1996) has called 'hunting and gathering' for work and to what Bryceson (2000) has termed 'daylighting', in which individuals hold down several different occupations.

supporting the rights of workers in non-local employment and by facilitating the transfer of remittances back home.

### ***Public investment and spatial equity***

Unfortunately, there is no easy way to attract quality private sector development and employment creation to rural, often backward regions without significant public intervention. If anything, the last two decades of liberalisation have shown that private capital will shun rural areas, except where quick profits are to be made. If ideals of spatial equity are important to a country (and this is another debate), then private capital must be given significant incentives, usually in the form of tax breaks and subsidies, to encourage rural growth points. Such interventions are inherently redistributive and hence often politically loaded. Further, while decentralised regional growth may yield higher economic and social returns in the long run, they are likely to cost more in the short term. In thinking about such trade-offs, government must ask:

- **What are the comparative returns of rural versus urban investment?** Should investment be directed towards low-potential regions at the expense of higher returns in more favourable regions? Or should private capital flow unhindered, allowing increasing rural-urban inequality and migration to run their ‘natural’ course?
- **Does the administrative framework and capacity for RNFE development exist?** Given the local specificities and the cross-cutting nature of many elements of the RNFE, local governments are clearly the agency of choice in a climate of decentralisation.<sup>16</sup> However, serious questions remain as to their ability to support development and manage a local economy, given their weak administrative, technical and financial resources (see Johnson in this volume; Johnson and Start, 2001).
- **Does the political calculus add-up?** Where will the political will for rural investment come from, given that rural people in remote areas have very little political voice?

## **Conclusion**

The irony of the RNFE is that the same infrastructure that will open up rural areas and speed their development will also allow urban goods to compete away the RNFE, as the protection of non-tradability is eroded. The agriculturally linked RNFE may well be a temporary phenomenon of rural areas in transition, and eventually a victim of its own developmental success. Paradoxically, the similar ‘opening up’ of the global economy may allow the revival of a new RNFE through a restructured, more modern form of rural, small-scale, non-farm production based on flexible specialisation, urban sub-contracting and clustering of economic activity.

This is not to dismiss the RNFE’s role in earlier stages of rural development. Rural planners should not see rural policy as a choice between agricultural or non-agricultural investment, between an agricultural-led development strategy, on the one hand, and a

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16. This was a challenge that old-style IRDP and area-based approaches tried to address.

non-agricultural approach, on the other. Both sectors feed from each other; the balance of investment will be determined by the type of rural area and its stage of development.

From a national perspective, however, the big question for policy-makers is how much government should try to shape the rate of structural transformation and pattern of diversification in their economy. To step back may be to let urban centres proliferate as the main engines of investment and growth, while much-needed capital, and growth, trickles down slowly, if at all, to marginal rural areas. To intervene is an expensive option, involving a long-term investment perspective and strong ideals of regionally decentralised development and more spatially equitable outcomes. The decision taken has large implications for the well-being of rural societies and the nature of rural livelihoods in coming decades.

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