The Rural Non-Farm Economy:
Report on Presentations and Discussions at the World Bank

15-17 May 2000

Background and Objectives

In recognition of the importance of the rural non-farm economy (RNFE) to poverty reduction in rural areas, and following the World Bank (WB) workshop held in mid-1999 (http://econ.worldbank.org/programs/rural_dev/topic/23804/page/26709) and associated research activities on rural non-farm employment, a series of seminars, technical working group meetings, regional and country discussions, and program planning sessions was held over the period 15-17 May 2000. Objectives were:

- To continue the process of awareness raising and information sharing;
- To take forward thinking and action planning in support of research, economic and sector work, pilot initiatives and policy guidance across the functional responsibilities within the Bank;
- To systematize support to country programs across all regions where there is demand;
- To address collaboration with external partners.

The discussions included a review of progress on the collaborative program of work on the rural non-farm economy funded by the UK Department for International Development (DFID) and co-ordinated through the Bank’s Development Economics Research Group (DEC) and its Rural Development Department (RDV).

Participants came from DEC, RDV, country/regional staff in Bank headquarters responsible for South Asia, sub Saharan Africa, Latin America and Caribbean, Europe and Central Asia, Middle East and North Africa and the Poverty Reduction and Economic Management Network (PREM). There were also participants from external partner research institutions, Michigan State University, the International Food Policy Research Institute (IFPRI) and the Natural Resources Institute (NRI). Around forty people participated in one or more of the events.

The program had four components, around which this report is structured.

A. Rural Non-farm Economy: Mainstreaming within Poverty – Reduction Programming

The objectives of this component were:

- to update on current research and policy work within the Bank;
- to share work on methodological approaches that support policy processes for the RNFE.

The overall program and this session was opened by Bob Thompson, Director Rural Development. His opening remarks acknowledged that increased food security and sustainable natural resources management are necessary but not sufficient conditions for
reducing rural poverty, and that rural to urban migration is inevitable, within economic development. Additionally, there has been growing recognition of the importance of rural non-farm and non-agricultural income, in part associated with tendencies towards smaller land holdings. The World Bank’s *Rural Development: Vision to Action* strategy document is being reviewed and updated, and research and analytical work on the RNFE should contribute to that process, and to actions at policy and program level. More case studies are needed to understand what are necessary and sufficient conditions for RNFE development, what works and does not work, but recognizing diversity in level, range and type of activity and under what conditions RNFE thrives

*Gershon Feder*, Head of the Rural Group in DEC, recalled the discussions of June 1999 on research needs, and looked to this current meeting to re-affirm proposed research directions and to apply these to specific country needs. Three presentations then followed.

*Peter Lanjouw* of DEC presented a view on the conceptual foundations of policy and project interventions in the RNFE. Conceptually, such interventions might be advocated when:

- certain key markets are absent or poorly functioning, in particular credit markets and markets for management and technical skills;

- non-farm activity generates positive or negative effects which impact beyond the individual enterprise, and which governments may wish to influence;

- promoting the RNFE is seen as being especially effective in reducing poverty, through employment creation, income diversification, provision of safety nets, or indirect effects, e.g., on agricultural wage rates.

These conceptual cases have to be examined empirically, case by case. If a policy response is justified, might this be specific to the RNFE or also applicable to other situations.

Peter Lanjouw then reviewed some policy and project implications from recent Bank work (citing work on Nepal, Brazil, Mexico and Vietnam), on the following topics, with associated and potentially generic, policy messages:

- Rural non-farm activities and location: it is not obvious how readily the emergence of a vibrant RNFE can be engineered in a remote, agriculturally-backward and sparsely populated area i.e. lack of case examples.

- Sectoral breakdown: promoting the RNFE is a rather vague notion; the components (sub-sectors) meriting support need to be identified, and may need specific tailoring of policies.

- The importance and role of credit: credit market interventions have had mixed success, and lack of access to credit may be less of a constraint than traditionally believed.
• Infrastructure: while rural infrastructure is probably a policy lever which it may be safe to assume is effective in support to RNFE in most cases, the type of infrastructure, standards, financing mechanisms and implementation methods need to be carefully assessed.

• Education: promoting rural education seems a clear priority; educational levels and standards and relevance of vocational training need to be considered.

• RNFE as an instrument of poverty reduction: attention might be paid to location, barriers to entry and project design; raising education levels, promoting construction activities and avoidance of destroying residual non-farm activities having safety net value appear important.

Neil Marsland and Liz Robinson of NRI presented their recent work on diagnostic methods for the RNFE. The presentation was in two parts. Part one (Neil Marsland) introduced the purpose of the diagnostic methods research, presented a framework for understanding different influences on the NFRE at various levels of scale from the individual up to the international level and introduced the two basic foci of the work: influences on the NFRE at meso and micro levels (“meso level” refers to sub-national geographical areas, principally the district and the region; “micro-level” refers to the household and the individual – taking account of the fact that there are important differences between these latter units of analysis.) Part two (Liz Robinson) set out ways in which the methodological challenges facing examination of the RNFE at meso and micro levels could be tackled. Key points covered in the presentation included:

• The purpose of the research is to: (i) understand existing methodological approaches and “best practice” approaches (approaches commonly and satisfactorily adopted by researchers; (ii) develop new and creative methodological approaches to improving research on RNFE, and (iii) inform and support the methodological direction of the three proposed DFID-funded applied research components on the RNFE.

• The RNFE is the sum of individual rural non-farm economic activities. It exists at different levels of aggregation: from the activities of the individual to those of the household, local area, region, nation and also those activities which transcend national borders. At all these levels, activity is influenced by certain key factors: public policy; actions of formal institutions; exogenous shocks, historical trends and seasonality; the environmental context and the social and cultural context. In order to be useful therefore, diagnostic methods must be sensitive to these factors and to the interactions between them and the different levels of scale of the RNFE.

• The focus of the diagnostic methods research has been on the meso and the micro levels. This is not to say that measuring the effect of macro policies on the RNFE is not important, but rather that these former are of more central concern to the applied research components. In relation to the meso level, characterizing (and additionally typologizing) RNFE “types” by geographical area is important for design of area-based infrastructure investment policy (hard and soft infrastructure). With reference to the micro level, again from a policy perspective, it is important to understand livelihood strategy types, access to RNF employment opportunities and livelihood trajectories, particularly of the poor. Understanding these facets
assists the design of supportive policy, i.e., policy that reduces barriers to access to employment, which encourages sustainable and remunerative NF strategies and that supports “upward” livelihood trajectories over time.

- In order to understand factors acting at the meso and micro levels, it is necessary to combine qualitative and quantitative approaches in collection of social and economic data. For example, when looking at what motivates individuals and households to enter the RNFE, combining life histories (qualitative) to provide dynamic perspective of changes in assets over time and probit and tobit models (quantitative) to estimate determinants of strategies can give a rich picture. This picture would not be available to analysts using either qualitative or quantitative methods alone. Similarly, at the meso level, a key issue is the characterization of locational context, and its conduciveness to a vibrant RNFE. Quantitative indicators such as density of infrastructure and GNP per capita are important and useful measures, but may result in misleading policy conclusions if not combined with a qualitative understanding of socio-cultural aspects such as gender and ethnic disparities in access to existing infrastructure.

- Sequencing of qualitative and quantitative methods throughout the analysis will result ultimately in improved policy recommendations; however, there are key challenges in taking a more holistic methodological approach. Key questions include: are the data we have sufficient to undertake appropriate multi and inter-disciplinary methodological approaches? In the context of resource constraints, how do we combine qualitative and quantitative approaches to data collection in practice? How do we combine qualitative and quantitative analyses in a meaningful way when the approaches and the assumptions upon which they are based may be very different? The next steps in the research will be to tackle these and other questions by implementing, testing and refining methodological approaches in the context of the three applied research components of the DFID/WB policy research program.

- In all of this, the role of secondary data should not be underplayed. Quantitative analysis of existing data sets, such as the LSMS, together with careful use and analysis of qualitative sources such as PPAs can provide an excellent basis for more focused primary data collection.

- Peter Hazell of IFPRI reviewed some of the work on farm-nonfarm linkages in which he has been involved at the Bank and IFPRI in the past twenty-five years. Underlying his presentation was his view that the RNFE has tremendous potential to create productive jobs and incomes for rural people, beyond the formal manufacturing sector. His approach to defining rural economies was to begin with key rural towns and then include the rural hinterlands which they serve – a concept of an economic watershed, with connectivity (money, goods and people) flows between the hinterland and the towns. Including rural towns in defining “rural” gives a clearer positive correlation between per capita income in the agricultural population and the non-farm share of “rural” employment.

Considering the characteristics of rural economies, there are many informal and part-time activities not captured in official statistics. The social accounting matrix (SAM)
accounts for the generation and use of income in an economy and has been used as a
tool for describing rural economies and for quantifying linkages within. A SAM
constructed for North Arcot region in South India in the early 1980s calculated regional
value-added to comprise: agriculture 44%, tertiary sector 33%, manufacturing 13%, of
which half was agro-industry, and public sector 10%. This pattern was felt to be
typical of other rural economies, with manufacturing being much less important than the
tertiary sector. SAMs also provide data on income source by household type (farm and
non-farm, landed and landless, self-employed and employed, rural village, urban
village and town). Analysis of income diversification and livelihood strategies is not a
new topic.

Peter Hazell then referred to the work on modelling demand linkages from agriculture
to the rural non-farm economy, which was developed in the mid-1970s. Multipliers
quantifying the additional value-added from the RNFE generated by value-added in
agriculture have been estimated for many rural regions of the world, and show that:

- the value-added in the RNFE as a result of agricultural growth is generally 50-100% of that in agriculture, i.e., the indirect benefits of agricultural growth are
  substantial;

- the multipliers tend to be larger in more developed rural regions, both within
developing countries and between developing and developed countries;

- the multipliers are larger in Asia (around 1.8) than in sub-Saharan Africa (around
  1.5), are larger in irrigated than in rain-fed areas, and in regions dominated by
  smallholder farmers rather than large farms and estates;

- household consumption demands account for 80-90% of the multiplier in many
developing countries, this share declining with economic development;

- medium-sized farms spend a higher share of incremental income on local non-
  tradeables (i.e., goods and services in the RNFE) than do small farm households or
  large farms and estates;

- while all household groups benefit from the farm-nonfarm multipliers, the greatest
  gains accrue to non-farm households in the rural towns who have access to capital
  and entrepreneurial skills (illustrated from South India and Malaysia).

While multiplier analysis is descriptively revealing, it says little on what determines
the size of the linkages and ignores possible feedback effects, i.e., urban-rural linkages
or urban growth poles. Assumptions in the analysis may overstate the size of the
multiplier. An alternative approach uses econometric models. Using this in India
showed only a small feedback effect, and that the multiplier effects are shared about
equally between villages and towns.

Drawing on the literature more widely, Peter Hazell ended with the following policy
conclusions:
• the tertiary sector is the most important after agriculture, is very important for the poor and women, grows with agricultural development and is not a “sunset industry”;

• other engines of growth rarely compete with agriculture, in RNFE growth;

• demand is the key constraint for much of the RNFE, so that RNFE supply-side policies (e.g., micro-finance) alone are unlikely to be successful;

• rural roads are very important for growth in the RNFE as well as in farming;

• rural towns play a key role in RNFE development: rural towns require investment including good infrastructure to attract investment e.g., entrepreneurs;

• rural industry policies have typically been biased in favor of larger-scale, capital-intensive manufacturing industries; this has done little to help most RNFE enterprises, and departs from the comparative advantage of most rural areas; need for policies which are supportive of “rural enterprise” and which facilitate small scale and informal tertiary activities, these having the potential for growth to the benefit of the poor and women.

Discussion of the morning’s presentations was led by Tom Reardon (Michigan State University), who identified four topics:

(i) “Diversity but regularities”: while the RNFE is diverse, there are RNFE regularities across countries with broadly common characteristics in the wider economy. For instance, in both sub-Saharan Africa and Latin America, upstream and downstream agricultural linkages are important in the RNFE while the share of wage employment in the RNFE increases with total income. Differences in the RNFE need to be mapped to the policy interests and responsibilities of different Ministries.

(ii) Motors for RNFE development: the conventional view is that agricultural growth is the driving force or “motor” for the RNFE, as with the Green Revolution in Asia. However, in parts of Latin America and Southern Africa, agricultural growth may be “leap-frogged”, through e.g., tourism development which may feedback into the RNFE, via increased product demand and job creation. Also, remittances may be the motor, e.g., in the Middle East. What can be said generally is that some sort of motor is needed, if the RNFE is to develop above low remuneration activities, and that in the poorest areas the RNFE is most linked and vulnerable to agricultural sector fluctuations. In these areas, there is a strong case for improving agriculture and a need for a motor of some sort.

(iii) The “double-dual sector”: in Latin America the retail trading sector shows an increasing share with large companies/supermarkets, with small enterprises exposed to greater competition. This, in turn, tends to force small farmers out, including through “de-clustering” of small farmer associations. Similar tendencies for small producers being unable to compete are seen where agro-tourism is a growth motor (e.g., Chile), and with the dairy and pig sectors in
Argentina and Korea, respectively. One factor in this polarization of enterprise size in agriculture, consequent upon structural trends in retailing, is grades and standards demanded by large retail companies, and the associated agricultural technology and investment requirements. Those requirements may prompt the politically sensitive option of concentrating capital and technical injections to a limited number of medium-scale enterprises, rather than to many small. More generally, the inter-relation of structural trends and policy between sectors has to be considered.

(iv) Household economic trajectories: in considering trajectories for asset accumulation and economic development at the household level, there may be different sources of growth over time, e.g., starting with agriculture, then receiving remittances, which may enable investment in agriculture initially, then sequentially or in parallel in commerce. Policy for the RNFE needs to consider different entry points and different types of intervention or support to reflect such trajectories.

Concluding discussion on this first session underlined the following points:

• Agriculture, although essentially important in some locations, is not the only engine of growth;

• for RNFE development (i.e., high multiplier effect of agriculture), agricultural growth needs to be broad-based (family farms);

• in areas with the biggest agricultural challenge i.e. low potential areas, it is not obvious what development can be achieved through agriculture; analysis of possibilities (farm and non-farm) should be location-specific;

• while rural town/urban growth may not generate proportionally increased demand for the products of small farmers, the later may benefit especially if relatively close to town through effects on labor demand/wages, and through possible sub-contracting of RNFE activities by town-based companies (e.g., as in China and elsewhere in Asia);

• poor people in remote and low-potential agriculture areas have their labor as a possible source of remittance income; education programs will have some short-term job creation effect, but impact of student education in accessing employment will be longer term, and the question remains of what opportunities exist for utilization of education received;

• participatory approaches may identify opportunities known within rural populations for increased production of tradable goods, but these are not always informed by a knowledge of demand, or of potential market linkages and therefore may be misleading and or have limitations;

• the importance of government employment in rural areas was noted in particular from the recent Middle East and North Africa studies, and this needs to be understood and taken into account in policy interventions relevant to the RNFE
B. Policy Research within the Bank and with Associated Partners

Policy research is being undertaken by DEC and in collaboration with the WB/DFID program for rural development “Rural Non-farm Economy: Policy Development Program”, and, by associated research institutions. The objectives of this component were:

- to present key ongoing and proposed research and policy development work on the RNFE, including preliminary outcomes for information and discussion;

- to provide an interface with country consultations and future programming (components C and D of the program);

Jock Anderson of RDV chaired this session.

Felicity Proctor, Rural Development Specialist attached to RDV through the WB/DFID collaborative program for rural development, introduced briefly the overall program and its component on RNFE. The DFID funded work undertaken in collaboration with the Bank on NFRE commenced in 1998 and was taken forward in earnest at the June 1999 workshop held in the Washington.

Martin Hebblethwaite of NRI recapped that the June 1999 workshop had identified three research topics for support through the WB/DFID program on NFRE:

- the capacity of poor people to access rural non-farm employment opportunities;
- the role of local governance in the RNFE;
- characterization and analysis of the RNFE in transition economies.

In addition work on analytical methods was to iterate with the research at the three levels. Other topics were also identified to be followed through by DEC and RDV.

The proposed research to be presented in this session on the above topics was to enhance understanding with the purpose of informing pro-poor policy development in case study countries, with WB and DFID priority and interest in the RNFE being leading criteria (project document available on website). Provisional proposals for case study countries were indicated, and activities common to the proposed research on the above three topics were listed, with final research outputs due by December 2002. The roles of a proposed Steering Committee were outlined.

Peter Lanjouw presented a stocktaking of current activity of the DEC Program of Research on the RNFE (reproduced in full on this website). This was summarized under three headings:

a) Country-specific descriptive work, drawing on household survey data and analyzing this in relation to the country’s rural poverty profile. Outputs in this category comprised:

- Brazil: taking 1996 data for Northeast and Southeast Brazil, the rural poor were found to be concentrated in the former, especially in remote areas.
Non-farm incomes represent 33% and 44% of income in the Northeast and Southeast, respectively, with shares highest amongst the least poor and with wage earnings more important than own-enterprise incomes. Women are generally employed in low-return service activities and in education, while men are active in the construction sector. Returns to education are very high.

- Vietnam: an analysis was made of household characteristics in relation to economic transition to a more diversified market-oriented economy and in relation to poverty. Education and region of residence were found to be important causal factors influencing both. However, the processes determining poverty and inhibiting market diversification are not the same, so that participation in the non-farm market economy should help some, but not all, of Vietnam’s poor.

- Tanzania: in the peri-urban areas (1998 data) 24% of household income comes from non-farm activities, mainly own businesses. Non-farm incomes are positively correlated with per capita food consumption, education, access to infrastructure, location in coastal areas and proximity to urban centers. Different types of social capital exercise different forms of influence, but are highly correlated with non-farm income.

- El Salvador: 36% of the rural working population are employed in the non-farm sector (mid 1990s data). Women are highly represented, and subcontracting to the rural areas by urban-based garment manufacturing firms is important. The least poor households are those active in non-farm activities. Education and access to infrastructure are positively correlated to non-farm earnings. Few rural entrepreneurs have received formal credit or training.

- Ecuador: 40% of rural incomes are from non-farm activities (1995 data), and 50% of women participate in that “sector”. Education, non-farm incomes and higher living standards are strongly correlated, and subcontracting is quite important.

- Mexico: acquisition of a non-farm job is highly correlated with upward mobility out of poverty for the rural poor, with education and access to urban centers being important determinants.

b) Issues-related Research on the RNFE

- Spatial division of labor, Nepal: non-farm employment is concentrated in and around cities, agricultural wage employment dominates in villages with access, while isolated villages are largely subsistence. Road provision can have a dramatic impact on travel time and economic opportunities.

- Access to markets and benefits of rural roads, Nepal: while improving road access to markets would confer benefits, including to the poor, income inequality would not be appreciably reduced.
• Impact of the cut-flower industry on women’s and men’s time use, Ecuador: this industry has expanded employment opportunities for women, and has had a major effect on married men’s participation in housework.

• Inter-sectoral transfer, Ecuador: with growth in non-farm incomes, poverty declines, average consumption levels rise and income inequality increases. Low productivity non-farm activities employ the poor directly and reduce poverty, while high-productivity non-farm activities have an indirect impact on agricultural wages and thus on poverty of those not directly employed.

• Branch placement of banks and non-farm rural development, Bangladesh: there are feasible but unrealized gains for poor farmers in entering non-farm activities, and the Grameen Bank locates where gains favor the poor, while other banks tend to service the non-poor.

c) Synthesis and Dissemination

The emerging lessons about the rural non-farm “sector” are being synthesized through three current publications:

• Non-farm employment and rural income inequality: non-farm employment tends to increase inequality in Africa, decrease inequality in Latin America, while in Asia the experience is mixed. Entry barriers to non-farm activities are concluded to be low access to assets, including information, finance, education and infrastructure. Policy and public investments should address this.

• Non-farm employment, a literature survey: the productivity, distributional characteristics, dynamic potential and lessons of policy experience in the non-farm “sector” are surveyed.

• Strategies for stimulating growth of the RNFE: the papers from a joint IFPRI-DEC 1998 workshop are being edited for publication shortly (due September 2000 – see IFPRI website).

Peter Hazell then summarized IFPRI’s recent activities on the RNFE. He recollected that in the 1990s, IFPRI largely stopped previous work, because of perceived diminishing returns and absence of strong interest among developing country policy makers and IFPRI’s donors. The current interest in the RNFE shown by the wider donor community is welcome. Since the international meeting convened in May 1998 (referred to by Peter Lanjouw above), further papers have been commissioned through IFPRI to fill gaps in the scope of those presented at the workshop i.e. urban – rural linkages, spatial aspects/growth corridors, RNFE and the environment. The proceedings including supplementary papers will be finalized by September of this calendar year for submission to a publisher, in 23 chapters under the headings: structure, dynamics and growth processes, and what can be done to promote the RNFE (a full list of chapters will be available on the website in September of this year).

Current IFPRI work relevant to the RNFE comprises:
• the impact of public investment in rural areas (e.g. in roads, electrification, irrigation, education, rural development and agricultural research) on growth and poverty, that incorporates the impacts within the agricultural and RNFE sectors. Case studies are ongoing in India and China using data at the national, regional and local levels.

• agro-industrial policy, especially small-scale, in Vietnam;

• risk management, in collaboration with DEC, including consideration of the possible use of insurance in the face of weather shocks (which have powerful knock-on effects on the RNFE).

Tom Reardon of MSU referred to the benefits that might be derived from looking across the literature concerning households, enterprise development and growth linkages. More specifically:

• there seems to have been too little thinking in the African context on policies (rather than projects) that impact on the RNFE;

• the linkage between the NFRE and agro-industry and globalization

• the possible role of civil society organizations and decentralization in reducing transaction costs is under-addressed;

• more analysis is needed of the policy context to zones and countries showing stagnant and dynamic RNFEs.

Dissemination of so-far unpublished RNFE work is in-hand: following a Latin America regional meeting in September 1999, a book is to be published on selected papers; a special issue of Food Policy on income diversification in Africa, is in preparation and will draw on both new and earlier work – including work by Ann Gordon and Frank Ellis; and, a forthcoming issue of World Development will contain some 11 papers on the RNFE. Together these will provide useful context to future work on the RNFE. Many of these papers will be available in pdf format and will be placed on the WB web site.

Ann Gordon of NRI presented the research proposed under the WB/DFID collaborative program on RNFE policy development, on “Capacity of Poor People to Access Non-farm Rural Employment Opportunities”. Employment was defined to include self- and wage-employment, and the research is prompted by a concern on lesser access by the poor to non-farm employment opportunities (particularly in Africa), which feature may tend to increase in the absence of appropriate policies. Household and individual holdings of, or access to, assets (human, natural, social, physical and financial) are a major factor in their ability to access employment opportunities, and holdings of different asset categories are inter-linked. Examples of policy questions that the research seeks to answer include:
• Is social capital amenable to policy intervention?
• How can women be drawn more into the RNFE?
• In what ways and circumstances does education serve as an aid on the supply side
to employment entry and as a rationing measure on the demand side?
• How can services be fine-tuned to be more pro-poor?
• In what circumstances can infrastructural development assist or undermine the
poor’s participation in the RNFE?

The proposed research approach builds on an analysis of secondary data, iterates
between qualitative and quantitative methods, and engages policy processes in its
design and conduct. Two case studies are intended in sub-Saharan Africa, and two in
South Asia.

Discussion of this proposal focused on methodological issues, and this will inform
immediate refinement of the research design.

Terry Cannon of NRI then presented research proposed under the WB/DFID
collaborative program, on “The Role of Local Governance in the Non-farm Rural
Economy”. This research is conceived as being synergistic with that proposed above
on access of the poor to RNFE opportunities, and to be located in the same countries.

Three themes are proposed for the local governance/RNFE component:

• the economic and institutional relationship between local governance and the
RNFE, where local governance institutions include local government, traditional
leadership, public sector agencies, organizations supporting MSMEs and NGOs;

• the functions undertaken by local government in support of the RNFE, and their
effectiveness;

• the effect of decentralization programs on local government support to the RNFE.

These themes are to be researched in relation to examples of RNFE transformations,
both positive and negative. A set of issues and key questions was put forward for each
theme.

Amongst points raised in discussion were:

• in Latin America, experience suggest that rapid capital concentration and rapid
political de-concentration may not work together well; the municipality may be one
level too low for effective promotion of the RNFE;

• decentralization may enable the expression of demand for goods and services, but
may not necessarily be helpful in enhancing a capacity to respond;

• there is a need to identify the investment needed to close the latter gap in capacity;

• the dynamics of local area economies in West Africa may yield lessons;
• between the household and meso levels, firms need to be explicitly recognized, and
  the related policy instruments researched;

• power at the lower levels tends to reflect current asset distribution, e.g., between
  agriculture and manufacturing; this may inhibit diversification;

• a concern that local governance is a wide topic (on which there is much literature),
  with corresponding difficulties in undertaking research useful to task managers.

The discussion concluded with a need to focus the research more narrowly on RNFE-
  specific aspects, using critical check-lists of the functions of local government, and
  testing the effects of well and poorly functioning institutions on RNFE development.

Doug Pearce of NRI presented research proposed under the WB/DFID collaborative
  program on “Characterization and Analysis of the Non-farm Economies in Transition
  Countries”. From the discussion at the June 1999 workshop held in the WB, “transition
  countries” were defined as Central and Eastern Europe and the Commonwealth of
  Independent States (CEECIS). This research component has been conceived and
  planned in recognition of:

• an under-investment since transition in rural infrastructure;
• considerable intra-regional differences;
• a policy context in which preparation for accession to the EU dominates in some
  countries, while more generally the policy issues relate to securing economic
  stability and development in the face of economic shocks and institutional reform,
  including decentralization and variable support to MSMEs;
• a scarcity in many countries of primary data on the RNFE.

The proposed research is focused on increasing understanding of the dynamics of the
  RNFE in the region in order to inform policy processes promoting sustainable
  livelihood strategies. The inception phase of the research program was started in early
  2000, with initial visits to the Czech Republic and Romania; and the drafting of a
  paper for the June 2000 WB/FAO/EU Workshop “The Challenge of Rural Development
  in the EU Accession Process”, to be held in Sofia. A paper has also been produced on
  “The Role of the Non-farm Rural Sector in the Reconstruction of the Balkans”. A
  research partnership has been developed with Wye College (University of London),
  which (with the University of Bonn) is to undertake EU-funded research over the same
  time frame, specifically on “fast track” accession countries (field work to be in Poland,
  Hungary and Czech Republic). Joint planning with Wye College of a sample survey is
  underway, this to be complemented in countries to be selected under the WB/DFID
  program with qualitative research. From these current discussions at the WB,
  agreement on case study countries was sought.

In discussion, the following observations and views were put forward:

• WB strategy for the RNFE to date has been to use agro-industry as the entry point;
  experience in promoting agro-processing has been mixed, with management
  problems and high unit cost of jobs created, therefore not consistent with
  maximizing impact on poverty;
• a larger part of rural livelihood diversification has been “distress-push”, in response to ending the collective farms and, to date, much of the diversification has been within farming, though extensive land reform tends to push people to become more entrepreneurial;

• countries are diverse in their economic structure, with a marked difference between those in Central Europe and further east (the latter being more agrarian);

• where there is rapid structural change, the meso level is very important;

• an infrastructural bias, reflecting previous centralized systems and neglect of rural communities, is found in many countries;

• if there is a high level of remittances, rapid RNFE transformation may follow;

• an upsurge of small enterprises in the RNFE may be temporary, as with further structural change these may be displaced by larger-scale, more technology and capital intensive, firms (the experience in parts of Latin America);

• the whole picture needs to be considered, in focusing on the RNFE. Conceptually, countries might be considered on two axes: a “capital driver”, considering relative importance of foreign investment and private remittances (including repatriation of funds), and a “reform driver”, reflecting low or high levels of reform;

• studying countries adjusting to economic/political shocks may yield lessons; similarly, at household/enterprise level, sampling should include those who have moved out of the RNFE;

• some countries, especially those in the CIS, are rather stagnant, not dynamic, with little capital inflow, few enterprise entrants, and households processing agricultural products largely for home/local consumption, following closure of State factories;

• the need for a thorough stock-take of the current economic and policy position and dynamic is therefore needed, starting at the meso level, before looking in detail at the enterprise and household level.
C. Country and Regional Consultations and Discussions

Presentations and discussion up to this point in the program (items A and B) had been made largely from the supply side, and contributions to policy development. This part of the program was led from the demand side, i.e., country/regional staff, and provided a forum to:

- review country positions on the RNFE within the Bank’s regional groupings, and share the perceived issues, needs and opportunities;
- identify link opportunities within each Region and with Bank central Departments, for policy analysis and advice, research and best-practice sharing;
- develop an indicative action plan for each region to support work on the RNFE and how best this might be serviced.

The discussion groups included a mix of country team staff, RDV, DEC and external partners – they were led by country staff except ECA (by PREM at request of the region) and East Asia (informal discussion by supply side only)

Europe and Central Asia (ECA)

As recorded above, the presentation on proposed research in the CEECIS region was structured (because of availability of key Bank staff) to lead into a wider discussion of issues and needs for understanding in this region. Key issues (in addition to those noted in the discussions on the presentation) include the importance of the meso level in emergence of the local economy, including institutional development and reform (decentralization), the significance of remittances and how these are invested, recognition of the regional diversity and differential effects of reform and response capacity to external shocks and the importance of infrastructure development.

A supplementary follow-up discussion was held (18 May), between representatives of Bank ECA staff and of the NRI research team.

The following conclusions for next steps were reached:

- perspectives from WB country involvement favored the proposed RNFE WB/DFID funded research being undertaken in Romania, Ukraine and one Caucasus country, either Georgia or Armenia. The Bank has an interest in enhancing its understanding of the RNFE in these countries, and their selection assists generalizability of the research, taking into account that the linked (EU-funded) research co-led by Wye College will be conducted in the Czech Republic, Hungary and Poland;
- ECA staff identified the need for data collection and analysis on the infrastructural, institutional and services framework to the RNFE, in addition to household and enterprise data. This could inform policy processes contributing to that framework. It was agreed that more use could be made of existing surveys;
next steps for the WB/DFID collaborative research will be to agree on choice between Georgia and Armenia for the third research study country, and to organize and hold a one-day workshop (in mid-July). Objectives will be to broaden awareness of the proposed activities amongst Bank ECA staff unavailable to participate in this current event, to further refine demand and to articulate the research accordingly, and to plan initial activities at country level.

ECA staff envisaged that additional background studies and focused inputs in support of country-level policy design and programming may be needed.

Sub-Saharan Africa

The wider context to consideration of the RNFE in this region is that Poverty Reduction Strategy Papers (PRSPs) are to be developed by seventeen countries in the coming 12-24 months, and a PRSP sourcebook is in preparation. The NFRE is recognized as integral to poverty reduction in SSA and that relatively little work had been done in SSA. The differences in patterns of NFRE in SSA from Asia and LAC were noted.

A brief discussion was held on some of the country-specific contexts and thereby specifically opportunities for possible research collaboration:

- Uganda has recently produced a Plan for Modernization of Agriculture (PMA) – with support from WB, DANIDA and DFID, involving increased use of inputs and private sector roles; however the nature of the private sector contribution and of public sector facilitation has not yet been determined. Also in Uganda, a Public Expenditure Reform Credit (PERC) is to be prepared, covering health, education, water and rural development including agriculture, facilitating the development of a rural market economy, and building upon significant progress so far made with decentralization. In the latter, capacity building and accountability are important issues. A PERC preparation mission is planned for September 2000 and, if the RNFE WB/DFID research is to be located in Uganda, it could be appropriate to relate this in some way to the PERC processes.

- Benin is also preparing a PERC – specific issues in Benin link the rural economy/NFRE/economic growth to the environmental agenda/goals.

- Kenya has a more advanced RNFE than does Uganda; however, governance remains an issue.

- Tanzania has some decentralization experience, and some LSMS and other data availability.

- Malawi presents an acute need for RNFE development; however, feasible widespread opportunities for pathways out of rural poverty are recognized as being difficult to establish.

- Ethiopia is, in some respects, analogous to Malawi, with food security a major issue; resource-poor rural households cannot be food self-sufficient, and non-farm activities are needed.
• Ghana has an active and diversified rural economy, and decentralization experience.

• In Burkina Faso, some work has been done in mapping activities upstream and downstream from agriculture, gender roles in the RNFE and agriculture-RNFE linkages. Project specific activities offer opportunities to integrate support to the NFRE -- again requests have been made by the task teams -- work is being linked to that of ECOLOC and local-area economies.

• In Niger – specific requests have been made by the Bank task team involved with rural sector work for assistance in the RNFE.

Concerning the proposed RNFE WB/DFID research, it was noted that it has a longer time-frame than that of activities, and hence immediate needs, of WB operations staff. While the latter activities cannot await final research outputs, the two areas of activity can and should maintain contact, and intermediate outputs from research might be used.

In Sub-Saharan Africa in general, participation in the RNFE tends to be lowest for those with low land holdings and low incomes, so that the proposed research on access by the poor to RNFE opportunities is especially relevant in this region. Also, RNFE and agriculture are inter-related through agricultural services provision. Development pathways, including the RNFE, in poor, remote, agricultural areas represent an important issue where options may be limited.

There remains a need to find institutional and policy contexts to create a conducive policy environment to further this work i.e., through giving emphasis to the agriculture/farm linkages, and poverty and food security linkages. The PRSP process was noted as a real opportunity to bring the NFRE into the fore.

It was agreed that there is a clear need to enhance information flows i.e., literature, best practice, case studies. A sub-regional African workshop, linked to a possible rural strategy meeting co-ordinated through the multi-donor hub led out of Harare, could provide a venue to take this debate forward aiming to enhance information exchange on what is already known/emerging good practice, and perhaps connect with relevant experience from South Asia.

South Asia

Pillars of the Bank’s rural strategy in this region with partner governments have been water, other natural resources, agriculture, policy and institutions. These will remain, but it is realized that they are insufficient to address poverty, so the strategy is to broaden to include the RNFE. The Governments of India, Pakistan and Bangladesh share this approach. In RNFE development, barriers and constraints at the level of the firm are important, as are public investments in electricity, roads and education, and governance, including the policy and regulatory environment.

The approach requires a country by country stock-take, concerning current knowledge and gaps. Comments on individual countries were as follows:
For India, the Bank (as other donors) work with States of priority focus. Andhra Pradesh has requested help with poverty reduction strategies and role of the RNFE in this. Karnataka has requested specific assistance in addressing the RNFE. The population size, poverty incidence, intra-State differences and governance issues in Uttar Pradesh make this an important case. Orissa, Madhya Pradesh, Gujarat, Rajasthan, Orissa and Maharashtra might also be candidates for addressing the RNFE within development strategy. Concentrating effort on those States which lagged in benefits from the Green Revolution could be one criterion for working together. Official endorsement of WB/partner initiatives in the RNFE is required as is the essential need to work in partnership with local institutions. The India PRSP will include a focus on the RNFE.

In Bangladesh, the RNFE is more dynamic than agriculture and some other sectors. Dominant components include trade, transport, construction and rural manufacturing, and the latter is especially dynamic, despite the general failure of business estates and subsidized credit schemes and biases in favor of large-scale industry. Farm-nonfarm linkages are strong (income multiplier of 1.7-1.8), with a strong positive impact of the infrastructure multiplier. There is market failure for the RNFE concerning technical assistance, information on quality requirements and markets, market access and credit. NGOs are increasingly active in these areas. There appears to be no/little focused analysis on RNFE/poverty inter-relationship, and limited policy dialogue explicitly on the RNFE. The 1995 workshop held in Bangladesh on NFRE should be reviewed.

In Nepal, RNFE activities are heavily concentrated in and around peri-urban areas, and proximity to North Indian markets is also important (despite transaction costs).

In Pakistan, the RNFE is estimated to account for 25-35% of GDP and involve 8-9 million households. The RNFE is quite strongly linked to agriculture but not to urban industry, the latter being favored by capital-intensive policies, discouraging large-scale industry from sub-contracting. Parts of the RNFE appear to have developed well, without formal intervention.

In Sri Lanka, the plantation sector is seen as a success, though its significance for the RNFE is not immediately clear.

The regional dimensions of the RNFE were noted: trade along economic corridors, linkages between countries e.g., Nepal and India, raising questions of competitiveness within the region. There was a recognized need to enhance the linkages and coherence between sectors working in a given country i.e., transport, micro-finance and the resulting impacts of interventions on the RNFE.

Concerning current and proposed involvement of RNFE researchers:

- Past IFPRI work had been very useful in contributing to the policy debate.

- DEC is currently analyzing a rural survey of 33,000 households in India, and intends some syntheses; PREM is currently working on poverty assessment in Uttar Pradesh, and plans for all-India analysis in the longer term.
• There would be merit in holding one or more workshops in India, combining Bank and partner research organizations and policy makers, to which others from this region might be invited (possibly around Feb/March 2001).

• Other events in which participation by Bank and partner researchers might be considered include: the forthcoming annual meeting of the Pakistan Association of Development Economists, at which the RNFE might be a major focus, and the Asian Conference of Agricultural Economists, October 2000, Jaipur.

• A link between the research proposed under the WB/DFID Collaborative Program on NFRE, and separately funded DFID policy research on livelihood strategies should be sought.

The discussion emphasized the importance of the RNFE to poverty reduction in the region. The group closed by emphasizing the need to raise awareness of proposed RNFE research and other related work with Country Directors and with Governments, and to secure their endorsement.

East Asia

Due to the non-availability of Bank regional staff, a meeting of the supply side was held. It was noted that Bank staff from both the China and Vietnam offices had expressed specific interest in these meetings. A specific request had been received from the Bank’s country office in China, concerning regional development strategy and source material on this.

The technical “supply-side” teams shared ideas and suggestions on key information sources on RNFE relevant to the region. A separate note on this has been prepared and shared with the WB’s regional teams in particular China and Vietnam.

Reference was also made to the relevant proposed research initiative (funding linked to the WB Urban Department) on the garment industry in Vietnam.

Middle East and North Africa

The RNFE is important in much of the region, and remittances are a major “motor” in this. They finance land purchase, house building and enterprise start-ups, with positive impacts on the construction industry and on poverty reduction through employment creation. The RNFE is thus relevant to PRSP preparation.

In Egypt, 50% of rural income, and 60% of the income of the poor, comes from the RNFE. Beyond an income raising effect, non-farm income helps to smooth total income flows and sustain people in the rural areas thus minimizing excessive urbanization. It is recognized that agriculture alone cannot sustain the rural economy.

In contrast to the good infrastructure in Egypt, which favors RNFE development, infrastructure in Yemen and Morocco is seen as a major constraint. There was a crucial gap in knowledge on the RNFE in Morocco and Yemen and a specific request made that research be initiated to study these countries.
Other issues that may merit research are an analysis of sources of finance for the RNF enterprises (i.e., remittances, public sector wages and the emerging policy implications), and to address the link between education and non-farm activity (with a spectrum, if not polarization, of skill levels required in non-farm activity).

A particular constraint to research in this region is the gaining of access to existing household and other data-sets, access to which is generally denied by Governments for use by external parties. Work could start with “stylized facts” but the issue of availability of statistics needs to be taken up (again) through DEC and with the Rural Board/Research Management Group. The importance of working in partnership with local institutions was noted.

Latin America and Caribbean

For this region, there was an awareness that much research has been done recently (IDB, FAO and local partners), so that the first need is to gain a deeper understanding of this and how it may contribute to policy support and program development.

Mechanisms for sourcing regional expertise to assist with program/project design need to be enhanced. The close linkage of the RNFE with work on rural-urban interactions was also recognized, and should be encouraged.

Specific issues raised were:

- interface issues: urban/rural, and international company/large national companies/small enterprises based in rural areas. Grades and standards represent a supply-side issue of importance to small enterprises retaining their markets;

- linked to the latter issue, the effect on the RNFE of concentration of economic activity amongst fewer enterprises, in processing and retailing; the role of NGOs in helping smaller enterprises to be sustainable;

- institutional change to reduce transaction costs for small enterprises and to overcome market deficiencies in information supply and in management.

Early initiatives were suggested, to bridge the gap between research insights and current policy and project practice: enhance sharing of existing documented experience, between the Bank, IDB and FAO (papers going into the public domain very soon, as recorded under session A); and convene a workshop to share approaches, experience and research knowledge between these agencies, national governments and other key stakeholders, and to translate research results into actionable programs that the Bank can finance where there is government interest. The outputs from such activities could also be used to inform the Bank’s updating of the Vision to Action rural strategy paper.

A provisional date for such a workshop was indicated as Sept/Oct. 2000 although this date may realistically move closer to November/December

D. Taking the process forward
This session was in two parts: (a) to hear feedback from each regional group meeting, share ideas and learning, and consider how to respond to the needs and priorities as seen by the regions; and, (b) to address administrative and management structures to guide the next stages of collaborative work.

Synthesis of regional needs and demands

The key issues are presented for each region by the rapporteurs and where as given above. In addition, it was also noted by PREM that there was a need to understand the macro-economic conditions that lead to and or encourage/enable a high share of NFRE, including, for example, the role of the RNFE as source as services for manufacturing and the effects of the real exchange rates on the RNFE.

There was convergence on some key points that should be emphasized:

- all regions recognized the importance of the RNFE to poverty reduction and economic growth;

- that the RNFE is not a “sector” per se and components could be supported through existing sectors and with the essential need for coherence of approaches by multiple sectors, and/or through targeted interventions in particular those at local level and or interventions aimed at specific groups/investment types (local or national levels);

- that work in RNFE sits within an institutional vacuum and that different approaches to bring the issues and opportunities to the fore will require different strategies in different localities;

- the importance of understanding and linking to the macro-economy in policy debates and actions was reinforced;

- that there was a gap between research outputs and policy consensus on the one hand, and well designed and appropriate policy support and project/program design and implementation on the other hand;

- some (and in some regions e.g., LAC, considerable) research outputs already exist and are not being adequately reviewed, debated and where appropriate integrated into policy and action. There was some debate on how to cluster emerging policy options in order to consider extrapolation -- i.e., dynamic/non dynamic economies; well endowed/not well endowed; agriculturally dynamic/not dynamic -- more work was needed to take this debate further;

- country and local level analysis and policy debate were seen as necessary – making best use of outputs from existing research where available;

- most country teams, whilst recognizing the longer term value of research, cannot await the outcomes of such investments;
• the importance of working closely with local partners to gain broad-based understanding was emphasized;

• a number of cross regional and cross thematic areas were identified for both further research and policy debate including migration, market failures, rural-urban linkages, barriers to entry, governance and decentralization.

**Follow-up actions**

The Regions, although with differentiated demand responses, all required a number of products:

a) Research (existing and future – note specific demands of MENA region) and research outputs.

b) Processing of material already available to contribute to policy debates, options and consensus building.

c) Advisory inputs for sector support and project and program interventions including access to names of practitioners/institutions involved with the RNFE.

d) Mechanisms to share and debate case studies, policy options and best practice with country/regional partners including workshops and meetings.

e) Support to the appropriate inputs into the PRSP processes.

f) Support to gaining access to HH data sets (specifically, the MENA region countries).

All regions wished to ensure that, at both regional and central levels, the RNFE is adequately integrated into the update of the WB’s rural strategy document – Vision to Action.

Specifically, three workshops were recommended through the regional consultation groups with a possible option of a fourth. These are:

• ECA meeting mid July 2000 which will primarily focus on planning for the WB/DFID research program but will also take the opportunity to update Bank and country teams on key emerging issues (funding through ECA vote and DFID).

• LAC meeting in the fall 2000 to learn from, share and reach consensus on the emerging policy options derived from the FAO and IBD funded research in the LAC region. It is hoped that this meeting will be held with key regional research teams and program co-ordinators, FAO, IDB, Bank staff, policy makers from selected key countries and international institutional partners (funding through LAC vote and DFID).

• South Asia meeting early 2001 – details to be confirmed.

• Possible SSA meeting – possible linkages/special session associated with other meetings including PRSP training activities and work of the southern Africa Hub – details to evolve.

It was agreed that the Bank should systematize the manner in which support across research, policy and other advice was provided including the longer term management of the WB/DFID research program. This greater coherence would ensure value added and enable linkages between product types from existing funds and to effectively utilize
outputs required and supported through supplementary funds. It was proposed and agreed that a standing steering and management committee be formed (functions listed in Annex 1) with representation from RDV, DEC, the Regions, institutional partners including Michigan State University, IFPRI, NRI, ODI and other partners, and DFID. **Action:** RDV/DEC to constitute

Whilst some of these activities/products are currently funded through different budget lines within the Bank and through partnership programs, some significant funding shortfall still remains. It was agreed that there was need for a long term (3year) Trust Fund arrangement that would work with this iterative and emerging program and complement the Bank’s existing commitment. **Action:** DEC/RDV will prepare a concept note for a Trust Fund submission aimed to have multiple components and contributing directly to a country/region driven agenda of support to the Bank’s participation in support of the RNFE. This will be presented to the Rural Board for consideration and follow-up action. It will also address coherence with on-going activities

Specifically on the WBD/DFID collaborative program and the planned research program, there was agreement that the three research areas should proceed. The NRI team will prepare a summary of the activities (taking into account suggestions made during the technical and regional meetings) for the Bank to use in country level consultation by end May 2000. Further details of the research methodology and country partners will be presented over the next few months as country consultations and inception phases for each of the three components are completed. **Action:** NRI.
Annex 1
Rural Non-Farm Economy – program management steering group
Draft

Objectives: To enable and ensure coherence of planning, the co-ordination of research, advisory and support work in the context of the development of the WB’s program of policy and investment work in RNFE. In particular, to ensure that the needs of the country departments in the Bank and specifically task team leaders working directly and indirectly in support for the NFRE are provided with the necessary support in a sustained and systematic manner. The group will ensure that adequate levels of funding are sought and made available to support a program of work defined through the regions and reflecting their needs.

Specific roles

i) Facilitate the coherence of on-going and planned research, economic sector and advisory work on NFRE undertaken through the various central and regional groups within the Bank.

ii) Ensure coherence of Bank-funded work with work undertaken through partnership programs including specifically through the DFID/WB collaborative program for rural development.

iii) Working through the regions and task managers, ensure that mechanisms are in place to support specific needs of the Banks’ Analytical and Advisory Activities (AAA) and that these outcomes of effective delivery are monitored.

iv) Review documents relating to all major activities undertaken under the broad management of the group and provide necessary professional guidance including seeking means to assist mainstreaming.

v) Ensure broad-based dissemination of outputs, lesson learning and good practice.

vi) Develop effective partnerships with groups and agencies not funded through Bank programs but active in the field of RNFE.

vii) Act as champions for work on NFRE.

Management and administration

i) The group will comprise representatives from the Regions, RDV, DEC, external agencies specifically IFPRI, Michigan State University, NRI and ODI.

ii) The group will meet at least annually and the WB RDV/DEC managers will produce a short 6-monthly progress. (Note that most of the work will be undertaken through electronic communication.)
iii) The group will report to the Rural Board on a regular basis.

RNFE may
21 June 2000
Final text