The rural non-farm economy

Economics

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The Rural Non-farm Economy The nonfat economy includes all economic activities other than production of primary agricultural commodities. Nonfat, thus, includes mining, manufacturing, utilities, construction, commerce, transport and a full gamut of financial, personal and government services. Corresponding - the transformation of raw agricultural products by milling, packaging, bulking or transporting - forms a key component of the rural nonfat economy.

A broad definition of rural regions as encompassing both dispersed rural settlements as well as the functionally linked rural towns where any corresponding and ancillary nonfat service and commercial activities congregate to service surrounding agricultural settlements. Size: Policy interest in the rural nonfat economy arises in large part because of its increasing importance as a source of income and employment across the developing world. Evidence from a wide array of rural household surveys suggests that nonfat income accounts for about 35 percent of rural income in Africa and roughly 50 percent in Asia and Latin America.

Standing roughly 20 percent higher than rural nonfat employment shares, hose income shares confirm the economic importance of part-time and seasonal nonfat activities. Rural residents across the developing world earn a large share of their income? 35-50 percent? from nonfat activities. Agricultural households count on nonfat earnings to diversify risk, moderate seasonal income swings, andfinanceagricultural input purchases, whereas landless and near-landless households everywhere depend heavily on nonfat income for their survival.

Over time, the rural nonfat economy has grown rapidly, contributing significantly to both employment and rural income growth. Income data, which include earnings from seasonal and part-time activity, offer a more complete picture of the scale of the ERNE. Rural nonfat employment holds special importance for women. Women account for about one-quarter of the total full time ERNE workforce in most parts of the developing world. Given their frequently heavy household obligations and more limited mobility, women also participate in part-time ERNE activity, particularly in household-based manufacturing and service activities.

Composition: The rural nonfat economy includes a highly heterogeneous collection of trading, crisscrossing, manufacturing, commercial and service activities. Even within the same country, strong differences emerge regionally, as a result of differing natural resource endowments, labor supply, location, infrastructural investments andculture. The scale of individual rural nonfat businesses varies enormously, from part-time self-employment in household-based cottage industries to large-scale corresponding and warehousing facilities operated by large multinational firms.

Often highly seasonal, rural nonfat activity fluctuates with the availability of agricultural raw materials and in rhythm with household labor and financial flows twine farm and nonfat activities Remittances account for a large share of rural income in some locations. In the mining economies of Southern Africa, remittances may account for as much as half of all rural household income. They likewise form an important part of household income diversification and risk reduction strategies.

In of nonfat earnings, while remittances and transfers typically account for to 20% of non-agricultural rural income and 5% to 10% of total rural income. Equity Implications: The extreme heterogeneity of rural nonfat activity results in widely varying productivity and profitability. Returns vary substantially, normally as a function of differing physical and human capital requirements. Women dominate many of the low-return cottage industries, while the poor dominate other low-return activities, such as small-scale trading and unskilled wage labor used in construction, powering, and many personal services.

Wage labor, in both agriculture and nonfat business, also accrues primarily to the poor. The low capital requirements and small scale of many rural nonfat businesses, poor households dominate large segments of the rural nonfat economy. For this reason, many policy makers view the rural inform economy (ERNE) as a potentially important contributor topovertyreduction. Pull Scenario: Where new agricultural technologies and modern farm inputs become available, they lead to agricultural surpluses in some commodities and increased opportunities for trade.

In these settings, a growing agriculture stimulates growth of the ERNE through a number of key linkages. Rising labor productivity on the farm increases per capitafoodsupplies and releases farmfamilyworkers to undertake nonfat activities. For this reason, green revolution India has seen agricultural labor all from 75% to 65% of rural labor force in the first 25 years following the release of green revolution rice and wheat varieties. Equally important, increases in farm incomes, together with high rural savings rates, make capital available for investment in nonfat activities.

These savings rates have reached up to 25-35% in many areas of green revolution Asia Farm households, as their incomes grow, increase their expenditure share on non-food items, thereby accelerating demand for nonfat goods and services. To meet this growing demand, rural households increasingly versify into production of rural nonfat goods and services. The composition of rural nonfat activity changes perceptibly over time in these buoyant agricultural settings. Increases in real wages raise the opportunity cost of labor, thereby making low-return nonfat activities uneconomic.

This leads to the demise of many low- return craft and household manufacturing activities and to the growth of higher- return nonfat activities such as mechanical milling, transport, commerce, personal, healthand educational services. Growing agricultural incomes attract labor into more productive, higher return rural nonfat services. Push Scenario: In regions without a dynamic economic base, patterns of growth in the rural nonfat economy unfold very differently. Sluggish income growth in agriculture leads to anemic consumer demand, limited corresponding and agricultural input requirements and stagnant wages.

Taken together, these tendencies stymie both entrepreneurial and wage-earning opportunities in the rural nonfat economy. Without technological advance in agriculture, labor productivity and per capita farm production fall. In such settings, growing landlines pushes labor force increments into nonfat activity by default. Falling agricultural labor productivity, low opportunity cost of labor and declining household purchasing power induce diversification into low-return, labor- intensive nonfat activities such as basket making, gathering, pottery, weaving, embroidery and mat making.

Specialized nonfat enterprises and households opportunities in agriculture and a shortage of both rural savings and invertible capital. Arbitration and Migration: Although the prosperity of rural regions and their rural nonfat economies typically depends on agricultural performance during the early stages of economic growth, this link gradually weakens over time as agriculture's share in national economies declines.

Rapid arbitration andglobalizationhave opened up new market opportunities for rural nonfat producers of treatable goods and services and for rural workers to migrate and remit. Where conditions permit, these opportunities can stimulate regional economic growth, in some instances benefiting backward regions with poor agricultural potential and in others enhancing opportunities in already rapidly growing rural economies.

Rising arbitration and national economic growth, together with improved transport andcommunicationnetworks, provide important economic linkages between urban and rural areas, opening up new opportunities for rural households Evidence from India, for example, suggests that rapid rural nonfat growth is occurring along transport corridors linked to major urban centers, largely independent of their agricultural base Similarly, in Southeast Asia and in China high population density and low transport costs have led to rapid growth in urban-to-rural subcontracting for labor- intensive manufactures destined for international export markets.

The importance of migration and remittance income proves highly context-specific, varying both locations and over time. Empirical evidence suggests that migrant remittances may serve to increase rural investment, finance schooling, house construction and agricultural inputs in some locations. Less beneficial are the impacts on migrant worker health and on family social cohesion. Liberalizing and Globalization: Beginning in the sass, widespread economic liberalizing has opened up the rural nonfat economy as never before - to new opportunities and to new threats.

Liberalizing, by reducing direct government involvement in production and marketing, has opened up new market opportunities for the private sector, articulacy in agricultural processing, input supply and trade. Relaxed controls on foreign exchange and investment have unleashed a flood of foreign direct investment into Latin America, Asia and Africa. As a result, large exporters, agribusinessfirms and supermarket chains increasingly penetrate rural economies of the developing world, altering the scale and structure of rural supply chains as they do.

This rapidly changingenvironmentopens up opportunities for some rural suppliers to access new markets. But liberalizing and globalization expose other rural genuineness to new threats, as quantity requirements and quality standards impose new ways of doing business that risk excluding intellectualized rural enterprises on which the rural poor often rely. Available evidence suggests that rapid concentration has triggered the bankruptcy of thousands of small firms in recent decades.

Although many of these bankruptcies affected urban traders, emerging evidence suggests that small rural traders and the wholesale markets they serve likewise risk being displaced by larger, specialized wholesalers. Some categories of rural nonfat activity have thrived in the past because of protection from outside intention by high transport costs, restrictive production policies subsidized inputs and credit, and preferential access to key markets Globalization and market transition may prove brutally abrupt for many traditional small-scale manufacturing activities whose products cannot compete with higher quality, mass-produced goods.

For this reason, the initial stages of depreciation can lead to significant Job losses in the ERNE, even though many of these may later be recovered as new types of rural nonfat activity sprout up, as in India during the sass. Since poor households and male-dominated activities predominate among the low-investment, low-productivity rural nonfat activities, they tend to face the most difficult adjustment during this transition. Agriculture has historically played an important role in expanding the economic base of rural regions in the developing world.

In regions where agriculture has grown robustly, the ERNE has also typically enjoyed rapid growth. Regions with poor agricultural potential have seen more limited prospects for rural nonfat growth, except in places where the availability of other important rural treatable such as mining, logging, and entree¶t trade offer an alternative economic platform for sustaining regional growth. In recent years, globalization, arbitration and improved infrastructure have opened up new opportunities in many rural areas, thereby reducing their dependence on agriculture.

These developments seemingly offer new prospects for stimulating rural economic growth and, perhaps, new pathways out of poverty. Policymakers hold high hopes that rural nonfat growth can offer a pathway out of poverty for a large segment of the rural poor. Given the enormous diversity observed across rural regions and within the rural nonfat economy itself, opportunities, constraints, and appropriate policies will clearly differ across settings. Although general guidelines cannot substitute for detailed understanding of a specific rural nonfat setting, several broad policy guidelines do emerge from this review.

Available evidence suggests the rural nonfat economy can significantly expand economic opportunities for the rural poor if two conditions hold. First, the rural nonfat economy must itself be growing robustly. Both rural nonfat employment and income per worker must be growing if nonfat growth is to contribute effectively to poverty reduction. Typically, this growth in the rural nonfat economy requires investments in the productive capacity and productivity of activities related to rural treatable, such as agriculture, tourism, or natural resource-based activities, in order to ensure their competitiveness in external markets.

Alternatively, where low-cost rural labor and low transportation costs coincide, rural households can sometimes compete in urban or export markets through commuting, short-term migration, or urban-to-rural subcontracting arrangements. From a policy perspective, accelerating output and productivity Roth in the rural economic base will require investing in agriculturaltechnology, ruraleducation, communications, transportation, and electrification.

Together with a favorable policy environment, these investments encourage rural nonfat business development as well as short-term commuting and migration strategies, both of which serve to increase rural nonfat incomes and investment. But a growing rural nonfat economy does not guarantee access by the poor. Wealthy households, well- endowed with financial, human, and political capital, often prove better equipped to sake advantage of growth in the high-productivity segments of the rural nonfat economy, both as entrepreneurs and as wage employees.

Meanwhile, poor backwaters of the rural nonfat economy. Migration opportunities likewise remain bifurcated, with highly educated households more apt to land lucrative positions in towns. Thus, policymakers cannot assume that an expanding rural nonfat economy will translate automatically into pro-poor growth. This bifurcation leads to the second requirement for pro-poor rural nonfat growth: access by the poor to growing nonfat market niches.

For nonfat earnings to offer a pathway out of poverty, rural households and policymakers may need to invest in rural education and health in order to improve the human capital stock of the poor. At the same time, policymakers will need to remove economic and social barriers that limit poor people's entry into lucrative nonfat professions. Fluid labor markets, with good transportation and communication systems connecting rural households to regional and urban labor markets, will provide a key bridge linking the rural poor to growing opportunities in the nonfat economy.