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NRI Report No: 2756

Rural Non-Farm Economy

**Best practice and strategies
for promoting rural non-farm
employment through project
interventions**

by

Tiago Wandschneider (NRI) and Junior R. Davis (NRI)

July 2003

*The views expressed in this document are solely those of the authors
and not necessarily those of DFID or the World Bank.*



**Natural
Resources
Institute**

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International
Development



World Bank

Best Practices and Strategies for Promoting Rural Non-Farm Employment Through Project Interventions

REPORT IV

A study by Tiago Wandschneider (NRI)

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Acronyms and abbreviations

| | |
|--------|---|
| CEEC | Central and Eastern European Countries |
| CIS | Commonwealth of Independent States |
| DFID | Department for International Development, UK |
| EU | European Union |
| FAO | UN Food and Agriculture Organisation |
| GDP | Gross Domestic Product |
| GTZ | Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (German Technical Cooperation) |
| HH | Household |
| HHH | Head of Household |
| IFAD | International Fund for Agricultural Development |
| IGA | Income generating activity |
| IHS | Integrated Household Survey |
| IUDD | Infrastructure and Urban Development Department of DFID |
| LAC | Latin American Countries (South and Central America) |
| LDC | Less Developed Countries |
| M&E | Monitoring and evaluation |
| MSME | Micro and small – medium sized enterprise |
| NGO | Non-governmental organisation |
| NRI | Natural Resources Institute |
| NSS | National Statistical Service |
| PRA | Participatory rural appraisal |
| PRSP | Poverty reduction strategy paper |
| PRP | DFID, RLD Policy Research Programme |
| Q&A | Question and Answer |
| RLD | Rural Livelihoods Department of DFID |
| RIMISP | |
| RNF | Rural non-farm |
| RNFE | Rural non-farm economy |
| SLA | Sustainable Livelihoods Approaches |
| SME | Small-medium sized enterprise |
| SWOT | Strengths, Weaknesses, Opportunities, and Threats |
| WB | World Bank |

Introduction

This paper draws attention to best practices and strategies for projects and programmes aimed at promoting rural non-farm employment in developing and transitional economies. It is based on a number of case studies and regional workshops commissioned by the United Kingdom's Department for International Development (DFID) and the World Bank, under their Collaborative Programme on Rural Development. While the focus is on project interventions, linkages with public investment programmes and policies are also explored.

Despite a long history of government and non-government intervention in rural areas, there is still insufficient awareness of the conditions and measures to unleash the development potential of the rural non-farm economy (RNFE). The need for and improved understanding of best practices, for disseminating this knowledge across a wide range of stakeholder institutions, and for incorporating it into public investment and policy processes and into projects and programmes cannot therefore be overemphasised. Much can be learned from experiences within country as well as from successes and failures elsewhere.

In 2001 RIMISP conducted a review of fourteen rural development programmes and projects in Latin America (Escobar et al, 2002). The richness of case study material makes this an important study. Not only does the rural economic landscape vary considerably across and within study countries, but at the same time studied programmes and projects differ widely with respect to size, design, sector of intervention, funding sources, and implementing agencies. Nearly all interventions are relatively recent, and many are still on-going. Funding and implementing agencies include local and national governments, donor agencies and non-governmental organisations (NGOs). Most interventions involve producers organised in co-operatives and associations, focusing on self-employment in food processing and (to a lesser extent) other manufacturing activities. Services are weakly represented.

RIMISP study findings were disseminated at a regional conference in San José, Costa Rica (RUTA et al, 2002). Representatives from governments in the region, donor agencies and RNFE projects and programmes attended this event, which offered an opportunity to discuss specific initiatives in Central America using the RIMISP study framework and findings as a starting point. The case studies reviewed during the workshop comprise manufacturing, tourism and agricultural services.

Recently, country-specific workshops on the RNFE were held in India (Planning Commission et al, 2001) and Bangladesh (*reference*). These workshops targeted a national audience which comprised – among others – government officials, donor agencies, academic centres, consultancy and training institutes and NGOs. The experience in Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS) was reviewed at a workshop in London (Wandschneider and Davis, 2002). Participants from academic institutions, multilateral and bilateral development agencies, rural development programmes and projects, and international consultancy firms were present. Participants

came from Armenia, Bulgaria, the Czech Republic, Georgia, Germany, Moldova, Romania, Russia, the UK, Ukraine, and the United States of America (USA).

These events contributed to the dissemination of research and programme findings while sensitising a wide range of stakeholders to the importance of the RNFE, its potential role within local and national development strategies, and the need for enabling policies and interventions. Future strategies and interventions for promoting non-farm activity and enhancing its contribution to rural development and poverty reduction were also discussed. Despite the insights gained, it was felt that much still needs to be learned from country, regional and international experiences. Dissemination of successful approaches for adaptation, replication and scaling-up was considered a priority.

This paper is structured as follows. Section I summarises and develops the main findings from the RIMISP study and the San José workshop. Based on the presentations and discussions at country and regional workshops, section II discusses the relevance of the best practices and strategies identified in Latin America for other developing regions and transition economies and . Section III identifies knowledge gaps and future research avenues. Finally, section IV summarises the main conclusions.

1 Best practices and strategies for RNFE programme and project interventions in Latin America

1.1 The need for a market-oriented approach

A market-oriented, demand-driven approach is considered critical for project success. The most successful RNFE projects and programmes focus on developing production that enjoys favourable market prospects and meets market requirements. This ensures that the economic activities selected for promotion enjoy good growth potential and that such potential is realised. In contrast, the “traditional” supply-led project approach tends to emphasise production without due consideration to growth prospects, to what the market really wants, and to what buyers are prepared to pay.

The reasons why support should be channelled to activities characterised by growing markets are manifold. Firstly, the cost-effectiveness of RNFE interventions largely depends on the growth opportunities available to assisted producers. Demand constraints can easily frustrate efforts to improve incomes through supply-side interventions. If supply expands considerably as a result of project efforts, prices will fall, hurting all producers. Secondly, the stream of present and future income accruing to project clients has implications for sustainability because of the positive influence that returns to investment have on the capacity and interest of project participants to continue allocating financial and labour resources to supported activities once the intervention phases out.

Equally important, the impact of RNFE interventions on poverty reduction and rural development critically depends on the local employment and income multipliers associated with promoted activities or sub-sectors. While local production and consumption linkages differ across activities, they can only be triggered if on the whole such activities are expanding. When demand is either stagnant or declining, interventions merely redistribute market shares and incomes, benefiting project clients but hurting their unassisted competitors, who may be based in the same or other rural areas (Haggblade et al, 2002).

1.2 Identifying attractive markets early on during the intervention

Project agencies should identify and gain a good understanding of relevant markets from the outset, which is essential if the intervention is to be demand-driven. Assisted enterprises should cater for markets that are not only remunerative and expanding, but also as low-risk as possible. Difficult choices often have to be made due to trade-offs between these different market dimensions. There are cases in which market size may not be increasing but growth opportunities within rural areas still exist due to the scope for displacing imports or urban suppliers. Whatever the situation, it is critical to ensure that selected markets are within the reach of project clients.

Local markets tend to lack many desired attributes because of purchasing power constraints and relatively low population densities. Therefore, empowering producers to effectively target more remunerative outside markets, with greater absorption capacity and better growth prospects, constitutes a challenge many RNFE interventions must address.

Still, the non-tradable nature of most services, and their consequent reliance on local markets, must be acknowledged.

Non-local market options include regional or national urban centres, neighbouring countries and overseas markets. The latter often constitute the most remunerative alternative, but one that tends to be quite demanding with regard to volume requirements, consistency and time of delivery, and product specifications. Moreover, intense supply-side competition in international markets, especially in the case of commodities, may sometimes lead to low returns and significant price volatility.

Different markets may be simultaneously targeted. In some contexts this reduces exposure to demand and price fluctuations in particular destinations while enabling project clients to develop diversified product portfolios, according to the requirements of specific markets. Domestic and neighbouring country markets may also provide a learning platform for producers aiming to supply overseas markets.

Ideally, an in-depth market research study should precede the intervention. An informal survey offers a less costly – even if not ideal – alternative. Key market players are a very useful source of information, particularly when they have a direct stake in the initiative. This is clearly the case for wholesalers, exporters or processing firms that plan to start buying from project participants under contract.

There are three alternative market identification routes. One option is to identify attractive markets, say a certain urban centre where demand for a wide range of goods and services is high and rising, and then assess which of these goods and services can be supplied from a given project area, with the required quality and at a competitive price. A second – and equally valid – alternative is to identify goods and services which enjoy favourable domestic or external market prospects, and subsequently select areas and producers well positioned to supply target markets given the right support. A final – but perhaps sub-optimal – option is to select an activity or set of activities for support, and then identify the best possible outlets, taking into consideration the technical, managerial and production capacity of project clients.

1.3 Promoting market linkages

Several case study interventions have explicitly forged linkages between project participants and other sub-sector players. This has assisted producers' integration into target markets while at the same time enhancing their access to critical services and reducing their reliance on project agencies over the long term. In a context of high transaction costs and weak marketing networks, market linkage promotion facilitates information flows and communication between producers and input suppliers or buyers, thereby bringing both parties together and reducing the period required for them to learn about each other and develop a sound business relationship (Coote and Wandschneider, 2001). Similar reasoning applies to the promotion of linkages between project clients and public or private service providers in areas such as training and credit.

Agencies seeking to foster linkages between producers and specific commercial partners must acknowledge that such efforts will be in vain unless they give rise to win-win situations, benefiting the two parties being linked (Coote and Wandschneider, 2001). For buyers, this not only means that purchases from project clients fit into their business strategy, but it also implies that action by the external linking agency must lower the transaction costs they face when doing business with target producers, improve their access to supplies, or both.

Buyers usually have minimum requirements with respect to volume, consistency of supply, product specifications and quality. Attempts to link small, self-employed producers to large clients are therefore futile, apart from being too expensive from a project perspective. Such producers need to be associated if they are to meet minimum scale requirements, develop standardised deliveries, and reduce the service provision and transaction costs incurred by the buying firm. Small and medium rural enterprises may also benefit from business linkage development and be targeted as part of such initiatives.

The RIMISP and the San José workshop case study interventions illustrate the vast array of linkage development initiatives. Examples include organising visits to markets and trade fairs, facilitating contacts between producers and other sub-sector players, providing project participants with information on clients and service providers, and vice-versa. Organising visits by potential clients or key market intermediaries and promoters to project areas, and arranging meetings between them and local producers or service providers, can be a very effective promotion strategy, as in the case of initiatives to develop tourism and handicraft production for export markets. Promotion of production under contract is another type of linkage development activity, and one that can prove very effective in enabling project clients to access high-value and high-growth markets, technical information, improved inputs and credit. In this case, project agencies play the role of honest brokers between their clients and contracting firms.

In some instances, project agencies may decide to play a more interventionist role, becoming directly involved in distribution and marketing. This is a common strategy within the fair and organic trade movements, which often aim at circumventing existing marketing channels and establishing new supply chains. As discussed in section 1.10 below, such interventionist strategies can be unsustainable when their commercial viability is doubtful, leading to excessive reliance on subsidies, and when the involvement of the external agency is limited in time.

In short, linkage development initiatives have the potential to improve the efficiency of supply chains and foster pro-poor growth of the rural non-farm economy, and as such should form an integral part of strategies aimed at developing the RNFE. They can enhance market access, strengthen co-operative and complementary relations between small-scale rural producers and large firms, and enable the former to compete with their larger and sometimes urban counterparts. If successfully developed, these linkages will persist beyond the lifetime of the intervention.

1.4 Stimulating demand

In an increasingly competitive market environment, measures to stimulate demand are becoming ever more important to business. Certain case study projects have trained input suppliers to provide information to clients on adequate usage of products or equipment sold as a strategy to expand market size and encourage customer loyalty. Other projects have stressed the significance of labelling for meeting government regulations, certifying the product origin, raising client awareness of product characteristics, ensuring that certain norms and standards are being complied with, and differentiating producers from the competition. Certification, for example in the tourism industry and in the marketing of organic products, is a particular form of labelling and advertising. The latter may also include actions such as participation in trade fairs and use of media. Aggressive selling strategies are also becoming increasingly required to penetrate new market segments and retain client loyalty. Examples include free samples and discounts based on order size and payment schedule.

Producers will be directly responsible for many of the above activities. To a large extent, the role of projects is to provide training and link producers to relevant organisations. Sometimes producers will need to be organised so as to afford advertising and certification costs. For certain products, the commercial sector may have an interest in sharing these costs. Projects may also contribute to advertising campaigns, on a strategic and temporary basis. However, cases exist in which the scale of action and its cost is such that higher-level intervention by regional or national private-sector associations and government promotion bodies is required. Campaigns to promote national products and the country abroad are an obvious example. These campaigns may even require co-ordinated action at supra-national level, as when tourism routes cut across various countries (e.g. the Maya route in Central America).

1.5 Providing access to key assets

Meeting the changing needs and preferences of particular markets, on a consistent and competitive basis, is only possible if producers have adequate access to certain critical assets. The following assets are particularly important:

Production, marketing and management skills. RNFE project interventions often entail pursuing new, more demanding markets and adopting new technologies and management practices. Project participants therefore need proper and intensive training in production techniques, accounting, inventory management and cost control systems, grading, storage, quality control, packaging, labelling, market research, and so on. The tourism sector illustrates how comprehensive required training packages may be. Service providers often need to master foreign languages and public relations, meet high hygiene standards, be knowledgeable about historical or natural sites, and be able to serve varied and interesting food to customers.

Training is frequently the single most important component of good practice projects. It can be provided by project staff or by specialised institutions, on-the-job or through formal

sessions, in country or abroad, and over a shorter or longer period of time. Training should be delivered not only to “core” project clients, but also to other players along the product chain whose performance is critical to the success of promoted activities. Providing marketing information and raising awareness about the stringent and changing standards in increasingly competitive and demanding markets often form part of the training package. Exposure visits to target markets, potential clients, trade fairs and other producers supplying similar markets and/or using comparable technologies can also prove very fruitful.

Credit. Generally, the more ambitious the production and marketing strategy, the higher the credit requirements. While credit delivery alone may be insufficient for successful business development, it still constitutes an essential component of most enterprise support packages. Nearly all RIMISP study projects supplied credit to meet their clients’ investment and working capital needs, often at subsidised rates. Enabling producers to access loans from commercial or other sources is also common. This latter option saves project costs and tends to be more sustainable. It may include training on how to develop business plans and approach financial institutions; initiatives to develop group savings and lending strategies; and provision of loan guarantees. Some projects also support the development of financial institutions such as credit co-operatives and micro-credit organisations. Commercial companies may sometimes provide inputs on credit, especially when producers are contractually obliged to supply them with the processed product. Private banks have the capacity to lend large amounts, but are normally averse to funding micro and small enterprises on account of cost and risk considerations.

Hard infrastructure. The quality of economic infrastructure such as roads, power and water supply, and telecommunications critically influences the performance of non-farm activities. Building basic infrastructure is beyond the scope of most projects, but many encourage relevant agencies to intervene in this area. Whenever feasible, this strategy should be actively pursued.

1.6 Ensuring access to inputs

Interventions must enable project clients to access the production goods and services required for improving productivity and meeting cost and quality requirements in target markets:

Intermediate inputs of appropriate quality and safety, supplied at the right time, in the required volumes, and at a competitive cost must be available on a sustained basis. Project participants may receive support to improve the quality and availability of intermediate inputs produced by them and to reduce their cost. Alternatively, they may be assisted in accessing these inputs from local, domestic or foreign sources. This often involves support to input producers other than “core” project clients; initiatives that link input producers and project participants; the organisation of collective input purchases; assistance to research and extension organisations involved in the development and dissemination of improved inputs; or a combination of these options. Leaving input production to others enables project clients to reap the benefits of specialisation, being most feasible when participation in the RNFE is motivated by income rather than risk reduction objectives.

Producers must also have access to the right type of **equipment** if they are to reduce costs, improve quality and scale-up production. Only then can they successfully compete in higher-quality market segments. Many good practice projects aiming at developing manufacturing activities effectively intervene in this sphere. They either supply producers directly or support private investment in equipment manufacturing, marketing and repairs. In addition, they may provide assistance to research institutes to develop cost-reducing and quality-enhancing technologies.

1.7 Developing rural producer organisations

Many good practice RNFE interventions target rural producer organisations. Projects may work with existing organisations or support the formation and strengthening of new ones. These organisations may have a formal or informal existence, vary in size, be community-based or have broader geographical scope. They may have been established at the primary, producer level or consist of higher-tier federations of sector, sub-sector or activity-based organisations.

The rationale for supporting and working through associations or co-operatives is manifold. From a project perspective, this strategy enables projects to assist a larger number of producers facing similar constraints and opportunities, thereby reducing intervention costs per client. From a producer viewpoint, group ventures may give rise to economies of scale in production, marketing and service provision; translate into improved bargaining power in the market place; and offer scope for improved access to credit. In addition, rural economic organisations may in some cases enable producers and enterprises to interact with government institutions and influence public policy and investment decisions, thereby serving as channels for voicing their concerns and needs.

Rural economic organisations usually play one or more of these roles, depending on their nature and objectives. However, while in theory group ventures have much to offer to individual entrepreneurs, past experience in Latin America and elsewhere presents a mixed picture (see for example Harper and Roy, 2000). As stressed during the San José workshop, examples of unsuccessful producer organisations abound. Agencies working or aiming to work with rural economic organisations thus require information and analysis on the critical internal and external determinants of group performance and how they can best play a constructive role in group formation and development processes.

Producer organisations may fail for a variety of reasons (see for example Stringfellow, 1997; Harper and Roy, 2000; Kindness and Gordon, 2001). These often include political interference, lack of trust and cohesion amongst members, different economic interests across participants, weak leadership, poor management, and lack of truly democratic functioning. Severe market shocks may also undermine the viability and cohesion of producer organisations, especially during the initial years of operation.

Inflexible, top-down and highly subsidised external support initiatives have aggravated these problems, with access to external resources rather than commitment to common solutions for common problems taking priority as a participation factor. A gradual (step-

by-step) and participatory approach to group enterprise development, which supports genuine grassroots initiatives, seems preferable. The complexity of tasks and business strategies should increase over time as organisations gain cohesion and accumulate production, marketing and management expertise. Training and market linkage development seem critical components of effective support packages.

Shared ownership of assets and joint production activities often prove problematic, placing a significant burden on management capabilities and enhancing the scope for free-riding and intra-group conflicts. These potential problems are less acute in service provision in areas such as joint input procurement and product sales, advertising, training and policy lobbying. Moreover, groups with close ties to large, successful firms may have greater chances of succeeding due to their advantageous position in terms of access to inputs, markets and/or support services.

1.8 Adopting a sub-sector approach

The discussion above highlights the importance of adopting a holistic approach to project design and implementation, which takes the whole supply chain and sub-sector environment into consideration. Once target markets have been identified, project agencies must define interventions down the supply chain to ensure that goods and services satisfy market requirements and are produced for a profit. Producers must adopt the “right” production and marketing practices, have access to appropriate inputs at the right time and at a reasonable cost, and successfully develop links with markets and buyers. Good practice project interventions rarely focus on an isolated activity and set of producers since their success ultimately depends on the functioning of the whole supply chain, from input provision up to production and marketing. Critical bottlenecks along the whole product chain must be addressed, and this often implies assistance to players other than target project beneficiaries, including research and technical institutes involved in input technology development and dissemination.

As such, RNFE project interventions need not be confined to non-farm activities, and frequently encompass downstream interventions in the farm economy. Similarly, projects which emphasise support to agricultural activities should intervene further up the chain in order to address marketing and processing bottlenecks, improve incomes through value addition, and stimulate forward production linkages.

More generally, a sub-sector approach should permeate the entire project cycle (Haggblade and Gamsler, 1991; Haggblade et al, 2002). This approach accounts for market trends, linkages between participants and their position within product chains, constraints and opportunities, the policy environment, and the entire range of supportive institutions. In so doing, it can inform the choice of activities to promote based on their growth prospects and potential contribution to local development and poverty reduction. It can moreover help project agencies to target specific sub-sector players and decide how they can best position themselves vis-à-vis other actors. And it can constitute a good starting point for identifying technological bottlenecks, critical policy reform and support infrastructure needs, and appropriate institutional coalition building and business linkage development strategies. Systemic interventions in these areas can potentially benefit large numbers of sub-sector

players facing similar constraints and opportunities. In short, the sub-sector approach can assist in the identification of economic drivers and has the potential to inform pro-poor agendas, while offering a road map for comparing alternative RNFE project interventions and for designing and implementing the chosen options in a holistic and cost-effective manner.

1.9 Developing innovative and flexible institutional coalitions

Most case study interventions involve more than one entity. Local, regional and national governments and rural development agencies are in many instances the main funding and implementing organisations. Some programmes and projects are funded or co-funded by bilateral and multilateral donor agencies. It is common for national and international NGOs to play a role in project funding and implementation. Cases exist in which a wide range of other institutions also participate as implementation partners. These include, for example, national training bodies, research and extension agencies, academic institutions, certification bodies, national parks, and the commercial sector.

Participation of various public and private agencies in project funding and execution is often to be encouraged. Apart from the need to pull together sufficient funds for project execution, such strategy may be desirable because different agencies have different competences and strengths, and can therefore play complementary roles. Some of the strengths of these different actors are discussed below:

Donors are essentially funding agencies but can play an important advisory function, facilitate access to international expertise, emphasise the poverty focus of project interventions, and assist government investment and policy reform efforts.

Direct participation of government institutions gives ownership and guidance to RNFE project interventions and can prove crucial in instigating public action in areas that fall outside the scope of projects but are nonetheless critical for their success, such as taxation policy and infrastructural development. Moreover, government typically plays a key role in areas that are directly relevant to projects, including training, technology development and dissemination, market promotion, certification, and development and enforcement of grades and standards.

NGOs and specialised research and consultancy institutions can undertake technical studies, bring in much-needed field work experience, and effectively promote community participation. Academic institutions can also play a useful role, for example in the areas of technological and product development and market analysis. Given NGOs' traditional concerns with equity, these organisations can confer greater poverty focus to project interventions while raising awareness about the need to address constraints that disproportionately affect the poor through public policy and investments. Few NGOs have strong commercial expertise, but those that have developed such skills enjoy a comparative advantage in market linkage interventions, being well positioned to play the role of honest brokers and link different players along supply chains.

Finally, private sector participation can lead to an injection of much-needed commercial expertise, resources and market linkages. Private sector investment in processing, its involvement in credit delivery, and participation in linking producers to markets are often superior to direct project involvement in these spheres.

The resources and expertise of different institutions can be used for the benefit of an intervention without them having to be directly involved in project funding, design and implementation. This would be overly bureaucratic and complex, and ultimately counter-productive. Instead, inputs from different stakeholders may be tapped into through informal and flexible coalitions. Projects cannot possibly address all critical issues due to resource constraints, institutional comparative advantage factors, the public good nature of many required interventions, sustainability reasons, or a combination of the above. In this context, they need to sensitise and mobilise a wide range of relevant players and supportive institutions, taking into account the nature of promoted activities, the profile of project clients, the regions where the intervention is being developed, and its objectives.

Obviously, even when project agencies cannot or decide not to intervene directly in certain areas, they may still provide strategic inputs, which may include the promotion of stakeholder dialogue and partnerships, support to capacity building within relevant public and private organisations, and cost sharing. Projects can sometimes act as catalysts, generating increased interest in particular activities and sub-sectors and stimulating much-needed public and private action.

The Latin American case studies in the tourism sector illustrate project shortcomings in addressing all client needs, providing strong justification for the development of broad institutional alliances. For instance, the promotion of the country or particular regions as tourist destinations requires higher-level action by government and private actors. Participation by project clients in chambers of tourism and specialised tourism networks may make all the difference in terms of tourist flows, and hence have a decisive impact on business profitability. Links to tourist operators or national parks may also prove crucial. The development of supportive services – including restaurants, transport and cultural activities – is crucially important. Finally, tourism projects are highly dependent on government provision of a number of public goods, including public order and safety, public health, environmental conservation, national parks, communications, airport infrastructure, access roads, certification systems, and so on.

An interesting approach, applied in Brazil and Panama, is the use of existing or project-sponsored local associations and municipal councils as consultative forums. Forum composition can vary but normally comprises a wide range of local actors, both public and private. These forums can generate ideas, identify needs and constraints, co-ordinate community-level actions, and facilitate interaction with regional and national bodies. Community-level consultation is often important. It may provide much-needed insight into local needs and priorities, improve the targeting of project clients, and enhance their interest and participation in projects.

Municipal and regional governments can prove particularly helpful partners, especially when they show strong commitment to the development of their geographical areas. Their

strategic importance is further enhanced by the multi-sector nature of the RNFE, with no line ministry or government agency having the specific mandate to promote its development, which falls under the responsibility of too many institutions. This institutional vacuum and fragmentation, which not only reflects the relatively limited attention awarded to the RNFE in the past but is also a natural consequence of its huge diversity and the multi-sector and geographically disperse nature of the support required, provides in itself a strong rationale for developing flexible and wide-ranging institutional coalitions (Haggblade et al, 2002).

Despite the potential advantages of broad private and public stakeholder alliances, it is important to acknowledge the difficulties of forming and managing such networks. The larger the number of agencies involved the more time consuming and complex is the task of co-ordinating project execution. Different agencies and players often have different agendas and priorities, and hence different views on project design and implementation. Consequently, a selective and strategic approach to institutional partnerships, whereby networking efforts are explicitly linked to the importance of a particular stakeholder to project success, is essential.

1.10 Achieving sustainability

Achieving sustainability is one of the greatest challenges RNFE projects and programmes face. This is perhaps the most problematic aspect of many of the case study project interventions. Categorical judgements are difficult since most of these initiatives are still on-going or have only recently terminated, but many contain elements which make sustainability difficult to attain, including an excessive reliance on subsidies.

Some of the critical sustainability factors have already been discussed. First, economic activity must be financially rewarding if participants are to invest the time and resources required for its successful development once project support phases out. Second, capacity building initiatives must ensure that project clients are capable of developing and managing their entire business independently. Third, sustainable business relationships with input suppliers, marketing intermediaries or clients, credit institutions and other service providers are at the heart of successful market-oriented production and must therefore be prioritised. Finally, institutional coalitions must be developed so that key structures are in place once the project comes to an end, thus ensure continuity of service provision and continued public investments and supportive policies over the long-term.

In addition, project agencies must make sure that interventions are implemented over an appropriate timeframe. Small businesses and enterprises often need support over a long time period to develop successfully and on a sustainable basis. The timeframe of projects must therefore be adjusted to the objectives they aim to achieve, or vice-versa. Over-ambitious strategies and goals, given the time available and the capacity of project clients, may ultimately lead to unsustainable outcomes.

Finally, strategic and time-limited use of subsidies is an essential element of sustainable project interventions. RNFE projects always include subsidised components. In some cases, subsidies are necessary for a restricted period only, and are well justified by the

public good nature of the service provided and other market failures. Training delivery, business linkage promotion, and market information provision fit into this category. There may also be a rationale for time-bound subsidies in cases where project clients face acute resource constraints and a disadvantaged position in terms of access to markets, services and information. Similar reasoning applies when they are expected to bear significant risks arising from the innovative or demonstrative nature of a particular activity or technology.

However, as stressed in the RIMISP study and during the San José workshop, project agencies must be well aware that subsidies can undermine sustainability while inflating the resources spent per project participant. Subsidising private goods and services – say inputs, marketing and credit – is particularly problematic in view of the danger that project clients will be unable or unwilling to pay market rates once the project ends. In short, subsidies must be used strategically, and a phasing-out plan must be established and adhered to from the onset. Ultimately, supported economic activities must be viable without having to rely on subsidised provision of private goods and services. When a service has a clear public good element, public funding must be available to ensure its continuity over time.

2 Best practices and strategies for RNFE programme and project interventions in developing and transition economies

2.1 The relevance of RIMISP study findings to other regions

The fact that the best practices and strategies discussed above are based on a reasonably large sample of interventions implemented in different Latin American countries gives considerable strength to the findings. One fundamental question, however, is whether these good practice principles also apply to RNFE initiatives in developing and transitional economies in other parts of the world. It can be argued that Latin America is very different from other regions, and that these principles therefore offer limited guidance to RNFE interventions elsewhere. Our view is different.

The studied projects and programmes were implemented in widely diverse rural contexts, not only across countries but also within the same country. Intervention areas differed with respect to average incomes, population densities, urbanisation rates, natural resource endowments, type and importance of non-farm activities, social and economic infrastructure, administrative structures, cultural traditions, and many other variables. If recommended practices and strategies are valid across such varied environments, there is no reason why they should not be equally pertinent to programmes and projects in other continents.

The three country and regional workshops reviewed in this section suggest that findings from the RIMISP study are indeed relevant to other parts of the world. As in Latin America, increased integration of domestic economies, urbanisation and globalisation are exposing many rural areas in developing and transition countries to unprecedented competition from domestic and foreign sources. At the same time, market opportunities for rural producers are emerging as a result of these processes, especially but not exclusively in natural-resource based activities. Best practices and strategies for promoting rural non-farm employment and income must account for and respond to these wider trends so as to enable rural producers to cope with existing threats and seize emerging opportunities.

Naturally, recommended practices and strategies consist of general guidelines, which must necessarily be tailored to the specific economic, social, political and administrative structure of the country and regions where the intervention is placed. While certain common principles can guide project interventions in very different contexts, care must be taken to ensure that applied concepts are well rooted in local realities.

2.2 Findings from country and regional workshops

This section highlights workshop conclusions, which provide additional insight into best practices and strategies for promoting rural non-farm employment and income. Emphasis is given to the importance of local markets, an area that has not been sufficiently addressed in the RIMISP study, and to institutional coalition strategies.

2.2.1 *The role of local versus non-local markets*

In line with RIMISP study findings, the strategic importance of non-local markets for the development of the RNFE – and rural areas in general – was one of the main conclusions emerging from the country and regional workshops. Given the low incomes that typically characterise rural areas, remunerative and dynamic sources of demand have often to be found elsewhere, in urban centres or abroad. Promoting access to non-local market opportunities through concerted efforts in areas such as economic infrastructure development, technology dissemination, training provision, credit delivery, group development, and market linkage was considered a priority.

In order to foster such developments, it was felt that much needs to be learned about the demand and supply dynamics associated with rural-based activities and effective ways to link rural producers to domestic and external markets. This process should include areas which are relatively isolated from wider markets but have the potential to develop natural resource-based “niche” products. Support to activities facing stagnant or declining demand over the long-term was deemed questionable. Such promotional efforts have been developed in India over the past decades – support targeted at the handloom sector being a clear example – but they have largely failed to improve or even sustain the real incomes of those involved due to structural changes in consumer preferences and competition from substitutes. The experience of certain organisations in Bangladesh which have been supplying urban centres with handicrafts, handlooms and milk produced in rural areas under contract was advanced as one possible model of intervention. Vertical contracting relations between urban and rural enterprises have played an important role in the industrialisation of rural areas in many Asian countries, and countries such as India and Bangladesh can learn much from these successful experiences.

In post-socialist countries the worst part of the transition seems to be over, and in many of them the economic recovery is now well underway. As national economies expand, and domestic market opportunities develop, rural households and enterprises must be prepared and assisted to take advantage of emerging market opportunities. This requires a good understanding of the nature of rural economic activities which are either expanding or have the potential to grow, and the constraints and opportunities they face. In most transition economies such knowledge is lacking. The identification of rural economic drivers and leveraged sub-sector interventions that are conducive to activity growth and employment creation was therefore deemed a priority.

Project and programme interventions can contribute to this process, as exemplified by one project aimed at piloting micro-enterprise development interventions in Russian national parks, which emphasises the development of eco-tourism and related activities. DFID rural livelihoods programmes in Moldova, Russia and Ukraine are also supporting rural tourism alongside other tradable activities such as wood processing and handicrafts.¹ Credit, training and advisory services are developed to ensure that enterprises meet market needs on a competitive and sustainable basis. However, because the main emphasis of these

¹ Interestingly, while these programmes have devoted much attention to agricultural development, namely through the promotion of production and marketing services provided on a commercial basis by local businesses and agencies, food processing activities have been somewhat neglected. This gap should be addressed in the future.

programmes currently lies in the development of services which cater for a local clientele, little attention has been paid to the promotion of linkages between project participants and potential clients or buyers. These linkages need to be strengthened, especially when activities with the potential to target distant markets are being promoted.

While the strategic role of outside markets was much emphasised during the workshops, participants also stressed the importance of local markets as a source of growth for the rural non-farm sector. The case of Bangladesh is particularly illustrative. Not only are its rural areas densely populated but they have experienced rapid growth of town centres and rising incomes over the past decades, largely as a result of agricultural modernisation. This has provided a remarkable boost to upstream non-farm activities, including manufacturing of farm equipment, irrigation pumps and spare parts; installation, repair and servicing of pumps and engines; and trading of agro-chemicals (Mandal and Asaduzzaman, 2002). In certain parts of the country, remittances from migrants working in urban areas and abroad is an important component of household income, and has fuelled local demand for a variety of goods and services. The impact of remittance income on construction and associated activities has been particularly strong (Mandal and Asaduzzaman, 2002).

Even when demand in a particular region is weak, there may still be scope for promoting profitable economic activity catering for a local clientele. This seems to be the case of many post-socialist economies where the supply of local services contracted severely since the start of the transition, leading to a situation of unfulfilled demand. To address this situation, the above-mentioned DFID rural livelihoods programmes are prioritising the promotion of services such as agricultural input and output marketing, retailing, repairs, transport, barber shops, chemist shops, tailoring and bars and restaurants. Although some of these services cannot be expected to fuel local economic growth, they represent an important source of income for those involved and can contribute to the well-being of rural dwellers. Other supported services – such as input and output marketing, transport and machinery repairs – have a direct link with the development of agriculture and other rurally-based economic activities.

However, it must be noted that increased local intermediate and final demand will not necessarily be met by local producers. For example, rural areas in India and Bangladesh are becoming increasingly integrated into the wider economy and therefore more and more exposed to competition from domestic and external sources, especially for manufactured goods. The decline of traditional cottage industries in India illustrates the adverse impact of outside competition on local economic activity. While project and programme interventions cannot by themselves reverse this situation, they can still play an important role in enabling local producers to meet changing local needs, thereby contributing to increased production and consumption linkages at the local level.

Business advisory services

The need for business advisory services was much stressed during the three workshops. In post-socialist transition countries, despite generally high and reasonably well distributed education levels in rural areas, existing skills are largely out of touch with the requirements of a market economy, making it difficult for individuals to adapt to a rapidly changing

market environment and exploit emerging employment and income opportunities. Accordingly, DFID rural livelihood programmes place much emphasis on training entrepreneurs in business development, accounting, cash flow projections, enterprise registration, and tax payment procedures. Business clubs are also being formed to encourage them to share their experiences, and plans exist to turn these clubs into business incubators.

Concerns were raised over the sustainability of these services. Autonomous and locally-based business advisory services, one-stop shops and mobile units being two possibilities, are sensitive to client needs and relatively immune to corruption practices, but difficult to sustain over the medium-term. This problem arises from the low ability to pay of self-employed entrepreneurs and micro-enterprises in rural areas. Government funding may therefore be required if these services are to continue being provided beyond the duration of the programme.

In Bangladesh workshop participants agreed that education and skill-enhancing programmes were one of the most effective strategies to support the development of the RNFE and promoting access by the rural poor to more remunerative employment opportunities. According to workshop participants, training initiatives should emphasise enterprise management, product design and quality, packaging and marketing skills. An expansion of business development services tailored to the needs of the private sector and sensitive to market realities was seen as a priority.

In India there was consensus among workshop participants regarding the important role of entrepreneurship development programmes in exposing producers to “best practices” and encouraging them to develop business initiatives. The need for these services and their specific content should be decided at local level. Local technical colleges should be encouraged to take initiatives in this area, whereas the co-ordination role should lie with entrepreneurship development institutes or colleges. The participation of the private sector was considered critical for the success of these schemes. NGOs can play an important role in reaching poor communities and individuals.

The view that business development services should form the core of any enterprise development programme was widely shared among the Indian workshop participants. For many enterprises, these services can make the difference between success and failure. The package will vary according to location and the activities promoted. It can include standardised services, such as technical or marketing advice for specific products and promotion of linkages to financial institutions, or consist of flexible services tailored to the specific needs of each entrepreneur. This latter option has considerable cost implications due to the skills required from service providers and the additional time that must be spent with clients.

Whatever the adopted model, the principle of cost-sharing should be intrinsic to any initiative in this area, with the contribution of clients increasing over time so as to ensure sustainability. Service providers would need initial financial support from government or donor funding agencies, which would be gradually phased out. In order to expand the pool and competence of business service providers, workshop participants recommended the

development of training delivery to organisations and entrepreneurs willing to venture into this area. The network of industrial training institutes could also be revitalised to provide selective inputs to rural entrepreneurs, and partnerships between these organisations and technical research institutions, large firms and consultants should be promoted. Industry associations should actively participate in the process.

Addressing credit access problems

Access to credit was found to play a critical role in successful enterprise development and household diversification into non-farm activities in India, Bangladesh and CEE/CIS countries. Interestingly, the experiences reviewed in the three workshops were more concerned with addressing some of the systemic problems associated with lack of credit, both from the demand and supply side, instead of merely channelling credit to entrepreneurs through programme and project funds.

DFID-funded rural livelihoods programmes in the CEE/CIS region illustrate different approaches for addressing the credit needs of rural entrepreneurs. For example, the Ukraine programme assists entrepreneurs to access start-up loans from local employment centres, supporting them in the design of business plans and linking them to the centres. In Moldova a similar programme is developing saving and loan associations. In Russia, DFID and the regional and local administrations pooled resources to constitute the loan capital of a rural development foundation. In another region, the same programme has supported the establishment of a rural credit co-operative.

Bangladesh has become a model for organisations across the developing world seeking to develop credit services for the poor. The remarkable expansion of micro-credit delivery systems over the past two decades has allowed many amongst the rural – and urban – poor to engage in non-farm income-earning activities. Despite these achievements, the fact that micro-loans have been used mostly in low-paid and often casual activities with very low entry and exit barriers, and that relatively few amongst the beneficiaries have managed to graduate to more remunerative self-employment, must be borne in mind. The development of micro-credit systems in Bangladesh has certainly played an important role in enabling the poor to develop diversified income portfolios and has enhanced their resilience to natural and social shocks. But while it has contributed to reduce the extent of extreme deprivation, on its own it has failed to lift the majority of beneficiaries out of poverty.

Furthermore, while much attention has been paid in Bangladesh to micro-credit services, the financial needs of other economic agents, namely small farmers and small-scale businesses, have been somewhat neglected. The need for reaching these important actors, for example by promoting formalisation of enterprises and effective and sustainable linkages with banking institutions, was stressed during the workshop. The importance of developing appropriate financial systems for a smoother, less costly and less risky transfer of remittances from abroad, which currently account for almost 4 percent of GDP, was also deemed important to facilitate productive investments within the rural economy. Finally, the need to develop export financing mechanisms was emphasised.

In India, despite the existence of a wide network of formal rural financial institutions, credit delivery systems suffer from many weaknesses and inefficiencies. These include delays in sanctions and disbursements, complicated systems and procedures, insistence on loan collateral, high transaction costs, and bureaucratic and political interference. Such problems have contributed to high default rates. Various government initiatives are currently in place to address some of these issues, but according to workshop participants further actions are required. In order to address collateral problems, there was a suggestion to create mutual credit guarantee funds by industry associations, with the support of financial institutions. Government subsidies in the context of promotional schemes should be replaced by interventions aimed at improving the overall business environment. Increased credit should be allocated to support service businesses, including those in the marketing sphere. Credit to the poor under government schemes must consider commercial viability criteria rather than be target-based, as has often been the case in the past.

Workshop participants in India felt the need for an integrated strategy to improve access to credit within the non-farm sector. Proposals included the creation of a special venture capital fund, to be set up by the central government and public rural financial agencies, with contributions from the private sector. The participation of multilateral donor agencies could be explored at a later stage.

Developing viable rural economic organisations

The role of projects in assisting the development of co-operatives and other community-based organisations was much emphasised during the CEE/CIS and India workshops. DFID Rural Livelihoods Programme in Russia and some former Soviet Republics support local co-operative schemes in the areas of credit, agribusiness services, and handicraft production and marketing. In many cases, the initiative has originated locally, with programme implementing agencies providing advisory services to emerging formal and informal associations and assisting them to access credit.

In India, great importance was attached to self-help groups as a strategy to enable small-scale producers to access remunerative markets, develop agricultural processing activities, and increase outreach of financial services. NGOs have been instrumental in the development of the self-help group movement. Since these groups often involve women, they were seen as an important element of strategies and interventions to bring about positive change in gender relations. Development of member-driven federations of self-help groups was regarded as a necessary step towards the creation of micro-credit institutions. Trade associations can also provide important services to members and were seen as deserving renewed attention and support. One area where they can successfully intervene is the promotion of exchange visits by entrepreneurs to disseminate successful experiences.

The challenges associated with the development of genuine, cohesive and well-managed rural economic organisations were acknowledged by workshop participants. Interventions to minimise intra-group conflicts and management problems include working with small groups based on social and kinship networks, encouraging transparent and participatory group functioning rules, providing training in leadership skills and dispute resolution,

emphasising capacity building in business management, and taking group capacity explicitly into consideration when providing business advice. Production skills imparted to members and identification of income-generating activities and market needs and requirements must go hand-in-hand to ensure commercial viability. At the same time, care is needed to avoid destroying member initiative and rush the process of group formation and development by subsidising its economic activities and seeking to achieve set targets.

Developing innovative and flexible institutional coalitions

The importance of institutional coalitions for successful promotion of rural non-farm employment and income was one key conclusion of the CEE/CIS workshop. It was recommended that donor conditions for project funding include the development of partnerships between different public and private stakeholders, both at national and local level, and that pilot initiatives are developed to test the appropriateness of different partnership models.

Some interesting models are currently being developed under DFID-funded rural livelihoods programmes. In Moldova, local government employment centres are responsible for providing professional retraining services and start-up loan provision to target programme clients. Village councils also co-operate by charging affordable rents for premises under their control to programme participants who have been assisted to develop much-needed community services. In Russia, the regional and local administrations have contributed to programme funding and have established a rural development foundation, which currently runs a credit programme, a rural consultancy centre, a third party arbitration court, and an agricultural input and output marketing agency. Also in Russia, a pilot programme aims to institutionalise enterprise development initiatives in the tourism sector within Russian National Parks. The success of the project is largely measured in terms of its capacity to influence national park management policy and strategy at federal level. Successes to date include the granting of protected area logo to certain parks, a crucial step towards mobilising state resources, improving park management, and attracting increased tourist flows.

Broader institutional aspects were discussed during the CEE/CIS workshop. Dialogue and co-operation between the government, donor agencies, the commercial sector and civil society were considered critical for building a much-needed national, long-term vision of rural development. Such vision must account for the comparative advantage of different regions and rural-based activities, existing and potential drivers of growth, private sector needs, linkages between agricultural and non-agricultural activities, and between rural areas and urban centres, and the aspirations of rural populations. A broad-based process of vision building, both at the national and local levels, should lead to the identification of policy and regulatory bottlenecks and infrastructural constraints to rural enterprise development, and should inform policy and regulatory reform and public investment decisions. In most post-socialist transition countries, the adverse business environment in rural areas discourages domestic and foreign investment, undermines enterprise development, and reduces the impact of local RNFE project and programme interventions.

However, the development of public-private partnerships and an enabling institutional framework at local, regional and national level presents considerable challenges. Most post-socialist economies experienced a significant erosion of the institutional and technical capacity at all levels of the state apparatus since the start of the transition, a process that has been accompanied by an increase in corruption levels and a growing mistrust in state institutions. The difficulties in bringing rural poverty and development issues into government agendas are further exacerbated by a context of overloaded and complex reform processes and tight budget constraints. Finally, in many transition countries there are at present too many agencies with complementary and overlapping influences on the small and medium-size enterprise sector, a situation that reduces accountability and responsibility, leads to high co-ordination costs, and undermines the development of consistent policies and interventions. The need for streamlining these agencies and reducing their number was therefore stressed during the CEE/CIS workshop.

Broader institutional issues were also examined in the India workshop. The idea of having a “mega-ministry” responsible for promoting the RNFE was not well received. Participants generally favoured efforts for improving co-ordination across departments and ministries. Common policy guidelines on cross-cutting issues such as subsidies and gender were deemed necessary. Improved planning and information-sharing at district level was emphasised, but given the proliferation of district-level bodies, this should not involve the creation of new ones.

The question of which institution or agency should lead efforts towards the development of the RNFE was also discussed at the Bangladesh workshop. There was considerable debate around this question and a number of options were considered. One proposal was to create a separate division within a relevant line ministry, for example the Ministry of Industry, to co-ordinate relevant actions and avoid the current situation, in which efforts are scattered across a large number of government agencies, departments and ministries. However, some participants felt that the creation of new bodies should be avoided. Some also highlighted the inertia or reluctance of government to reform institutions and services, and it was suggested that donors and civil society organisations should intensify dialogue and co-operation with government institutions to address key policy areas and to develop appropriate RNFE interventions.

3 Some remaining issues

The RIMISP study and San José workshop produced a series of guidelines for projects and programmes which aim to develop the RNFE in a cost-effective and sustainable manner. The three other workshops reviewed in the previous section provided additional insights. Study and workshop findings stressed the need for targeting dynamic and remunerative markets, for forging links between rural producers and buyers, and for assisting the former to access the required inputs and gain the necessary skills. Enhancing access to credit was considered critically important. Producer organisations were seen as playing an important role in enabling producers to successfully compete in distant markets. Strategic use of subsidies was deemed essential for ensuring sustainability. Coalitions between projects and a wide range of public and private institutions were proposed as a strategy to improve service delivery, improve the supply of public goods, and achieve sustainability.

However, isolated studies and workshops cannot be expected to address all relevant issues. The purpose of this section is to highlight some important and somewhat related questions which were left more or less unanswered.

3.1 Who benefits most from RNFE interventions?

An understanding of project clients' profile offers useful insights into the impact of RNFE interventions on poverty and local development dynamics. In most case studies, there is no detailed characterisation of project clients. The fact that female participation is in many cases significant is established. However, the claim that many case-study initiatives have directly targeted poor households and individuals within project areas, although true in some cases, constitutes perhaps an overstatement. Participation by the poorest, in particular, seems rare. Apparently, the majority of project clients belong to the middle strata of rural communities.

The emphasis given to non-farm activities with potential to explore dynamic markets outside local areas their surrounding areas and to stimulate local economic development limits the scope for channelling direct support to the poor, and the poorest in particular. The latter tend to lack the minimal asset base and risk-bearing capacity required for participation in such ventures in a capacity other than as wage labour. For example, landless and marginal farming households cannot participate in many initiatives that work with farmers to add value to their agricultural production. Further, the most remunerative manufacturing and service activities have investment, working capital and skill requirements which are often beyond the capacity of the poor. Generally, the more ambitious the marketing strategy, the greater the potential for financial gain but also the higher the risks incurred and the entry barriers.

However, the poverty-focus of RNFE interventions cannot be judged merely by the profile of those who receive direct project assistance. RIMISP study authors stress the need for project agencies to support activities which can serve as local development engines due to their growth potential and the consumption and production linkages associated to them. Therefore, even when the poor are largely excluded from such activities as self-employed or entrepreneurs, they may still benefit from improved local wage opportunities and

increased intermediate and final demand for goods and services which they may be able to supply.

In contrast, initiatives targeting the poor and residual activities may generate some direct benefits to participants, but have few employment and income linkages, with benefits being largely confined to project clients. Moreover, the poor tend to be involved in low-return activities catering for saturated markets, in which case the benefits accruing to project clients may be limited and crowd-out other, also poor, unassisted producers.

In short, project agencies must consider the implications and impact of different options with regard to target programme and project clients, taking budget constraints into consideration. Greater participation by the poor may be desirable from a distributional viewpoint, but may have negative cost-effectiveness implications due to the extent of assistance required, the limited direct and indirect benefits generated, and the possibility that direct gains are made at the expense of producers. Support to higher-return, higher-growth activities may not translate into significant self-employment creation in those activities amongst the poor, but can make a significant contribution to poverty reduction via direct and indirect employment effects. The extent of trickle down will depend on the intensity of labour utilisation in supported activities and the magnitude of growth multipliers.

3.2 How to intervene in resource-poor, low-potential areas?

The economic potential of a particular rural area largely depends on its natural resource base, including for example the quality of agricultural land and its mineral and forestry endowments. Location is another important determinant of economic potential due to its impact on market access. Low-potential areas tend to score low on both accounts, in that they lack the economic resource base and suffer from remoteness. The economic and social infrastructure is generally poor and human capital levels are low. Because of the lack of economic opportunities, these areas normally export labour to other more prosperous regions within the country or abroad. It is important to note, however, that not all under-developed regions have low economic potential. Some may possess resources and dormant engines of growth which have not been developed due to infrastructural constraints, bad governance, conflict, or other reasons.

The categorisation of regions into high- and low-potential is not always straightforward. Further, the economic potential of a region can be assessed in absolute terms or seen in the context of a particular country, in which case economic potential is assessed in terms of its position vis-à-vis other regions within the country. From an RNFE intervention perspective, this latter approach is perhaps preferable. A country may as a whole have relatively limited economic potential, but some of its regions will face greater growth and development opportunities than other. National and international development agencies may want to focus on higher-potential regions, or instead prioritise those where poverty levels are most acute and the economic base weaker.

Whilst RNFE interventions in low-potential areas may be desirable from a poverty reduction perspective, project agencies must be well aware of the difficult challenges

ahead. Given the paucity of growth engines, infrastructural development in these regions may generate few employment and income opportunities while exposing them to increased competition from the outside, a scenario that would exacerbate economic distress and intensify migration outflows. In these adverse environments, the higher intervention costs, the need for a longer intervention timeframe, the difficulties of generating significant impact, and the potential sustainability problems must also be borne in mind. Still, even resource-poor regions may offer scope for cost-effective, demand-driven interventions. Livestock, forestry, fisheries or handicraft activities can often be targeted. Cultural specificities and natural beauty may in some cases present opportunities for developing tourism.

Despite the fact that some case study programmes and projects have intervened in poor communities and areas, knowledge on how to promote the RNFE in remote and low-potential areas is still insufficient. What sort of interventions should be developed for resource-poor and remote areas which lack clear growth opportunities? What sort of balance should be reached between support to higher and lower potential regions? Resources are scarce and difficult allocation choices must be made.

3.3 How to develop private service activities?

Services are weakly represented in the studied RNFE interventions, which emphasise manufacturing activities, especially food processing. Within the case studies that involve service activities, tourism clearly predominates. Biases in the sector composition of RIMISP case studies are partly a consequence of the fact that many RNFE project interventions in Latin America reflect local communities' interest in adding value to their agricultural production. These imbalances may also result from insufficient knowledge by programme and project designers of recent empirical work showing that in Latin America services account for a much larger proportion of RNFE incomes than manufacturing (Reardon et al, 2001).

Service activities (other than tourism) could perhaps have been better represented in the RIMISP study. The fact that they are not may reflect the authors' emphasis on market-oriented interventions with potential to fuel local economic growth. Food processing and tourism clearly fit into this category. The former benefits from wider demand trends linked to urbanisation and increased incomes, and the associated change in consumption habits towards processed foods, while the latter is one of the fastest-growing industries globally, facing rapidly expanding domestic and international demand.

In contrast, most services cannot be considered true engines of local economic growth. Many are non-tradable, even within a particular region, catering for a rather localised demand². Generally, these activities are unable to take advantage of significant and dynamic sources of demand outside relatively circumscribed areas to take advantage of higher population densities and incomes. Their fortunes are heavily dependent on other

² Government services such as local administration and the provision of primary and secondary education, health care, policing and postal services clearly fit into this category. The same could be said of activities like retail trading, barber services, restaurants, and repairs.

local economic drivers, such as the expansion of government administration and services or the growth of agricultural production and processing, tourism, and timber or mining industries. Incomes generated by positive developments in these activities may then translate into local growth linkages arising from increased consumption levels, higher demand for inputs and support services, and value addition. In many contexts, some local services are quick to respond to these opportunities.

Yet, the fact that services are important to the livelihoods of many poor rural households cannot be neglected, nor can the fact that some of them play a supportive role in the development of key sub-sectors³. While it is true that in the past RNFE interventions have shown a tendency to overlook such activities, this feature may be somewhat overstated. Some examples of micro-credit and micro enterprise development initiatives in Latin America with clear impacts on rural service activities could have been assessed. An evaluation of these experiences could then translate into lesson learning and the development of guidelines for rural service activity promotion. Dissemination of this work could prove important in addressing current sector imbalances within RNFE initiatives.

3.4 What role for wage employment promotion?

Nearly all studied interventions emphasise self-employment. This contrasts with recent empirical evidence, which shows that in rural Latin America and South Asia non-farm wage employment is equally – if not more – significant (Mandal and Asaduzzaman, 2002; Reardon et al, 2001). The excessive focus on self-employment may perhaps result from perceptions of its less exploitative nature and its strategic importance for poverty reduction. Although true in some contexts, these perceptions are debatable. Integration of the poor into the labour market can prove a much valid complement, and sometimes superior alternative, to strategies centred on self-employment promotion in the informal or formal sectors.

Increased emphasis on the development of rurally-based, non-farm small and medium enterprises can contribute to direct and indirect employment creation, a tightening of local labour markets, and increased real wages and incomes (Lanjouw and Feder, 2002). From a project perspective, small and medium enterprise development has leverage or cost-effectiveness potential, in that focussed support to a relatively small number of players can benefit many rural households, including the poor.

A greater balance between promotion of self-employment and support to small and medium enterprise development has implications in terms of the spatial focus of programme and project interventions. The latter requires using rural town centres as an entry point to a much larger extent, since small and medium enterprises tend to locate in centres where they can benefit from improved access to services, economic infrastructure, markets, and labour.

Although there may be some scope for project support to large enterprises, this option is limited since external bottlenecks to firm growth tend to dominate. Because of their costly

³ This is the case, for example, of repair, trading and transport activities.

and public good nature, external constraints are largely beyond the intervention capacity of individual projects, and must be addressed through selective sub-sector interventions by local and central governments and project networks. Key bottlenecks may include, for example, inadequate power and water supply, poorly developed telecommunications, weak transport infrastructure and services, excessively high import duties on inputs, deficient market promotion abroad, excessive red-tape and cumbersome licensing procedures, and inappropriate taxation laws. Clearly, these constraints also affect small- and medium-size enterprises.

3.5 How to ensure sustainability?

Most sustainability analyses are conducted before, during or immediately after project interventions, often as part of project design, monitoring and evaluation. The analysis undertaken is generally forward-looking and somewhat speculative rather than based on objective indicators. Comparative analyses of different case study experiences are rare. Sometimes, those involved in the analysis lack the incentives to undertake an objective and critical assessment or disseminate findings to a wide audience. For all these reasons, and despite many decades of rural development interventions, not enough is known about sustainability. Dissemination of lessons learned has also been erratic and far from effective in changing perceptions and practices.

Future research should address current knowledge gaps and stress dissemination among relevant agencies and organisations. Focussed case studies, conducted by independent analysts some time after projects or programmes have phased out, could prove rather useful. Examples of similar strategies which have succeeded or failed in different parts of the world would be particularly illustrative.

3.6 How to institutionalise the rural non-farm economy?

The highly fragmented institutional framework under which the RNFE operates is not the most conducive to supportive public investment and policy change. The importance attached in the RIMISP study to strategic and flexible institutional partnerships as a way of meeting project objectives and achieving sustainability takes this complex institutional environment explicitly into account. Haggblade et al (2002) also advocate “institutional opportunism” as a way of working across a multitude of relevant agencies, with coalition strategies developing according to the interest and capacity of different institutions to jointly promote specific sub-sector activities and address the needs of particular sub-sector players.

While “institutional opportunism” within a sub-sector framework certainly makes sense from a project perspective, it may prove inadequate as a general basis for effective and pro-active interventions in support of the RNFE. The main problem with this approach arises from insufficient recognition of the role of central, regional and local governments in providing a structure for co-ordinated dialogue and action by a wide range of public and private institutions, in mobilising efforts and resources across these institutions, and in addressing critical constraints and opening-up opportunities through strategic investments and policy reform. Generally, pro-active and pro-poor rural development agendas,

involving a variety of stakeholders, are more likely to develop if institutionalised within government, instead of being left to the initiative of other actors, such as international donors or NGOs.

The need for institutionalising the RNFE has become more evident as a result of the growing tendency for donors to direct funds through the national budget, generally in the context of sector-wide approaches. This tendency signals the growing recognition amongst donors of the critical role of governments in defining sector priorities and allocating public resources to meet national development objectives. In this context, the institutionalisation of the RNFE enhances the chances that the needs of non-farm economic activities are accounted for in the expenditure plans of different line ministries and that required RNFE project and programme interventions continue to be promoted alongside public investment and policy actions.

There is no straightforward and universal model for the successful institutionalisation of the RNFE or particular sub-sectors with a strong rural dimension. Different approaches must be tried, depending on the country and its institutional landscape. However, the creation of top-down and expensive bureaucracies which characterised many past experiences must be avoided (Haggblade et al, 2002). This institutionalisation process can be based within existing bodies, such a sub-sector or rural development agencies, or involve the creation of new ones. Whatever the format, new structures should essentially play a facilitator and technical role and serve as information channels between different stakeholders and the relevant government agencies.

One possibility consists of creating small secretariats supported by consultative forums and structured around key sub-sectors and/or themes. Thematic bodies and forums are especially relevant in contexts where problems and opportunities cut across sub-sectors, as in the case of rural-based private sector development or agro-industrial export promotion. In some contexts, there may be a need for a regional, multi-sector focus. The role of technical secretariats would be to manage consultation processes in a participatory way, initiate studies and reviews, identify needs and opportunities, and instigate action as and where required. The latter may include projects and programmes, to be implemented by government and/or non-government agencies, with or without public funding. This type of experiences is in place in many countries and should be subject to close scrutiny for lesson learning and dissemination purposes.

Clearly, genuine institutionalisation of the RNFE requires a long-term rural development vision. Many actors can sensitise the government about the need for an institutional framework, and contribute with financial resources and technical expertise, but the effectiveness and sustainability of such efforts ultimately depend on governments allocating sufficient funds to ensure proper staffing and functioning of technical and consultative bodies, and giving them proper institutional recognition and weight. Different government agencies and departments must be responsive to consultation outcomes and technical recommendations. At the same time, it is crucial to ensure that rural interests are well represented and that their views are taken on board.

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