Bringing the Poor into a Growth Agenda
What Role for Africa's Rural Nonfarm Economy?

By Steven Haggblade

How important is the rural nonfarm economy to Africa's poor?

Across rural Africa, nonagricultural earnings account for roughly one-third of total income (Table 1). Highly seasonal, nonfarm activity fills in labor troughs in the agricultural calendar (Figure 1). Despite a common emphasis on rural industries, manufacturing typically accounts for only 20-25% of rural nonfarm employment, while trade, transport, construction and other services account for 75-80%. Apart from sorghum beer brewing, rural manufacturing remains limited across most of Africa. Remittances from urban areas prove important in some locations, particularly in areas with large mining labor exports. But, over all, local rural services, commercial and other business activity account for 80% of rural nonfarm earnings (Table 1).

Policy interest in the rural nonfarm economy arises because of the large scale of nonagricultural earnings, because of its frequently low capital requirements and because of its consequent ability to employ large numbers of poor rural workers. Indeed, many poor laborers work in rural nonfarm activities. But so, too, do many skilled, well-off workers. This duality arises because the rural nonfarm economy houses a highly heterogeneous collection of trading, agroprocessing, commercial, manufacturing and service activities. The scale of individual rural nonfarm businesses varies enormously, from part-time self-employment in household-based cottage industries to large-scale agroprocessing and warehousing facilities operated by large multinational firms. The enormous variety of rural nonfarm activities results in widely varying productivity and profitability (Table 2). Returns vary substantially, normally as a function of differing physical and human capital requirements. Poor men and women dominate low-return activities, such as daily wage labor, small-scale trading and unskilled wage labor used in construction, portering and many personal services. In contrast, white-collar jobs in teaching, medicine, accounting and administration figure most prominently among higher-income households. Because of the differing equity impact of its various components and because of the differing composition of nonfarm activity across settings, the overall impact of nonfarm earnings on rural income distribution remains mixed (Table 3). As a result, the rural nonfarm economy remains bifurcated, with high-productivity nonfarm pursuits dominated by educated workers and those with financial capital, while the unskilled and immobile, often female, workers predominate in the low-productivity segment of the rural nonfarm economy.

What drives rural nonfarm growth?

Two principal motors drive growth of the rural nonfarm economy. In the early stages of economic development, agricultural growth largely governs the magnitude and rural nonfarm opportunities through a variety of consumption, production, labor and capital market linkages. At later stages of economic growth, as in much of East Asia, urban and export markets come to dominate as drivers of rural nonfarm growth. Today, across most of Africa, agricultural growth linkages dominate as the driver of rural nonfarm growth.

Studies of agricultural growth linkages, from a variety of African countries, suggest that every dollar of increased agricultural income generates roughly an additional 30 to 50 cents in rural nonfarm earnings (Haggblade, Hazell and Dorosh, 2007). Demand linkages from prosperous farm households stimulate consumer demand for rural services such as education, construction, entertainment, transport and personal services, while increased output opens new opportunities for rural agro-processing and trade. Many of the nonfarm spinoffs from agricultural growth cluster in rural towns (Table 4).

Where demand for agricultural labor increases, with growing intensity of agricultural production, nonfarm wages rise as well. These labor market linkages drive nonfarm workers into increasingly higher return nonfarm pursuits. Capital market linkages accelerate these mutually reinforcing interactions between agriculture and the rural nonfarm economy. While nonfarm activity benefits from growing demand as agricultural incomes rise, higher nonfarm earnings in turn feed back and accelerate agricultural growth by providing seasonal financing for agricultural inputs necessary to further raise farm productivity. As a result, agriculture and rural nonfarm productivity typically move together, either upwards in a mutually reinforcing ascending spiral or in an immiserizing, mutually reinforcing downward vortex.

Policy implications

The foundation of an effective strategy for stimulating rapid growth in rural nonfarm income centers on promoting productivity growth in smallholder agriculture. Indeed, regions with stagnant agricultural performance typically see workers pushed into increasingly low-return nonfarm activities and outmigration. Yet in regions where agriculture has grown robustly, the rural nonfarm economy has also typically enjoyed rapid growth. But the composition of agricultural growth matters as well. Evidence from a variety of settings suggests that broad-based agricultural growth leads to higher local spending on rural nonfarm goods and services. In contrast, growth in large-scale commercial agriculture typically generates economic linkages with urban centers which supply services, imported farm equipment and consumer goods demanded by wealthy commercial farmers.

Secondly, investment in rural town infrastructure can accelerate the growth and productivity nonfarm activity in rural regions. To exploit economies of scale and scope, many nonfarm commercial and service activities cluster in small towns within agricultural regions. Moreover, because of significant economies of scale in the supply of power, communication, water and sanitation services, public investments in rural town infrastructure can generate high payoffs in terms of facilitating rural nonfarm growth. A conscious policy of building up basic infrastructure in rural service centers will bolster not only nonfarm business opportunities but also farm productivity by deepening the network of agro-dealers that supply inputs and market outputs of surrounding farm households.

Finally, long-term investments in rural education and health are required to enhalnce the human capital and upward mobility of the rural poor. A growing rural nonfarm economy does not, by itself, guarantee access by the poor. For nonfarm earnings to offer a pathway out of poverty, rural households and policy makers must invest in rural education and health in order to improve the human capital stock of the poor. At the same time policy makers will need to remove economic and social barriers that limit poor peoples' entry into lucrative nonfarm professions. Fluid labor markets, with good transport 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 rural nonfarm economy.

References

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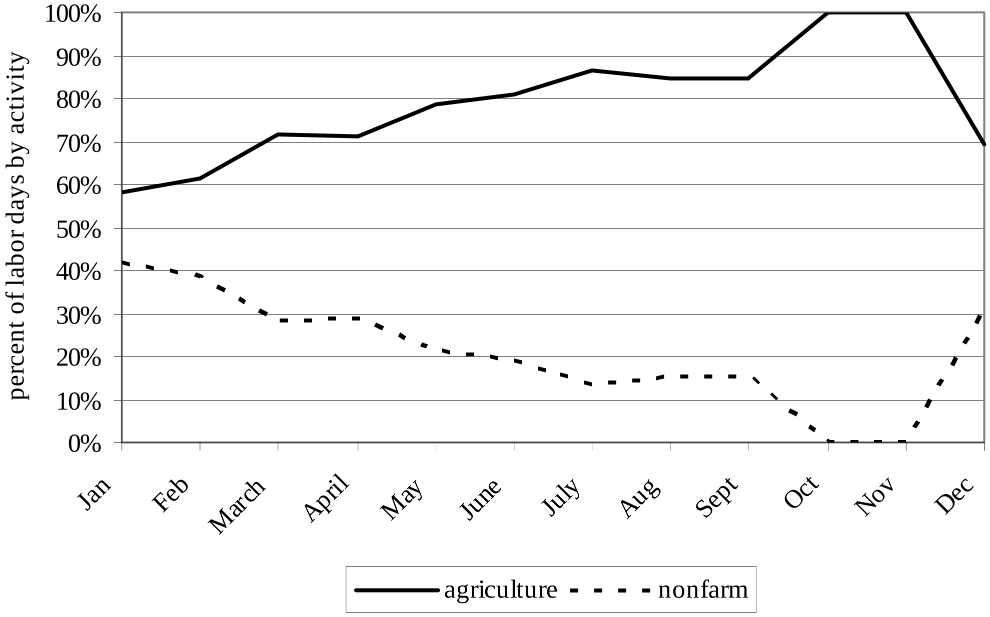
Figure 1. Seasonality of rural non-farm employment, Ethiopia 1993



Source: Habtu (1997)

Table 1. Non-farm share of rural income

Region	Nonfarm share of rural income		
	total nonfarm earnings	local nonfarm business and employment	transfers and remittances
Africa	34%	28%	6%
Asia	51%	40%	11%
Latin America	47%	41%	6%

Source: Reardon et al. (2007).

Table 2. Returns to labor in rural non-farm activities, Darfur Sudan 1993

Nonfarm activity	Income per day (Sudanese pounds)	Sector
tabag making	10	manufacturing
carpet making	21	manufacturing
pot making	23	manufacturing
tea selling	60	commerce
water peddling	75	commerce
food selling	80	commerce
shoe making	150	manufacturing
blacksmithing	150	services
construction	180	services

Source: Haggblade, Hazell and Reardon (2007).

Table 3. Mixed equity impact of rural non-farm income

Quintile	Rural Nonfarm Income as Share of Total Income					
	Equity enhancing		Neutral		Inequitable	
	Egypt, 1997	Pakistan 1989	India 1999	Ethiopia 1990	Ecuador 1995	Viet Nam 1997
poorest	59%	75%	32%	32%	22%	40%
2nd	52%	63%	39%	-	37%	42%
3rd	51%	36%	38%	30%	37%	50%
4th	53%	33%	39%	-	46%	60%
highest	38%	21%	31%	31%	64%	82%

Sources: Lajouw (2007).

Table 4. Locational Distribution of Agriculturally Induced Nonfarm Income Growth

	Change in agricultural income	Resulting nonfarm income gains	Nonfarm income increments per $ of farm income gain		
			rural	towns	total
North Arcot, India 1982 (millions of rupees)					
rural	408	111	0.27		
urban villages	13	18			
regional towns	8	200			
total	428	329	0.26	0.51	0.77
Kutus Region, Kenya 1987 (millions of shillings)					
rural	61	17	0.28		
regional town	3	8			
total	64	25	0.26	0.13	0.40
Michoacan Region, Mexico 1984 (thousands of pesos)					
rural	129	43	0.33		
regional town	90	5			
total	219	48	0.19	0.02	0.22

Source: Haggblade, Hazell and Dorosh (2007).