

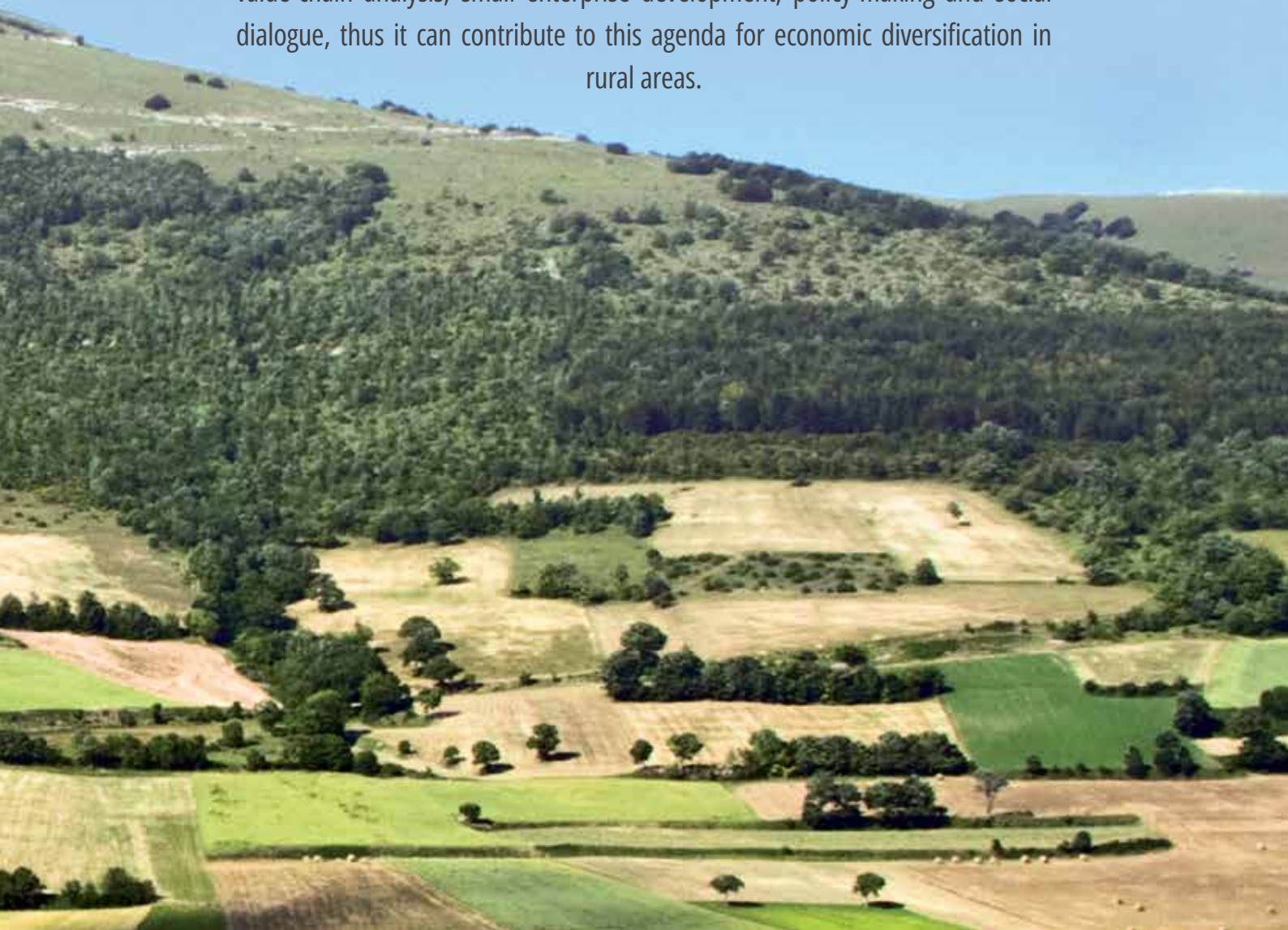


International  
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# Economic Diversification of the Rural Economy

**DECENT WORK IN THE RURAL ECONOMY  
POLICY GUIDANCE NOTES**

Rural economic diversification, both within agriculture and into non-agricultural activities, has significant potential to reduce poverty, increase coping mechanisms in face of crop failure or price volatility, and improve food and livelihood security of rural households. While approximately 20 to 50 per cent of the rural population in Africa, Asia and Latin America is employed in non-farm work, a large share of the population continues to depend on agriculture for their livelihoods. A dynamic agricultural sector should therefore be at the centre of rural development strategies, creating better jobs in the sector and, at the same time, enabling the growth of non-farm activities in the rural economy. To secure the potential of economic diversification for poverty reduction and decent work, three main policy priorities are suggested: strengthening family farms; developing the food product markets, breaking down the barrier of risk for the producer; and implementing this in the framework of territorial policies that strengthen rural-urban linkages through the promotion and development of the service functions of small cities and country towns. The International Labour Organization (ILO) has relevant technical expertise in sectoral policies, training, local economic development, value-chain analysis, small enterprise development, policy-making and social dialogue, thus it can contribute to this agenda for economic diversification in rural areas.



## 1. Rationale and justification

The rural economies of lower-income countries remain characterized by the significant weight of largely subsistence-driven agriculture. According to surveys conducted in 26 rural

areas of seven developing countries (Kenya, Madagascar, Mali, Mexico, Morocco, Nicaragua and Senegal), 93 per cent of surveyed households own a farm.<sup>1</sup>

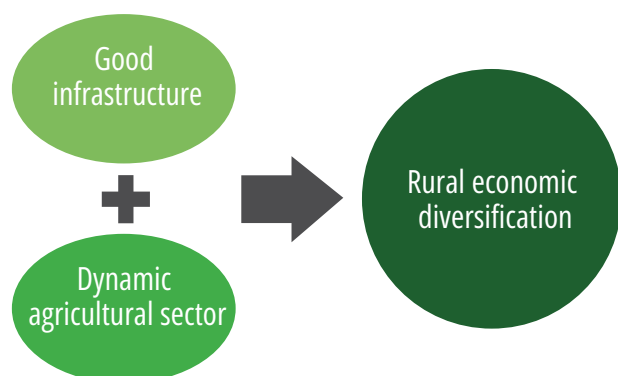
**Table 1. Agricultural employment and productivity by national income level, latest year available**

	Agricultural employment (% of total employment)	Agriculture (% of GDP)	Cereal yield (kilograms per hectare)	Agricultural productivity (value added per worker, 2005 \$)
	2010-12	2012	2013	2013
<b>World</b>	30.5	3	3,851	1,201
<b>Low income countries</b>	-	28	2,146	336
<b>Middle income countries</b>	37.6	10	3,752	1,060
<b>Lower middle income</b>	43.1	17	3,101	937
<b>Upper middle income</b>	29.5	8	4,400	1,159
<b>High income countries</b>	3.5	1	4,916	18,497

Source: World Bank: World Development Indicators 2014 (Last updated date 16 Dec. 2014).

Poverty is generalized in rural areas. The proportion of the population below the national poverty line in rural areas ranges between 84 per cent in Zimbabwe and 42 per cent in Papua New Guinea. It is on average 2 to 3 times higher than urban poverty, except in Viet Nam and Cameroon, where it is 4.5 times higher. In such a context of poverty, people in rural areas of low and lower middle income countries concentrate on minimizing risks and seeking food security by producing food for self-consumption.

If countries are to reduce poverty rapidly, developing a dynamic agriculture sector and diversifying into non-agricultural activities must be key objectives.<sup>2</sup> The development of non-farm economic activities is largely a consequence of growth of agricultural production. For example, in South-East Asian economies, it was the prosperous agricultural sector that ultimately generated surplus wealth, which helped to fund investment in industrial enterprises. The prospects for economic diversification and the shift from farm to non-farm sectors are thus brightest in well-connected rural regions with rapidly growing agricultural sectors.



<sup>1</sup> B. Losch, S. Fréguin Gresh and E. White: *Rural Transformation and Late Developing Countries in a Globalizing World. A Comparative Analysis of Rural Change*, Final Report of the RuralStruc Program, Revised Version, Washington, DC, World Bank, 2011.

<sup>2</sup> UNCTAD: *The Least Developed Countries Report 2014: Growth with structural transformation: a post-2015 development agenda*, Geneva, 2014.

## 2. Scope and definitions

The rural economy encompasses a diversity of livelihoods; it is not limited only to the agricultural sector and production of primary goods.<sup>3</sup> Broadly, the rural economy may be categorized into: the agricultural/farm sector producing primary goods; and the non-agriculture/non-farm sector, which includes all non-agricultural economic activities that generate income for rural households.<sup>4</sup> Thus, non-farm sector activities are highly heterogeneous, including mining, manufacturing, utilities, construction, commerce, tourism, transport, and financial, personal and government services. Economic diversification of the rural economy refers to the shift from agriculture to non-farm sector activities within rural areas, or to the diversification of economic outputs within these sectors.

There is considerable evidence that agricultural growth and productivity is an important engine to ensure such a transformation.<sup>5</sup> Increasing the productivity of the agricultural sector has significant multiplier effects in stimulating other sectors of the rural economy. In areas where there has been a robust growth in the agricultural sector, the rural non-

farm economy (RNFE) has also rapidly expanded, leading to increased income and stability for rural populations.<sup>6</sup> Studies on growth linkages suggest that each dollar of additional value added in agriculture generates between US\$0.6 to US\$0.8 of additional income in the RNFE in Asia and US\$0.3 to US\$0.5 in Africa and Latin America.<sup>7</sup> Today, the impact of economic diversification of rural economies through the growth of the RNFE as a response to a productive agricultural sector is increasingly recognized as an important driver for structural transformation in developing countries.<sup>8</sup>

The creation and sustainability of production and consumption linkages between sectors is an important component of economic diversification in rural areas.<sup>9</sup> Farm and non-farm economies are linked through production activities and also indirectly through linkages of income or investment. Production linkages could occur when agricultural sector growth leads to expanding inputs and services into the non-farm sector, or when non-farm sector activities -- like agro-processing and distribution that rely on farm inputs -- increase demand for farm products.<sup>10</sup>

**Table 2. Growth linkages: Agriculture to Non-farm Sector, by sector**

Linkage to Agriculture	Secondary Sectors (Construction and Manufacturing)	Tertiary Sectors (Trading and Services)
Production: Forward linkages	Processing and packaging industries. Construction of storage and marketing facilities	Transport and trade
Production: Backward linkages	Agricultural tools and equipment	Agricultural and veterinary services. Agrochemicals. Input supply
Expenditure: Consumption	Household items and home improvements	Domestic services. Transport. Sale of consumer goods

Source: D. Start, *The Rise and Fall of the Rural Non-farm Economy: Poverty Impacts and Policy Options*, Development Policy Review, Vol. 19 (4), pp. 491-505, 2001.

<sup>3</sup> J.R. Davis and D. Bezemer: "Key emerging and conceptual issues in the development of the RNFE in developing countries and transition economies", NRI Report No. 2755, Chatham Maritime (Kent), Natural Resources Institute of the University of Greenwich, DFID and the World Bank, July 2003.

<sup>4</sup> J.R. Davis: "The Rural Non-Farm Economy, livelihoods and their diversification: Issues and options", NRI Report No. 2753, Chatham Maritime (Kent), Natural Resources Institute of the University of Greenwich, DFID and the World Bank, July 2003.

<sup>5</sup> S. Haggblade, P. Hazell and T. Reardon: "The Rural Non-farm Economy: Prospects for Growth and Poverty Reduction", in *World Development* (2010, Vol. 38, Issue 10, October), pp. 1429-1441.

<sup>6</sup> Ibid.

<sup>7</sup> S. Haggblade, P. Hazell and P. Dorosh: "Sectoral growth linkages between agriculture and the rural non-farm economy", in Haggblade, Hazel and Reardon (eds.): *Transforming the Rural Nonfarm Economy* (Baltimore, Johns Hopkins University Press, 2007), pp. 141-182.

<sup>8</sup> ILO: "Why agriculture still matters", in *World Employment Report 2004-05*, Geneva, 2005, pp. 127-182.

<sup>9</sup> The growth literature identifies two major types of farm/non-farm linkages: production and expenditure. Forward production linkages occur when a part of the non-farm sector uses agricultural output as an input. Backward production linkages refer to linkages occurring when the non-farm sector provides inputs for agricultural production, for example agrochemicals. Expenditure linkages can be divided into consumption and investment linkages: consumption linkages refer to expenditures related to household consumption; investment linkages refer to expenditure used to finance farm or non-farm activities. B. Davis, T. Reardon, K.G. Stamoulis and P. Winters: "Promoting farm/non-farm linkages in developing countries", in B. Davis, T. Reardon, K.G. Stamoulis and P. Winters (eds.): *Promoting farm/non-farm linkages in rural development: case studies from Africa and Latin America*, Rome, FAO, 2002, pp. 1-9.

<sup>10</sup> Davis and Bezemer, 2003, op. cit.

The process of economic diversification therefore depends heavily on the productive performance of the agricultural sector, which creates demand and supply for the non-farm rural economy. This process is already underway in a number of transitioning and developing countries, where between 40 to 70 per cent of rural incomes and jobs are drawn from the non-farm sector.<sup>11</sup> The structure of rural employment varies across developing regions. Off-farm work employs approximately 48 per cent of men in the rural economies of Latin America, the Caribbean, South Asia, and the Middle East and North Africa, 38 per cent in East Asia and the Pacific, and 20 per cent in rural sub-Saharan Africa. For women, the proportions tend to be lower.<sup>12</sup>

Patterns of rural employment in developing countries demonstrate that most households do not specialize in either agriculture or non-farm activities, but seek incomes from a combination of farm and non-farm sources. Thus, household participation in the non-farm economy may be part-time or seasonal.<sup>13</sup> The decision to diversify incomes in rural households tends to be based on “push factors”, such as risk reduction, reaction to crisis, liquidity to stabilize income flows, or due to “pull factors”, i.e. through the realization of strategic opportunities or complementarity between different productive activities.<sup>14</sup>

To secure the potential of economic diversification for poverty reduction and decent work, three main policy priorities are suggested:<sup>15</sup>

1. Strengthening small farms, because they employ the vast majority of the agricultural labour force, represent the largest production and employment potential, and generate the biggest share of rural incomes. A dynamic development

of small farms can serve as an engine for the development of a vibrant and diversified local economy, while at the same time small farms depend on the local economy for inputs, services and as a market for their products. On the other hand, large commercial farms or plantations, though often characterized by decent work challenges, may not, need a diversified local economy to flourish as they can link up directly to more distant urban markets.

2. Developing food product markets, breaking down the barrier of risk for food-crop producers: The risk-averse strategies of farmers, combined with difficulties in linking to international markets, explain the predominance of food-crop production – mainly cereals and root crops – in the choice of producers. The link to international markets, when it exists, happens primarily via traditional export crops (cotton, groundnuts, coffee), which mobilize traditional trade circuits. High value-added exports are generally very localized, linked to specialized operators and benefit only a low proportion of agricultural holdings. Food product markets at the national and sub-regional levels remain the most accessible. They also benefit from strong and sustainable demand. Developing food product markets, and reducing risk for the producer, is central for innovation and rural diversification.
3. Implementing such an approach must take place in the framework of territorial policies aiming at strengthening rural-urban linkages through the promotion and development of the service functions of small cities and country towns, often neglected in favour of larger metropolitan cities.

<sup>11</sup> Davis, 2003, op. cit.

<sup>12</sup> ILO: *Skills for Rural Employment and Development*, Skills for Employment Policy Brief, 2014; World Bank: *World Development Report 2008: Agriculture for development*, Washington, DC, 2007; International Fund for Agricultural Development: *Rural Poverty Report 2011. New realities, new challenges: New opportunities for tomorrow's generation*, Rome, 2010.

<sup>13</sup> FAO, IFAD and WFP: *The State of Food Insecurity in the World 2012. Economic growth is necessary but not sufficient to accelerate reduction of hunger and malnutrition*, Rome, FAO, 2012.

<sup>14</sup> C.B. Barrett, T. Reardon and P. Webb: “Nonfarm income diversification and household livelihood strategies in rural Africa: concepts, dynamics and policy implications”, in *Food Policy*, Vol. 26, 2001, pp. 315-331.

<sup>15</sup> Bruno Losch: “Crisis prevention in Sub-Saharan Africa – Agriculture: the key to the employment challenge”, in *Perspective n°19*, Paris, CIRAD, October 2012.

## 3. The ILO's approach

The ILO's approach to economic diversification in rural areas focuses on developing the capacity to provide technical advice on which sectors have an employment creation potential and which policies are needed to support the development of these sectors for the creation of decent work.

The first element of this strategy – sectoral employment impact assessments – builds on extensive work done by the ILO using Input/Output tables, Social Accounting Matrices and Dynamic Social Accounting Matrices, Computable General Equilibrium and Employment Projection models. The methodologies have been used in various contexts and by different ILO programmes and provide results that can inform policy-making. It is possible to include a special focus on youth (including the link to child labour) and/or women in these assessments.

The second element – what policy package to support the development of specific sectors – can take different forms. One consists in analysing the constraints to sector growth from a decent work perspective and offering policy recommendations to overcome these constraints. A large number of policy areas can be covered, such as skills development, enterprises and cooperatives development, occupational safety and health, social security coverage, labour inspection, etc. The ILO has developed various methodologies for this analysis, among which the TREE (Training for Rural Economic Empowerment) and the STED (Skills for Trade and Economic Diversification) approach. Another way of approaching the development of an integrated policy package is to take a geographical approach and to develop rural employment strategies with the involvement of local stakeholders. Concretely, this consists in supporting policy planning and programme development for rural employment at the local level first, with a view to

identifying lessons learned as well as tools and approaches that can then contribute to a national rural employment strategy.

The ILO possesses several comparative advantages and considerable expertise in technical areas that support economic diversification in rural areas:

- Organizational mandate to promote decent work at all levels and in all sectors of the rural economy (established in 1921 and confirmed in 2008 and 2011).
- Normative capacities with a wide range of tools and standards to support policy-making in the rural economy, including non-agricultural sectors.
- Tripartite structure promoting social dialogue and building on the expertise of the social partners.
- Technical capacities in a number of relevant areas, such as: Local Economic Development (LED), employment-intensive infrastructure investments, entrepreneurship, cooperatives, value chains, micro-finance, green jobs, skills and training for rural empowerment, employment policy (informal employment), occupational safety and health, social protection coverage, labour inspection, sectoral policies and sectoral employment impact assessments.
- Partnerships with UN agencies and other organizations (the Food and Agriculture Organization of the United Nations, the International Co-operative Association, the International Fund for Agricultural Development, the World Tourism Organization, etc.).

### 4. The ILO's experience to date

The ILO's experience of technical cooperation projects in rural areas provides important lessons for designing interventions that support economic diversification in rural areas. The ILO's community-based training programme TREE has been implemented in some 11 countries to promote income generation and employment creation, particularly among disadvantaged groups such as women, the unemployed, underemployed, poor and informal workers. The approach taken by TREE, i.e. to link community-determined economic opportunities to deliver sector-relevant skills, may serve to address a number of challenges faced by marginalized groups that face important disadvantages in diversifying their incomes and accessing productive, decent jobs in the RNFE.

The project "Rural Employment Promotion for Poverty Reduction in Lao People's Democratic Republic (Lao PDR)" takes a geographical approach, not a sectoral one. It supported the development of a Rural Employment Strategy for Poverty Reduction (RESPR) in Sekong province, launched in November 2011. The RESPR consists of short-term and medium-term employment strategies and a set of action plans. It involves the Ministry of Labour and Social Welfare, Ministry of Planning and Investment, National Committee for Rural Development and Poverty Eradication, Department of Labour and Social Welfare and Sekong local authorities. In order to ensure the effectiveness of the RESPR, six villages in the province were identified as demonstration sites. The selected villages are also the ones selected for the implementation of the Sam Sang directive of the government. Thus, the action plan on employment promotion for the six villages is to be implemented in line with other government policies, as well as within the context of the local environment. It is hoped that this model will be replicated in other provinces in the Lao PDR in order to generate jobs and income, thereby reducing poverty in the rural areas.

#### **Example of sectoral employment impact assessment: Green Job Assessment in Mauritius**

Mauritius wishes to become a model for sustainable development through "the efficient use of resources, the reduction, reuse and recycling of waste, a decline in pollution, equitable access to resources for all and decent work". The Government identified four pillars of development – sugar agriculture, textiles, tourism and financial services.

It needed to assess the employment creation potential of choosing a green growth path as opposed to a conventional one.

To understand the connections between various sectors and evaluate the employment impact of a green growth path on the economy, an Input-Output model was used. The tables were extended to include the "green" industries. If the industry had a green component, it was separated from the conventional component. This was done using three methods: a) a process-based method that looks at the production process and identifies green production systems, b) an output-based method that looks at the final products and identifies those that are environmentally friendly, and c) a natural resource conservation method that identifies industries that contribute to natural resource conservation. An Input-Output model enables the researchers to calculate multipliers and help policy-makers to decide on the best policies to promote sustainable development by focusing on industries with the highest multipliers. The report focused on output and employment multipliers that were calculated using the data from an I-O table provided by the Mauritian Central Statistical Office (CSO). In order to complete and extend the data in the I-O table, primary data was collected from industry associations and public institutions, most of which were already involved in environmental protection, while secondary data was obtained from the CSO as well.

Multipliers for all industries were calculated.<sup>16</sup> Then simulations of a conventional and a green growth scenario were conducted. The simulation was performed on three of the four growth poles: sugar agriculture, textiles and tourism; and also on the energy and electricity industry. The results show that the green scenario could result in the creation of 3,648 new jobs while the conventional scenario would create only 2,262 new jobs. The report concludes that even though this analysis was the first step in estimating green job creation, more research needs to be done to "(i) refine production functions of green industrial activities, (ii) assess negative feed-back loops of negative environmental impacts and climate change on employment and output, and (iii) further introduce decent work indicators in the model".

<sup>16</sup> The report provides a more detailed and technical description of the method that clarifies the process of calculating the multipliers. See M. Harsdorff and R. Sultan: *Green Jobs Assessment: Mauritius*, Geneva, ILO, 2014.

## 5. Practical guidance and resources

### Tools

ILO. 2006. *Local Development and Decent Work Resource Kit (LDDW)*, (Manila).

—. 2009. *Rural skills training: A generic manual on training for rural economic empowerment (TREE)*, Skills and Employability Department (Geneva).

—. 2011. *Analysing the employment impact of public investment and sectoral policies: The DySAM methodology*, Employment Intensive Investment Programme (Geneva).

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Jarvis, A.; Varma, A.; Ram, J. 2011. *Assessing Green Jobs Potential in Developing Countries: A Practitioner's Guide* (Geneva, ILO).

### Publications

Alarcon, J.; Ernst, C.; Khondker, B.; Sharma, P.D. 2011. *Dynamic Social Accounting Matrix (DySAM) Concept, Methodology and Simulation Outcomes. The case of Indonesia and Mozambique*, Employment Working paper no. 88 (Geneva, ILO).

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Morris, E.; Bruun, O. 2005. *Promoting employment opportunities in rural Mongolia: Past experience and ILO approaches* (Bangkok, ILO).

OIT. 2013. *Modelo de Proyección de Empleo para Colombia* (Lima, ILO).

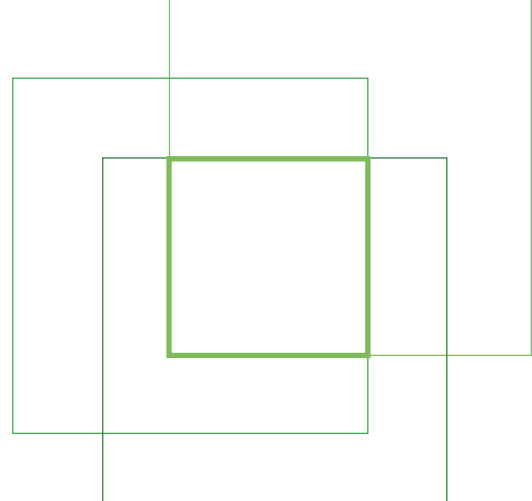








# Overview of Policy Guidance Notes on the Promotion of Decent Work in the Rural Economy



## Supporting inclusive agricultural growth for improved livelihoods and food security

- Decent Work for Food Security and Resilient Rural Livelihoods
- Decent and Productive Work in Agriculture

## Promoting economic diversification and triggering productive transformation for rural employment

- Economic Diversification of the Rural Economy
- Promoting Decent Work for Rural Workers at the Base of the Supply Chain
- The Role of Multinational Enterprises in the Promotion of Decent Work in Rural Areas
- Transitioning to Formality in the Rural Informal Economy
- Sustainable Tourism – A Catalyst for Inclusive Socio-economic Development and Poverty Reduction in Rural Areas

## Promoting access to services, protection and employment-intensive investment

- Providing Access to Quality Services in the Rural Economy to Promote Growth and Social Development
- Extending Social Protection to the Rural Economy
- Developing the Rural Economy through Financial Inclusion: The Role of Access to Finance
- Employment-Intensive Investment in Rural Infrastructure for Economic Development, Social and Environmental Protection and Inclusive Growth

## Ensuring sustainability and harnessing the benefits of natural resources

- A Just Transition towards a Resilient and Sustainable Rural Economy
- Decent Work in Forestry
- Harnessing the Potential of Extractive Industries
- Water for Improved Rural Livelihoods

## Increasing the voice of rural people through organization and the promotion of rights, standards and social dialogue

- Rights at Work in the Rural Economy
- Promoting Social Dialogue in the Rural Economy
- Building Local Development in Rural Areas through Cooperatives and other Social and Solidarity Economy Enterprises and Organizations
- Decent Work for Indigenous and Tribal Peoples in the Rural Economy
- Empowering Women in the Rural Economy
- Decent Work for Rural Youth
- Promoting Fair and Effective Labour Migration Policies in Agriculture and Rural Areas

## Improving the knowledge base on decent work in the rural economy

- Enhancing the Knowledge Base to Support the Promotion of Decent Work in Rural Areas

**For more information please visit [www.ilo.org/rural](http://www.ilo.org/rural) or contact [rural@ilo.org](mailto:rural@ilo.org)**

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