

POLICIES TO PROMOTE NON-FARM RURAL EMPLOYMENT IN LATIN AMERICA Julio A. Berdegú, Thomas Reardon, Germán Escobar, Rubén Echeverría

Papers 40 and 52 in this series have demonstrated for Asia and sub-Saharan Africa that the extent to which rural people make up their livelihoods from sources other than agriculture is much higher than previously thought. In the same vein, this paper reviews extensive evidence from Latin America, distinguishing between diversification arising from traditional agriculture and that driven by exogenous influences, and highlighting the importance of the latter.

Policy conclusions

- Policies aimed at the rural sector must be oriented towards providing incentives ('engines') that stimulate the provision of rural non-agricultural jobs, as well as the *capacity* of households to respond to such signals.
- If growth in the wider rural economy is not promoted, constraints in human and physical capacity will limit agricultural growth.
- Richer and poorer areas need to be treated differently: in the former, the transaction costs faced by those wishing to engage in non-agricultural activities need to be reduced; whilst in the latter a broad range of skills, infrastructure and services need to be developed.
- Local government has a particular role in many countries in promoting diversification through capacity building, fiscal incentives, and provision of some infrastructure.
- Specific efforts are needed to bridge across ministerial mandates if the rural non-farm sector is not to become a 'no-man's land'.
- Many non-farm opportunities are biased against women: specific efforts are needed to redress gender imbalances.

Introduction

This document reviews a large number of studies published by various authors since 1994 on rural non-agricultural employment and income in several Latin American countries.

Here we define employment to include both self-employment and wage-earning employment. The meaning of 'rural' varies from country to country, but in official definitions it usually refers to concentrations of population under a certain threshold, which is generally set at 1000 to 2000 individuals. The definition of 'non-agricultural' covers industry and manufacturing (secondary sector) and services (tertiary sector) and excludes primary production, whether in agriculture, minerals or fisheries. Rural non-agricultural income (RNAI) is income generated by rural inhabitants through self-employment or wage-earning work in secondary or tertiary sectors. Many farming households also generate rural non-agricultural income. Wage-earning work in primary activities on farming establishments is not included in our definition of rural non-agricultural employment (RNAE).

Why are rural non-agricultural employment and income important?

RNAE and income are part of the solution to at least three major problems in rural Latin America: poverty, modernisation of the farming sector, and transformation of the rural environment.

Rural poverty and rural non-agricultural employment and income

It is well-known that over the past 20 years the number of rural poor in Latin America and the Caribbean has increased. According to recent figures from the UN Economic Commission for Latin America and the Caribbean (ECLAC), (2000a), in 1996–7, 54% of the region's rural population was living under conditions of poverty, with 31% in extreme poverty.

The review by Reardon et al., (2000) of some 20 recent national or regional household surveys, is consistent in showing that RNAI represents a very high – and in recent decades increasing – percentage of total income among poor rural households. In the absence of non-agricultural sources

of income for poor rural households, the extent of poverty would be several times greater in all our countries.

The same research confirmed that poor rural households resort to non-agricultural employment not only to increase total income, but also to offset the effects of sharp fluctuations in income flows during the year, which is one of the characteristics of rural poverty.

RNAE forms part of the livelihood strategies of the rural poor. This means that there is a complex relationship between agricultural and non-agricultural income flows, and between non-agricultural income and income from subsidies and cash transfers from permanent migrants or other private sources. In this regard, the existence of assets in poor rural households and communities related to non-agricultural employment strengthens the multiplier effects of agricultural activities, and vice versa. These complex relationships are essential in order for the poor to survive.

Modernisation of the agricultural sector and rural non-agricultural employment and income

Modern agriculture is intensive in terms of inputs, services and commercial linkages. The more modern and competitive the agricultural sector, the larger the contribution of secondary and tertiary activities to rural gross domestic product.

In a broad sense, for Latin American agriculture to be transformed and to compete, it will require improved linkages with input supply systems, agricultural processing chains, and systems for the distribution of fresh and processed products. Modern agriculture requires cooperation with agroindustry in order to successfully meet the demanding quality and safety norms and standards of international markets. It also needs access to management, administrative and advisory services. All of these environments fall under the category of RNAE, in both the secondary sector (processing, agroindustry, etc.) and the tertiary sector (technical, commercial and transportation services).

Improved quality of life for rural inhabitants and rural non-agricultural employment and income

At least since the 1940s, the term 'rural' in Latin America has

been synonymous with backwardness and underdevelopment, and has been viewed as irrelevant in the quest for progress and development. In general perceptions, the supposed rural–urban dichotomy is similar to that of backwardness–modernity, agricultural–industrial, and poor–prosperous.

The development of RNAE offers a different trajectory for modernising the rural environment, through the *in situ* development of industry and services, and as part of a more general process of ‘rural-urbanisation’ that also affects the dimensions of culture, demographics and human settlements. Employment in industry, manufacturing, trade, tourism and other services offers options for labour or professional development which for many are more attractive than agricultural work, particularly wage-earning agricultural work.

The rural spaces exhibiting an increase in non-agricultural employment have changed the characteristics of the traditional landscape. They are characterised by the growth of towns and medium-sized cities and by stronger ties between them and their rural hinterland, through non-agricultural trade, transportation systems, and a wide range of services oriented to production, consumption and recreational needs. Ultimately, they are rural spaces that offer the inhabitants not only better economic opportunities, but also options for narrowing the quality of the life gap between the rural and urban environments.

Trends in RNAI and employment

Reardon et al., (2000) reviewed various studies on RNAI, based on data from the second half of the 1990s. The absence of comparable earlier studies prevents direct estimation of change in RNAE. However, earlier RNAE data suggests that in the early 1980s, RNAI must have accounted for something like 25% to 30% of the total rural income in Latin America and the Caribbean.

By the second half of the 1990s, the share of RNAI was rising above 40% in the majority of countries for which data were available. Even in countries with a high percentage of rural population, such as Colombia or Peru, RNAI is one-half of the rural population’s total income.

Our estimate of RNAI for the region as a whole – i.e. 40% of rural income, weighted by population – is much higher than that traditionally recognised by rural policy which has a predominantly agricultural bias.

Klein (1992) studied the changes in RNAE in 18 countries in the 1970s (although in some cases he obtained initial data from 1950, and in other cases, final data from the late 1980s). His main conclusions are: (a) RNAE represents a growing proportion of total employment amongst the rural Latin American population; (b) the growth of RNAE allowed the entire loss in agricultural jobs to be absorbed; (c) even after offsetting the decline in agricultural employment, RNAE contributed 1.5 million jobs; and (d) in summary, without growth in RNAE, Latin America and the Caribbean would be facing a much greater population decline in the rural regions and, most likely, more severe urban poverty than currently observed. In the 12 years covered in Klein’s study (average for 18 countries), the number of individuals in rural households employed in non-agricultural sectors increased by 2.5 million, while the number of members of rural households employed in agriculture declined by 933,000. RNAE as a percentage of total employees in the country remained constant at 8%, although with respect to the number of employees from rural households, it grew from 17% to 24%, an average annual increase of 0.62%.

However, these averages conceal situations that are quite different. National trends allow us to identify five types of dynamics: (a) countries in which the absolute number of

agricultural jobs is rising faster than the increase in non-agricultural jobs: Bolivia, Honduras, Paraguay and Peru; (b) countries in which the absolute number of non-agricultural jobs is rising faster than the increase in agricultural jobs: Costa Rica, Ecuador, Guatemala, Mexico and Nicaragua; (c) countries in which the absolute number of non-agricultural jobs is increasing, the absolute number of rural agricultural jobs is decreasing, and the number of agricultural workers living in towns is increasing: Brazil, Chile, Cuba and Panama; (d) countries in which the absolute number of non-agricultural jobs is increasing and the absolute number of agricultural jobs is decreasing: Colombia, El Salvador, Haiti and Venezuela; and (e) countries in which both types of rural jobs are on the decline: Uruguay. There is no significant correlation between the trends described above and changes in GDP, agricultural GDP, economically active population (EAP) or agricultural EAP. This leads to the hypothesis that the trends reflect specific patterns of changes in agriculture (intensification and diversification of agriculture) and non-agricultural activities based in the rural sector (agroindustrialisation, tourism, etc.).

Data from ECLAC (2000) strongly suggest that RNAE in the late 1990s has become dominant in the case of rural women’s employment. With the sole exception of Bolivia, rural women’s share of RNAE is much higher than that of rural men. In 9 of the 11 countries included in the ECLAC study, between 65% and 93% of rural women participating in the labour market did so in non-agricultural activities. By contrast, in most countries, with the exception of Costa Rica and the Dominican Republic, agricultural employment is predominant for rural men.

Stages, conditions and means of development of RNAE

The view of RNAE development as a process of successive and accumulative stages starting from the production at home of low quality products for the local market does not adequately account for the diversity of situations observed in Latin America. It is possible to observe many cases in which a high degree of RNAE development has occurred independently of the prior production of inferior (‘Z’) goods suggested by economic theory. However, there are also broad regions of Latin America that for decades have been stuck in this stage of primary ‘Z’ goods and subsistence agriculture, without producing the expected accumulation of capital or progressing toward higher levels of development. By contrast, we have rural areas (or what were rural until two or three decades ago) which ‘jump’ directly to a stage of advanced urbanisation, as has occurred with many coastal regions that are rapidly transformed by outside investment in sectors such as tourism or manufacturing.

The ‘stage-by-stage’ view of development presupposes that the engine of the process is endogenous to the rural sector. Reality tells us that the engines of rural non-agricultural development vary, and frequently originate outside the rural sector.

Where RNAE *is* driven by an endogenous engine, it is possible to recognise distinct patterns. In some cases a round of activities generates sufficient surplus to promote the investment needed to develop activities responding to local and regional demand, and so on (as occurred in some rural areas of Mexico in the 1960s and 1970s as a result of the Green Revolution). In other cases, endogenous activities allow the accumulation of capital (physical, human, financial, etc.), up to the point at which the stage of development makes the region attractive for the investment of outside capital, which causes a breakdown in the trends (examples include the fruit-growing regions of the Central Valley of Chile, or the agroindustrialisation of the rural sector of the State of São Paulo over the course of more than a century, from the

production of coffee for export, to sugar cane, to citrus fruit plantations, to agroindustries involving juice and other citrus by-products).

There are also various exogenous engines of RNAE. One of them is the influence of large cities on their rural or 'rural-urban' hinterlands. The city demands a combination of goods and services, and offers a wide labour market. Many other services are developed *in situ* in the rural environment (weekend houses, restaurants, hiking and fishing activities, etc.) and that leads to a demand for new skills (domestic workers and employees for stores, construction, repair shops, etc.). Other important exogenous engines that are easily recognisable within rural Latin America include investment in tourism, mining and light industry.

Frequently, these exogenous engines are found where previous investments (typically in medium-sized or large road infrastructure and electrification works) reduce the 'economic distance' separating rural areas from the dynamic sources of demand for goods and services originating in rural, non-agricultural activities. In addition to infrastructure quality and density, the 'economic distance' between rural areas and sources of demand also depends upon population density.

In the end, RNAE development is basically explained by the existence of sources of demand for non-agricultural goods and services ('RNAE engines') that the rural population may participate in producing.

This view brings into question rural development projects and programmes that rely solely on endogenous development, i.e. development based almost solely on mobilisation of the capacities and assets of the rural population itself. In our classification, we can see that much RNAE is explained by investment decisions adopted by agents external to the rural sector.

Determinants of access by rural households and individuals to RNAE and RNAI

One of the most interesting conclusions of the review by Reardon et al., (2000) is the consistency of the primary determining factors of access by rural households and individuals to rural non-agricultural employment and income. These determining factors are the following:

Dynamic regional economy

Rural non-agricultural employment and income are strongly concentrated in areas characterised by dynamic and prosperous agriculture. The poorest agricultural regions – especially if they also have low levels of infrastructure – strongly depend on non-agricultural income, not because of the high absolute levels, but rather because total income, particularly agricultural income, is low. Poor or depressed agricultural areas have a greater need for sources of employment other than agriculture, but in fact have access to non-agricultural income levels that are quite low in absolute terms. In these areas, RNAE typically consists of 'refuge activities', that is, low-quality, low-productivity jobs with very low development potential. By contrast, areas with dynamic and competitive agriculture depend relatively less on non-agricultural employment, but in fact generate levels of non-agricultural income much higher than those observed in the poorer regions.

Level of household income

The poorest rural households which face enormous difficulties in basing their development on agricultural self-employment, depend to a higher degree on non-agricultural income, but the level of this type of income in absolute terms is very low. By contrast, households with high agricultural income also tend to have higher levels of non-agricultural income, although

its relative weight in total income is less than in the case of the poorer households. What is occurring is that poor households are gaining access to non-agricultural refuge employment, while wealthier households have various types of assets (working capital, machinery and vehicles, labour skills and education, contacts, relations, etc.) that also afford them access to non-agricultural jobs that are more profitable and productive. Nevertheless, we must not lose sight of the fact that in the case of thousands of rural households, even access to refuge RNAE is the factor that allows them to increase their income above thresholds of poverty.

Land

The conventional view is that households with greater levels of access to land have less access to non-agricultural employment and income. Most available studies confirm that households with less land have a greater *dependence* on RNAI, but that households with more land have higher levels of this type of income. Rural households without land show bimodal behaviour: those living far from urban centres, especially in areas lacking in good road infrastructure, depend to a greater extent on wage-earning agricultural work or 'refuge' type non-agricultural jobs, while those located near cities and/or in dynamic rural areas have access to high-paying wage-earning jobs.

Education

Most studies are consistent in showing that educational level is a powerful determining factor in access to rural non-agricultural employment and income. In particular, only households and individuals with higher educational levels gain access to the better-paying, RNAE. Those with low levels of schooling tend to have access only to non-agricultural refuge jobs.

Infrastructure

We have already noted above that the RNAE engines frequently arise as a consequence of prior investment in infrastructure, typically roads infrastructure, electrification, and irrigation works. These investments reduce the 'economic distance' separating a rural area from the dynamic sources of demand for goods and services originating in rural, non-agricultural activity. This general analysis is confirmed at the household level.

Gender

Gender has a significant influence in determining access to non-agricultural employment and income. According to recent figures from ECLAC (2000), in 10 of the 11 countries analysed RNAE is a greater percentage of total rural employment for women than for men. In the majority of non-agricultural jobs, with the possible exception of wage-earning service jobs, women earned lower pay than men for the same type of non-agricultural employment. In addition, there are important links between the sex of an individual and other factors which help to determine access to RNAE: for example, access to land, migration experience, distance to urban centres, and ethnicity.

Policies to promote RNAE and RNAI'

The studies summarised in this document suggest the following lessons for Latin America in designing and implementing policies and programmes to stimulate RNAE:

- Policies aimed at the rural sector must be oriented toward providing incentives ('engines') that stimulate households to participate in rural non-agricultural jobs, as well as the *capacity* of households to respond to such signals. The majority of rural development policies and projects are

aimed at the latter and do not pay sufficient attention to the former. They also tend to ignore the fact that several RNAE engines (e.g. tourism, manufacturing and industry) are exogenous to the rural sector.

- It is necessary to locate support to agriculture in the wider context of rural development, and so adopt a more balanced set of policies. There is no case for *exclusive* reliance on agricultural development to improve the quality of life in rural areas.
- However, agricultural development policies can and should promote RNAE. The competitiveness of the agricultural sector cannot be increased without the development not only of productivity in primary production, but also of the industrial, commercial and service sectors that characterise modern agriculture. Technology promotion policies (research, technical assistance, transfer of technology, etc.), human capacity-building, land and agrarian reform, and credit provision are not neutral in this regard. The selection of policies should increasingly be informed by their capacity to generate wider impacts of this kind.
- Richer and poorer rural zones must be treated differently. In the former, what is important is to reduce the transaction costs faced both by those investing in RNAE engines, and by rural households and inhabitants seeking to participate in non-agricultural activities. In the latter, an active role on the part of the public sector is required in promoting conditions to increase the attractiveness of these regions to the private sector (roads, electrification, telecommunications, irrigation, etc.), as well as a strong focus of public investment in developing the capacity of rural households – through, for instance, education, access to credit and activation of land markets – to participate in a broader range of income-earning activities.
- Local governments and institutions that facilitate public-private cooperation at the local level may play an important role in promoting RNAE. In many countries, local governments control or participate in land-use planning decisions, in part of the educational system, in labour training, in certain levels of investment in public infrastructure works, in the awarding of permits and licences for the establishment of non-agricultural rural-based businesses, in guidelines and the content of technical assistance systems, in assigning resources to rural development projects, and even in levying taxes, which are frequently powerful barriers to the implementation of rural non-agricultural projects.
- In many countries there are gaps in public institutions that leave RNAE as a type of ‘no-man’s land’. The ministries responsible for industrial policies, housing, public works and education are clearly urban oriented. Ministries of agriculture rarely look beyond agricultural activities. None are fully responsible for those policies which are indispensable for promoting the development of activities accounting for no less than 40% of the income of the region’s rural households.
- The evidence suggests certain factors that generally strengthen RNAE. These include education and highway infrastructure which have a high potential for a favourable impact on the development of rural non-agricultural employment and income.
- Gender is an important determining factor for access to rural, non-agricultural jobs. RNAE policies and programmes that support rural women must offer much greater attention to facilitating their access to wage-earning jobs in agroindustry, trade and other services. This requires reversal of the current bias in favour of creating manufacturing

micro-enterprises which seem to offer rural women few opportunities for sustainable development.

Finally, all of the above will be useless if public policies and programs for the rural non-agricultural environment are developed by diminishing the resources which up to now have been available for agricultural development. After all, agricultural employment continues to be directly responsible for 60% of rural income, and that percentage increases significantly if we consider non-agricultural income originating from activities directly related to and dependent upon agricultural production (agroindustry, trade in inputs and products, machinery and transportation services, professional services, etc.). The promotion of rural non-agricultural employment and income cannot be made at the cost of shifting resources from the agricultural sector. The challenge consists in mobilising additional investment and capacity, both public and private.

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Endnotes

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