

# Rural Diversification: What hope for the poor?<sup>1</sup>

Daniel Start<sup>2</sup>

## Summary

This short paper considers the poverty impacts of livelihood diversification and the potential challenges of creating a pro-poor rural non-farm economy (RNFE). Rural diversification can be defined as economic development of non-agricultural activities or a livelihood which has multiple, part-time components. It can be associated with a booming or recessionary economy or with accumulating or immiserating livelihood strategies. There are clear conditions that lead to either positive or negative outcomes and the theory behind these is summarised. Sub-sectors and returns from the RNFE are highly diverse, access inequitable, and labour markets casualised and multi-spatial. In turn this leads to class and gender inequality, insecurity and reduced social cohesion. However, diversified economies may also provide positive effects such as a check on falling wages and increased social mobility. The state has an important role to play in supporting positive potential and mitigating ill-effects. Prescriptions for investing in rich versus poor areas are considered, together with the difficulties of economic and political priority setting. The mode of development is debated, highlighting the possible disadvantages of a populist micro- enterprise approach. Finally, the importance of regulating or mediating rural labour markets is discussed. In conclusion we consider private and public investment flows into the RNFE and the need for state intervention to support ideals of spatially equitable growth. In the long term, an expanding RNFE and multiple livelihoods are a temporary phenomenon of structural transformation. However, the growth process is slow and these symptoms will be with us for many years to come.

## Introduction: Questions for Debate

Declining global terms of trade and population densities above carrying capacity - amongst other factors - present a bleak prospect for smallholder agriculture as a fulltime livelihood for the majority. Likewise, rapid growth in urban employment through labour-intensive industrialisation has not been realised. The rural non-farm economy lies between these two sectors and in many countries is growing. As the rural economy diversifies, so too do household<sup>3</sup> and individual livelihood portfolios. With many rural areas facing a chronic under-unemployment or unemployment crisis, especially for the unskilled masses, this raises important questions:

### Box 1: Definitions of Diversification.

Livelihood or occupational diversification has two key components which are usually related:

- Multiplicity: multiple livelihoods (jobs, incomes etc) requiring several part-time, concurrent activities.
- Change, transformation or adaptation: usually from an essentially subsistence agricultural sector to non subsistence, non- agricultural sectors, part of which we might call the rural non farm economy (RNFE).

Source: Start & Johnson 2001

- Can this newly diversified rural economy offer new jobs to replace those lost in agriculture?

<sup>1</sup> This short paper summarises themes from Start and Johnson 2001: Transformation, Well-being and the State: Rural Livelihood Diversification in South Asia. ODI Working Paper *in draft*

<sup>2</sup> Daniel Start is a doctoral researcher at the Overseas Development Institute, 111 Westminster Bridge Road, London SE1 7JD. Email d.start@odi.org.uk

<sup>3</sup> Here we use the term household to represent the wide range of social units in which kin pool resources.

- Will these jobs offer real opportunities for the poor?
- What will be the wider impacts of such diversification on rural society?

### Diversification and Non-agricultural Livelihoods

Taking diversification to mean the adaptation or transformation of (household or rural) economy into new, mainly non-agricultural sectors, the literature offers two contrasting perspectives<sup>4</sup>. On the one hand theories of growth and structural transformation suggest that a diversifying economy is a growing economy that will create new jobs and avert downward pressure on rural wages<sup>5</sup>. In this context the RNFE is progressive and livelihood diversification is a positive strategy of adaptation which can lead to accumulation by rural producers. On the other hand livelihood diversification is viewed as a residual sector that offers no more than a 'bargain basement' for distress or coping activities<sup>6</sup>, mopping up the fall out of a failing smallholder agricultural sector (e.g. Davies 1996, Scoones 1998 Francis 2000). These RNFEs, which often engage in cheap, inferior produce for stagnant local demand, we can consider as involutionary (Harriss 1992) or regressive. This distinction between essentially positive and negative forms of diversification at a household level has been noted by some (e.g. Hart 1994, Davies 1996, Bigsten 1996, Ellis 2000)<sup>7</sup> and at a rural level by others (e.g. Harriss 1991, Saith 1992, Chandrasekhar 1993). Some of these terms are summarised in Table 1.

**Table 1: Some Typologies of and Terms for Rural Diversification**

Diversification of...	Positive Typology	Negative Typology
Rural Economic Sectors	Dynamic (or Progressive, Booming, Growing*)	Involutionary (or Regressive, Residual, Recessionary, Shrinking*)
Household Economic Sectors (or Livelihood Strategies)	Accumulating (or Thriving) (strategies led by Choice, Pull factors)	Immiserating (or Striving) (strategies led by Coping, Distress, Necessity, Survival, Push factors)
Example	Trade, services, dairying	Crafts, firewood collecting
Sectoral Output & Employment Share	Growing output, productivity	Falling** output, productivity
Economic motivation	Demand Pull (Linkages to growing: • Urban or • Rural sectors)	Supply Push (e.g. Excess labour)
Mode of Production	Modern, skilled new technology, capitalised	Traditional, unskilled, low technology, under-capitalised

\* Growing/shrinking would refer to the change in output or productivity rather than employment share. Even progressive or accumulating RNFEs and non-agricultural household livelihood strategies may have a shrinking employment or labour allocation share if, for instance, agriculture is providing higher returns.

\*\* Employment or labour allocation share may grow, however.

<sup>4</sup> See Box 1 for two alternative definitions of diversification and diversity.

<sup>5</sup> One set of literature, for instance, tends to equate the term diversification with economic transformation, synonymous with the growth and development process as a whole (e.g. Kuznets 1966, 1971, Chenery, Robinson and Syrquin 1986, Syrquin and Chenery 1989, Syrquin 1988).

<sup>6</sup> 'Bargain basement' is used by Saith 1992

<sup>7</sup> Note these terms can also refer to adaptation (Davies 1996) or migration (Bigsten 1996)

The two typologies, at both household and regional economy levels, share the same economic distinction<sup>8</sup>:

- Positive diversification involves more highly capitalised production, working at a greater productivity for a stronger source of demand, while
- Negative diversification involves less capitalised production, working at a lower productivity for a weaker source of demand.

Sectors associated with such positive forms of diversification are likely to include those linked to urban markets, so-called rural 'exports' or growth engines (Box 2).

**Box 2: The Basics of Rural Growth**

Rural Growth Engines: To achieve growth, rural areas need productive activities which produce rural exports: goods and services that can be traded outside rural areas. Given that rural areas are in competition with urban areas understanding where rural competitive advantage lies, in a case by case manner, is important (e.g. Porter 1991). The following four categories of rural resources, underlie the basis of rural advantage:

- Availability of natural resources: The most important are likely to be agricultural products, particularly those that are land extensive, but natural resource extraction (forestry, mining, fishing), allied agricultural activities (stall-fed livestock, bees, silk, aquaculture) and rural tourism and recreation are all growth sectors.
- Processing: Processing of natural resources close to extraction point reduces transport (by reducing bulk and weight) or reduces wastage costs (by early processing e.g. sugar processing, mineral processing).
- Skilled Labour: Rural skills in craft making (pottery, basketwork) are often unique and in varying demand from city dwellers.
- Cheap Labour: Rural, off-season labour can be some of the cheapest available which can give labour intensive enterprises (e.g. stone breaking) advantage. Sometimes the work can come to the labour (e.g. out-sourced component assembly for industry in Taiwan) but more often the labour will move to the work in a temporary or circular manner

Adapted from Wiggins & Proctor 1999

Other Rural Inflows: Important sources of rural inflows, not linked to growth engines, include income from government spending (direct employment and welfare transfers) and from migration savings and remittances.

Rural disadvantage lies in the economic distance of the site of production from major markets, goods and services. The dispersed and small scale nature of rural economic activity increases transaction costs and reduces competitiveness.

Agriculture is the key growth sector of rural areas, but diversified or RNFE sectors also have potential (e.g. forest products, dairying, tourism etc and processing industries, Box 2). These primary, urban-linked engines of growth create further rural-linked, 'demand-led', or 'subordinate' growth through 'linkages' for input, output and consumption goods (Johnston & Kilby 1975, Mellor 1976). Often these flourish because they are essentially non-tradeable, protected from competition by their economic distance from urban markets. Trade and services are particular examples, as are perishables (meats, dairy, horticulture) and bulky staples (Delgado 1992, Haggblade et al. 1989).

If rural growth engines begin to falter negative diversification can occur both at a household level, as people are pushed into coping strategies, and at the economy level, as demand for superior, urban products drops. Thus, as Chandrasekhar

---

<sup>8</sup> At the level of individual or household livelihoods economics is, of course, not the only factor in the calculus to change behaviour. Social, cultural and personal values also play a part in the trade-offs made.

(1993) has noted, a growing RNFE (by employment share) is no measure of a booming RNFE (by output share).

### **Diversification and Multiple, Part-time Livelihoods**

Up to now we have been considering diversification to mean adaptation or transformation away from agricultural sectors. An alternative, though related, meaning of diversification refers to the increasing 'multiplicity' of livelihood activities in which an individual or household participates concurrently (Box 1). Often part-time farming will occur in association with part-time work in rural or urban labour markets, or some part-time form of non-farm self-employment. This multiplicity can occur through division of household labour or through division of individual members' time<sup>9</sup>. The part-time, multiple nature of so much rural work has lead Bryceson (1999) to remark on the rise of so-called 'daylighting' in which individuals hold down several different occupations.

Central to explaining this phenomenon of diversified livelihoods are four economic factors:

1. Risk: Logic argues that because livelihood activities are uncertain, re-allocation of resources across several, non co-varying sectors (e.g Alderman and Paxson 1992, Dercon and Krishnam 1996). As many activities enjoy increasing marginal returns - economies of scale – diversification leads to a trade-off of income for security. This argument is particularly prevalent in agriculturally risky environments such as semi-arid Africa (e.g. Bryceson 1996, Stewart 2000).
2. Discontinuity: In many cases splitting labour or resources across several activities does not occur as a *ex ante* strategy to mitigate risk, but as an *ex post* response to variable or unpredictable factors of production (e.g. seasonality<sup>10</sup>) or institutions of exchange (e.g. casual labour markets and uncertain product markets). These may be in the form of shocks, trends or cycles (Maxwell 1984).
3. Complimentarity: Diversification is not always a defensive strategy but can enhance complementarities<sup>11</sup>. Thus home-based, part-time work may compliment home-based, part-time domestic duties; own production may compliment processing or trade; capital raised in labour markets may compliment agricultural investment or urban contacts made during urban work may facilitate trade. Most individuals also like to vary the degree of risk they encounter; often high risk - high return activities will compliment those that are low risk and low return activities<sup>12</sup>.
4. Flexibility: Overall it is important to emphasise that secure, viable, fulltime occupations simply do not exist in much of the developing world, however much people desire them. In such cases flexibility and multiplicity can become key to optimal livelihood management. Thus active diversification may make good economic sense, not just to mitigate risk, but because the sum of many smaller investments may be greater than the returns to one

---

<sup>9</sup> Thus individual household members might remain fulltime, 'specialised' workers but in different activities (E.g. a wife and children remaining at home with a husband taking work in the town sending remittances) or individuals may switch between activities on a seasonal, monthly or daily basis.

<sup>10</sup> Chambers et al 1981

<sup>11</sup> Thus it is well known that mixed cropping occurs not only to minimise risk, or in response to shock, but to enhance exchange of essential nutrients, provide cover, control pests, make use of different rooting zones etc (e.g. Walker and Ryan 1990).

<sup>12</sup> Such management is likened to 'portfolio management' by Toulmin *et al* (2000).

alone, especially if marginal returns are high at low levels of inputs (i.e. economies of scale are negative).

These and non-economic arguments come to the fore when considering what Bryceson (1999) terms 'vestige peasantry'. The most striking feature about diversified rural livelihoods in some parts of the world is not the presence of urban and non-agricultural components but the continued persistence of part-time, marginal peasant agriculture. Some of the economic arguments hold in explaining this<sup>13</sup> but cultural, social and sometimes political ties are key in explaining the reluctance to relinquish all agrarian ties.

### **Snap-Shots on Diversifying Livelihoods**

A brief round-up on diversification theory provides some insight into the potential of a diversified rural economy to provide pro-poor growth. However, we are still left unsure as to its impact on welfare and well-being. Empirical 'snapshots' help to throw further light on these issues.

#### *Returns from Diversified Livelihood are Highly Diverse.*

The RNFE is highly diverse; returns or wages are likewise highly variable. They may be very high, especially in the case of formal sector employment<sup>14</sup>; skilled or capitalised activities to which entry is restricted or any other sub-sector which is segmented – perhaps by market monopoly - or otherwise protected from competition. They may also be very low, for instance traditional cottage activities or micro-enterprise (e.g. firewood collecting, petty-trading, handicrafts). However, it is important to note that these types of self-employed activities may provide other benefits such as flexibility, home-working and cultural acceptability (especially by women) that are otherwise lacking in labour market participation.

#### *Access to Markets and Resources is Unequal*

Most non-agricultural activities are non subsistence, the returns determined by terms of exchange on labour or product markets<sup>15</sup>. Labour market opportunities, and to a lesser extent product market access, like other valuable resources, are restricted by both gender, class and broader social inequalities<sup>16</sup>. Existing institutions that determine preferential access to resources tend to reproduce themselves as new opportunities make themselves available (e.g. Boyce 1993 on access to technology, Berry 1989 on access to the state). The diversified economy and its labour markets are likely to offer a broader range of resources still, the most lucrative of which will be available to those with most education, social ties or other resources. This trend is particularly evident as growth accelerates in skilled sectors but stagnates in unskilled or semiskilled sectors.

---

<sup>13</sup> I.e. 1) Risk is spread between agricultural and urban sectors, 2) subsistent agriculture provides an important fallback from shocks or discontinuities, 3) a rural dwelling provides the complementarities of cheaper living for care of children and the sick and community resources such as grazing for livestock and 4) farming can provide high marginal returns at low inputs levels.

<sup>14</sup> Entry to which is intensely competed with social contacts and bribes playing an important role.

<sup>15</sup> In some cases non-agricultural income is also derived from, or mediated by, the resources or powers of the state (e.g. Berry 1989)

<sup>16</sup> In South Asia, for example, the agricultural labour market has become increasingly dominated by women as men move out of farm work to take the generally more lucrative non-farm work to which women are mainly barred. In Latin America, where such gender inequalities are less prevalent, rural labour market access and returns are more egalitarian.

### *Labour Markets are Increasingly Casualised and Part-time:*

The casualisation of labour markets has further contributed to multiple livelihoods. In stark contrast to bygone days of tied patron-client labour, many jobs now are so temporary that the cycle of work and work-search has become a permanent condition leading to a lifestyle of 'hunting and gathering' for subsistence work (Breman 1996) with a daily 'scramble' for day wage (Bryceson 2000). This trend has been encouraged by the relaxation of labour controls and standards in the wake of liberalisation; the neoliberal agenda argues that such freedom and flexibility in labour market institutions is essential to the efficiency and flexibility of enterprise in a global economy (World Development Report 1995). Yet the result has left many livelihoods increasingly divided, multiple and diverse, not to mention precarious and pauperised. With the increasing spatial and temporal dislocation of labour forces, and associated loss of collective voice and bargaining power, this trend seems set to continue.

### *Livelihoods are Multi-spatial and involve Non-local Labour Markets:*

Much diversification is through labour markets<sup>17</sup> and many of these labour markets are in the sites of highest economic growth: near towns, cities and industry. Depending on the distance of these employment sites, participation in labour markets may involve a daily, weekly or seasonal pattern of circular migration. It may involve all members of the household searching in an *ad hoc* manner most days, or one member employed full-time sending remittances from afar. Most agree that migration is a normal part of rural livelihoods<sup>18</sup> and is an essential coping mechanism as well as means of accumulation. However, the extent of spatial diversity and mobility is often unappreciated by policy makers who are uneasy with the practise and tend to perceive more sedentary lifestyles (de Haan 1999). This is despite the role that a cheap, flexible labour force can have in fuelling the economy and easing the slow process of structural transformation.

These trends illuminate the likely impacts on poverty, which are now discussed in relation to income, inequality, vulnerability and social and political wellbeing.

## **Impact of Diversification on Well-Being**

**Diversification and Income Poverty:** Diversification can be both a positive and negative symptom of adapting livelihoods. If multiple livelihoods or non-agricultural livelihoods are a coping strategy, in the face of failing agriculture for example, diversification is a necessary, but not particularly satisfactory, phenomenon<sup>19</sup>. We might consider this negative diversification; a step further into poverty and immiseration. However, for those wishing to expand into new, more lucrative enterprises, diversification represents a positive move towards accumulation or well-being. This might be considered positive diversification and a step out of poverty<sup>20</sup>.

Likewise the poverty alleviating potential of the RNFE is variable. If rural growth engines are stagnant and the RNFE involutionary, the RNFE is will provide no more than a safety-net which will stop rural wages and returns from free-falling. If rural

---

<sup>17</sup> In Asia and Latin America participation in the labour market is more common than self-employment or micro-entrepreneurship while in sub-Saharan Africa the opposite is the case, perhaps because of the thinness of labour markets in general.

<sup>18</sup> de Haan (1999) argues that migration may have been just as common place in the past as well.

<sup>19</sup> A similar conclusion is reached by Davies 1993 when writing about coping strategies. They may indicate strength and resilience of rural people, and they should not be hindered, but they are hardly a welcome final outcome. They often represent the last ditch attempt to save the vestiges of a livelihood.

<sup>20</sup> For a discussion of poverty dynamics and economic mobility, albeit without a sectoral perspective, see Baulch & Hoddinott 2000.

growth engines are expanding the RNFE will also boom, and its effect will be to augment already rising wages. In both such cases the RNFE does not lead, it follows; 'the tail cannot wag the dog' (Saith 1992:114). Only if the RNFE is urban demand-linked (including via inflows such as remittances and public sector employment) will it be protected from the highs and lows of the rural economy. In these cases opportunities in the RNFE may far exceed returns to agriculture.

Diversification and Inequality: Booming and recessionary parts of the RNFE can occur concurrently. Opportunities to cash in on flourishing sub-sectors may be dependent on existing resources and reproduce existing inequitable structures. They are likely to be more capital, skill, technology or contact intensity. The poor and most micro-entrepreneurs are likely to be excluded. If labour can be kept disorganised then even benefits from employment creation may be minimised. Such a situation will contribute to rising inequality. Often such differential access may be determined by gender. Thus labour markets may exclude women, or pay different rates. Access to essential assets or product markets may be male domains. Sometimes the inability to travel widely for long periods will also restrain.

Diversification and Vulnerability: As a means of coping; by spreading risk or moving into new, less precarious sectors, there are arguments that diversification reduces vulnerability (Ellis 2000). Lowly paid RNFE activities act as a residual sector and safety-net, buffering shock and crisis. However, in the longer term, the consequences of RNFE participation may be to increase vulnerability, through insecure labour arrangements and entrepreneurial risk but also through the gradual loss of a viable subsistence agriculture fall-back and dislocation from the – albeit meagre - securities of rural life.

Diversification and Social & Political Well-being: What are the effects of diversification on social well-being? Epstein (1973) records the tale of two villages in India: one enjoyed irrigation, success in agriculture and stability. The other received no irrigation and the people, including the landlords, were forced to diversify and migrate. The former retained its hierarchical structures of patronage and tied - or unfreed - agricultural labour. The latter saw many of these traditional, regressive institutions break down. Thus, can we argue that sectoral and spatial mobility create the possibility for social mobility and, perhaps, economic mobility among those who never before had the chance? Today for the younger generations, whose fathers may have wished only for a secure farming existence, such mobility and experience is more often the desired norm. And for women, the transformation of labour market participation that diversification brings has surely contributed to their empowered status within the household. Yet in turn we can also argue that such conditions actually pertain to keep the rural proletariat unempowered, lacking as they would an otherwise unified identity or base from which to bargain<sup>21</sup>.

Diversification is about change and transition. While this may bring much pain, there are also opportunities. The two possible sides of diversification are summarised in Table 2. The challenge for policy makers is to mitigate the harmful effects while supporting those areas where possibilities lie.

---

<sup>21</sup> We can also argue that the global trends in the food system that have brought about de-agrarianisation, and trends in labour market casualisation that have encouraged part-time work have placed rural labour more firmly under the control of global capital.

**Table 2: Possible Impact of Diversification on Well-being**

Trends related to Diversification	Affects...	Negative Impacts	Positive Impacts
A stagnant RNFE	Income Poverty (& Security)	Low returns, limited possibility to improve wages.	Acts a check on falling wages rates, Acts as coping strategy / safety-net
A dynamic RNFE, returns are diverse	Inequality	Excludes those without access to resources	Provides possibilities for poverty escape, if not equitable ones
Labour markets are highly casualised	Vulnerability (& Empowerment)	Insecure work – looming possibility of unemployment, Low welfare standards, Difficulty of collective action	Allows livelihood flexibility, Economically efficient for enterprise and economy.
Labour market opportunities are non-local Livelihoods are multi-spatial	Social & Political empowerment Wellbeing	Reduces bargaining base of labour; reduced civil rights away from home Stress of travelling and living away from home	For new generation, provides opportunity for agrarian escape Brings new experience, skills, contacts, Breaks down traditional institutions.

Source: Start and Johnson (2001)

### Options for Intervention

What options exist for intervention? Three questions are considered. First, what can we do to promote a RNFE which will contribute to rural growth and positive diversification? Second, what mode of RNFE development is most efficient and equitable? And third, what policies can be implemented to improve the quality and accessibility of employment in a diversifying world?

#### *Supporting Growth in the RNFE: Where and Whether to Invest*

Once the sectors with potential demand have been identified, and the political and resources mustered, the recommendations for broad based, diversified rural growth are clear (e.g. see Berdegue, Reardon & Escobar 2000, Wiggins and Proctor 1999).

For poor areas, the very basics are investment in infrastructure, human capital and markets, preferably oriented to non-agricultural as well as agricultural use e.g.:

- investments in roads, electricity, telecommunications;
- investments in education and people;
- activation of credit, capital and land markets;

For richer areas, the challenge is to reduce transaction costs by working to reduce the disadvantages intrinsic to business in un-conglomerated rural space. Part of this process may include:

- development of clusters and associations of producers with greater bargaining powers and economies of agglomeration which can penetrate new markets or lobby against urban bias yet retain their 'flexible specialisation';



- development of the rural town or growth point in providing a central nexus of services, markets and information;
- supporting urban links. Backward via cheap, quality inputs or through skills, experience and contacts gained through temporary periods of urban work. Forwards, in particularly through innovative out-sourcing and sub-contracting arrangements (c.f. institutional arrangement supporting Taiwan's success in developing the RNFE).

However, these prescriptions still leave plenty of room for uncertainty in policy making. Questions include:

- Where to invest scarce resources? Low-potential areas distant from urban areas that often have the highest poverty and the least potential for RNFE (or agricultural) growth. To what extent should investment be directed towards these areas at the expense of higher returns in more favourable regions? Are such areas receiving a national 'subsidy' or is their development rational in terms of upheld ideals and reduced human suffering through displacement?
- Where is the political will? Even if the ideology can be agreed, from where will the political will for such investment come, given that rural people in remote areas have very little political voice? Political transaction costs may be high.
- Does the institutional structure exist? Agencies dealing with RNFE sectors often do not exist, or tend not to see the RNFE as their territory<sup>22</sup>. Given the local specificities and cross cutting nature of many elements of the RNFE local governments are clearly the agency of choice in a climate of decentralisation. However, serious questions remain as to their ability to support development and manage a local economy given their weak administrative, technical and financial resources; poor revenue raising powers and patchy support from the police and judiciary<sup>23</sup>.

#### *Little or Large? Equality and Modes of Growth in the RNFE*

Should growth in the RNFE sector be through small-scale or large-scale units? Traditional enterprise support, particularly from NGOs, has targeted micro or small-scale producers, through micro-enterprise development programmes, income generating schemes, micro-credit and so on. However, is this the most efficient way to provide pro-poor livelihoods? Do the assumptions on which this mode of support are built still hold? First, small, family-sized businesses may not be more efficient than large. The arguments from the small farm / inverse ratio debate do not transfer in their entirety to the RNFE. Second, the women and poorest may not wish to become small-scale entrepreneurs and capitalists. In fact bearing such debt and risks may be highly inappropriate for them (e.g. Rutherford 1998, Rogaly 1996). Third, the theory that multipliers from small scale development are high may be flawed in some cases as capital and resources are often transferred to urban and non-rural domains (e.g. Hariss B 1987 and Hart 1998). Fourth, the assumption that small-scale enterprises are highly labour intensive may be true, but high labour productivity is also needed if they are to provide high employment and good wages.

Thus a major challenge for policy strategists is to reconcile the conditions needed for capitalist growth in the RNFE with ideals of classless equity. Appropriate technology may offer some possibilities in some sub-sectors, enabling entrepreneurs to 'notch

<sup>22</sup> This was a challenge that old style IRDP and area based approaches tried to address, though even they failed to address the multi-spatial aspects of livelihood diversification such as migration

<sup>23</sup> Central government and its line ministries will need to work in conjunction with local governments, but more innovative approaches in cross-sectoral administration will be needed.

up' to more advanced technologies in time. Efforts to reduce capital flight from rural businesses, including encouraging local sourcing, may help stem multiplier leakages from rural areas. A strategy of connecting urban producers with rural out-suppliers would also help avoid competition between the rural and urban sectors. Yet - while some of these opportunities will require low capital, low skill micro-enterprise - increasingly, real growth potential, and thus employment potential, is likely to come from high capital medium to large scale enterprises. The challenge then will be to ensure that the employment generated is pro-poor.

#### *Policies for Pro-Poor Labour Markets*

While a neo-liberal agenda might suggest leaving labour markets well alone, trends towards mobile labour forces, casualisation and inequitable access require mediation. The challenge of governing rural labour markets is threefold:

1. To appreciate the multi-spatial nature of households and livelihoods by reducing the search and transaction costs of long-distant job search, supporting the rights of workers in non-local employment and facilitating remittance transfer and financial management back home.
2. To ensure improved security and welfare standards in work and halt moves towards increasing casualisation of labour, without stifling private sector development.
3. To encourage more equitable access to jobs, perhaps by providing information which can help overcome the exclusionary tendency of social networks (or 'social capital') or by supporting broad based education and training which can help level the playing field.

#### **Conclusion**

The question of how, and to what extent, governments should intervene in diversifying economies and livelihoods will remain a key debate in coming years. In a few cases the RNFE may already be a good choice for the investment of private capital. In many others prior public infrastructural development will be an essential precursor to ensure competitive advantage. All else equal, free capital will tend to the urban sector first, given its massive economic advantages. The final decision on public investment and intervention will depend on the state's ideals for spatially even and equitable development.

Central to these ideals are our long term view of the RNFE, migration and multiple rural livelihoods. What part do they play in the pattern of development in the South today, and what will their relevance be in 20 years time? The irony of the RNFE is that the same infrastructure that will connect rural goods to urban markets will also allow urban goods to compete with those from the RNFE; non-tradeability which currently protects many rural enterprises will be eroded. In addition, the same human capital that will contribute to increased rural labour productivity will also contribute to rising consumer powers that will prefer urban goods over their inferior rural equivalents. The RNFE may well be a temporary phenomenon of rural areas in transition; and eventually a victim of its own developmental success.

A similar conclusion could be reached for diversified livelihoods. In adjusting and unstable economies, flexibility and adaptability may be the order of the day. For economies in which neither agriculture nor non-agriculture employment provide the prospect of fulltime specialisation, multiple livelihoods may be the only answer. The structural transformation of developing economies may one day be completed. Until then diversified livelihoods will persist as a symptom of a transitory phase. However, it may be a very long transition.

These issues remind us that the study of livelihood diversification is about more than multiple income sources; it relates to the current transformations of global, national and local economies. The implications for rural societies, traditional ways of peasant life and well-being are paramount. Who will win and who will lose? Such questions will continue as key debates for social scientists in coming years. Central to this will be the trade-offs between increased growth and more equitable opportunity. The degree to which rural sectors should be promoted, labour markets should be regulated or micro-enterprise encouraged beyond larger scale capital are questions which reflect this. Ultimate accountability lies with the state for which there are difficult decisions ahead.

## References

- Alderman H and C Paxson (1992). *Do the Poor Insure? A Synthesis of the Literature on Risk and Consumption in Developing Countries*. Policy Research Working Papers No 1008. World Bank.
- Baulch B and J Hoddinott (2000). *Economic Mobility and Poverty Dynamics in Developing Countries*. The Journal of Development Studies, December 2000, pp1-24.
- Berdegue, J, T Reardon and G Escobar (2000). *Empleo e ingreso no agricolas en America Latina y el Caribe*. Paper to Development of the Rural Economy and Poverty Reduction in Latin America and the Caribbean, New Orleans, Louisiana, March 2000 in conjunction with the Annual Meeting of the Board of Governors of the Inter-American Development Bank and Inter-American Investment Corporation
- Berry, Sara. (1989). "Social Institutions and Access to Resources," Africa. (59): 1, pp.41-55.
- Bigsten A (1996). *The Circular Migration of Smallholders in Kenya*, Journal of African Economies 5(1), 1 –20.
- Boyce (1993). The Philippines: Political Economy of Growth and Impoverishment.
- Breman J and S Mundle (eds) (1991) *Rural Transformation in India*. Oxford University Press.
- Breman J (1996). *Footloose Labour: Working in India's Informal Economy*. Cambridge University Press, Cambridge.
- Bryceson D F (1996) *Deagrarianisation and Rural Employment in Sub-Saharan Africa: A Sectoral Perspective*, World Development. (24): 1, pp. 97-111.
- Bryceson D F (2000). *Disappearing Peasantries? Rural Labour Redundancy in the Neo-liberal Era and Beyond* In Bryceson D F, Kay C, Mooij J (Eds) *Disappearing Peasantries? Rural Labour in Africa, Asia and Latin America*. Intermediate Technology Publications, London.
- Chambers R, R Longhurst, A Pacey (eds) (1981). *Seasonal Dimensions to Rural Poverty*, London, Frances Pinter.
- Chandrasekhar, C.P. (1993) 'Agrarian Change and Occupational Diversification: Non-Agricultural Employment and Rural Development in West Bengal', *Journal of Peasant Studies*, 20: 205–270.
- Chenery H B, S Robinson and M Syrquin (eds) (1986) *Industrialization and Growth: A Comparative Study*. New York: Oxford University Press.
- Davies (1993). *Are Coping Strategies a Cop Out?* IDS Bulletin Vol 24, No 4, pp 60-72
- Davies S (1996) *Adaptable Livelihoods: Coping with Food Insecurity in the Malian Sahel*. Macmillan, London
- Delgado C L (1995). *Agricultural diversification and export promotion in sub-Saharan Africa*. Food Policy 20 (3), 223-43.
- Dercon S and Krishnam P (1996) *Income Portfolio in Rural Ethiopia and Tanzania: Choices and Constraints*. Journal of Development Studies Vol 32, No 6, 850-75
- Ellis F (2000) *The Determinants of Rural Livelihood Diversification in Developing Countries*. Journal of Agricultural Economics. 51,2:289-302, May.
- Epstein Scarlett (1973). *South India – Yesterday, Today and Tomorrow: Mysore Villages Revisited*. London, Macmillan.
- Francis E (2000) *Rural livelihoods, Institutions and Vulnerability in South Africa*. Paper presented at the DESTIN conference on New Institutional Theory, Institutional Reform and Poverty Reduction.. London School of Economics 7-8<sup>th</sup> September, 2000.
- de Haan (1999). *Survey Article: Livelihoods and Poverty: The Role of Migration – A Critical Review of the Migration Literature*. Journal of Development Studies, Vol 36, No 2 pp 1-47.

- Haggblade, S., Hazell, P. and Brown, J. (1989) *Farm-nonfarm linkages in Sub-Saharan Africa*. World Development Vol 17. No.8. pp 1173-1201.
- Harriss, B. (1987) 'Regional Growth Linkages from Agriculture', *Journal of Development Studies*, 23 (2) pp. 275-289.
- Harriss J (1991). *Agricultural / non-agricultural linkages and the diversification of rural economic activity: a south Indian case study*. in Breman J and S Mundle (eds) *Rural Transformation in India*. Oxford University Press.
- Hart G (1994). *The Dynamics of Diversification in an Asian Rice Region*. Ch. 2 in Koppel B et al (eds.) *Development or Deterioration: Theories, Experiences and Policies*. Oxford and New York: Oxford University Press.
- Hart, Gillian. (1998). "Regional Linkages in the Era of Liberalization: A Critique of the New Agrarian Optimism," *Development and Change*. (29), pp.27-54.
- Johnston B and P Kilby (1975) *Agriculture and Structural Transformation: Economic Strategies in Late-developing Countries*. Oxford University Press.
- Kuznets, Simon (1966). *Modern Economic Growth*. New Haven, CT: Yale University Press
- Kuznets, Simon (1971). *Economic Growth of Nations*. Total Output and Production Structure. Cambridge, MA: Harvard University Press.
- Porter, Michael E (1990). *The Competitive Advantage of Nations*. Macmillan, London.
- Maxwell S (1984): *Farming system research: Hitting a moving target*. World Development. Vol 14, No 1 pp 65-77.
- Mellor J (1976). *The New Economics of Growth: A Strategy for India and the Developing World*, Cornell University Press, Ithaca.
- Rogaly B (1996). *Micro-finance evangelism, 'destitute women', and the hard selling of a new anti-poverty formula*. Development in Practice 6 9", 100-112.
- Rutherford S (1998). The savings of the poor: improving financial services in Bangladesh. *Journal of International Development*. 10 (1), 1-15.
- Saith A (1992). *The Rural Non-Farm Economy: Processes and Policies*. Geneva: International Labour Office, World Employment Programme.
- Scoones I (1998). *Sustainable Rural Livelihoods: A Framework for Analysis*, IDS Working Paper No. 72, Brighton: Institute of Development Studies, June.
- Syrquin M (1988) *Patterns of structural change* in H B Chenery and T N Srinivasan (eds) *Handbook of Development Economics*, Vol 1, Amsterdam: North-Holland.
- Syrquin M and H B Chenery (1989) *Three decades of industrialization*. World Bank Economic Review 3:145-81.
- Start, Daniel and Craig Johnson (2001). *Transformation, Well-being and the State: Rural Livelihood Diversification in South Asia*. ODI Working Paper. In draft
- Toulmin C, R Leonard, K Brock, N Coulibaly, G Carswell and D Dea (2000). *Diversification of Livelihoods: Evidence from Mali and Ethiopia*. ISD Research Report 47, May 2000. Institute of Development Studies, Brighton.
- Wiggins S and Proctor S (1999) *Migration and the rural non-farm economy. Literature Review*. Monograph. University of Reading, December.
- World Development Report (1995). *Workers in an Integrating World*. Published for World Bank. Oxford University Press, New York.

