



Growing the Rural Non-Farm Economy to Alleviate Poverty

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to Alleviate Poverty
An Evaluation of the Contribution of the World Bank Group

AN INDEPENDENT EVALUATION



WHAT
WORKS

An Evaluation of the Contribution of the World Bank Group

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The Rural Non-Farm Economy (RNFE) is Defined Spatially and Functionally

- ❑ Spatially: Takes Place in Rural Areas; Definition of “Rural” varies by country
- ❑ Functionally: All rural economic activities apart from Primary Production and Farm Day Labor (“Off-Farm”)
 - ❑ *Many activities linked to **agricultural value chains** (processing, transport marketing etc.)*
 - ❑ *Other Activities include construction, Manufacturing, Tourism, Self-Employment etc.*

Why did IEG Conduct this Evaluation? Because the RNFE is Linked to the Poverty Reduction Goals



- ❑ 80% of the world's extreme poor live in rural areas
- ❑ The Literature shows that the RNFE is Linked to Increase Resilience, Income Diversification, Labor Smoothing and Poverty Reduction
- ❑ Migration/Urbanization can be a *pathway out of poverty, but opportunities for the poor are often limited.*
- ❑ HH That engage in both Farming and RNFE are better off than farming HH. RNF activities can account for 35-50% of HH Income.
- ❑ Push and Pull: Risk Mitigation Strategy and an Income Strategy
- ❑ Opportunity of Poor to Benefit depends on Enabling Factors

Corporate, Sector, Country Strategies and Diagnostics

The World Bank Group Lacks a Strategy for the Rural Non-Farm Economy: Because it Takes Place Across Sectors, it is an Institutional “Orphan”

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Reaching the Rural Poor (2003-2007): Broad based Rural Growth, including RNFE

Agriculture Action Plans (FY 10–12, 13–15) recognizes RNFE and identifies 5 “business lines” but incomplete strategy

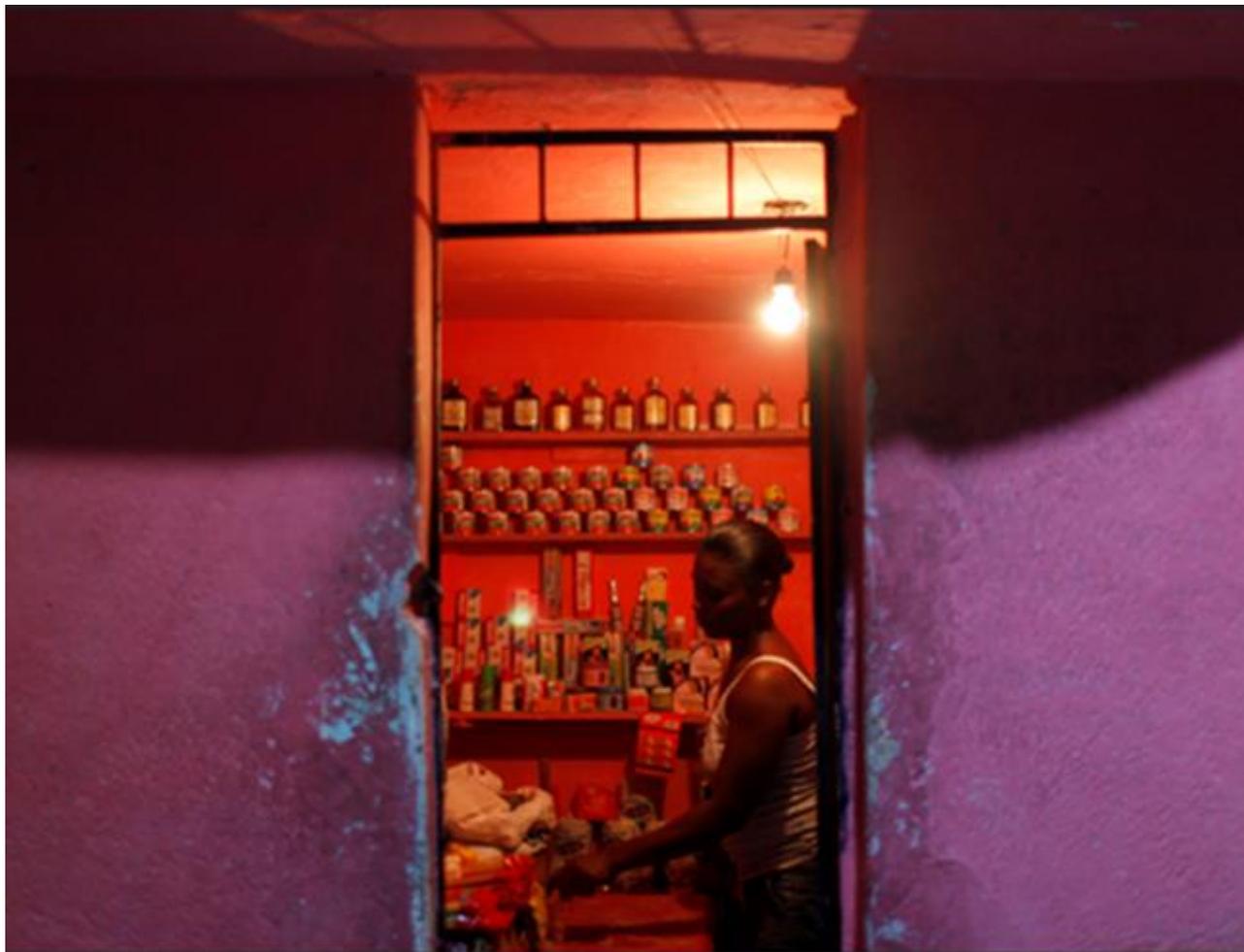
- Rural Investment Climate
- Rural livelihoods
- Upgrade skills (*rural education ,vocational training for supply chain skills, especially for women)
- Rural Infrastructure
- Youth Employment

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IFC’s Agribusiness Strategic Action Plan (ASAP), designed is aligned directly with the World Bank’s Agricultural Action Plan.

- RNFE is supported mainly through Agricultural Supply Chains





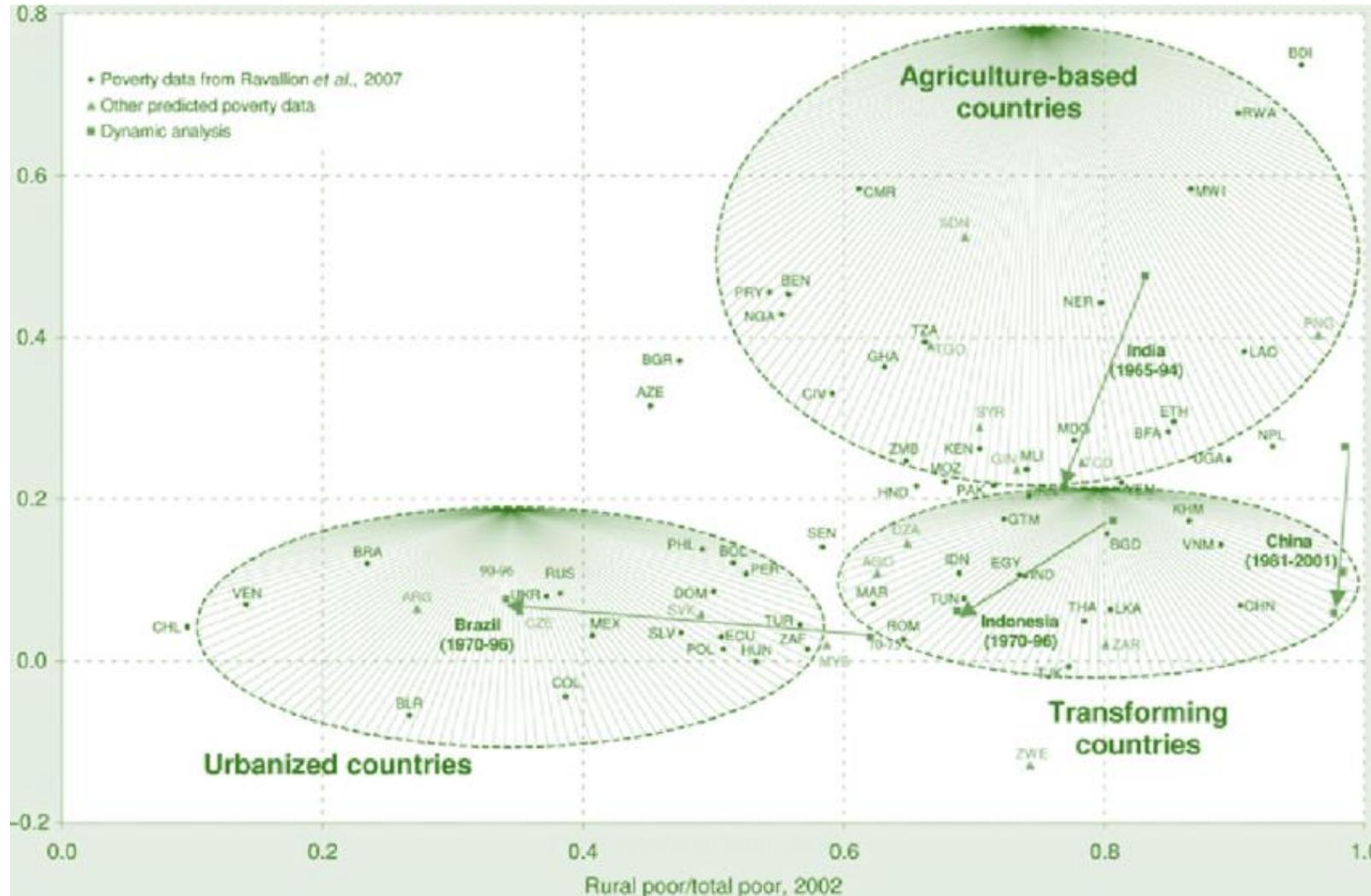
WBG has been a Leader in Promoting RNFE Data and Analytics, But Lacks Sustained Focus

- ❑ *The Rural Investment Climate Assessments (RICAs); RuralStruc; LSMS ISA; Enabling the Business of Agriculture (2016) – Doing Business indicators for Agribusiness.*
- ❑ *The work has taken place in fits and starts; trust funded; not linked to Ops.*
- ❑ *Where it has occurred, such as in LAC in the mid 90s, or recently in South Asia (India, Bangladesh), data has influenced framing of rural policy questions, including by removing agricultural biases*

At the Country Level, Stages of Rural Structural Transformation Present Differentiated Opportunities in the RNFE

- ❖ In Agrarian Economies, RNFE opportunities are highly linked to smallholder (farm) productivity
- ❖ In Transitional Economies, also linked to demand and labor markets in secondary towns and cities
- ❖ In Urbanized areas, RNFE may be driven more by urban demand and markets

Figure 2 Agriculture's contribution to growth and the rural share in poverty distinguish three types of countries: agriculture based, transforming, and urbanized



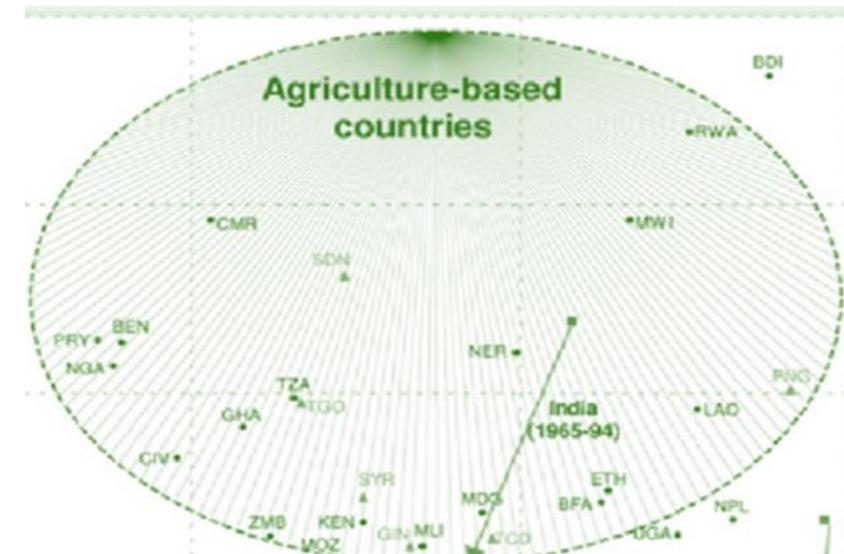
In Agrarian Economies, the Growth of the Rural Non-Farm Economy is intricately linked to the Productivity of the Farm

--- Diversification of rural livelihoods

---RNFE diversification can facilitate investment in the Farm

---And in so doing, you can accelerate Farm Productivity

---And this in turn can Equalize returns to Sectors and across Activities



Rural Non-Farm Opportunities are Under-Diagnosed in CAS, and SCDs



- Many country programs **not pursuing integrated approach** towards Developing the RNFE by Exploiting Farm + Non Farm Linkages in line with Relative Stage of Structural Transformation
- **No Diagnostics of Rural Labor Markets** – How to Connect Opportunities to Skills Development, Basic Numeracy and Literacy, Technical Skills and Aptitudes. Training on Specific Skills where there is market demand (Horticulture Companies, Tractor repair). ***This is the way you can connect the Growth and the Poverty Agenda.***
- Rural services being delivered in as part of Siloed Sector programs, not identified as critical binding constraint
- New Urban Development agendas are increasingly focusing on secondary city development, but not linked to poor rural remote areas
- In Bangladesh, the WBG has paid attention to **the rural economy, to evolving dynamics, linkages between the farm and nonfarm sectors, between urban and rural economies and labor markets.**

The Portfolio

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Three Linkages Matter: Consumption, Production and Factor Market *

1. **Consumption Linkages Dominate** Farm Productivity stimulates Demand for Non-Farm consumption (health, housing, local services).
2. Also, to a certain extent to **Production Linkages** – Productivity of Farm generates investment in production and processing equipment (i.e. husking mills). RNFE supply side opportunities generate demand: Tomato Processing Plant increases demand for Tomatoes. These are bidirectional between the Farm and the Non-Farm.
3. **Weakest attention by the WBG has been paid to Factor Market Linkages:** Labor and Capital. Rising wage rate in agriculture produces a collapse of unproductive rural non-farm activities and increase in higher return activities in services. Urban Labor market – including in Towns - drives up RNFE wage rates which drives up agriculture wage rates as it draws labor out of the Farm. Linkages will occur spatially with rural to urban migration and the rise
4. **Also Credit markets** – Farmers buy trucks or build guest houses; RNFE businesses often invest back in the farm.

◦

**Analysis Contributed by Steven Haggblade

The World Bank Group Invested about US\$ 46.5 Billion in Projects that Supported Rural Non-Farm Activities (FY04-14)

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Table 1.2. IFC Approaches in the RNFE

Key IFC approaches in the RNFE	IFC investments (no.)	IFC advisory projects (no.)
Agribusiness (agriculture sector)	132	130
Food and beverages	128	17
Agri-finance	47	25
Tourism development	19	18

Key World Bank approaches in the RNFE	Global practice							Total (no.)	Total (US\$, billion)
	Agriculture (no.)	SURR (no.)	SP & Labor (no.)	T&C (no.)	ENV (no.)	MFM (no.)	Other(s) (no.)		
CBAs (productive aim)	40	64	0	0	0	0	2	106	8.3
Value chains (crop, animal, productive partnerships)	101	9	0	2	0	0	4	116	6.3
Productive inclusion and public works	0	3	41	0	0	0	0	44	4.7
Regional integration	0	7	0	0	0	0	0	7	0.4
Tourism development	3	7	0	7	17	0	0	34	0.8
Rural livelihoods	14	3	0	0	0	0	0	17	2.2
Agglomerated approaches	1	1	0	10	0	0	0	12	1.2
Other(s)*	57	3	0	12	19	0	22	113	5.9
Policy Reforms**	3	0	0	0	0	49	28	80	5.6
Total	220	97	41	31	36	49	56	529	35.4

*Policy Reforms were assessed at the country level and are discussed in the RNFE country case studies *other individual projects do not form part of identified clustered approaches. Note: CBA = community-based approach; SURR= Social, Urban, Rural and Resilience; ENV = Environment and Natural Resources; SP = Social Protection; T&C = Trade and Competitiveness.

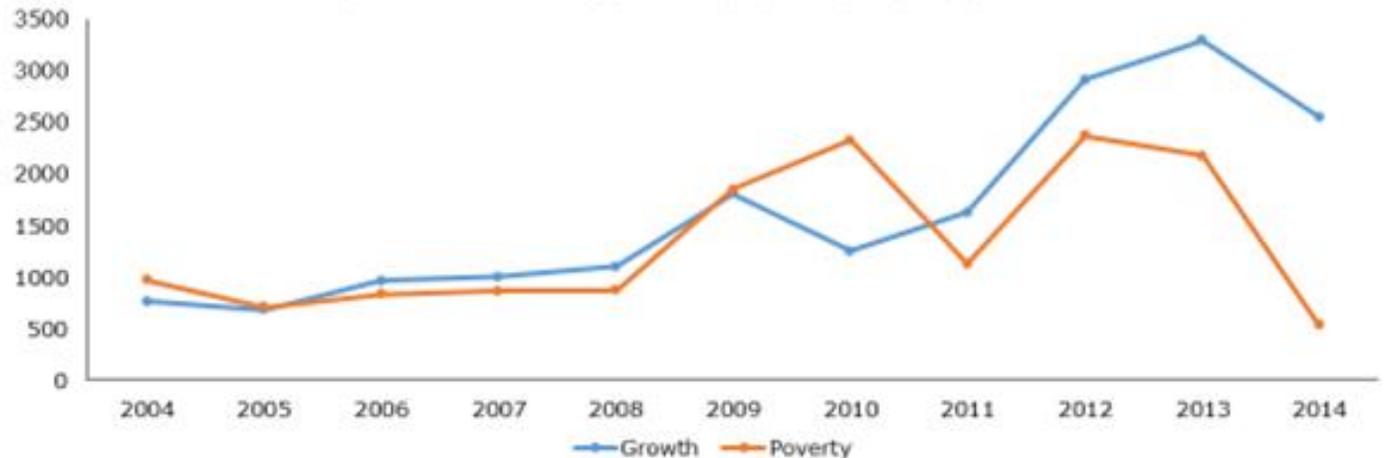
Divergent Paths

The poverty-oriented approach targets the rural poor and includes productive components aimed to generate income. It often successfully delivers services that have reduced the vulnerability of the rural poor but without sustainably lifting them out of poverty.

The growth-oriented approach, financed by the World Bank and IFC, seeks to increase productivity and competitiveness. It stimulates sectoral growth along the value chain but rarely provides evidence of benefits to the rural poor.

Commitment of RNFE Poverty VS. Growth by APP FY

Commitment of RNFE Poverty vs Growth oriented approaches by approval year (US\$m)



Commitment (US\$m)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Growth	766	689	965	1,002	1,103	1,806	1,251	1,628	2,914	3,293	2,551
Poverty	976	714	837	867	875	1,851	2,329	1,130	2,373	2,176	538



Rural Livelihoods in South Asia

- ❖ Valued at US\$2.2 billion*
- ❖ Achieved strong social outcomes, improved service delivery for rural poor (esp. women), and improved access to credit.
- ❖ Generated household income gains capable of smoothing consumption and weathering shock.
- ❖ Notable income gains in the dairy sector through collective procurement and marketing and market information.
- ❖ Have not yet achieved substantial increases in income or asset formation for the rural poor
- ❖ Potential to deepen and phase the model for economic gains.

*at time of study



CDD Projects with a Rural Income-Generating Focus

- Community control over planning decisions and investment resources
- **Stimulated savings, income, and productive assets.**
- Those that combine agricultural and RNFE activities have satisfactory results for Ag production, but do not adequately assess performance of non-farm investments.
- Poor performance was associated with binding constraints in enabling environment (market connectivity, rural INFRA, governance).
- Few community-based approaches with productive aims measure income or employment (*welfare impacts)

Social Protection Productive Inclusion Approaches

- **Rural Social Safety Nets** adding Asset and Income Creation to traditional HH transfer programs.
- Poverty Targeted
- Bumping up against same binding constraints as CDD with Productive Components.
- Room to Compare and Learn from Models across GPs.



World Bank Crop Value Chain Approaches have Increased Revenues and Sales, But Link to the Poor (Distributional Impacts) Often Not Evident

- Powerful tools for increasing growth, achieved increased sales and revenues
- But not always good for poverty reduction, especially when the choice of technology or procurement limits access by the Poor.
- In World Bank projects, value chain promotion **lacked sufficient analysis of constraints to participation by the poor, and also gender.**
- The Spillover or secondary effects of value chains on local economy not measured.
- In agrarian economies, interventions emphasized and measured effects on producer, but not the efficiency of the value chains.



Productive Partnerships: A LAC Innovation that is Learning While Scaling

- Agribusiness contracts between a producer organization and more commercial partners
- Government helps farmers meet quality and quantity goals of these contracts
- Implemented mainly in urbanized economies
- The Bank provided US\$1.6 billion for 25 projects (including additional financing) in 10 countries in LAC
- Positive results with regard to production and sales



IFC: More impact where links to rural poor clearer



- **Value Chain investments in agrarian areas working to strengthen value chain development**
- **Positive rural employment benefits and links to RNFE found in certain food processing investments**
- **Blended Finance Programs** have enabled better Rural Reach (Too Early to Evaluate Impacts)
- None of the investments in wholesale and retail trade tracked consumer benefits
- **Risks imposed by market structure are rarely treated explicitly.**





What's Next for the RNFE in the WBG?

- ❑ Management will develop an **overall framework** to improve jobs and income in the rural nonfarm economy.
- ❑ The World Bank Group will **tailor project design** to the stage and nature of a country's structural transformation.
- ❑ World Bank Management will track **income effects** in more projects supporting activities in the rural nonfarm economy.
- ❑ IFC will integrate **poverty and gender considerations** in its **investment decisions**.
- ❑ The World Bank will prioritize **data collection** efforts on rural enterprises and conduct more **impact evaluations** of farm and nonfarm projects.
- ❑ The World Bank Group will strengthen its **gender analysis** by identifying and addressing gender gaps in project design and by integrating sex-disaggregated indicators to measure gender benefits in the rural economy.