

**80% of the
extreme poor
live in rural
areas**

**Up to half of their
income comes from
sources other than
farming**

**What has the World Bank
Group done to grow the
rural nonfarm economy and
alleviate poverty?**

THE RURAL NONFARM ECONOMY

All economic activity in rural areas except farming.



and many more



IEG
INDEPENDENT
EVALUATION GROUP

WORLD BANK GROUP
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WHAT
WORKS



Portfolio

The World Bank Group invested about \$46.5 billion between 2004 and 2014 to support rural nonfarm activities. IEG identified two approaches in the portfolio:

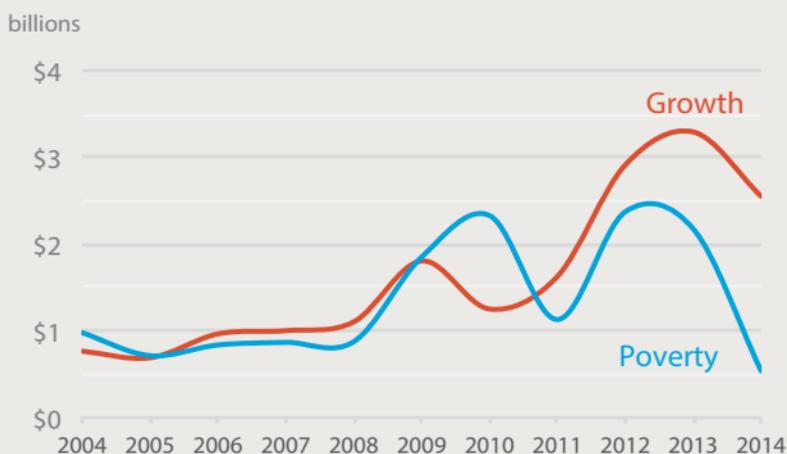
The **poverty-oriented approach** targets the rural poor and includes productive components aimed to generate income. It often successfully delivers services that have reduced the vulnerability of the rural poor but without sustainably lifting them out of poverty.

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.

IEG's analysis revealed a gap between these two main approaches. Although there are some exceptions and hybrids, they are generally isolated from one another, suggesting a need to **think more flexibly about how to draw from the toolkit of interventions** to arrive at new, more tailored approaches.

Growth approaches have expanded while poverty ones have declined

Commitment levels by type of approach



Findings

Assisting the development of the rural nonfarm economy is essential to the World Bank Group's twin goals of poverty alleviation and shared prosperity. The organization has been a leader in raising awareness about the role that nonfarm activities play in reducing poverty.

- 1.** The World Bank Group has highlighted the rural nonfarm economy in its strategies and portfolio. However, it lacked an articulated approach to developing it to alleviate poverty. Many units have products in this space, but there has been no coordinating mechanism.
- 2.** As determined by the portfolio analysis (left), the World Bank Group has not bridged the gap between poverty-oriented and growth-oriented approaches in the rural nonfarm economy.
- 3.** Few projects track income or employment effects for the poor. In the absence of better measurements, the World Bank Group has little information on which approaches work best in which contexts and with what impact for addressing rural poverty, including for women.
- 4.** IEG found that several IFC investments in agrarian areas were working to strengthen value chain development across several of its segments, both upstream and downstream, and that this type of engagement was increasing over time. However, IEG found little identification, targeting or tracking of benefits to the rural poor. The effects of market power were seldom explicitly considered.
- 5.** The World Bank has been a leader in researching and documenting the rural nonfarm sector and in analyzing its relationship to poverty, but diagnostics have been more sporadic than systematic. Most country programs reviewed did not take an integrated strategic approach to developing the rural nonfarm economy as a way to reduce rural poverty.
- 6.** Across the World Bank Group portfolio, sex-disaggregated data increasingly records women's participation. However, few projects record women's access to economic opportunities, and none record distributional benefits by sex. Women are also underrepresented in skills training programs and face "gendered" constraints to placement.





BACKGROUND

The Link with Poverty

Rural nonfarm activities can account for 35% to 50% of rural income in developing countries: for the landless and the very poor, sustainable income gains at the household level are associated with additional wages earned from nonfarm activities. Households relying only on farming tend to be among the poorest.

The rural nonfarm sector can, and often does, contribute to economic growth, rural employment, poverty reduction, and a more spatially balanced population distribution.

The distributional impacts of rural nonfarm opportunities can be significantly pro-poor, extending through linkages between the nonfarm and the farm sectors. However, for the poor to benefit from opportunities in the rural nonfarm economy—including those presented by mobility—they must overcome many policy and resource constraints. These include limited access to connectivity, education and relevant skills training, finance, and legal rights to land. Other constraints are associated with exclusion based on gender, age, or identity.



A GOOD EXAMPLE

Bangladesh

The number of poor people in Bangladesh fell from 48.9% of its population in 2000 to 31.5% in 2010 and, given slowing population growth, led to 16 million fewer poor people over the decade, compared to a decline of less than one million during the previous decade. Nearly two-thirds of this poverty reduction can be attributed to higher returns both to farm and nonfarm endowments.

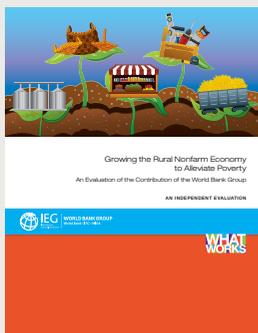
The World Bank country program paid close attention to the rural economy, to its evolving dynamics and the linkages between the farm and nonfarm sectors, and to the linkages between the urban and rural economies and labor markets.

The World Bank has effectively supported a suite of rural services, including micro-credit, roads, rural electrification and renewable energy, primary and secondary education, and community interventions that helped connect the poorest to savings and credit, and rural enterprise opportunities. Evaluations of the World Bank's rural transport, rural electrification and renewable energy programs show positive impacts on household farm and nonfarm income, schooling outcomes and, in the case of renewable energy, female empowerment.

What's next for the World Bank Group?

The World Bank Group management has set forth a plan of action that places continued emphasis on the rural nonfarm economy as a driver of poverty reduction.

- 1.** Management will develop an **overall framework** to improve jobs and income in the rural nonfarm economy. This will increase attention to such opportunities in the Systematic Country Diagnostics and Country Partnership Frameworks, especially in countries with high levels of rural poverty.
- 2.** The World Bank Group will **tailor project design** to the stage and nature of a country's structural transformation and adapt it to the needs of the target population, especially in slow-to-transform economies and in lagging regions.
- 3.** World Bank Management will track **income effects** in more projects supporting activities in the rural nonfarm economy. This can yield information on which approaches work best in which contexts.
- 4.** IFC will integrate poverty and gender considerations in its **investment decisions**, both by anticipating likely impacts and by using poverty scorecard metrics and gender-disaggregated data in evaluations.
- 5.** The World Bank will prioritize **data collection** efforts on rural enterprises and conduct more **impact evaluations** of farm and nonfarm projects, to further guide policy and investment interventions.
- 6.** 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.



Full report:

Growing the Rural Nonfarm Economy to Alleviate Poverty

<http://ieg.worldbankgroup.org/evaluations/rural-nonfarm-economy>

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