



Latin American countries have implemented a range of strategies to boost the rural nonfarm economy, with positive impacts on local economic growth and poverty reduction.

HARNESSING THE POTENTIAL OF THE NONFARM ECONOMY FOR SMALLHOLDERS IN LATIN AMERICA

SUMMARY

While the rural nonfarm economy has been long neglected by policymakers across the developing world, over the last decade this sector has been attracting growing interest and high expectations in Latin American countries due to its increasing share in rural household incomes, relatively low capital requirements for farmers and its potential to contribute to poverty reduction. While the existence of a strong agricultural sector is a common driver of nonfarm activities within countries across the region, Latin American experience also shows that new opportunities are emerging in rural areas, suggesting that sustainable growth of the rural economy may also rely on other economic activities. Strengthening the rural nonfarm economy requires the ability to identify key opportunities for growth within a specific territory, create incentives and reduce risks for investors. In order to do so, Latin American countries have primarily focused on improving access to markets, investing in rural infrastructure and building human capital. This Brief begins by exploring the role and characteristics of the rural nonfarm economy in Latin America, and elsewhere, before describing the different strategies employed within the region, including examples from Brazil, Peru and Mexico. Finally, the Brief examines the factors that have enabled the emergence and growth of the rural nonfarm sector in Latin America and highlights key lessons for policymakers and practitioners in other regions.



THE POTENTIAL FOR NONFARM ACTIVITIES TO STIMULATE RURAL DEVELOPMENT

In Latin America, agriculture may not necessarily represent a pathway out of poverty for all rural households. As described in the [ELLA Guide: Recognising the Diversity of Smallholder Farmers in Latin America: A New Era in Rural Development](#), commercial smallholder farmers with relatively large resource endowments and access to markets are likely to be able to develop practices that allow them to move out of poverty. For

KEY LESSONS LEARNED

The growing nonfarm economy is bringing about a new set of opportunities for rural households to diversify their income base and move out of poverty.

Policy and programmes must prioritise the choices and needs of poorer households to ensure that growth in the nonfarm sector is more inclusive.

Investment in rural infrastructure represents an opportunity to incentivise public and private investment in nonfarm activities by reducing transaction costs and risks.



this group, agricultural-led policies that focus on reducing transaction costs associated with the financial markets and market access, and improving their asset base and skills are likely to be effective.

However, a large proportion of smallholders in Latin America are resource-poor subsistence farmers who live in low-productivity environments.¹ Although agriculture plays an important role as a source of food security, subsistence farmers may not necessarily be able to rely on agriculture to overcome poverty. Instead, they may decide to take up opportunities to diversify their livelihoods in the rural nonfarm economy (Box 1). This sector is growing steadily in Latin America and is expected to become increasingly important as a result of economic growth generally, growth in the agricultural sector more specifically, and new linkages between urban and rural areas.

Box 1: The Decision to Diversify

A household's decision to diversify depends on a range of considerations about incentives and risk, including the potential for income generation and the human and capital assets required to engage in a new activity. Household income diversification strategies differ significantly across settings and income groups, with wealthier households generally better positioned to take advantage of new markets.

Rural nonfarm employment and self-employment can play an important role in risk management strategies for poorer farmers. Evidence from rural areas throughout the developing world shows that the poorest rural households are also the least diversified, showing that there is potential for nonfarm activities to provide alternative sources of income for these families.

Source: Wiggins, S. and Hazell, P. 2010. [Access to Rural Nonfarm Employment and Enterprise Development. Background paper for the IFAD Poverty Report 2011](#). IFAD, Rome.

The rural nonfarm economy includes all economic sectors other than agriculture, both nonfarm wage employment and self-employment, lumping together a wide range of activities. It is highly seasonal, and also includes earnings from migration by family members who remain important

economic actors within the household despite moving away.

Rural nonfarm activities require relatively low levels of investment from farmers. The majority of rural nonfarm activities either involve working away from the farm in mining, trade or local businesses, for example, or engaging in small-scale labour-intensive businesses such as handicrafts or production of dairy by-products. However, while farmers can engage in rural nonfarm activities with relatively low levels of capital, potentially large public investments are required to make these activities feasible, including rural roads, telecommunications and electricity supply.

The rural nonfarm economy has been long neglected by policymakers mainly due to urban bias in public investments in infrastructure and services; the institutional fragmentation that prevails in rural areas, where a large spectrum of public and private actors are poorly coordinated; and the weak voice of rural households and small rural entrepreneurs in decision-making processes.

Over the last decade, however, the rural nonfarm economy has attracted increasing attention from researchers and policymakers for its potential to contribute to rural development and its increasing importance as a source of income in rural areas. In poor agrarian economies characterised by low agricultural productivity, rural nonfarm economic activities are seen as an alternative to agriculture for stimulating rural development. In emerging economies, the rural nonfarm economy is expected to absorb households that are unable to participate in capital-intensive modes of production or more demanding markets.² Given the relatively low capital requirements for farmers in the nonfarm economy, policymakers in both settings view it as a promising mechanism for stimulating local economic development and contributing to poverty reduction efforts.

THE CHARACTERISTICS AND ROLE OF THE RURAL NONFARM ECONOMY IN LATIN AMERICA

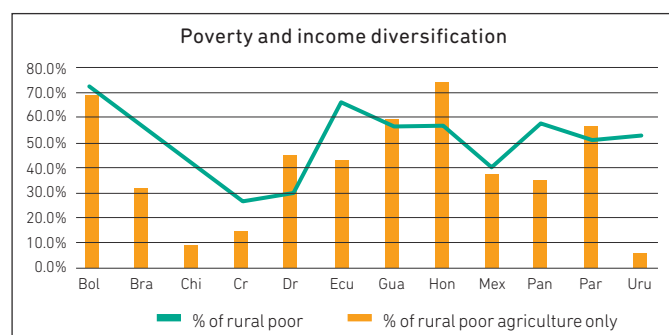
In Latin America, around half of the rural population is considered poor. Furthermore, poverty in rural areas is concentrated amongst households with the least diversified livelihoods.

¹ A low productivity environment refers to an area with low infrastructure, low productivity lands (no rain, for example) and no easy access to markets, amongst other characteristics. For more discussion of low productivity environments, see the [ELLA Guide: Recognising the Diversity of Smallholder Farmers in Latin America: A New Era in Rural Development](#).

² Haggblade, S., Hazell, P. and Reardon, T. 2010. 'The Rural Non-farm Economy: Prospects for Growth and Poverty Reduction'. In: *World Development* 38(10) 1429-144.



Figure 1: Rural poverty and income diversification in Latin America



Author's own elaboration.

Source: Rodríguez, A. and Meneses, J. 2010. *Condiciones Socioeconómicas y Laborales de los Hogares Rurales en Doce Países de América Latina (Socioeconomic and Employment Conditions of Rural Households in Twelve Latin American Countries)*. ECLAC, Santiago de Chile.

The nonfarm economy is already embedded in rural livelihoods across Latin America, with approximately 53% of rural households engaged in some kind of nonfarm activity.³ The majority of people involved in nonfarm activities are women and middle-aged groups.⁴ Income data (which includes earnings from seasonal and part-time activities, thus offering a more complete picture of the nonfarm economy) suggests that in Latin America, rural nonfarm economic activities account for around 45% of total rural incomes – a figure that is rapidly increasing.⁵ This data shows that while agriculture is still the most important activity in rural economies, given the scale of the nonfarm economy, the simplistic notion of rural economies as merely agricultural is obsolete.

In Latin America, nonfarm activities carried out by rural households are distributed between financial and personal services (34%), trade and transportation (23%), manufacturing (22%), and construction, mining and others (21%); similar shares as the ones seen in West Asia and North Africa (Figure 2).⁶ Across the region, nonfarm wage employment has experienced significant growth over the last decade, reaching 32% of total rural incomes in 2009, while self-employment income shares have remained stable at 12% of total rural income.⁷

Figure 2: Composition of rural nonfarm employment, by region

	Rural nonfarm employment shares			
	Manufacturing	Trade and transport	Financial and personal services	Construction, utilities, mining, others
Africa	19%	31%	35%	15%
Asia	27%	29%	31%	14%
Latin America	22%	23%	34%	21%
West Asia and North Africa	23%	22%	36%	20%

Source: Hagglblade *et al.* 2010, see n1.

The scale of nonfarm enterprises varies significantly, from independent handicraft making to large-scale agro-processing facilities. In Latin America, most nonfarm activities are small-scale businesses and household-based part-time nonfarm labour is the general rule.⁸ The heterogeneity of rural nonfarm activities in terms of physical and human capital results in different levels of productivity and profitability. While poor farmers generally undertake low-productivity activities that offer no clear pathways out of poverty, richer households tend to dominate higher-return jobs and businesses. It is clear, then, that policy and programmes must prioritise the choices and needs of poorer households to ensure that growth in the nonfarm sector is more inclusive.

RESPONSES FROM LATIN AMERICA

Across Latin America, a good number of rural development policies and programmes have been implemented seeking to create the adequate conditions and opportunities for income generation and poverty reduction in rural areas. Most of these policies and programmes consider the importance of the rural nonfarm economy as a key element for achieving these goals.⁹ Based on a review of experiences from across Latin America, four key strategies for strengthening the rural nonfarm economy can be identified as:

³ Trivelli, C., Yancari, J. and De Los Ríos, C.A. 2009. *Crisis and Rural Poverty in Latin America*. Working Paper No. 37 of the Rural Territorial Dynamics Program. Rimisp, Santiago de Chile.

⁴ Dirven, M. 2009. *Non-farm Rural Employment and Rural Poverty Reduction: What We Know in Latin America in 2010*. Paper presented at the IFAD Conference on New Directions for Smallholder Agriculture 24-25 January 2011. IFAD, Rome.

⁵ Author's own calculations based on a set of surveys for the periods 2000 to 2002 and 2008, developed by the Economic Commission for Latin America and the Caribbean (ECLAC) on the following 12 Latin American countries: Bolivia, Brazil, Chile, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Panama, Paraguay and Uruguay. See Rodríguez, A. and Meneses, J. 2010. *Condiciones Socioeconómicas y Laborales de los Hogares Rurales en Doce Países de América Latina (Socioeconomic and Employment Conditions of Rural Households in Twelve Latin American Countries)*. ECLAC, Santiago de Chile.

⁶ Hagglblade *et al.* 2010, see n1.

⁷ Rodríguez and Meneses. 2010, see n4.

⁸ Hagglblade *et al.* 2010, see n1.

⁹ A review of policies in the region shows that while rural nonfarm employment is not explicitly part of the region's political agenda, meaning that there is no specific secretariat or ministry in charge of rural nonfarm employment in Latin American countries, rural development policies do include strategies aimed at strengthening the nonfarm rural economy.



1. Identifying potential drivers of growth
2. Developing rural infrastructure
3. Promoting access to markets
4. Building human capital

1. Identifying potential drivers of growth

In order to strengthen the rural nonfarm economy, it is first important to determine the key activities and factors that drive economic growth within a particular territory. In areas with large agricultural productivity and trade opportunities, labour and capital can be attracted into complementary nonfarm activities such as tourism and mining. In such contexts, agriculture is the main engine of growth and the main driver of rural nonfarm economies. In the [Petrolina-Juazeiro](#) hub – one of the most important agricultural production and export centres in north-east Brazil – the IFAD has provided a US\$45 million loan to intensify and diversify production of high-value crops for exports and large national markets, such as table grapes, bananas, mangoes and coconut. Through increasing income generation and productivity, the project aims to support the creation of both agricultural and non-agricultural work opportunities with the overall objective of reducing poverty amongst some 70,000 vulnerable rural families.¹⁰ Similarly, in the [Puno-Cusco corridor](#) in the Peruvian Andes, local economic growth has been boosted by agricultural intensification and diversification that have subsequently created demand for nonfarm economic activities, specifically agro-industry and handicrafts. Another key driver in the Puno-Cusco corridor was wage employment in the mining sector.¹¹ In fact, in many Latin American countries mining and tourism represent key sectors contributing to the rural nonfarm economy. The key to the success of rural nonfarm activities in a particular region seems to be the existence of an engine of growth in tradable goods – either from agriculture, tourism or mining – or linkages to external engines of growth (for example, labour provision to local municipalities or food services on the road to a provincial capital) which offer prospects for expanding rural markets and employment locally.¹² In areas without a dynamic

economic base, rural nonfarm activities evolve differently. A sluggish local economy limits both entrepreneurial and wage-earning opportunities thereby pushing smallholders into low-productivity nonfarm activities. On the other hand, regions with relatively good access to markets and infrastructure (primarily roads, electricity and water) are more likely to benefit from rural nonfarm activities and links with urban centres, while remote and poorer regions will most likely not. This indicates that the potential for rural nonfarm activities to support local economic development is relative to the conditions and characteristics of any given territory. It also explains the success behind the use of a territorial approach in Latin America to identify and capitalise on potential drivers of growth by mobilising stakeholders and creating appropriate institutional arrangements.¹³

2. Developing rural infrastructure

A characteristic of Latin American countries, and in particular the Andean countries, is that geography matters. Distances between settlements and between settlements and cities are so large that in many cases they hamper the flow of people, goods and information; a scenario that is frequently aggravated by the presence of particular landforms.¹⁴ The geography of rural areas often limits access to capital (human, financial, physical and even social), resulting in low levels of productivity and high transaction costs (mostly related to transportation and information).

Rural nonfarm activities in Latin America are mostly developed around locations close enough to markets of a certain size.¹⁵ As various studies have documented, investments in rural infrastructure have successfully reduced poverty in Latin America.¹⁶ As infrastructure improves and market barriers fall with development, rural dwellers become 'closer' to urban areas, and the degree of market interaction enhances, leaking into the rural economy. Also, as rural-urban connectivity improves, rural households become more dependent on urban markets and social networks, and the productivity of rural nonfarm activities often increases as a result.

¹⁰ International Fund for Agricultural Development. 2011. [Rural Poverty Report 2011](#). IFAD, Rome.

¹¹ Ibid.

¹² Haggblade *et al.* 2010, see n1.

¹³ For more information on territorial approaches please refer to the [ELLA Guide: Recognising the Diversity of Smallholder Farmers in Latin America: A New Era in Rural Development](#).

¹⁴ Most of the rural population in South America lives in the Andean mountain range which dissects the continent from north to south and reaches up to 5,000 metres in height.

¹⁵ Dirven. 2009, see n3.

¹⁶ See for example Webb, R. 2013. [Pobreza y Dispersión Poblacional \(Poverty and Population Spread\)](#). Consorcio de Investigación Económica y Social (CIES), Lima; De Javry, A. and Sadoulet, E. 2001. 'Income Strategies Among Rural Households In Mexico: The Role of Off-farm Activities'. In: *World Development* 29(3) 467-480; Lonjow, P. 2001. 'Nonfarm Employment and Poverty In Rural El Salvador'. In: *World Development* 29(3) 529-548.



In Peru, for example, an impact evaluation of the Inter-American Development Bank programme [Provias Rurales \(Rural Roads\)](#)¹⁷ shows that improving the condition of rural roads leads to greater increases in household income when combined with the development of other productive infrastructure such as electricity and telecommunications. Likewise, improving rural infrastructure increased the participation of nonfarm incomes in the local economy. In order to scale-up these benefits, the programme introduced an innovative mechanism called the [Local Development Window](#), through which NGOs helped rural dwellers to identify and prioritise productive activities while also offering entrepreneurial and commercial support. Thanks to its success, the experience in Peru has been replicated in other Latin American countries including Bolivia, Ecuador, Guatemala and Honduras.

3. Promoting access to markets

Since most rural economies rely on agriculture, improving access to markets is vital to spur growth in this sector. This, in turn, creates demand and incentives for the development of nonfarm activities. Thus, in order to move poor households from “refuge” nonfarm activities¹⁸ to more productive ones, improving access to agricultural markets is fundamental. Traditionally, producers’ associations and cooperatives were established to overcome poor access to markets for smallholder farmers. In Peru for example, organic banana associations, and coffee and cocoa cooperatives have successfully organised smallholder farmers to deliver quality products to highly competitive international markets.

A more recent approach – the value chain model – considers all actors in a particular market system, from input supply through to end market retailers, service providers, and public and private decision-makers in the enabling environment. In doing so, the value chain model actively seeks to stimulate and strengthen nonfarm activities. Examples of Latin American programmes designed to strengthen value chains include the [Productive Alliances](#) programme implemented in Chile by the [Agricultural Development Institute \(INDAP\)](#) and the [Rural Development with Equity](#) programme run by the Colombian Ministry of Agriculture and Rural Development, both of which focus on providing technical assistance to

small supplier enterprises and improving their integration into different value chains.¹⁹ In Peru, the [Support Services for Rural Markets \(PROSAAMER\) programme](#) provided technical assistance and financial support on a competitive basis for organised farmers and small enterprises with economically and financially sustainable business development plans.

Contract farming has been promoted in many Asian and Latin American countries as a potential means to incorporate small-scale farmers into growing markets for high-value commodities. Since contracts often include the provision of seed, fertilizer and technical assistance for accessing credit and a guaranteed price at harvest, this form of vertical coordination has the potential to address many constraints to small-farm productivity while simultaneously driving development in the nonfarm sector. In this sense, contract farming has been viewed as an institutional solution to the problems of market failure for credit, insurance and information.²⁰

Finally, another emergent trend in Latin America relates to the creation of new markets. Bio-fairs, ecological markets and organic markets have emerged across the region – such as the ones in Loja and Cuenca in Ecuador, [in different districts of Lima, Peru](#), and the red [Ecovida](#) in Brazil. These markets provide a platform for producers to sell niche products – such as jams and lotions – to an increasing client base, thereby supporting their diversification into nonfarm activities.

4. Building human capital

Education and training are fundamental to provide smallholders with the new skills and knowledge they require to capitalise on emerging opportunities in the nonfarm sector. The [National Rural Training Service \(SENAR\)](#) in Brazil and the [National Training Centre \(SENA\)](#) in Colombia have run vocational training programmes in rural areas for several decades with the objective of creating opportunities for rural households to diversify into nonfarm activities including food and nutrition, handicrafts, culture, sports and leisure. Several Sub-Saharan African countries are now tapping into SENAR’s success, notably Angola and Mozambique, under an international cooperation agreement with the Brazilian Cooperation Agency – ABC of the Ministry of External Relations.

¹⁸ Refuge nonfarm activities refers to low-productivity, low-paid economic activities that characterise the rural nonfarm economy in poorer regions.

¹⁹ Although there is no available evidence of the outcomes of these programmes, they are widely supported and respected as successful models.

²⁰ Thapa, G. 2010. *Smallholder or Family Farming In Transforming Economies of Asia and Latin America: Challenges, and Opportunities*. Paper presented at the International Conference on Dynamics of Rural Transformation in Emerging Economies, April 14–16, 2010, New Delhi. IFAD, Rome.



Across Latin America, IFAD is working with a number of Latin American governments to deliver comprehensive rural development programmes that include capacity building for nonfarm economic opportunities. Frequently, the most vulnerable households, women and young people are the main target beneficiaries of the training components. One example is that of the [Learning Routes Training Programme](#), created and implemented by [PROCASUR](#). The programme promotes practical learning methods through on-site study tours that expose smallholder farmers to successful micro and small entrepreneurial experiences. During field visits, hosts provide technical support for the implementation of small group-based entrepreneurial projects, thereby building human capital and catalysing the development of local technical assistance markets for small enterprises.

Another interesting example is the [Economic Inclusion Programme for Families and Rural Communities in the Territory of the Plurinational State of Bolivia \(ACCESOS\)](#) which runs competitions to develop community-based enterprises. Local committees are responsible for selecting investment proposals based on whether they incentivise sustainable resource management and promote respect for communal and territorial land rights. Alongside these competitions, ACCESOS is facilitating capacity building for community-based enterprises, producers' groups, microenterprises and others that identify and implement business plans to generate income and employment. The [Building Rural Entrepreneurial Capacities](#) programme in Colombia focuses on post-conflict areas where many households have been forcibly displaced. In order to promote and enhance entrepreneurship skills, the programme is financing participation in workshops, learning routes, fairs and trade shows.

Finally, the "Buen Vivir" ("Live Well") in Rural Territories Programme in Ecuador works in nine rural provinces characterised by a large presence of small-scale farmers from typically excluded populations (mainly indigenous and Afro-descendant communities). Building on the agro-ecological and cultural practices of these communities, the programme will train 5,000 individuals to participate in complementary nonfarm job markets such as the commercialisation and transformation of agro-ecological products, tourism and culture.

The implementation of these key strategies has reorientated rural development efforts across Latin America which, rather than focusing exclusively on agriculture, now consider the potential of a range of sectors to contribute to poverty reduction. The result has been an increase in the variety of market opportunities available for rural households with links to urban and semi-urban areas, and therefore a greater potential for these groups to move out of poverty in a more sustainable way. Challenges remain, however, including how to link local level actions to the myriad of actors (public and private) involved in development processes, and the development of human capital to take advantage of the opportunities that arise. It is also important to mention that the development of rural infrastructure is directly related to the government's budget, with a healthy economy more likely to have sufficient resources to invest in infrastructure and services for the rural poor.

Liberalisation and globalisation are at once a source of opportunity and a major threat to rural households. On the one hand these processes show potential for creating larger markets for rural products and could contribute to reducing poverty. On the other hand, increased competition can have negative effects on local production and may benefit only those strong enough to compete to the detriment of the largest proportion of rural households. Along the same line, it is important to acknowledge that while liberalisation and globalisation may create nonfarm employment opportunities for rural populations, poor working conditions and negative environmental impacts pose significant barriers to poverty reduction and sustainable development goals. Governments should therefore be aware of these threats and develop a set of tools to minimise the negative impacts (such as adequate control of working conditions, minimum salary legislation and strong environmental policy) and maximise social welfare in terms of both income level and distribution.



While agriculture has long been recognised as an engine of growth in Latin American economies due to its magnitude and linkages with other economic sectors,²¹ over the last decade policymakers and researchers have realised that agriculture will not necessarily provide a pathway out of poverty for all small-scale farmers. Consequently, national policies and programmes now place a greater emphasis on strengthening nonfarm activities to create alternative employment and income generating opportunities.

Several socio-economic processes have also contributed to the rise of the rural nonfarm economy, such as urbanisation, commercial opportunities arising from economic liberalisation and growth, and improvements in communications infrastructure in the region.

- **Urbanisation:** Proximity to urban areas is positive for the nonfarm economy, as transport, communications, business and social linkages all tend to be stronger. Improved transportation and communication linkages between rural and urban areas are particularly important for extending new opportunities to rural households. For example in Mexico, urban centres have created new manufacturing and service

employment opportunities.²²

- **Commercialisation opportunities:** Economic liberalisation processes have provided access to new markets, thereby driving growth in new types of rural activities. One example is the assembly plants in Central America where cheap manufactured items are produced for exportation.²³
- **Improved communications:** Rural areas in Latin America are experiencing an impressive expansion in access to information and communication technologies (ICTs), with mobile phone ownership and internet access both rising rapidly. These technologies have improved access to information for decision-making and have provided a conducive climate for financial providers to target new rural customers. In Ecuador, a new service provides price information to farmers via text message allowing for more timely decisions on where to sell their products.²⁴ In Peru, the [Telecommunications Investment Fund \(FITEL\)](#) of the Ministry of Transportation and Communications increased the average price received by farmers in areas where access to a public phones and internet services were provided.

²¹ In Latin America, each dollar of additional value on agriculture generates another 30 cents elsewhere in the economy. For Africa this figure is estimated at 50 cents and in Asia 60 cents. For more information see Hagglblade *et al.* 2010, n1. above.

²² World Bank. 2008. [World Development Report 2009](#). World Bank, Washington DC.

²³ IFAD. 2010. [Rural Poverty Report 2011](#). IFAD, Rome.

²⁴ See the [Ministry of Agriculture, Livestock, Aquaculture and Fishery's SMS service webpage](#) and also ECLAC. 2012. *Newsletter: Agriculture and ICT*. ECLAC, Santiago.

LESSONS LEARNED

1 The growing nonfarm economy provides a new set of opportunities for households to diversify their income base and move out of poverty. Latin American experience teaches us that policy and programmes must target poorer households to ensure that growth in the nonfarm sector is more inclusive. Training and education programmes are particularly effective strategies for supporting smallholder farmers to diversify their livelihoods, while at the same time building a demand-led workforce to respond to opportunities in new

nonfarm activities. This strategy has been a key element of sustainability of public interventions across the region.

2 The potential for rural nonfarm activities to support local economic development is relative to the conditions and characteristics of any given territory. Identifying key sectors within a territory that may act as an engine of economic growth is the first step towards integrating the nonfarm economy into a rural development agenda. Promoting

access to markets for these sectors represents the next important step, and various successful mechanisms exist such as contract farming and value chain models.

3 Investment in rural infrastructure (roads, telecommunications and basic public services) represents an opportunity to incentivise public and private investment in nonfarm activities by reducing transaction costs and risks.

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