

# SARD and... rural enterprises

Rural enterprises and diversification into market-oriented, income generating activities are being increasingly viewed as a path to improving both livelihoods and food security. The issue is not whether to participate in the market economy but how to do so in a manner which provides for sustainable and equitable income growth and decent work. Taking many forms including cooperatives, enterprise development is an appealing alternative for stakeholders in rural development, particularly as it contributes to equity through local economic growth.



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## Sustainable Agriculture and Rural Development (SARD)

Agriculture and rural development are sustainable when they are ecologically sound, economically viable, socially just, culturally appropriate, humane and based on a scientific approach.

Rural development policy must aim to meet the nutritional and other human needs of present and future generations; and maintain, and where possible, enhance the productive and regenerative capacity of the natural resource base. It must also provide for the durable employment of those generations, reduce their vulnerability and strengthen their self-reliance.

## Did you know?

- 900 million or three-quarters of the world's poor and hungry live in rural areas, where decent work deficits are often most stark.<sup>1</sup>
- Farmers who combine conventional farming with innovative rural enterprises enjoy higher incomes and safer livelihoods than farmers relying on conventional farming and/or waged labour.<sup>2</sup>
- The development of household enterprises is a very promising rural poverty reduction strategy for equitable income growth and decent work across all farming systems.<sup>3</sup>
- Micro- and small enterprises account for most employment in developing countries.
- Non-farm income accounts for 40-45% of rural household income in Africa and 32% in Asia.<sup>2</sup>
- Between half and three-quarters of those who make or supplement their living from micro- and small enterprises are women.<sup>4</sup>

## Why is action needed?

- A large number of people in rural areas live in absolute poverty, despite the growing integration of the global economy and the potential for local economic growth.
- Rural enterprises can contribute to income, jobs, innovation, capacity, technology transfer, economic sustainability and equity.
- In many developing countries women control or own a high percentage of small-scale enterprises that cater to local needs; investing in these can improve women's status, the most important single variable in reducing malnutrition.<sup>5</sup>
- Diverse engagement with different types of markets and economic activities reduces poor people's vulnerability and helps them to spread risk.
- Rural enterprises encourage local entrepreneurship and empower women and men to become actors in their own development.
- Enterprise development contributes to social cohesion by regenerating the rural economy, reducing labour migration and pressures on the urban areas.

## What are the policy goals?

- Create a supportive enabling environment that favours rural business and investment, including the promotion of microfinance services and improvement of business regulations.
- Link farmers to markets by promoting market-oriented production and improving access to market information.
- Support business development services (BDSs) for rural enterprise through initiatives that develop business skills, and introduce new and appropriate technologies.
- Help rural women and men develop and maintain a diverse portfolio of livelihood strategies, thus reducing poverty, food insecurity, vulnerability and inequality in rural areas.
- Support sustainable industries with the potential to be competitive in global markets, in which significant numbers of rural enterprises can participate and meet the economic, environmental, social and cultural needs of rural communities now and in the future.



## The policy issues

### Characteristics of rural enterprises

- Rural enterprises have limited resources such as labour, skills, and capital, which make it difficult for them to meet the standards required for local, regional, or global markets. This lack of resources also prevents rural enterprises from expanding and excludes them from higher-value markets as suppliers to larger firms or as direct suppliers to markets. Resources for improving malfunctioning markets where the extremely poor operate are also limited.
- The transaction costs of working with rural enterprises are high because of their small size, scattered nature and remoteness. These high costs are often a result of the time required to ensure that standards are met (e.g. negotiating with many individual enterprises, collecting produce from dispersed or remote collection points). Many small rural enterprises have to carry these costs themselves because of their isolation.
- Rural enterprises face business risks like other firms. For rural enterprises, the risks often stem from power imbalances versus larger firms and buyers that can influence terms and conditions and standard requirements. Outsourcing to small rural enterprises may bring about exploitative conditions.
- In many rural contexts, such as drylands and remote fragile environments, improved access to water and land is often the entry point to rural enterprise diversification. Hence the planning and management of natural resources must promote the environmentally and economically sustainable development of natural resources.
- Rural enterprises have limited access to timely and accurate market information, and weak transport and communications infrastructure. This makes it very difficult for rural enterprises to participate in higher-value markets.

### Diversification

- The promotion of rural enterprises encourages rural households to

diversify their farming system, by introducing new on-farm or off-farm enterprises and increasing their value addition. This approach is used to spread risk, increase resilience and off-set the seasonality of agriculture.

- This could increase the costs of production, lead to environmental degradation and/ or have a detrimental impact on the gender relations within the rural household. Gender roles are often reflected in micro and small enterprises as the division of labour is well differentiated. Women's time invested in household activities often detracts from their time invested in enterprise development.
- Rural enterprises have the potential to generate more income than waged labour but require higher capital investment, higher risk and more intensive labour.

### Incentives and subsidies

- Markets are imperfect in many rural contexts and incentives and subsidies are necessary to 'kick start' development. However, strategies must be designed to match the local situation to achieve maximum impact and promote sustainable development.
- Subsidies should support capacity building, economies of scale and marketing efficiencies and generate higher income and have the ability to ensure cost recovery of services. They should be transparent and targeted at temporarily minimizing market distortions.
- Subsidies should be phased out as the market develops. Incentive policies should aim for a gradual and sustainable reduction of subsidies, while simultaneously generating greater self-reliance.

### Rural enterprises and gender

- Women are often excluded from entrepreneurial opportunities because of cultural norms, legal frameworks, education levels, time restrictions and decision-making powers.
- Increasing women's access to entrepreneurial opportunities is likely to increase household income and improve household welfare and nutrition.

- Entrepreneurial opportunities can empower women with independence, increased respect and social status. This can lead to greater participation in community decision making.

### Labour standards

- Rural enterprises must be able to pay adequate wages and provide decent work and suitable working conditions that are consistent with national and international standards, including the elimination of child labour and forced labour.

## What are the policy options?

This section outlines policy recommendations to support the sustainable development of rural enterprises. These recommendations will need to be adapted to suit different contexts.

### Access to assets

#### **Natural assets**

- Ensure that rural people, particularly the poor, women, landless and youth, have well-defined property rights and secure access to land, water, trees and forests to support resource-based enterprises.
- Enforce legislation to enable rural enterprises to use the natural resource base in a sustainable way, generating income and benefits while protecting the environment and minimising negative impacts (e.g. pollution and downstream impacts).

#### **Financial assets**

- Support the provision of start-up investments and working capital through matching grants or loans, depending on the risk in rural enterprise development.
- Foster the establishment of savings groups to generate capital and encourage self reliance within vulnerable households and communities.
- Identify ways to promote and mobilise private investment (e.g. tax incentives).
- Foster collaboration with commercial banks, micro-finance institutions

and micro-loan companies to ensure that rural businesses, especially those run by the poor, have access to appropriate financial services that meet their needs.

### Physical assets

- Develop rural infrastructure such as roads, electricity and water supply systems and communication networks to support the development of rural enterprises.
- Free women from time consuming household chores so that they can run enterprises of their own.

### Human assets

- Provide training to build entrepreneurial and management skills. Training should be experiential, practical and problem-oriented and should simulate real-life situations. It should be designed specifically for entrepreneurs, and can be tailored to different stages of enterprise development and to the needs of resource poor households by incorporating technical subject areas. Training programmes should involve local service providers, incorporate indigenous knowledge and should be demand-driven to ensure some cost recovery. Training should also address the specific needs, time and labour constraints, and leadership requirements of female entrepreneurs.

### Social assets

- Foster social capital formation through informal and formal groups (e.g. self help groups, community-based organisations, micro-finance groups, cooperatives, farmer associations and farmer field schools) to generate economies of scale, reduce the costs of providing business support services and help entrepreneurs to gain access to longer-term investment financing.
- Encourage women to build on traditional group-based solidarity mechanisms by organising group activities.

### Business support services

- Ensure businesses have access to support services such as business counselling, assistance in the preparation of business plans and

secretarial and administrative support for start-ups, and marketing services and information (e.g. price information and regular market appraisals).

- Provide the structure and facilitate markets for business support services to encourage non-government and community-based organizations and/or the private sector to provide these services in preference to direct government provision.
- Target these services to meet the needs of diverse stakeholder groups along the value chain (e.g. local traders and agro-processors, rural producers) and vulnerable groups such as women and the poor.
- Promote research and development to reduce costs, increase efficiency, differentiate products, and increase the competitiveness of rural enterprises.
- Ensure that the provision of financial support is institutionally separated from non-financial business support. The provision of financial support can often be in conflict with providing business advice.

### Market access and development

- Identify and support selected value chains that respond to market demand and opportunities, have the potential to compete globally and

can improve the income of the poor. Promote competition along the entire value chain to enhance performance and resilience, ensuring that actors do not take on functions within the value chain that are more effectively performed by other actors.

- Improve access to local, domestic and international markets through trade laws, communication and transport infrastructure and the provision of timely and accurate market information.
- Promote fair terms of trade between developing and developed countries while ensuring that food quality and safety requirements are met.
- Identify niche markets (e.g. fair trade, products of origin and organic products) and develop value chains for farmers/ enterprises that cannot compete in markets dominated by big players.

### Networking, linkages and partnerships

- Foster partnerships and networking between all stakeholders including entrepreneurs, cooperatives, service providers, training institutions and governments to promote rural enterprise development.
- Foster linkages between rural and urban businesses and farmers, including producer organizations



and cooperatives, to ensure that rural enterprises are able to access a range of goods and services in a competitive market.

- Establish entrepreneurial networks to encourage transparent, competitive exchange between enterprises, intermediaries and other players along the value chain.
- Encourage public-private partnerships to address resource constraints and tap into a wide range of expertise.

### Sustainability and scaling up

- Promote an interdisciplinary approach to enterprise development to address the social, economic, cultural and environmental aspects of livelihoods.
- Develop exit strategies to phase out incentives and subsidies once rural enterprises have become viable and competitive.
- Encourage scaling up of successful enterprises by securing the demand for the product or service and fostering the sustainable provision of support services.
- Promote macro-economic policy to stabilize currency fluctuations, keep inflation to a minimum, manage the public deficit, and promote positive real interest rates to create an environment that is conducive to ongoing enterprise development.

### Contacts

#### Food and Agriculture Organization of the UN (FAO)

##### David Kahan

david.kahan@fao.org

##### Eve Crowley

eve.crowley@fao.org

The "SARD and..." Policy Briefs are designed to encourage and assist governments in developing and implementing policies to achieve sustainable agriculture and rural development.

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[www.fao.org/sard/initiative](http://www.fao.org/sard/initiative)

### Tools and information

#### FAO Community-based tree and forest product enterprises

Market Analysis and Development.

<http://www.fao.org/DOCREP/005/X7452E/X7452E00.HTM>

#### FAO Livelihood Diversification and Enterprise Development Resource Kit

Available on CD from Siobhan Kelly (siobhan.kelly@fao.org)

#### FAO Rural Infrastructure and Agro-Industries Division (AGS) Publications Portal

<http://www.fao.org/ag/ags/publications/en/index.html>

#### ILO Guide for Value Chain Analysis and Upgrading

[www.ilo.org/dyn/empent/empent.portal](http://www.ilo.org/dyn/empent/empent.portal)

#### ILO Expand Your Business

<http://www.ilo-eyb-africa.org/index.html>

#### ILO Women's Entrepreneurship Development and Gender Equality

[http://www.ilo.org/dyn/empent/empent.portal?p\\_prog=S&p\\_subprog=WE&p\\_lang=EN](http://www.ilo.org/dyn/empent/empent.portal?p_prog=S&p_subprog=WE&p_lang=EN)

#### The World Bank Guide to developing agricultural marketing and agro-enterprises

<http://web.worldbank.org>

#### International Fund for Agriculture and Rural Development (IFAD)

##### Shantanu Mathur

s.mathur@ifad.org

#### International Labour Organization (ILO)

##### Job Creation and Enterprise Development Department (EMP/ENTERPRISE)

Telephone: +41 227996920

Fax: +41 227997978

[www.ilo.org/empent](http://www.ilo.org/empent)

### References

This brief was prepared by Karen Powell McNab, in collaboration with Doyle Baker, Siobhan Kelly, Paola Termine, Jennie Dey De Pryck, Wim Polman, staff of IFAD's Technical Advisory and Policy Divisions, and others (Contacts).

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*improving farmers' livelihoods in a changing world*, FAO and The World Bank, Rome and Washington.

<sup>4</sup>Albu, M. and Scott, A. 2001. *Understanding livelihoods that involve micro-enterprise: markets and technological capabilities in the SL framework* (draft), Intermediate Technology Development Group, Warwickshire, [www.itdg.org](http://www.itdg.org).

<sup>5</sup>FAO 2005. *The State of Food and Agriculture 2005*, Rome: Food and Agriculture Organisation of the United Nations.

<sup>6</sup>IFAD 2004. *Rural enterprise policy*, Rome <http://www.ifad.org/pub/policy/RE-eng.pdf>

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