Assessing the potential of non-farm and off farm enterprises in spurring rural development in Uganda

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Rural non-farm activities play an important role in providing supplementary employment to small and marginal farm households thus reducing income inequalities and rural-urban migration. The rural non-farm sector has the potential to absorb a growing rural labor force, contribute to national income growth, and promote more equitable distribution of income. The objective of this paper is to review existing literature on the rural non-farm sector and assess the sector's contribution to rural development. The study covers the entire nation of Uganda and is mainly based on the review of existing literature. A desk study was conducted focusing on government policies, as well as the national development plan. In addition, academic journals, related case studies and some text books were used during the development of this paper. In Uganda, agriculture contributes less than 25% of GDP. Complex interactions between social, economic and ecological factors might cause a further reduction and this could make non-farm income sources even more important. Research findings in Uganda show that 58% of the people working outside agriculture are in the non-farm sector and there are suggestions that non-farm income could lead to higher agricultural incomes. The rural non-farm sector must incorporate the dynamic dimensions of self-sustaining growth. The success of a strategy of rural industrialization would therefore, depend on its ability to generate income. This could be achieved through appropriate savings and investment decisions of agents involved with respect to the internal surpluses of rural non-farm activities; but it could also be met if the local multiplier created by the activity leads to an increase in investment on the part of agents other than those directly involved in the initial activity.

Key words: Rural, non-farm sector, industrialization, development, enterprises.

INTRODUCTION

Overview

The rural nonfarm sector is very diverse in its nature and activities. This fact makes it complicated to be understood by the rural economy of developing countries (Lanjouw and Lanjouw, 2001). Therefore, Rural-Non-Farm-Sector (RNFS) refers to economic activities that include; household and non-household manufacturing, handicrafts, processing, repairs, construction, mining and quarrying, transport, trade, communication, community and personal services in rural areas. Saith (1992), suggests two alternative approaches to define rural-non-farm activities. Firstly, the locative approach, where the primary activity is performed in a location which falls within a designated rural area. The other is based on the linkage approach, where an industrial enterprise generates significant development linkages with the rural areas. Rural non-farm activities, thus, play an important role to provide supplementary employment to small and marginal farm households, reducing income inequalities and rural-urban migration (Lanjouw and Lanjouw, 2001). More so nonfarm activity is seen to be positively associated with income and
wealth creation in rural Africa and thus seem to offer a pathway out of poverty (Reardon et al., 2007).

Many authors have defined rural nonfarm economy, for instance, Saith (1992), described rural nonfarm economy as consisting of household, non household and personal services that are carried out in the rural sector. This may include; manufacturing, handicrafts, processing, repairs, construction, mining and quarrying, transport, trade, communication, community and personal services. Similarly, the rural non farm sector is described as a heterogeneous collection of trading, agro processing, manufacturing, commercial and service activities (Haggblade et al., 2007). In addition, rural nonfarm sector includes all economic activities in rural areas except agriculture, livestock, fishing and hunting (P. Lanjouw, Murgai, & Stern, 2013). Therefore, rural nonfarm sector in the context of this article consists of nonfarm and off farm activities. The latter means straight forward agricultural activities such as income earned by peasants and workers as hired labour on farms owned by others and the former refers to all economic activities carried out in the rural areas with the exception of agriculture, livestock and fishing.

**Statement of problem**

Though the agricultural sector has played a very significant role for generation of rural employment in Sub-Saharan Africa and specifically Uganda, its contribution to the overall economy has greatly reduced in the recent past (Ministry of Agriculture, Animal Industry and Fisheries (MAAIF), 2009). This is partly due to reduction in governments budgetary allocation (Ministry of Finance Planning and Economic Development (MFPED), 2013) which has led to reduced extension service delivery, declining and fluctuating prices of agricultural products and the fact that rural non farm income greatly exceeds the value of farm wage income (Reardon et al., 2007; Uganda national planning authority 2010). The incidence of poverty remains higher in rural areas than urban areas. According to Uganda bureau of statistics (UBOS), the poor in rural areas represent 27.2% of the population as compared to 9.1% in urban areas. The rural areas with 85 % of the population constitute 94.4% of national poverty whereas the urban areas with 15% of the population constitute 5.6% of the national poverty (UBOS, 2010).

The rise in the population growth rate does not have a positive impact on the fixed factors of production as always, land remains fixed irrespective of population changes. In the last decade there has been tremendous economic performance with growth averaging 7.7% a year over the period from 1997-2007. Equally impressive has been the decline in poverty rates which fell to 15% over this period (Ssewanyana et al., 2011). Although growth and poverty decline has been impressive, there has been a worsening income distribution, a decline in relative importance of agriculture and overall gross domestic product (GDP) and low rate of urbanization (Ssewanyana et al., 2011). Therefore, development of various rural non-farm activities can effectively be exploited as a potent stimulator for further economic growth offering rural communities better employment prospects on a sustainable basis.

Rural non-farm activities and rural industrialization are viewed as policy instruments for the alleviation of unemployment and poverty. In many developing economies a high incidence of poverty is found to coexist with a high rate of participation of the rural population in non-farm activities (Saith, 1992). In such incidences, it is viewed that rural non-farm employment is a low productivity sector producing low quality goods, expected to vanish as a country develops and incomes rise (Lanjouw and Lanjouw, 2001). In regard to his findings, Saith (1992), suggested that the major policy issue should be how to identify and establish the economic conditions and institutional climate within which the policy interventions can operate.

Rural non-farm sector is very heterogeneous, coupled with inadequate attention at both the empirical and theoretical level. These then make it complex for policy makers in developing economies to understand and devise a clear way forward. However, governments support this sector due to its potential in absorbing a growing rural labor force, contributing to national income growth, and in promoting more equitable distribution of income (Lanjouw and Lanjouw, 2001).

**Objective**

The objective of this paper is to review existing literature on the rural non-farm sector and assess its contribution to rural development in Uganda.

**METHODOLOGY**

Uganda, a landlocked tropical East African country is boarded by Kenya, Sudan, DR. Congo and Tanzania. Population was estimated to be 34.5 million in 2012 (PRB, 2012). Uganda is divided into four regions, the Northern Region, the Central Region, the Eastern Region and the Western Region, and subdivided into 111 districts(Figure 1).

The study area for this review covers the entire nation of Uganda. The study is mainly based on the review of existing literature. A desk study was conducted involving various government policies as well as the national development plan. Previous publications, related case studies and some text books were used during the development of this paper.

**RESULTS**

**Potential of Rural Non-farm Enterprises**

Haggblade et al. (2007), found that 35% of rural income in Africa and about 50% in Asia and Latin America is derived
from nonfarm enterprises. By carrying industry to the country side, large-scale rural outmigration is pre-empted. This eases the pressure on scarce urban housing, infrastructure and other services. It is also found that wage costs are lower in rural areas mainly because the marginal costs of migration, town housing and transport and higher living expenses do not have to be incurred (Saith 1992).

Rural industrialization could stop the skill drain from the countryside if it provided a sufficiently lucrative alternative for employment as workers or owner-managers and if income per worker is growing too (Haggblade et al., 2007). Furthermore, new rural enterprises simultaneously generate modern skills in the rural workforce which also boosts the productivity and creates more employment opportunities in the rural economy (Gibson and Olivia, 2010). A parallel argument could be extended to rural investible surpluses, which could be absorbed directly in local income generation instead of being siphoned off through the banking system, lying idle or circulating in mostly non-productive local-lending circuits. Rural industries could utilize local surplus human, and material resources which are not capable of being used in urban, modern industry. The social costs of these are extremely low, and the benefits quite high, as in the case of various waste-recycling activities.

Rural industrialization could have significant spin-offs for agricultural development as well. The extension and deepening of the skill profile of the rural workforce is one extremely important factor (Abbott, 2013). Another is the interdependent relationship that rural industrialization has with creation of new rural infrastructure, which in turn raises agricultural productivity, for example through better roads, canals, and storage facilities. These activities are best executed on the basis of local knowledge and felt need.

**Informal employment outside Agriculture**

The 17th International Conference of Labour Statisticians (ICLS) defined informal employment as comprising of the total number of informal jobs, whether carried out in formal sector enterprises, informal sector enterprises, or households, during a given reference period (Hussmanns, 2004).

Informal employment identifies persons who are in precarious employment situations irrespective of whether or not the entity for which they work is in the formal or informal sector. Persons in informal employment therefore consist of all those in the informal sector; employees in the formal sector; and persons working in private households who are not entitled to basic benefits such as pension/retirement fund, paid leave, medical benefits, deduction of income tax (PAYE) from wages and whose employment agreement is verbal.

Agriculture contributes less than 25% to Uganda’s GDP (MAAIF, 2009). This signifies a strong shift to non farm production due to the fact that increasing population leads to landlessness among many and also leads to small land ownership. This imply majority of the people cease to find sustenance in agriculture (Lanjouw et al., 2013). According to UBOS (2010), out of the 3.8 million people found to work out side agriculture, 2.2 million (58%) were in the informal sector. Proportions by residence show that 61% of the population that practiced informal business were in the rural as compared to 54% in urban. The rural sector with 85% of the population constitutes 94.4% of national poverty, whereas urban areas with a population of 15% constitute 5.6% of national poverty. In their analysis, Lanjouw et al. (2013) found that non-farm income leads to higher agricultural incomes. This could be achieved if there are several production technologies with higher productivity and then having a stable alternative income which is not affected by agricultural shocks.

**Opportunities and threats of non-farm sector in Uganda**

Non-farm activities either keep the poor falling into deeper poverty or are advantageous in lifting the poor above the poverty line. Therefore it is important to indentify the opportunities and threats of nonfarm sectors.

**Opportunities**

**Institutional basis for rural non-farm sector**

In Uganda, the institutions underlying the development of the rural non-farm sector are very strong. These include secure property rights; a well-developed financial system with preferential access to credit for the sector; supporting institutions such as the Microfinance support centre and Uganda rural microfinance services and Uganda cooperative alliance, policies and programs promoting linkages with agriculture, especially agro-industries; as well as government support in export promotion (MAAIF, 2009, UBOS 2010). The institutional mechanisms for a rapid growth of the rural nonfarm sector are already in place. For example creation of rural electrification programs, community infrastructural programs, medium-term competitive strategy for the export sector and the strategic export intervention program (Ssewanyana et al., 2011).

**Decentralization process**

Over the last two decades the government of Uganda has been able to exercise far more independence in decision-making than in the pre-1990 period. This has a positive impact as services are tailored to meet specific needs of the people. On the other side, (positive side) however, this creates an opportunity for higher levels of investment in the future (Muriisa, 2008)

**Threats**

**Infrastructure**

The most significant bottleneck in generating higher levels
of rural nonfarm activity in Uganda is the quantity, quality
and reliability of infrastructure (MAAIF, 2009). The
national development plan identifies power, transport and
access to finance as the most challenging infrastructural
impediments (NDP, 2010). Regional infrastructure as well
remains a challenge for especially boosting regional trade.
Although corrective steps are now being taken, increasing
infrastructure remains the most important priority for the
future (Ssewanyana et al., 2011).

Regulatory restrictions on small-scale sector

Regulation of the small-scale sector constitutes an
important aspect of nonfarm development policy in
Uganda. The current policies do not allow easy formation
and registration of Small and medium enterprises. This
bureaucracy has affected rural nonfarm growth (MAAIF,
2009)

Quality of manpower

In the rural areas, lack of education leads to labor being
stagnant in agriculture, or moving to casual work
occupations in the nonfarm sector, and not to salaried
employment with higher wages and benefits (Lanjouw et
al., 2013). Together with lack of technical skills, there is
little incentive for rural firms to invest in technology,
leading to low levels of labor productivity in the rural
manufacturing sector compared to urban manufacturing
(Haggblade et al., 2010). Similarly, the service sector has
the potential for expansion given the already strong base in
the urban economy.

Lack of forward and backward linkages

Absence of appropriate forward and backward integration
greatly affects performance of nonfarm activities in rural
areas. Forward linkages of the RNF sector serve as inputs to
other sectors. However, gaps in the integration of the
production linkages brought about by poor infrastructure,
small and disjoined firms, low accessibility to markets,
support service weaknesses and intervention of middle
men have constrained the development of non-farm
enterprises in Uganda (Haggblade et al., 2007).

Lack of incentives and capacities

Incentives and capacities to undertake rural nonfarm
activities may be divergent. Thus, poor farmers may have
strong incentives to participate in rural nonfarm activities
but may lack the capacities to do so because of the various
constraints faced. For example lack of skills and lack of
capital for start up (Barrett et al., 2001). This in turn may
lead to segregation, as individuals with similar capabilities
and assets tend to work together and hence leaving out
those with little or nothing to contribute. Such scenarios
later lead to income inequalities among the rural folks (Lanjouw et al., 2013).

Conclusion and Recommendations

The rural nonfarm economy is composed of a collection of
trading, agro processing, manufacturing and service
activities. This makes it very heterogeneous thus making
the scale of nonfarm activities enormous. The objectives of
rural nonfarm economy then, is to incorporate the dynamic
dimensions of self-sustaining growth; however, the success
of a strategy of rural industrialization would depend on its
ability to generate accumulation of capital and physical
assets. This could be through appropriate savings and
investment decisions of agents involved with respect to the
internal surpluses of rural non-farm activities; but it could
also be met if the local multiplier created by the activity led
to an increase in investment on the part of agents other
than those directly involved in the initial activities.
The large variety of nonfarm activities results to varying
productivity and profitability. This is especially due to
diverse physical assets and human capabilities which in
turn leads to income diversification. These diverse
activities act as a shield to the households especially from
shocks (for example health and price fluctuations) and
income uncertainties. However, if nonfarm economy is not
well executed and monitored by the government, it can lead
to large income inequalities.

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