

# Employment Creation by Promoting the Non-Farm Economy in Rural Regions

By: Winfried Manig, Ph.D.\*

## Abstract

*The following paper advocates an active rural employment policy in order to reduce rural poverty in the development countries and initiate a sustainable development process. The permanent large increases in the population call for a significant number of employment and income opportunities. As the agricultural sector's capacity to provide employment is limited, the only alternative is the rural non-farm sector with its agri-business sector and its substantial capacity to offer employment. In order to achieve that goal, however, it will be necessary to establish a large number of very small, small and middle-sized enterprises. Highly motivated, innovative entrepreneurs are a prerequisite in addition to an adequate societal frame and supporting institutions.*

*Innovative entrepreneurs invest their knowledge and capital and, hence, create active innovations with increased productivity in the rural sectors and generate employment and income opportunities.*

**Keywords:** *Rural Development, Poverty, Non-Farm Sector, Innovative Entrepreneurs, Small Size Enterprises.*

---

\* Professor of the Institute of Rural Development, the University of Göttingen, Germany, (wmanig@gwdg.de).

### 1. Rural Poverty and Employment

In the past, development policies were relatively successful in many developing countries and still are if measured on the basis of the growth of the GDP and the structural changes between sectors. This is particularly true in the case of the urban-oriented growth and industrialisation policies in these countries. The policies are characterized by the capital-intensive employment of the highest technological standards in state-dominated enterprises; in fact actually the state administration dominates the entire economy. The private economy, on the other hand, was neglected for various reasons, or even discriminated (Pfeffermann, 2001, p.42). In accordance with the economic structure, the productivity of those employed in the industrial branches was relatively high; however, only a small quantity of highly-qualified manpower was employed. The active promotion of jobs in the formal sector was also largely neglected, as was the private economy in general.

The question is, however, have these policies been sustainable and the effects stable? The first major economic and financial crisis in 1997/98 led, for example, to a general economic depression in many countries, specifically in Southeast and East Asia, as well as to an immense increase in unemployment and poverty among broad sections of the population. The shocks - which were generally externally triggered as a result of the economic globalization and the crises in the international finance flows with increasing interest rates on capital, decreasing terms of trade and a sudden massive exodus of capital - hit extremely vulnerable economic and political structures and led directly to a crisis in these countries.

A few other countries had, due to a lack of economic reforms, only very limited economic growth (Lustig /Stern, 2000, p. 4) and at the same time little success in combating poverty.

Furthermore, rural development programmes and projects had only very limited impacts with respect to reducing poverty in the rural regions. A recent analysis of rural development programmes in Indonesia demonstrated, for example, the fact that even equity-oriented approaches primarily produced income increases only for the already well-to-do households. Poor households did not have access to the measures. These programmes did not have any influence on the creation of new job opportunities in the rural regions. Despite these pro-

grammes, poverty did not decrease; in fact, it generally increased (Zaini, 2000).

The lack of success of rural development programmes along with the effects of external shocks allows us to draw the conclusion that the vulnerability of the economic system - specifically regarding the situation of the poor - tended to increase, as the depression at the end of the 90s showed. A few parameters will be presented here to illustrate the point (see Table):

**Table 1: Income Poverty by Region**

	Population covered By at least one survey (millions)	people living on less than \$1 a day (percent)				
		1987	1990	1993	1996	1998 <sup>1</sup>
East Asia and Pacific	90.8	417.5	452.4	431.9	265.1	278.3
Excluding China	71.1	114.1	92.0	83.5	55.1	65.1
Europe and Central Asia	81.7	1.1	7.1	18.3	23.8	24.0
Latin America and Caribbean	88.0	63.7	73.8	70.8	76.0	78.2
Middle East and North Africa	52.5	9.3	5.7	5.0	5.0	5.5
South Asia	97.9	474.4	495.1	505.1	531.7	522.0
Sub-Saharan Africa	72.9	217.2	242.3	273.3	289.0	290.9
Total	88.1	1,183.2	1,276.4	1,304.3	1,190.6	1,198.9
Excluding China	84.2	879.8	915.9	955.9	980.5	985.7
		Share of population living on less than \$1 a day (percent)				
		1987	1990	1993	1996	1998 <sup>1</sup>
East Asia and Pacific		26.6	27.6	25.2	14.9	15.3
Excluding China		23.9	18.5	15.9	10.0	11.3
Europe and Central Asia		0.2	1.6	4.0	5.1	5.1
Latin America and Caribbean		15.3	16.8	15.3	15.6	15.6
Middle East and North Africa		4.3	2.4	1.9	1.8	1.9
South Asia		44.9	44.0	42.4	42.3	40.0
Sub-Saharan Africa		46.6	47.7	49.7	48.5	46.3
Total		28.3	29.0	8.1	24.5	24.0
Excluding China		28.5	28.1	27.7	27.0	26.2

Source: World Bank: World Development Report 2000/2001: Attacking Poverty (New York: Oxford University Press for the World Bank).

Note: The poverty line is \$1.08 a day at 1993 purchasing power parity. Poverty estimates are based on income or consumption data from the countries in each region for which at least one survey was available during 1985-98. For further details on data and methodology, see Shaohua Chen and Martin Ravallion, 2000, "How Did the World's Poorest Fare in the 1990s?" Policy Research Working Paper (Washington: World Bank).

In 1998 with a worldwide population of 6 billion people, 24% of the population (1.2 billion) in developing and transitional countries had to survive on less than \$1 per day and 56% (2.8 billion) on less than \$2 per day - based on Purchasing Power Parities (PPP) - and, thus, belonged to the groups classified as poor. The largest absolute numbers and highest relative percentages were discovered in South Asia, East Asia and the sub-Saharan Africa (World Bank, 2000/2001). The development of the poverty during the past fifteen years is also important in this context. Following the decrease in the number of the poor, which took place up to approximately 1996, the absolute number of poor increased once again until 1998 as a result of the economic and financial crisis that took place in that year.

In Latin American countries, the absolute number of poor increased continually, but at the same time, the percentage of poor among the population remained constant at approximately 16% (PPP \$1), or fluctuated between 38% and 36% (PPP \$2).

Rural poverty is the dominant form of poverty worldwide. Throughout the world, 63% of the poor live in the rural areas, whereby the percentage of poor people living in rural regions in China and Bangladesh is 90% and ranges in sub-Saharan Africa between 65% and 90%. Latin American countries are the only countries in which the majority of the poor live in urban regions (Khan, 2000, p. 27); however, there are considerable regional differences.

The stability of the economic systems in many developing countries is diminished by the dominant economic policies and globalization effects. This is reflected in the vulnerability of the poor when faced by crises. What types of economic and development policies in the countries of the Third World can stabilize the economic systems and how can the position of the poorer groups be improved in the long run? All told, there can be no doubt that economic growth is indispensable,

including with respect to reducing poverty as comprehensive analyses carried out by the World Bank (Dollar/Kraay 2001) and other international organizations has demonstrated (c.f. Köhler, 2003).

The crucial question is, however, which type of economic growth within which regulative-policy frame is best suited to alleviate poverty. The viewpoint held by these poor groups and their own judgement of their position would undoubtedly be of help in this context. On the basis of the relevant literature, it is possible to draw up the following picture (c.f., for example, Manning, 1998):

Poor people regard their poverty as a lack of opportunities to participate in and profit from the societal processes and their status makes them aware of the lack of security. Participation is in their opinion defined primarily by the material participation in economic processes, whereby income and material security are only part, although unquestionably essential factors. Material participation is also determined by the inadequate access to job opportunities (and thus income). There are, however, other additional important factors such as access to health services, education, sanitary facilities and the infrastructure.

The access of the poor to more employment and income is determined within the context of classical economic policies by the volume of investments and the utilization of technological innovations (Lustig/Stern 2000, p. 5). Capital-intensive, urban-biased and import-substituting investments are given priority thereby (Khan, 2000, p. 26). This type of economic policies start, however, primarily with already existing economic units (enterprises) which increase their capacities by means of investments and the utilization of technological innovations. This leads to the creation of additional job opportunities - however, only a limited number. This type of economic growth is indeed a necessary prerequisite for "a-bigger-slice-of-the-pie" policies (Khan, p. 27), but is not an adequate policy for creating secure job opportunities for the poor (cf. Rodrik, 2000, p. 8) because the structure of the economy and employment makes the poor the most vulnerable group and eliminates them from the process first in the case of an economic crisis.

A lance will be broken here for active employment-oriented economic and development policies for the rural regions which do not consid-

er an increase in job opportunities to be merely a passive result of growth-oriented policies. Instead, the active creation of new economic units is necessary, which then subsequently create new job opportunities. "Indeed, job creation is a major - probably the major - path out of poverty. The most sustainable job creation is by firms,... In almost all developing countries, including China, private enterprises are the main source of new jobs..."(Pfeffermann, 2001, p. 43). Such a policy can contribute to greater socioeconomic stability and, thus, sustainability. An adapted structure can then considerably alleviate the negative influences of international economic tumults.

The high population growth in development countries and, in particular, in the rural regions of such countries increasingly calls for more intensive efforts to create new job and income-earning opportunities. Otherwise, it will not be possible to reduce the sizeable migration of the economically most active segments of the population to the urban centres. This leads to economic problems arising from social polarization in the urban centres with all of the ensuing consequences, including the necessity to subsidise the poor (Jazairy et al., 1992, p. 161). The inclusion of the economically active population in the development process within the society can be, furthermore, appropriately achieved by integrating them economically. Unemployed manpower is also unproductive production capacity, and this calls for active employment policies in the rural regions, and not only as a side-effect of growth policies. Social justice can be more easily achieved by such policies than by the common practice of merely redistributing the purchasing power, a policy which always stimulates political counter-movements.

In order to promote the generation of jobs in small enterprises, the International Labour Organization (ILO) has also launched a comprehensive program to formulate country-specific policies and enforce them. The programme is called SEED (small enterprise development programme) (ILO, 1995).

## **2. Active Employment Policies**

How can one conceive active employment policies for rural areas? In which sectors can significant effects be expected? Let me emphasise once again, I do not consider employment policies to be positive side-

effects of growth and other approaches only, but rather a key rural development politics approach. An active state employment policy by means of the promotion of capital-extensive and, at the same time, labour-intensive small enterprises in the rural regions of the developing countries has grave implications for the regulative policy (*Ordnungspolitik*).

If in the past nearly only larger, capital-intensive enterprises were promoted, either as state enterprises or closely tied to the state - generally with the support of the industrial countries and/or multi-lateral organizations - the promotion of employment in the rural regions can only be realistically achieved if a large number of smallest, small and middle-sized enterprises are organized as private enterprises. Such private enterprises will certainly change the entire economic structure of a society in many ways:

- small, private enterprises and, hence, the promotion of private property;
- an increase in the significance of rural regions;
- small enterprises as processing enterprises within the agricultural sector, i.e., the promotion of agri-business;
- capital-extensive technology makes it possible to create more jobs per capital unit;
- changes in the local, regional and national economic cycles; and
- an increase in independence.

All in all, the promotion of the largely neglected private economy both at the scientific and praxis levels is improved because they "contribute to the development in other ways that are crucial to economic development and poverty reduction" (Pfeffermann, 2001, p. 44).

As manifold factors lead to poverty, there are also many different groups of rural poor (Khan, 2000, pp. 27 f.) which are surely not all equally accessible by means of the proposed employment-creating measures. The most important group for an active employment policy are in this context solely economically active poor population groups. Other, very different measures are necessary for old or ill people and children such as, for example, the direct transfer of purchasing power, etc.

The very small farmers who have their own or rented land at their disposal have a small material basis for securing their basic needs by cultivating that land. They can improve their situation by intensification

measures, by gaining access to more land and by carrying out additional income-earning activities outside agriculture. The surplus manpower in the household can be used to generate income. The non-agricultural earnings in this group lead to wide-spread multi-employment structures in rural regions, whereby various forms of multi-employment are possible. These allow a high degree of flexibility at the same time.

As a rule, the only factor that the non-agricultural groups of poor not involved in agriculture have to offer in order to generate income is their own labour. In order to secure their survival, they have developed a large number of strategies at the household and individual levels (Ellis, 1999). The groups of these generally very poor people in the rural regions need, in other words, productive employment opportunities to earn an income which demand only very limited formal educational qualifications. On the other hand, they are especially hit by increases in the prices of food as they are forced to buy their entire subsistence requirements. In their case, the best solution would be a combination of state policies supporting increases in agricultural production in order to improve the supply of food along with measures to stabilize the prices together with an active employment policy (cf. Chapter 3).

An active policy with the goal of creating additional employment opportunities for the two above-designated groups would appear to be the best solution in order to take advantage of the only production factor available in surplus, labour, and as a consequence generate income. The economic rationale lies, thus, in labour-intensive employment, whereby pluri-activities offer more stability to the poor and, hence, decrease the risks.

This active employment policy can naturally be supported by other, more traditional measures to combat poverty such as improving the public health services, education and food programmes, among others. Such measures increase the productive capacity of the poor that can, subsequently, be taken advantage of by an active employment policy.

## **2.1 . Agriculture**

The agricultural sector is generally regarded as being particularly suited to absorb additional manpower. By intensifying the production processes, the labour intensity can be easily increased with little capital. As a rule,

however, this can only be achieved by reducing the labour productivity and, thus, the per-capita income. In densely populated rural areas, however, the absorption capacity is undoubtedly very limited, as in the case of Java, Indonesia, for example (Ananda, 1998, p. 19 ff.). However, the agricultural productivity can unquestionably be increased by means of simultaneously increased capital employment in the form of industrially produced inputs in densely populated areas. The employment of purchasable inputs always necessitates, however, intensive market integration of the farms (Manig, 1999, p. 7). And this undoubtedly creates additional capacity for the generation of job opportunities. However, the employment problem in rural regions can clearly not be solved on the basis of policies to promote agriculture alone (Peters and V.Braun, 1999, p. 546).

## 2.2 . Agribusiness Sectors

Active employment policies in rural regions have better chances of being successful if the entire agribusiness sector is the target of the activities. This signifies the interlinked sectors of market-oriented agriculture with its forward and backward-linked sectors. The production and marketing of agricultural inputs and services (the backward-linked sectors) and the processing and marketing of agricultural products all the way to the consumer provides numerous opportunities for decentralised job-opportunity generation in rural regions (Dirks, 2000, p. 2). Furthermore, the handicrafts and service sectors provide abundant opportunities for the creation of new jobs in densely populated regions. These sectors are, as a rule, labour intensively and capital extensively organized and, thus, are particularly suited for creating additional employment in face of the specific conditions, a poor infrastructure, a low educational level and a lack of capital in the rural regions. The entire non-farm rural economy (NFRE) works under similar conditions and can, hence, be reached by employment promotion in the sense used here (cf. the World Bank reports: Lanjouw/Lanjouw, 1995; Lanjouw, 1999).

In addition to the agricultural production sector itself, all those sectors which produce and market (input markets, transport) agricultural inputs (e.g., fertilizer, feed, machines and implements, seed, chemical products etc.) are also considered to belong to the agribusiness sector. Furthermore, the services (credit, research, extension services) and

repairing, construction and maintenance of agricultural buildings belong to the agribusiness sector. The marketing and processing of agricultural products at the various processing levels belong specifically to the forward-linked sectors. As this overview shows, the entire network system between the various sectors is important. To these also belong - a fact that is usually overlooked - the service organisations that promote these sectors, i.e., distribution, credit, extension services and research, as well as those enterprises that provide raw materials for the production of inputs and processing activities (the supporting agribusiness structures). The entire production process of the decentralised agribusiness structure is primarily oriented towards the domestic market and increases the degree of the division of labour within the society. An economic structure based on the division of labour is particularly important in the de-centralized systems in order to benefit from the productivity advantages and enable the entrepreneurs to specialize. This demands integration in a competitive market structure.

The rural non-farm sector in general and the rural agri-business sector in the industrial as well as the developing countries have not been comprehensively investigated in depth to date. This is true in both the case of the theoretical frame as well as empirical findings (Valdes, 1999, p. 543). An important reason is undoubtedly the pronounced heterogeneity of this sector.

### **2.3. Decentralised Agribusiness Enterprise Networks**

As the previous arguments have already demonstrated, the promotion of agribusiness in the rural regions provides the possibility of creating numerous new jobs. This can, however, only be realistically achieved if the promotion is largely concentrated on the small and medium-scale enterprises. Therefore, a few of the advantages will be emphasised here that make the creation of jobs important for economic and social development.

#### **● Promotion of Small and Medium-Scale Enterprises:**

The promotion of small economic units implies the principle of favouring a spatially decentralised economic structure because enterprises are located there where either the demand or the supply are located.

Many small units have, as a result, only a small trading area. This strengthens the local and regional structures.

Many small units means favouring a labour-intensive structure in two senses. On the one hand, there are a large number of economic units that provide a large number of jobs and income. On the other hand, the supply of capital is limited which means that they are forced to employ appropriate forms of production technology. These forms of technology are, on the other hand, labour intensive. This corresponds to the somewhat lower level of education generally found in the rural regions. Each job requires, therefore, only a limited investment volume, whereby locally available forms of capital can also be put to use.

Jobs are created in the small enterprises directly by self-employment as well as by the employment of extraneous labour. The level of the wages of the second group is, however, very low due to the over-supply of people looking for work.

In order to found enterprises in the productive sectors, the owners of the enterprises have to have management skills (cf. Chapter 4) and supporting organizations have to be established (cf. Chapter 5).

Nonetheless, it can be assumed that many of the new enterprises will fail as the motivation, knowledge and ability to learn will not suffice to survive in the market (Schneider-Barthold, 2001, p. 332).

Small enterprises are primarily created in those sectors and economic fields in which the establishment and market-entry barriers for products for local and regional consumption are low. This leads to the danger of an oversupply of goods, poor quality and low prices (Qualmann 2001, p. 328).

● **Decentralised Structures:**

The already mentioned decentralised structures make it possible to employ local or regional resources such as, for example, processing those agricultural products which are produced in the regions themselves. The large number of adapted economic units reduce the risk for the entire economy since the impacts of failures have only a limited range of influence. The production structures of agribusiness enterprises can be easily adapted to changes in the demand (the effects of Engel's law respecting increases in income).

**● Linkage Effects:**

A structure consisting of farms, enterprises in forward and backward-linked sectors and handicrafts and services in rural regions depends on the interaction between the sectors because the degree of self-sufficiency in the economic system decreases. These networks between the enterprises and the households lead to a strengthening of local and regional economic cycles. The structure of the production is based on the demand supplied by the enterprises or the households. As a result of the creation of employment or income opportunities, the households have sufficient purchasing power and the demand for end products is stimulated. These local and regional economic cycles can then be integrated partially in cycles at the national or higher levels, even at the level of the world market perhaps. This reduces the vulnerability of the economic system through globalisation (Manig 1985, p. 145 ff).

The necessary intensive, functional, horizontal and vertical networking plays a significant role in increasing the stability of the system.

**2.4. Multi-Employment**

In the densely populated regions, a process has taken place in which the farms have become too small. The income earned in farming is too low to ensure all of the members of the households a sufficient basis to live on. Members of the households try, therefore, to find jobs outside agriculture. Multi-employment and/or multiple income combinations in various forms such as individual and household pluri-activities or extend family economies arise at the household level as a result (Dharmawan, 2000). The above-described agribusiness sector is predestined to create job opportunities in the rural areas. This reduces and disperses risk considerably. This has led to the concept of sustainable livelihood systems (SL) as a survival strategy employed by households (Ellis, 1999). The multi-employment structure also complies with the seasonal fluctuations in the demand for labour in agriculture. During those periods in which there is little demand for labour in the agricultural sector, it is possible to take up employment outside the farm (Tampubolon, 1998).

### 3. Mellor's Employment Approach

John Mellor's "employment-oriented development strategy" (Mellor, 1976) can be regarded as a decision-making and action strategy for creating job opportunities in rural regions. In addition to actively creating job opportunities in the rural regions (e.g., specifically in the agribusiness sectors), the investments in expanding food production are of particular significance. Increasing the productivity in the production of cereals by employing the so-called "green-revolution technologies" has in particular as "wage goods" specific strategic significance for keeping the living expenses (and, thus, the wages) of the bulk of the population low.

Moreover, spatial and sectoral decision-making parameters - especially in the form of guidelines for state promotion policies - through corresponding development concepts are indubitably essential as a prerequisite for investments and the establishment of private enterprises in the rural regions (cf. Manig, 1985).

### 4. Entrepreneurship

The above discourse has certainly made it clear that the establishment of very small and middle-sized enterprises is extremely important with respect to gendering new jobs in the rural regions of the developing countries. Who, however, is responsible for establishing such new enterprises? Before new enterprises can be established, one has to have people with the right personality, entrepreneurs that have ideas and access to innovations and are also willing to take the risk and start new enterprises. By doing so, they simultaneously generate jobs for themselves and other people. One should not forget that not every person looking for a job is willing and able to start up an enterprise. That is true not only in the case of the rural regions and the developing countries, but in general.

In the rural regions of the developing countries, there could be a lack of suitable people with the right personality to undertake the tasks connected with founding an enterprise in their own interest, of course. Before that state can be achieved, a number of prerequisites have to be fulfilled. Some of them could be assumed by supporting organizations (cf. Chapter 5) as public tasks.

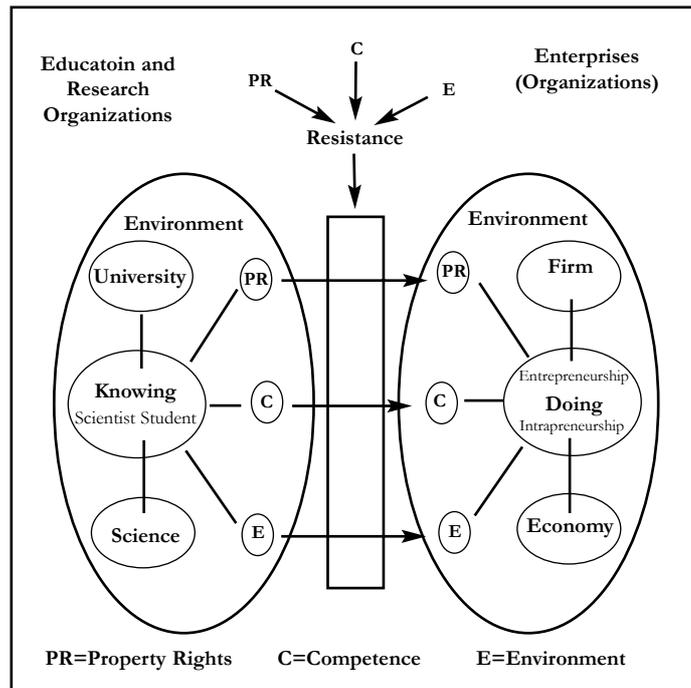
According to Schumpeter (Schumpeter, 1952, pp. 99 ff.), it is neces-

sary to have innovative and creative entrepreneurs who introduce innovations by means of a new combination of production factors, i.e., knowledge, ideas and inventions in order to stimulate and enliven the economic development. Such innovative entrepreneurs, in other words, are a step beyond static management that just continues manages that which already exists. What is needed, hence, are not the so-called "bazaar entrepreneurs." The most important prerequisites for creative entrepreneurs have been regarded since the appearance of Max Weber's publications to be values, norms, attitudes, beliefs and inclinations, whereby achievement motivation is regarded as the most important as *primum mobile* (Hirschman, 1967).

Comprehensive theoretical concepts were developed to study the motivations and their significance (cf. McClelland, 1966 and Hagen, 1962, for example). The employment of knowledge and, hence, inventions is the step that leads to real innovations and the stimulation of economic growth and development and precisely this fundamental notion in connection with the actors (entrepreneurs) is simultaneously the approach leading to the creation of job opportunities in already existing or new enterprises. The accumulation of capital and the investment of that capital are necessary but not sufficient as preconditions. (Hirschman, 1967) questioned the key significance of capital, or better the lack of capital, as the cause of inadequate economic development. If qualified innovative entrepreneurs and promising opportunities are available, entrepreneurs will find or mobilize (!) capital. In societies that are not economically developed there is a lack of suitable 'images' during the socialization process that convey achievement motivation and, thus, there are no (!) or only few innovative entrepreneurs. It is economic development itself and nothing else that creates such models (Hirschman, 1967, p.5 ff.).

However, achievement motivation is not the only prerequisite determining the existence of innovative entrepreneurs: others are property rights, capabilities and competence and a favourable environment, which makes the establishment of firms possible (cf. Figure 1). The transition from knowledge systems to action on the part of a motivated entrepreneur is hindered by insufficient rights, missing competence and an unfavourable societal environment, i.e., subject to those who actual-

ly know what is required but do not act themselves, the so-called knowing-doing gap (Röpke, 2004, pp. 14 ff).



**Figure 1: Factors Causing the Knowing-Doing Gap**

Source: Röpke, 2004, p.15

How can the opposition be reduced to the education of motivated entrepreneurs who have the necessary rights and competence and operate in a favourable environment? As this has to take place within a short time, the only possibility is state activities with respect to the establishment of suitable supporting organizations that promote motivation and competence by means of educational and training measures, provide property rights and material inputs and break down societal and administrative-political constraints to access (cf. Chapter 5). The by far greatest difficulty would seem to be the problem of diminishing the motivation deficit within the context of the existing societal environment in the rural regions of the developing countries. Intergenerational change could prove to be the best way to diminish the motivation deficit.

## 5. Supporting Organizations

The establishment and improvement of employment promoting structures for very small, small and middle-sized enterprises in the rural regions of the development countries does not only demand favourable political and economic policy frame conditions but also the provision of the necessary services to support the entrepreneurs and enterprises. So-called supporting organizations must be built up in the rural regions in order to do so. Due to the heterogeneity of the tasks and the large number of enterprises in the various economic sectors, only the state can initiate and furnish the provision of such services. The structure of the supporting organizations can, in other words, not be established by the private economy. They are typical public tasks such as:

### ■ Educational and Training Facilities:

A minimum of education and practical training are prerequisites for the establishment of enterprises. The increasing employment of improved technological standards to increase productivity demand a minimum of education and training.

### ■ Research Facilities:

In order to develop improved techniques, the corresponding facilities are necessary. Some of these forms of technology will not have to be developed from scratch; instead, already existing knowledge has to be adapted to the conditions (appropriate technology). The development and adaption of technology has to be established as a permanent task because the technological standards continually change even with respect to the smallest enterprises.

### ■ Financial Organizations:

Traditional banking systems are certainly not suited to function as financial organizations for the establishment or expansion of very small and middle-sized enterprises because, among other things, risk capital is necessary. As has already been mentioned above, the organizations that provide micro loans in the rural regions of the developing countries are certainly suitable for such tasks. Enough world-wide experience is available.

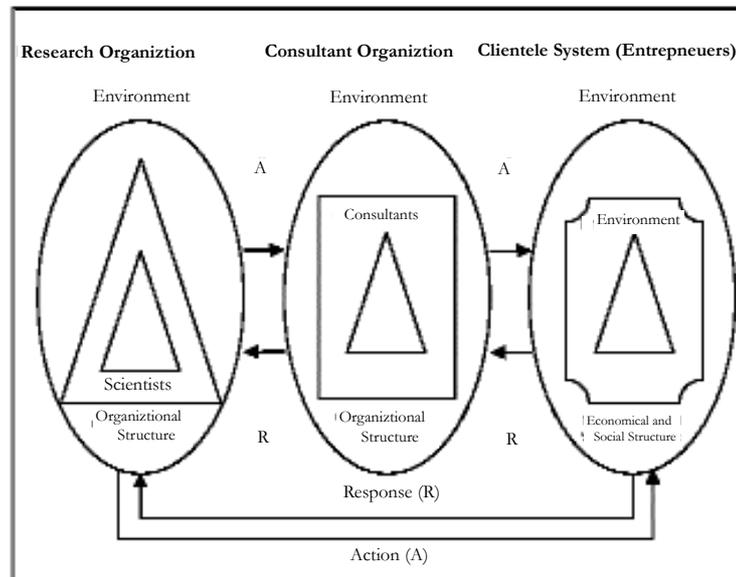
**■ Consulting Organizations:**

New and already established small enterprises need frequent advice with respect to various questions linked with the organization of enterprises and adequate management. The management and marketing policy issues as well as, in particular, investments and their financing are of particular interest. Regarding the establishment of new enterprises, adequate counselling and advice as well as legal aid are undoubtedly necessary. In addition to the advisory services in connection with business administration, technical advice concerning the employment of new, improved techniques is an important component of the advisory process.

The entire process of the transfer of knowledge in the business as well as technical fields is surely not possible without friction and the loss of information because the knowledge-generating (research organizations) as well as the knowledge-imparting organizations (consulting organizations) and those who employ it (clientele systems) belong in some cases to completely different living spheres, have different fields of experience and belong to different organizations that inevitably lead to losses in the transfer of knowledge. In all three organization sectors, people also pursue different goals which only allow the transfer of knowledge with limitations from the subsystems in which knowledge is generated through the dissemination process to the final target, the entrepreneur, (i.e., the process by which an invention becomes an innovation). Each subsystem has its own logic and is also as a rule autonomous (Röpke, 2004, p. 16).

Figure 2 depicts the various organizations with their respective environments, organization structures and people involved. This, however, leads to the generation of very different organization forms that are dedicated to the various key sectors (research, advisory services and the employment of knowledge). However, people belonging to the various organizations linked to the transfer of knowledge have to cooperate and work together in order to fulfil the actual task. If the organization theory's contingency approach (cf. Hage/Finsterbusch, 1987) is used as a basis then one comes to following conclusions: The members of the respective organizations act in various types of organizations, are loyal to their own organization, have diverse official and hidden goals and

interests and perhaps a very different understanding of the societal significance of their work. On the other hand, they depend on close cooperation for the results to be really effective. This is true in the case of the generation of knowledge (research), the transfer of knowledge (consultants) and, lastly, the employment of the innovations (entrepreneurs). The differences cause considerable friction in the cooperation between the various organizations which hinders the transfer of knowledge (cf. Manig, 1992, pp. 209; Manig, 2002, pp. 387). In other words, it is not possible to work together without a loss of information.



**Figure 2: Intersystem Model**

Source: Manig, 2002, p. 388, based on Chin, 1962

## 6. Improving the Business Environment

The necessary improvements in the general economic frame conditions will be dealt with in this chapter as well as the specific improvements for the rural regions as important elements in the realization of employment-oriented economic and development policies. In some cases these refer to general improvements in the population's living conditions; in addition, however, they also have decisive strategic conse-

quences on the establishment of new enterprises and their sustainable existence (Pfeffermann, 2001, pp. 44 ff.). Only a few of the innumerable possible conditions will be discussed here that are of specific relevance to the smallest to middle-sized enterprises in the rural regions:

- political stability, general legal certainty and good governance;
- economic legal certainty (rule of law) with respect to property rights' security and contract fulfilment;
- an effective public administration - specifically not too much influence and regulation (e.g., when entering the market) by means of state regulations and a calculable tax system;
- efficient communications and transportation infrastructures;
- economic frame conditions such as inflation, a monetary system, cooperation ;
- a health service.

All of the above-mentioned components are mentioned over and over in connection with the promotion of the rural and general development process (Manig, 1985). The political, legal and macro-economic frame conditions are undeniably necessary but do not suffice alone for the promotion of the private sector respecting the establishment of new enterprises (Altenburg 2001, pp 325). No new jobs will be created without potential entrepreneurs. Therefore it is necessary to link an active job-creating policy to an effective general improvement of the economic and socio-political frame conditions, and that can only be achieved on the basis of strategic support of small enterprises in the rural regions of the developing countries.

## **7. Policy Implications**

The most important development policy decision is the decision to promote the active creation of employment within the scope of agribusiness. Traditional development approaches are naturally not invalid as a result; however, a few key issues may possibly change. The active promotion of job-opportunity generation calls, however, for a change in development-policy philosophy because the approaches to date merely supported activities in already existing production units in the specific sectors, i.e., productivity and production increases. The promotion of the creation of new enterprises or the establishment of new

jobs was only a desired side-effect. An appropriate development policy is, in addition, particularly decentralized and participative and takes the local and regional specific conditions and factors and capacities into consideration. At this point, I would like to advocate the active promotion of the establishment of new enterprises in the agribusiness sector and the direct creation of job opportunities as part of the economic development policy. The approach and the development philosophy behind it is, thus, different from the policies to date, whether they were growth, equity or institution or otherwise oriented.

An important element of this new policy would also be the promotion of economic networks because agribusiness is based on the inter-sector and inter-enterprise exchange of goods, services and information. In other words, the necessary market integration can only be achieved by means of exchange networks such as marketing, transport and the general communications infrastructure.

#### **References:**

Altenburg, T. (2001). Armut, Beschäftigung und ökonomisches Wachstum, Wirtschaftliche Modernisierung breitenwirksam gestalten. **"Entwicklung und Zusammenarbeit"**, 42. Jg., H. 11, S. 324-327.

Ananda, C.F. (1998). **Linkages of Agriculture to Small- Scale Up and Downstream Enterprises in South-Kalimantan, Indonesia: An Explorative Study**. Göttingen/Germany (Cuvillier Verl.).

Chin, R. (1962). The Utility of System Models and Development Models for Practitioners. In: Bennis, W.G., Beune, K.D., and Chin R., **The Planning of Change**. New York, pp. 201-204.

Dharmawan, A.H. (2000). **Farm Household Livelihood Strategies and Socio - economic Changes in Rural Indonesia: A omparative Study**. Doctoral Diss., University of Göttingen.

Dirks, J. (2000). Einflüsse auf die Beschäftigung in nahrungsmittelverarbeitenden ländlichen Kleinindustrien in West-Java/Indonesien. **Discussion Papers**, No. 32, Institute of Rural Development. University of

Göttingen.

Dollar, D. & Kraay, A. (2001). Growth is Good for the Poor. Washington, D.C.: **World Bank** Policy Research Working Paper Nr. 2587.

Ellis, F. (1999). **Rural Livelihood Diversity in Developing Countries: Evidence and Policy Implications**. London: ODI, Natural Resource Perspectives, No. 40.

Hage, J. & Finsterbusch, K. (1987). **Organizational Change as a Development Strategy: Models and Tactics for Improving Third World Organizations**. Boulder and London: Studies in Development Management.

Hagen, E.E. (1962), **On the Theory of Social Change**. How Economic Growth Begins. Homewood, Ill.

Hirschman, A.O. (1967). Die Strategie der wirtschaftlichen Entwicklung. Stuttgart (The original (1958). **The Strategy of Economic Development**. New Haven).

ILO (1995). "World Employment 1995". An ILO Report. Geneva. ILO. <http://www.ilo.org/sed>.

Jazairy, I., Alamgir, M., & Panuccio, T. (1992). **The State of World Rural Poverty. An Inquiry into Its Cause and Consequences**. IFAD), London: (IT Publ.), London: (IT Publ.).

Khan, M.H. (2000). Rural Poverty in Developing Countries. **Finance and Development**, 37(4), (Dec. 2000), pp. 26-29.

Köhler, H. (2003). **Toward a Better Globalization**. Speeches, International Monetary Fund. <http://www.internationalmonetaryfund.org/external/np/speeches/2003/101603d.htm>.

Lanjouw, P. (1999). The Rural Non-farm Sector: A Note on Policy

Options. **World Bank**, Washington, D.C. (Mimeo, Vol. 4).

Lanjouw, J. & Lanjouw, P. (1995). Rural Non-farm Employment: A Survey. **World Bank**, Washington, D.C., (Policy Research Working Paper No. 1463).

Lustig, N., and Stern, N. (2000). Broadening the Agenda for Poverty Reduction. Opportunity, Empowerment, Security. **Finance and Development**, 37(4) (Dec. 2000), pp. 3-7.

Manig, W. (1985). Integrierte Rurale Entwicklung, **Konzept und Versuch einer Operationalisierung komplexer Entwicklungsansätze**. Kiel:(Vauk Verlag).

Manig, W. (1992). Development and Transfer of Appropriate Technologies for Peasant Farmers in DC: Analysis of Linkages between FSR and T and V System Organizations. **Agricultural System**, Vol. 38, pp. 209-219.

Manig, W. (ed.) (1999). Changes in Rural Employment and Income Structures: Examples from Indonesia and Costa Rica. Göttingen:(**Discussion Papers**, No. 30, Institute of Rural Development, University of Göttingen).

Manig, W. (2002). Institutional Barriers to Information Transfer between Research and Extension Organizations: Exemplified on the FS- Approach and the T & V-System. In: Ramos, N.A. and Lapis, J.M.,**Resource Management: Public-Private Partnership and Knowledge Sharing**. Los Banos, Laguna, Phil.

Manning, C.(1998). **Indonesian Labour in Transition. An East-Asian Success Story?** Cambridge: (Univ. Press).

McClelland, D.G. (1966). **Die Leistungsgesellschaft**. Stuttgart (The Achieving Society (1961). Princeton, N.J.).

Mellor, J.W. (1976). **The New Economics of Growth. A Strategy for India and the Developing World.** Ithaca and London: (Cornell Univ. Press).

Peters, G. H., and Braun, J. von (eds.) (1999), **Food Security, Diversification and Resource Management: Refocusing the Role of Agriculture?** (Proceedings, 23. Intern. Conf. of Agricultural Economists), Ash gate (IAAE, Univ. of Oxford).

Pfeffermann, G. (2001). Poverty Reduction in Developing Countries. The Role of Private Enterprise. **Finance and Development**, Vol. 38, No. 2 (June 2001), pp. 42-45.

Qualmann, R. (2001). Arbeitsplätze in Klein- und Mittelbetrieben. Beschäftigungswirksame Modernisierung der Produktionsstrukturen. **Entwicklung und Zusammenarbeit**, 42. Jg., H. 11, S. 328-330.

Rodrik, D. (2000). Growth Versus Poverty Reduction. A Hollow Debate. **'Finance and Development'**, Vol. 37, No. 4 (Dec. 2000), pp. 8-9.

Röpke, J. (2004). Knowledge Mobilization and Academic Entrepreneurship. In: Sanchai Jaturasitha (ed.), Food Security and Sustainable Resource Management in a Market Economy: Challenges and Options. **"Journal. of Agr. and Rural Dev. in the Tropics and Subtropics"**, Suppl. 80, Witzenhausen.

Schneider-Barthold, W. (2001). Das Beschäftigungspotential des Kleingewerbes. Für eine menschenorientierte Entwicklungspolitik. **Entwicklung und Zusammenarbeit**, 42. Jg., H. 11, S. 331-333.

Schumpeter, J. (1952). **Theorie der wirtschaftlichen Entwicklung**, 5. Aufl. Berlin (1. Aufl. 1911, Leipzig) (englisch (1934). The Theory of Economic Development, Cambridge, Mass.).

Tampubolon, J. (1998). **Interaktionen zwischen Mehrfachbeschäftigung und betrieblicher Organisation der Landwirtschaft in klein-**

**bäuerlichen Haushalten in Nord-Sumatra, Indonesien.**Göttingen/  
Germany: Curvillier Verl.

Valdes, A. (1999), **Labour in Agriculture.** Diversification of the Rural Economy, Rural Non-Farm Employment, Urbanization and Migration Challenges. In: *Peters, G.H. and Braun, J. von* (eds.), pp. 543-546.

World Bank (2000). **World Development Report 1999/2000:Entering the 21st Century.** Washington, D.C.

World Bank (2001). **World Development Report 2000/2001: Attacking Poverty.** Washington, D.C.

Zaini, A. (2000). **Rural Development, Employment, Income and Poverty in Lombok, Indonesia.** An Impact Evaluation Study. PhD-Diss, Göttingen Univ.