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Sustainable Non-Farm Rural Livelihood Diversification in Romania during Transition

Introduction*

At the beginning of the transformation process in transition countries,¹ economic policies focused mainly on macroeconomic problems. The increasing income disparity between rural and urban regions was ignored. We now know that the increasing inter-regional divergence in the transition economies is one of the major transformation problems. In many transition economies the agricultural sector is failing to provide a decent source of livelihood for its workforce, especially the poor. Given this situation, the rural labour force cannot be productively absorbed in the agricultural sector and poverty is growing rapidly. For the rural population, this is where the rural non-farm economy has the potential to play an important role in poverty alleviation, income diversification and the development of sustainable rural livelihoods.

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¹ The term transition countries is used to describe the new political geography of the former CMEA, comprised of the CEFTA/CEEC states (the Czech Republic, Hungary, Poland, Slovakia, Slovenia), the Balkans (Albania, Bulgaria, Romania) the Baltic States (Estonia, Latvia and Lithuania), the former Yugoslavia, and the Commonwealth of Independent States (Russia, Ukraine, Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Uzbekistan).

The rural non-farm economy may be defined as being all those activities associated with waged work or self-employment in income generating activities that are not agricultural but located in rural areas. Thus, rural non-farm activities might include manufacturing (i.e. agro-processing) and be accumulative (e.g. setting up a small business), adaptive, switching from cash crop cultivation to commodity trading (perhaps in response to drought), coping (e.g. non-agricultural wage labour or sale of household assets as an immediate response to a shock), or be a survival strategy as a response to livelihood shock. The rural non-farm economy cannot be considered homogenous; rather it is characterized by its heterogeneity, incorporating self-employment, micro and small-medium sized enterprises (MSMEs) and trade activities. Our definition of the rural non-farm economy is not solely activity based (waged work or self-employment), as it includes the rural institutional framework (roads, schools, hospitals etc.) which are an integral part of the rural economy. It is argued that livelihood diversification is not simply about income diversification, but much broader; similarly, employment (as conventionally defined) is not the only way to make a living, therefore, a more flexible and broader approach to and definition of the rural non-farm economy is necessary.

The main aim of this paper is to improve our understanding of the non-farm elements of rural livelihoods, particularly for the poor, in transition economies. The paper is structured as follows: First we briefly review the sustainable livelihood (SL) framework in the context of rural non-farm employment and diversification. Section 2 outlines the key factors underlying rural non-farm livelihood diversification in transition economies. Using the example of Romania, Section 3 is comprised of a case study of non-farm rural livelihood diversification activities, enterprise and employment based on primary data collected by the author during 1996–1998.²

Sustainable Livelihoods and Diversification

Much of the previous work in the area of economic growth in the non-farm sector has been focused on identifying interventions which will generate the most employment or income, with a sectoral focus on multipliers and 'picking winners'. Analysis at the level of the household and its livelihood strategies has often been neglected, although the World Bank has in the last few years increasingly adopted and developed participatory poverty assessment techniques as a diagnostic, policy and project tool (Robb, 1999). The recent focus on the concept of sustainable livelihoods, and work done to develop sustainable livelihood frameworks (for example DFID 1998, IDS, 1998) has gone some way to address this.

² EU PHARE-ACE research grant P95–2170–R Romania: Rural Financial Market Development for the Small Private Farm Sector.

A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base (DFID 1998 p4). Although we doubt whether the sustainable livelihoods framework has considerable value as an analytical basis on which to formulate policy interventions; it is certainly more of an objective by which the performance of non-farm rural livelihood policies can be judged. The SL framework also illustrates how, in different contexts, sustainable livelihoods are achieved through access to a range of livelihood resources (natural, economic, human and social capitals) which are combined in the pursuit of different livelihood strategies (agricultural intensification or extensification, livelihood diversification and migration).

The transforming structures and processes (which encompass the institutional environment) impact upon livelihoods in two main ways. They are critical in determining both who gains access to which type of asset and what the effective value of the asset is. They also help define which livelihood strategies or activities are open and attractive (in conjunction with a household's assets status). In addition, markets and legal restrictions also affect the convertibility of an asset, for example human capital into physical capital).

The role of the government in rural areas, through structures and policies, is of direct relevance to the emergence of a healthy rural non-farm economy. The provision of public services (such as health and education) in rural communities determines to some extent the viability of rural communities, and directly affects the growth of a private non-farm sector. The existence of a suitably skilled workforce, and the availability of necessary public services and facilities, are key factors influencing the choice of location for businesses, and the growth of local enterprises. Policies distorting the financial market affect the level of provision of financial services in rural areas, which are key to funding private sector business activity, have a direct impact, while government-sponsored business services can have a more indirect impact on the rural non-farm economy.

The SL approach and framework ensures that strategies to improve rural livelihoods take into account all the forms of capital (resources) on which a livelihood is based. Financial capital may be influenced by the financial markets, and human capital by access to education, while the social capital of a household may depend on the level of integration into society, community networks, and other such factors that are less straightforward to measure and influence. In order to improve rural employment levels, it may be necessary not just to invest in human capital through increased access to suitable education, but also to address factors such as social networks, infrastructure and health.

Hussein and Nelson (1998) define livelihood diversification to include on and off-farm activities which are undertaken to generate extra income via the formation of agricultural and non-agricultural products, the sale of waged labour or self employment in small firms, and other strategies to spread risk (including radical migration strategies). It includes consideration of attempts by individuals and households to find new ways to raise incomes and reduce environmental risk, which differ sharply by the degree of freedom of choice (to diversify or not) and the reversibility of the outcome. There are many sources of income. For example, Islam (1997) identifies five distinct sources of non-farm income: (i) non-agricultural activities within the household; (ii) activities in small rural towns; (iii) work in large cities (involving commuting); (iv) remittances from household members in cities; and (v) remittances from household members overseas. However, as Ellis (1998) notes livelihood diversification is not necessarily synonymous with income diversification and this is the approach taken in this paper.³ Livelihoods as strategies for the poor are usually diverse and often complex. As previously noted, individual families may complicate their livelihood strategies in order to not only increase income, but also reduce vulnerability and improve the quality of their lives. This is also true of rural non-farm livelihood activities, which increasingly apply to people in the North (including Central and Eastern Europe) as well as the South.

In this paper we will make several references to SL and employment in the rural non-farm economy of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS). There is a wide variety of views on the conceptual and actual (probably uneasy) relationship between SL and unemployment. Existing definitions of economic activity currently form the statistical foundations for data driven employment policies, but do not address the livelihoods concept directly. For example, Chambers (1995) maintains that for most of the rural poor, SL seems to fit better than employment as a concept to capture how the poor live, their priorities and what can help them, since employment (at least in the sense of a stable job and formal employer/employee relationships), is likely to be an aspiration rather than reality. Sustainability then refers to durability/stability over the long-term and livelihood to the many activities which comprise a living. In contrast, a livelihood may be defined in terms of an adequate living, which may be shared among several people that is at least sufficient to prevent household poverty.

Although we accept much of Chamber's argument, we propose that SL as a concept should embrace existing employment concepts while widening them to include 'multiple' informal or new forms of economic or non-

³ See Hussein and Nelson, (1998) who also take this approach in their study of livelihood diversification and provide a fuller discussion on the merits of this.

economic activity. Employment could therefore be described as one, but not the only form of making a sustainable living. Thus, SL should not be defined as an alternative to employment, or as a concept to describe only the subsistence activities of the very poor. Rather, in this paper we propose using SL as an umbrella term for all continuous or repetitive rural non-farm work-related activities, mainly for compensation or reward (but also possibly unpaid), for the purpose of directly contributing to or improving the quality of life for individuals, their immediate family or community grouping. Therefore, the SL concept becomes an integrative construct which unites all non-farm economic activities, which may conventionally be termed employment as defined by international organizations (e.g. the International Labour Organization, World Bank etc.), whilst also capturing the social dimensions of sustainability and equity.

Rural Non-farm Livelihoods in Central and Eastern Europe

During the central planning era, rural development in transition economies was frequently associated with agricultural development; recently opinion has begun to move away from this position. Arguments in favour of paying greater attention to the non-farm sector in the context of rural economic development centre around the sector's potential in absorbing excess labour from the agricultural sector and urban-rural migration (especially in transition countries), in contributing to income growth and in promoting a more equitable distribution of income. In most transition countries a sizeable part of the population still lives in rural areas.⁴ However, what is perhaps more relevant, though harder to get is good quality data on the share of the population employed in agriculture plus the share of the population — employed or not — who expect to earn their livelihood in the countryside. For most CEECs this will probably be a much smaller number than that quoted below. In the Czech Republic, Slovakia and Hungary the majority of the rural population are not engaged in agriculture. Even in Romania only 2.8 million out of a 9.5 million rural population are engaged in agriculture.

In some CEECs, urban-rural migration⁵ due to massive structural adjustments in the post-communist transition has contributed to increased pressure on agricultural productivity in the recently privatized sector. Overall, agriculture's share of employment in some transition economies

⁴ In some CEECs, e.g., between 30 and 45% of the population still lived in rural areas in 1994, i.e. Bulgaria — 30%, Czech Republic — 35%, Hungary — 36%, Poland — 36%, Slovak Republic — 42%, and Romania — 45% (World Bank, 1996).

⁵ NB: There is also an increased dependence on rural sources of income for many urban workers which have resulted from the transition process and also places increased pressure on the agricultural sector.

has increased since 1989 due to the voluntary return of discharged urban workers of rural origin and the agricultural sector's role as an employment buffer. As the privatized farm structure in various transition countries continues to face diseconomies of scale and specialization and land property rights remain largely ill-defined (i.e. a lack of viable land markets), the private agricultural sector is being stretched to its limits. In a few transition economies, especially in the Balkans and the Commonwealth of Independent States, the agricultural sector is failing to provide a decent source of livelihood for its workforce, especially the poor (Pearce and Davis, 2000). Given this situation, the rural labour force cannot be productively absorbed in the agricultural sector and poverty is growing.

During the history of central planning, decisions about the regional distribution of economic enterprises, habitats, and educational and social infrastructure were made by a central administrative power. Local and regional administrative agencies did not have any competence (and usually limited influence) in this matter. In the main, agricultural enterprises and firms with backward and forward linkages were established in rural regions. Other industries were usually neglected. The implementation of rural development strategies, which emphasize decentralized administrative authorities, may address this issue. The following issues of rural development are specific to transition economies:

— During the central planning era, particularly in the USSR, collective and state farms provided many social services (kindergartens, village halls etc.). These social services were largely neglected in the debates over agricultural privatization and lost in subsequent enterprise restructuring. In some countries, the development of rural infrastructure had a low priority. Therefore, rural infrastructure, such as roads, sewage, telecommunication and social systems in most transition economies is in a dilapidated state.⁶

— The transformation process caused severe unemployment in the heavy industry and agricultural sectors due to the former centrally planned misallocation of resources. In the CEEC region the average official rate of unemployment is around 16.3%, unofficially it is often significantly higher in rural areas.

— Industrial conglomerates were often strongly concentrated in certain regions and vertically integrated. In some regions the experience of structural adjustment was severe in particular sectors of the economy during the transition process due to their high degree of specialization. Some hard-hit areas were unable to initiate the creation of other employment opportunities because the region's economic activities were too little diversified.

⁶ A key question concerning the development of both hard and soft rural infrastructure is how does the state ensure essential services with the loss of the framework, which used to deliver them?

— Environmental protection was also largely unenforced. Therefore, on the one hand, agricultural production is no longer possible in many regions due to e.g., excessive leaching of the soil and water table pollution. Environmental problems, on the other hand, may interfere with alternative income sources, such as tourism.

The pre-transition problems listed above do not comprise a comprehensive survey of the depth, degree and breadth of rural development issues that have arisen from the central planning era. The above is only a summary of some of the key problems which relate to many of the issues discussed in this paper.

Rural poverty in CEE and the CIS is growing (Milanovic, 1998).⁷ The 'new' rural poor of CEE and the CIS are often highly educated with work experience. They face a paradox of declining job opportunities resulting from the restructuring of former State Owned Enterprises (SOE) and a slow influx of private investment into new ventures. For example, in Estonia, where labour costs are considered to be cost-competitive compared with other Baltic States, and unemployment is not considered a major social problem, hidden unemployment (those unemployed not reporting to labour offices) is persistently high, and participation in the illegal or grey economy is growing. The growth of the informal or "black" economy throughout CEE and the CIS is a result of low or often non-existent unemployment benefits, inducing many not to register as unemployed, but simply to move into lucrative but often clandestine activities. All of the above contribute to a sense of alienation and a lack of rural entrepreneurship. These problems are intensified the further east one travels in continental Europe where agriculture involves a large part of the rural labour force, and where labour productivity is lower than in CEECs even when adjustments are made for the part-time nature of employment.

Case Study: Rural Non-farm Enterprise and Livelihood Diversification in Romania

This section of the paper is largely based on data collected during 1996–1998 of which the Romanian non-farm sector was a component of a comprehensive survey conducted as part of an EU PHARE-ACE research project on the Romanian Rural Financial Market Development for the Small Private Farm Sector. Overall, 72 rural micro and small-medium sized enter-

⁷ An additional issue related to rural poverty, concerns the measurement of rural incomes. Most of the assessments of poverty conducted in the region have been based on monetary indicators. This tends to show that rural incomes are lower than urban averages and peasants are almost universally poor. However, if one considers self-consumption and income in-kind the picture is less clear (see Davis and Gaborici, 1999).

prises (MSMEs)⁸ in the counties of Braşov and Dolj. In each county three communes (villages) were selected according to the rural population, socio-economic criteria (e.g. agricultural area, arable area per tractor), access to urban markets, the level of infrastructural development and household characteristics such as family size, number of children and family income. Braşov is a mountainous region located at the heart of Romania with primarily small private individual farmers. Dolj is a flat dry area in the southwest of Romania with many family associations with a legal classification (i.e. usually co-operatives that have emerged from state farms).⁹

The rural MSMEs were interviewed using a questionnaire that consisted of several modules: socio-economic, financial performance, financial services, infrastructure and problem modules. The interviewed MSMEs comprised processing and production activities as well as retail, trade, repair, equipment shops and bakeries. It is clear that the non-farm MSME sector is very heterogeneous, comprising activities with a wide range of labour and capital productivities. The MSME size with respect to labour-force ranges from 1 to 210 employees (the average was 11) and with respect to equity capital varied between Lei 4.2 million to Lei 1,060 million (Lei 7,168 = 1 US\$ in 1997) i.e. US\$ 585 to US\$ 147,879.

The Romanian rural economy

In Romania, the rural area totals approximately 21,276.7 thousand ha (89% of the total area of the country); accounts for a resident population of 10.2 million people, representing about 45% of the total population of the country; and 3.3 million households are located (over 45% of the total number of households) here. The rural area also accounts for around 90% of the country's agricultural area, as well as over 85% of the forestland and the majority of useful mineral resources, and the zones with tourist potential. Agriculture, together with forestry, accounted for 18.8% of GDP in 1997 (see Davis and Hare, 1999). The agricultural sector, as compared to the other economic sectors, accounts for the greatest share of the employed population (33.6% of total employed population at the end of 1998), coming mostly from the rural area.

The economic collapse of the industrial and construction sectors, as well as services (though to a more limited extent), resulted in the reduction of the number of people employed in non-agricultural activities, who were thus compelled to return to agriculture, under conditions of very low pro-

⁸ In Romania, small to medium sized enterprises are officially defined as those firms employing 50–250 persons or having an equity capital of between 2.5 and 1.8 billion Lei.

⁹ For a detailed description of the survey methodology see Davis and Gaburici, 1999.

ductivity (see Davis and Pearce, 2000). The monthly average income of a peasant household (determined by the National Commission for Statistics on the basis of the "Integrated Household Survey") represented in 1995 about 58% of the average monthly income of a household of employees (employed manual/semi-skilled non-agricultural workers) and about 21% of those of an employers' household (highly-skilled, white-collar workers), being close to the income level of a household of unemployed people (Chirca and Tesliuc, 1999).

Table 1

Number of employed persons (in thousands)

	1990	1997	Level of employment in 1997 compared to 1990 in %
<i>Romania</i>			
Total	10,840.0	9,022.7	83.2
Agriculture	3,055.0	3,322.1	108.7
Industry	4,055.0	2,450.0	60.4
<i>Timis</i>			
Agriculture	90.7	101.1	111.5
Industry	148.7	85.6	57.6
<i>Dolj</i>			
Agriculture	155.6	144.7	93.0
Industry	105.0	61.0	58.1
<i>Braşov</i>			
Agriculture	43.9	42.1	95.9
Industry	173.7	126.7	72.9

Source: National Commission for Statistics (1996 & 1998).

Unemployment in Romania is increasing with the rate rising from 6.6% to 8.8% during the period 1996–1997. Among the regions in our survey, the largest increase was observed in Braşov, where unemployment rose from 4.1% in 1996 to 8.6% in 1997. Whilst employment levels fell by 25% between 1990–1995 the private agricultural sector experienced a growth in its labour force. By 1997 agricultural sector employment was 108.7% of its 1990 level (the equivalent figure for the industrial sector was 60.4%) (see Table 2). During the same period agricultural production increased by around 5.6%, however the agricultural labour force grew at 8.7% (NCS, 1998). Similarly, in 1997 Romanian agriculture accounted for around 37% of the total labour force, but the sector only contributed 18.8% to GDP (EBRD, 1998). Therefore, agricultural productivity in Romania is declining. Although there has been a small net outward migration from rural to urban centres the current employment situation is forcing the agricultural sector to assume the role of buffer, which is resulting in widespread and

increasing (hidden) underemployment. The increase in the supply of rural labour shows large regional variations with peri-urban areas being most affected (see Table 2).

In Romania, the active rural population is around 4.6 million (45% of the total rural and urban population) most of whom work in the agricultural sector. In most regions, the remaining population consists mainly of elderly people, the demographic balance having been altered due to out-migration. The worst affected villages are mainly located in mountainous regions (e.g. Braşov) but also in distinct plains areas (e.g. Timis and Dolj). In Romania, the farming population is elderly: in two-thirds of the households the average age of the adults is over 50, and in one-third over 65 years. In 1996, the number of elderly people living in rural areas was 2.3 million, approximately 66% of the elderly in Romania.

Table 2

Employment activities in rural Romania 1998
(Braşov, Dolj, Timis)

Activity	Male	Female	Total	% of active Population
Total population	25,758	27,728	53,486	—
Active population	9,304	9,601	18,905	—
Agriculture (farmers)	6,396	6,800	13,196	69.8
Trade (merchants)	233	245	478	2.5
Teachers	208	299	507	2.7
Engineers & technicians	220	121	341	1.8
Medical profession	32	30	62	0.3
Veterinarians	15	9	24	0.1
Sanitary personnel	53	105	158	0.8
Pharmacists	4	16	20	0.1
Public servants	210	172	382	2.0
Private employees	125	118	243	1.3
Handicraftsmen (guild)	542	180	722	3.8
Seasonal labour (unqualified)	845	545	1,390	7.4
Other employment activities	1,966	1,523	3,489	18.5
Non-farm rural employment	4,453	3,363	7,816	—
Non-farm rural employment % of active population	48%	35%	41%	—

Source: Romania, Rural finance survey 1997/98; Own data.

As previously noted, one of the most important determinants of whether farm households continue in, or take up subsistence farming rather than shifting to rural non-farm economy activities, is the extent to which retirement and unemployment benefits meet the cost of living. In Romania, pen-

sions have been falling faster than wages, making it necessary for households to complement their retirement benefits with incomes from household plots, small farm and increasingly non-farm activities. In contrast, in Hungary, a country characterized by a strong outflow of labour from agriculture, generous early retirement schemes encouraged older workers to leave on-farm employment.

The basis of the rural economy is agriculture as there are few alternative significant sources of income, although rural non-farm economy activities accounted for around 41% of the active population's activities in our survey of employment activities in rural Romania (1998) based on three counties (see Table 2). Around 41% of the sample had some rural non-farm economy full-time or secondary employment (farming as a primary and rural non-farm economy secondary activity 10% and rural non-farm economy only 31%). These include seasonal/temporary (unqualified), handicraftsmen, public sector and trading activities (see Table 2).

As previously noted, rural — urban migration has been highly selective with the watershed traditionally being entry into secondary education. Among the interviewed non-agricultural enterprises in Braşov and Dolj the education and vocational training level of the entrepreneurs clearly lies above the counties' level as the figures in Table 3 reveal. These figures support the importance of education and vocational training for entrepreneurial economic activities. Compared to the national average, non-farm entrepreneurs more often have a high school degree and/or a university degree. Thus for the establishment, development and promotion of non-farm MSMEs in rural areas, the general and vocational education levels play an important role.

Table 3

Level of education per county, 1997 (%)

	Secondary school	High school	Vocational training	Higher education
<i>Counties 1997</i>				
Timis	40	32	10	17
Dolj	42	33	7	18
Braşov	35	25	7	33
<i>Interviewed non-farm entrepreneurs 1997</i>				
Timis	22	37	22	20
Dolj	5	62	19	14
Braşov	7	61	7	25

Source: National Commission for Statistics (1998); Own data.

Note: Vocational training normally follows the secondary school degree.

The figures may not add up to 100 due to rounding.

Rural Non-farm Enterprise Activities

In our non-farm MSME survey there are two clearly identifiable groups of non-farm activities:

- (i) low labour productivity activities serving as a residual source of employment (trading and handicrafts activities); and
- (ii) high labour productivity activities (processing, manufacturing etc.).

Table 4

Non-farm rural enterprise activities (by gender)
in Braşov and Dolj (1997/1998)

	Braşov		Dolj		Entrepreneurs		Total (%)
	Enterprise activities		Enterprise activities		Male	Fe-male	
	Nos.	%	Nos.	%	Nos.	Nos.	Nos.
Trade (incl. agro-tourism)	12	41.4	21	46.7	25	7	32 (44%)
Agricultural services	1	3.4	2	4.4	3	–	3 (4%)
Retail trade	5	17.2	9	20.0	13	1	14 (19%)
Manufacturing	1	3.4	3	6.7	4	–	4 (5%)
Non-agricultural services	1	3.4	7	15.6	7	1	8 (11%)
Agri-processing	3	10.3	1	2.2	3	1	4 (5%)
Industrial processing	3	10.3	2	4.4	4	1	5 (7%)
Handicrafts	2	6.9			2	–	2 (3%)
Others	1	3.4			1	–	1 (1%)
Total	29	100.0	45	100.0	62	11	73 (100%)

Source: Romania: Rural finance survey 1997/98; Own data.

Key: (%) Percentage of rural non-farm economy enterprise activities of MSME survey sample total.

The source of demand for (i) on both local rural and domestic or export markets are mainly rural middle-income groups, remote salaried rural households and former urban dwellers. In Romania, there is little evidence that the rural poor purchase significant quantities of manufactured handicrafts or artisanal goods. With regard to (ii) processing, trading and transport of farm outputs, the source of demand for this type of non-farm rural activity is mainly farmers, marketers, wholesalers and retailers. Table 4 lists the main non-farm rural enterprise activities (by gender) in Braşov and Dolj (1997/1998) as identified by respondents to our non-farm MSME survey. Most activities are concentrated in direct trading (stores, public houses, soft drinks) and retail trade (bakeries, confectioners, restaurants) comprising 63% of all non-farm MSME activities. Most of these activities have relatively low (or often no) barriers to entry. The gender dimension of these activities is often very important both for total household income and intra-household labour allocation. The number of female entrepreneurs in-

volved in rural non-farm economy activities may be under-reported because as Table 2 above suggests, women play a significant role in the sector, but may not be either interviewed or seen as the manager of the enterprise (for social reasons) despite being central to the MSMEs operation. Men may simply be more likely to be the named manager of an enterprise. We found that around 42% of the spouses interviewed were either active partners in the business or described themselves as full-time employees in the firm.

The majority of surveyed enterprise managers work between 46–60 hours per week. Most firms in the survey (69%) employed fewer than 5 persons and many depend on family labour (see Table 5). Most firms in this group are involved in low labour productivity activities serving as a residual source of employment. Lanjouw and Lanjouw (1997) maintain that rural non-farm economy MSMEs should contribute to rural employment because they are generally more labour intensive, and face lower labour and higher capital prices which correspond more closely to the true relative scarcities of inputs in rural areas. As the relative factor proportions are more “appropriate” the development and start-ups of MSMEs, especially in rural areas should be encouraged (Lanjouw and Lanjouw, 1997). We found some evidence of this among our surveyed respondents in Romania.

Table 5

Firm size and family labour use

	Firms		Nos. Employing Family Members		
	Nos.	%	1 to 2	3–6	Total
Firm size (< 5)	51	68.9	12	3	15
Firm size (6–10)	12	16.2	3	5	8
Firm size (11–30)	4	5.4	1	1	2
Firm size (31–100)	2	2.7	1	–	1
Firm size (> 101)	5	6.8	1	–	1
Total	74	100.0	18	9	27

Source: Romania, Rural finance survey 1997/98; Own data.

The main reasons for starting a rural non-farm economy enterprise¹⁰ in our sample were:

- a desire to utilize a potential opportunity to diversify to preserve the financial security of the individual or their family; and
- the identification of a favourable economic environment locally or regionally for the particular service or product identified by the entrepreneur (namely *demand-pull* factors).

¹⁰ See N. Marsland, T. Cannon, J. Davis *et al.* (2000) for a full survey of the literature concerning the economics of participation of the poor in the rural non-farm economy.

What factors determine RNF livelihood diversification in Romania?

A lack of capital, family tradition or unemployment (a *distress-push* factor) seem to be minor factors in determining entry to rural non-farm enterprise start-up.¹¹ Most of the sample diversified their activities to:

(i) Take advantage of labour market opportunities (which may offer higher returns to education and smooth off-season consumption); and

(ii) To take advantage of new markets (for own output or services).

A small minority of respondents diversified their livelihoods:

(iii) As a coping strategy to manage ex-post income decline following a shock (e.g. following a drought or flooding in rural Romania) or deepening economic recession.

Previous work by Heidhues, Davis and Schreider (1998) on small private farmers in Romania found that significant access constraints to credit existed and affected the financial viability of farms and their potential to diversify into non-farm activities. Similarly, in the survey of rural non-farm economy MSMEs it was found that access to finance is an important issue to the development of non-farm firms. 50% of the MSMEs interviewed in Timis had access to formal loans, however only around one-fifth of the MSMEs in Braşov and Dolj sample (much poorer regions) had access to loans. The survey only captures those entrepreneurs that have successfully diversified. It does not consider non-diversifiers or the reasons that underlie their behaviour e.g. social capital issues, risk aversion, barriers to entry or those who diversified and failed (MSME exit). It was found that access to finance and the level of the managers' education (i.e. human capital factors) are key elements of successful non-farm diversification, MSME development and entrepreneurship.¹²

Breitschopf and Schreider (1999) in their study of rural development in Romania (utilizing the Braşov and Dolj sample of the same dataset) found that inputs, institutions, infrastructure, and innovation¹³ have an enormous influence on MSME incentives (measured as capital productivity and revenues). The key finding of their regression analysis was that capital is not

¹¹ The author conducted statistical tests of significance relating factors motivating rural non-farm economy enterprise development to human, physical and financial capital indicators. These proved to be statistically insignificant and are therefore not presented.

¹² The author also found some evidence of minor statistical correlation between education and access to credit.

¹³ Innovations in Breitschopf and Schreider's (1999) model is defined as the training of employees and utilized as an indicator of access to information on innovations, as a dummy variable.

(as yet) the constraining factor for MSMEs in rural areas. As their marginal return of capital is low, the MSMEs operate either inefficiently, or they have to deal with other constraints such as lack of raw materials. Further, the MSMEs might face an inefficient factor allocation.

Besides development obstacles that may be associated with access constraints due to a lack of financial, social and human capital, our survey respondents identified other bottlenecks. For example, insufficient road, communication and market infrastructure, and widening gaps in the relative prices. Apart from these bottlenecks, deficient price information systems, a lack of extension and other consulting services offering technical expertise represent impediments for potential entrepreneurs and existing MSMEs.

As most of the new rural MSMEs in Romania are in their infancy, the government is currently considering a number of potential interventions: investment grants for rural entrepreneurs starting or developing a business; and the subsidization of start-up activities provided by small business development centres or business incubators for the benefit of rural. In Romania, but also most of the other CEECs, some of the social problems related to agricultural reform, e.g. over-manning or high hidden unemployment, an ageing rural demographic structure, low incomes and rural depopulation need to be addressed by an effective "job creating" rural development strategy which helps retain and usefully employ the younger rural population.

Conclusions

The results of our Romania case study suggest that rural non-farm livelihood activities in CEECs in the region are mainly market-based and trade-driven. Therefore, appropriate rural development strategies and policies should be market biased, e.g. oriented towards small-scale agro-industries, agro-processing, business services, marketing, trade and financial services. Enterprise support services to promote rural non-farm economy activities should be based on marketing principles, responding in a low-cost and flexible way to identified needs and demands for services by MSMEs. Government and donors should seek to promote the role of the private and civil sectors in providing enterprise support services, acting as a facilitator rather than as a service provider where feasible.

In Romania effective support of the rural non-farm economy requires co-ordination between sectors through established mechanisms and linkages. Therefore, the development of the rural non-farm economy:

- requires operational links between institutions (e.g. ministries) and organizations (e.g. development banks, commercial services); and
- requires that Government play an enabling role creating linkages between partners, not separating them and locking them into "sectors" and "departments".

There are both considerable challenges and opportunities for rural areas in the CEECs in the context of the EU accession process. Enterprises face the opportunity of potential new markets and the challenges of increased external competition and compliance with EU import grades and standards. In order to adapt successfully a minimum level of rural infrastructure and the provision of enterprise advisory and support services are needed. Investment in education, the elimination of market distortions, and continued privatization and demonopolization is needed for economic growth in the non-farm sector to be equitable and to benefit the rural poor.

Although the SL framework does not serve as an analytical base on which to formulate policy interventions, it can aid the understanding of RNF livelihoods and the contribution of interventions to them, rather than as a programme of action. It would therefore not be valid to suggest that the SL approach should replace existing policy and project formulation techniques and structures, but that it should enhance them.

Decentralization initiatives can perhaps most effectively be designed and evaluated using the SL approach. Indeed, one of the results of using a SL approach is that the inadequacy of centralized structures may be highlighted, and the need for decentralized institutions and structures emphasized. Where decentralization is already a priority, the SL approach may enhance the process by more effectively evaluating it. The SL approach should influence the policy environment at national and local/district levels. At national level by highlighting the impacts of current policy and of alternative policy scenarios; and at district level, by promoting a culture amongst district institutions whereby they are proactive in adapting and exploiting flexibility in national policy, e.g. on land, education, health, revenue raising/retention.

The SL approach allows the policymaker or analyst to take account of secondary sources of income, and subsistence agriculture, which provides 'invisible' income, and therefore to better focus on livelihood diversification. It also places more emphasis on the factors that determine poor people's access to employment. The SL framework aids our understanding of household level diversification strategies, and may assist in the design and evaluation of interventions to support such strategies.

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