

# Alternative Non-Agricultural Employment in Rural Russia

Policies supporting non-agricultural employment in two Russian regions have so far had little effect

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In comparison to developed countries Soviet agriculture was noted for its low labor productivity and an accordingly high rate of employment. Modernization of agriculture during transition was bound to reduce employment in agricultural production. In Russia employment has indeed shrunk at major agricultural enterprises, mainly due to a falling demand for farm produce. Simultaneously, employment on private subsidiary plots increased. As a result, the share of those employed in agriculture dropped by just 2.5 percentage points since 1990 to 10.4% today.

The official unemployment in rural areas is fairly low, but the actual rate is variously estimated at between 27 and 37%, and this does not take into account partial employment and low wages.

Further modernization would release still more labor in agriculture, but at the same time would set higher requirements for the quality of manpower. Yet the quality of the rural labor force has deteriorated during the reform period. The education level of agricultural workers is lower than of those in other sectors. For example, the share of people with higher education in agriculture is three times less than in the economy as a whole.

The rural population is ageing while its more productive and energetic representatives migrate to the cities. The possi-

bilities of daily commuting to other labor markets are restricted by long distances and poor communications. Young people, as the potential workforce, are not overly eager to work in agriculture. Our survey of 1,385 students in several higher education institutions in Voronezh, Perm, Kostroma, Astrakhan and Ivanovo conducted in 2006 has shown that only 11% of students intended to work in rural areas, and most of them were rural dwellers who majored in agriculture.

Thus a paradoxical situation exists in the rural labor market: the excess of manpower coexists with a shortage of skilled labor. This situation is a consequence of rural underdevelopment, in the first place, and a lack of opportunities for rural people to be employed in the non-agricultural sector.

As experiences of other countries show, economic development will further reduce employment in agricultural production and only the growth of the non-agricultural sector will be able to cut unemployment, diversify the sources of income of the rural population and improve its living standards, which may in turn attract skilled workers to rural areas and enable rural communities to survive.

## Alternative Employment: Definition

For the purposes of this study we define alternative employment as employment in non-agricultural economic activities, with the exception of the social services, and federal and municipal government. Thus, such non-agricultural activities include gathering and pre-processing of wild plants, rural tourism, commercial fishing and hunting, folk arts and crafts, etc.

We look at alternative employment in rural areas

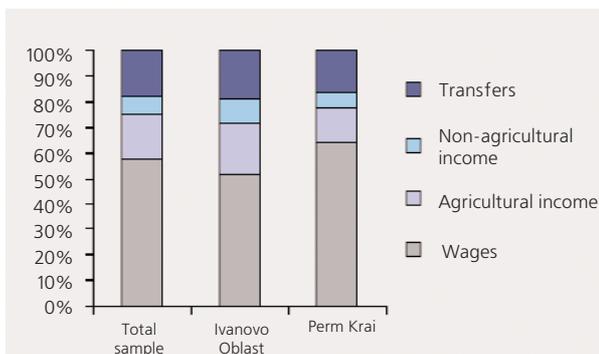
and assess the efficiency of rural labor market policies in two Russian regions: Perm Krai and Ivanovo Oblast. The study draws on a survey of about 800 rural households conducted in 2006. In each of the two regions we have chosen two pairs of rural districts with matching characteristics. In one pair of the districts the authorities implemented special measures to create alternative jobs, and in the other pair no such measures were taken.

Perm Krai, more economically developed and prosperous (unemployment there is 1.5 times less and per capita monthly income is more than double that in Ivanovo Oblast) renders greater assistance to agriculture and rural development than Ivanovo Oblast. Perm Krai proclaims an alternative employment policy to be a priority, with special funding allocated for the purpose. The authorities in Ivanovo Oblast, by contrast, support agricultural production mainly at private farms and private subsidiary plots. It is important to bear in mind that the share of agriculture in the gross regional product in Ivanovo Oblast is twice that in Perm Krai (7.3% and 3.6% respectively).

## Unstable Economic Sector

The survey revealed that an average rural family of 2.7 persons receives about 60% of family income in the form of wages, of which 40% is earned in non-agricultural activities, such as construction, industry, retail, services, etc. (see Figure). Non-wage incomes from non-farm activities (mainly wild plants gathering) account for a mere 2% of the total income; however, the 18% of the households that have this source of income have a higher overall income compared to other households (but lower average wage). Thus, it may be that the income from non-agricultural self-employment is used to compensate for low wages and not to augment the overall family income.

Family Income Structure



We found that the probability of deriving income from non-agricultural self-employment increases due to:

- The presence of unemployed household members;
- Ownership of farm machines (the possibility of providing services for members of the community);
- The community's remoteness from the district's center;
- The existence of a place of interest in the area;
- A lower level of economic development in the district (for Ivanovo Oblast).

To what extent does non-agricultural employment compete with other types of employment? In terms of workload, we found that alternative employment and working one's private subsidiary plot cannot be seen as mutually complementary because they involve comparable workloads with employment peaking in the same season. Indeed, households with both a core employment and a private plot hardly have any time left for alternative employment, except in the off season.

An absolute majority of respondents (88%) prefer to earn a living as hired workers and only 12% as entrepreneurs, with the share of potential entrepreneurs among those engaged in the non-agricultural sector standing a little higher, at 17%. Among those employed in the non-agricultural sector, a larger share than in the average sample plan to change jobs or are afraid to lose their job, which indicates a lower job satisfaction. This may be due to greater social vulnerability of the non-agricultural sector workers.

Considering the above, it is not surprising that in order to diversify incomes households will seek employment in a more stable sector of the economy and not in the non-agricultural sector. Self-employment is likely to develop towards increased activity working private subsidiary plots and not expanding non-agricultural employment.

### Poor Regional Policies

Up until now government support of rural employment has been unduly biased in favor of promoting agricultural production (including in private subsidiary plots). A lack of a coherent policy in support of alternative employment limits the opportunities for such employment, as our detailed case studies in five districts have shown. Successes achieved in some districts can be attributed mainly to the efforts of individual enthusiasts.

A quantitative analysis of the efficiency of the policies in Perm Krai and Ivanovo Oblast (through a comparison of pairs of districts on various indicators) revealed that the existence of formal municipal policy to support alternative employment has yet to make a difference to the incomes of rural dwellers. Even so, unemployment was on average higher in the districts unaffected by policy. There are more car owners in the districts affected by policy but the same cannot be said of household appliances, mobile phones and computers. On the whole only the municipal policy of one district can be described as having a real impact on the well-being and employment of the local population.

The reason why policy has had no pronounced effect is firstly due to the fact that support for non-agricultural activities does not as yet figure prominently in rural development programs. Far more attention is paid to the informal employment in working subsidiary plots, which does not remove the problems of rural employment and is fraught with aggravated and persistent rural poverty. Unfortunately, there is also inertia in ways of thinking among the rural population. It is thought to be reprehensible not to cultivate land if you live in a rural area. Despite the fact that investments in private subsidiary plots are often not recouped by proceeds from the sale of produce, this activity takes so much time and effort as to leave no room for engaging in alternative activities.

The development of rural areas requires the development of rural infrastructure; coordinated policies in the field of education and healthcare; the financial support of small rural enterprises, including a cut of interest rates on entrepreneurial loans; information support and consultancy services to rural entrepreneurs; and educational campaigns among the rural population to change their attitude to non-agrarian activities.

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## Health Shocks in Rural China

Households living in villages, which held elections, can avoid income reduction due to health shocks

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Major illnesses are the most unpredictable and devastating shocks for farm households in developing economies, few of whom have adequate health insurance. A family loses on two fronts when a major health shock comes: it has to spend a considerable amount of money to treat the sick member, and it loses part of its labor capabilities when the sick member is a major laborer in the household. In the

short run, the family has to reduce its consumption due to imperfect insurance; in the long run, it may fail to accumulate enough productive assets including children's education. As a result, experiencing a major health shock may well send a family into both short-term poverty and a prolonged poverty trap.

Using household-level data over the period of 1986-2002 from 48 villages in

eight Chinese provinces, we assess the impact of major health shocks on farm households' long-term income, children's school attainment and the role played by village elections in attaining more equal income distribution in the village and helping households to mitigate the negative impacts of health shocks.

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