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THE INFORMAL ECONOMY IN RURAL COMMUNITY ECONOMIC DEVELOPMENT

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ABSTRACT

The rural economy in most countries is regarded as that which requires intervention in order to foster sustainability and development to improve the quality life of those in need, and there have been many empirical studies on rural benefit distributions in the rural regions. The purpose of this paper is to address and understand of what the rural economy is and see to how the rural communities in the regions are surviving in rural economy, and the type of contribution offered by the rural economy to the community in the rural regions. The methodology of the paper comprises pure secondary data of reviewing literature and theories, based on economic detritions. The conclusion observations for the paper is that rural area distribution income is noted that most of the income and net benefit resulting from the industrialization in the regions is mostly being received by the private sectors. As result the income distribution in rural regions needs more intervention and assistance for the community to gain more income in order to sustain their living standard in a better way through development and equal distribution.

KEYWORDS
rural economy, rural benefit distribution, informal economy, formal economy.

INTRODUCTION

The majority of the world's working poor live in rural area where the lack of decent work opportunities is pervasive. The statements of various researchers are that common constraints to unleashing the potential of rural economies include: a lack of decent jobs and reliable incomes; low productivity; informality; weak enforcement of the rule of law; ineffective organization and participation of rural people in decision-making; under-investment in agriculture, non-farm rural employment and infrastructure; and limited or no access to social protection and services. Moreover, rural economies include also farm and non-farm industry; size and spatial distribution of production and household units and interregional trade; land use; housing and non-housing to supply and demand; migration and depopulation; government policies as to development, investment, regulation and transportation; and general equilibrium and welfare analysis, for example, system interdependencies and rural-urban income disparities. Additional pressures result from climate change, conflict and natural resource depletion, including land and water scarcity. In addition to the above common constraints in low income countries agriculture is most contributors to the livelihood of people in rural community and it also scope for development and ensures the livelihood of the majority of the population (Thomas Reardon et al., 2008).

However, with a clear understanding of the common constraints of the rural economy – This observation directly prompts the following question: [1]what is the rural economy; [2] how is people surviving in rural economy; [3]what are the contribution of the rural economy to the community. Therefore, this study aims to provide answers to these questions thorough analysis of previous studies of informal economy in rural community in rural area.

REVIEW OF LITERATURE

WHAT IS RURAL ECONOMY?

The question of rural economy has different thoughts of opinion, because of increasing density of population, higher prices of farm products, and all other problems incident to a denser population, rural economy will receive in future more attention; and this attention should be intelligently directed. However, among the schools of rural economists, three can be easily distinguished. According to Professor Taylor of Wisconsin as sided by John Ise, (2016) the rural economy is not only that body of economics which relates particularly to agriculture, but also farm management; it looks at the farmer's problems not merely from the social point of view, but also from the individual. The second school of thoughts following Professor Carve would exclude farm management. A third school would hold that there is no such thing as rural economics, but that what is commonly called rural economics is merely a combination of ordinary economics on the one hand and agriculture on the other (John Ise, 2016).

Rural economics, according to Professor Taylor, "has to do with the harmonious adjustment of the relations between useful forms of plant and animal production and the human environment; also between the various people who participate in the production, transportation and marketing of farm products. It is the function of economics to make clear the economic forces with which the farmer has to deal and to develop methods of ascertaining what to produce and how to produce it in order to secure maximum net profits for the farmer and maximum well-being for the nation." (John Ise, 2016).

CONTRIBUTION OF RURAL ECONOMY

The informal economy provides participants with a variety of benefit which include monetary income, goods and services social satisfaction and cultural connection. In addition, the informal economy acts as an alternative distribution network in which those who do not have money to buy goods and services nevertheless are able to access at least some of what they need for both production and consumption (Shanna Ratner, 2000).

Glass, et al., (1989) argues that participation in subsistence lifestyle has payoff beyond the physical needs it satisfies. In addition, surviving critical roles in both supplementing income and providing a source of support during periods when monetary income become scare or non-existent, subsistence activities contribute to overall social, cultural and psychological function. Moreover, the formal economy confers status and wages while the informal economy confers livelihood security and a community based identity (Shanna Ratner, 2000).

The research carries out by Carol stack, (1974) as sided by Shanna Ratner, (2000) on the influential studies of how social relationships and networks operate to meet economic needs, located in the community that was experiencing server economic depression. The economic security experienced by residents kindship network lessened their dependence on formal source meet their daily needs the widely practice strategies involved swapping, trading and borrowing from one house hold to another. In this way the scare range of goods available in the community could be redistributed throughout a number of households service were also swapped. Hence resident could trade their limited skills with their limited skills of their community members and in the process gain access to a wider range of service than their limited skills of their community members and in the process gain access to a wider range of service than their internal resources could cover (Leonard, 1998).

THE DEFERENCE BETWEEN INFORMAL AND FORMAL ECONOMY

The formal economy is the portion of natural, human, manufacturing and entrepreneurial capital used to meet our need that we are actually account. Formal economy is measured by rate of unemployment, the gross national product, the rate of housing starts, etc. Thus help us to keep track of what is happening in formal economy. While the majority of the economic activities we do don't count and is that what is considered to be the informal and or / criminal in nature eg., self-provisioning, caring worker, barter and volunteer activities etc. additionally the informal economy is often thought of kind of "safety net" for those who don't find a place in formal economy (Shanna Ratner,2000).

WHAT THE INFORMAL ECONOMY?

Informal economy is known as various invisible, shadow, secondary, underground, clandestine, undeclared, subterranean, etc. It includes everything from household production and consumption (sometimes calls self-provisioning) of goods and services (paid and unpaid) to interhouse barter, sharing, unprotected business transactions, volunteer worker, subsistence production etc. However, informal economy is part of every life and house hold survivals strategy among the rural community, yet its contribution to well-being remains poorly understood and largely ignored by both practitioners and the policy maker (Shanna Ratner, 2000).

Leonard, (1998) state that "economic activity which is not recorded in official statistics and which is operates in absence of administrative monitoring control" is to be considered as informal. Moreover, some portions of the informal economy are illegal by virtue of being unprotected while the other are inherently criminal eg., (drug dealing, money laundering etc). However, the study of this paper will not look into the criminal informal economy.

APPROACHES TO RURAL DEVELOPMENT POLICY

The differences in economic development regions have not only attracted the attention of academics, but that of policy makers as well in order to reduce regional differences. In the debate on rural development policy two major conflicts of rural development strategies can be distinguished: exogenous versus endogenous development and top-down versus bottom-up direction. Each of these pairs addresses a particular aspect of development. In the exogenous-endogenous dialectic the focus is on the origin of employment growth: according to the exogenous development approach, employment growth is considered to be transplanted into a region and mainly externally determined, while the endogenous development approach assumes that employment growth is produced by local impulses and largely based on local resources. The top-down versus bottom-up debate deals with the competences of administrative tiers: in a top down approach, national administrative layers take the lead in the development process, and they are in charge of decision making on policy objectives and policy implementation, whereas in a bottom-up approach local actors are the initiators of the development process and are responsible for decision making and implementation of policies (www.rug.nl/research/portal/file).

The word "integrated" emphasizes the interaction between actors, sectors and projects. *LEADER* and policies should be implemented by means of strategic development programmes designed in mutual consultation with local actors, entrepreneurs and administrative layers. However, due to lack of knowledge on the working of decisive factors in the rural development process and main features governing the interaction of local and external actors, it is difficult to achieve the aim of such rural development programmes. (www.rug.nl/research/portal/file).

INCOME DISTRIBUTION IN RURAL REGIONS

The economic income distribution referred to the way total output, income, or wealth is distributed among individuals or among the factors of production such as Labour, land and Capital. In general theory and the national income and production accounts each unit of output corresponds to a unit of outcome. One use of national account is for classifying factor income and measuring their respective share, as in national income but where focus is on income of person or households, adjustments to the national account or other data sources are frequently use (Atkinson A. B. and Bourguignon F., 2000).

Tweeten, Luther., (1974) as sided by Lynn Reinschmiedt, and Lonnie L. Jones, (1997) the basis of concern for rural development is how "increased economic gain" is been lagging economic growth in rural communities. Many rural regions have been face with the dilemma of low income, inadequate or expensive community services, net out migration and high dependency rates. Numerous programs have been enacted over the years to alleviate these problems. The Act of 1972 of Rural Development interprets the main objective of rural development to encourage and speeding economic growth in rural areas to provide for jobs, improving quality in rural life and doing so on a self-earned, self-sustaining basis. One chief component of all these programs is to promote industry location in rural communities.

Lynn Reinschmiedt, and Lonnie L. Jones, (1997) states considering amount of research effort has been expended in evaluating the economic impact of industrialization on rural communities and most studies concentrated on aggregate measures, such as increases in total employment, incomes generated and associated costs of industrial development. More recently, attention has been directed toward evaluating the distributional impact of industrial development.

According to Reinschmiedt and Jones, (1997) the study by Garrison and Shaffer emphasized distribution of industrial impact among selected sectors of the local economy; most notably the municipal government, private and school district sectors have been explained. With this breakdown of the local economy, the private sector was found to receive the bulk of net benefits resulting from industrialization.

The study done by Reinschmiedt, Lynn., (1976) to evaluate the economic impact of nine industrial locations in six rural Texas communities with population of less than 15,000. Three of nine plants were tied to local inputs, whereas the remaining six firms could be described as "footloose." Average annual 1974 employment ranged from 28 to 152 employees. Payrolls ranged from $144,000 to $1,050,000 with a plant average of $417,058. The result of this study showed that the private sector, which consisted of those directly employed within the industry as well as businesses and individuals meeting input and service demand generated by new industry and its employees, on and average received 97 percent of total community net gains. Excepting one school district, industrialization benefits exceeded associated costs in the private, municipal government and school district sectors for all plants.

However, the previous research on economic development and income benefit to rural regions most of the studies are based on the farm agricultural activities rather than the non- farm activities. In response to this statement could be that the non-farm activities require investment in assets. The literature employ model that assumes that investment is a function of households' incentives and capacity to investment. In theory, the incentives to investment in non-farm assets differ between rich and poor households. According to Newbery and Stiglitz, (1981) risk aversion varies inversely with wealth therefore the extent to which risk affects farm household behaviour depends critically on risk aversion. The risk incentives to diversify income sources vary by the household's position in the income distribution by the nature of the assets, specifically, their degree of convertibility to cash in general, they are higher for poor households and households with few liquid assets than for richer households or households whose assets are highly liquid, by contrast, in the absence of perfect credit and insurance markets, capacity to invest increases with household wealth. If diversification is costly (i.e., has high entry barriers, which is a stylised fact that empirical evidence tends to support, as discussed above) and initially risky, wealthy households are also in a more favourable position to diversify into non crop activities (Stamoulis, 1997).

Thus, while a risk model without credit constraints might predict that households will diversify less as their wealth increases (because the risk aversion motive for diversification declines as household wealth increases), liquidity and credit constraints on diversification for the poor may lead to the opposite outcome: the poor may want to diversify for risk reasons but cannot do so because of liquidity constraints, and thus one observes more diversification among the non-poor than among the poor. The rich may have less of a risk incentive to diversify, but they are in a superior position to self-finance this diversification. A well-functioning rural credit market could make the liquidity of the rich available for diversification by the poor; however, efficient rural credit markets are the exception, not the rule, in Less Develop Countries (LDCs) (Thomas Reardon, J. et. al, 2000).

The empirical results over the regions an investment portfolio perspective is useful for interpreting the mix empirical results concerning the relationship between the share and level of non-farm income in total income. The U-shape or inverse relationship between non-farm diversification and income or wealth depends on the following (Thomas Reardon, J. et. al, 2000):

- ✓ The availability of high labour-to capital-ratio jobs with low barriers of entry for poor (holding few assets) households. That availability in turn appears to be associated with the characteristics of those regions: relatively good infrastructure, high population and market density, dynamic agriculture, unequal landholdings, and rur-urbanisation (urbanisation of the rural areas via growth of intermediate cities and rural towns);
- ✓ The possibility for households to specialise in land-intensive crop production, again, occurring more commonly in Green Revolution areas;
- ✓ The ability of higher-asset households to diversify into more capital-intensive activities, self-financing this diversification or else using their assets as collateral in an incomplete credit market. Asset holdings enable high-asset households to diversify production for expected-income as well as risk motives.

CONCLUSION

In order to achieve more insight into factors behind current economic development and regional distribution in rural areas, the researcher has mainly used literature, theories and previous research on rural studies distribution and development. By doing so, there is an observation that the income distribution in rural regions needs more intervention and assistance for the community to gain more income in order to sustain their living standard in a better way through development and equal distribution in their regions.

In order to get the idea from the "hard core" economics, a rich body of literature from the discipline of regional economics was consulted. The said literature attempts to explain the economic behaviour of regions or more specifically, to describe and explain the distribution of economic activities over regions. The literature covers the institutional perspectives on regional economic distribution and economic development.

However, through the analysis of various study for regional distribution the researcher observed that beside the Act of 1972 of rural development that interprets the main objective of rural development to encourage and speeding the economic growth in rural regions to provide jobs, improve quality in rural life and doing a self-earned and self-sustaining basis, rural regions are faced with the dilemma of law income, expensive community services, net out migration and high dependency rate. Additionally, the distribution in rural regions the income bulk and net benefit resulting from the industrialization is mostly being received by the private sectors.

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