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**Occupational Diversification in Developing Countries and
Implications for Agricultural Policy**

by

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Occupational Diversification in Developing Countries and Implications for Agricultural Policy ¹

1. What is the issue and why is it important?

Occupational diversification challenges conventional wisdoms about poverty reduction in rural areas of low income countries. Diversification takes place in order to overcome risk and seasonality in natural resource-based livelihoods, but it also reflects the failure of agriculture to deliver improving livelihoods in the post-liberalisation era. Poverty and vulnerability are often associated with undue reliance on agriculture rather than the converse. Those farms achieving yield growth often do so due to cash resources generated from non-farm activities, rather than being the origin of growth in such activities as is the conventional wisdom.

The evidence is unequivocal that occupational diversification on average contributes around half of all rural incomes in low income countries. There is a great deal of variation around mean values at the household level, but less variation than might be supposed when comparing sample evidence across different countries in a particular region. Variation also occurs in the types of non-farm activities or income sources that comprise income portfolios, depending on location and labour market opportunities; as also between men and women in their engagement in local or remote non-farm labour markets.

A strong positive correlation between the proportion of household income obtained from non-farm sources and overall household income per capita has been found in numerous studies. There is also considerable evidence that higher non-farm earnings result in higher agricultural yields and improving natural environments. Mixed results are obtained with respect to whether diversification increases or decreases income inequality. The ability to diversify at all is often critical to the food security of the most vulnerable rural populations.

Attempts to construct typologies of occupational diversification as a guide to policy formulation are ill-advised. For a variety of reasons such categorisation is misleading and unhelpful. It is misleading because diversification is a dynamic economic and social process in which individuals and families engage in countless different ways at different points in time. It is unhelpful because it is not the task of policy to second guess what people should be producing or where that production should take place (except in the limited sense of, say, industrial zoning). Rather policy needs to be directed towards creating the facilitating contexts and infrastructures within which people are better able to make their own decisions about what to produce and where to locate.

¹ This Hot Topic paper was written by Frank Ellis, Overseas Development Group, University of East Anglia, Norwich UK. As well as the published literature, the paper draws on material written by the author for other purposes (Ellis & Allison, 2004; Ellis & Harris, 2004) and on other POVNET documents (Deshingkar, 2004; Takoli, 2004)

Occupational diversification possesses positive attributes for poverty and vulnerability reduction. It is partly predicated on, and itself increases, human capital in terms of experience, skills and willingness to innovate. It generates earnings and remittances that alter the options open to the household by providing it with cash resources that can be flexibly deployed. It contributes to lessening vulnerability by ameliorating risk and reducing the adverse consumption effects of seasonality. In general, livelihood diversification improves livelihoods, and to the extent that it fails to do so, this can often be traced to adverse public sector contexts that penalise people in the market and on the move.

2. The current evidence – what we know so far

Evidence on diversification

The prevalence of occupational diversification began to be recognised in the early to mid-1990s, and by the end of the decade was firmly established (Reardon, 1997; Ellis, 2000; Barrett *et al.*, 2001). It was found that mean figures of between 40 per cent and 60 per cent of rural household incomes deriving from non-farm activities and transfers were commonplace. Later evidence consolidated this understanding: in South Asia, the mean proportion is often around 60 per cent, while in Sub-Saharan Africa it converges on 50 per cent, and in Latin America average figures of around 40 per cent tend to be observed.

There is evidently a great deal of variation around these mean figures in several dimensions. First, for any given study or sample there is a wide variation at the household level. Second, depending on location and labour market opportunities, there is considerable variation in the types of non-farm activities or income sources that comprise the income portfolio. Third, there are variations between men and women in their engagement in local or remote non-farm labour markets.

With respect to the first of these dimensions – variation at the household level – the positive correlation between overall household income per capita and the proportion obtained from non-farm sources has already been noted, and is well documented in the literature (Adams & He, 1995; Ellis & Freeman, 2004). The degree of occupational diversity needs to be distinguished from the income proportions to which it gives rise. The better off and the poor may exhibit similar degrees of diversity (as measured, for example, by count frequencies of the different occupations in which they are engaged), yet per capita income outcomes are entirely different.

The reason for this is that the better off diversify in different labour markets from the poor, and in Sub-Saharan Africa, for example, the better off tend to diversify in the form of non-farm business activities (trade, transport, shop keeping, brick making etc.) while the poor tend to diversify in the form of casual work, especially on other farms. Diversification by the poor therefore tends to leave them still highly reliant on agriculture; while that by the better off reduces such dependence.

Much interest centres on whether occupational diversification is increasing, the reasons for this, and its significance for poverty reduction policies. Here, attention is given to the first part of this, while reasons and policy significance are pursued

further below. A great deal of fragmentary evidence based on both quantitative qualitative methods, supports the proposition that occupational diversification in poorly performing economies, or economically marginalised parts of more successful economies, is increasing. Perhaps the most wide ranging effort to verify this were the country studies undertaken by the Deagrarianization and Rural Employment (DARE) project in Sub-Saharan Africa which utilized a mixture of qualitative and quantitative methods to derive a composite picture of the relative collapse of agriculture as the primary source of rural livelihoods in Sub-Saharan Africa and the consequent rapidly increasing pursuit of non-farm options across the continent (Bryceson, 2002).

Causes of diversification

Two fundamental causes of diversification are well understood, and hardly need elaborating. These are seasonality and risk. The degree to which it is necessary to diversify for seasonality reasons evidently varies according to the robustness of the underlying farm basis of people's livelihoods, the degree to which they are able to realise cash income from market sales, and their confidence in the ability of markets to provide food supplies at reasonable prices in the agricultural lean season. In situations where all these factors are deteriorating, perhaps due to declining farm sizes and erratic markets, it is to be expected that diversification for this reason might rise over time. Similar considerations apply to risk reasons for diversifying.

A lot is made in the literature around the distinction between 'pull' and 'push' reasons for occupational diversification. 'Pull' reasons correspond to the emergence of improving labour market opportunities outside agriculture, while push reasons refer to deteriorating conditions within agriculture itself. As might be expected different studies come up with opposing 'pull' or 'push' findings in different places at different times.

Nevertheless, in an important sense this distinction is artificial and beside the point. 'Pull' and 'push' are merely two sides of the same coin: if agriculture is lagging behind dynamic trends occurring elsewhere in the economy, then 'pull' factors are involved, and if agriculture is deteriorating relative to a static non-farm economy then 'push' factors are involved; however, in both cases the same logic applies – agriculture (or rural areas more widely) become relatively disadvantageous compared to other sectors as the principal means of constructing a viable livelihood and therefore occupational diversification is pursued to overcome this disadvantage.

Recent evidence for Sub-Saharan Africa suggests that reasons for occupational diversification go far beyond what is typically envisaged by worrying about whether any given instance corresponds to a 'pull' or 'push' motivation (Ellis & Freeman, 2005). Some of the factors implicated here are long term demographic and economic trends; others are associated with economic policies:

- decreasing farm size caused by sub-division at inheritance, to the point where even under favourable agro-economic conditions, farming can only provide a part-livelihood;
- increasing inability of young people to access enough land to take up farming as their main occupation;

- poor farm performance and declining yields due to declining soil fertility and degrading natural environments;
- increased climatic variation, causing greater extremes across seasons and years;
- declining returns to farming due to factors in the policy or global environment, including:
 - dismantling of subsidies, especially on fertilizer,
 - increased price instability following market liberalization,
 - poor geographical coverage by private traders, especially in remote areas,
 - low agricultural prices due to world price trends, aggravated for some crops by the export subsidies of rich countries
- the impact of HIV/AIDS when superimposed on these other disadvantages, in many areas reducing significantly the availability of able-bodied labour to carry out physically onerous agricultural tasks.

Impacts of diversification

Diversification occurs across all income ranges, and represents a response to real events and trends in national and regional economies, some of them of long term duration and associated with economic success rather than failure. It would be a mistake, for example, to regard occupational diversification associated with China's recent growth record as a failure, and this paper returns below to the important role of mobility in positive processes of social and economic change.

One branch of the literature has been concerned with the impact of diversification on income distribution, including identifying the branches of activity that increase rather than decrease income inequality. In a Pakistan case study, agriculture, remittances and rents tended to increase inequality (principally related to unequal land ownership patterns), while non-farm activities and livestock keeping tended to reduce inequality (Adams & He, 1995). An interesting aspect of this type of investigation is the identification of the barriers preventing the poor from engaging in more remunerative labour markets (literacy, education, skills, paperwork requirements associated with migration, etc.).

More recently, these barriers have been characterised as thresholds associated with 'poverty traps' (Barrett & Swallow, 2005). Empirical work shows that at the lowest levels of income per capita, immense efforts are required in order to 'break through' into opportunities and returns to labour that enable the family to climb out of poverty; on the other hand at somewhat higher levels just above the poverty line, it becomes substantially less difficult to achieve a virtuous spiral that can lead to higher levels of income and a more secure livelihood. The key to these traps and thresholds lies in the asset status of families, and especially in human capital (education and skills) and flexible assets that can be quite quickly converted into cash or other assets (money itself, credit access, livestock).

It might be thought that the attention paid by better off households to non-farm activities would result in the neglect and poor performance of their farming activities. Not so at all. Recent evidence from Sub-Saharan Africa shows how agricultural productivity per hectare rises steeply across the income ranges in parallel with the

diminishing reliance on agriculture of the better off. Net farm output per hectare in a series of country samples was between three and six times higher for the top income quartile of households compared to the lowest income quartile (Ellis & Freeman, 2004).

3. Policy and Diversification

Occupational diversification is often inhibited by policy due to taxes, licenses, roadblocks, residence permits, and so on; moreover, a fundamentally antagonistic public sector attitude to mobility is often prevalent resulting in harassment of migrants, their loss of access rights to public services, and their discouragement or even enforced relocation in places of destination (de Haan & Rogaly, 2002; Deshingkar & Grimm, 2004). Yet in history and contemporarily (e.g. China, India), mobility is the most powerful expression of rapid economic change for the better, and mobility is essential for keeping dynamic growth processes going, it is not just an inconvenient side effect of such processes.

The resurgence of interest in agriculture as a motor for poverty reduction in low income agrarian economies needs to be treated with some caution (Ellis & Harris, 2004). For one thing, we have been here before, there was no less interest in Sub-Saharan Africa than in Asia in increasing yields on small farms in the 1970s, but it failed to produce overwhelmingly encouraging outcomes then. For another, the contextual circumstances have deteriorated markedly in the intervening period: the array of supportive agricultural policies that underpinned the Green Revolution in Asia – regulated markets, floor prices, fertilizer and credit subsidies, irrigation investments – have long since been dismantled in Africa, and agricultural commodity prices worldwide have exhibited an inexorably declining trend in real terms for the past two decades.

This is not to say that there is no poverty reduction mileage to be gained through judicious support to agriculture. However, the nature of that support would be better oriented to policy levers that have generally beneficial effects on all types of economic activity in rural areas, and on rural-urban mobility, rather than being focused narrowly on agriculture alone. Thus infrastructure (roads, communications, power), services (education and health), information (knowledge, ideas, radio, television, newspapers), enabling local public sector contexts for private initiative, exchange and mobility all have their roles to play.

Many current policy directions in agriculture remain valid and should continue to be supported: extending public-private (incl. public-NGO) partnerships in service and input delivery, strengthening farmer associations and demand for advisory services; using modern communication technologies to disseminate advice to, and exchanges of ideas in, farming communities; continuing to support the development of new farm technologies through the CGIAR and NARS systems; tackling gaps and failures in private marketing systems. A particular policy issue that needs addressing is the barrier that land tenure can place in the way of flexible and adaptable exchanges of land, and thus also inhibiting mobility out of agriculture.

At the macro level, second generation PRSPs should be encouraged to contain wide ranging recognition of the importance of occupational diversification, mobility and cross-sectoral interdependencies:

- ❑ the current heavily sector and production-oriented bias of PRSPs requires substantive overhaul;
- ❑ aside from their justifiable emphasis on improving access to education and primary healthcare, PRSPs should be primarily about enabling environments that apply across all sectors;
- ❑ artificial and unnecessary blockages to peoples' exercise of their own agency in making a living should be removed wherever they occur, either in central or local government, or for that matter when caused by the concentrated economic power of particular private organisations;
- ❑ the antagonistic view of migration expressed in many PRSPs clearly needs removing, to be replaced by a facilitating approach that recognises what governments must do to support personal economic mobility;
- ❑ the resistance to urbanisation prevalent in PRSPs also needs to be reversed; rapid urbanisation creates dynamic growth processes that are then often stifled by inept urban planning and a failure to provide the infrastructure necessary for growth to be maintained.

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