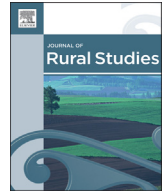




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## Transient rural livelihoods and poverty in Ghana



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## ABSTRACT

Although agriculture remains the main economic livelihood activity for the majority of rural households in sub-Saharan Africa it has also been observed that livelihood diversity is the norm. Using household panel data from Ghana this article argues that aside from farming many rural economic livelihood options are transient because of a large gap between livelihood activity and professional vocation development. Further, the household welfare effect of being livelihood diversity transient is examined under the premise that of utmost relevance is the welfare implication of such behaviour. Evidence suggests that a substantial proportion (55%) of households exhibit considerable instability in livelihood diversity behaviour. More importantly, being livelihood diversity transient imposes statistically significant albeit economically marginal household welfare cost. The findings also reveal that spatial location of household, demographics factors, education, and consumer–producer price differentials were the most important determinants of rural household welfare. The key message from the findings is the need to develop entrepreneurial skills of rural households to acquire gainful employment opportunities, which leads to more stable livelihood diversity behaviour and poverty reduction.

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## 1. Introduction

This study examines the transience versus stability of rural livelihood diversity, and the extent to which such economic livelihood behaviour affects the welfare of rural households. Also, the study essentially offers a test of the position that ‘the process of trial-and-error [associated with rural economic livelihood diversity] can be costly’ in welfare terms (Bryceson, 2002b, pp. 736). Specifically, two main hypotheses are put forward and tested: (i) rural households exhibit transitory economic livelihood diversity behaviour; (ii) rural household welfare is decreasing with being livelihood diversity transient.

Rural economies of most sub-Saharan Africa (SSA) countries are still largely agrarian, agriculture employs the largest proportion of the workforce and contributes the largest share of household income (Zeza et al., 2009; Davis et al., 2010). In Ghana, the most recent population census (Ghana Statistical Service, 2012) shows that about 42 percent of the economically active labour force are employed in agriculture. The literature has also documented evidence of a growing rural nonfarm economy. Indeed, for Ghana, the 42 percent of the labour force employed in agriculture represented a 9 percentage point decline over the figure recorded during the

2000 population census.

The extant literature suggest that rural households have an extremely diversified portfolio of income generating activities (Ellis, 2000b, pp. 3–27; Barrett et al., 2001b). The concept of livelihood diversity connotes, *ex ante*, the existence of two or more livelihood options per individual or household. Empirical evidence over the past decade from developing countries in general (e.g. Ellis, 2000b; Foster and Rosenzweig, 2004; Minot et al., 2006; Lanjouw and Murgai, 2009), SSA (e.g. Barrett et al., 2001a; Wouterse and Taylor, 2008; Lay et al., 2009; Stifel, 2010) and Ghana (e.g. Zeza et al., 2009; Anriquez and Daidone, 2010; Davis et al., 2010) point to household involvement in pluriactivity. Thus, ‘household diversification, not specialisation, is the norm’ (Davis et al., 2010, pp. 56).

However, limited markets and entry barriers into rural nonfarm employment (Barrett et al., 2001b; Haggblade, 2007) means that even with the claim of ‘collapse of agriculture as the primary source of rural livelihoods in SSA’ (Ellis, 2010, pp. 54) seeking an alternative or supplementary income generating activity is not an easy task. Due to policy and institutional failures there is often inadequate attention paid to developing the capacity of rural households to engage in sustainable pro-poor activities outside agriculture (Bryceson, 2002a). As noted by Bryceson (1996, 2002b), occupational or labour specialisation is often nonexistent, making the search for survival in nonfarm rural employment one of trial-and-error.

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Ellis (2000a; 2000b) has argued that rural livelihood diversity is pervasive and enduring rather than temporary engagements in nonfarm related activities in addition to agriculture for the purpose of overcoming shocks as claimed by Saith (1992). As Frank Ellis, Peter Timmer also had claimed that “the declining importance of agriculture is uniform and pervasive” (Timmer, 1988, pp. 276). This paper argues that there is a sense in which economic livelihood activities in rural Africa meet Saith’s description and that the importance of agriculture to rural households may not be consistently declining in rural SSA. Aside from farming, many individual economic livelihood options in rural SSA are often transient because of the large gap between livelihood activity and professional vocation development (Bryceson, 2002a). This paper puts forward that rural economic livelihood options are often transient such that, over time, no sustained increase in diversification behaviour is observable.

A substantial body of literature exists on the issue of whether or not diversification is driven by ‘push’ (survival) or ‘pull’ (accumulation) motives (e.g. Reardon et al., 1998; Ellis, 2000b; Barrett et al., 2001b; Little et al., 2001; Haggblade et al., 2002; Dimova and Sen, 2010). However, the welfare effect of transient versus stable rural livelihoods has neither been explored nor has the transience versus pervasiveness of rural livelihood diversity has not been previously studied empirically. This is where the current study contributes to the rural livelihoods and poverty literature.

It is not obvious what the poverty implications will be for having a transient rather than a non-transient economic livelihood. This is because on the one hand economic livelihood mobility will be important in an uncertain economic environment and could be seen to have positive household welfare outcomes (Barrett et al., 2001a). On the other hand straddling economic livelihood options could be a sign that none provides security of livelihood (Grawert, 1998). Successful households are often those engaged in not just higher rewarding livelihood activities but those engaged that diversify over a longer period of time, not the transient (Tellegen, 1997). ‘The process of trial-and-error can be costly in time and money’ (Bryceson, 2002b, pp. 736).

In order to better understand these research issues, Haggblade et al. (2007) highlights the need for panel data evidence. Among other advantages, such data allows controlling for unobserved preference for economic livelihood options as well as differences in attitudes towards risk. This paper contributes to the understanding of these issues using household panel data from Ghana.

## 2. Rural livelihood diversity: hypotheses and evidence from previous literature

Rural household diversification behaviour is driven by either ‘distress’ (or ‘push’) or proactive (or ‘pull’) factors (Reardon et al., 1998; Haggblade et al., 2002). The so called push factors result from a search for survival due to precarious economic livelihood circumstances. Due to initial conditions (e.g. low private capital endowments), diversification under the ‘push’ motive involves engagement in low-return income generating activities which have low or no entry barriers. On the other hand, ‘pull’ motives are associated with attractive opportunities for wealth accumulation (Reardon et al., 1998; Barrett et al., 2001b), and often have barriers of entry.

Survival or necessity driven diversification has poverty trap implications while that motivated by accumulation or choice may increase inequality if entry barriers persist or move households out of poverty if policy interventions reduce these barriers to entry (Dimova and Sen, 2010). In effect, *ex ante* asset rich households often have more income generation options than asset poor households (Barrett et al., 2001a).

The determinants of the pull and push motives include factors

relating to seasonality, attitudes to risk, coping behaviour, labour market behaviour, credit market behaviour, and asset holding strategies (Ellis, 2000b). The classical political economy and neo-classical notion of surplus labour also provides an explanation for rural household diversification behaviour (Bryceson, 1996).

Other hypothesised reasons for diversification include diminishing returns to labour, market failure, *ex ante* risk management, *ex post* coping with adverse shocks, availability of social insurance, and economies of scope in production (Ellis, 2000b; Barrett et al., 2001b). These factors are influenced by contextual factors—climate/agroecology, macroeconomic policies, political systems, and institutional arrangements (Scoones, 1998; Barrett et al., 2001b; Bryceson, 2002a; Bryceson, 2002b; Havnevik et al., 2007; Zezza et al., 2009; Ellis, 2010).

On empirical evidence of the determinants of diversification, Canagarajah et al. (2001) analysed data from the first and third rounds of the Ghana Living Standards Survey (GLSS) and found that households in remote areas were less diversified than those located near urban areas. Abdulai and CroleRees (2001) reached the same conclusion using data from Mali.

Block and Webb (2001) on Ethiopia, Abdulai and CroleRees (2001) on Mali, Barrett et al. (2001a) on Côte d’Ivoire and Kenya have all identified wealth as an important determinant of diversification into high-return income generating activities. Poorer households have generally been found to have limited opportunities in non-crop oriented income generating activities and hence have less diversified incomes. More recent evidence is provided by Dimova and Sen (2010) using panel data from Tanzania.

Smith et al. (2001), however, found an inverted U-shaped relationship between wealth and diversification in two rural districts of Uganda: households at the lowest and highest ends of the wealth distribution were relatively less diversified than those in the middle. The poorest third are constrained due to entry barriers while the richest third choose to specialise in high return livelihood activities.

Barrett et al. (2001a) provide evidence of macroeconomic policy effects on rural income diversification using data from Cote d’Ivoire and Kenya. They found that devaluation of the exchange rate induced significant shift into agriculture and reduced income shares derived from nonfarm activities. The policy also induced mobility between economic livelihood strategies through reallocation of labour and household assets across activities. Poorer households remained stuck in unskilled labour and the production of nontradables and hence suffered real income losses. Asset rich households on the other hand gained through asset-enhanced diversification strategy mobility. Addressing issues of occupational skill acquisition and liquidity constraints are thus critical to avoiding being trapped in low-return, high-risk economic livelihood activities.

The current research develops two key research questions derived from previous literature. The first is whether or not livelihood diversity is temporary or pervasive in rural areas of developing countries where farming tends to be the dominant economic livelihood option, but also where engagement in rural nonfarm income-earning activities has been observed to be growing. The second is whether or not being livelihood diversity transient imposes significant household welfare costs. These questions have not been previously addressed systematically although claims have been made (Timmer, 1988; Saith, 1992; Ellis, 2000a, 2000b). Answers to these questions should provide insight into whether or not the on-going agriculture-led rural poverty reduction renaissance is pragmatic in terms of both analytical and policy thinking of rural economic development. In addition, the analysis contributes to evidence on the issue of whether the notion of a shift away from farm oriented rural livelihoods as suggested by some (e.g. Ellis, 2010) is real or hyperbole.

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