LIVELIHOOD DIVERSIFICATION IN HIT, NON-FARM ECONOMY

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Abstract

The paper examines livelihood diversification in the non-farm economy as a survival strategy of the rural poor. U takes a critical review of literature and identifies the types and pattern of livelihood diversification. It then goes ahead to discuss factors enabling rural household diversification into the rural non-farm economy and the effects of livelihood diversification on household welfare. The paper argues that providing extra income to meet household expenditure is a Fundamental contribution of livelihood diversification for the rural poor. It therefore, identifies the major constraints, which limit rural household capacity to diversify in the non-farm. In view of the importance of the sector to the rural economy, the paper recommends that policy measures geared towards poverty alleviation in developing countries .should as a matter of deliberate policy not only focus on agriculture but also mainstream non-farm economy into the planning phases. Finally, the paper recommends that government should set up a ministry to monitor activities in the sector, empower the capacity of rural households in terms of access to different forms of capital assets and the provision of basic infrastructural facilities in rural communities.

Introduction

In the last few decades, there has been an increasing recognition that the rural economy is not confined to the agricultural sector, but embraces all the people, economic activities, infrastructure and natural resources in rural areas.(Csaki *ef* «/, 2000). In the same vain, rural livelihoods are not limited to income derived solely from agriculture but also from diverse sources. In many parts of the world, the number of the rural poor exceeds the capacity of agriculture to provide sustainable livelihood opportunities. Even with a decline in fertility rates and a slowing of population growth, this situation will not change significantly (Gordon and Craig, 2001). Although, there is a potential for out^ migration, urban centers cannot be assumed to be capable of providing adequate livelihood opportunities for all those unable to make a living in agriculture (Marsland *et al*, 2000).

Okafor (2005); painted a vivid picture of rural poverty when he stated that rural peasants faced with scarce land, resource and its attendant poverty first attempt a solution through agricultural intensification, which relies on the development, diffusion and adoption of new technology to increase productivity. However, poor access to productive resources such as land, labour, and credit facilities *inter cilia* among the rural poor makes agricultural intensification objectives to end in fiasco. The direct and indirect effects of these challenges include chronic rural poverty, rural indebtedness, food shortage, hunger and malnutrition and all shades of unemployment (Okafor, 1987). Also, in many developing countries, a large proportion of the population lives in rural areas, and this population continues to grow at a substantial rate. Given limit to arable land and other productive resources, such growth rates in the rural labour force could not be productively absorbed in the agricultural sector. The corollary of (his scenario is a vicious circle of poverty aptly described by Okafor (2005), as "productivity is low because investment is low; investment is low because savings are low; income is low because productivity is low". To survive, rural households are now engaged in varied types of non-farm activities often described as diversification in the non-farm economy. The purpose of this paper is to examine critically the concept of diversification in the non-farm economy. The paper is divided into four sections. The first section, deals with the conceptual issues and the second section, deals with the types and patterns of livelihoods diversification. The third section analyses factors enabling rural household's diversification into the rural non-farm economy. The fourth section, discusses the effects of livelihood diversification on household welfare while the last section presents the conclusion and the. recommendations.

Conceptual and Analytical Issues

In order to provide a foundation upon which subsequent analysis in this paper will be based, certain concepts, which are germane to the entire discussion in this paper, are examined. These are the concepts of livelihood, livelihood diversification and the rural non-farm economy.

Livelihood

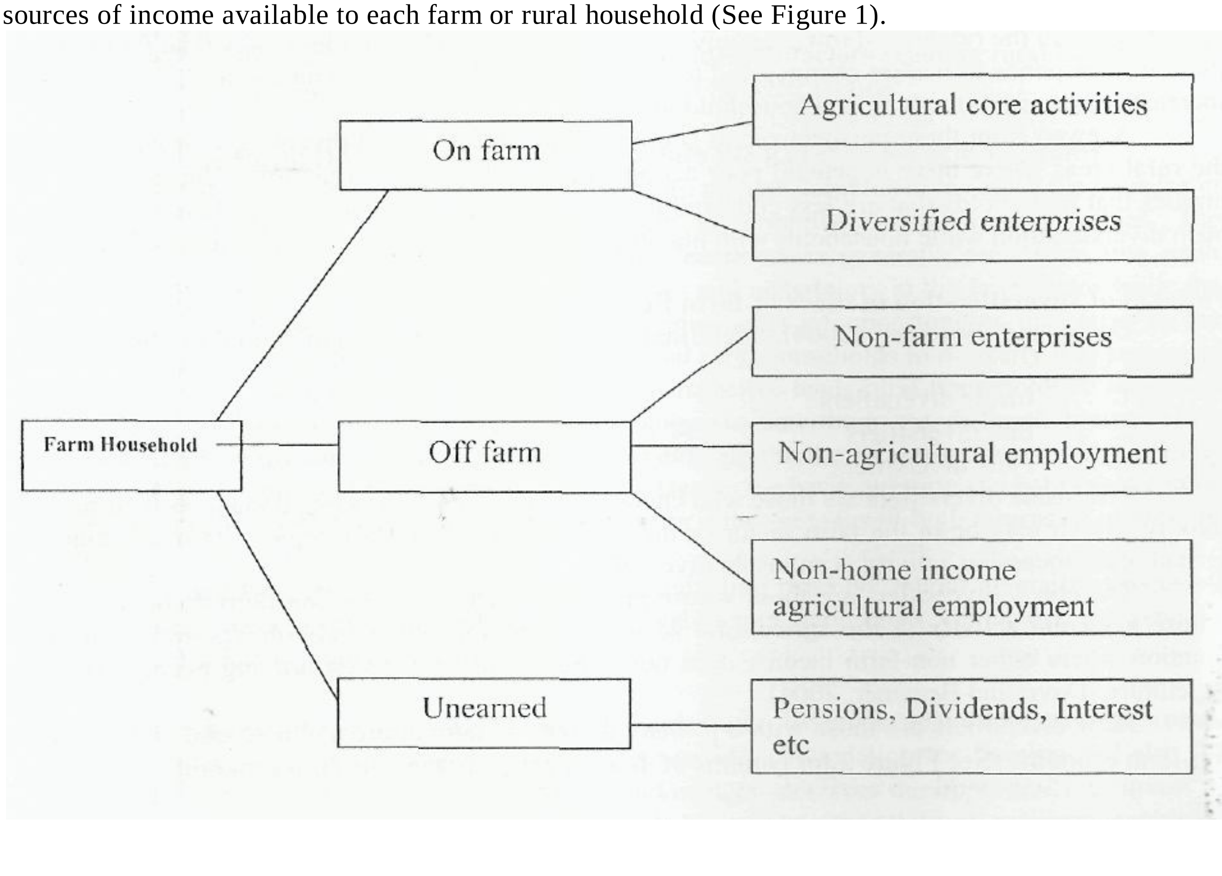
A livelihood comprises incomes in cash and in kind; the social relations and institutions that facilitate or constrain individual or family standards of living; and access to social and public servicer-that contribute to the well being of the individual or family (Ellis, 1998). It includes the capabilities, assets and activities required for a means of living and survival in any environment.

Livelihood Diversification

Livelihood diversification is defined as "the process by which households construct a diverse portfolio of activities and social support capabilities for survival and also to improve their standard ol living" (Ellis, 1998). ft involves the incorporation of new activities into the household livelihood portfolio in an attempt to diversify employment and sources of income. There is a mounting evidence of diverse livelihoods particularly from the rural poor who have for a long time faced environmental uncertainty and agricultural failures and thus, have adopted survival strategies to cope with th'" phenomenon. Livelihood diversification is most important in situations of high vulnerability / risk, absent markets, poor infrastructure, etc. which is a common scenario in most rural areas of developing countries. ;

Rural Non-Farm Economy

Rural households diversify their livelihoods into the rural non-farm economy due to the uncertainty and failures in the farm sector. Thus, the rural non-farm economy can be defined as being all those activities associated with waged work or self-employment in income generating activities (including income in-kind) that are no! agricultural but located in rural areas (Davis, 2001). Marsland *at at.*, (2000), also, define the rural non-farm economy ;is the "sum of all livelihood activities - valued by incomes in cash or kind-based in rural areas or pursued by rural people who are from households that are mainly rural-based, which do not involve primary production of crops, livestock, fisheries; or forestry. The activities may be waged or self-employment, formal or informal, legal or illegal plus sum of unearned incomes received by such people (Ibid). 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 sales of household assets as an immediate response to a shock), or be a survival strategy as a response to livelihood shock (Davis, 2001). Davis and Pearce (2001), in a review of the level of rural non-farm economy diversification, assert that it is important to consider the potential sources of income available to each farm or rural household (See Figure 1).



Source: Davis and Pearce (2001)

In view of the different sources of income available to the rural households, one is prompted to ask one fundamental question and that is - why do rural households diversify? Farm household diversification into non-farm economy emerges naturally from diminishing or time-varying returns to labour or land, from market failures (e.g. for credit) or frictions (e.g. for mobility or entry into high-return niches), from *an ante* risk management, and from *ex post* coping with adverse shocks (Barrett et al., 2001). Diversification is widely understood as a form of self-insurance in which people exchange some foregone expected earnings for reduced income variability achieved by selecting a portfolio of assets and activities that have low or negative correlation of incomes (reardon et al., 2000).

Types of Diversification in Rural Non-Farm Economy

The Neo-classical economists suggest that risk-neutral farmers will divide their labour between farm and non-farm employment opportunities such that the expected marginal returns to all activities are equal (Marsland et al., 2000). The implication of this is that the farmer will allot less time to the more risky jobs or he will be engaged in less-risky environment with lower wages. Rural households diversify into the non-farm economy due to two main reasons. Firstly, is due to failures in agricultural production and secondly is the need to fill an observed market gap. Thus, two types of diversification in the non-farm economy can be identified:

- Distress - push diversification
- Demand - pull diversification

The distress - push diversification occurs when farm income is inadequate and opportunities for consumption smoothing such as credit and crop insurance are missing, or when inputs markets are absent or fail and the household needs cash to pay for farm inputs (Marsland et al., 2001). Under these circumstances, the household may be pushed into the non-farm economy. Davis and Bezemer (2004), noted that distress - push diversification typically occurs in an environment of risk, market imperfections, and hidden agricultural unemployment, and is typically triggered by economic adversity, which sets the households on a downward trajectory.

The demand-pull diversification occurs when rural households take advantage of opportunities in the rural non-farm economy where returns are higher and less risky than farming. It is more of a response to market changes and technological breakthroughs, which offer the potential for increasing labour productivity and household incomes.

Viewed from these perspectives, it is obvious that distress-push diversification will dominate the rural areas where there is general poor access to credit, land, infrastructures, education etc. This implies that households that are less endowed in terms of productive resources will undergo distress-push diversification while households with higher assets will undergo demand-pull diversification.

Patterns of Diversification in the Non-farm Economy

Davis and Bezemer (2004), identified three patterns of diversification in the non-farm economy viz:

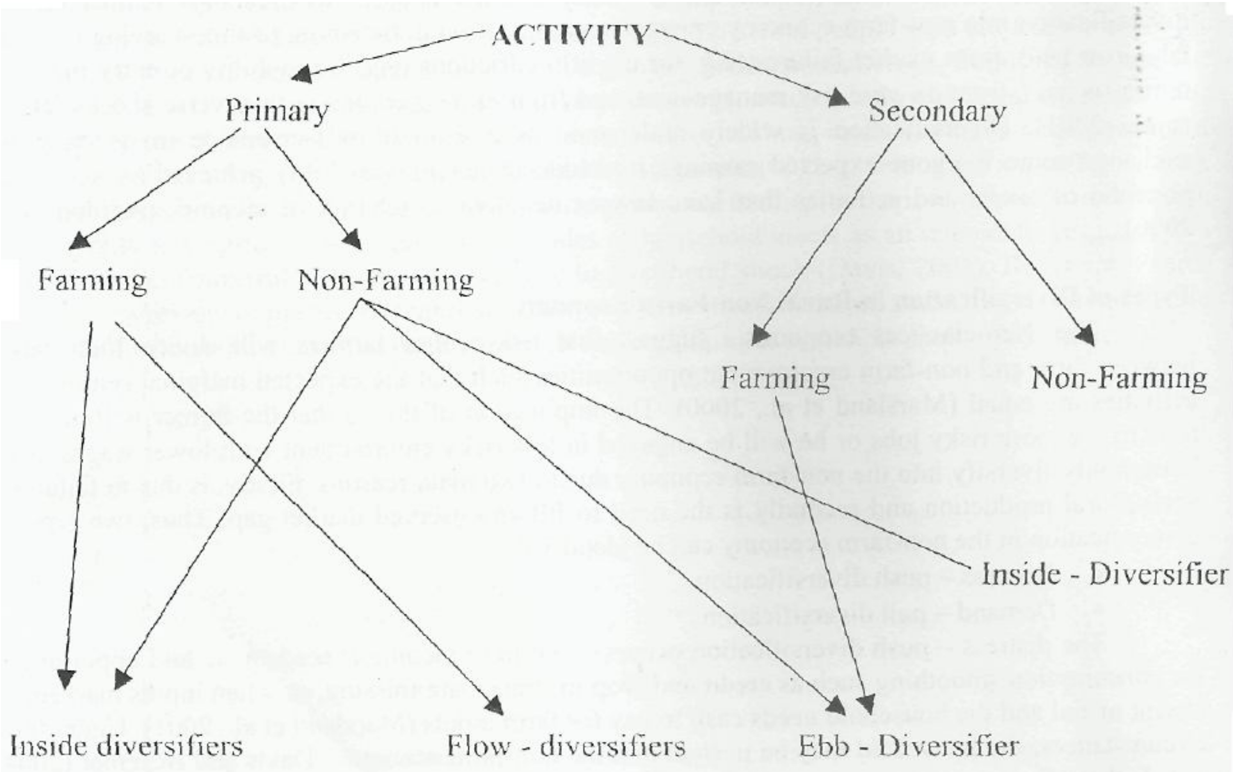
1. Inside diversifiers
2. Ebb diversifies
3. Flow diversifies

The inside diversifiers are those who choose a second job in the same domain as their primary activity, which may be in the farm sector or the non-farm sector. For example, a farmer running an agricultural processing activity is an inside diversifier.

The ebb - diversifies are those whose primary activity is in the non-farm domain and who choose a second activity in the agricultural sector. A predominance of ebb-diversifiers indicates a situation where either non-farm income does not cover subsistence needs, forcing people back into agriculture (Davis and Bezemer, 2004).

Flow diversifies are those with a primary activity in agriculture and a second activity in the non-farm economy (See Figure 2 for patterns of diversification in the non-farm economy.

Figure 2: Patterns of Diversification



higher probability of .participation for both husbands and wives in the rural non-farm economy, and is higher for wives than husbands.

Social capital. Social capital comprises social resources such as networks, gender, religion family size structure, .membership of a group and access lo wider institutions of flic society upon which people draw in pursuit of livelihoods. There is a general consensus in literature that gender is a significant factor determining household's access and participation in the non-farm economy. Newman and Canagarajah (1999), found in both Ghana and Uganda (hat female participation in non-farm work is increasing. Haggblade et al (1987), provide data from five African countries (Benin, Ghana, Nigeria, Kenya and Zambia) where women's share in non-farm economy ranged from 25% to 54%. Religion as a social capital also affects participation in the non-farm economy. Tovo (1991), reports that, Tanzania Christian women are more risk-taking than Muslim women. Horn et al (2000), report that home-based activities were most common among Muslim women, Participation in social networks also broadens the set of employment and entrepreneurial options for individuals. Tovo (1991), noted that, the women she interviewed in Tanzania, had made some important contacts through training or extension in which they were involved. These contacts helped them to obtain scarce inputs for their business and to find customers. The structure of rural families also play a significant part in determining access by households to the non-farm sector. Reardon (1997), observes that family size and structure affect the ability of rural households to supply labour to the non-farm economy. Generally, larger families supply more labour to the non-farm economy as sufficient family members remain in the home or on the farm to meet labour needs for subsistence (Cordon and Craig, 2001).

The group level factors include agro-climatic zone. Agro-climatic characteristics of the zone will influence farm household's risk motive for income diversification into non-farm activities. Households in zones with a high-risk agriculture would be more "pushed" to diversify into rural non-farm economy. A larger share of such activity would be undertaken merely lo cope (ex post) with shocks to farm income (such as from drought), although one would expect diversification of income also in "normal" years (e.g. non-drought years) so as to accumulate resources (wealth) with which to overcome negative shocks. By contrast, households in zones where agriculture is less risky might participate in non-farm activities mainly for the higher returns they give or in order to alleviate cash and credit constraints,

Profitability of rural **non-farm activities.** A number of exogenous factors affect the profitability and risk of farm and rural non-farm activities and thus, (he mix of the two types of activity undertaken by a household (FAO, 1998). The profitability of a given rural non-farm activity is determined by the price of the product produced or the wage received in the sector and by the prices of the array of inputs used in the production process or employment. In general, both product and input prices for rural non-farm activities will be influenced by the transmission of effects of macroeconomic and sectoral policies such as devaluation of the currency, changes in the interest rate and changes in tariffs on imported final and capital goods as well as by factors influencing transport and other transaction costs. Such factors also include the condition of soft infrastructure (e.g. extension, market information and education and hard infrastructure (e.g. roads and telephone lines).

Development policies and programmes. Development projects as an instrument of development policy constitute an important set of determinants of incentives and capacity for rural households to participate in the rural non-farm activities. In a sense, a development project is a mini-package of public policies and investments that apply to a restricted set of activities in space and time and affect a limited number of participants (FAO, 1998). These typos of policies come in the form of subsidy and support for activities in the non-farm sector. the result of this is that it will enhance the capacity of rural households to engage in the non-farm economy. The provision of microcredit facilities at a low interest rate with little or no collateral as a development policy can enhance rural household's capacity to participate in the rural non-farm economy.

The Effects of Livelihood Diversification in the Non-Farm Economy on Household Welfare

Diversification in (he non-farm economy is an insurance in times of crisis. A given household copes with a drought or other causes of harvest shortfall by, among other things, working off-farm and raising the cash to fill the food deficit. A case study from Burkina Faso before and after the 1984 drought illustrates the typical consequences: households with a greater income diversification were able to buy food and weather the effects of the drought, and also tended to have higher overall incomes than those that were not able to supplement their farm incomes with non-farm incomes (FAO, 1998). Therefore, it can be argued that providing extra income to meet household expenditure is a fundamental contribution of diversification in the non-farm economy to household welfare. Little wonder then as recent developments in poverty alleviation in rural China were accompanied by a significant growth in household's diversification in the non-farm economy (Janvry *et al*, 2005).

Recommendations and Policy Conclusions

The paper has been able to show that diversification in the non-farm economy promotes household income and welfare generally; therefore, the importance of the sector to poverty alleviation cannot be overemphasized. It is also true that there are some constraints that limit household capacity fo diversify in the non-farm economy. It beholds therefore, that policy measures geared towards poverty alleviation in developing countries should as a matter of deliberate policy not only focus on agriculture but also mainstream non-farm sector into planning phases. For this to work, governments, individuals and other development agencies should redirect their efforts, finance and attention to the following areas viz:

Governments at various levels should recognize the importance of the sector in rural development by establishing a ministry that will monitor activities in the sector with a view to enunciating policies at government quarters that will promote efficiency and productivity in the sector rather than the continuous focus on agriculture alone, which has not yielded the desired change for decades in the quality of lives of the rural poor. Although, some governments in developing countries have established some agencies to take care of activities in this sector, such agencies have restricted their attention to activities in urban informal setting while that of the rural areas are relegated. Atypical example is the Small and Medium Scale Development Agency in Nigeria (SMDAN).

It has been established (hat diversification in the non-farm economy by the rural households is determined by the level of access to natural capital, human capital, social capital and financial capital. The unequal access of these assets to rural households results in the differential level of diversification into the non-farm economy. In view of the sterling role of the sector to the rural poor, it is vitally important for government and other stakeholders in rural poverty alleviation to provide the necessary access to resources that will enhance the capacity of the rural poor to diversify into the non-farm economy. In this light, credit, land, education and other infrastructurat facilities should be made available and accessible to the rural poor.

Finally, deliberate effort should be made to improve the access of the rural poor to market. This includes not only the usual physical infrastructural of road building and maintenance, improved inter - and intra-regional communications, and rural electrification, but also institutional innovations to reduce entry costs through the introduction of grades and standards and public price reporting systems, and the relaxation of burdensome licensing and regulatory requirements (Barrettt *et al*, 2001).

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