



Africa's unique transformation from a household livelihood strategies perspective

Livelihood strategies: why does it matter?

Households in developing countries share several characteristics in terms of economic opportunities and constraints. In rural areas, these include low levels of agricultural productivity, exposure to high risks in production, and multiple market failures. As a result, households tend to diversify their income activities, to manage risk. Non-farm income sources, particularly self-employment opportunities, play an important role for households and individuals with low skills endowments and a limited resource base, or when wage employment opportunities are not readily available. For better endowed households, wage employment opportunities in the non-farm sector tend to be more accessible.

Understanding that households divide their labour and time across multiple activities is of policy relevance for at least two reasons. First, agricultural activities are highly seasonal and highly risky activities which require dedicated policy interventions. Therefore, any livelihood intervention to support households' income generation needs to consider households' decisions in terms of the distribution of labour, time and risk management strategies. Second, diversification could potentially harm productivity in on-farm activities when used as a risk-management, rather than as a livelihood strengthening strategy. Notably, if it diverts labour away from agricultural production when on-farm labour is in highest demand.

Africa's unique transformation

Structural transformation entails large movements of labour from low to high productive activities, mainly away from agriculture into the non-agricultural sectors of manufacturing and then services. In SSA, structural transformation is also taking place. During the continent's best decade of growth (years 2000–2010), several countries that were on a path of transformation converged. This was mainly the result, however, of a strong movement in the shares of labour and output from agriculture into the service sector, rather than to the manufacturing sector. Several studies attribute the different transformation pathway to an absence of land consolidation,

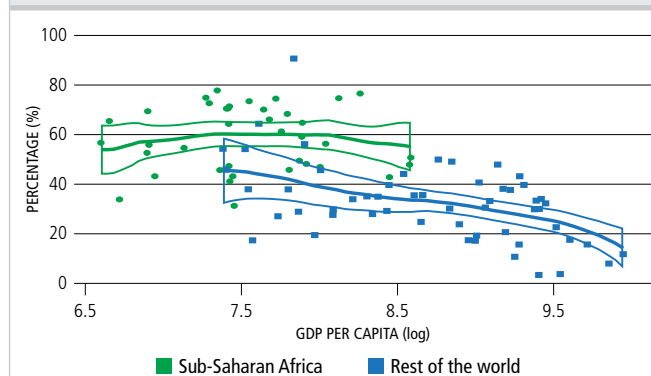
KEY MESSAGES

- ▶ Livelihood diversification continues to be the norm rather than the exception globally; therefore, to be successful, interventions need to consider households' decisions in terms of the distribution of labour, time and risk management strategies.
- ▶ The main finding of the study is that, at similar levels of gross domestic product (GDP) per capita and of agricultural value-added in GDP, rural households in sub-Saharan African countries show greater specialization in on-farm activities and lower participation in non-agricultural wage employment.
- ▶ Therefore, for African households to shift to opportunity-led pathways, there is urgent need to boost social protection and invest in education, while enhancing the agricultural productivity of small-scale producers and value addition.

low agricultural productivity, and the rise of urbanization without industrialization.

FAO's Rural Income Generating Activities (RIGA) and Rural Livelihoods Transformation System (RuLIS), two cross-country comparable databases of household income aggregates, also reveal a diverging trend of employment and livelihoods' transformation for SSA. While the data shows that most rural households around the world continue to engage in agriculture (including in countries with higher income levels and low agricultural value added in GDP), the average share of household income from agriculture in SSA diverges from that in other countries. In SSA, no large movement from agricultural labour to non-farm employment is observed as economies grow (Figure 1). In countries of other regions, the share of on-farm income sharply decreases with increasing GDP per capita, in particular due to growing role of non-agricultural wage income and transfers.

FIGURE 1. Share of rural households' income from on-farm activities

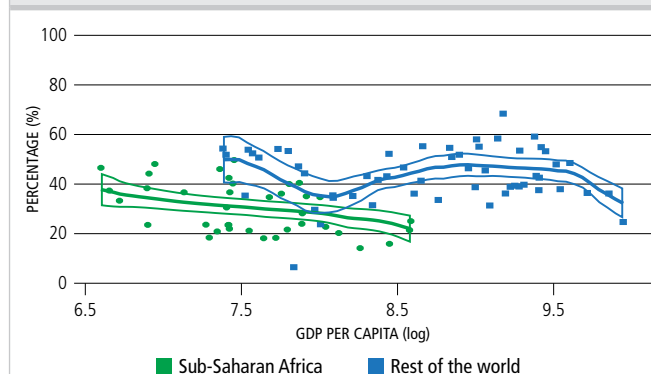


Source: De La O Campos, A.P., Admasu, Y., Covarrubias, K.A., Davis, B.K. & Diaz, A.M. 2023. *Economic transformation and diversification towards off-farm income in rural and urban areas – A global update with a focus on sub-Saharan Africa*. FAO Agricultural Development Economics Working Paper 23-05. Rome, FAO.

Among urban households, non-agricultural wage income gains importance with rising GDP per capita, but not strongly among the countries in SSA, for which self-employment income shares rise instead. In terms of non-agricultural self-employment in rural areas, no clear patterns are observed across levels of economic development for countries in any region, suggesting its role as a risk-management strategy or, in the case of SSA, often a unique alternative to farm work in the absence of wage employment opportunities.

The data also shows that with higher levels of economic development, the share of rural households with a diversified income portfolio tends to decline (Figure 2).

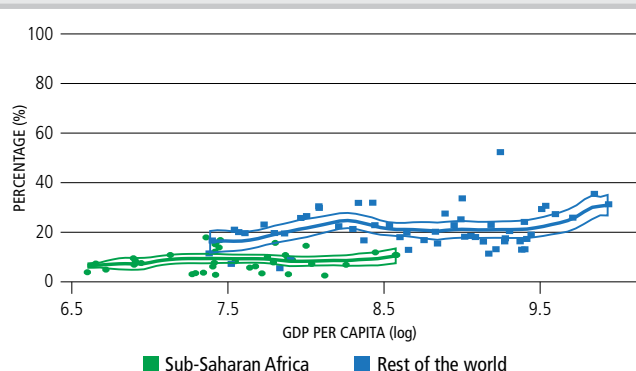
FIGURE 2. Share of rural households with a diversified income portfolio



Source: De La O Campos, A.P., Admasu, Y., Covarrubias, K.A., Davis, B.K. & Diaz, A.M. 2023. *Economic transformation and diversification towards off-farm income in rural and urban areas – A global update with a focus on sub-Saharan Africa*. FAO Agricultural Development Economics Working Paper 23-05. Rome, FAO.

Moreover, rural households in non-African countries show a clearer trend of higher specialization in non-agricultural wage employment at every level of GDP per capita, compared to rural households in SSA countries (Figure 3).

FIGURE 3. Share of rural households specializing in non-agricultural wage employment



Source: De La O Campos, A.P., Admasu, Y., Covarrubias, K.A., Davis, B.K. & Diaz, A.M. 2023. *Economic transformation and diversification towards off-farm income in rural and urban areas – A global update with a focus on sub-Saharan Africa*. FAO Agricultural Development Economics Working Paper 23-05. Rome, FAO.

Survival and opportunity-led strategies

Finally, the data also shows that, while on-farm and agricultural wage activities are the main sources of income for the poorest households in rural areas, income from non-agricultural wage activities represents a higher share amongst the richest households.

Also here, SSA countries show a different trend, in which both the poorest and richest households are equally likely to diversify their income sources. This observation, together with the fact that rural households in SSA continue to derive most of their incomes from on-farm activities, points to a lack of employment creation outside the farm in rural areas.

Overall, these findings are consistent with other analyses which find that agricultural productivity growth in the SSA has been relatively slower, delaying industrialization, and with labour reallocation towards the service sector. Household diversification patterns may reflect an opportunity-led pathway out of poverty or a survival strategy. For SSA, the latter has been mostly the case.

In order to shift to opportunity-led pathways in the region, an urgent need exists to boost social protection and invest in education, while enhancing the agricultural productivity of small-scale producers, and promoting value addition, including industry within the agrifood sector, for employment generation.