Rural economic diversification in sub-Saharan Africa

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This paper discusses emerging policy implications for economic diversification in rural sub-Saharan Africa. While continuing to prioritize rural investments in the economic and social sectors, governments should mainstream rural development within national strategies and commit to the long term. Rural and urban development policies should be brought together, ideally within a territorial or regional development framework, to strengthen the market and service linkages between rural and urban areas. Given the prevailing rural employment environment, new and critical attention must be given to the informal household enterprise sector and to reinforcing the agriculture and food sectors. The evidence base to inform rural development policies needs to be further strengthened and made more accessible.

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Summary

Rural transformation is integrally linked with the wider processes of structural transformation taking place within a given country. Despite the recent upswing in growth within sub-Saharan Africa, economies are still narrowly based on the production and export of unprocessed agricultural products, renewable natural resources, minerals and crude oil. Even with optimistic scenarios on the growth of the manufacturing and services sectors, in formal job creation and agglomeration effects, it will take time to complete economic transformation. With some 80 per cent of the labour force estimated to be engaged in the informal sector, including low-productivity agriculture and household enterprises, increasing agricultural productivity and expanding agribusiness must remain a priority. Complementary and new efforts to support household income diversification by enabling the growth and security of the household enterprise sector will also be central to the transformation process.

While continuing to place priority on economic and social sector investments, governments must seek to mainstream rural development within national strategies and commit to the long term. Rural and urban development policies and interventions should be brought together, ideally within a territorial or regional framework, to strengthen the market and service linkages between rural areas and small towns and secondary cities as drivers of local economic and social development.

There remains a critical need to strengthen and make accessible the necessary evidence base to inform public policy on rural economic development. This should include increased investment in the production of quality agricultural and rural sector statistics and relevant social and economic research and its dissemination.

1 Introduction

Rural transformation is integrally linked with the wider processes of structural, economic and social transformation taking place within a country and should not be seen in isolation. There is general agreement, based on experiences from other regions, that structural transformation involves a falling share of agriculture in terms of economic output and employment and a rising share of economic activity in industry (manufacturing, mining and construction) and modern services. It also involves migration of rural workers to urban settings and demographic transition, with a decrease in fertility and an increase in life expectancy leading to a decline in the population growth rate and a reduction in the dependency ratio. Despite these common trends, rural transformation within different countries has different outcomes in terms of economic growth, social inclusion, reduction in poverty and environmental sustainability. While global and regional forces influence this transformation, they are mediated by national and localised social structures and institutional frameworks, and by local societies themselves (Berdegué *et al*., 2014).

The process of structural transformation puts enormous pressure on rural societies to adjust and modernise. For sub-Saharan Africa these pressures are exacerbated given the incomplete demographic transition, the prevailing open global economy (including in particular the impact on the agriculture sector) and the additional challenges faced arising from the current and anticipated impacts of climate change. Yet this may also offer new opportunities for

- Markets, including for agriculture
- The anticipated youth dividend as sub-Saharan Africa transits through its demographic transition
- The provision of global environmental goods and services and
- Opportunities to be gained through technological and innovation leapfrogging – if these opportunities can be exploited and underpinned with appropriate public policy and intervention.

The paper draws on current literature. It examines factors influencing national and rural economic transformation, explores patterns of rural economic diversification in sub-Saharan Africa and develops emerging policy implications.

2

Growth and structural transformation in sub-Saharan Africa

Supported by sound economic policies, debt relief, stronger institutions and high levels of investment, many countries in sub-Saharan Africa have sustained 5–6 per cent growth rates for more than a decade and, in the process, have begun to reduce poverty and improve living conditions. Such growth is underpinned by investment in natural resources and infrastructure, as well as higher agricultural production in some countries. However, Africa's structural transformations are influenced by context-specific conditions, for example significant mineral wealth (especially West and Central Africa) and comparative advantages in cash crop exports in some countries (Headey and Dorosh, 2011). It is further shaped by

- Historical legacies
- Inequality of resource endowments and access
- Political disenfranchisement of the rural and urban poor, specifically women, migrants as well as in some cases rural ethnic groups
- Elite, often urban-biased, development policies and
- Weak and poorly functioning markets.

Levels of growth and the process of structural transformation thus differ between countries and regions, and within countries.

African economies are still fragile despite this recent upswing in growth, with economies still narrowly based on the production and export of unprocessed agricultural products, renewable natural resources, minerals and crude oil. Competitiveness in global markets, apart from crude extractive products, is low due to low productivity and technology. With emerging markets a key factor in sub-Saharan African growth, any future slowdown in these markets could adversely impact on export demand and commodity prices and thus affect the sustained levels of growth.

Limited structural transformation has, however, prevented further reductions in poverty. For example in Asia with similar previously rural and agriculture-dominated economies, diversification away from agriculture has been observed even as countries underwent significant productivity growth in the agricultural sector through the green revolution. Such rapidly growing Asian countries have diversified towards industry, including agro-industries and manufacturing. For instance, although Mozambique has grown at the same pace as Vietnam, poverty has declined much faster in Vietnam. This has resulted from its faster structural transformation underpinned with heavy state intervention in providing infrastructure, education and attracting foreign direct investment, which moved more workers into better-paying jobs in industry and services (IMF, 2014). Thus, although most countries in sub-Saharan Africa have improved their macroeconomic conditions and infrastructure, the lack of economic diversification associated with low productivity gains has held back structural transformation. This has left most of the workforce still underemployed in largely traditional agriculture and with insufficient employment creation in sectors of the economy with higher value added per worker (IMF, 2014). In many low-income countries in sub-Saharan Africa, agriculture continues to generate between 20 and 50 per cent of the gross domestic product (GDP) and thus agriculture remains central to the growth process in many countries (Diao *et al.*, 2012). Unlike Asia, the manufacturing sector in Africa has not grown significantly. Indeed the share of manufacturing in Africa's GDP fell from 15 per cent in 1990 to 10 per cent in 2008 (UNCTAD, 2012). However, the extent to which industrial policies adopted in other regions can be transferred must be questioned. The African Transformation Report (ACET, 2014) places significant emphasis on the importance of and opportunities to be derived from regional integration. This will provide a means of accelerating economic transformation in Africa given the small size of many sub-Saharan economies, the need to import most inputs in order to manufacture and a lack a large domestic markets that provide protection for the local manufacturing sector. The report provides some examples of how integration of national markets in the region can help countries overcome these challenges and thus seize opportunities to advance on economic transformation.

Except for middle-income countries, labour markets in sub-Saharan Africa are characterised by low formal public and private sector employment, low unemployment rates and a proportionately large active population. These together lead to high levels of underemployment with some 80 per cent of the labour force engaged in low-productivity agriculture or household enterprise activities. The process of structural change, which sees productivity grow within economic sectors through capital accumulation, technological change and so on, and labour movement across sectors, from low-productivity sectors to high-productivity ones, increasing overall labour productivity in the economy, has been slow to take off (McMillan and Rodrik, 2011). However, in a decomposition of the periods 19902000 and 2000 onwards, McMillan *et al.* (2014) show that from 2000 onwards structural change is now contributing positively to growth. In half of the countries studied. This coincided with the expansion of the manufacturing sector, albeit from a very low base. The magnitude of these changes is, however, not enough to rapidly transform these economies. This pattern of economic growth and transformation in Africa is seen as particularly worrisome not least given the continent's young and growing population. Indeed the current pattern of growth may be considered as neither inclusive nor sustainable (UNCTAD, 2012).

This debate raises a central question: if sub-Saharan Africa is not undergoing significant structural change how can poverty be reducing and income levels rising? Based on the case of Uganda, Fox and Pimhidzai (2011) argue that structural change is taking place, but that macro analyses miss the evidence that the process of transformation has started. The authors contend that this process begins at the household level with diversification into the non-farm sector, largely through productive informality, that is 'low level transformation'.

The very low levels of productivity and industrialisation across most of the continent indicate an enormous potential for growth through structural change. To achieve this potential, African governments will need to support activities in which large numbers of unskilled workers can be relatively more productive than in subsistence agriculture.

2.1 Urbanisation

Africa continues to experience urban growth, where the urban population growth is influenced by a combination of urban net fertility, urban expansion through reclassification of areas from rural to urban, rural–urban migration and international immigration.

Industrialisation and an industry-led agricultural transformation have been important drivers of urbanisation in other regions, such as Asia, making it possible to absorb labour moving from the rural to the urban and modern sectors of the economy and from low to high-productivity employment. However, Africa's urbanisation has generally not been driven by either industrialisation or an agricultural revolution. Thus Africa is experiencing urbanisation without industrialisation. Indeed it could be argued as over-urbanisation for the present level of economic development.

Gollin *et al.* (2013) show that the urban growth observed in Africa over the past few decades has been driven by natural resource exports rather than an industrial or agricultural revolution. Resource revenues are spent in the cities, whether by private recipients of resource rents or by governments. Indeed in a study on the role of rural–urban migration in the structural transformation of sub-Saharan Africa, the pace of rural–urban migration is seen in many countries as a quite low given the high rural populations (Kessides, 2007; Potts, 2012: de Brauw *et al.,* 2014). In some African countries net rural–urban migration is negative (Beauchemin, 2011). With more than half of Africa's urban dwellers living in small cities and towns of fewer than 500,000 inhabitants (UNDESA, 2014), the pattern of urbanisation deserves attention, specifically focusing on the role of market towns and secondary towns within overall planning and investment (Christiaensen and Todo, 2013).

2.2 Demographic transition

The population of sub-Saharan Africa is still increasing rapidly, demonstrating an early stage of transition compared to most other regions of the world. The demographic profile is central to the structural and rural transformation debate, with the population in Africa expected to double by 2050, reaching 2.2 billion people. The highest levels of growth are anticipated in eastern and western Africa. While the proportion of the rural population is set to fall from 61 per cent in 2010 to 42 per cent by 2050, the total rural population will continue to grow in absolute numbers from 622 million in 2010 to a projected 927 million in 2050 (Proctor and Lucchesi, 2012). In addressing rural transformation, therefore, it is not only the percentage anticipated population shift between rural and urban in so far as this movement is taking place that matters, but also the actual population numbers anticipated to remain in rural areas. Another key economic concern with the demographic transition is the projected number of youth with the rural youth population set to continue to rise in eastern, middle and western Africa well into the 2030s. In southern Africa the total rural youth numbers have already peaked. These demographics place ever increasing demands on rural services as well as the need to create jobs and new sources of livelihood.

Given the current structure of African economies and the demographic transition, combined with the slow growth in the quantity and quality of agricultural and non-agricultural rural and urban employment, the great majority of new entrants to the work force, in particular those in rural areas, will face challenges in finding gainful employment (Losch *et al.,* 2012; Losch, 2013). While population growth can provide opportunities for economic progress through an expanding labour force and an increase in domestic market, it can also create huge tensions if sufficient employment is not created (as recently reflected in Tunisia, Egypt and Libya).

2.3 Spatial inequality

In general, the processes of economic growth are unequal by definition. Growth is frequently associated with the concentration of economic activity or with being in a more favourable location; for example, in urban centres, with proximity to roads (creating opportunities for trade) and/or proximity to the coast (export/import opportunities), proximity to similar producers (spillovers), being in a better ecological environment, or simply in a politically favoured area. The challenge for sub-Saharan Africa is to secure growth with equity and to ensure that the rural as well as the urban populations meet the Millennium Development Goals (MDGs).

Disparities exist between rural and urban areas for all economic and service delivery indicators (ODI, 2010; World Bank, 2013) notwithstanding the fact that aggregate data can hide intra-urban and intra-rural inequalities. Progress has been mixed on this across countries, and, overall, no real trend can be observed between levels or progress on the MDG indicators and rural-urban disparities. Rural-urban disparities are to be found among countries with high levels of indicators as well as those with low levels and among slow as well as fast achievers. Examples of rural-urban inequalities can be found across a number of MDG indicators. An example is education poverty (fewer than four years of schooling). In 38 per cent of the African countries analysed (14 out of 37), education poverty in rural areas is at least twice as high as in urban areas. Where data are available, child mortality affects the rural poor in particular. As regards access to potable water coverage, rural areas lag behind cities and towns. In sub-Saharan Africa, an urban dweller is 1.8 times more likely to use an improved drinking water source than a person living in a rural area (UN, 2011). The World Bank's Rural Poverty Report (World Bank, 2003) found that access to safe water, improved sanitation, and education and health services is generally 20 to 30 per cent higher in urban than in rural areas.

Poverty in small towns – centres which serve the rural hinterland – is often high and the quantity and quality of services available often differ little from those in rural areas and lag behind those in more mature and larger urban settlements (World Bank, 2013). Measures to better connect the activities of such small towns with both the rural hinterland and the economies of secondary cities and to address service shortfalls in both rural and small town locations are, therefore, paramount to the delivery of the MDGs.

3

The rural economy

The productive structure of an economy is understood as the level of diversification of the economy, the existence of inter-sectoral linkages – including between agriculture and non-agriculture activity (industry including mining and manufacturing, services, tourism, and so on – and the variety of types of enterprise, including formal and informal households, small and medium scale enterprises and business (by size and by linkages).

Sectoral growth linkages between agriculture and the non-farm economy are described by Haggblade *et al.* (2007a). These are:

- Production linkages, which include forward links to agro-processors and backward links including farm equipment, seed, fertilizer and so on
- Consumption linkages, specifically household expenditure on goods and services and locally produced foods
- Factor market linkages, including the impact of seasonal peaks and troughs on agricultural labour demands
- Linkages between labour demand and rural and urban wage rates, and the linkages between farm cash surplus and non-farm investments and
- Productivity linkages associated with increased farm productivity including improved household food security and nutrition, workforce productivity, two way linkages between farm and non-farm economic activity and investment.

Rural infrastructure plays a central role in agricultural growth linkages.

In general, rural areas with a more diversified economic base, a greater density of inter-sectoral linkages and a solid presence of small and medium-sized businesses in the economy will have greater options for building the dynamics of growth with social inclusion. Such dynamism may often be found where there are strong linkages between the rural hinterland and small markets and secondary towns and cities.

3.1 Employment share in rural areas

Employment data by country and sector of activity is scarce and is rarely spatially disaggregated, that is as rural, urban or regional. Where data are available, methodological problems result in data that are not comparable over time within countries or at one point in time between countries. Thus the current structure of employment in sub-Saharan Africa and the trends in employment creation are difficult to assess. The World Development Report 2013 (World Bank, 2012) notes that in agrarian based economies (that is, much of sub-Saharan Africa), formal employment, including wage labour in registered private enterprises and the entire public sector, typically accounts for less than 10 per cent of total employment and the share of wage labour in manufacturing is typically much smaller. It notes that, if anything, employment in the formal sector has tended downwards over the past two decades as state owned enterprises have been privatised and foreign trade liberalised.

Table 1. Employment share by sector, sub-Saharan Africa, 1999 and 2009

	1999		2009	
	Millions	Per cent	Millions	Per cent
Agriculture	137.5	62.4	175.9	59.0
Industry	19.4	8.8	31.7	10.6
Services	63.4	28.8	90.7	30.4

Source: ILO, 2011 from Proctor and Lucchesi, 2012

Table 2. Sub-Saharan Africa: Baseline estimates of labour force

	Share of labour force, 2005 (%)	Share of labour force, 2010 (%)
Agriculture	65.2	59.3
Household enterprises	17.1	21.4
Wage industry	2.7	2.8
Wage services	11.2	12.6
Total employment	96.2	96.1
Unemployed	3.8	3.9
Labour force	100.0	100.0

Source: Fox *et al.*, 2013

Note: Household enterprises are unincorporated, non-farm businesses owned by households. This category includes self-employed people running unincorporated businesses (which may or may not employ family or other workers) and family members working in those businesses.

International definition adopted in 1982 by ILO: To be unemployed, an individual cannot have worked even one hour, even in the household garden, in the last seven days and job search in the last month is also required.

Based on International Labour Organization (ILO) data there has been some percentage growth in employment in the industry and services sectors. However agriculture overall, despite differences between countries and regions, remains by far the largest employer in sub-Saharan Africa at some 59 per cent of the total number of people in employment in 2009 (Table 1). While overall, the share of workers is shifting slowly out of the sector, the actual number of people engaged in agriculture is rising.

Fox *et al.* (2013) prepared estimates of the current and future structure of employment in sub-Saharan Africa (2005–2020) based on household surveys from 28 countries and an elasticity-type model that relates employment to economic growth and demographic outcomes. The derived baseline estimates of the labour force are given for the years 2005 and 2010 (Table 2). While these estimates imply lower levels of employment in industry than those given by ILO, perhaps serving to highlight some of methodological challenges in data collection, the study does provide insights into levels of labour force engagement in household enterprise.

While Fox *et al.* (2013) report significant variations between low, middle and high income and resource rich countries, the work reaffirms that agriculture still employs the majority of the labour force and will likely remain the dominant employer among the low income and resource rich countries well into the 2020s. Taking household farms and household enterprises together – often commonly termed the 'informal sector' – this makes up over 80 per cent of overall labour force occupation. Sub-Saharan Africa's projected rapid labour force growth, combined with a low baseline level of private sector wage employment, means that even if sub-Saharan Africa realises another decade of strong growth, the share of the labour force employed in industry is not expected to rise substantially.

Finally it should be noted that, based on the ILO definition, unemployment is seen as very low in particular in low income countries. The reason for this is that most working age people in sub-Saharan Africa cannot afford to be unemployed (Fox *et al.*, 2013) and thus occupy themselves as unpaid family labour or in low productivity activities usually at high levels of underemployment. Exceptions to this are seen in middle-income countries such as South Africa, where reported unemployment rates are of the order of 25 per cent and significantly higher for youth populations. This may reflect the presence of a formal public sector welfare and social safety net provisioning in middle-income countries and thus the willingness of people to express their employment status.

3.2 Income from rural activities

Some insights into the shares of income from the farm and off-farm activities in rural areas are given in Table 3, which draws on four country studies. While there is country to country variation, farming, including crops and livestock, is seen to make up from 60 to nearly 80 per cent of rural income. Agricultural and non-farm wage employment, non-farm household enterprise and social transfers together making up the remainder. This aligns with the estimates made by Haggblade *et al.* (2007b) based on some 23 citations for Africa from studies undertaken in the 1990s and 2000s, where the share of income from rural non-farm activities was estimated as 37 per cent. Overall, this was seen as a lower percentage compared to other developing and emerging economy rural regions.

Employment data, however, generally only provides information about the main employment and thus misses the multiple income earning strategies adopted by rural households. Multiple sources of household income are, however, central to the livelihood strategy of rural households. This is illustrated in work undertaken in Uganda, which provides a comparison of multiple sources of household income in two periods 1992/93 and 2005/06 (Fox and Pimhidzai, 2011). The proportion of households with an income from non-farm sources increased dramatically over the period. Households with a private non-agricultural income almost doubled while households with non-farm household enterprise increased by 50 per cent (Table 4).

Table 3. Share of rural income generating activities in total income (per cent)

	Agriculture (crops and livestock)	Agricultural wage employment	Non-farm wage employment	Non-farm self-employment	Transfers and others	Total All income sources beyond own household production/farm (columns 2-5)
	(1)	(2)	(3)	(4)	(5)	
Malawi, 2004	65.5	11.4	7.4	8.7	6.9	34.5
Madagascar, 1993	70.5	6.5	6.1	8.5	8.4	29.5
Ghana, 1998	59.5	1.4	9.6	20.5	9.0	40.5
Nigeria, 2004	77.8	2.0	7.1	10.8	2.3	22.2

Source: Davis *et al.*, 2010 based on the Food and Agriculture Organization (FAO) Rural Income Generating Activities (RIGA) project that used a database constructed from Living Standards Measurements Studies (LSMS) and other household surveys of the World Bank and FAO.

Table 4. Proportion of households in Uganda earning income from different sources, 1992/93 and 2005/06 (%)

	Rural		National	
	1992/93	2005/06	1992/93	2005/06
Farm	91.6	86.9	82.0	77.3
Non-farm enterprise	24.3	38.5	27.7	41.4
Agricultural wage	11.9	24.2	10.7	20.9
Private non-agricultural wage	8.9	15.1	12.8	21.2
Public non-agricultural wage	6.7	5.3	8.4	6.0

Source: Fox and Pimhidzai, 2011, based on the integrated household survey (IHS) 1992/93 and the Uganda national household survey (UNHS) 2005/06

Drawing from the World Bank's Living Standards Measurement Study – Integrated Surveys on Agriculture (LSMS-ISA) for Ethiopia – Nagler and Naudé (2014) estimate that approximately 27 per cent of rural households engaged in non-farm entrepreneurship and derive 50 per cent or more of their income from non-farm enterprises. Additionally they estimate that about 5 per cent of households derive all of their income from such non-farm enterprises (2010/2011). Further analysis of the LSMS-ISA (dataset on six countries – Ethiopia, Niger, Nigeria, Malawi, Tanzania and Uganda – also broadly confirms earlier observations from the FAO RIGA project for some of the same countries thus reaffirming the high importance of agricultural income and agricultural wages in rural areas. The share of self-employment contributes less than 9 per cent to total household income in Malawi and as much as 36 per cent in Niger, 16 per cent in Tanzania and almost 21 per cent in Uganda. While the income share, for example in Tanzania, may not be seen as high, the National Bureau of Statistics, Tanzania (2012) notes that diversifying income sources by generating income from activities off the farm may increase the productivity of the farm and help reduce farmers' vulnerability to exogenous weather or price shocks. In Tanzania around 65 per cent of farm households had at least one member earning income outside of the farm during 2010/2011. This represents a 10 per cent increase from 2008/2009.

While, overall, 42 per cent of the rural households surveyed (LSMS-ISA six country) reported operating a non-farm enterprise, there was significant country to country variation ranging from 17 per cent in rural Malawi to almost 62 per cent in rural Niger. Furthermore, there was evidence of portfolio entrepreneurship with, on average, 1.36 enterprises found per household, ranging from 1.07 in Malawi to 1.57 in Nigeria (Nagler and Naudé, 2014).

3.3 Agriculture is central to rural growth and poverty reduction

Even with optimistic scenarios on job creation and agglomeration effects, it will take time to complete economic transformation. So increasing productivity in agriculture continues to be a priority strategy for poverty reduction and a key contributor to growth. The relative role of agriculture in poverty reduction is illustrated in Box 1.

The type of agriculture also matters. The growth paths followed by the six low-income countries sampled (see list in Box 1) serves to illustrate that where agricultural growth was driven by performance of cereal crops, for example in Ethiopia and Rwanda, growth proved more inclusive and rural poverty declined more significantly. This is in comparison with growth in agriculture for Burkina Faso and Mozambique, which was primarily driven by cash crops, such as cotton, sugar, and tobacco. Despite similar average growth rates in the agricultural sectors, rural poverty in Burkina Faso and Mozambique remained high, at about 50 per cent and 70 per cent, respectively. However, in Ethiopia, it declined by 15 per cent during the period 1995–2010 to 30 per cent, and in Rwanda, by 15 per cent during the period 2006–2011 to 49 per cent (IMF, 2013). Thus while growth in cash crops brought dividends from exports, growth in staples helped support domestic food supply and lowered poverty (IMF, 2014).

With agriculture making up the bulk of most African economies, economic transformation has to focus on the modernisation of agriculture, including increasing the agricultural and agricultural labour productivity of smallholders. Using agriculture as a basis for manufacturing and services, particularly by increasing agro-processing and other agribusiness, will create jobs, especially for women and youth. However, modernising agriculture and increasing its links with other parts of the economy has been slow. Converting subsistence agriculture into a modern commercial sector – whether as large commercial farms, small and medium-size farms using modern and intensive methods, outgrower schemes, or other commercially scalable models – is an essential part of the transformation agenda and a key to opening up new employment opportunities, including for rural youth (Proctor and Lucchesi, 2012). Further, the challenges faced in building an agro-industrial base, for example in the leather sector in Ethiopia, are not dissimilar to those faced in the wider industrial and non-agriculture based manufacturing sector. These include the business environment, infrastructure, the cost and reliability of services, and so on, and they remain considerable (ACET, 2014).

3.4 Drivers of the non-farm sector

The existing literature on determinants of non-farm activities are summarised by Nagler and Naudé (2014). They note that a distinction is often made between push and pull factors in an attempt to understand what determines the share of non-farm employment/income in sub-Saharan Africa including trying to understand what drives household decision taking to enter the sector. Push factors relate to minimising risks, in particular those associated with a high dependency on agriculture, managing the aftermath of shocks or use of surplus family labour, in particular during the farm calendar off-season. Pull factors, such an individual and household level capabilities, including educational attainment and assets, as well as institutional and regional features,

BOX 1. AGRICULTURE IS THE CORNERSTONE OF GROWTH AND POVERTY REDUCTION IN MANY SUB-SAHARAN AFRICAN COUNTRIES

The International Monetary Fund (IMF, 2013) examined the growth paths followed by the six low-income countries in sub-Saharan Africa – Burkina Faso, Ethiopia, Mozambique, Rwanda, Tanzania and Uganda – that experienced the fastest sustained growth during 1995–2010, despite not having exploited natural resources on a large scale during the period.

Although each country's growth path has been unique, a number of common features emerge from these experiences. The key observations include:

- All countries managed to create a virtuous circle of sensible and medium-term-oriented policymaking and important structural reforms enabling rapid expansion in both social spending and capital investment, such as infrastructure, boosting growth
- Although structural transformation remains limited, agriculture was a contributing force in some countries and offers much future potential.

Services were also important. However, the manufacturing sector remains hampered by small internal markets and limited infrastructure and, looking forward, future progress will depend on closing the remaining infrastructure gap and increasing productivity, especially in agriculture, in which much of the population is employed. This would not only help to sustain growth, but also would distribute the benefits of growth more widely across the concerned populations. It is estimated that the active labour force in the bulk of the countries of the survey is engaged in the agricultural sector – about 80–81 per cent in Mozambique and Burkina Faso, 71 per cent in Uganda and 65 per cent in Tanzania (2010 estimates) (Fox *et al.*, 2013). Moreover, most of the extremely poor rely on subsistence farming for their livelihoods. The limited increases in labour productivity and in total factor productivity of the agricultural sector in the sample countries, therefore, hampered more inclusive growth and faster reduction of poverty.

Evidence from the sub-Saharan African region suggests that growth in agriculture in the last few decades has been among the most important contributors to poverty reduction. In considering the relationship between the sectoral composition of growth and benefits to the poor, the IMF (2014) examined panel data from 35 sub-Saharan African countries and five three-year time periods between 1996 and 2010 with data from the IMF on sectoral real value added for agriculture, manufacturing, services, extractive activities, construction and utilities. Growth in all sectors (except utilities) has a significant and negative effect on poverty. The magnitude of this impact varies widely from one sector to another. Agriculture seems to have by far the strongest bearing on poverty where a 1 per cent growth in agriculture pulls 0.41 per cent of the population out of poverty. This is followed by services, where the same 1 per cent growth reduces the proportion of poor people in the population by roughly 0.28 per cent. Other sectors show a much lower elasticity of poverty to growth.

Source: IMF (2013), IMF (2014)

such as access to credit and infrastructure, are considered to be significant. However, the true picture is likely to be much more nuanced within a household and over time, and is likely to combine both push and pull characteristics. Along the same lines, and based on country studies generated through the RuralStruc programme (of which four of the seven countries studied are in sub-Saharan Africa), Losch *et al.* (2012) note two broad patterns emerging. The first of these is 'positive diversification' in which self-employment contributes significantly to household income. The second, and more common, is a pattern of more 'neutral diversification' in which the poor and more marginalised households develop coping strategies by accessing minor self-employment activities with very low returns.

Exogenous features of the locations where households are based and which influence household livelihood choices are many and include, for example, the agro-climatic environment which determines the extent to which farming is productive or risky. There is evidence that rural entrepreneurship fares better under favourable agro-climatic conditions (for example, better rainfall) that are good for agricultural productivity and where other natural resources, for example, mining and tourist attractions, can be found (Reardon *et al.*, 2006).

Nagler and Naudé (2014) provide an empirical description of the determinants of non-farm entrepreneurship in rural Africa using datasets from LSMS-ISA on six countries for the period 2005 to 2012. They found that both push and pull factors matter for a household's decision to operate a non-farm enterprise. The effects of external shocks, the experiencing of food shortages, the distance that households are located from major roads and cities and the importance of gender and marital status were all difficult to generalise given significant heterogeneity across the countries. Households that have experienced food shortages were found to be somewhat more likely to operate a non-farm enterprise. As regards the probability of a household being involved in running an enterprise, individual and household level characteristics are important determinants of entrepreneurship as reflected in the statistically significant coefficients for age, marital status, educational attainment ('read and write') and household size. The study also showed that rural households in Africa are, on average, almost 16 per cent less likely to operate a non-farm enterprise than urban households.

3.5 Profile of the non-farm household enterprise

Rural non-farm enterprises are predominantly small, informal household enterprises, operating from the immediate surroundings of the household residence or in a traditional market. They provide mainly basic consumer goods and services to the local economy (Nagler and Naudé, 2014). As such they may be described as 'nontradables'. This limits the potential of the non-farm sector to be a significant driver of growth. Further, non-farm enterprises are not significant drivers of wage employment in rural Africa. The vast majority of non-farm enterprises surveyed are small household enterprises. Over 80 per cent of the enterprise owners

BOX 2. COUNTRY CASES: THE NATURE OF THE HOUSEHOLD ENTERPRISE

Ethiopia: Non-farm employment activities in rural areas
Drawing on the Ethiopia Rural Socioeconomic Survey (201112), the three most important non-farm employment activities in rural areas are selling processed agricultural products, including food and local beverages for example flour, tella (traditional beer), enjera, and so on; non-agricultural businesses or services from home, including shops; and trading businesses, such as selling goods on a street or in a market. Other activities include firewood/charcoal collection, preparation and sale; taxi/pickup truck services; and professional services.

Malawi: The majority of non-farm enterprises sell their products or services directly to final consumers
Respondents to the Integrated Household Survey (2010–2011) were asked to indicate the principal markets for their products or services. In rural areas 85 per cent of non-farm enterprises sell their products or services directly to final consumers. Most of the remaining 15 per cent of these enterprises sell to traders (9 per cent), 4 per cent to other small businesses and the remainder sell to established businesses or institutions, manufacturers or marketing boards.

Nigeria: Non-farm enterprise matters and shows diversity of activity
In rural areas, 52 per cent of households report at least one type of non-farm enterprise compared with 72 per cent in urban area (LSMS–ISA, 20102011). The top 10 non-farm enterprises in rural and urban areas are given below together with the proportion of respondents engaging in the enterprise (per cent).

	RURAL	URBAN	NATIONAL
Retail trade, except of motor vehicles	60.2	52.5	56.6
Other personal service activities	10.1	16.6	13.2
Manufacture of food products	6.4	2.3	4.5
Land transport and transport via pipeline	7.6	10.9	9.2
Manufacture of wearing apparel	2.7	4.4	3.5
Food and beverage service activities	3.5	1.9	2.7
Wholesale and retail trade and repair of motor vehicles	2.4	4.2	3.2
Other manufacturing	2.9	3.2	3.1
Construction of buildings	1.9	1.0	1.5
Manufacture of furniture	2.2	3.1	2.6

Sources: Central Statistical Agency, Ethiopia, 2013; National Statistical Office, Malawi, 2012; and National Bureau of Statistics Nigeria, 2013 reported that they do not employ any non-household worker and less than 3 per cent employ five or more non-household members. The majority of rural non-farm enterprises do not operate continuously over the year, reflecting the effects of seasonality in agriculture on the allocation of household labour. Examples from the recent LSMS-ISA serve to illustrate some of these points (Box 2).

3.6 Sources of financing for household enterprise start-up

The Malawi Integrated Household Survey (2010/2011) investigated sources of start-up capital for household non-farm enterprises. In this case, the results serve to emphasise the interaction between agriculture and non-agricultural businesses. Savings from agriculture constitute the main source of finance for enterprise start-up for most businesses in both rural and urban areas. In rural areas, the main source of household enterprise set up capital is own savings from agricultural activities (39 per cent), followed by savings from proceeds from non-agricultural activities (17 per cent), loans from family and friends (5 per cent) and proceeds from another business (4 per cent). While there are a myriad of other funding sources, loans from banks or other formal financial institutions barely register as a source of start-up capital at just over 1 per cent. The Nigerian General Household Survey (2010/2011) lists over 13 different sources of start-up capital for non-farm enterprises. For rural areas the main ones are household savings (30 per cent), relatives and friends (16 per cent), proceeds from family farm (10 per cent), informal and indigenous financial institutions (8 per cent), with formal banking institutions below 0.1 per cent. In both cases, therefore, the role of formal financial intermediation in rural areas is very limited and a possible barrier to entry for household enterprise.

3.7 The informal nature of household enterprise

Most household enterprises are frequently not registered with national authorities, not least as national level registration requirements often focus on small and medium-size enterprises and businesses. Registration requirements for household enterprises vary between countries. For example in Ghana and Tanzania, national registration is optional, as it is legal to do business as a household enterprise in one's own name without license or registration. In other countries, such as Rwanda, national legislation requires all household enterprises to register with local authorities (Fox and Sohnesen, 2012). In Malawi overall 9 per cent of businesses report being registered by any of the official registration bodies (Registrar of Companies, Malawi Revenue Authority or Local Assemblies). Further, a difference in registered enterprises is seen between urban and rural areas with 16 per cent of businesses in urban areas being registered compared to about 7 per cent in rural areas (National Statistical Office, Malawi, 2012).

Although they may not pay income or other taxes at the national level, household enterprises are likely to make payments at the local level, as household enterprise owners are often obliged to register with local authorities. Studies in Uganda show the central role of revenue from household enterprises where the informal sector pay for licenses, user fees and/or permit fees to the local government and thereby contribute close to two thirds of local governments' locally generated revenues (Bakeine, 2009). The perception that household enterprises in the informal sector do not contribute to government revenues is, therefore, not supported by evidence. Instead, household enterprises play an important role in local economic development and thereby contribute to growth (Fox *et al*., 2012). Further some studies suggest that the smaller the enterprise, the larger the share of its revenues it is likely to pay to local authorities. What is important in this debate is that the household enterprise should see benefit from any form of registration or fee payment. Such links with formal public institutions or private service providers should not become barriers to entry nor to the growth and sustainability of the household enterprise.

The dual economy model implies that the formal and informal sectors represent polar opposites with little interconnection. In reality, there is a continuum of different degrees of formality in terms of different characteristics, such as the nature of registration, payment of taxes, management structure, contractual arrangements with employees, market orientation, and so on. Furthermore, formal and informal enterprises are often more closely linked than may first appear. For example, the recent growth of telecommunications companies in most African countries depends heavily on informal vendors of phone cards and calling services. Many street hawkers are actually selling goods on behalf of (or obtained on credit from) larger shops. Informal food preparers surrounding factories and other places of employment make cafeterias unnecessary (Bakeine, 2009). Additionally, and along both the entire agriculture input and output market chains, there are features of both informality and formality. There are many connections between formal and informal employment activities that may span rural and urban space and which are yet to be fully understood and enabled. Informal enterprises are often treated as a residual category created by the scarcity of formal sector jobs. In reality, informal employment may be a preferred choice.

3.8 Remittances and social transfers

Especially in rural areas, remittances and social transfers are a source of rural non-farm household income (Table 3). Remittances often constitute the only relationship poor people have with the formal financial system and thus these potentially, pave the way for households to obtain new financial products for saving and credit purposes (UNCTAD, 2012). Using data from the Center for International Earth Science Information Network (CIESIN), de Brauw *et al.* (2014) found that for a number of countries during the 1990s rural-urban migration had been relatively slow suggesting a weakly functioning labour market, and this in turn impacts on the potential economic benefits of such rural-urban linkage through remittances sent home. In the countries studied, remittance rates also appeared quite low. This may reflect the high transaction costs in the transfer of monies and the weak financial intermediation structures in rural areas, but it also may reflect the complex underlying social and economic drivers that inform rural-urban migration decisions and thus the associated remittances.

The integration of rural based risk and social protection policies with growth strategies is needed to advance pro-poor economic and social agendas concurrently. Rather than facing a trade-off between social protection and growth objectives, the synchronised pursuit of both interventions has the potential for complementarity, resulting in a virtuous cycle of equitable and pro-poor growth (Diao *et al*., 2012).

4 Moving forward

4.1 Establish conditions for sound national and rural transformative change

The Economic Report on Africa (UNECA, 2012) urges caution and a nuanced analysis of the continent's growth trajectory. It calls on stakeholders to put in place the conditions for transformative change. It advocates improved governance, long-term development planning and industrial policy, as well as enhanced investment in education, health, infrastructure, technology and innovation, agriculture and climate change mitigation and adaptation. These factors will contribute towards the development of rural areas. The approach proposed includes a demand for a sustained and high level of investment in the key public goods associated with boosting agricultural productivity (including rural roads and irrigation, agricultural research and new technology, support for input-related industries, such as fertilizers and seeds, and strengthening market chain development that will create economic opportunities for enterprises in rural areas). Further it is necessary to address barriers to smallholder agriculture, specifically those associated with scale, and to seek incentives for off-farm enterprise job creation. This reinforces the need for strategies for agricultural and rural development to complement and be coherent with those allowing countries to industrialise and to diversify economically.

Rural transformation cannot be supported effectively using the prevailing sets of 'silo-based' sectoral policies. Key and relevant sector-based policies and interventions, such as those of agriculture, industry, infrastructure, employment and labour market policy, human development, private sector development, and so on, often operate in isolation from one another and in an uncoordinated manner. Further sectoral interventions are often 'spatially blind' and fail to deliver efficiently and effectively to the differentiated beneficiary groups in different locations, that is rural and urban areas, and/or in different territories or regions within a country. Future interventions need to have the capacity to plan and respond to the spatial reality and to work effectively across and between social and economic sectors at the national level and within more localised sub-national frameworks (Proctor, 2013).

4.2 Incorporate rural development into national strategies and commit to the long term

National planning processes should seek to address the prevailing social and economic inequalities persisting between urban and rural populations, between regions in a given country, between rural men and women, and between the majority and ethnic minorities – the latter often living in rural areas. These inequalities may have been inherited from past policy decisions and social structures, but can also be new poverties, gaps and inequalities being created by the process of rapid change and transformation itself (Proctor, 2010).

Rural development must not live in the shadow of urban development. Instead rural development calls for a specific focus within national strategic plans and a deliberate investment in rural social and economic infrastructure for the growth of rural economies. Sustained progress in combating poverty and addressing inequality requires states that are both developmental and redistributive. There remains a central need to enhance the availability of and access to evidence and to develop mechanisms and structures to secure agreement among stakeholders/constituencies that allow countries to establish priorities and sequence interventions. It is not possible to do everything at the same time. Choices have to be prioritised and the implications understood and acknowledged. The African Heads of State during the January 2011 African Union Summit recognised the challenges faced by rural communities. They called for an integrated development initiative to promote rural transformation as a pathway to improve rural employment and livelihood opportunities, facilitate national economic development and sustainability, and ensure exchange of information on best practices on rural development from local to global scale. The Planning and Coordinating Agency of the New Partnership for Africa's Development (NEPAD) is mandated to advance this agenda. In this context an inaugural Africa Rural Development Forum was held in May 2013 in Cotonou, Benin. Agreements reached at this forum should form the basis for progressing vigorously and rapidly on a renewed rural development agenda in Africa (NPCA, 2013). This requires both continued political will and long-term commitment (Proctor, 2013).

4.3 Strengthen the evidence base to inform public policy on rural economic development

There is a critical need to strengthen the evidence base to accompany the debate and planning process in support of rural development and transformation. A number of initiatives have been launched (IMF, 2013) to make improvements in the quality of statistics in sub-Saharan Africa. Presently the quality and availability of data varies between countries; however, in most cases even where data are available they are not presented spatially.

Specifically there is a need for spatially disaggregated (rural and urban, regional, local municipality, and so on) analysis of growth, poverty and inequality, covering both monetary and non-monetary dimensions. Data on the spatial patterns of production and employment, wage rates, population movements and trends in public revenue and patterns of public spending (current and capital), disaggregated by sector and by region are also required. There is a critical need to put in place effective monitoring of the changes taking place in rural areas over time, including changes in the household profile, farm size and in off-farm economic activity. The World Bank's on-going LSMS-ISA and the FAO led World Programme for the Census of Agriculture (WCA) will be significant future contributors.

Support to rural development implies engagement with and reinvesting in national statistical systems and building learning mechanisms for evidence on what works to feed into the planning processes. Shared learning within and between countries in sub-Saharan Africa and, indeed, from other regions of the world, is also important as a means of leapfrogging and scaling-out ideas, innovations and new approaches. Such shared learning requires support and needs to be institutionalised.

Rural transformation needs to be accompanied by more pure and applied social and economic study. The gaps in knowledge and evidence are large. There is a significant gap in the research capacity at national and regional centres in key and relevant fields. These gaps need to be filled both for better evidence to inform the debate and, most particularly, to enable national researchers to play a central role in the policy debate. Examples of key research priorities include deepening the understanding of:

- The drivers of local – sub-national – economies
- The nature of the multiple economic activities of households (type, location, drivers, skill requirements, risks, assumptions) and
- The necessary institutional arrangements for territorial/landscape/local economic development, including the linkages between rural areas and functionally associated small and medium sized towns and secondary cities.

Finally there is a need to develop criteria to enable national policy and investments (in both the social and economic sectors). These need to be spatially sensitive and responsive to the differing needs of rural and urban populations and to specific groups or locations within rural areas – remote rural compared to high potential rural, minority or other disadvantaged groups, and so on (Proctor, 2013).

4.4 Build a broader understanding of and support for the productive sectors in rural areas

Sub-Saharan Africa faces an almost unprecedented set of challenges coming together at the same time where the region must manage the demographics and economic transition in the context of increasing globalisation. Climate change adds yet a further dimension to this already significant set of challenges. Notwithstanding the growing interest in and commitments to industrialisation as a transformative driver, **agriculture is central to national and rural economic transformation and will remain so for decades to come.** This central role of agriculture, not least given the growth in the actual numbers of households dependent on the sector and as a contributor to poverty reduction in the region, cannot be overstated. Improvement in agricultural productivity is likely to deliver significant social dividends not least as agriculture employs by far the most individuals and because many workers will remain in the sector for a long time as agriculture is more labour intensive than other sectors, such as manufacturing and mining.

Neither the public sector, with little prospect of expansion, nor the formal private sector, which while growing is doing so from a very low base, will be able to absorb the tide of young job seekers. While the primary source of jobs paying a living wage must be supported to grow further and become more competitive, such jobs are more likely to be generated in urban areas. This calls for the role of agriculture, including the formal and informal occupations associated with value chain development, agro-industry and input provision, to be acknowledged and supported within national employment and human development (specifically education, including technical and vocational training) policies. It also calls for investment as a vehicle to create employment in rural areas and in small towns and secondary cities whose economic lives are closely associated with agricultural activity. Although sub-Saharan Africa has some potential to become competitive in light manufacturing, the most promising avenue for export-led growth of employment is agriculture, including traditional cash crops such as cotton, coffee, cocoa and groundnuts. Contrary to common perceptions, traditional cash crops have many of the features of manufacturing exports – high labour-intensity, potential for quality improvements through technological transfer and quality-sensitive markets in developed countries. Improvement in the business climate is essential for boosting investment and technology transfer in labour-intensive tradable industries, thus raising labour demand and employment (Golub and Hayat, 2014).

Given the prevailing employment environment, **new and critical attention must be given to the informal household enterprise sector** because, overwhelmingly, this sector will be the source of diversified livelihoods for the majority of rural and small urban centre-based households. Informal household enterprise is central to both household income and to risk management in rural areas and functionally linked small towns; yet to date this sector has been virtually invisible to policy makers and development agencies.

Governments must focus on removing obstacles to household enterprise, help to expand the level of activity and enable such enterprises to be sustained over time and be secure in their entrepreneurial activity. There is a need to:

- Recognise and value household enterprise as a central part of the local economy
- Understand and remove barriers to their operation, for example minimise local corruption, increase access to services and keep direct and indirect taxation to a minimum and
- Understand and support the links between the formal and informal enterprise sectors operating in rural areas and functionally linked small towns and secondary cities.

Given the large number of youth entering the labour market, specific efforts are required to support household enterprises, including enabling young people to gain access and seize opportunities. Filmer *et al.* (2014) note, however, that youth struggle to set up a household enterprise with only some 11 per cent of household enterprise owners being between the age of 20 and 24 years. By virtue of the local characteristics of such enterprises, support programmes should be both country and sub-national or territory (including rural and functionally linked urban centres) specific. However, one factor that seems to be is clear is that few household enterprises are being served by formal financial intermediation. Household enterprises want easier access to capital (Fox and Sohnesen, 2012). The lack of capital is reported as both the biggest obstacle to start-up and a major constraint to sustaining the business.

Rural and urban development should be brought together within a territorial or regional framework. This will strengthen the market and service links between small towns and secondary cities and their rural hinterlands as drivers of territorial or regional economic development. A greater recognition of the role played by secondary towns can bring more inclusive development compared to a more exclusive focus on support to agglomeration in mega cities for the provision of public goods and service (Christiaensen and Todo, 2013; Christiaensen *et al*., 2013) and for fostering social and economic linkages between rural and urban areas. New approaches and thinking are called for that mainstream sub-national territorial development. Innovation is taking place, for example in Kenya (regional development) and Mozambique (local economic development), to address regional inequalities and to explore new models of sub-national territorial development (Proctor, 2013). Learning from such and similar relevant experiences should be documented and shared. Furthermore, a focus on local governance in support of territorial economic development is justified. This will address structural and functional issues, including local factors (access to infrastructure services, such as workplaces, market stalls, water and electrification, local taxation and registration arrangements, and so on) which play an important role in determining local economic development and household earnings. Rural entrepreneurship is responsive to local-level circumstances including the nature and type of the local economic environment, local governance and policies (Fox and Sohnesen, 2012).

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This paper discusses emerging policy implications for economic diversification in rural sub-Saharan Africa. While continuing to prioritize rural investments in the economic and social sectors, governments should mainstream rural development within national strategies and commit to the long term. Rural and urban development policies should be brought together, ideally within a territorial or regional development framework, to strengthen the market and service linkages between rural and urban areas. Given the prevailing rural employment environment, new and critical attention must be given to the informal household enterprise sector and to reinforcing the agriculture and food sectors. The evidence base to inform rural development policies needs to be further strengthened and made more accessible.

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