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THE IMPORTANCE OF WAGE LABOR IN ACHIEVING AGRICULTURAL MARKET DEVELOPMENT OBJECTIVES

INTRODUCTION

USAID is committed to partnering to end extreme poverty; and through the Feed the Future Initiative, the Agency strives to reduce hunger and bolster food security. Consequently, USAID has committed billions of dollars to increasing agricultural production, and the incomes of rural men and women who rely on agriculture for their livelihoods. There is growing evidence, however, that the vast majority of the rural poor are not simply farmers; they engage in non-farm activities and earn income from wage labor. This is especially true of the extreme poor.

Although regional diversity and maintaining a context-specific perspective is of fundamental importance, a general pattern is discernible: Rural wage labor, typically low-paid manual labor in agriculture and beyond, is the most important form of employment for the poorest households, both for bare economic survival and as a pathway out of poverty. While the quality of data is a major caveat, this general finding is confirmed across geographic regions. For example, globally, it has been estimated that up to 40% of the agricultural work force is employed as wage workers.¹ Valdés et al. found the share of poor households who depend on wage labor for their survival to be 60% in Malawi and nearly 50% in Ecuador, Guatemala, Nicaragua, Bangladesh, and Nepal.²

This brief considers what is meant by wage labor and why it matters for achieving USAID's objectives of poverty alleviation and increased food security. It synthesizes findings from an extensive evidence review³ completed in 2015 by the USAID-funded Leveraging Economic Opportunities (LEO) activity, which was conducted with the involvement of a senior technical advisory panel from the International Labour Organization, Food and Agriculture Organization, Overseas Development Institute, Michigan State University, and USAID. The evidence review was further informed by a three-week long technical discussion forum engaging over 220 practitioners, economists, and donor representatives from 37 countries. The objective of this brief is to provide preliminary recommendations for increasing the efficacy of agricultural development activities through greater attention to labor markets.

DEFINING “WAGE LABOR”

Distinguishing between self-employment and wage employment is crucial for analyzing underlying incentive structures and processes of poverty reduction—recognizing that the same person can be self-employed in one activity and a wage laborer in another. The crucial difference lies in the ownership of the means of production (e.g., capital, land, assets, tools). In simplified terms, all income-generating activities fall into one of two categories: activities where the worker owns the means of production are **self-employment**; those where he/she does not, are **wage labor**.

There are a wide variety of incentives and interventions that can impact the lives of wage workers, but these are likely to be different from the typical ones offered by an agricultural development project, which is designed to respond to the needs and incentives of (self-employed) farmers. For example, while a wage laborer will benefit from better working conditions, job security and higher wages, the self-employed farmer will more likely be interested in receiving support in

¹ Hurst, P. (2005), “Agricultural Workers and their Contribution to Sustainable Agriculture and Rural Development,” Report for ILO-IUF-FAO.

² Valdés, A. et al. (2009), “A Profile of the Rural Poor,” Background Paper for IFAD Rural Poverty Report 2009.

³ Available at www.microlinks.org/LEOwagelabor

the form of credit facilities, better market access, input provisions, irrigation systems, or extension services. Providing any of the latter to the wage laborer is likely to have less effect on agricultural productivity and poverty reduction.

THE PREVALENCE OF WAGE LABOR

Conventional wisdom about rural wage labor—such as the notion of thin or absent rural labor markets, particularly in sub-Saharan Africa—is based on national data that is unreliable and has rendered wage labor largely “invisible.” This is especially true of the types of labor mostly undertaken by the poorest people. The low quality of labor market statistics has been comprehensively documented in recent years.⁴ Survey questions are often ill-phrased and methodologies poorly designed to capture key segments and nuances of labor markets and to avoid response bias.⁵ The 2004 Living Standards Measurement Study (LSMS) household survey in Malawi, although by no means perfect, is an encouraging exception: its questionnaire explicitly included the unique local term for agricultural wage laborer, and as a result, the survey found that nearly 55% of rural households reported engagement in wage labor, and over 80% of such work was in agriculture. These results are diametrically opposed to similar (but less well designed) surveys in other African countries—for example, in Ghana only 16% of LSMS respondents reported engagement in wage labor, and Ethiopia’s 2013 LSMS found that less than 1% of rural women and less than 2% of rural men spent any (recent) time in wage labor. Specialized labor market surveys regularly find drastically different results. In Ethiopia, for example, in a survey of women observed in the agricultural sector, 45.8% worked for wages; and 47.5% of rural adults participated in agricultural wage labor.⁶ Reliance on wage labor is expected to increase as economic development and agricultural transformation unfold, and the importance of self-employment will be reduced, particularly for the poorest.⁷

Consistent underreporting of the significance of wage labor for rural livelihoods has major implications for the design of rural poverty reduction initiatives.

THE ROLE OF LABOR IN ENDING EXTREME POVERTY

While there remains considerable uncertainty about the quality of some labor market statistics, especially in sub-Saharan Africa, it is widely acknowledged that employment and labor constitute principal pathways out of poverty for the majority of the rural poor across the globe. A comprehensive review of the literature found that while most rural households pursue diversified strategies to make ends meet, they escape poverty as a result of wage labor income in the clear majority of cases.⁸

There are many different kinds of wage work—casual agricultural work during peak land preparation or harvest times; migratory jobs in domestic help, construction, and mining; part-time jobs as shop workers, input agents, or taxi drivers; all the way to formal, salaried, full-time, year-round jobs—and everything in between. The jobs on the “lower end” of the quality spectrum engage the largest numbers of poor people and play the biggest role in their daily struggle to make ends meet. But even for households earning most of their income from farming their own land, wage work is a significant contributor, and can be important for income smoothing and risk diversification. (See figure 1 for regional examples.)

⁴ See for example Backiny-Yetna, P. (2003), “Labour Statistics in AfriStat Member States: Summary of the Situation,” Expert Group Meeting on Setting the Scope of Social Statistics, United Nations Statistics Division, New York; and Oya, C., and N. Pontara (2015), “Introduction: Rural Wage Employment in Developing Countries,” in: *Rural Wage Employment in Developing Countries: Theory, Evidence and Policy*.

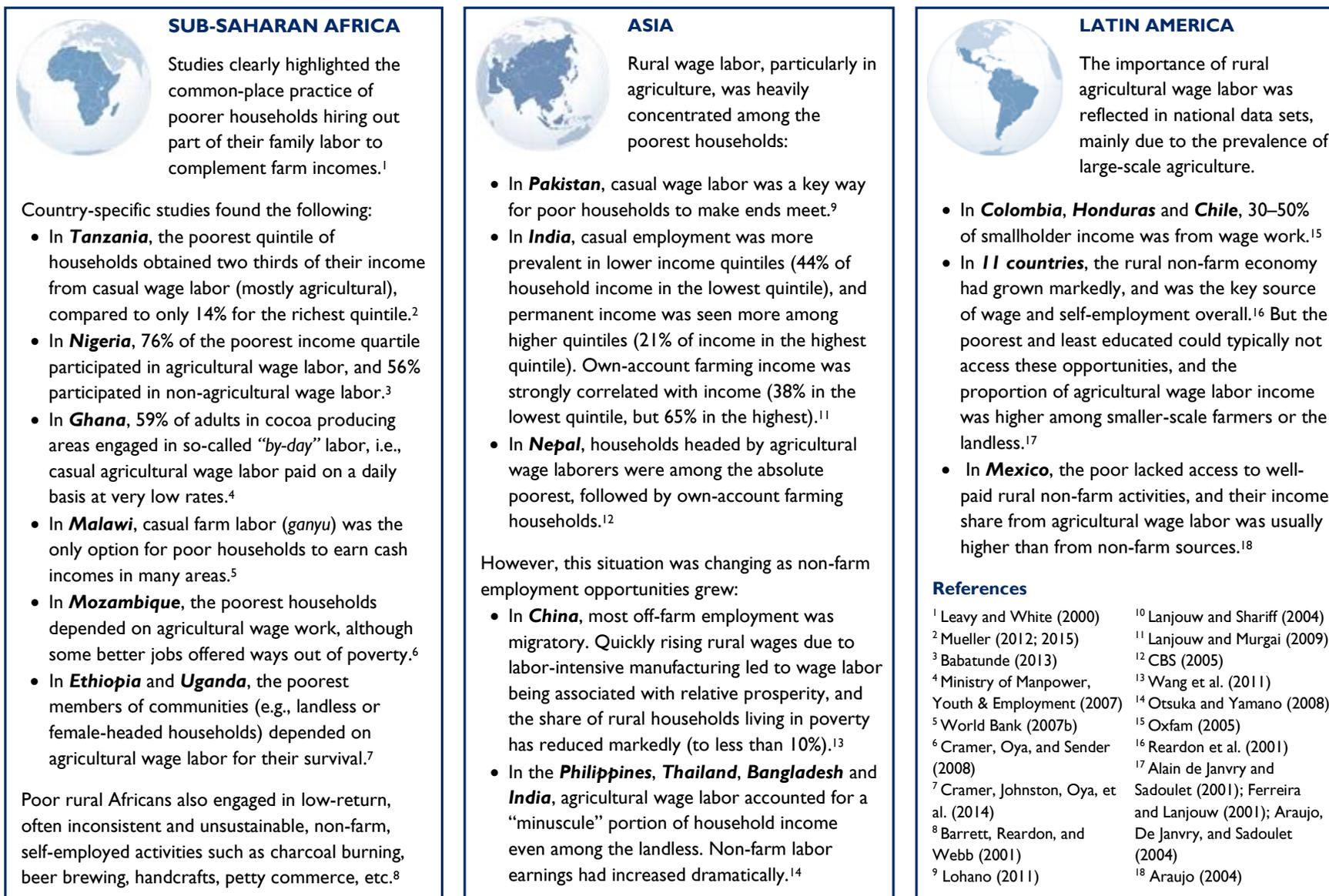
⁵ Rizzo, M., B. Kilama, and M. Wuyts (2015), “The invisibility of wage employment in statistics on the informal economy in Africa: Causes and consequences,” *The Journal of Development Studies*.

⁶ Cramer, C., et al (2014) “Fairtrade, Employment and Poverty Reduction in Ethiopia and Uganda. Final Report to DFID, with Appendices.”

⁷ Gindling, T., and D. Newhouse (2012), “Self-Employment in the Developing World,” SSRN Scholarly Paper No. ID 2149389, Social Science Research Network, Rochester, NY.

⁸ Inchauste, G. (2012), “Jobs and Transitions Out of Poverty: A Literature Review,” Background Paper for the World Development Report 2013.

Figure 1: Regional Wage Labor Snapshots



Source: Mueller, B., and M. Chan (2014), “Wage Labor, Agriculture-based Economies, and Pathways out of Poverty: Taking Stock of the Evidence”, LEO Report #15, USAID.

Even relatively low-quality employment can have a positive impact on poverty status for the most disadvantaged groups of workers. Such work would rarely conform to what is typically called “formal” or “decent” work, which in its majority may be unachievable for the poor.⁹ Nevertheless, any work that may be harmful or that infringes on core labor standards (such as forced labor and the worst forms of child labor¹⁰) must never be promoted. Where a person is situated along a poverty continuum greatly affects the type of labor-based improvements that will be most helpful (see table 1). Although higher wages are generally important, they do not always reflect the most urgent needs of the poor, and in many cases the poor’s highest priority is more work and a better seasonal distribution of income-generating activities. For example, a survey of home-based workers in five South Asian countries found that 72% ranked “more work” among their top three work-related priorities. Improved working conditions and wage levels took lower levels of priority.¹¹ Priorities vary across different country contexts, and are strongly influenced by the relative status of development and structural transformation in an economy.

Rigid dichotomies in addressing labor are unhelpful: There can be relatively good informal jobs, and relatively bad formal jobs. Similarly, whether a job is on- or off-farm has no significance for its poverty impact.

Table 1: Relative Importance of Labor Characteristics along a Poverty Continuum

Primary Objective	Most Relevant Labor Characteristics
Stopping absolute destitution	Eliminate forced labor conditions and the worst forms of child labor; increase the quantity and seasonal distribution of work; reduce the most severe occupational health and safety (OHS) risks; improve access to social assistance (especially for those unable to work) and non-employer-based social insurance programs.
Reaching minimum welfare levels	Increase the quantity and seasonal distribution of work; increase wage/piece rates; reduce severe OHS risks; enhance (basic) technical skills; improve access to social assistance (especially for those unable to work) and non-employer-based social insurance programs.
Stopping impoverishment	Increase the quantity and seasonal distribution of work; increase wage/piece rates; reduce severe OHS risks; improve access to social protection including employer-based social insurance schemes; improve job security/predictability of work.
Enabling/sustaining an escape from poverty	Increase the quantity and seasonal distribution of work (especially with better conditions); increase wage/piece rates; improve access to social protection including employer-based social insurance schemes; reduce OHS risks; improve job security/predictability of work; enhance technical skills; reduce excessive working hours (while maintaining overall income levels); eliminate child labor (complemented by improvements in education, social protection, etc.).

Source: Mueller, B., and M. Chan (2014), “Wage Labor, Agriculture-based Economies, and Pathways out of Poverty: Taking Stock of the Evidence”, LEO Report #15, USAID.

THE IMPORTANCE OF WAGE LABOR FOR WOMEN’S EMPOWERMENT

While several studies of various agricultural export subsectors show that women are generally engaged in the least remunerative and most insecure jobs within any given sector or workplace,¹² nevertheless, the wages they earn allow

⁹ Oya, Carlos, and Nicola Pontara (2008), “Rural Livelihoods and Village Political Economies: an Appraisal and Evidence from Village Studies in Mauritania,” No. mimeo, School of Oriental and African Studies, London.

¹⁰ Worst forms of child labor include any work carried out under forced labor conditions, work related to prostitution and production of pornography, work to support illicit activities (e.g., drug trafficking), and any other work which is likely to harm the health, safety or morals of children (<http://www.ilo.org/ipcc/facts/lang--en/index.htm>).

¹¹ Home Net South Asia, and Institute of Social Studies Trust ISST (2006), “Social Protection for Home-Based Women Workers in South Asia: Learning from Action and Research.”

¹² See for example Raworth, K. (2004), “Trading Away Our Rights: Women Working in Global Supply Chains,” Oxfam International, Oxford.

them not only to increase their annual incomes substantially, but also increase their decision-making powers within the household.¹³ However, widespread issues such as (a) men’s control over the means of production, (b) women’s disproportionate share of reproductive/care responsibilities, (c) gender stereotyping, (d) lower female educational attainment levels, and (e) socio-religious restrictions on women’s mobility and activities constitute common barriers for many women to gainfully participate in labor markets. Women’s participation in the workforce varies by region, but consistently trails that of men. In both the Middle East and North Africa region and South Asia, men’s participation rates exceed women’s by over 50 percentage points.¹⁴

There is abundant evidence that the constraints listed above result in women having considerably greater difficulty than men in securing better jobs, and women’s average earnings are almost always lower than men’s. For example, an analysis of data on the rural waged workforce in 15 countries in Africa, Asia, Central and Eastern Europe, and Latin America found that there was a significant difference in male and female earnings in 14 of the 15 countries, with female earnings being between 5% and 50% lower than males, when controlling for basic individual characteristics.¹⁵ Studies show that simply bringing women’s wages in line with men’s can have substantial positive impacts, not least because a reduction in the gender wage gap tends to increase women’s labor force participation rate.¹⁶ Commitment in India’s National Rural Employment Guarantee Act to pay the same (albeit statutory minimum) wage to women and men has led to an above-average female labor participation rate and increased earnings for women workers, due to the substantial gender wage gap in local labor markets. Many women reported that these wages had helped reduce hunger (67% of respondents) and avoid illness (46%).¹⁷

THE IMPORTANCE OF WAGE LABOR FOR YOUTH

Youth surveyed in several African countries emphasized wage levels, security of employment, and perhaps most importantly the *social status* attached with jobs as their key priorities.¹⁸ However, youth face particular difficulties in accessing jobs, including the following:

- a significant proportion of rural youth remaining illiterate and lacking even basic schooling (in turn a result of the low quantity and quality and high cost of schooling in many rural areas)
- lack of employable skills, exacerbated by lack of post-school vocational training in rural areas
- poor access to information on job opportunities—a function both of poor public services and infrastructure and youth’s limited social capital
- for young women, the early age of starting a family and women’s disproportionate responsibility for childcare are additional constraints¹⁹

¹³ Lastarria-Cornhiel, S. (2006), “Feminisation of agriculture: trends and driving forces. Background paper for the World Development Report 2008”; Chan, M. (2011), “Review of Value Chain Analyses in the Commodities and Horticulture Sectors: Roles, Constraints and Opportunities for Informal Workers,” *Women in Informal Employment: Globalizing and Organizing (WIEGO)*.

¹⁴ World Bank (2012), “Women are less likely than men to participate in the labor market in most countries,” World Bank website.

¹⁵ Winters, Paul et al. (2008), “Rural Wage Employment in Developing Countries,” *Rome: Food and Agricultural Organization (FAO)*, 18.

¹⁶ Cassells, R., Y. Vidyattama, R. Miranti, and J. McNamara (2009), “The impact of a sustained gender wage gap on the economy. Report to the Office for Women, Department of Families, Community Services, Housing and Indigenous Affairs,” National Centre for Social and Economic Modelling, University of Canberra, Canberra; Kabeer, Naila, and Luisa Natali (2013), “Gender Equality and Economic Growth: Is there a Win-Win?,” *IDS Working Papers*, 2013(417), 1–58.

¹⁷ Dasgupta, S., and R. Sudarshan (2011), “Issues in labour market inequality and women’s participation in India’s National Rural Employment Guarantee Programme,” International Labour Office, Geneva.

¹⁸ Filmer, D., and L. Fox (2014), “Youth Employment in Sub-Saharan Africa,” Africa Development Series, World Bank, Washington, D.C.

¹⁹ World Bank (2012), “World Development Report 2013: Jobs,” World Bank, Washington, D.C.

There is also considerable evidence that these constraints lead to high absolute and relative youth unemployment and underemployment rates,²⁰ with youth unemployment rates typically being two to three times higher than adult unemployment rates. Data on youth underemployment—which tends to be a greater problem than unemployment amongst rural youth in developing countries—is relatively scarce; however, data from eight developing countries shows that youth underemployment is significant (with between 10% and 39% of youth working under 24 hours per week) and higher than adult underemployment in all but one of the countries.²¹

BOX: A CAUTIONARY TALE OF LABOR-BLIND AGRICULTURAL DEVELOPEMNT

Fairtrade certification aims to reduce poverty in low-income countries by guaranteeing minimum prices and extending social premiums to export crop-producing smallholder organizations and plantations. A recent study in Ethiopia and Uganda has however found that export crops such as coffee, tea and flowers are heavily reliant on wage labor: typically 40–65% of adults reported having worked for wages in the respective sector. The households reliant on wage labor incomes were significantly poorer, possessed fewer assets and had lower levels of education compared to households that did not sell labor. However, despite their poverty status these households typically did not benefit from Fairtrade certified production. To the contrary, often the wage work on certified farms paid considerably lower wages, offered worse working conditions and fewer days of work per year. The social investments financed by the Fairtrade social premium often were inaccessible to them. The study concluded that, due to the Fairtrade intervention mechanism’s inherent lack of attention to labor issues, coupled with inadequate monitoring of standard compliance, Fairtrade had failed to benefit the poorest and those most in need of support. The study contributed to inducing a partial rethinking within the voluntary standard industry, which at last is showing an increase in its efforts to improve conditions for wage workers. However, it provides a prime case study of how a lack of consideration for labor within program design and implementation can have highly adverse effects on poverty reduction outcomes.

Source: Cramer, C., et al. (2014), “Fairtrade, Employment and Poverty Reduction in Ethiopia and Uganda. Final Report to DFID, with Appendices.”

APPLYING A LABOR LENS TO AGRICULTURAL DEVELOPMENT

Based on the LEO literature review, a range of implications emerge for how agricultural development projects and activities can apply a labor lens to greatly increase impact on poverty reduction.

1. Actively include (and, where appropriate, focus on) wage workers as a key beneficiary group

The majority of agricultural development activities primarily focus on the production and sale of crops by smallholder farmers. Such targeting is likely to miss those who are in most immediate need of support: the numerous land- and asset-less people in rural areas, as well as marginal and disadvantaged farmers who depend on wage incomes. By targeting households in their capacity as farmers, and by principally supporting only self-employment-based pathways out of poverty (such as own-account farming and entrepreneurship), the breadth and depth of impact on poverty is greatly reduced. To address poverty reduction, resilience, and food security, a renewed focus is needed on incomes and jobs.

2. Broaden activities to include quantitative and qualitative analytical work

Because formal statistics on wage labor are so unreliable, a shift is needed in the project design process to develop effective labor-related interventions. Rather than prescribing pre-defined solutions in fixed design documents, it is important to create cycles of responsive evidence collection, context-specific intervention design and implementation,

²⁰ Bennell, P. (2007), “Promoting livelihood opportunities for rural youth,” Knowledge and Skills for Development, IFAD.

²¹ Van der Geest, Kees (2010), “Rural youth employment in developing countries: a global view,” Rural Employment Overview/Synthesis No. 1, Food and Agricultural Organization.

and recurring phases of project scrutiny and revision to ensure adequate impact on employment and labor-based poverty reduction. (Such an approach is in line with USAID’s Collaborating, Learning and Adapting approach.²²) Data collection and analysis should be disaggregated by sex, age, and other relevant characteristics such as ethnicity, education or poverty. Projects may also need to accept greater reliance on qualitative and case study evidence, and develop or pilot practical ways to assess project impact on casual, often-seasonal, wage labor.

3. Focus on initiatives that increase work quantity and have a tightening effect on labor markets

In rural areas, labor supply typically greatly outruns labor demand; and within agriculture, demand is highly seasonal, leading to labor shortages during brief periods, and long spells of un- or underemployment throughout most of the year. Due to the importance of sufficient work for poverty reduction, it is crucial to focus on interventions with the potential to tighten the labor market—i.e., reduce the gap between supply and demand. This could include smoothing demand by increasing the number of harvests through the introduction of irrigation, commercializing agricultural production to increase reliance on wage labor, or introducing non-agricultural industries and employment. Less direct initiatives should also be considered, such as reducing child labor and addressing the drivers for low school attendance to encourage employers and household heads to replace working children with (ideally, paid) adult workers. Similarly, measures that reduce birth rates, lengthen years of schooling, and delay the age of marriage (particularly for women), may be effective. Furthermore, social protection measures can both create jobs (in the care service sector), and withdraw some groups partly or wholly from the labor market, such as disabled or elderly people.

4. Choose sectors, value chains, and enterprises with large wage employment potential and impacts

Potential for labor-intensive production and positive employment impacts should be a key guiding principle for the selection of target industries, sectors, and interventions. Labor-intensive sectors—both within agriculture (e.g., horticulture and many export crop sectors), as well as (rural) manufacturing and agro-processing, which create a large number of manual jobs that are accessible to the poor—should be particularly favored. Furthermore, linkages between sectors should be factored in to make sure interventions can reap maximum labor impact across an economy as a whole. For example, increased wage incomes in one sector may lead to increased remittances and investments in other sectors (such as agriculture), and thus a tightening labor market effect in the wider economy. Recognizing that individuals and households engage in multiple activities as producers and laborers, a portfolio of value chains should be supported to encourage diverse livelihoods that spread risk, maximize the sustainable use of land and labor resources, and allow for greater income smoothing.

5. Contribute to improving the quality of work

Most jobs accessible to the poor offer disagreeable working conditions, and development activities can contribute greatly to improving them. Most fundamentally, the worst forms of employment, including forced labor and child labor should be eradicated wherever possible. Other important areas for intervention are the reduction of health and safety risks, and general improvements in work-related social protection coverage (e.g., maternity benefits, severance pay, company pensions, and health insurance schemes). Often, but not exclusively, most potential lies in sectors that value product quality, or target high-end market segments, and where better working conditions lead to higher productivity. Sectors dominated by larger employers who can shoulder the fixed costs of investing in better working conditions can have great potential to create more and better jobs. Since this is context-specific, labor interventions should be preceded by a needs assessment that includes identifying “quick wins” for employers that also deliver significant improvements for workers.

²² <https://usaidlearninglab.org/resources/CLA>

6. Challenge the “conventional wisdom” that pits improved labor conditions against economic growth and competitiveness

Many enterprise-level case studies show that improvements in working conditions can be achieved while simultaneously strengthening commercial performance.²³ However, labor interventions need to be designed and implemented carefully to avoid adverse impacts on competitiveness. In particular, improvements in wages should be addressed in combination with efforts to improve productivity, particularly when working with small-scale farmers or enterprises, who have limited scope for improved working conditions.²⁴ Where possible, implementers should target value chains with a positive relationship between improved labor conditions and competitiveness. Close collaboration with employer and industry associations, and targeted value chain and industry assessments can be important ways to identify such opportunities.

7. Include specific interventions focused on women, as well as on migrant workers

Specific initiatives are likely to be needed to address impoverished women’s limited access to waged work. This may include awareness-raising or sensitization efforts to encourage more equal sharing of household chores, control over income, and decision making within households; as well initiatives to mitigate restrictions on women’s mobility, and policies to promote girls’ education and equal pay for women.

Because migration frequently offers pathways out of poverty,²⁵ targeted efforts for migrant workers (both internal and cross-border migrants) need to be considered. These should include efforts to eliminate the worst labor abuses (e.g., forced labor, physical and sexual abuse, and exposure to life-threatening health and safety hazards) on farms and in enterprises that employ migrant workers. Support to defray the cost of transportation and living expenses during job searches beyond the home village could also have an impact on poverty reduction.

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²³ HomeWorkers Worldwide (2010), *A Hard Winter in Petrich*; Mathers, N., and R. Slater (2014), “Social protection and growth: Research synthesis,” Department of Foreign Affairs and Trade, Australian Government; and Barrientos, S., and S. Smith (2006), “The ETI code of labour practice - do workers really benefit?” Report on the ETI Impact Assessment 2006 No. Part 1: Main Findings, Institute of Development Studies, University of Sussex, Brighton.

²⁴ Hurst, Rosie, Hilary Murdoch, and Daniella Gould (2005), “Changing over time: tackling supply chain labour issues through business practice. The Impactt Overtime Project,” Impactt Limited, London.

²⁵ Beegle, Kathleen, Joachim De Weerd, and Stefan Dercon (2011), “Migration and Economic Mobility in Tanzania: Evidence from a Tracking Survey,” *Review of Economics and Statistics*, 93(3), 1010–1033.