

# Employing the Ultra-Poor in Ghana

## Investigating Rural Labor Markets



### In brief

- Recent research suggests that labor market imperfections are critical impediments to development in rural areas in Sub-Saharan Africa.
- Agriculture is the main economic activity in rural Ghana, and most people participate in subsistence farming, employ family labor and grow food for consumption. Few undertake wage labor as an important income-generating activity.
- This study attempts to explore what factors would affect a person's decision to participate in paid labor, and why labor markets in Sub-Saharan Africa are so thin, and what role could anti-poverty programs have in improving them.
- This research provides new evidence that the rural poor are both willing and able to participate in paid labor, suggesting a high demand for employment programs. There was high participation in the employment program and most people were highly unresponsive to changes in wages.
- Employment programs and financial services may be more effective when implemented together. Clients with access to savings responded positively to the high wage.
- Anti-poverty programs that improve the mental and physical wellbeing of the poor may also improve their capacity to participate in the labor market. Holistic anti-poverty programs like GUP may have positive impacts that go beyond their immediate outcomes.

## Policy Motivation

*“Why don’t more people engage in paid labor, and what consequences does this have for household welfare?”*

There is increasing evidence that labor market imperfections are critical impediments to development in rural areas, particularly in Sub-Saharan Africa. In rural Ghana, agriculture is the main economic activity for the vast majority of households. Most practice subsistence farming, employing family labor and growing food for consumption, and few people participate in wage labor as an important income-generating activity. However, when family labor is valued at market prices to calculate profits, farm profits are generally negative. Why don’t more people engage in paid labor, and what consequences does this have for household welfare? This project explores two categories of questions that aim to understand the underpinnings of rural labor markets imperfections. First, if people did have access to paid labor, what factors would affect their decisions to participate or not? Second, why are labor markets in Sub-Saharan Africa so thin, and what roles might anti-poverty programs play in improving them?

## Policy Impact

This research provides powerful theoretical insights into rural labor markets, and as such has the potential to inform a broad range of development policies. It provides new evidence that the rural poor are both willing and able to participate in paid labor, suggesting that there might be high demand for employment programs in rural areas. Moreover, it suggests that employment programs combined with financial services are likely to be particularly effective anti-poverty measures in rural areas. Finally, it suggests that anti-poverty programs that successfully improve mental and physical wellbeing may have unintended positive impacts by enabling participants to be more productive potential members of the labor force, suggesting that investment in such programs might have large returns.

## Audience

This brief targets governmental and non-governmental organizations that are involved in employment programs, rural micro-lending and savings programs, health and nutrition programs, and holistic anti-poverty programs.

## Policy Implications

*“The policy implication is that there may actually be high demand for employment programs that extend to rural communities”*

**The rural poor are both willing and able to participate in paid labor.**

The fact that there was such high participation in the employment program, and the fact that most people were highly unresponsive to changes in wages, implies that farm labor has quite low returns for most people in this population. The ultra poor seem willing and able to engage in paid labor if they have the opportunity to do so. The policy implication is that there may actually be high demand for employment programs that extend to rural communities—and presumably, high impact as well.

## **Employment programs and financial services might be more effective when implemented together.**

*“The upshot is that employment opportunities and access to financial services might be complementary”*

The fact that only clients with access to savings responded positively to the high wage might imply that access to financial services, and savings in particular, makes paid labor more attractive. It may also imply the opposite: that access to employment makes savings opportunities more attractive. The upshot is that employment opportunities and access to financial services might be complementary—they might both be more effective when provided in conjunction with the other. If at the end of the day clients are able to use savings to make sustainable improvements in their lives, then this kind of joint intervention might have an extremely high impact. On the contrary, either intervention in isolation may be less effective.

## **Anti-poverty programs that improve the mental and physical wellbeing of the poor may also improve their capacity to participate in the labor market.**

The finding that clients with access to the full package of services (GUP) are less responsive to changes in the complexity of task, relative to clients in the control and savings-only groups, suggests that there may be some sort of nutritional or cognitive poverty trap at work. The mechanism by which GUP might enable individuals to engage in complex tasks is unclear—nutrition, mental health, cognitive ability, and other factors may play a part. If our endline survey substantiates this finding, the policy implication is that holistic anti-poverty programs like GUP may have impacts that go beyond immediate outcomes—they may also improve people’s ability to engage in complex tasks, and thereby make them both more productive potential participants in the labor market.

## **Implementation**

Because this study did not test a particular policy (the employment program was devised for research purposes, not as a feasible development program), its conclusions do not include specific guidance for the implementation of policy measures.

## **Dissemination**

- Livelihood Enhancement and Skills Development Program, Government of Ghana
- Millennium Villages Project, Ghana
- Microfinance and Small Loans Centre (MASLOC), Government of Ghana
- Savannah Accelerated Development Authority (SADA), Government of Ghana
- CARE, Village Savings and Loans Initiative, Ghana

## Further Readings

Alderman, Harold, Jere Behrman, David Ross, & Richard Sabot. (2009). The Returns to Endogenous Human Capital in Pakistan's Rural Wage Labour Market. *Oxford Bulletin of Economics and Statistics*, 58(1): 29-55.

Betcherman, Gordon, Karina Olivas, & Amit Dar. (2004). Impacts of Active Labor Market Programs: New Evidence from Evaluations with Particular Attention to Developing and Transition Countries. *The World Bank: Social Protection Discussion Paper Series*, No. 0402.

Jonasson, Erik. (2008). Earnings Differentials in the Rural Labour Market: Does Non-Agricultural Employment Pay Better? *Lund University Working Paper No. 2008: 7*.

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