LIVELIHOOD DIVERSIFICATION AND INCOME SECURITY: AN OVERVIEW OF PUSH AND PULL FACTORS

Jyotishman Lahon
Research Scholar, Department of Economics, Dibrugarh University, Dibrugarh, Assam

Abstract:
Diversification of livelihoods plays a key role in eradicating poverty and is a widely used approach for adjusting to environmental and economic shocks. Diversification helps in minimizing risks and providing better opportunities and returns. Although diversification occurs in all sectors of an economy, rural diversification has the highest contribution to poverty reduction. However, diversification is not always a choice. Need based diversification can sometimes work contrary to what was planned. This paper attempts to study the factors that determine whether diversification is choice based or need based, and how the process of diversification can be economically discriminatory owing to the initial endowments of resources with different economic groups.
Keywords: Poverty, Necessity, Choice, Agriculture, Household

Diversification in general is regarded as part of structural transformation process of an economy. At the macro level, developing countries like India tend to diversify towards secondary (manufacturing) and tertiary (service) sectors with agriculture contribution to Gross Domestic Product (GDP) gradually diminishing. It must be mentioned at the very outset that although secondary and tertiary sectors provide better opportunities for income generation, the growth in agriculture sector is more poverty-reducing than growth in other economic sectors (Ravallion and Datt, 1996). According to a Food and Agriculture Organisation (FAO) study on farming systems and poverty, the most effective method for reducing poverty for small-scale farmers in South and South East Asia is diversification (FAO/World Bank, 2001). Empirical research consistently demonstrates that households can increase their incomes, improve food security and increase agricultural output by easing capital constraints, and also better withstand environmental stresses by diversifying their livelihoods away from subsistence farming. There is also strong evidence for the contribution of diversification to the development of household capacities for long-term income and food consumption stabilization. Developing nations are not the only ones with a tendency towards diversification. Even in industrialized nations, farmers diversify not only to reduce risk but also to increase greater financial returns. As a result, programmes aimed at reducing poverty now place a strong emphasis on creating opportunities that will allow rural households to diversify. Hence in this chapter we will deal majorly with livelihood diversification in the rural perspective which is generally understood as a sustainable process that can cope and recover from seasonal and temporal shocks, maintain and enhance capabilities and ensure livelihood opportunities for upcoming generations while contributing positively to other livelihoods.

Diversification: Necessity versus Choice

The widely hailed pro-poor element of diversification, however, is confusing when examined in the context of the basic asset privileges of the decision-makers and the causal genesis of diversification. Ellis (2000) divides the decision-making criteria for diversification into two categories: need and choice. Diversification by choice refers to a household's decision to diversify voluntarily. In this instance, a household decides to diversify not just for survival but to accumulate wealth as well. This is a proactive choice that promotes upward mobility for well-being. On the other side, necessity-driven diversification is the product of desperation and the last resort of weak households to survive. In this situation, diversification may result in the household moving to a less secure kind of livelihood than the one they were in before. Different off-farm industries have varying investment requirements and yields. Although the returns on investments in the high return areas are larger, starting a business in these fields requires more personal, social, and financial resources. As a result, low-income households are less prone to work in areas with high returns. Therefore, diversification may not significantly aid their efforts to escape poverty.

Nobel laureate Amartya Sen's approach to livelihood diversification was about broadening the capabilities of rural masses which can lead to better access to credit and assets and thus propel income generating activity. It emphasizes a shift in focus from a materialist perspective of food production to a social perspective of enhancing people's capabilities to earn their own livelihoods. However, this approach has several constraints such as the existence of socio-economic barriers in rural areas that oppose the process of improving capabilities such as access to higher education and health service facilities. Accordingly, as per the national income data, the rate of diversification in the Indian economy is such that although some changes in the inter-sectoral composition are taking place, the pace is comparatively slower than other developing countries. This is expected since agriculture in India is still very much dependent on seasonality, leaving the rural livelihoods exposed to the mercy of nature. Taking these factors into consideration, two broad approaches have been proposed as a means to accelerate the process of diversification and income generation. The first approach, which is viewed from a long-term perspective, prescribes improving rural peoples' capability through better access to vocational training, education and health care services. The second approach, which is viewed from a short-term perspective, talks about sustainable asset creation through improving access to credit and productive utilization of the same. Both these approaches are often dependent on each other and challenges arise in deciding the choice of implementation in a particular rural sample.

Diversification away from agriculture into industry and services is well understood but there still exists lack of clarity when talking about diversification within agriculture. Changes could be in the form of shifting from one crop to another, from one livelihood (crop cultivation) to another livelihood (animal husbandry) etc. Another type of diversification might be addition of new resources or alternative use of existing resources to augment the main livelihood. Thus, diversification broadly can be of three kinds; (i) Shifting from farming to non-farming activities, (ii) Shifting from lesser to more profitable crop or livelihood, (iii) Alternative usage

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of resources in complementary activities. However, these three classifications are not mutually exclusive and more often than not, diversification overlaps in the form of one or more of the aforementioned kinds. The first kind refers to diversification of the rural economy as a whole, rather than just agriculture. The second kind of diversification reflects farmers' response to price changes and subsequent efforts to adjust to the market conditions. The third kind of diversification is about identifying unemployed or under-employed resources and utilising them to the full potential to boost income generation. Though these three classifications can be differentiated in theory, but in reality, the available data does not provide scope for accurate micro-level classification. Decision to follow a certain type of diversification pattern is undertaken at the household and farm level, however, data is usually available at the regional or in some cases, village level. Thus, there exists certain limitations while studying the classifications of different kinds of diversification.

Push and Pull factors

The factors behind diversification and the pace of changes occurring keep varying in different situations. In the 1980s, the rice growing countries of South-east Asia were faced with a sharp decline in rice prices which opened up two immediate options: either to support the domestic rice growers with subsidies or to allow rice-growing farmers to adjust to the changing market conditions. None of the options were economically sustainable and hence the World Bank stepped in to propose gradual diversification as a better alternative. Gradual diversification involved moving farm resources, including manpower, away from agriculture. In the Indian context, diversification was advocated for certain additional reasons, major among them being the unchecked usage of pesticides and fertilizers during the initial years of the green revolution which permanently depleted the soil productivity and fertility. The above-mentioned reason can be considered as a 'push' factor. Now coming to the 'pull' factors, demand for high-value food products in India have been increasing at a faster rate compared to that of staple crops. Ravi and Roy (2006) found that the scope of increasing income through staple crop cultivation is gradually diminishing, primarily because the demand for staple crops has stagnated. Consumption patterns are now shifting towards high-value agricultural commodities such as dairy, fruits, vegetables, fish, poultry, processed food etc. The authors have tried to project demand in India till 2020 and the findings show that diversification in consumption pattern towards high-value agriculture products will become more prominent with income growth of consumers and increase in other determinants such as urbanization. Also, the increase in globalization has created new avenues for the export of high-value agricultural products. Diaz-Bonilla and Recca (2000) study found a trend of increasing flow of exports of high-value agricultural commodities from developing to developed countries. Dorjee et al (2002) found that income security has increased in rural regions where diversification occurs, especially in enterprises of horticulture, animal husbandry and aquaculture. Thus, it can be said that from the perspective of poverty reduction, agricultural diversification is quite appealing. A favourable result that has been observed is that diversification in the Indian agriculture scenario displays a bias towards small and marginal land owners. Some high-value products such as vegetables require high labour endowments which is supplied by the large family sizes of small land owners.

As mentioned earlier, concerns of income stabilisation in the face of sharp decline in rice crop prices have prompted many countries in South-east Asia to pursue policies for diversification in agricultural products. Despite an increase in the pricing of agricultural commodities in recent years, the real revenue from the cultivation of traditional crops has decreased. The expenses and dangers associated with agricultural production have increased at the same time. The only way for rural households to survive in this circumstance is to either adjust their planting patterns or acquire additional sources of income. As a result, South Asian rural households participate in a variety of agricultural and non-agricultural occupations. They combine farming of crops with animal husbandry, for example, and use fishermen as agricultural labourers and fishmongers in local markets in addition to limited cultivation by rural artisans and agricultural labourers who pull trolleys. Major objectives for diversification are manifold; (i) to increase the income of small land holders, (ii) full employment of farm households, (iii) stabilizing farm incomes over the seasons and (iv) preservation of natural resources. Livelihood diversification is very beneficial for small land owners who want to broaden their aspects of income generation. Small and marginal land holders tend to have better labour endowments (larger families), so they are better equipped for cultivating labour-intensive high value crops. However, there are several constraints facing small and marginal land holders. If the high-value products have not been grown by the farmer before, there will be information asymmetry and lack of experience which might reflect on production and marketing opportunities. This problem particularly arises when the target consumer group has stringent quality and safety guidelines. Moreover, small and marginal land holders who opt for high-value commercial crops have to depend on the market for their daily food requirements, thereby exposing themselves to the risks of the market. Again, producing and marketing high-value agricultural commodities require significant capital (fixed) costs which might take a lot of time to recover.

Thus, to conclude, it can be said that rural diversification and income opportunities is influenced by facilities in nearby regions, availability of markets, level of education and awareness about the prospective benefits etc. Moreover, the well-off households diversify for "good reasons," not just for survival but also for accumulation. Therefore, individuals have a higher chance of entering high-return enterprises and achieving wealth or well-being. On the other hand, asset-poor households are less likely to succeed in overcoming entry hurdles and are restricted to low-return sectors that contribute little to well-being. Additionally, the accumulation of assets by already wealthy households serves as the foundation for additional lucrative diversification, creating a positive feedback effect that strengthens the favourable conditions for well-being in this nexus. On the other hand, the poorer households are confined to the same low-return sectors, which leads to an overall increase in inequality.

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