



HARTI POLICY BRIEF



Income Diversification as a Sustainable Livelihood Strategy for Rural Development: An Assessment of Optimal Conditions

Key points

Purpose of Briefing

The following policy brief provides policy options to implement income diversification initiatives sustainably in Sri Lanka, by reviewing governments and major foreign aid projects implemented towards income diversification of rural communities.

Recommendations

- When designing and implementing a sustainable income diversification programme, it should be clearly stated that how the income diversification programme would achieve key social, economic and environmental sustainability factors at the initial planning stage and during monitoring and evaluation stages.
- Emphasis should be given to the factors that have been identified as “key determinants” during beneficiary selection and how they can affect sustainable project implementation should be clarified. Eg: According to study findings, likelihood of income diversification is high among older household heads, relatively to young ones. This is an indication of the experience and risk taking ability in older population, based on their knowledge and experience which make them more willing to diversify their income than the younger population.
- During project design, implementation, and monitoring and evaluation stages a clear plan should be designed as to how the impending macro and micro environmental issues will be addressed and beneficiaries should be properly trained to face and thrive during a crisis situation by using diverse coping or diversification mechanisms. Thus the project would function without a consistent external support.

Background

Income diversification can be defined as “a process by which rural households construct increasingly diverse livelihood portfolios, making use of increasingly diverse combinations of resources and assets in order to meet their basic needs, improve their living standards or welfare, and manage risks (Niehof, 2004)”. Hence it can be considered as one of the important aspects of employment creation for agrarian communities in Sri Lanka.

Income source diversification would lead to employment creation, increased resilience in agrarian and rural communities while helping reduce agrarian and rural poverty amid adverse conditions such as environmental shocks. Since independence, over the decades along with the major structural changes taking place in the agricultural sector, diverse rural and agrarian development policies have been implemented by successive governments. However, the highest number of poverty incidences in Sri Lanka is recorded in the rural sector except for the estate sector. Poverty conditions are further aggravated by recent environmental and economic shocks. In this context, income diversification can be identified one of the coping strategies to minimize these emerging challenges related to farmers’ livelihoods.

Despite the huge potential associated with moving in to alternative income sources for agrarian and rural development and poverty alleviation, a systematic study has not been done in Sri Lanka to assess the optimal conditions required to implement income diversification as a sustainable livelihood strategy for rural development. Therefore, this study was conducted with the objective of assessing the optimal conditions required in a particular rural setting to promote income diversification as a sustainable livelihood strategy for rural development.

Key Findings

Overall income diversification situation of the country

The overall income diversification situation of the country was analyzed using the micro data of the Household Income and Expenditure Survey (HIES) for 2019 and 2013 collected by the Department of Census and Statistics.

Nature of Income Diversification

A majority (around 60%) of households have received income from paid employment while only around 30% have received income from agricultural activities including both crops and livestock. Of the total sample, nearly 20% of the households depend on one income source and no diversification was observed. Among the households relying on cultivation of seasonal crops majority (79%) were engaged in paddy cultivation while 19% and 10% were engaged in cultivation of vegetables and cereals respectively. Of the households engaging in cultivation of perennial crops majority cultivates plantation crops (tea, rubber, coconut) followed by minor export crops (coffee, pepper, betel, etc) category.

Determining factors of Income Diversification in Sri Lanka

This analysis included 2013 HIES micro data set covering 20157 households and 2019 HIES micro data covering 19772 households and determining factors of income diversification were estimated using Multinomial Logistic Regression Model.

Major determining factors are age of the household head, his/her level of education, number of members in the household, number of workers in the household who are above 15 years, number of members suffering from chronic illness or disability, district, gender of household head, indebtedness, and ownership of agricultural lands and ownership of livestock.

Review of previous income diversification initiatives in Sri Lanka

Study reviewed five major income diversification initiatives implemented in Sri Lanka since 2006 to understand key strengths, weaknesses, opportunities and threats associated with those projects.

Strengths

Having a well-structured project structure at national and regional level, provision of assistance to large number of households, availability of Island wide network were identified as key strengths. In addition, increased women participation, community empowerment, and continuous attempts of the government authorities to adhere to international standards were other key strengths.

Weaknesses

However, weaknesses of targeting lose transparency, corruption, frequent changes in leadership and external influences in selecting leadership rather than focusing on leadership qualities, poor addressing to actual needs of beneficiaries, lack of integrity between leadership, other officers and beneficiaries and poor monitoring and evaluation were found to be hindering factors to achieve the objectives of these initiatives.

Opportunities

The study identified that usage of multi-skills for income generation, lower cost of production due to usage of own resources, and public policy having high priority for poverty alleviation as potential opportunities to make these initiatives further successful.

Threats

However, absence of proper and constant market for products, climate change repercussions, degradation of natural resources and economic recession were identified as major threats for the success of these initiatives.

Key factors affecting sustainability of income diversification initiatives in a given context

To identify key factors affecting sustainability of income diversification initiatives, four cases of income diversification initiatives implemented in Sri Lanka by World Bank funds, European Union funds, and the United Nations Development Programme (UNDP) funds were analysed in detail. The major factor affecting sustainability was identified using principle component analysis and level of sustainability was measured using Composite Index approach.

The table 01 shows the level of sustainability of each project selected.

Table 01: Level of Sustainability

Case study	Funding body	Sub compost indices- Social	Sub compost indices- Economical	Sub compost indices- Environmental	Composite Sustainability Index
Agriculture sector modernization project	World Bank	0.25*	0.25*	0.21*	0.24*
Integrated Economic Development of Central and Uva Provinces of Sri Lanka	European Union (Implemented by the ACTED)	0.30*	0.39*	0.18*	0.29*
Framer Market Project	UNDP funds	0.22*	0.39*	0.05*	0.22*
Gami Diriya/ Gama Naguma	World Bank	0.19*	0.21*	0.28*	0.23*

* Denote significant at 5%

Factors affecting different categories of sustainability

Social Sustainability

The major factors affecting the social sustainability were found to be sufficient and equal access to basic needs, sufficient and equal access to social infrastructure, preserve the rights of other people's livelihood opportunities, help improve community development, inherent ability to resolve immersing issues, mechanisms for political advocacy to meet needs of income generating activity, provide opportunities for learning and self-development, encourage social cohesion, inclusion and interaction, help overcome disadvantage attributes due to personal disabilities, increase sense of environmental security and increase the level of social recognition.

Economic sustainability

Major factors affecting economic sustainability were found to be help generate employment opportunities, provide benefits to other liaison organizations, help generate benefits to entire community, and help improve existing infrastructure.

Environmental sustainability

The major factors affecting environmental sustainability included favour maintenance, enhancement and conservation of natural resources, increase ecological awareness of the society, help conserve natural resource base and cause reduce soil erosion, declining of water table, soil salinization.

Causes affecting level of sustainability of income diversification initiatives

The table 2 shows the major external environmental factors that affect the above discussed sustainability factors while table 3 shows, major internal environmental factors that affect the sustainability of the project.

Study findings explain that once an income diversification initiative is implemented, there are macro, and micro environmental factors which can have an impact on the sustainability of income diversification initiative. The levels of control the project implementers have on internal environmental factors are higher compared to macro environmental factors.

Table 02 : External environmental factors

Technological factors	Input issues
Economic factors	Reduced demand
	Price issues
	Power generating issues
	Fuel issue
	Agrochemical issue
	Poor infrastructure facilities
	High cost of production
	Issues with fund allocations
	Reduced productivity
	Macro-economic impacts collapse business
Political and legal factors	Legal issues on extracting raw materials
Global factors	Macro-economic impacts collapse business
Environmental factors	Crop damages by wild animals and pests
	Natural hazards

Table 03: Internal environmental factors

Human resources	Lack of participation and coordination between beneficiaries
Value system	Perceptions on farm operations being difficult
Financial and market resources	Poor infrastructure facilities
	Issues with fund allocations
Plans and policies	Institutional issues
	Poor infrastructure facilities
	Not receiving project benefits on time
	Quality issues
	Issues with project planning and implementation

Key Recommendations

- When designing and implementing a sustainable income diversification programme, it should be clearly stated that how the income diversification programme would achieve key social, economic and environmental sustainability factors at the initial planning stage and during monitoring and evaluation stages.
- Emphasis should be given to the factors that have been identified as “key determinants” during beneficiary selection and their impact on sustainable project implementation should be evaluated. Eg: According to study findings, likelihood of income diversification is high among older household heads. This can be attributed to the experience and risk taking ability in older population as their knowledge and experience accommodate risks compared to younger population.
- During project design, implementation, and monitoring and evaluation stages a clear plan should be drawn up to address potential macro and micro environmental issues and beneficiaries should be properly trained to thrive in a crisis situation, using diverse coping or diversification mechanisms. Thus the project will continue without consistent external support.