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## **RURAL LIVELIHOOD DIVERSITY IN DEVELOPING COUNTRIES: EVIDENCE AND POLICY IMPLICATIONS**

**Frank Ellis**

*This paper examines livelihood diversification as a survival strategy of rural households in developing countries. Although still of central importance, farming on its own is increasingly unable to provide a sufficient means of survival in rural areas. The paper's objectives are first, to increase awareness of livelihood diversification in approaches to rural development; second, to consider the interactions among diversification and poverty, farm productivity, natural resource management and gender relations in rural areas; and third, to advance the policy understanding of diverse rural livelihoods.*

### **Policy conclusions**

- Reform in the sense of good governance is unfinished business in rural areas; in most low income countries an enabling and facilitating environment for the spread of diverse non-farm income-generating activities can hardly be said to exist.
- Human capital is widely substantiated as a key to successful livelihood diversification; the delivery and quality of rural education and skills acquisition requires continuing emphasis.
- Infrastructure (roads, power, communications) has a powerful effect on mobility and choice, it continues to merit priority.
- The current emphasis on micro-credit is not misplaced, despite growing recognition of certain weaknesses to which it is prone; continued innovation and improvement of rural micro-credit schemes in poor countries helps to promote diversity.
- Enhancing the asset status of rural women merits special attention; including their human capital, independent ownership rights over land and other resources and participation in social processes.

### **Concepts and Context**

The research reported here draws on a wide range of published and unpublished sources. It has its origins in the 'assets/processes/activities' framework that is utilised

in various different guises by researchers concerned with poverty reduction, sustainability, and livelihood strategies (e.g. Carney (ed.), 1998; Scoones, 1998). In recent times this has come to be called the sustainable livelihoods (SL) framework, and is viewed as equally applicable to urban as to rural survival strategies. Assets in this framework include: human capital (the education, skills and health of household members); physical capital (e.g. farm equipment or a sewing machine); social capital (the social networks and associations to which people belong); financial capital and its substitutes (savings, credit, cattle, etc.); and natural capital (the natural resource base). In pursuing livelihood strategies composed of a range of activities, both the access to assets and the use to which they can be put are mediated by social factors (social relations, institutions, organisations) and by exogenous trends (e.g. economic trends) and shocks (drought, disease, floods, pests). The framework provides a checklist by which constraints on livelihood success can be prioritised for action to remove them, and the links between them identified.

In line with the SL framework, a livelihood is defined here as ‘the activities, the assets, and the access that jointly determine the living gained by an individual or household’<sup>1</sup>. Rural livelihood diversification is then defined as ‘the process by which households construct a diverse portfolio of activities and social support capabilities for survival and in order to improve their standard of living’ (see also Ellis, 1998; Ellis, forthcoming).

The tendency for rural households to engage in multiple occupations is oft remarked, but few attempts have been made to link this behaviour in a systematic way to rural poverty reduction policies. In the past it has often been assumed that farm output growth would create plentiful non-farm income earning opportunities in the rural economy via linkage effects. However, this assumption is no longer tenable; for many poor rural families, farming on its own is unable to provide a sufficient means of survival, and the yield gains of new technology display signs of levelling off, particularly in those regions where they were most dramatic in the past.

The causes of the adoption by rural families of diversified income portfolios are better understood than the policy implications. Considerations of risk spreading, consumption smoothing, labour allocation smoothing, credit market failures, and coping with shocks can contribute to the adoption, and adaptation over time, of diverse rural livelihoods. However, livelihood diversity results in complex interactions with poverty, income distribution, farm productivity, environmental conservation and gender relations that are not straightforward, are sometimes counter-intuitive and can be contradictory between alternative pieces of case study evidence.

Future rural poverty reduction policies need to be better informed on the nature of these interactions. For example, it is fairly well known that the poor diversify in less advantageous labour markets than the better-off, i.e. in casual, part-time and unskilled work compared to full-time work or substantive self-employment. These findings are related to the asset status of the poor (e.g. low human capital) and barriers to entry resulting from low assets (need for skills, ability to navigate bureaucratic hurdles, etc.). It is possible that facilitating the poor to gain better access to opportunities (or to create their own opportunities) may turn out to be substantially more cost effective for poverty reduction than attempting, artificially, to support particular sectors or sub-sectors of rural economic activity.

## **Evidence on diversification**

### **Extent**

Empirical evidence from a variety of different locations suggests that rural households do indeed engage in multiple activities and rely on diversified income portfolios. In sub-Saharan Africa, a range of 30–50 per cent reliance on non-farm income sources is common; but it may attain 80–90 per cent in southern Africa. In south Asia, on average, roughly 60 per cent of rural household income is from non-farm sources; however, this proportion varies widely between, for example, landless households and those with access to land for farming. In sub-Saharan Africa reliance on agriculture tends to diminish continuously as income level rises, i.e. the more diverse the income portfolio the better-off is the rural household. Elsewhere, a common pattern is for the very poor and the comparatively well off to have the most diverse livelihoods, while the middle ranges of income display less diversity.

### **Poverty and income distribution**

It is widely agreed that a capability to diversify is beneficial for households at or below the poverty line. Having alternatives for income generation can make the difference between minimally viable livelihoods and destitution. However, diversification does not have an equalising effect on rural incomes overall. Better-off families are typically able to diversify in more favourable labour markets than poor rural families. Total income and the share of income derived from non-farm sources are often positively correlated. Different income sources may have strongly differing impacts on rural inequality. For example, unequal land ownership may mean that a policy focus on crop income favours the rich above the poor; however, greater access to non-farm wage income would have the reverse effect.

### **Agriculture**

The conventional wisdom for many years has been that rising output and incomes in agriculture itself are the catalyst for diverse non-farm activities in rural areas. However, in sub-Saharan Africa this has rarely been the case, since most household level diversification is not just non-farm but non-rural in character. Nor does it work in Asia once the pace of technological change in agriculture slows and crop yields level off. Evidence is mixed regarding the gains and losses to agriculture of household level diversification strategies; negative effects are associated with the withdrawal of critical labour inputs from the family farm, while positive effects include the alleviation of credit constraints and a reduction in the risk of innovation. Poor migrants from remote areas are less likely to re-invest urban earnings in agriculture, while better-off migrants from nearby or high potential areas are more likely to do so. Where on-farm diversification occurs, it can generate many of the same beneficial effects on off-farm diversification.

### **Environment**

As with agriculture, the effects of diversification on environmental resource management are mixed and context-specific. The growth of non-farm income sources might be expected to reduce the need for landless rural dwellers to carry out extractive practices in local environments for survival. On the other hand, for settled agriculturalists non-farm earning opportunities can result in neglect of labour-intensive conservation practices if labour availability is reduced. Diversification contributes positively to livelihood sustainability because it reduces proneness to stress and shocks. However, sustainable rural livelihoods need not equate with the

sustainability of all components of underlying ecological systems due to substitutions that occur between assets during processes of livelihood adaptation over time.

## **Gender**

Gender is an integral and inseparable part of rural livelihoods. Men and women have different assets, access to resources, and opportunities. Women rarely own land, may have lower education due to discriminatory access as children, and their access to productive resources as well as decision-making tend to occur through the mediation of men. Women typically confront a narrower range of labour markets than men, and lower wage rates. In general, therefore, diversification is more of an option for rural men than for women. In this sense, diversification can improve household livelihood security while at the same time trapping women in customary roles.

## **Positive and negative effects**

### **Positive effects**

A diverse portfolio of activities contributes to the sustainability of a rural livelihood because it improves its long-run resilience in the face of adverse trends or sudden shocks. In this respect, individual and family livelihoods display similarities to larger social and economic groupings up to the level of the economy at large. In general, increased diversity promotes greater flexibility because it allows more possibilities for substitution between opportunities that are in decline and those that are expanding.

The positive impacts of diversification include seasonality, risk, employment, credit and asset effects.

- **Seasonality**  
Seasonality causes peaks and troughs in labour utilisation on the farm, and creates food insecurity due to the mismatch between uneven farm income streams and continuous consumption requirements. These are often called the ‘labour smoothing’ and ‘consumption smoothing’ problem, respectively. Diversification can contribute to reducing the adverse effects, by utilising labour and generating alternative sources of income in off-peak periods.
- **Risk reduction**  
risk across activities that confront different risk profiles. The more this comprises activities that display uncorrelated risks between them, the more successful it is at achieving this end. In other words, the factors (e.g. climate) that create risk for one income source should not be the same as those (e.g. urban job insecurity) that create risk for another.
- **Higher income**  
could alone. It can do this by making better use of available resources and skills (as in seasonality above), and taking advantage of spatially dispersed income earning opportunities.
- **Asset improvement**  
to put assets to productive use. Cash resources obtained from diversification may be used to invest in, or improve the quality of, any or all of the five classes of assets distinguished earlier, for example, sending children to secondary school or buying equipment like a bicycle that can be used to enhance future income generating opportunities.
- **Environmental benefits**  
Diversification can potentially provide environmental benefits in two ways.

One is by generating resources that are then invested in improving the quality of the natural resource base. The second is by providing options that make time spent in exploiting natural resources, e.g. gathering activities in forests, less remunerative than time spent doing other things.

- **Gender benefits**

It is possible for diversification to improve the independent income-generating capabilities of women and in so doing, also improve the care and nutritional status of children since a high proportion of cash income in the hands of women tends to be spent on family welfare. For this to occur, activities need to be promoted in the rural areas that are accessible to women, which means, usually, located close to sites of residence and corresponding with types of work to which women have equal or better access qualifications than men.

### **Negative effects**

Some disadvantages of the diversification examined in empirical studies are:

- **Income distribution**

Diversification can be associated with widening disparities between the incomes of the rural poor and the better-off. This occurs, as noted already, because the better-off are able to diversify in more advantageous labour markets than the poor, and this in turn reflects asset poverty especially with respect to human capital.

- **Farm output**

Some types of diversification may result in stagnation on the home farm. This typically occurs when there are buoyant distant labour markets for male labour, resulting in depletion of the labour force required to undertake peak farm production demands such as land preparation and harvesting. This occurred in southern Africa in the 1970s and 1980s, where many rural households came to depend on remittances from migrants to urban areas in South Africa for their food security.

- **Adverse gender effects**

These are primarily associated with the type of diversification that is also held to have adverse effects on agriculture. Where it is male labour that is predominantly able to take advantage of diversification opportunities, then women may be even more relegated to the domestic sphere and to subsistence food production.

On balance, the positive effects of diversification appear to outweigh its disadvantages. The positive effects tend to be beneficial impacts of wide applicability (e.g. risk reduction, mitigating seasonality), while the negative effects typically occur when labour markets happen to work in particular ways in particular places. The removal of constraints to, and expansion of opportunities for, diversification are therefore desirable policy objectives because they give individuals and households more options to improve livelihood security and to raise their own living standards.

### **Policy priorities**

There is wide scope within existing rural development policies for support to beneficial forms of diversification. Such action does not mean increasing the role of the state in particular economic sub-sectors, nor does it mean manipulating prices and costs in order to achieve specified outcomes. Rather it is about improving the

institutional context of private decision-making by, for example, reducing risk, increasing mobility, minimising barriers to entry (e.g. licensing regulations), and ensuring fairness and transparency in the conduct of public agencies. It is also about facilitating the poor to improve their assets, and to make use of those assets to best effect.

The appropriate mix of policies is highly context-specific, but some general principles are likely to hold:

- **Human capital**  
The significance of education, both formal academic education and workplace skills, for improving livelihood prospects is established by a great number of studies, and poverty is closely associated with low levels of education and lack of skills. There is little doubt that rural education is under stress in many countries. The demands made on educational systems by rising populations is one important factor, the cost of updating educational materials another. Parental contributions to the upkeep of schools are increasing, with inevitable implications for differential access that excludes those unable to meet such contributions. This makes innovative approaches to educational delivery at village level a priority in the future.
- **Infrastructure**  
Infrastructural facilities have a potentially important impact on poverty reduction by contributing to the integration of national economies, improving the working of markets, speeding the flow of information, and increasing the mobility of people, resources and outputs. As with education, future infrastructural provision will require innovative approaches to provision and maintenance. Reliance on central government and ad hoc project finance from donors cannot be depended upon to keep existing infrastructure in good repair or to make heavy investment in new infrastructure. Decentralisation may, arguably help to bring the prioritisation and the financing of rural infrastructure closer to rural communities themselves. Privatisation of infrastructural suppliers like electricity and telephone companies may help to reach remote rural areas more than under government monopolies.
- **Credit**  
Credit is already, deservedly, a priority area of micro-policy in the rural sector of developing countries. The recent emphasis has been on small-scale group lending schemes, enabling individuals and households to widen their income earning options. There are now many different models and experiments in micro-credit provision from which to adapt and to choose appropriate elements for local solutions. Credit policy is not only, however, about micro-credit schemes, many of which depend heavily for their sustainability on the continued involvement of NGOs. There is also a need to facilitate the spread of rural financial institutions that are self-sustaining on the basis of savings and loans organised according to conventional banking criteria. This requires more effort from central governments to put in place the appropriate regulatory and guarantee provisions that would encourage the formation of such institutions and ensure confidence in them in the long term.
- **Enabling environments for grassroots initiative**  
Even after nearly two decades of market liberalisation, it is a mistake to assume that an environment that facilitates small-scale enterprise is now in

place. The local level policy context often remains inimical to self-employment and start-up business. Local enterprise often arises ‘outside’ the regulations, i.e. as an unrecognised informal sector activity, and depends on paying off local officials to allow continued operation. Any business wishing to register formally therefore faces widespread reluctance to dismantle regulations, or speed up the processing of applications. It is in this sense that reform (in terms of efficiency, effectiveness, transparency and fairness of state operations), although proceeding at different speeds in different countries, is still in its early stages. One of the biggest challenges is to secure the switch from antipathy to supportiveness in the relations between public administration at local levels and private, non-farm, productive activity in rural areas.

- **Targeting and safety nets**

The purpose of targeting is to provide safety-net support for those rural social groups that are most vulnerable to ‘shocks’ that could lead to insufficient food or destitution. Indicator targeting works by identifying the social groups (landless, old, disabled, etc.) thought most likely to require support. Self-targeting works by providing wages or food in return for work at levels that can enable the poor to survive, but that are not so high as to be interesting for the better-off. In effect, self-targeting provides a diversification option for those needing to diversify to survive. A lot of work has gone into the conceptual basis of targeting, as well as into practical targeting policies in some countries, with India having a particularly interesting historical record in this respect.

These five policy areas – education, infrastructure, micro-credit, enabling environments and safety nets – are of course not by any means the only policy themes worth pursuing in relation to promoting sustainable rural livelihoods. Nevertheless, some combination of them is likely to feature in any current list of micro-policy priorities, and other policy themes are often found to overlap or involve extensions to one or other of these areas.

### **Criteria for supporting diversification strategies**

There is little doubt that the past neglect of the diversified nature of rural livelihoods has sometimes resulted in local level policies and projects that are insensitive to local priorities, mistaken in their assumptions about the availability of time, wrong in their understanding of the key income sources of poor people, and inadvertently misdirected towards the better-off rather than the rural poor. It follows that reference to livelihood criteria that capture diversity could result in projects that are more attuned to the livelihood strategies of the poor, and therefore more accurate in reaching them.

The DFID SL framework (Carney (ed.), 1998) emphasises a focus on people, their assets and their activities, rather than on sectors and their performance which is the conventional point of entry to policy. The framework can be utilised to yield a number of generalised statements about the livelihoods of the rural poor that potentially permit the formulation of a set of ‘livelihood criteria’ to be taken into account in evaluating the merits of alternative project proposals, and for seeking to

strengthen the poverty reduction content of policies or projects. A preliminary list of diversity-related points contributing to such livelihood criteria is as follows:

- Remoteness is typically associated with greater poverty and few livelihood options, and therefore it may be valid to target remote locations rather than those places already well integrated into diverse economic activities; however, remoteness may also mean fewer poor people so this is not an unambiguous criterion.
- Assets, or the lack of them, are fundamental to livelihood strategies, and for this reason policies and projects that target individuals or families and that already possess assets, are likely to improve the incomes of those who are already better-off. Indeed farm policies may have this effect due to the not-always- correct suppositions (i) that the poor are mainly poor farmers, and (ii) that there are multiplier effects of rising farm income beneficial to the assetless poor.
- Substitution between assets and between activities, is a key attribute of SLs: substitution between assets is facilitated by the possession of a diverse range of assets rather than just a few, and by working-markets that enable one type of asset to be converted into another. Substitution between activities makes livelihoods more resilient, and thus better able to adapt to unforeseen trends and hazards.
- Options are important; being poor is often a case of being trapped with no options, therefore poverty reduction requires facilitating the widening of choices and options, by taking action to improve information, encourage mobility and reduce regulatory restrictions.

These livelihood criteria can be summarised under the four headings of location, assets, substitution, and options. To this should be added knowledge about the livelihood strategies of the constituency that a policy or project is designed to help. One of the key conclusions to emerge from livelihood research is that untested assumptions about the survival attributes of rural families cannot be made. For example, it cannot be assumed from appearances that a particular rural social group is mainly dependent on the production of a particular crop or farming system for survival; investigation is likely to show that livelihood strategies are a great deal more complicated than that and most importantly, there will certainly be big differences between the poor and the better-off in relation to the sources of income that feature most strongly in their respective livelihood strategies.

## **Conclusions**

The diversity of livelihoods is an important feature of rural survival but often overlooked by the architects of policy. Diversity is closely allied to flexibility, resilience and stability. In this sense, diverse livelihood systems are less vulnerable than undiversified ones; they are also likely to prove more sustainable over time precisely because they allow for positive adaptation to changing circumstances.

While the argument of this paper suggests that practical applications of the SL framework need to place diversity high on the policy agenda, it is well to recognise that the benefits of diversity are context-specific. They apply most forcefully in contexts of high seasonality, high risk, absent markets, poor infrastructure, declining



farm size, and similar adverse factors. Historically, the progression from low to high standards of living has typically involved a transition from diversity to specialisation.

The relationship between diversity and specialisation can be explored further by recognising that the meaning of these changes at successively higher levels of social aggregation. On the one hand, a capability by individuals as well as households 'to turn their hand to anything' confers the benefits of flexibility in the presence of risk already identified. On the other hand, a household may diversify by placing different individuals in specialised occupations, thus securing flexibility at household level, while accepting a degree of occupational rigidity at individual level. In other words, diversity and specialisation do not stand in opposition to each other, except by reference to a single person taken in isolation.

It seems probable that individual level diversity characterises those (poorer) households with low human capital, while higher human capital enables household level diversity combined with occupational specialisation. These distinctions reveal that policies aimed to achieve more resilient or more sustainable rural livelihoods need to recognise not just the positive attributes of diversity for achieving those ends, but also distinctions about the differing nature of that diversity between individuals, households, and larger social or economic arenas.

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Frank Ellis can be contacted at:  
Overseas Development Group, University of East Anglia, Norwich NR4 7TJ, UK.  
Email: f.ellis@uea.ac.uk  
Tel: +44 (0)1603 593282  
Fax: +44 (0)1603 505 262

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## **Endnotes**

1 The concept of sustainable rural livelihoods used here, which builds on a capital assets framework, is that used widely by the UK Department for International Development and presented in Carney (ed)., 1998. For a summary, see paper No.2 in the ODI Poverty Briefings series (<http://www.odi.org.uk/pubs98/poverty.html>).

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**Overseas Development Institute  
Portland House  
Stag Place  
London SW1E 5DP, UK**

**Telephone +44 (0)171 393 1600  
Fax +44 (0)171 393 1699  
Email: [nrp@odi.org.uk](mailto:nrp@odi.org.uk)**



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