Reducing rural poverty as one of the objectives has occupied a prime position among the policy makers all over the world. But as rural habitats are diverging and evolving, appropriate policy directives need to be prescribed and analysed in the light of changing livelihoods influenced by the presence of a combination of contextual factors in the different rural habitats. In recent years, the choice of livelihood diversification strategies has been examined keeping in view the many contextual factors and institutions influencing diversification. Among the various factors, it is seen that availability of market opportunities plays an important role in determining livelihoods. The character of this external force, i.e. the market thus represents the vulnerability context, within which the livelihood system of different communities develops. Literature, though recent in origin, are abound on understanding livelihoods. A review of literature pertaining to these studies is cited below.
2.1 LITERATURE CONTRIBUTIONS ON LIVELIHOOD DIVERSIFICATION

Ellis (1999) on examining the rural livelihood diversity in the developing countries as a survival strategy found that 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. Remoteness is typically associated with greater poverty and fewer livelihood options. Human capital, it has been found is widely substantiated as a key to successful livelihood diversification with the least attention given to the delivery and quality of rural education and skills acquisition. Infrastructure which has a powerful effect on access to certain institutions like the market, though slow, however continues to merit priority. But the need of the hour is a diverse portfolio of activities which can contribute to the sustainability of the rural livelihood and improve its resilience in the long-run in the face of adverse trends or sudden shocks.

Ellis viewed that 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, Ellis found this assumption no longer tenable. For many of the rural households today, farming on its own is unable to provide a sufficient means of survival. The causes of the adoption of diversified livelihoods by the rural households are therefore better understood in risk spreading, consumption smoothing, labour allocation smoothing and coping with shocks from the external environment. Hence 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. It is widely agreed that capability to diversify is beneficial for households at or below the poverty line. However, it has been found that 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 families. But, since total income and the share of income derived from non-farm sources are very often than not found to be positively correlated, having alternatives for income outside agriculture can make the difference between minimally viable livelihoods and destitution. Empirical evidence suggests that rural households indeed engage in multiple activities and rely on diversified income portfolios. In sub-Saharan Africa, a range of 30-50 percent reliance on non-farm income sources is common but it is around 80-90 percent in southern Africa. In South Asia, on average, roughly 60 percent of the rural household income is from non-farm sources. However, this proportion varies widely between 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. Elsewhere, a common pattern is for the poor and the comparatively well off to have the most diverse livelihoods, while the middle ranges of income display less diversity.

Seeley (1999) attempted to analyse the increasing emphasis being put upon livelihoods approaches by development organisations as it has become increasingly important as a step towards designing development interventions or structuring research. She therefore explored what lies behind the labels used in livelihoods analysis to describe how people make a living. She argued that such
analysis often focuses on productive activities, with a strong materialistic focus. According to her while a livelihood analysis in a community may reveal information on the asset status of different groups, it may fail to record some important aspects of individual household members' livelihood contributions unless those undertaking the exercise are sensitive to the cultural and social nuances of livelihoods. Hence, analysts need to intrude further to understand the values placed on how people describe what they do.

Drawing on research from southern Ethiopia, Carswell (2000) presented evidence that non-farm and off-farm activities were carried out by a significant proportion of adults and made an important contribution to livelihoods. The study showed the contribution of diversification activities to cash incomes is particularly important for poorer households. The single most important activity is trading, while labouring for others is also important. The study also showed the need for greater historical depth in the understanding of livelihood diversification. In Highland Wolayta non-farm activities (particularly trading and labouring for others) were found to have a long history. In the case of the latter people worked as labourers as part of a set of arrangements that enabled them to gain access to key resources. These arrangements were deeply embedded in complex social relations. As these institutional arrangements have changed, so 'diversification activities' have become more visible. He, therefore, added that consideration of the historical and social contexts of livelihood change is thus critical for a firm understanding of livelihood change and the changing role and importance of diversification activities.
Toulmin et al (2000) carried a study on Mali and Ethiopia on livelihood diversification which attempted to identify the various contextual factors influencing diversification choices in livelihood and analysed what impact the diversification of activities had on household income and well being. It was found that in Mali, most farmers had attempted to spread the effects associated with being in a high risk area by developing non-farm activities. While in Ethiopia, no clear difference was found in levels and patterns of diversification between regions falling under different rainfall zones - Admencho, the area with higher rainfall and Chokare, the area of lower rainfall. In Mundena, which was situated in between the higher and lower rainfall zones, there appeared a wider range of diversification in activities. It seemed therefore, that geographical location had no particular connection with the livelihood diversification patterns but more with the opportunities available locally. A road recently constructed close to Mundena has opened a new vista of marketing opportunities. In addition to this, the researchers were also able to establish a link between population density and diversification. It was found that the non-farm activities like trading and shop-keeping were more evident in higher density areas like Admencho. Moreover, the research also revealed that the poor households diversified to survive whereas the richer households did so in order to accumulate assets. On the basis of their analysis, they established the following contextual factors in determining livelihood diversification:

i. availability of infrastructural facilities
ii. availability of and access to economic opportunities
iii. density of population
iv. wealth and asset position of the households
v. scope and requirement of migration
vi. institutional influences

In another study by Barrett, Reardon, and Webb (2001) carried on non-farm income diversification and household livelihood strategies in rural Africa emphasised that from the 'pull factor perspective', local engines of growth such as commercial agriculture or proximity to an urban area create opportunities for income diversification and hence livelihood diversification in production and expenditure-linkage activities. Again, from the 'push factor perspective', diversification is driven by limited risk bearing capacity in the presence of incomplete and weak financial systems and capacities that create strong incentives to select a portfolio of activities in order to stabilise income flows and consumption. It has been found that as a consequence of the ubiquitous presence of both the pull and push factors in rural Africa, there is widespread diversification in rural livelihoods. Despite the persistent image of Africa as a continent of subsistence farmers, non-farm sources account for 40-45 percent of average household income and seem to be growing in importance. Perhaps more importantly, non-farm activity is positively correlated with income and wealth in rural Africa and thus seems to offer a pathway out of poverty.

Another longitudinal panel study by Deb, Rao and Slater (2002) on livelihood diversification in two villages in rural Andhra Pradesh in India found that over the last twenty five years or more agriculture continues to remain the most important source of livelihood in both the villages, though the relative
importance of crop cultivation has decreased, as has real income from crops. Agriculture has become increasingly risk pursuit and households have sought other sources of income. Hence it has been found that the overwhelming source of diversification has been a coping strategy.

Soussan, Blaikie, Springate, Baginski and Chadwick (2003) in a study described the concept of livelihood as dynamic, complex and vulnerable to the shocks and trends of the factors external to it. Based on these traits, they developed a model, the central core of which reflects the internal dynamics of a livelihood system. According to it, the local community, external institutional context, the wider natural environment are filtered through the vulnerability context i.e. the external factors such as the social, economic, political, legal and institutional environment. This sub model starts with the entitlements and access the society possess to the resource base in their locality. These in turn define the capitals or livelihood assets available to the households. Taken together, the five livelihood assets, financial, social, natural, physical and human represent the capabilities and assets or the factors of production that the households can deploy. Accordingly, they viewed that a key aspect of a livelihood approach is to understand how these assets change over time and in particular how increase or reduction in them affects the livelihood choices available to the households. Therefore, the livelihood activities of the households produce a flow of income which in turn is allocated through a second key set of decisions.

This model allows one to map the consequences of change, including changes brought about through external interventions. The approach seeks to change the
local social and livelihood context, which changes the entitlements and access of
individual households. The effects on this will, however, vary from household to
household and depending on the existing dependence on the resources and their
potential for undertaking new livelihood activities. This usually has a positive
effect on the natural and social livelihood assets of the households if the process
is both egalitarian and effective. The sustainable income will be improved with
more secure flows of gathered products. In some cases, there is potential for
increase in cash income through the sale of these products. As such the effects of
change on the organisation of community based groups can be traced through
the model to analyse the cause and effect. Similarly, the secondary benefits such
as reduced vulnerabilities or improved social cohesion can be identified and
their effects mapped. Overall, the model provides an effective framework for
analysis of livelihood dynamics, and in particular the nature and effect of
vulnerabilities and the effectiveness of different forms of intervention upon
sustainable livelihoods.

In yet another study carried out by the Sustainable Development Department of
the FAO Corporate Document Repository (2003) links between livelihood
diversification in rural areas of low income countries and access to natural
resources by the poor was sought to be established. Inflexible land tenure
institutions typically act as a barrier to the optimum deployment of land as a
resource in the widespread circumstances that have been described whereby
people do best when they have the greatest ability to respond flexibly to new
opportunities both near and far. Given the overall desirability of diversification,
the question needs to be posed that how land tenure arrangements promote or
inhibit diversification, both on-farm and non-farm type. A part of the answer lies in the insecurity of tenure, including insecurity in the hereditary transmission of tenure across generations, considerably inhibits both what is done with the land when it is under a particular stewardship, and the options open for its allocation as different livelihood alternatives present themselves. Accordingly, the links between livelihood diversification and land access may be summarised as:

- Land continues to play a critical role as a key asset within a diversified rural livelihood.
- The nature of the link between access to land and diversification in livelihood varies according to different circumstances and across income groups.
- Poorly functioning or outmoded land tenure institutions inhibit the development of a rental market in land and hence hamper people's diversification options.
- In many rural areas characterised by widespread vulnerability and customary constraints on land use decision making, diversity in livelihoods is a far cry.

The foregoing analysis reveals that although remoteness is typically associated with fewer livelihood options, diversification in livelihoods in the rural areas has become a common phenomenon. While it has been found that most of the rural poor diversify to survive, the rich on the other hand, diversify to accumulate. The external institutions like the market often determine the degree of diversification. The empirical evidences suggest that rural households are engaging in multiple activities relying on diversified income portfolios. Although minimal in most of the countries, non-farm activities are contributing
to the diversification process. But land continues to play a critical role as a key asset within the diversified rural livelihood.

2.2 LITERATURE CONTRIBUTIONS ON LIVELIHOOD DIVERSIFICATION IN VIEW OF MARKET PENETRATION

A fast transition is gripping the economies of the world. Amidst this transition, the institution of market to a great extent is influencing the diversification process. A market which is a form of exchange cannot be strictly isolated from the more inclusive exchange environment in which it operates.

Thakur, Lal, Saini et al (1997) found that marketing of agricultural produce in the hills is an uphill task due to the secluded, inaccessible, remote and difficult hill terrain and lack of roads, which pose many marketing problems. Therefore, they carried out the study of actual market supply response of the farmers in Kangra and Mandi districts of the hill state of Himachal Pradesh. In order to determine the factors affecting the marketed surplus of different crops and the extent of actual impact of each factor, multiple linear and log linear regression function models were fitted and tried out. The results indicated that the foodgrain crops were grown mainly for consumption and utilisation at home. However, with increased production, some quantity is sold out by the farmers. The marketed surplus of the large farmers was found to be high. The results also indicated that the vegetables were grown primarily for sale in the market to earn cash income by both large and small farmers. The most important factor which increased marketed surplus significantly was the increase in production or output followed by reduction of payments in kind. The elasticity with respect to
the supply of different foodgrains and vegetables in the market was found to be positive and greater than unity. Moreover, in case of all the crops, the value of elasticity of marketed surplus was found to be higher for the small farmers as compared to the large farmers, showing that the responsiveness of marketed surplus to changes in production is higher in the cases of small farmers.

The detailed analysis in the two districts revealed that the main problems faced by the farmers in the marketing of their produce were low prices, lack of procurement, high cost of transportation, lack of proper functioning of the accessible markets, low prices in the market, etc. The researchers found an urgent need for higher development in agriculture in the hills to open up new market opportunities.

Butler and Mazur (1998) while analysing livelihood diversification in Uganda found that livelihood diversification is essential to food security and improved incomes. Uganda’s predominantly agrarian economy suffers from limited diversification. One of the reasons identified for this is the limited beneficial integration into the market economy. This has led to a great stress on the natural resource base. In this context, they argued that livelihood analysis needs to focus much more on markets and on the dynamics of market and livelihood change. With regard to markets, interventions should aim to improve the poor’s access to secure markets at better prices. This will call for the support from an enabling environment for appropriate arrangements to overcome any market failure. Livelihoods must generate income by providing goods and services for which there is effective market or non-market demand at prices and costs that provide a satisfactory return.
Hussein and Nelson (1998) in another study on livelihood diversification found that evidences from the rural economies in Asia and Africa showed that many of the rural producers have historically diversified their productive activities to encompass a range of other productive areas. Motivation for such diversification is found to be multifarious. One such factor leading to diversification has been found to be market proximity. These markets have been found to generate farm and non-farm income from a wide range of sources.

In yet another study Hussein and Montagu (2000) while throwing light on the relevance of the study of sustainable livelihoods in the hill areas in Nepal brought into picture that gaining access to the assets needed to create a sustainable livelihood in the hills depended on policy measures - at the local as well as national level, institutions - formal and informal organisations, customary rules such as the resource tenure and legislations and processes - the dynamic relations between these factors. Accordingly they enlisted policy, institutions and processes as the key determinants of livelihood strategies and therefore outcomes.

Davis (2001) while viewing the conceptual issues in analysing the rural non-farm economy in transition economies found that rural livelihoods are not limited to income derived solely from agriculture but may be from diverse sources. Rural livelihoods thus include income from both farm and non-farm sources. But the rural non-farm economy cannot be considered homogenous, rather it is characterized by its heterogeneity, incorporating self-employment,
micro and small medium size enterprises and trade activities. Thus it could be said that understanding the rural non-farm economy in context implies the use of broad methods useful in understanding rural societies in general, and the complex interrelationship between different factors - social, cultural and economic. The informal economy provides the dynamism to the Rural Non-Farm Economy (RNFE) which is an important source of livelihoods. One implication for the RNFE may be that 'genuine' farm-based diversification, i.e. economic activities undertaken by the traditional farms, will help the local economy. But in a transition economy context, it is still unclear whether assets alone can counter market access inequalities with respect to wealth. Distance in time or also cultural distance to economic centres like markets may co-determine growth prospects in a locality.

Although only a few longitudinal studies exist, there is general agreement among scholars that occupational diversification and the proportion of non-farm income in the household income are increasing. Deshingkar (2004) in one of her recent studies on livelihood diversification in developing countries found that for sometime now, the rural people do not specialise in crop production, fishing, forest management or livestock rearing to the exclusion of other sources of income. Rather they combine a range of activities and occupations to construct a diverse portfolio of activities. But policies are ill-equipped in supporting multiple livelihoods. Part of the problem is the inadequacy of official statistics in understanding diversification patterns by social groups and capturing part-time and seasonal activities. Mobility and informal sector activities, both of which are important for diversification are often discouraged by authorities to control
urban ‘explosions’. Therefore, in order to establish the importance of diversification in development and growth there is a need for multi-sectoral focus and a better understanding of market and non-market constraints faced by the households in the marginalised areas.

She further argued that urbanisation has been an important driver of diversification in recent years. The flow of money, goods and services between rural and urban areas can create a virtuous circle of local economic development by increasing demand for local agricultural produce, stimulating the non-farm economy and thereby absorb the surplus labour. But this will depend on three pre-requisites:

- Access to infrastructure
- Degree of trade relations and access to markets
- Market information

While the first requirement stands undisputed, the other two pre-requisites are rather more challenging in terms of offering easy policy solutions because of wide spread market imperfections such as interlocked markets for agricultural produce and inputs. Such imperfections beweighed against the poor, especially in the marginal areas compelling them to buy expensively and selling cheaply.
While access to markets can lead to a more diversified portfolio of income sources in the rural areas, it is a question which can be debated whether this diversification can help the rural poor in moving up economically. Although hard to quantify, a few studies have tried to measure the socio-economic status of the rural people.

In another working paper on socio-economic stratification by wealth ranking (1997) Adams, Evanol, Rafi and Farnsworth validated a Rapid Rural Appraisal wealth ranking technique using standard socio-economic indicators from a household survey in rural Bangladesh. The writers had broadly classified the households into three wealth groups based on broad criteria. Typically household wealth assessment might include economic variables relating to assets such as land ownership, expenditure and income. Household food consumption, educational attainment and levels of health may also be incorporated in a more broadly defined measure of household wealth. But the complex context of household wealth and its regional and ethnic variation should not be inadequately represented by a fixed set of reliably quantified variables. However, health, demographic and economic variables are found to differ significantly wealth group wise. A major finding was that the analysis supported the validity of the wealth ranking technique as a means of stratifying households by socio-economic status. Added to it the requirements for external validity, as
assessed through the comparisons of findings with similar studies elsewhere in
South Asia were also satisfied. It was established that unlike the standard rigidly
defined socio-economic indicators which are often insensitive to local
conditions, the wealth ranking approach can combine the multiple dimensions of
wealth in a culturally appropriate manner. The wealth ranking method sidesteps
the perennial academic problem of determining what indicators of socio-
economic status are the most appropriate or discriminating. Hence categorisation
of households according to levels of wealth is found to be a useful tool in the
study and practice of development. Hence the most useful and appropriate
application of the wealth ranking method is to track household socio-economic
status over time. In a given setting, the ranking method may be used to monitor
the individual fortunes of households or assess levels of population wealth at
several points in time as a means of evaluating success or general socio-
economic change.

Rashid and Shakya (2000) brought into focus Livelihood Monitoring as a recent
initiative to measure and focus on improving household level production
systems. It captured the main trends and characteristics of a region influencing
people’s livelihoods. This overview identified the sources of vulnerability, status
and trends in resources, the key institutions and organizations functioning in the
area influencing livelihood strategies followed in the region and thereby the
livelihood outcomes. A wealth index was developed through a process of
assigning monetary values to physical assets for which information had been
collected. The context studies can form the foundation for a deeper
understanding of the issues underlying livelihoods. The holistic analysis at the
core of the livelihoods approach ensures cross-sectoral initiatives are identified and supported allowing agencies to seek alliances on issues that cut across traditional boundaries and where greater synergy between interventions could be achieved.

A study on comparison of methods for measuring socio-economic status by occupation or postal area (2000) by Deonandan, Campbell, Ostbye, Tummon and Robertson compared seven methods of comparing socio-economic status, including four based on data specific to individuals and three based on the average characteristics of the postal code area in which people live. Contingency tables were constructed to compare the results from each of the seven measurements with each other. The data were reduced to ranked integral Socio Economic Status (SES) scores, and Spearman coefficients were computed to determine the extent of correlation among the seven methods. Each method generated scales of differing ranges, but they were all trichotomised to “low”, “medium” and “high” SES. After categorising the data, Kappa statistics were computed to evaluate the degree of agreement among the various methods. This was done to assuage any concerns that might arise about the subjectivity in coding along strict categorical parameters. In general, the degree of agreement between the methods of SES measurement was moderate, though there was high correlation among all methods except the postal code ones.

In another study, Galobardes and Morabia (2003) viewed that people with medium education or occupation are heterogeneous with respect to their habitat. The habitat according to the writers seemed to capture different aspects of the
socio economic position compared with the usual indicators of socio class. They
felt that there is a need for developing indicators that at least compensate the
limitations which might arise in applying the various measures of socio
economic status. The writers postulated that the social standing of the habitat
synthesises the contribution of several socio economic markers, such as
occupation, education, household income, and area characteristics to determine
someone’s socio economic position. The paper therefore, described the
methodology used to develop the social standing of the habitat indicator and
assessed its relation to the usual markers of social status such as education and
occupation.

2.4 CONCLUSION

Close reviews of the given studies reveal that the world over, the rural
economies are diversifying. The rural economies are diversifying from the farm
sector to the non-farm sector. Livelihood strategies, are therefore, in a
continuous process of flux. People are adapting to evolving opportunities and
changing livelihood objectives. It has been found that as the income level rises,
reliance on farm activities tend to diminish. However, diversification does not
equalise the income levels. It is seen that the better-off households are able to
diversify in more favourable labour markets than the poor households. The poor
households take to diversification as a coping strategy whereas the better-off
households are fortunate enough to multiply assets and wealth from this
diversification. Many of the households have been found to have adopted a
combination of activities ranging from farming to trading. While this
diversification is brought about by many a factor, external institutions like the markets play a definite role in helping the economies to diversify. Effective markets can fetch the households a satisfactory return both in demand as well as supply. This of course calls for the support of the other institutions like the land relations and the tribal self-governing institutions. Access to land and diversification in livelihood is found to vary according to the prevailing circumstances across different income groups. Outmoded land tenure institutions in fact act as hurdles in reaching out to the markets. Therefore, there is a need to link the degree of diversification in any rural economy to the land tenure system.

Although the government can take up many a policy to enhance livelihoods, the people may not always respond to these policies. At the household level, there is a need to change people's perception towards the opportunities and constraints which they might face in pursuing different livelihood strategies. In fact, it has been found that the strength of livelihoods approach lies in its potential for linking the micro level activities to the policies taken at the macro level. It is therefore necessary to examine how far in a hilly terrain like Arunachal Pradesh in India, with their own traditional institutions in land relations and self-governance, the vulnerable market forces are being able to diversify the rural society of the Adi tribe and hence is helping it in integrating with the national economy.