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Understanding Livelihoods in Rural India: Diversity, Change and Exclusion

OVERVIEW

These guidance sheets aim to help policy-makers and practitioners increase their understanding of complex rural livelihoods in India. Policy choices in a range of areas – such as employment, enterprise development, social protection, rural infrastructure and agriculture – have major impacts on rural livelihoods. In turn, the outcomes of such policies are affected by the choices, preferences and constraints of the poor. Thus effective policy-making requires an understanding of rural livelihoods.

We focus on three livelihood issues in particular: the dynamics of livelihood change; diversification of livelihoods; and issues of exclusion and access to livelihood options and resources.

The sheets are grouped in four sections. Section 1 *summarises* the issues. Section 2 covers the key *concepts* of household economics, livelihood change, diversity, and exclusion. Section 3 reviews useful *methods*. Section 4 reviews the key *linkages* between livelihoods and policy change.

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Preface

Guidance sheets for policy-makers and practitioners

The way in which rural households earn their living is becoming increasingly complex. Understanding changes in livelihoods, the diversity of livelihood portfolios, and the exclusion of some from new opportunities is equally complex. Yet, to be effective, policies to assist the rural poor need to be informed by an understanding of their livelihoods and strategies.

This guide draws on experience of researching these issues over 3 years, to assist others in understanding livelihoods. It is therefore designed for the wide range of policy makers, advisors, and practitioners who need to assess advice or commission studies of rural livelihoods to improve policy and practice.

Policy for several spheres – for example, agriculture, employment and labour markets, forestry, social protection, trade, rural infrastructure and market development – may need to be informed on topics such as:

- How rural people make their living, across seasons, sectors, and space;
- What factors affect how they put their livelihood portfolios together. What shapes the options available. What determines who can gain access to economic options, and who cannot. How people choose (or reject) from the options available;
- Which options can bring rural people out of poverty, and which offer low-return coping strategies;
- People's vulnerability to natural and other risks, and how people cope with it in different ways;
- How changes in the economy, policy and in rural institutions affect livelihood options, poverty, and vulnerability.

There are four sections to these guidance notes:

Section 1 **summarises** the main issues:

- 1.1 Why invest in understanding livelihoods
- 1.2 Understanding livelihoods: What to assess
- 1.3 Methods for livelihoods assessment

Section 2 covers the key **concepts** in understanding livelihoods:

- 2.1 The household as an economic unit
- 2.2 Dynamics of livelihood change
- 2.3 Livelihood diversity and diversification
- 2.4 Exclusion, access and unequal market returns

Section 3 reviews useful **methods** for understanding livelihoods:

- 3.1 Planning livelihoods analysis
- 3.2 Overview of methods for livelihoods analysis
- 3.3 Assessing diverse portfolios and assets
- 3.4 Methods for exploring change
- 3.5 Assessing exclusion, markets and power

Section 4 reviews the **links** between policy and livelihoods and between livelihoods assessment influencing policy change:

4 From policy to livelihoods and back

Given the decades of research done at village and household level, and the shelves of methodology manuals, can these sheets add anything new? Only the users can judge, but these sheets aim to be distinctive in two ways:

Firstly, they combine perspectives from different disciplines. The study of livelihoods is interested in the micro analysis of household and communities but within the context of dynamic macro factors: social, economic, political, physical and environmental. Such an approach draws on diverse theoretical and disciplinary perspectives, including:

- *The household economic approach*. This is the home-turf of micro-economists, and has its strengths in understanding production and consumption behaviour of the household and the effect of different market conditions, particularly in rural and peasant economies.
- *A systems approach* focuses on the study of broad environmental and technological changes and how these affect populations and the resources they have at their disposal. An approach familiar to anthropologists and geographers, its strength lies in seeing households as just a small, often vulnerable, part of a much wider system.
- *The structural approach* is central to political economy and rural sociology. This recognises that particular sets of historical circumstances produce political systems, economic and social divisions. These determine patterns of ownership, access and opportunity that are not easily changed. This helps us understand how certain groups of people tend to remain poor and excluded, and why inequality persists.

There are other disciplines and approaches as well. Anthropology relates to all three of these theoretical strands and adds understanding of culture, community and individual preference. More recent multi-disciplinary studies of famine, food security and poverty add further insights.

Livelihood studies assume that to design better policy it is essential to understand the complex reality facing the poor. Increasingly the study of causes of poverty and consequences of policy requires a multi-disciplinary perspective. While ambitious, it is also essential.

Secondly, these guidance sheets are not just for fieldworkers or researchers doing analysis at village level. They are also for policy-makers who need to commission studies or assess livelihoods work by others, or need to decide what information they themselves require. For many, Section 2 on the key issues will be sufficient. For those actually doing the assessment, the further detail on planning and methods in Section 3 will be needed.

These sheets draw heavily on experience of the Livelihood Options project in the Indian states of Andhra Pradesh (AP) and Madhya Pradesh (MP), carried out from 1999 to 2002. While the topics and methods are of wider relevance, they will need adapting to suit other areas. Although the sheets contain examples from the AP and MP research, they do not seek to present the overall findings. For the findings of the Livelihood Options project, further information, or to provide comments, the reader should go to www.livelihoodoptions.info

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1.1 Why Invest in Understanding Livelihoods

Contributing to informed effective policy-making

Reducing rural poverty is not simple. Policy needs to be more effective. Rural situations, moreover, are diverse and evolving, and policy must adapt to these.

Policies and programmes necessarily rest on assumptions about how people live, what they need, and how they will respond to new incentives, regulations, or opportunities. Livelihoods analysis helps to improve our understanding of what is really happening in people's lives, what enables some, but not others, to escape from poverty, and how people are affected by policy.

The approach outlined in these guidance sheets focuses on understanding issues at the level of households and villages, and on understanding the details of livelihood portfolios and trajectories. Such understanding can feed into policy directly, as a core component of programme design, appraisal, monitoring or evaluation. Policy-led research may also feed into policy by shedding light on topical questions such as what roles do sharecropping, migration or infrastructure development play in enhancing livelihoods? How are rural market terms and conditions changing, and how have these affected different groups?

To inform policy, an appropriate set of research questions needs to be developed, drawing, where possible, on existing knowledge about the theme or geographical location. Examples of policy questions to which the livelihoods study in Madhya Pradesh and Andhra Pradesh is relevant are given in Box 1.

Box 1 Policy questions in the Livelihoods Options Study

Questions about the **context** in which experience of rural livelihoods are played out:

- What are the main forces of change in rural economics in recent decades and currently?
- What are the main shocks, trends and cycles of change that people face?

Questions about the **ways** in which households respond to change:

- Why are people diversifying their livelihood portfolios and into what?
- How do people cope with short-term shocks, long-term trends and regular or irregular cycles?
- When shocks occur, how do different households fund their emergency expenditure and investment (if any)? How does this affect their economic success?
- What strategies are the poorest most reliant on for their survival?
- How are different caste and land holding groups responding to change?

Questions about which **people** are able to climb out of poverty and which are not:

- Which types of households are on upward trajectories, and which are trapped in poverty?
- What diversification options offer good returns and allow accumulation, which are just a way of coping?
- What role does non-farm economic activity play in helping rural households stay above the poverty line, or climb above it?

Questions about the **factors** that influence people's diversification options and their capacity to climb above and stay above the poverty line:

- What determines people's diversification options?
- Which assets and capabilities were critical for those households that have been able to improve their livelihoods?
- How do terms of exchange in key agriculture, land, credit, and labour markets differ by caste, income-group and gender, and why?
- Who or what prevents poor people from accessing resources? Who or what prevents poor people from exercising their rights to land, water, participation in public programmes, government services, etc.?

Livelihoods research focuses first and foremost on villages and households.

Taking research down to the household level offers some strong **advantages**. It can be particularly useful for:

- Unravelling the complexity, diversity and ambiguity of people's lives rather than relying on simplified assumptions about how rural economies work.
- Going beyond typical spatial or sectoral boundaries. It can highlight the importance of cross-spatial activities (migration) and cross-sectoral linkages (farming, labour markets, credit).
- Capturing the different position of marginalised households whose position may be lost in data that is aggregated at village or regional level.
- Revealing the interplay of forces of change affecting households both internally (such as stage in the lifecycle) and from outside (such as economic transformation or policy change).
- Distinguishing between the intended outcomes of policies and programmes and what is actually happening to the poor.

Thus, from a policy perspective, the key value of livelihoods research is that it provides a reality check.

However, household-level and village-level livelihoods research also has its **limitations**. In terms of its policy impact:

- The sheer amount of detail observed at household and village level may be difficult to relate to broader processes of structural change.
- It can be difficult to aggregate the detailed data to a sufficient level of robust generalisation for making policy recommendations.
- Routes through which findings from household level research can be fed into (sectoral) policy and macro-level planning are not always clear.

If the aim of livelihoods analysis is provide information that is useful to policy-makers, overcoming these limitations is crucial. Livelihoods analysis must go beyond getting the results to find the routes through which policy-makers can use the findings. It therefore involves both identifying how policy affects livelihoods as well as how a better understanding of livelihoods can help improve policy-making and implementation.

Researchers thus need to understand the policy process in terms of:

- The political and institutional contexts in which policies are made;
- The ways in which new information is viewed either as credible or reliable.

In practical terms, they need to appreciate how they may translate research findings into messages that are both credible and usable to policy-makers.

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1.2 Understanding Livelihoods: What to Assess

The topic of 'rural livelihoods' is complex and wide-ranging. What exactly is it that needs to be assessed to inform policy-making? The answer, of course, depends on the research purpose and policy question at hand. But in these sheets we broadly identify four key areas for assessment:

Box 1 Understanding livelihoods: Key areas for assessment

- Household economics: who is doing what, drawing on which assets, earning what income?
- Changes in livelihoods: what are the sources and impacts of short-term and long-term livelihood change? How do these affect poverty?
- Diversified livelihoods: why are households diversifying their economic activities? How does diversification differ for different groups and what success does it bring?
- Access and exclusion: how are some groups excluded from key economic and political opportunities, how does this affect their access to resources or their capacity to exercise their rights; how does this affect their livelihoods?

Household economics

A key tool for understanding livelihoods is the household economic model (Sheet 2.1). By treating the household as an economic unit we can explore its key assets, sources (or lack) of wealth and income. We can assess how motives and preferences within the household, and external pressures, are likely to affect the economic activities undertaken. It can also help explain the differences between different households in their economic activities and fortunes.

This model sees the economic characteristics of different households in terms of:

- Household composition, labour available, skills and age, socio-political status – class, caste, religion, kin, etc.;
- Assets – tangible (e.g. land, oxen) and intangible (e.g. skills, membership of groups), owned and accessed;
- Activities – on-farm, off-farm, done by different members;
- Returns – net income earned from different activities;
- Current income position: in surplus or deficit;
- Long term trajectory: of accumulation or disinvestment;
- Coping strategies and degree of vulnerability.

However, it is important to go beyond simply treating the household as an economic decision-making unit, as in mainstream economic theory. Economic behaviour is also subject to numerous social influences – caste, culture, gender roles, conflicts, etc. – as emphasised in anthropological and sociological approaches, as well as by access to information and the existence of institutions (for example, sharecropping) that reduce 'transactions costs' – as seen in the 'New Institutional Economics'. Long-term economic opportunities are constrained by 'class position', as emphasised in political theory.

Livelihood change

Understanding change and historical processes should be at the centre of any analysis of livelihoods. After all, the ultimate goal is to understand from past processes what would help households to get onto a path of accumulation, to exit from poverty. By understanding causes of change, what prevents change, how people respond to change and the long-term trajectories that different households follow (Sheet 2.2), we are better placed to encourage positive change in future.

Both short and long term changes in households' economic position need to be understood – though the two are often related, as short term shifts may lead to a vicious or virtuous long-term circle.

Different types of causes of change need to be categorised. Some causes of change exist within households, such as ageing and the birth and growth of children, and the choices and preferences of individual decision-makers. Many other causes of change are external

Box 2 Causes of diversification

Causes of diversification vary and include:

Spreading risk: (*ex ante* dealing with risk and uncertainty). Spreading activities across several sectors helps to spread risk and manage uncertainty. For example, farmers may produce a range of crops rather than specialising in just the most profitable one.

Coping with insufficiency: Diverse activities may be undertaken as an *ex-post* (after the event) coping response to shortcomings in other activities. A failed harvest owing to drought or pests, loss of a job, or the need to pay emergency medical or funeral bills – all can drive households into pursuing other activities.

Seasonality: Crop farming, some gathering, and making crafts for festivals are seasonal activities. In the off-season, diversified activities provide a way to use labour and other resources and to earn incomes.

Compensating for failures in credit markets: Farmers who need to buy seed and fertiliser but who have no access to credit (or can only get credit on exorbitant terms) may work off the farm just before the crop season to earn the cash to buy inputs.

Gradual transition to new activities: Change to new activities with higher returns may be incremental, particularly if the new occupation is untested. The new activity is adopted as an addition to the household portfolio rather than a substitute for existing activities

Building on complementarities: Some diversified activities may build on existing skills, experience and information. For example, home-based work complements domestic chores, small-scale mechanics complement black-smithing.

Diversification options are limited by economic constraints (e.g. household assets such as land, skills), as well as influenced by current practice ('path-dependency') and by social, cultural, and political factors, particularly caste and gender. They thus differ for different groups. Only by disaggregating is it possible to identify winners and losers from new options, so as to protect those becoming vulnerable, support those who are finding their way out of poverty, and remove constraints to others doing the same.

to households, such as changes in the environment, markets, state policy, or local kin, social and political relations. Some, such as price crashes or disease, occur as rapid-onset *shocks*, while others are *trends* that develop over longer periods.

One household response to possible adverse shocks is to *prepare for change* by predicting it or spreading risk in advance. A second strategy is to *cope with shocks* after the event by shifting activities, cutting consumption or increasing work. Such different strategies have a big impact on households' ability to stay out of poverty.

The key issue for livelihoods is how changes create opportunities and vulnerabilities for different groups: why some groups (castes, land-holders, minorities within castes) have been able to seize new market opportunities, while others lack the assets necessary, or are tied into markets on unfavourable terms. Identifying and interpreting these patterns – or 'livelihood trajectories' – is the basis for drawing out implications to inform policy.

Diverse livelihoods

A person or household with a **diverse livelihood** relies on several different economic activities within a year, perhaps even within a week or day. A 'diverse livelihood' is the opposite of a specialised livelihood based on a single, full-time activity. **Diversification** is the incorporation of new activities into the economic portfolio. Given that diversification of rural household economies is increasing, we need to understand its role in rural livelihoods and change.

We can distinguish between '*pull*' or *positive* diversification, when new activities generate higher returns than before, and '*push*' or *negative* diversification, when new occupations offer lower returns than before. The former can lead to asset accumulation or improvement of living standards. The latter, adopted out of necessity, may be response to some shock or downward trend. It may form part of a 'coping' strategy or be part of a cycle of impoverishment.

Exclusion, access and unequal market returns

Households and groups of households differ greatly in the opportunities and returns available to them, and hence their access to a path of positive accumulation. At worst, many households are locked into poverty and 'excluded' from progress. The means by which these structures embed themselves in the economy and reproduce themselves needs to be part of the investigation of livelihoods.

This means assessing:

- How low assets of the poor limit their options;
- How market returns are less favourable for the poor, and how they get trapped into exploitative arrangements in inter-locked markets (e.g. through dependence on one wealthy patron);
- How their lack of political power reduces their access to state-provided entitlements, or impedes them from voicing their needs.

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1.3 Methods for Livelihoods Assessment

Unravelling the complexities of diversity, change and exclusion in rural livelihoods is not easy. It involves assessment of many intertwined variables and processes, and comparisons across people, households, castes, class, region, time periods etc. How can this be done?

Core principles in designing livelihoods assessment

The first step is to define the purpose of the investigation as clearly as possible. This will guide the collection and analysis of data. But there is always a trade-off between understanding complex relationships and specific situations, and aggregating findings to the level of generalisation that can be useful to policy-makers. Three important implications for methodologies stem from this:

- Methods of data gathering should generally *combine* qualitative and quantitative techniques;
- *Analysis* of the information through aggregation, comparison, and interpretation is essential to identify policy implications; and,
- It is important to *trace* the links between macro-policies and structural change and people's lived experiences at the household and village levels.

A variety of methods

A wide variety of methods can be used for analysing livelihoods. All have advantages and disadvantages (Sheet 3.2), depending on the purpose. In any choice, two key issues arise:

1. What balance of qualitative and quantitative data is needed for livelihoods analysis? Quantitative methods can provide a large amount of information for a large sample. They generate numerical data that are amenable to statistical analysis. But they tend to generate data on the current circumstances and constrain responses to categories defined in advance by the researchers. Sequencing of qualitative and quantitative data collection can be mutually beneficial. For example, open-ended questioning, can define key issues and assist in wording questionnaires and coding answers of quantitative surveys. Similarly, the initial findings from a quantitative survey can be followed up through more detailed qualitative questioning. Above all, combining the two methods enables cross-checking of results and interpretations.
2. Who should be consulted? Sampling determines who is interviewed, and hence affects the results of analysis. Whether responses can validly be compared for different caste-groups, locations, or income-groups, depends on the sampling scheme.

Assessing household economics and diverse portfolios

To understand the basics of household economics, and explore reasons for diversification, a household survey is most likely to be useful. Topics to cover include:

- The household: members, residence, sex, age groups, education, skills;
- Main domestic assets (house, consumer durables);
- Main liabilities (debts) and interest rates;
- Main government receipts and typical taxes paid;
- Expenditure: daily average spending on food, monthly or annual averages for spending on clothes, health, transport, housing, festivals, etc.;
- Main productive assets (land, livestock, tools);
- Main activities undertaken, including:
 - Domestic work – cooking, collecting water, fuel wood, cleaning, washing, child care, etc.;
 - Crops and livestock, returns and input costs;
 - Paid employment;
 - Own enterprises;
 - Migration and remittances.

Assessing change

Understanding change requires research tools that enable us to compare the past with the present. They depend on recall by informants, to compare the present with the past, or must be built upon earlier data in a way that enables comparisons; i.e. through 'longitudinal' comparisons of surveys carried out at different times (Sheet 3.4).

Three useful tools for capturing coping strategies, economic trajectories and causes of change are:

- Tracking livelihood shifts through a detailed questionnaire. This can provide information on what respondents do now, did before, and their main shifts;
- Oral histories: respondents' own descriptions of their life histories; and,
- A longitudinal survey: providing invaluable data to compare earlier periods with the present.

It is also important to identify the main *causes* of change and the impacts on different groups, and to build up wider and general patterns of change.

Assessing markets, power and exclusion

There are essentially two types of tools for understanding the dynamics of how the poor gain access to, or are excluded from, markets and state resources:

- Factual questions which can be incorporated into quantitative surveys or interviews – for example, on where crops are sold, sources of loans, prices and credit terms, types of wage labour undertaken, etc.
- Qualitative discussions with key informants who are buyers or sellers in markets, and providers or users of government services. These can go beyond the description to embrace the process of engagement and decision-making power. Perspectives of different informants need to be compared.

Analysis of participation in markets needs to cover different types of markets, particularly for land, labour, credit, and agricultural products. The main buyers and sellers, prices, market forces, and degree of government and elite control in the market can be assessed through the combination of quantitative and qualitative techniques. Key issues here include the number of buyers and sellers, the degree to which both buyers and sellers have access to information, and degree to which some participants are tied into non-market relations with other participants.

In assessing access to, or exclusion from, state entitlements there are two different elements:

- Access to government provision: e.g. of credit, subsidised food, marketing support;
- Participation in decision-making: e.g. at *Panchayat*, *Gram Sabha* level.

Analysing and interpreting data

When the data from many respondents are collated, the aim is rarely to find merely the total or average result across all households. *Cross-tabulation* of results is usually necessary for different types of household classified by caste, land-holding and wealth, since these are all important influences on the livelihood options people have, and their escape routes from poverty.

To build a clearer picture of what is happening at household level, it can also be useful to synthesise household data to define 'livelihood classes' – groups of households with similar asset-bases, portfolios and trajectories.

Moving from detailed data, to broad categories of analysis, to big pictures, and in turn to policy implications, involves painstaking processes of aggregation, comparison, cross-tabulation, and further aggregation, but these are the keys to understanding wider patterns and themes.

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KEY CONCEPTS AND ISSUES

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2.1 The Household as an Economic Unit

The classic tool for understanding livelihoods is the household economic model. By treating the household as an economic unit we can explore its sources (or lack) of wealth and income, internal motives and external pressures, and differences between different households.

However, it is important to draw on different perspectives of the household. *Economic theory* traditionally sees the household as an independent economic *decision-making unit* which allocates factors and assets in production, consumption and exchange. Its behaviour is explained in terms of optimisation. Optimisation means allocating resources to bring the highest return – income, 'utility' or 'well-being' – for the unit as a whole.

Many *anthropologist* traditions see the household as a unit, but emphasise the importance of *culture*, ethnicity and historically determined patterns of behaviour. These societal factors can override the behaviour of the otherwise rational 'economic man'.

Gender perspectives also lay a fundamental challenge to the idea of a unified household sharing a common purpose, by raising *intra-household* issues: that is, different interests of household members, particularly women and men.

Political economists emphasise the position of the household within a *differentiated society* and a class-divided economic system. In it, the richest and most powerful are intimately involved in the affairs of the poorest, controlling their terms of market engagement, extracting rents and otherwise determining their profits, debts and 'choice' of livelihood. Within this class system there is little room for decision-making or strategic choices amongst the lower classes and few options for escaping poverty.

In the Indian countryside all these models have potential value. Each contributes to our understanding of why and how people arrive at their livelihoods, whether by rational choice, cultural pressure or class-enforced compulsion. The decision-maker model is a good starting point and provides an important conceptual backbone for understanding a large part of day-to-day livelihood behaviour.

Core concepts of household economics

A **household** is made up of several members, all of whom have consumption needs, and some of whom provide the household labour force. The household survives by drawing on its range of assets and engaging in a variety of activities, thus generating income and other consumption goods to meet the needs of the household. The **household head** is usually seen as the decision-maker, determining how various assets should be allocated and consumption needs prioritised. However, more complex and gender-sensitive models recognise that different household members make decisions in different domains, and that aggregate measures of household welfare can hide disparities in welfare among members, particularly for women, children, or the elderly.

Assets include land, labour, savings, tools, access to social networks, access to infrastructure or information. Thus assets can be tangible or intangible, owned directly or accessed otherwise by the household (this can make them hard to measure – see Sheet 3.3). Assets are usually invested in productive activities¹ (sowing land, allocating household labour to tasks, making use of information and contacts). However, some assets are most valuable as a form of saving, insurance or status (e.g. jewellery, food stocks) and may be sold or converted directly into consumption if necessary.

Debts and other claims made by government or kin are liabilities. **Asset balance is the value of the stock of assets minus household liabilities (such as debts)**. The asset balance of a household is the key indicator of its *longer term* security and sustainability. The greater the asset balance of a household, the greater the chance of upward mobility. Households with a strong asset balance are more able to invest in and adapt to new opportunities. A small, or even negative, asset balance is one indicator of the *vulnerability* of a household.

The greater the asset balance of a household, the greater the chance of upward mobility

Productive **activities** are all the things household members do to earn income, or create useful outputs that can be used directly by the household (for example, growing rice or washing clothes). They are highly varied. Common distinctions are made between productive and reproductive (domestic) activity, producing goods and services for own consumption and for sale, between on-farm and off-farm, agricultural and non-agricultural, local or non-local, as well as conventional economic distinctions between primary, secondary and tertiary sectors (see Sheet 3.3).

Box 1 Income as 'sources of entitlement'

Household income is usually measured as cash earnings plus subsistence production. A broader term is 'sources of entitlement' (drawing on Professor Amartya Sen's entitlement theory) which captures household access to and claims on resources, and their value to the household, rather than just direct earnings and output. Entitlements are the 'set of different alternative commodity bundles that the person can acquire' (Sen 1981²) – whether through production, exchange and trade, or calling on claims. A household's entitlements depend on what it owns – such as land or jewellery, what it can produce or earn by working, what it can obtain by trading goods and services produced, and on the transfers to which it may be entitled or liable – including pension payments, taxes, food relief, help from kin, etc.

Cash-flow is the key measure of financial health. Cash flow equals income minus expenditure, with adjustments for savings and consumption from stocks, measured over a given period: year, season, month are typical. In subsistence households it equals production minus consumption.

Cash-flow and asset balance are quite different but a change in one often leads to a change in the other. If the cash-flow is in surplus, the household can increase its consumption, save for adversity, or invest in new livelihood activities. If it is in deficit, it will have to cut consumption – perhaps even going hungry, or draw down savings and assets.

Cash-flow is the key measure of financial health

The **income** side of the cash flow is determined by three factors:

- The available assets, such as land, labour, information;
- The ways in which those assets can be transformed into livelihood activities, given the legal and market context: e.g. options to use land for cropping, leasing, or commerce; to apply labour to paid employment (i.e. availability of work-days); and,
- The returns to those activities: e.g. crop prices, wage rates.

There are several ways of generating returns by transforming assets, via livelihood activities, into commodities needed for well-being. It can be through:

- Physical production processes (agriculture, harvesting, building, etc.);
- Exchange in a market or other fora (labour, commodities, etc.);
- Making use of the informal '*moral economy*' of obligations, good will or reciprocity from kin and other social contacts (e.g. borrowing, begging, gaining preferential treatment or rates, etc.), as well as the formal civil economy of citizen entitlements and rights (e.g. accessing below-poverty-line schemes, farmers' subsidies).

The **out-goings** or expenditure side of the cash flow reflects the various calls on income or entitlement comprising:

- The immediate consumption needs of the household: food, water, shelter, clothes etc;
- Debts and payoffs: e.g. interest on borrowed money;
- Transfers to others: e.g. support to kin, payments to government;
- Investment for future production or income, whether in tangible assets (tools) or in social investments (village contribution).

Figure 1 summarises diagrammatically the interplay between income, expenditure, and the stock of assets.

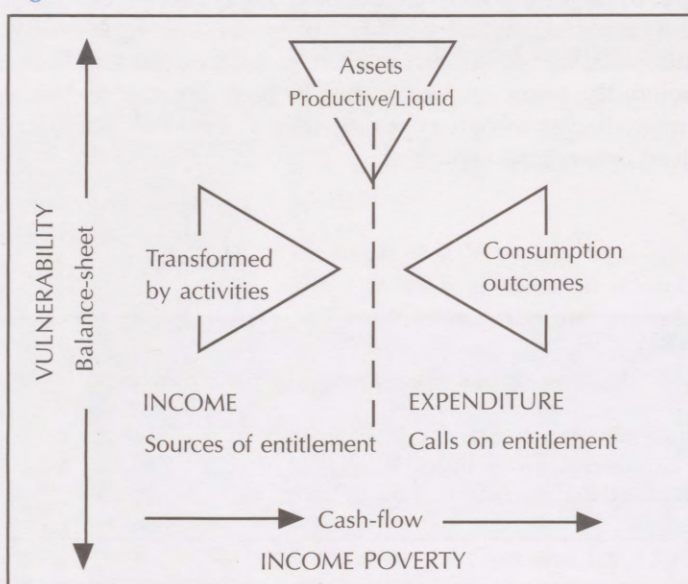
The economic situation of a household is rarely static. Changes (Sheet 2.3) may be short-term fluctuations into surplus or deficit, or may be part of a long-term trajectory:

- **Accumulation** (upward economic mobility) is when a household increases its asset balance over time and moves upwards out of poverty.
- **Impoverishment** (downward economic mobility) is when a household runs consistently at a deficit, with a diminishing asset balance, taking it into (deeper) poverty.

In the short-term, households may move into surplus, or into deficit and coping strategies

Accumulation and impoverishment represent long-term economic mobility

Fig. 1 Micro-economic model of household finances



Causes of change are highly varied and may be sudden shocks, long-term trends or fairly predictable cycles. Causes of change can also be divided into:

- **External factors** from outside the household include changes in prices, policy, or climate. The household cannot control the change, although its ability to cope with and respond to it is critical.
- **Internal factors** within the household, such as marriage, ill-health, or changes in skill levels and preferences. The household may have some, but not total control over these factors. For example, a marriage may be delayed until the household has accumulated some savings.

Downward mobility is closely related to household **vulnerability**. Some households are much more vulnerable to shocks than others because they:

- Are exposed to more shocks (e.g. due to climatic factors where they live);
- Are less able to cope with its immediate aftermath (more sensitive);
- Are less able to bounce back in the longer-term (less resilient).

Sensitivity and resilience are highly dependent on the household's financial health, and ability to deal with change (Sheet 2.2). These in turn depend on their diversification options (Sheet 2.3) and their access to or exclusion from key markets and opportunities (Sheet 2.4).

Internal decision-making and external forces

From the basic model above, it is clear that there are many decisions to be made by the household, in terms of how to use assets, manage liabilities, pursue activities and balance consumption needs and expenditure. But many elements of the asset-balance and cash-flow are heavily shaped by outside forces. The four different approaches to understanding household economics view this balance differently.

In the economic model, outside forces (such as policies, prices, and environment), determine the initial assets, opportunities for activities, returns, and shocks. Household decision-makers then allocate their resources and respond to change in ways that seek to maximise their well-being. Maximising well-being may not mean just maximising consumption, as minimising risk or reducing drudgery may also be important goals. Additional refinements that allow for household preferences or intra-household distinctions can be brought into economic models.

A gendered approach emphasises how decision-making is influenced by power relations within a household. Men typically assume decision-making responsibility and marginalise the interests, though not the labour, of women, when their interests are different from their own.

An anthropological approach also emphasises that preferences may not centre solely around profits, risk and drudgery. Caste, religious beliefs, feelings of moral duty and reciprocity, fears of reprisals, and a whole host of cultural and personal perceptions may moderate economic behaviour. They may be embedded in modes of behaviour, rules and norms,³ some of which are not immediately obvious to the outsider, and therefore not always appreciated by those making policy.

Finally, political economy approaches emphasise the limits of the household model for explaining economic mobility. A household's ability to move out of its economic position is constrained by its long-term 'class position'. Poorer households, or lower caste households,

Households differ greatly in their vulnerability to shocks

Gender, caste, and a host of cultural and personal perceptions and norms moderate basic patterns of economic behaviour

A household's ability to move out of its economic position is constrained by its long-term class position.

not only start off with less, in terms of assets, but the returns they can gain on those assets will often be lower than returns faced by others. This is because 'segmented' markets offer differential returns to different class groups, and the system enables some to 'expropriate' surplus from others through the terms on which they engage (Sheet 2.4). Within such constraints, household may allocate resources as rationally as they can, but inequality is embedded and reproduced through the economy.

Summary of key issues to assess in livelihoods analysis:

Understanding economic behaviour of different households is a key building block for understanding rural livelihoods. In particular:

- Household composition;
- Household asset balance, activities and cash-flow;
- Trends: accumulation, impoverishment;
- Influences: institutions, class position, economic context, internal decision-making.

Endnotes

¹ Economic theory distinguishes clearly between 'capital' which is a stock (e.g. land, machinery, access to social networks), and 'inputs' into production, which are flows (e.g. use of land for a season, services provided by the machine, information applied to production). Assets, as described in livelihoods approaches, tend not to distinguish between stocks, flows of input provided, and non-productive assets.

² Sen A. (1981), *Poverty and Famines*, Oxford:Oxford University Press. Adapting household economic models to focus on sources of, and calls on, entitlement is central to the 'livelihood entitlement framework' of Susanna Davis, (1996), *Adaptable Livelihoods: Coping with Food Security in the Malian Sahel*, London:Macmillan.

³ Some of these may be seen as 'institutions', in the sense of the 'rules of the game'. For example, reciprocal labour gangs, or chit funds, or norms that confine adult women to work within the household compound are all examples of social rules that constitute institutions.

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KEY CONCEPTS AND ISSUES

These guidance sheets aim to help policy-makers and practitioners increase their understanding of complex rural livelihoods in India. Policy choices in a range of areas – such as employment, enterprise development, social protection, rural infrastructure and agriculture – have major impacts on rural livelihoods. In turn, the outcomes of such policies are affected by the choices, preferences and constraints of the poor. Thus effective policy-making requires an understanding of rural livelihoods.

We focus on three livelihood issues in particular: the dynamics of livelihood change; diversification of livelihoods; and issues of exclusion and access to livelihood options and resources.

The sheets are grouped in four sections. Section 1 summarises the issues. Section 2 covers the key concepts of household economics, livelihood change, diversity, and exclusion. Section 3 reviews useful methods. Section 4 reviews the key linkages between livelihoods and policy change.

These sheets draw on the experience of ODI's 'Livelihood Options' project in Madhya Pradesh (MP) and Andhra Pradesh (AP) though also aim to give insights into livelihood analysis and policy issues elsewhere in India. Livelihood Options is a 1999–2002 research project in India, Bangladesh and Nepal that aims to identify how policies can support positive exits from poverty via diversification.

2.2 Dynamics of Livelihood Change

Understanding change should be at the centre of any analysis of livelihoods. After all, the ultimate goal is to understand from past processes what would help households to get onto a path of accumulation and to escape poverty. By understanding causes of livelihood change, short-term responses to shocks, and the long-term trajectories that different households follow, we are better placed to encourage positive change in future.

Assessing changes in livelihoods requires looking from the short-term to the long-term, the negative to positive, and from local to international factors. The household economic model (Sheet 2.1) is useful for understanding different households' short-term response to shocks or opportunities. Understanding policy shifts and economic structures is useful for exploring deeper causes of change, and how long-term trajectories are opened up, or closed.

Change rarely affects all households equally. One household may become impoverished following a drought, whilst another is able to cope. Understanding how changes affect different households in different ways is challenging but valuable.

Causes of livelihood change

Shocks, trends and cycles

One way to look at change is to think about shocks, trends and cycles (Figure 1). *Shocks* have a rapid on-set and result in an immediate impact. Examples are contagious diseases and collapses in prices for export commodities. Other causes of change manifest themselves as *trends* with longer gestation, for example the long-term decline in the world market prices of cereals or the effect of soil erosion on the productivity of a field. Those that occur with warning signs (such as declining soil fertility), or according to *cycles* (such as household maturation or seasonality) are more predictable. This may make coping with them more manageable (for some). The rapid-onset shocks often strike rural households with no warning at all, thus constraining their ability to prepare and respond, or to insure and mitigate.

Figure 1 Dynamics of change: Shocks, trends and cycles

Household Level		Structural Level
Unsuspected death of economically active household member	SHOCKS	Change in regulations governing land ownership
Rising education level over generation	TRENDS	Rising prices of agricultural inputs Expansion of transport
Changing dependency level in household	CYCLES	Seasonal variation of rainfall or agricultural labour demand

The distinction between shocks, trends and cycles may be blurred: what is a shock to many may be perceived as a result of a trend or cycle by those with more information. For example, a drought regarded as a shock may be explained as part of an El Niño cycle.

From household-level to macro-structures

A second view of change is according to the level at which they occur. Some causes of change are internal to households. Two influential drivers that affect virtually all households are the natural life-cycle of the family and episodes of ill health. The ratio of dependants to producers changes from low to high to lower again as a newly married couple forms, has children and then the children mature. However, this dependency ratio (and hence the ratio of income to expenditure) can be dramatically affected by ill health, accidents or death of a household worker. Other internal factors can be changes in preferences, priorities and management abilities of the family. These can reflect personal choices over, for example, risk-aversion, or problems such as alcoholism or violence, or changing gender roles in household decision-making.

Definitions

- **Producer** – A household member who is economically active (this includes people who do not 'earn' money but contribute to the economic well-being of the household, for example, women who cook and clean for those who grow crops).
- **Dependant** – A household member who does not contribute economically and is dependent on others.
- **Dependency ratio** – The ratio of dependants to producers within a household.

Many other causes of change stem from outside the household. These include changes in the markets and the structure of the economy (prices, product demand, new technologies, shift in comparative advantage), state policy (subsidies, regulations, privatisation), environment (drought, landslides, disease, etc.), and in local kin, social and political relations (gifts, debts, and transfers).

The influence of structural and policy changes in the economy can be massive. But because their effects are so pervasive and drawn out over time, they can perversely be harder to identify than one-off shocks.

Studies of livelihood change (Sheet 3.4) in MP and AP clearly identified the dominant influence of four main structural changes on rural livelihoods in recent decades:

- Population growth and resulting pressure on land and natural resources (leading to landlessness, encroachment and conflict with the state);
- Urbanisation;
- State supported development of agricultural technology, infrastructure and investment: the green revolution (GR) package (leading to upward mobility among cultivators, class differentiation, higher wages and incomes, with concomitant new technology and need for inputs); and,
- Rise of the non-farm economy, particularly construction work and service sector work (for forward castes and scheduled castes respectively).

Looking more closely at the last 5-10 years, three changes were identified as particularly influential:

- Privatisation, for example of ground water and tanks;
- New consumer goods, media, and widening or changing aspirations; and,
- Rise of village level politics and participation in village level resource allocation.

Short term fluctuations in livelihoods**Preparing for shocks and opportunities**

Some households are able to *prepare for change* before it happens ('ex ante'). They diversify across different activities or build up liquid assets, or buffers, to draw upon when shocks hit. If a specific negative change can be predicted (e.g. fall in price of a crop, spread of a disease), they can take evasive action or insure themselves (by switching to other crops/labour-uses, investing in preventative health care/health insurance). If a positive change can be predicted, they can build up the necessary skills or tools to seize the opportunity when it arises (see Box 1).

Others have less information to predict change or do not have the resources to make preparations. They are therefore more vulnerable to the impact of shocks and less able to seize new opportunities. The capacity of households to prepare for change is heavily dependent on access to information and this is mediated through social and economic relations of caste and class.

Coping with shocks

Coping with change after the event can be done in different ways (Box 2). If household cash-flow moves into deficit it may:

- Draw down assets in order to maintain consumption e.g. selling household possessions, borrowing (increasing liabilities). Some assets may have been stored deliberately to cope with adversity, for example food stocks, gold and jewellery.

Some households are able to prepare for change before it happens, others cope with change after the event

Box 1 Successfully preparing for change

In a village in MP, a blacksmith prepared for the introduction of soyabean cultivation by designing new sickles and hoes well suited for the soyabean fields. Having previously suffered from the declining bullock-cart trade, and forced sale of 1 ha of land for his son's marriage, his pre-emptive action turned him into a supplier to farmers from several villages around.

In AP, several farmers left their groundnut fields fallow when the monsoon rains were irregular because they anticipated crop failure. Instead of investing their cash and labour in crop cultivation, they migrated and worked as casual labourers in nearby fields and urban locations. Other farmers sowed their land with drought resistant crops, mainly minor millets and horsegram, when it became clear that the rains were going to be very late in *kharif* 2001. The returns to these crops were lower but at least something could be harvested for subsistence.

- Reduce consumption and expenditure, e.g. skipping meals and school. This may be difficult for the very poor who already have minimal consumption, or unacceptable for other households who have become accustomed to a particular standard of living.
- Work harder or longer to fill the gap, whether in new activities or existing ones. For the poor, with few assets and opportunities, extra work may only be found in very poorly rewarded occupations such as collecting firewood.

Caste influences coping strategies. Tracking livelihoods of households in MP showed that backward and scheduled castes generally depend on agricultural-labour to cope with shortage. But forward castes lose social standing in the community if they sell their labour, so tend to rely on selling land or jewellery as a coping strategy. In AP, the Kapu rarely sent their women out to work, so that if there was a deficit in the household then their first response was to economise on consumption rather than supplement incomes.

Definitions

- **Ex ante** – before the event: taking action to deal with shocks/opportunities before they occur.
- **Ex post** – after the event: responding to change that has happened.
- **Risk-mitigation** – reducing exposure to risk ex ante. For example, diversifying, building up assets.
- **Coping** – short-term response to deal with negative change.
- **Vulnerability** – a combination of exposure to risk, sensitivity to shock (impact when it happens), and lack of resilience (to bounce back).
- **Liquid assets** – assets that can be relatively easily converted to different forms. For example, cash can be used in many different ways but some savings cannot be accessed so quickly or in small amounts. Some skills are 'liquid' as they can be switched to different opportunities.

The more coping strategies erode into productive assets, the more unsustainable, or erosive, the coping activity. A household will aim to have a good choice of coping activities and, in particular, a good buffer of savings or insurance. Typical accumulating activities during times of cash surplus will, therefore, tend to be the opposite of coping activities: saving, paying-off debts, and eating better or educating more.

When positive exogenous shocks create new opportunities, households that have built up skills and assets (particularly liquid assets), and those that are better able to predict change in advance, are best placed to seize new opportunities.

Long-term trajectories: accumulation or impoverishment?

Many households move temporarily into cash-flow deficit or surplus owing to some change in circumstance. But which households stay on a long-term trajectory – either of accumulation or impoverishment – and why? Issues at the household level and in the structure of the economy need to be explored.

Household trajectories: virtuous and vicious circles.

Short-term gains can breed long-term success. A daily surplus can lead to further accumulation if the surplus is invested in household assets, particularly skills, productive assets, networks, and contacts. Once these are in place, the household is better placed than others to pursue higher yields and higher-return options. These in turn can generate further cash surplus, and so the virtuous circle continues.

As Figure 2 shows, the vicious circle of impoverishment is the converse. Short-term necessity may drive a household to draw down assets, leaving it more vulnerable to future shocks and less able to break out of exploitative market arrangements. Its ability to increase earnings is therefore heavily constrained, and the chance of earning enough to produce a surplus and kickstart investment is small. Thus the distinction between short-term and long-term livelihood change is, in practice, blurred.

But this picture is too simple to inform policy. It describes but does not explain. What helps households onto the virtuous circle? What keeps some trapped on vicious circles?

Explaining different patterns of household change

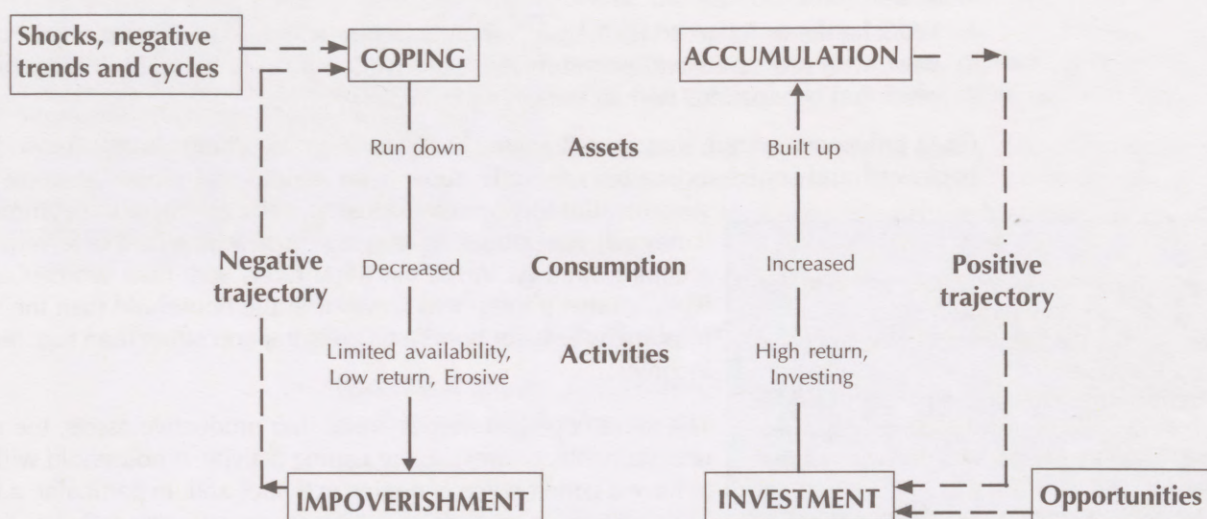
A major task in understanding livelihoods is to identify which factors facilitated progress by those whose livelihoods have improved, or constrained those who have stayed poor. Household level factors, particularly the household demographic cycle, may be readily apparent. Identifying structural factors can be more difficult but these are often key in explaining long-term trajectories (for an example see Sheet 3.4, Table 1).

For example, the study in MP and AP showed that some landless labourers had been able to earn higher returns, and move up the income ranks. This was largely due to the availability of new economic opportunities. Although agriculture and its allied sectors remained central

Change can lead to virtuous or vicious circles for different households

Although agriculture and its allied sectors remained central to the livelihoods of most of the poor, access to non-farm sources of income emerged as critical for moving up the income ranks

Figure 2 Cycles of impoverishment or accumulation



Long-term change in livelihood trajectories is often caused by structural change in economy, not just by household cycles

Some groups were trapped in unfavourable market returns, and are unable to take advantage of change

to the livelihoods of most of the poor, access to non-farm sources of income emerged as critical in their upward mobility. Those without any non-farm income, nor means to improve marginal agriculture were among the poorest. The first non-farm sources accessed were generally jobs outside farming. As income rose, self-employment in non-agricultural activities and then small businesses became more important. Often this non-farm income was invested in land and agriculture, so agriculture-related income also increased.

However some groups, both richer and poorer, were unable to take advantage of structural change. This may have been because they were trapped in market relations on unfavourable terms. Exclusion and market differentiation (Sheet 2.4) barred them from achieving higher returns. Several other factors, such as caste, over-indebtedness, location, lack of training, loss of land and absence of adult males in the household were also critical.

Identifying and interpreting these patterns and their causes is the basis for drawing out implications from livelihood trajectories to inform policy. The apparent benefits of non-agricultural labour income raise important policy issues about how to stimulate demand for labour, and how to increase access to labour markets. The obstacles that prevented others from progressing, suggest policy in areas such as training, credit, and land.

Summary of key issues to assess in livelihoods analysis:

- Causes of livelihood change: shocks, trends and cycles;
- Change due to events/cycles within the household or due to changes in policy and economic structure;
- Short-term coping and adaptation strategies of different households;
- Long-term trajectories of impoverishment or accumulation; and,
- Access to, or exclusion from, opportunities for accumulation.

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2.3 Livelihood Diversity and Diversification

What are diverse livelihoods?

Diversity at the level of individuals and households

To say that a person or household has a **diverse livelihood** means they rely on different, multiple economic activities within a year, including:

- Agricultural and non-agricultural work;
- Work for oneself and work for an employer; and,
- Work in the rural locality and in other parts of the countryside, towns and cities during temporary migration.

Diversification is the *process* by which economies become more diversified. At household level, this tends to mean adding on new activities. These may be the growing of new varieties of high value crop (agricultural diversification) or undertaking small enterprises, casual labour or migration (non-agricultural diversification). Some activities may have long existed in India (e.g. money-lending) but be new to the particular diversifying household.

Box 1 Caveats and complexities

Documenting and measuring livelihood 'diversification' is not just about the number of income sources in a household, but the degree of reliance on multiple sources. A household, for example, may have half a dozen or more different sources of income, but 90% of the total may come from just two of them.

Diversification also depends on definitions: it can be difficult to say when two activities are 'different' from each other, particularly if diversification is within a sector (e.g. a farmer moves into a new crop) rather than from one sector to another. 'Diversification' is often equated with a shift from agriculture to non-farm activity, but it need not be: a *dhobi wallah* (washerwoman) could diversify by incorporating farming into his portfolio through sharecropping or leasing land. A farmer could diversify her portfolio to include livestock by keeping a goat that she takes with her to the fields.

Diversification of the economy – the difference and the links with diverse livelihoods

'Diversification' in the wider regional or national economy is usually closely associated with the transformation of the *economy's sectoral composition*. As it develops, an economy typically shows an increasing fraction of the total output coming from the manufacturing services sectors, and a declining share from primary activities, above all from agriculture. These changes are usually positive in that labour productivity in the secondary and tertiary sectors tends to be higher than in the primary sector, so that overall productivity rises.

But at the same time, remote regions may maintain or increase their dependence on agriculture, either because they are marginalised from the urban economy or because new opportunities to supply farm produce to the growing cities arise.

Diversification and specialisation may occur at the same time, but at different levels. For example, the following patterns may be seen:

- Regional economy diversifies into new sectors (e.g. manufacturing, computing, and services), individuals may become more specialised – as factory workers, computer engineers, call-centre operators, tour operators. Result: economic diversification at regional level, specialisation at individual level.
- Regional economy not growing into new sectors, but individuals may nevertheless have to draw on a growing range of work to support themselves. Result: livelihood diversification at individual or household level, without economic diversification at regional level.
- While the regional economy diversifies, there may be households unable to participate in the new opportunities for lack of capital or skills, who thus have either to depend on traditional activities, or to diversify into low-return informal activities. Result: economic diversification at regional level, moderate diversification at household and individual level.

Household livelihood diversification is taking place in India in parallel with macro-diversification but is not usually driven by it

Diversification as accumulation, impoverishment, or staying level

Diversification can play a part in either accumulation or impoverishment. If the new economic options provide a higher return than a household's usual activities this is called 'pull' or *positive* diversification. The household adopts it as a positive choice, and consequently can either live better or accumulate assets, or some combination of the two.

If, on other hand, the new options provide a lower return than usual, they are more likely to be coping strategies in response to some shock or downward trend. This is called 'push' or *negative* diversification. It may be important for household survival, but may form part of a cycle of impoverishment.

Box 2 Examples of negative and positive diversification

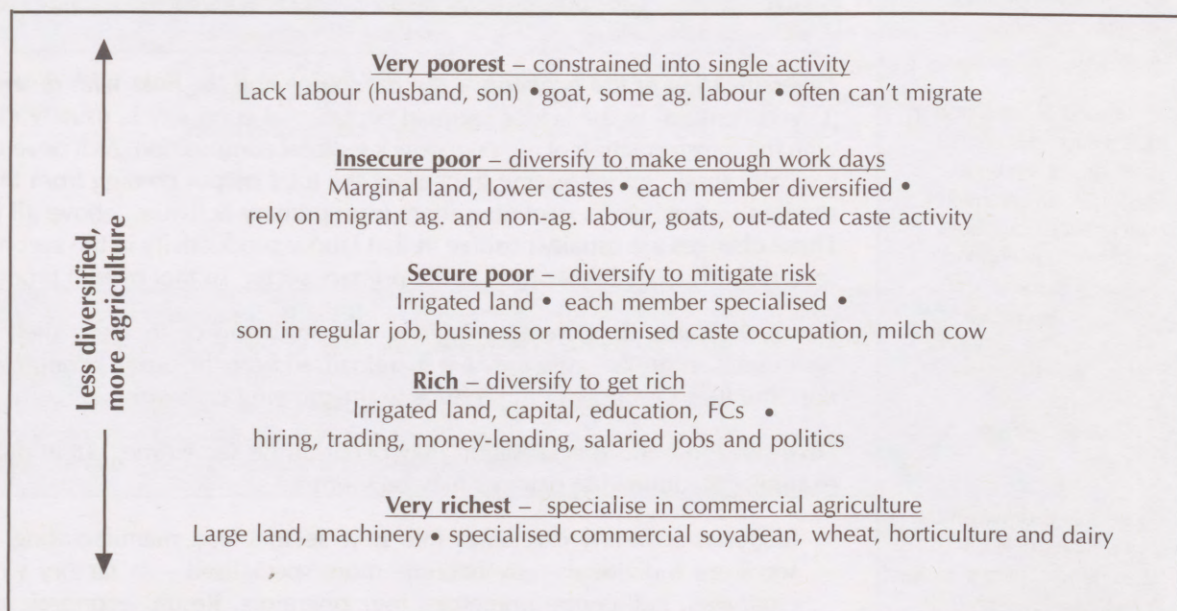
In MP, the main type of negative diversification occurred when farmers were forced to sell their own land or agricultural assets (e.g. to pay debts, dowries). Thus they had to shift into agricultural labour, migrant labour, fuelwood collection, or cattle herding. Similarly, in AP, negative diversification occurred among the seriously indebted who were forced to sell land and work as farm labour in the fields of the money lender to repay the loan.

Common examples of positive diversification enabling people to earn higher returns in AP and MP in richer households were the purchase of pumps for irrigation, getting a government job, establishing poultry farms and hiring out farm equipment. Middle-income households opened tea or grocery shops. Poor households migrated for construction labour and established tea stalls or rickshaw-pulling businesses.

Between these two extremes is a large area of diversification into activities that people move into for reasons other than the immediately financial – for instance, to reduce risk, to take on less onerous work, to take on new opportunities as their circumstances change, and so on.

Livelihood Options findings indicate a general pattern in MP and AP, by which the very poorest were unable to diversify, remaining dependent on their agricultural labour or marginal land (Box 2). For the majority of poor, diversification into many low return and non-farm activities was both a response to crisis (e.g. excessive debt) and a strategy for staying above destitution. The middle income groups remained less diversified and more dependent on cultivation while the better off were often those who had diversified into the high-return economic opportunities (Figure 1).

Figure 1 Patterns of diversification



Why are people diversifying?

Causes of diversification

Households adopt diversified portfolios of activities for one or other of the following reasons:

- 1. Spreading risk:** Working in different activities helps to spread risk and manage uncertainty providing that these do not rely on the same resources, markets, etc.¹ The benefits of specialisation and economies of scale in one activity may be lost, but diversification makes total income more predictable. Even better-off households may like to reduce the degree of risk they encounter by complementing high-return but high risk activities with those that are low-risk and low return.

Defining risk

Risk is termed 'co-variate' when more than one household is likely to suffer from a given event. For example, a drought is likely to affect all the households in one village (and most of their crops).

Risks that affect only single individuals or households, such as a road accident or a fire, are called 'idiosyncratic'.

It is more difficult to insure, either formally through paying premiums, or informally through participating in mutual self-help associations, against co-variate than idiosyncratic risks. This is so since when losses are widespread and simultaneous, resources are few compared to the many claims that arise.

The risky nature of agriculture helps explain the high levels of diversification in rural areas. But conversely, the persistence of part-time, often poorly-performing marginal agriculture may itself represent diversification for households that would otherwise depend on casual labour or migration and remittances in an uncertain urban economy.

2. Coping with insufficiency. Diverse activities may be undertaken as an *ex-post* coping response to shortcomings in other activities. A failed harvest owing to drought or pests, loss of a job, or the need to pay emergency medical or funeral bills – all can drive households into pursuing other activities.

Insufficient returns from agriculture push households into diversification

3. Seasonality. Some primary activities, such as crop farming or gathering of fruits, nuts, mushrooms, depend on the weather and the seasons. Some manufacturing may also be seasonal, as, for example, when crafts are produced for particular festivals. Undertaking different activities in the off-season, no matter if they produce lower returns than the main activities, is preferable to outright unemployment. For example in AP, when there was little farm labouring work available in the summer, poor households collected and sold non-tree forest products.

4. Compensating for failures in credit markets. When a favoured activity requires working capital but people have no access to ready credit, or only on exorbitant terms, they may undertake some other activity to generate cash to pay for the inputs. For example, crop farmers may work off-farm just before the main crop season to finance fertiliser and seed, or they may grow a minor crop in the off season the sales of which allow them to buy fertiliser for the main crop – for example, growing mustard seed in Bengal prior to the main paddy seasons.

5. Gradual transition to new activities. Change to new activities with higher returns may be incremental, particularly if the new occupation is untested. The new activity is adopted as an *addition* to the household portfolio rather than a substitute for existing activities. Sudden and dramatic changes in livelihoods (e.g. from farming to migration) are only likely when driven by necessity (e.g. to pay off a debt). Over time, if high returns prove stable, it may become an area of specialisation.

6. Building on complementarities. Some diversified activities may build on existing skills, experience and information. Thus home-based, part-time work may complement home-based, part-time domestic chores. Urban contacts made during urban work may facilitate trade. Blacksmiths may move into repair work, barbers set up hairdressing salons, dhobis establish dry-cleaning shops, and tailors enter the cloth-trade. In such cases, change is 'path-dependent', in that it depends on previous conditions and experience.

These economic motives to diversify are not new to rural India but are currently reinforced by structural change:

- As the economy modernises, new options emerge for processing, trading, or developing existing assets and products.
- Agricultural plots have been sub-divided and are smaller. Labour markets have become more casualised. In some cases providers of caste-based services have increased faster than their client base whilst elsewhere the demand for caste-based services has declined with changing values and customs. Thus whereas before many of the rural poor relied on one or two activities (whether farming, labour, or caste-based service) many people have been forced to take up complex portfolios to cope with insufficiency.
- The caste system, which entrenched a form of specialisation of labour, is applied less rigidly when people take on work in urban areas, thus opening opportunities to more people.

Linkages or complementarities between different activities often explain why and how livelihoods are diversified

Economic structural change is reinforcing motives to diversify - whether to cope with insufficiency or seize new advantages

Box 3 Evidence of increased diversification

In 1975, an ICRISAT survey in AP found that those with no land, or smallholdings, had more sources of income than those with more land. A re-survey by Livelihood Options and ICRISAT in 2001, found that households from all land holding groups had diversified in terms of the number of different earning activities pursued.

Understanding diversification in generalised terms is of limited use in understanding its role in poverty reduction. Detailed studies are needed

How and why different groups diversify

Diversification options are limited by economic constraints, particularly the natural assets of the household (land, livestock) and human assets (family structure and skills). They are also limited by social, cultural, and political factors, particularly caste and wealth. As a result, there can be vast differences between types of household in the diversification options they can pursue (Box 4).

It is therefore important to assess diversification trajectories for different groups, particularly for different 'livelihood classes' and caste groups (see Sheet 3.3). Only with such disaggregation is it possible to identify winners and losers from new options, so as to protect those from becoming vulnerable, support those who are finding their way out of poverty, and remove constraints to others doing the same.

Box 4 Diversification options in MP and AP by caste and livelihood class

- The richer households had the investment funds, skills, physical resources and networks to enter into money-lending, hiring out tractors and agricultural equipment, setting up business, commercial dairying, poultry farming, aquaculture or government jobs. These households diversified for accumulation.
- The middle income groups were usually able to access some capital and build on their previous trade or service activities to diversify into small and micro-enterprises (small-scale dairy, ice-cream making and groceries), as well as increasing their number of livestock for security. These households diversified to mitigate risk.
- The poorest groups have little to draw on but their own labour, so tend to diversify into casual labour in construction, road-building, collecting non-timber forest products, keeping goats and rickshaw-pulling. These households diversified to cope with underemployment.
- Diversification through 'caste modernisation' occurred when a caste group adapted its role, for example from grave digging to digging trenches for cables, from barber to hair-dresser, from carpenter to furniture shop.

Disadvantages of diversification

Just as diversification takes place for a variety of different reasons, it can also have many different outcomes. Some diversification is unsuccessful. For example, adopting many livelihood activities can reduce the economies of scale that are generated through specialising in a particular activity. There is also a potential trade-off between diversity and stability of income. Thus, diversified household livelihoods can be susceptible to a wider range of uncertainties and shocks, even though they may not happen at the same time.

Summary of key issues to assess in livelihoods analysis:

- Is diversity of livelihood portfolios high or low, increasing or decreasing?
- Who is diversifying (or not)?
- Why? Is diversification accumulative, coping or "holding one's own"?
- How does livelihood diversification relate to diversification at other economic levels?
- Which activities are new? Who adopts them and who cannot?

Endnotes

¹ e.g. Alderman, H. and C. Paxson (1992) 'Do the Poor Insure? A Synthesis of Literature on Risk and Consumption in Developing Countries', *Policy Research Working Papers* No. 1008, Washington DC: World Bank.

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KEY CONCEPTS AND ISSUES

These guidance sheets aim to help policy-makers and practitioners increase their understanding of complex rural livelihoods in India. Policy choices in a range of areas – such as employment, enterprise development, social protection, rural infrastructure and agriculture – have major impacts on rural livelihoods. In turn, the outcomes of such policies are affected by the choices, preferences and constraints of the poor. Thus effective policy-making requires an understanding of rural livelihoods.

We focus on three livelihood issues in particular: the dynamics of livelihood change; diversification of livelihoods; and issues of exclusion and access to livelihood options and resources.

The sheets are grouped in four sections. Section 1 summarises the issues. Section 2 covers the key concepts of household economics, livelihood change, diversity, and exclusion. Section 3 reviews useful methods. Section 4 reviews the key linkages between livelihoods and policy change.

These sheets draw on the experience of ODI's 'Livelihood Options' project in Madhya Pradesh (MP) and Andhra Pradesh (AP) though also aim to give insights into livelihood analysis and policy issues elsewhere in India. Livelihood Options is a 1999–2002 research project in India, Bangladesh and Nepal that aims to identify how policies can support positive exits from poverty via diversification.

2.4 Exclusion, Access and Unequal Market Returns

Differences in access, opportunities and market returns

Between castes and classes of household, there are major differences in the opportunities and returns available to them, and hence their chance to escape poverty (Box 1).

Box 1 Class and caste

'Class' defines people in terms of the economic properties they have in common, such as land, occupation, social status, and so on. In classical political economy, class is defined by access to the means of production. The main division made is between 'capitalists' who own land, factories and other means of production, and 'workers' who rely on selling their labour to the capitalists. In this scheme, small farmers who own their land and produce for their own subsistence may form a separate class of 'peasants'. But simple divisions become problematic, since the group of 'peasants' may include farmers who do not own their principal means of production, but rather rent land as tenants or sharecrop fields. Class relations embody both economic and political power. Thus, in rural areas, not only do the landowners control the land, and often credit as well, they may well be politically powerful, controlling local cooperatives and *Panchayats*.

Class may thus seem a useful analytical category, but in an increasingly complicated world it becomes more difficult to see class in clear and consistent categories. For example, what is the class of the independent smallholder who also migrates seasonally to work on harvests in another State? And what is the class of a school teacher who also happens to own land? Diversification at individual and household level makes it increasingly difficult to define who belongs to which group.

In India the 'caste' system remains central to social, economic and occupational hierarchy. People are born into a specific caste group that are in the Indian Constitution classified as either Forward Caste (FC), including, for example, priests and teachers, or Backward Caste (BC). The latter castes may be further divided into the lowest prestige group, Scheduled Castes (SCs), and Other Backward Castes (OBCs). OBC occupations include tailors and blacksmiths. SC occupations include basket-making and dung-collecting.

Inequalities become entrenched in three ways.

First, those at the bottom of the wealth, caste and class system have little other than their own labour, and are generally unskilled. Lacking assets of all kinds, they cannot seize new, more profitable opportunities, and often cannot afford to take risks either. High return economic activities are often inaccessible, because they require investment funds, skills, or access to information networks. Thus the poor risk being trapped by their initial lack of assets into low-return activity that continues to prevent them from accessing the assets to escape poverty.

Second, even when the poor participate in activities and markets, they are often confined to segments of the market where they encounter the least favourable terms.

Third, economic poverty often goes hand-in-hand with political disadvantage so that the poor get less than their fair share of their entitlements from legislation and policies.

These last two ways are explored further in this Sheet.

Dynamics of exclusion: relationships and markets

The activities undertaken by households may lie on different parts of the class spectrum, but are done in different ways, for different reasons, and with different returns. For example, in Andhra Pradesh and Madhya Pradesh, both poor and well-off farmers practice sharecropping, agricultural labouring and borrowing. But the better-off households can access high-return productive land, the well-paid wage labour opportunities, and are much more likely to borrow from formal sector credit institutions or wealthy kin at modest rates of interest. By contrast, the poor access only low return land, get low-paid jobs, and invariably rely for credit on moneylenders or large farmers charging higher interest rates.

The same activity can generate very different returns for high and low class households

The poor tend to get caught in low-return markets. For *similar* inputs or outputs, they receive lower returns than higher classes do. Where the poor pay more for services (e.g. credit) or get lower returns (e.g. in share cropping), markets are said to be 'segmented'. Box 2 gives examples of this from AP and MP. Because they have no savings to fall back on, the poor are often also forced to enter markets at the least favourable time (e.g. selling their crops immediately after harvest).

Box 2 Examples of unequal access and returns from the Livelihood Options Study

MP

Sharecropping access to productive land: access to good sharecropping land is highly contested because it can generate good returns. The best land is generally shared out by Backward Castes to other Backward Castes, because they are trusted, known to be good cultivators, and/or have spare capital. Scheduled Castes tend to get access only to the poorest land.

Agricultural labour: wage rates vary considerably by the crop, task, season, location, labourer, and regional productivity. While diverse classes and castes undertake agricultural labour, there are clear disparities in bargaining power, information on opportunities, and terms of employment. High value wage work tends to be kept within the family where possible, or allocated through kin and caste networks. Well-off families can send sons for a few weeks 'pulse harvesting', in the high productivity agricultural regions near to home. By contrast, the poorest, landless and marginal households take what work there is locally at the beginning of the *kharif* season, then migrate seeking whatever work and returns they can. Women tend to receive 20-50% less than men for identical work, depending on the area, except in traditional low status work such as paddy weeding.

AP

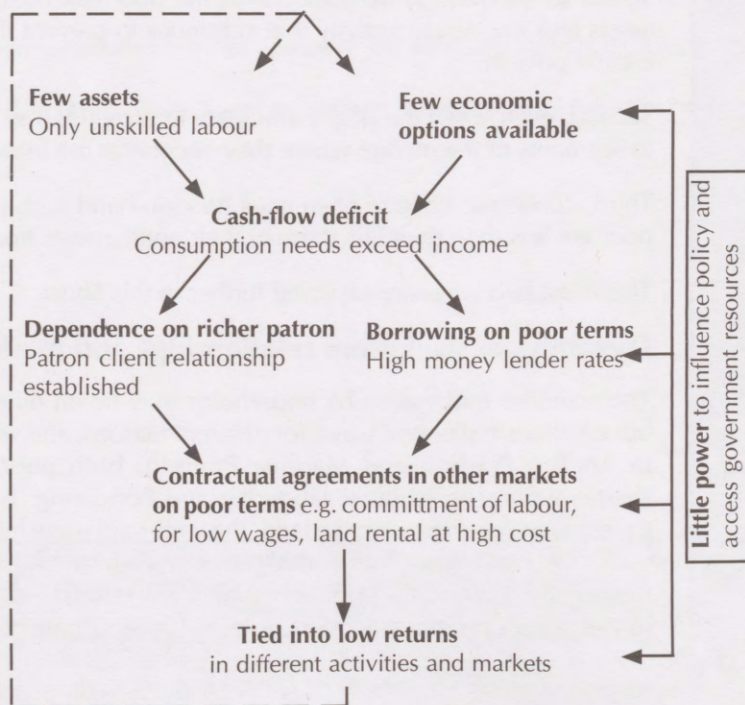
Land leasing: This is a way of getting access to land with assured irrigation. In general, landowners prefer to lease out land to their own caste or relatives. In coastal AP, a number of poor and lower caste households leased land from forward castes though the terms on which they leased land were less favourable than the terms offered to forward caste households.

Wage rates and gender: Women get less than the legal minimum wage for casual labour in all study districts in AP. As in MP, wages differ by task, season, etc. The bargaining position of labourers working through labour gangs during peak harvesting or transplanting seasons is very high. In contrast casual women labourers in drought-affected areas may get as little as Rs15 a day when men earn Rs35.

The power of the lender over the debtor may be used to force unfavourable terms of contract in other markets that richer households dominate – for example, in setting wage rates for farm labour, or rentals for land. Thus one household may easily find itself borrowing from, working for, selling harvests to, and hiring land from one dominant moneylender-cum-landowner-cum-trader. Such *inter-locking markets* are particularly open to abuse because the terms of all transactions are inter-related and the low returns offered are much easier to conceal from the moral or competitive scrutiny of others in society.

Immediate necessity leads poor households into necessary but unhealthy patron-client relationships

Figure 1 How the poor get trapped into low returns



A powerful patron can be helpful in times of shock but also set exploitative terms in several markets – credit, land, and labour.

Unequal market power allows higher classes to extract surplus value from lower classes

Debt, in particular, can trap households into exploitative relationships and markets. A household with frequent cash deficits may be forced to seek financial advances from those with surpluses: the higher classes. Thus a necessary, but often unhealthy, relation is formed between *patron and client*. These financial advances may be offered at extortionate rates resulting in a permanent debt trap (see Figure 1).

Political economy models of peasant households emphasise how unequal market power allows higher classes to *extract surplus value* from lower classes. Thus not only are the poor left in deficit and dependent, but the former become more powerful. Box 3 identifies some of the ways in which this expropriation takes place.

Economic inequality reinforced by political inequality

The poor typically not only miss out economically, but also politically. Thus policy interventions intended to support them may be captured by those with more power, further reinforcing inequality. Lacking literacy and information, the poor may be largely unaware of their legal rights and the programmes that have been set up to assist them.

Box 3 Political economy perspectives on exploitation via the market

There are several ways in which rural institutions enable one class to benefit at the expense of another. Deere and De Janvry,¹ using Marxist analysis of Latin American development, highlight the range of market arrangements that can be structured to enable surplus extraction from peasants:

- Land rental: whether rent is paid in labour services (a semi-feudal arrangement), in kind (as a proportion of output), or in cash.
- Wage labour markets: the surplus 'extracted' is the difference between wage paid and the value added by the labour. Indeed, it is possible for wage rates to fall below the costs of labour supply, in the sense that the wage paid is insufficient to allow the labour household to cover its basic living expenses. In this case, it is argued that since the peasant farm produces much of its own subsistence requirements, the peasant economy subsidises the capitalist economy, with the latter capturing the subsidy through the payment of very low wages.
- Commodity markets: terms of trade which keep down the market price of commodities produced relative to those purchased.
- Usury in credit markets: charging interest rates that are above the cost of capital.
- Extraction through taxation: through head, land, market export or income taxes, usually involving a transfer from the peasantry to the state.

Bharadwaj² emphasises that it is the inter-locking of markets, under control of powerful individuals, that enables terms to be distorted against the poor.

This may be quite specific, when resources or programmes intended for poor beneficiaries or for the general populace are intercepted and diverted by others. Credit schemes provide an example. Schemes intended for women can be captured by men within a household, and schemes intended for the poor can be captured by richer households. For example, IRDP/SGSY loans are intended for the poor. They might, therefore, be expected to be allocated disproportionately among backward castes and SCs/STs. In MP, despite substantial government efforts in this direction, evidence from 6 villages indicated that whilst 23% of ST households received IRDP loans, this was almost matched by recipients from the Forward Castes (21%), with much lower percentages among Backward Castes and SCs. Collusion among Gram Sabha, minor officials, and traders fosters this misallocation and provides fertile ground for misappropriation of funds.

Elite capture of political power may undermine the interests of the poorest classes. While the evidence here is less tangible, such processes can strongly affect poor households' access to livelihood opportunities, particularly to high return opportunities (see Box 4). For example, evidence suggests that public investment in the technical change in agriculture favoured more developed regions, and better off-classes, at least in the initial stages.³ Larger landlords were able to influence policy to gain access to the most productive rice varieties and mechanised technology. Similarly, choices over which sectors should receive priority, and regulations – or lack of regulations – such as on minimum working conditions, can reflect political pressures. Thus it is important to assess how the distribution of public resources is exacerbating or challenging the economic status quo.

Box 4 Securing the rights of village households through the Gram Panchayat

The Livelihoods Options project studied the ability of local government (*Gram Panchayats*) to secure the rights of village members to entitlements from social security and anti-poverty schemes. In MP, a particularly decentralised State, very strong redistributive directives giving rights to food and work could become diluted by political pressures from all sides on allocations at District and Block level. The main way by which the poor were able to claim their entitlements was to use the power of their local politician or patron in return for committing votes in forthcoming elections.

With other schemes and programmes, with very clear directives on beneficiaries and selection procedures, those who had the best connections to their bureaucratic and political representatives were most likely to gain access. When, however, representative bodies such as NGOs or self-help groups were involved, such distortions were reduced. In other cases, access to government information, provided by new internet cafes, the press or radio, was the key facilitator.

In all cases poor people generally needed some form of representation, or easily accessible information, to claim their rights. The policy challenge was to establish forms of representation or awareness that increased the political negotiating ability of the marginalised to allow them to claim their rights.

Summary of key issues for livelihoods analysis:

- How does access to assets and economic activities differ between groups? Why?
- What are the terms of engagement, prices and returns facing rich and poor in key markets (land, labour, credit, and agricultural outputs)? How and why they differ.
- Patron-client relationships: how they work and evolve
- How public policy and investment challenge or reinforces economic inequity by benefiting existing political and economic elites?
- Dynamics of exclusion: how does inequality in one sphere get reproduced in another?
- What sorts of government interventions can best support forms of representation or awareness that enable poor and marginalised people to claim their rights?

Endnotes

¹Deere, C. D. and A. de Janvry (1979), 'A Conceptual Framework for the Empirical Analysis of Peasants', *American Journal of Agricultural Economics*, Vol. 61(4), pp. 601-611.

²Bharadwaj, K. (1985), 'A View on Commercialisation in Indian Agriculture and the Development of Capitalism', *The Journal of Peasant Studies*, 12(1), pp1-25.

³For more detail see Johnson C. and D. Start (2001), 'Rights, Claims and Capture: Understanding the Politics of Pro-Poor Policy', *ODI Working Paper No. 145*, London:ODI.

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METHODS OF ANALYSIS

These guidance sheets aim to help policy-makers and practitioners increase their understanding of complex rural livelihoods in India. Policy choices in a range of areas – such as employment, enterprise development, social protection, rural infrastructure and agriculture – have major impacts on rural livelihoods. In turn, the outcomes of such policies are affected by the choices, preferences and constraints of the poor. Thus effective policy-making requires an understanding of rural livelihoods.

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3.1 Planning Livelihoods Analysis

Unravelling the complexities of diversity, change and exclusion in rural livelihoods is not easy. It involves assessment of many intertwined variables and processes, and comparisons across people, households, castes, class, region, time periods, etc. Livelihoods assessment therefore faces a trade-off between gaining a sufficiently in-depth understanding of complex relationships and different situations, and aggregating findings to the level of generalisation that can be useful to policy-makers. Two important implications for methodologies stem from this:

- Research must be *focused* with clear goals and outputs. The purpose must be clear and should guide the methods.
- While methods of data gathering should go into sufficient detail, *analysis* of the information through aggregation, comparison, and interpretation is essential to get to the point of identifying policy implications.

Livelihoods research has both strengths and weaknesses from a policy perspective. These need to be recognised so to make best use of the strengths, and find ways to address the weaknesses by adapting methods, or by supplementing livelihoods research with other research.

Purpose

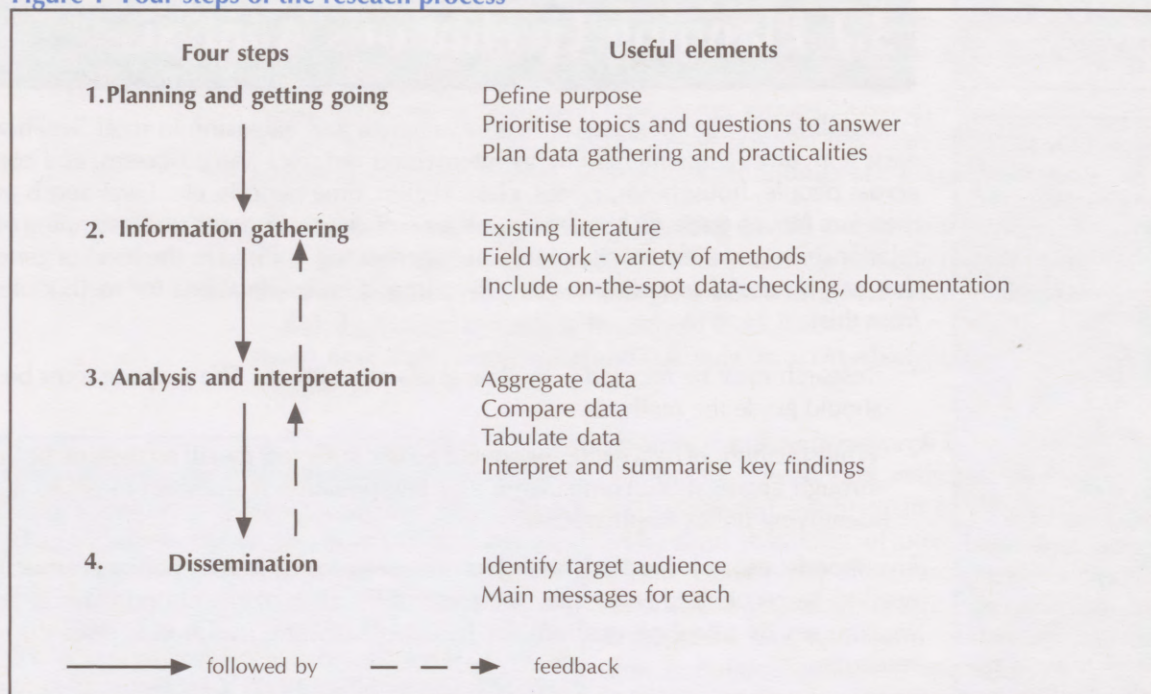
The purpose of the research needs to be clear from the start because it should guide the planning of methods. An assessment of rural livelihoods may be done for a number of reasons:

1. **Responsive, short-term, programme-related assessments** are often needed for designing or appraising a new intervention, monitoring it, or evaluating its impact. The intervention may be a specific programme for a product or service (an agricultural scheme, a credit scheme) or a new policy (price liberalisation). An assessment may be required to estimate the needs of, or impact on, intended beneficiaries, and to inform the design, implementation or continuation of the intervention. Such assessments are therefore usually done to tight timescales for specific decision-making purposes.
2. **Policy research** is both open-ended in its exploratory, inductive approach, but also directed by the priorities, debates and dilemmas in current policy circles. It may seek to answer policy questions such as: How do rural people find jobs in towns, and how can supply and demand be better matched? What role does sharecropping play in enabling people to move into agriculture? To what extent have the terms of trade moved towards or away from agriculture and how have farmers of different land holding classes responded?
3. **Strategic, in-depth academic research** frequently aims to gather evidence that proves or disproves hypotheses or arguments within an existing body of empirical literature, or contributes to theoretical frameworks. The outputs from academic research on rural areas may contribute to policy indirectly by expanding knowledge on topics such as: whether agricultural economic development makes rural markets more open and less feudal than in the past; ways in which households respond to risks or profit incentives; the importance of social networks in gaining access to higher return labour opportunities. Academic research should have sufficient time to ensure rigour and thoroughness.

Steps in the process

Figure 1 illustrates four steps in researching livelihoods: planning, data gathering, analysis and dissemination. Each of these depends on the purpose of the research. The purpose should guide the research questions to be answered. This indicates the information needed to answer them, and hence the methods of data gathering and analysis to be used. The purpose also defines how the findings should be written up and disseminated.

Figure 1 Four steps of the research process



The 'big' questions to answer (Box 1) are often quite different from the specific questions to ask in the field. Those doing the fieldwork need to see how their questioning feeds into 'big picture' answers.

The 'big' questions to answer are quite different from the specific questions to ask in the field

Of the four steps, gathering information usually takes the largest share of planning attention, implementation resources and time. Certainly it needs to be well-planned, both analytically in terms of methods, as well as practically in terms of staff skills, timing, and logistics. Data quality is critical to research. But data gathering can consume disproportionate resources and invariably takes longer than planned.

It also matters that adequate skills, resources and time are budgeted for analysis and dissemination. Most research guides and manuals – these sheets included – focus on methodologies for data gathering rather than interpretation and dissemination, because advice on methods can be generalised whereas findings and usage are very context specific. Nevertheless, steps 3 and 4 should not be overlooked.

Making best use of results for policy: effective data analysis

The research outlined in these guidance sheets focuses at the level of households and villages, and on understanding the details of livelihood portfolios and trajectories.

Taking research down to the household level offers some strong *advantages*. It can be particularly useful for:

Box 1 Defining the major questions

In the Livelihood Options Study, the research questions arose from increasing criticism of the way that 'rural livelihoods' were often equated with 'agricultural livelihoods', recognition of the changing nature and diversity of poor peoples' livelihoods, and a need to understand better how the changing economic and political context for rural India was affecting the poor and their livelihoods. Thus four key questions were framed at the outset:

1. How have rural livelihoods changed and diversified, particularly in the context of liberalisation?
2. Under what conditions have poor people been able to obtain access to new and more productive livelihood opportunities?
3. How has this process affected their well being?
4. What has been the role of the state?

- Unravelling the complexity and diversity (and even ambiguity) of people's lives rather than relying on simplified assumptions about how rural economies work;
- Going beyond typical spatial or sectoral boundaries, by highlighting the importance of cross-spatial activities (migration) and cross-sectoral linkages (farming, labour markets, credit);
- Capturing the reality of marginalised households whose distinctive features may be lost in data that is aggregated at village or regional level;
- Revealing the interplay of forces of change affecting households both internally (such as stage in the life-cycle) and from outside (such as economic transformation or policy change); and,

Household-level and village-level research has both advantages and limitations

- Providing a reality check by distinguishing between the intended outcomes of policies and programmes and what is actually happening to the poor.

However, household-level and village-level livelihoods research also has its *limitations*. In terms of its policy impact:

- The sheer amount of detail observed at household and village level may make it difficult to relate to broader processes of structural change.
- It can be difficult to aggregate the detailed data to a sufficient level of robust generalisation for making policy recommendations.
- Routes through which findings from household level research can be fed into (sectoral) policy and macro-level planning are not clear.

There are also *methodological concerns*:

- Excessive focus on households can ignore important relationships within households which affect livelihoods. The assumption that a household head both knows what is happening to all members and shares their interests can lead to distortions and simplifications that can mislead policy.
- Participatory methods, a common and important part of village-level research, can ignore diverging interests within a community and exclude voices of the less vocal or powerful.

Given these strengths and limitations of livelihoods research, four key issues emerge for making the best use of results.

Combining qualitative and quantitative data

One of the most important distinctions in social research is between quantitative and qualitative methods. While qualitative data is rich in detail and can help identify causation, it is difficult to make meaningful comparisons. Quantitative data enables us to compare and correlate, though not to attribute causation. Thus, in the process of data analysis, it is important to combine detailed qualitative data with quantitative data. Linking qualitative and quantitative analysis enables findings from in-depth research with a small sample to be backed up by more robust and representative data from the wider population. Without the qualitative detail, a distinctive benefit of livelihoods assessment (understanding complexities) is lost. Without the quantitative data, the wider relevance of the findings is in doubt.

It is important to combine qualitative and quantitative data

Building up the wider picture, layer by layer

It is essential to move from the detailed data, to broad categories of analysis, to big pictures, and in turn to policy implications. But this involves painstaking processes of aggregation, comparison, cross-tabulation, further aggregation and so on. If the work stops at the first level of analysis (e.g. presenting results for different categories of household or villages), the policy implications are not clear. But if researchers jump straight from a mass of detail to making policy recommendations, without presenting the intermediate evidence of how these were interpreted, the recommendations lack credibility. They may also overlook important qualifying details in their haste to make generalisations.

Box 2 From aggregated data to policy findings

The Livelihood Options household survey in MP included questions on how people finance investment and 'lumpy' expenditure (such as marriages), and on their terms of borrowing. Data from the 300 households was coded, entered into the database and analysed. Categorising the respondents' answers by income quintile shows that the three poorest quintiles are much more heavily dependent on moneylenders than others, financing over 80% of their lumpy expenditure from this high cost credit market. The two poorest quintiles also rely on selling land, and of all groups have least access to family help and formal institutions. The policy implication to emerge from these aggregations and comparisons is that better ways are needed of helping the poor to manage savings, investment, and lumpy expenditure.

In the Livelihood Options research there were many intermediate stages of analysis to go through, to get from individual households survey forms and oral history transcripts to policy implications for rural development. One key step was to cluster respondents into different groups and compare across them (caste, land holding, livelihood class, and village). The resulting tables (see examples in Sheets 3.3 and 3.4) are still too complex for presenting policy findings, but are essential building blocks.

Another key step was to assess the causes of change, economic success, or impoverishment for each household, and again aggregate these to derive larger patterns and trajectories.

As comparisons are made over time, across groups, between villages and regions, between richer and poorer, between those whose position has risen and sunk, big picture themes emerge. From such themes, policy-relevant findings are analysed (Box 2).

Linking micro and macro change, putting livelihoods in context

Links between macro-level and micro-level change need be traced. This requires tracking the processes and institutions through which change occurs (from macro, meso and micro levels) and not just focusing at household level. It also means researching the broad political, social, economic, institutional and cultural context in which policy is made and households operate.

Box 3 Understanding the political economy of change

'Whatever the combination of methods adopted at the micro-level to achieve a better understanding of various trajectories of change in household livelihoods, it is an essential pre-condition of that work to undertake a strong analysis at the regional or national level, and often at the international level also, of the political economy of change: key social trends, shifting political and economic and institutional pressures, the social relations of conflict and inequality that determine so many of the opportunities and constraints for different social classes within and beyond the population of immediate concern'.¹

Treating livelihoods research as one part of the picture

Findings from livelihood analysis, however well aggregated and interpreted, are just part of the picture. If the aim is to understand dynamics of poverty, and options for policy reform, other types of research are also necessary. More historical, structural and macro-economic analysis is needed to reveal the long-term trends and options for the economy (Box 3). Political analysis is needed to assess the content of policies and the processes by which policy is made and could be made more effective. Thus studies on terms of trade, democratic decentralisation, and policy process can also be essential complements to livelihoods research.

Summary of key implications for planning research:

- Clearly establish the research purpose;
- Ensure that the purpose defines the big questions to be answered and that this in turn guides the data needs and the methods for data collection;
- Plan all four steps: Planning and getting going; Information gathering; Analysis and Interpretation; and Dissemination;
- Ensure that sufficient attention and resources are given over to analysis and dissemination;
- Recognise the strengths and weaknesses of livelihoods analysis and harness the strengths (such as addressing complexity) whilst recognising the limitations;
- Combine qualitative and quantitative to enable a balance between detail and representativeness;
- Trace links between the macro context and livelihood change; and,
- Supplement livelihood level analysis with assessment of broader policy, institutional and political processes.

Endnotes

¹ Murray, C. (2000), 'Livelihoods Research: Some Conceptual and Methodological Issues', *Background Paper No. 5*, Chronic Poverty Research Centre, University of Manchester, p. 14.



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METHODS OF ANALYSIS

These guidance sheets aim to help policy-makers and practitioners increase their understanding of complex rural livelihoods in India. Policy choices in a range of areas – such as employment, enterprise development, social protection, rural infrastructure and agriculture – have major impacts on rural livelihoods. In turn, the outcomes of such policies are affected by the choices, preferences and constraints of the poor. Thus effective policy-making requires an understanding of rural livelihoods.

We focus on three livelihood issues in particular: the dynamics of livelihood change; diversification of livelihoods; and issues of exclusion and access to livelihood options and resources.

The sheets are grouped in four sections. Section 1 summarises the issues. Section 2 covers the key concepts of household economics, livelihood change, diversity, and exclusion. Section 3 reviews useful methods. Section 4 reviews the key linkages between livelihoods and policy change.

These sheets draw on the experience of ODI's 'Livelihood Options' project in Madhya Pradesh (MP) and Andhra Pradesh (AP) though also aim to give insights into livelihood analysis and policy issues elsewhere in India. Livelihood Options is a 1999–2002 research project in India, Bangladesh and Nepal that aims to identify how policies can support positive exits from poverty via diversification.

3.2 Overview of Methods for Livelihoods Analysis

Choosing and combining research methods

A wide variety of methods can be used for analysing livelihoods. All have advantages and disadvantages. The key is to ensure that the methods chosen correspond to the questions and data needs that have been identified; and that synergy among methods is exploited by the researchers. When the focus of the investigation is on livelihoods, the following three issues are likely to be crucial.

Qualitative and quantitative balance

Qualitative methods, such as key informant interviews and oral histories are often very rich in detail. They put information in context, and are able to explain issues such as 'why'. But a mass of qualitative information is difficult to compare, aggregate and interpret (although some scoring and ranking is possible). **Quantitative** methods, such as questionnaires, can provide a large amount of information, relatively quickly, for a large representative sample, in ways that can be compared and aggregated. However, they limit answers to a narrow set of pigeon-holed codes and the snapshot provided cannot get at context or explanation. Table 1 outlines a spectrum of quantitative-qualitative interviews, with the characteristics, pros and cons of each.

Table 1 A spectrum of quantitative and qualitative interviews: Strengths and weaknesses

Type of Interview	Characteristics	Strengths	Weaknesses
1. Closed quantitative Interview (survey)	Questions and response categories fixed in advance. Respondent chooses from among these fixed responses.	Data analysis simplified; responses can be directly compared and easily aggregated; many questions can be asked in a short time	Respondents must fit their experience and feelings into the researcher's categories. Can distort what respondents really mean.
2. Standardised open-ended interview (questionnaire)	Wording and sequence of questions are determined in advance and kept the same. Questions are open-ended (no fixed responses provided).	Allows respondents' own answers to be captured. Provides more complete data per topic than (1). Standard questions increase comparability, reduce interviewer bias, permit research users to review the instrument used, and facilitate organisation and analysis of data, compared to (3), (4).	Harder to code and aggregate answers than (1). Standardised wording lacks flexibility in relating the questions to particular individuals and circumstances compared to (3),(4).
3. Interview guide approach (structured interview)	Topics and issues to be covered are outlined in advance. Interviewer decides sequence and wording of questions during the interview.	The outline makes data collection somewhat systematic and comprehensive for each respondent compared to (4). Interviews remain fairly conversational and situational compared to (1), (2).	Important topics are more easily omitted than in (4). Interviewer flexibility in sequencing and wording questions can affect responses and reduce comparability, compared to (1), (2).
4. Informal conversational interview	Questions are asked conversationally. No predetermination of question topics or wording.	Increases the salience and relevance of questions. Interviews evolve and can be matched to individuals and circumstances.	Different information collected from different people with different questions. Less systematic, comprehensive, and comparable. More difficult to analyse data or devolve interviewing to different assistants.

Adapted from Mikkelsen (1995)

Combining and sequencing methods

A combination of methods is usually essential. Different methods can be used to cross-check (triangulate) information from different sources. Information that is difficult to obtain through one method might be more easily secured through another. An example where

Box 1 Methodological terms¹

Qualitative research is exploratory with open-ended questions. Qualitative data tends to be in-depth, context-specific, and can be descriptive or explanatory.

Quantitative research is carried out using pre-determined questions across a large sample. Quantitative data is numerical, descriptive, comparable, and generally statistically analysed to provide cross-tabulations by key variable (comparisons across categories).

Census and survey are quantitative tools. A census covers the whole population within the area, a survey covers a sample.

A **questionnaire** is generally quantitative but can include more qualitative open-ended questions. An **interview** is generally qualitative.

Triangulation is the process by which a range of methods, types of information, investigators and/or disciplines are used to cross-check the validity of results and build up more complete information.

Open-ended questions encourage the respondent to reply in an explanatory way. An example is *How do you make a living?* **Closed questions** are those where the response will be either guided by a pre-determined set of responses or are numerical in nature. Examples are *Which of the following income brackets does your household fall within?* or *In what year were you born?*

triangulation was useful in AP was to identify the underreporting of land ownership, particularly at the lower end of the land holding scale.

Table 2 shows the variety of methods that were used for Livelihood Options study and the main purpose of each. A census and sample survey generated core livelihood data for analysis of livelihood portfolios. Another questionnaire with the same sample but more open questions provided richer detail on decision-making and change. Finally, the qualitative discussions provided detail on causes of change, household decision-making, and issues specific to certain groups. Some livelihoods analysis will not need to go into such depth, particularly if its purpose is related to design or monitoring of one specific programme, or if there is plenty of existing data to draw upon.

Careful sequencing of different methods maximises their benefits. For example, open-ended questioning in the first stage of Livelihood Options defined some key issues and revealed different perspectives. This helped to prepare the wording of questions and coding for answers of the quantitative survey.

Table 2 Methods for livelihood analysis used in Madhya Pradesh and Andhra Pradesh

	Sample	Tool	Main purpose and questions addressed
Village studies	6 villages per State. 2 (differing by urban proximity) in each of 3 regions (differing by agro-ecology).	Resident observer, plus the techniques below.	The village is an important institution and unit of economic life. Village studies provided essential context – on location, history, social structures etc
Census	All households (in each of the 6 villages).	Short survey with trained village assistant.	The census gave excellent overall data on distribution of major assets, occupations and demographics, plus a basis for selecting representative samples and special cases.
Representative seasonal survey	40-70 households per village. Representative in terms of village caste and land holdings.	Long survey with village assistant. Repeated in 2 seasons.	Quantitative data on assets, member occupations, returns, and expenditure plus terms of engagement in key markets. Main aim to map out patterns of livelihoods (with seasonal variation) and market access.
Representative in-depth questionnaire		Long survey with Research Officer.	Questions related to coping strategies, shifts in activities, economic shocks and long-term trajectories. Aim to map out patterns of change.
Livelihood monitoring	10 cases per village, from poorest sections.	Daily time schedule reported in weekly visit.	Questions related to household time allocation to assess use of time and returns, occupational multiplicity and labour market casualisation
Focus groups and key informants	By selected topic, e.g. market actors, resource users.	Semi-structured interviews.	Explored functioning of key markets with buyers and sellers (landlords/farmers, employers/ employees etc). Explored specific strategies with user groups, e.g. firewood collectors, soyabean growers.
Secondary and archive data	Particularly data relating to change in key indices.	Mainly government records.	Demographic trends, prices of assets, inputs and outputs, changing ownership of assets, development of infrastructure (roads, irrigation).

Note: Not every one of the above methods was conducted in full in all twelve villages.

Sampling

The aim of sampling, is to capture a representative group of respondents.

Regional averages often obscure important detail on individual livelihoods that can only be seen at village, and indeed, household level. Hence the decision in the Livelihoods Options to take households and villages as basic units. But when, as often applies, there is much variation between villages, there is the danger of inferring too much from studies of particular villages.

Box 2 Defining samples

A **representative** sample – usually selected randomly – represents the population (universe) from which it is drawn: the findings from a representative sample should be very similar to findings that would be drawn from a census of the entire population. Statistical theory tells us that with only small fractions – often 30% or less² – of the population sampled, the parameters of the population can be estimated with confidence.

When there are different categories of the overall population that are known in advance (e.g. by caste group or land holding size), a **stratified** sample is needed to ensure that the proportion of respondents from each in the sample is the same as in the population.

A frequent problem when studying rural areas is that there is no complete listing from which to draw a sample. **Cluster sampling** overcomes this problem. If all rural households belong to one village or another, and the list of villages is readily available, then a random sample of villages – stratified if necessary – can be drawn. In each of the villages a listing is then created by a conducting a census of the village.³

Purposive sampling – an example of non-probability sampling – intentionally includes respondents from key groups because they are necessary for the topic in hand – for example, including at least 10 landlords in a sample of 50 respondents to investigate land issues, even though they may constitute a much smaller fraction of the population.

Both representative and purposive sampling (Box 2) can be useful, depending on context and objectives. Both require clarity on how respondents are selected and how representative they are.

In Livelihood Options, sampling was not only stratified but also clustered – see Table 3. To begin with two States were selected, reflecting different approaches to governance. Within these States, three Districts were purposively sampled to represent different agro-ecology. Within these, two villages were sampled, again purposively, to represent different degrees of proximity to markets and cities. Finally, within the villages random samples were drawn, stratified by caste and land-holding, to ensure a representative spread across these groups.

This data was supplemented with analysis from higher levels (macro-economic change and state politics) to inform the data analysis.

Table 3 Sampling frame for Livelihood Options household studies in MP and AP

Unit	Number per larger unit	Differing by (key variable)	Note
State	2 in India	Political governance	MP and AP
District	3 per State	Agro-ecology	
Village	2 per district	Proximity to markets and urban centres	But excluding any 'atypical' of others in the district
Household respondents	All households in village		For census, creates sample frame
	Sample of 40–70 households	Land and caste	Random sample, based on census, stratified by caste and land-holding to be representative of village
	Specific members of households and groups	Land, caste, household structure, role in specific institution	For further analysis of specific issues, role in specific institution

Linking data collection methods to analysis

When data collection is planned and carried out, there is a need already to have a good idea of how the data will be analysed. Researchers should be clear on how they will analyse and compare the different aspects, especially quantitative and qualitative, even if analysis may also be iterative – with subsequent adjustments and modifications.

Qualitative data requires detailed analysis from the start to search for the patterns of cause and effect, and needs to be carried out by an experienced researcher.

Quantitative data is generally analysed, at least initially, through statistical packages⁴ that can process large volumes of data to produce summary measures – for example, means, standard deviations, frequency tables, etc. – for variables of interest.

When the data from many respondents is collated, the aim is rarely to find the total or average result across all households. *Comparison* of results for different types of household is usually most revealing (and can be done rapidly and repeatedly within electronic databases). Comparing results for different clusters of respondents is known as cross-tabulation by key variables. But which variables should be used to cluster observations?

Comparison of different types of households is usually the most revealing analysis

In rural India, caste, land-holding and wealth group are all important influences on the livelihood options people have, and their escape routes from poverty. Comparisons help reveal how these factors matter. However, each of these variables has limitations as the main focus for analysis, and none would be ideal if used on its own without exploring the others. Table 4 explains the importance of each, and its limitations.

While it is time-consuming to process data at several units of analysis, and make multiple comparisons, it can be revealing. Examples of the comparisons that emerged are included in Sheet 3.3.

Table 4 Advantages and disadvantages of key variables for categorising and comparing households

Variable	Advantages	Disadvantages
Caste	Caste is still a key determinant of livelihoods patterns and future options in rural India Easily established	Caste group categories (OBC, SC) are too broad to be useful, but analysis by each caste is too detailed. Some differences within castes, or similarities between castes are revealing, and require analysis by other factors, e.g. land.
Size of land-holding	Livelihood options are strongly differentiated by access to land. Land holding can be a good proxy for wealth.	'Landless' households can be rich (those with formal sector jobs, for example) or very poor (landless labourers).
Income or wealth	Differences between rich and poor groups (what they have, what they do) are central to understanding poverty.	'The poor' or 'poorest' include households with very different livelihoods, so are of limited use as categories for studying livelihood change. Sorting households into wealth groups may be difficult. 'Wealth ranking' uses locally specific criteria, but may not produce results that can be compared across different villages. Quantitative measurement, particularly of wealth, requires detailed information.
Type of livelihood, livelihood class	Categories can combine issues of caste, land, wealth, and the type of household livelihood portfolio.	Categories need to be created, therefore are subjective and depend on interpretation. Locally-specific categories prevent regional comparisons, but regional categories can be too broad.

Summary of key methodological approaches and issues:

- Ensure that the methods chosen correspond to the questions and data needs that have been identified;
- Use a combination of methods to uncover different kinds of data and to enable triangulation or crosschecking;
- Use sampling to capture a representative group of respondents;
- Ensure that researchers are clear from the outset how they will analyse and compare different parts of the dataset.

Endnotes

¹ Adapted from Mikkelsen, B. (1995), *Methods for Development Work and Research: A Guide for Practitioners*, New Delhi:Sage.

² The ideal sampling ratio depends in part on the absolute size of the sample, the degree of accuracy of estimation needed, and the degree of variability amongst the population. When sampling households from a village, the absolute sample size is often small (< 100), and for many parameters – think, for example, of landholding size – there may be great variation within the population. Hence for village studies the sampling ratio may need to be 30% (perhaps even more) if we are to be confident that the results will represent the whole village.

³ Sometimes a local resident, such as a schoolteacher, can be recruited to draw up the list.

⁴ Popular spreadsheets, such as Excel, are increasingly capable of carrying out simple quantitative analysis.

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These sheets draw on the experience of ODI's 'Livelihood Options' project in Madhya Pradesh (MP) and Andhra Pradesh (AP) though also aim to give insights into livelihood analysis and policy issues elsewhere in India. Livelihood Options is a 1999–2002 research project in India, Bangladesh and Nepal that aims to identify how policies can support positive exits from poverty via diversification.

3.3 Assessing Diverse Portfolios and Assets

Understanding the economies of different households is a basic building block for assessing poverty and livelihood change. The Livelihood Options study drew on several methods to document the range of livelihood activities pursued, the importance of particular assets, the ways in which labour was deployed within households and the returns that different activities and assets yielded to different types of household. Such information is essential, firstly, to identify which types of household are poor, vulnerable, or on a downward trajectory, and which are not. Secondly, the information enables comparisons between different groups (e.g. in terms of assets or new options) to identify variables that help in escaping poverty and should, therefore, be the focus of policy.

Core information needs and tools

The core data that are needed to gain a picture of household economies are:

Basic data, generally quantitative:

- Asset base (owned and accessed, positive and negative, changes);
- Activities – the combination and balance of different activities;
- Returns to activities, total income;
- Liabilities, total expenditure;
- Household size, structure.

In addition:

- Coping and investment strategies;
- Decision-making and labour allocation;
- Changes in assets, activities, well-being; long-term household trajectories;
- Consumption choices;
- Essential contextual information to interpret the above: village location, agro-ecology, castes, historical events etc.

To get quantitative data that can be aggregated and compared, a survey is generally essential. But qualitative methods before and after the survey are invaluable for providing the bigger picture, designing a useful survey, and filling in the descriptive and explanatory detail. Of the methods used in Livelihood Options (Sheet 3.2), the main tools for gathering core economic information were the census (short, covering all households' assets and occupations) and representative seasonal survey (more detailed questionnaire, repeated in two seasons, with a representative sample), complemented by discussions and case studies with key informants and focus groups. The sample was representative of the community in terms of the key variables, such as caste and land-holdings (see Sheet 3.2 on sampling).

Some challenges and specifics: asking and measuring

A survey aiming to collect information on assets, activities, and income should not necessarily use these three categories for structure or wording. For example, questions on land holdings, crop yields and fertiliser input should be grouped together, in ways that make sense to the respondent – perhaps field by field. Questions also need to be broken down into manageable chunks.

• Assets

This needs to cover ownership of, and access to specific physical assets (livestock, forest, credit), including productive and domestic assets, and also liabilities, such as debts and obligations to kin. Ways to measure or rank access to assets need to be devised (Box 1).

Box 1 Valuing assets

Although the total stock of assets is an important indicator of productive potential, its value is not easily calculated because assets have functions beyond those of being purely a means of production. They may include:

- Savings and insurance (savings accounts, jewellery); and
- Prestige and pleasure (jewellery, television sets).

In addition, valuation of some assets may be difficult when they are illiquid (not easily saleable) owing to insecure or joint ownership (land, forest or possessions shared with others), or being public goods (trees, water bodies, public infrastructure, etc.) or a combination of these.

Therefore some questions should focus on *which* assets a household has, or what level of access a household has – perhaps relative to other households, rather than on exact measurement of amounts.

- **Activities**

Recording the main activities of the household is essential. But the diversity and combinations of activities pursued also matters. Therefore questions need to cover both the range of activities, plus some ranking or identification of importance. Questions need to be asked about importance of activities in different seasons.

Questions should uncover both the range and importance of activities across section

It is useful to plan in advance how to code and aggregate activities, drawing on previous qualitative research. While survey data are easy to code (enter into a database as a numerical value ascribed to each category), activities can be difficult to classify. Their classification can strongly affect results. Whether or not household portfolios are found to be highly diversified or not depends in part on what counts as a separate activity. For example, is crop farming one activity, or is it divided between rain-fed and irrigated agriculture, or even by each individual crop? Is selling tomatoes a separate activity from growing tomatoes, or separate from selling onions? Full-time employment can be in a brick factory or in a government office so can it be one category? There is no universal answer, but a general principle is to treat all activities that involve the same physical assets, labour, skills and information as one. So, in the case of crop farming, all rain-fed cropping might be treated as one activity since it takes place on the same fields, using the same tools, labour, and similar skills of ploughing, weeding, and harvesting. Irrigated crops might use different fields, tools and techniques and thus be seen as a distinct activity. Similarly, if the onions and tomatoes are sold at the same time, on the same stall, by the same person, then this is surely one activity: but not if they are sold at different times, in different markets, using different combinations of transport, and by different household members.

Box 2 Categories of activities

Livelihood Options captured detailed information on the specific activities of each survey respondent, and then grouped them into six main types:

Agricultural activity:

1. Own cultivation for sale or consumption;
2. Agricultural employment and labouring;
3. Agricultural-allied activities (e.g. livestock keeping, land/equipment leasing, fishing and forest harvesting).

Non-agricultural activities:

4. Casual labour (not in crops or livestock);
5. Self-employed work/small enterprise (not cropping);
6. Salaried jobs.

However many categories of activity are defined, the number is likely to be too large to facilitate simple comparison across households and some further aggregation will be necessary. The Livelihood Options study, in common with other studies, used six main categories for aggregating activity and income: three agricultural-related and three off-farm (Box 2). The proportion of income from each activity type could then be calculated for each household, type of household, and the whole sample.

- **Income questions**

Questions that request data on income can be both sensitive and liable to produce unreliable replies. But a measure of equivalent earnings or income can usually be calculated by breaking the questions down into parts, usually by separating the quantity of activity from typical unit returns (e.g. how many days worked in the season, at what wage rate; or how much land cropped, at what yield and price).

- **Expenditure questions**

Gathering information on household expenditure can be very time-consuming. If, however, the objective is to assess the order of magnitude of typical expenditures, then questions can be broken down to enquire about short-term spending for items that are bought frequently (e.g. weekly spending on food), and annual spending on any large items (one-off or bulky expenditure).

Responses about income and expenditure are more reliable when questions are broken into parts

In some cases, questions should not solely be concerned with the amount of expenditure but also the type of good bought (for example the buying of broken rice which is seen as inferior) and the variability (especially seasonal) of expenditure.

Tips

Some other tips, drawing on hindsight gained by Livelihood Options researchers, include:

- Be clear on the analysis to be completed before data collection or entry. For example, if the primary aim is to assess income portfolios, data should be entered so that income can easily be assigned to different activities, not, for instance, to different household members, or different seasons.

- Collect data that enable results to be disaggregated by key variable. For example, if results need to be compared by land-holding, caste, gender of respondent or head of household, age, location, or years of education, then collect information on these variables. Many variables can be identified in advance by using focus group discussions.
- In all research, particularly quantitative surveys, there is a trade-off between the amount of information that the researcher can seek in the interview and the quality of data that will be collected. When questionnaires and survey schedules are too long, respondents lose interest and answers become less accurate. Prioritisation of questions is important. Where lengthy surveys are inescapable, then collecting the data in a series of repeated visits may be less onerous than one long interview.

Given these constraints, the most important information to cover in a survey is:

- Productive assets (land, livestock, education, household labour);
- Domestic assets (house, consumer durables);
- Liabilities (debts) and interest rates;
- Crops, costs of inputs and returns;
- Labour market work;
- Domestic work;
- Enterprises ;
- Government receipts;
- Average daily expenditure on food;
- Average monthly expenditure on clothes, health;
- Typical annual taxes;
- Plus key variables that define the type of household: size, caste etc.

Following this up with case studies, key informant interviews and focus group discussions enables researchers to check the survey data (by spotting obvious inconsistencies) and unravel interesting detail, while also filling in other key topics such as coping strategies and major livelihood changes.

Analysing data, drawing out results

A wealth of detailed data will be produced. Its value lies in good processing to generate bigger pictures. Two key elements to this are:

- Aggregating results for different types of household, then comparing across groups – for example by caste, land-holding – to identify differences in livelihood options; and,
- Synthesising data on assets, activities and incomes to identifying major livelihood ‘types’ or ‘classes’ that represent policy-relevant groups for further analysis.

Comparisons and cross-tabulations

As indicated in Sheet 3.2, key variables affecting livelihood patterns are caste, land-holding and wealth-status. Respondents need to be classed by these variables, and their results compared across different caste, landholders and wealth-groups. This helps explain how these factors affect the livelihood options and status of households.

Box 3 Findings from comparing castes, land-holdings, and incomes in MP villages

At the wealthier end of the spectrum, there is a clear correlation between caste and income. FCs are consistently well-off. At lower levels, land-holding and type of activity emerge as equally important determinants of poverty. There is little income difference between landed SCs and OBCs, or between landless SCs and OBCs. The landless, as a class, are not necessarily the poorest however, as they have diversified into non-farm labour. The poorest are often those caught ‘betwixt and between’ with low productivity marginal farming and meagre options for non-farm income.

The Livelihood Options study therefore used all three of these variables for data analysis and also compared the three against each other (e.g. caste by income). As Box 3 illustrates, combining analysis by caste, land and income helps explain why some different castes are in similar income groups – landed SCs and landed OBCs are similar, as are landless SCs and landless OBCs – or why some landless are not the poorest, given their income source from non-farm income. In addition, new categories of ‘livelihood class’ were created, based on these three and on the main activities of households. This enabled household livelihood outcomes to also be compared by livelihood class.

Synthesising and aggregating data are key elements of analysis

Identifying major livelihood classes

An important output from the wealth of detail from different households is an overall picture of the main livelihood categories, in terms of what they do and their relative success or not. Constructing 'livelihood classes' is one way of doing this. These provide the basis for analysing which types of livelihood are leading to accumulation or impoverishment, and why.

Box 4: Livelihood classes in one village in MP

In descending wealth status, the classes were:

1. **New landlords, combining agricultural income and service jobs:** generally high wealth/assets, high-yield agriculture (high yield paddy and rainfed pulses) and related services.
2. **Progressive middle farmers with some business:** generally high assets, medium-size high value land (draft livestock, high yield paddy, medium-return irrigated wheat), with a grocery shop, or buffaloes, or high-return migrant agricultural labour.
3. **Middle marginal farmers, supplementing farming with labour:** primary income from mixed-value land (draft livestock, traditional maize, high-yield paddy). Supplemented with local agricultural labour, migrant labour, and forest product enterprises.
4. **Non-farm workers with marginal land:** primary income from sons in year-round low-return salaried non-farm work. Plus medium assets, medium/marginal land (draft livestock, traditional maize).
5. **Migrant agricultural labourers with poor marginal land:** generally poor assets and land (hire-in livestock, traditional maize) local and migrant agricultural labour, casual non-farm work.
6. **Landless or labourless:** very poor assets, lack land or labour for cultivation, share-crop out or mortgage land, do local agricultural and casual labour plus fuelwood/quarrying/non-timber forest products/poultry.

The researchers in the Livelihood Options study found this could largely be done on the basis on informed knowledge, common sense, and qualitative methods; to be confirmed or checked through analysis of the quantitative survey data.

There is a trade-off between a few broad categories and many specific ones: they need to be sufficiently broad and few in number to make generalisations relevant to policy, but detailed enough to capture livelihood differences that indicate why some prosper and some do not. Different categories may emerge in different places. The six categories developed in AP were different, though with some similarity, to those shown for one village in MP in Box 4.

These groupings reveal the interplay of land and type of activity in determining wealth and begin to identify variables that are most important for households to lift themselves out of poverty. Groups 2 and 3 have (or had) similar land-holdings, but group 2 have diversified into higher-return business activities, which in turn enables them to invest in higher-return agriculture. Similarly, groups 4 and 5 both have marginal land, but group 4 have secured regular non-farm work and so are better off than group 5 with casual labour. Groups 3 and 4 end up with similar wealth, but achieved through a different balance of farming and labouring.

While no classification is perfect for all purposes, this provides a broad way of understanding livelihoods of many different households, and assessing their success or options related to accumulation. The value in identifying these livelihood classes is that it helps to clarify the key processes and factors that enable some people to make positive exits from poverty, others to sustain the household above the poverty line, or leave others to get poorer still.

Summary of key processes for assessing assets, activities and incomes:

- Use data on asset bases, activities, household demographics, and income and expenditure to develop a picture of household economies;
- Pose questions in an order that makes sense to respondents and beware of the trade-off between the amount and quality of data collected;
- Analyse data by aggregating results and comparing across groups to identify differences in livelihoods options, and by synthesising data to identify major livelihoods types that are policy-relevant.

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We focus on three livelihood issues in particular: the dynamics of livelihood change; diversification of livelihoods; and issues of exclusion and access to livelihood options and resources.

The sheets are grouped in four sections. Section 1 summarises the issues. Section 2 covers the key concepts of household economics, livelihood change, diversity, and exclusion. Section 3 reviews useful methods. Section 4 reviews the key linkages between livelihoods and policy change.

These sheets draw on the experience of ODI's 'Livelihood Options' project in Madhya Pradesh (MP) and Andhra Pradesh (AP) though also aim to give insights into livelihood analysis and policy issues elsewhere in India. Livelihood Options is a 1999–2002 research project in India, Bangladesh and Nepal that aims to identify how policies can support positive exits from poverty via diversification.

3.4 Methods for Exploring Change

Methods for collecting data on change

Understanding change requires tools that enable us to compare the past with the present. A retrospective view aims to highlight the processes by which people have become impoverished or wealthy, and the ways in which they have responded to shocks or opportunities. By identifying trajectories and their causes, a prospective view becomes possible – identifying what might be appropriate action for the future.

Many methods provide snapshots of current livelihoods. Those that capture change over time must either depend on recall by informants, or must collect data so that it can be compared with data collected earlier. In the Livelihood Options study, three tools focused on capturing coping strategies, economic trajectories and causes of change. They were: tracking livelihood shifts through a detailed questionnaire, oral histories, and re-establishment of a longitudinal survey.

Livelihood tracking through a detailed questionnaire

The second sample survey in MP villages focused on changes in livelihood activities and asset portfolios, and reasons for shifts. As such, though conducted as a questionnaire with fixed questions and coded answers, it also included more open questions. Changes in livelihood activity and assets were recorded over the last 5-10 years, and over a number of generations. In the analysis of the interviews, up to three 'main events' or moments were recorded that involved livelihood change. For each, the cause, response and impact were tabulated.

This provided rich data on individual cases. Repeated analysis for a number of households (40-70 per village) led to identification of patterns within and between villages (see Box 1). The data revealed the interplay between internal forces (e.g. death of a productive household member) and external forces (e.g. drought, rising wage rates). However, the method was labour intensive, required qualitative work to complement and explain the quantitative data, and to identify policy-relevant broad patterns from the rich detail.

Box 1 Livelihood tracking in MP

Livelihood tracking identified the main causes and patterns of household livelihood shifts. Findings from one village in MP demonstrated how the privatisation of the local tank/pond had forced most of the village households out of their caste occupation of fishing and into agriculture. Most households did not have access to land to produce their own food and were pushed into agricultural labour at low wage rates because they did not have agricultural labouring skills.

Oral histories

Oral histories and household case studies involve qualitative, open-ended interviews in which respondents are encouraged to tell the story of their own lives. Because the interviews are not directed by a rigid set of questions or issues, the respondent can describe events according to their perspective and priorities. The researcher can get beyond mere description to explanations of behaviour, strategies and decisions that are made within the household.

Oral histories can be collected during a single interview or a series. Interviews are often recorded on tape and then transcribed afterwards.

However, there is a balance between gathering detail and making generalisations. Oral histories are by nature person-specific and also time-consuming. It is not possible to understand the detail of every person's life in a village, never mind a Block or District. However, a large enough sample of oral histories makes it possible to identify repeated patterns that can form the basis of hypotheses, or 'hunches', that can be cross checked by other data. To make them relevant, sampling has to include cases for individuals for each of the main types of livelihood, income group, caste, or livelihood trajectory.

Both oral histories and one-off surveys of change depend on respondents' recall of the past. Facts, such as previous income, may be recalled vaguely, inaccurately or not be remembered at all. How events are described will be affected by personal perspective – whether nostalgia

or bitterness – and by the mood of the person at the time of the interview. Both methods are also dependent on the willingness of the respondent to tell the whole story. For example, respondents may not recount episodes where they have been foolish or culpable, or where they may feel ashamed. This needs to be taken into account in interpreting the results.

Longitudinal panel survey

A longitudinal survey enables data to be compared between years. The Livelihood Options study re-established one geographical component of a longitudinal panel study that began in the 1970s, conducted annual surveys up to 1983, and was repeated in 1989. In 2001, interviews were carried out with 80 households in the two villages in AP where interviews had first taken place in 1975. A new sample of households that were not part of the 1975 study were also interviewed.

Longitudinal research compares data from the same households/respondents over time

Definitions

A **longitudinal survey** is, in the strictest sense, a survey that is repeated at intervals, using the same questions and panel (sample), to provide comparisons over time.

A **re-survey** uses the same questions, but to a new sample from the same population, designed to replicate the representativeness of the previous survey.

The existence of previous data provides an invaluable resource for identifying change. In AP, information was collected about the household conditions, asset portfolios and range of livelihood activities over time. It was used to identify patterns of diversification, assess how changes in activities and assets had affected household conditions, and to identify factors that have enabled households to find positive routes out of poverty or kept them poor (Box 2). Again, the drivers of economic mobility came from both within the household and outside it.

However, the method also faces problems:

- *Attrition of the sample* – people do not seek livelihoods in the same geographical location throughout their lives. When people migrate it is not always possible to trace them between one round of study and the next.
- *The exact 'same' households do not exist.* Households evolve. Each time someone enters or leaves the household, by birth, marriage, death, migration, etc. the household is changed. With a period as long as 1975–2001, there are serious questions about whether the respondents are in the 'same' households.

Box 2 Identifying long-term trends from the longitudinal survey in AP

Key factors behind positive and negative trajectories

The repeated longitudinal survey in two AP villages tracked livelihood changes over 27 years. For those households whose socio-economic position had improved, key factors included: stage in the household development cycle, access to state interventions, and stable income sources, particularly a regular wage-labour income.

For those on downward trajectories, the death of key household members, untimely marriages, drought/falling crop prices and poor relations within households were key drivers. Some households had avoided decline in difficult times by investing sufficiently in agriculture or other activities to tread water.

Diversification as coping or accumulation

Comparison of household activity portfolios over time indicated that the main type of diversification was into non-farm migrant labour. However, this had not provided long-term accumulation of significant wealth or assets for many people. Most shifted to migrant labour in the face of increasing risks and decreased returns in agriculture (drought, high input prices) and sale of agricultural assets (land, livestock). Thus diversification appeared to have been more of a coping strategy to deal with insufficiency than a long-term accumulation strategy. Whilst the pickings from migration were often small and sometimes even less than former agricultural earnings, for as long as earnings from agriculture were in decline, migration was still the preferred option.

Long-term shifts: Causes, trajectories and impacts

'Coping' is generally defined as short-term adjustment of livelihoods to a shock, while 'adaptation' is a longer-term shift (see Sheet 2.2). Coping strategies range from big shifts in assets and activities – for example, selling land and migrating for work – to several small changes in consumption – for example, reduced food intake and schooling. To understand coping strategies requires discussion of the event and decision-making within the household. This is therefore best done through qualitative methods such as interviews and case studies. Longer-term shifts can be identified through such discussions or also through more quantitative surveys based on recall. However, the data from AP highlights the blurred distinction between coping and adaptation. Often a short-term coping strategy becomes long-term adaptation, particularly when changes in the activity portfolio are involved.

Identifying long-term patterns and causes of change

Two big challenges in making research on livelihood change relevant to policy lie in (1) finding patterns of economic mobility (i.e. upward, downward and level trajectories) in the wealth of detail, and (2) being able to ascribe causality to factors associated with change. For dealing with these there is little or no alternative to

painstaking aggregation of detail, reliance on individual recall and interpretation, using data from many different respondents to counter specific bias, and common sense.

Table 1 shows one way that patterns and causes were identified for one village in MP. Household information was first categorised by caste. Caste is not only a key determinant of wealth, but also a particularly useful guide to previous livelihood activities. Changes in the portfolio of livelihood activities were then analysed into broad patterns, disaggregating within caste groups where necessary. The impact of the change, in terms of better or worse economic status, and the main causes of change (as identified by the household) were also documented. From this it is possible to see long-term trajectories, which ones are positive, and which causal factors are linked with positive or negative change.

Table 1 Overview of livelihood trajectories, impacts and structural causes in one MP village

Caste	Old livelihood	New livelihood activities and trajectories	Impact on socio-economic status	Cause/Key explanatory structural change
Thakur, Khare (FC)	Historically dominant Landlords	Land management and RNFE business	Stagnant/down	Land ceiling act – declining profitability of agriculture despite GR, owing to restrictions in labour practices
Jain (FC) Varied landholding Agriculture, share cropped out ¹	Business	Business, agriculture and service	Significantly up	Land ceiling act and profitable businesses. Better education and new service jobs
Medium/ Large OBC cultivators (Lodhi/some Kushwaha)	Cultivators	New landlords, still doing own agriculture, buying land, hiring out agricultural equipment/diversification into agricultural services/trading produce	Significantly up	Shared households. Intensification of agriculture, profitable vegetable business, trade and reinvestment in agriculture
Small OBC cultivators (Lodhi/Kushwaha)	Cultivators	Agriculture no longer sufficient. Supplementing income with wage labour/growing vegetables for cash income	Slightly down	Land division and population increases, but profitable vegetable business
OBC other Sahu	Oil extractors	Small/medium farmers diversifying into ice cream/other business to replace traditional caste occupation	Up	Improved agriculture and business during agricultural lean season
OBC Namdev Vishwakarma Lohar, Soni, Napit	Artisans/service providers	Caste Modernisers – adapted to new economy to maintain/grow business	Slightly up	Decreased demand for caste occupation – learning new skills or trading newly demanded goods
OBC Namdev, Napit, Vishwakarma, Lohar, Kumbhar	Artisan/service providers	Some wage labour, more dependence on agriculture due to decreased demand for caste occupation.	Same – down	Decline of <i>kisani</i> (traditional reciprocal) relationships between castes and demand for services. Worse skills base, generally poorer and therefore less able to adapt
SC – Ahirwar, Chadhar/ ST	Animal worker, Tribals	Outmigration and investment in agriculture	Significantly up	Land ceiling act, outmigration for significant part of year and re-investment in agriculture
SC – Bunkar, Basod, Chadhar	Basket making, animal work, cloth weaving	Ngn and Agricultural wage labour – no out migration, marginal land	Down	Still poor and struggling – no capital to invest/ land
Socially disadvantaged	Various – old age or very young	Scavenging and relying on good will of others	Significantly down	Lost land through encroachment. Little kinship support. Unfit to be fully economically active.

This is a shortened, edited list, showing only a sample of the caste group analysed

Acronyms: FC – Forward Caste; GR – Green Revolution; OBC – Other Backward Caste; RNFE – Rural non Farm Economy; SC – Scheduled Caste; ST – Scheduled Tribe

Each caste group has experienced different occupational shift

The analysis for this village indicates that the broad occupational shifts have been:

- Scheduled Castes moving into agricultural and casual wage labour;
- Scheduled Tribes moving from forest-based livelihoods to low-intensity cultivation, agricultural labour and some resource-based enterprises (e.g. basket making);
- Backward Castes, particularly traditional cultivators such as Lodhis and Parthadras, staying in agriculture, benefiting from investments in land and water, intensification via new technologies, and high-return agricultural labour; and,
- Forward Castes moving into landlordism, share-cropping out; business; government service and politics.

Upward mobility has been associated with portfolio diversification

Despite the fact that many households were simply coping with economic pressure, it was possible to pinpoint some important examples of upward mobility through portfolio diversification over the last 15 years:

- Traditional farmers shifting to agricultural business – for example, by trading produce, hiring and repairing equipment;
- Sahu community (oil extractors) who have adapted traditional skills to the ice cream business;
- Jain community who have built on traditional business roles and become more educated, moving into service jobs and business expansion; and,
- A minority of artisans (blacksmiths, goldsmiths) who have modernised their skills and businesses to new products and services.

Analysis of such shifts helps to identify key factors associated with positive change for some, and lack of it for many. In this instance, key structural changes at the macro level are land reform of the late seventies, and new non-farm employment and casual labour opportunities. Key factors also emerge at the meso level, such as: exposure to new skills and markets, particularly for artisans; information, particularly from towns, on markets and job opportunities; and barriers caused by the cycle of debt. Other factors include those within households, particularly life cycle shifts in dependency rates and shocks caused by ill-health and lumpy expenditure.

Summary of key issues for exploring change:

- Use detailed questionnaires that track livelihoods, oral histories and longitudinal studies in order to explore change;
- Distinguish between short-term adjustments (coping) and longer-term adaptations in livelihoods;
- Link the changes in livelihoods over time to broader structural factors, such as policy shifts.



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3.5 Assessing Exclusion, Markets and Power

To understand poor people's livelihood options, we must appreciate the extent of their access to markets and political resources, whether they are excluded, and how. Some methods for assessing these involve directly addressing sensitive issues, such as corruption or perceptions of exploitation, but much of the necessary information can be gathered in less sensitive and apolitical ways and then analysed with a specific focus on issues of access and exclusion.

Market access and exclusion

Markets are key institutions for the buying and selling of goods and services, as well as assets. They are also key institutions through which different groups wield power or are excluded. Methods for assessing markets need to assess both the economic transactions and the power relations. An important issue in both of these is the terms of exchange under which buyer and seller operate.

Markets include those for goods and services, and above all for the poor, markets for food. But equally important can be markets for assets (or 'factors of production'). So, for example, poor households are also involved in land markets through which land is bought and sold, or leased in and out. They participate in markets for agricultural labour in their home or neighbouring villages or in markets for agricultural and construction labour much further afield. There are financial markets through which people get access to loans and credit and become liable to pay varying rates of interest on their loans. In some cases, transactions in one market may be inter-locked with those in another market, as, for example, when a storekeeper offers foodstuffs to a farming household on credit against a commitment to sell the harvest to the storekeeper. The credit may appear to be interest-free, but the purchase price for the harvest may be discounted, so that the price of the loan is recovered in a separate, but inter-linked transaction.¹

Exclusion and power

People's capacity to participate fully and willingly in different markets is highly differentiated. People of different caste, gender, age, class, or location may participate in a given market on unequal terms. For example, women are excluded from many formal credit markets but they are targeted as beneficiaries of other government and NGO micro-credit schemes. In many rural areas of India, women are still excluded from owning or inheriting land and thus cannot participate in land markets.

Bearing in mind the need to explore the wide range of markets and the different basis upon which people participate in them, the key issues that need to be explored are shown in Table 1.

Tools to gather data

To unpick these issues there are two main approaches. One is to incorporate questions about market transactions within other standard research tools to gain mainly quantitative data. The other is to focus specifically on buyers' and sellers in markets, using commodity chain analysis, for more detailed discussion of how those markets work. The Livelihood Options study did both.

Key informant interviews were done with buyers and sellers in a range of markets. Through this it was possible to understand who controlled different markets and to get some sense of the level of freedom in different markets. Key informants were identified in the following groups:

- Landlord-lessee (of leased and share-cropped land);
- Employer-employee (for casual labour and salaried labour);
- Moneylender-borrower (including institutional lenders);
- Trader-buyer (of different products – agricultural, forest based etc.).

Table 1 Key issues to assess for different markets

Factor markets			Product: goods and services
Land	Labour	Capital	
Categorising the market 'sectors'			
Different kinds of land and terms: <ul style="list-style-type: none"> Type of land: high/low value, irrigated/rainfed Contract type (share, lease, usufruct) Property rights: private/common 	<ul style="list-style-type: none"> Formal / informal sector Skilled/semi/un-skilled Economic sub-sector Security of tenure Location of work 	Credit differentiated by: <ul style="list-style-type: none"> Amount Term Collateral needs Use of loan Savings Formal insurance Other financial services, such as money transfers (for remittances) 	Different physical commodities by: <ul style="list-style-type: none"> Product type and quality Means / place of collection or supply, Private/government market
Number of market participants			
Number of buyers and sellers. When buyers or sellers are few, it is likely that they will exercise power over the market.			
Information			
Are the participants equally well informed about the market, above all on prevailing price levels? Is it possible to observe the terms of other deals in the same market? (In some vegetable markets, deals are made 'under the blanket'.) Do participants know the prices paid in other, similar markets for the region? Where buyers or sellers lack information, it is difficult for them to make fair deals.			
Differentiation and Segmentation			
<ul style="list-style-type: none"> How does participation differ by class/gender/age/caste between supplier and buyer? How do rates / terms differ by class /gender/age/caste between supplier and buyer? 			
Price or share-crop ratio, inter-locking?	Wage rates and benefits, living and working conditions	Interest rates and terms, transaction costs	Price, and transaction costs of sale, seasonal variations
Degree of government intervention/control			
Land ceilings, pattas, reforms, land disputes, Tribal PESA, Panchayat	Government services, minimum wage acts, social security	Government banks, regulations, dispute settlement	Government marketing, distribution, MSP, PDS, Co-ops, mandi
Degree of reciprocity, barter, moral economy			
Sharing commonly owned land among kin groups	Group labour	Small loans within gender, caste, kin groups	Barter, exchange
Political economy: Free market or manipulated by elites?			
<ul style="list-style-type: none"> Actual value of 'product' compared to market price? Freedom to move in and out of market? To pick and choose? 			

Acronyms: PESA – Panchayat Extension to Scheduled Areas; MSP – Minimum Support Price; PDS – Public Distribution System.

Box 1 Examples of market-related questions in the household survey

- If you sell any of your crops, which is the main place?* From this question it was possible to identify which households or people had access to government-supported markets or open markets, to formal and informal markets, to local and more distant markets.
- What has been your source of finance for spending on funerals, marriages, agricultural equipment, domestic equipment, etc?* From this question it was possible to find out which households relied, for example, on selling land, livestock and jewellery, and which depended on government subsidised loans, credit societies or money-lenders.
- Where and from whom do you buy the bulk of your food grains, those that you don't grow yourself? How many kg of rice do you purchase from the PDS shop per year?* These two questions are examples of those that enabled researchers to consider differential access (by caste, landholding and livelihood class, and by gender) to markets for consumption items, including the state-controlled PDS.

The household sample survey and questionnaire also contained several questions about how respondents engaged in markets. These covered, for example, sale of agricultural crops, sources and terms of credit, and engagement in wage labour markets (Box 1). These provided robust data on prices and on which types of household access which markets. This data revealed how markets are segmented, with different households able to access quite different returns (see examples in Sheet 2.4). A pertinent example is how agricultural wage labour rates are lower for women than men in villages in AP and MP.

Further information on markets emerged from analysis of trajectories of change which was done through household surveys and oral histories, combined with village and macro-level data. In some cases this showed how terms of exchange had changed (Box 2), how households had increased or decreased their engagement in specific markets, and why.

Box 2 Changing market terms over time

Investigation in two villages in Andhra Pradesh demonstrated how agricultural labour markets had changed considerably over the decades owing to structural economic change. Wage rates were very low in the 1970s but increased eight or ten-fold by 2001. In 1975, agricultural labour was a buyer's market controlled by landlords because labour supply exceeded demand. By 2001, labourers were migrating to urban areas to find work or to other agricultural regions where the wages were higher. The acute shortage of labour in certain seasons forced the price of labour up.

The analysis enabled researchers to develop an understanding of the costs, profit margins and income at each stage in the production process, the spatial flows of commodities, the social relations of trade and the resultant distribution of income and profit.

Finally, commodity chain analysis highlighted the means by which social actors maintained control over key points of economic power within the commodity chain. For example, in credit markets, local moneylenders in MP often borrowed from banks and then loaned this money out at a higher rate of return to others.

Exclusion from state entitlements and political decision-making**Issues**

The other main area of exclusion which can curtail the livelihood prospects for the poor is exclusion from state-related institutions – whether these are specific services, government-run markets, or political decision-making fora.

Two aspects are worth study, thus:

- Access to government provision: e.g. PDS, welfare benefits, subsidised credit, etc.; and,
- Voice and influence within local decision-making at village, *Gram Panchayat*, or Block level.

Tools

As for the market analysis, Livelihood Options used two broad approaches to explore both of these:

- Incorporating factual questions in the household survey relating to access to government resources and participation in meetings; and,
- Key informant interviews to discuss governance issues.

The questions in the household survey were asked in a factual apolitical manner and generated invaluable information on who actually receives key services or attends meetings which could be disaggregated by caste, income-group, etc. Box 3 provides examples of some questions asked and findings (see also Sheet 2.4, Box 4).

Understanding access to state entitlements requires a combination of closed factual quantitative questions and open-ended qualitative

Box 3 Examples of survey questions on access to state resources and decision-making

- *How many kg of rice/wheat/kerosene/sugar do you purchase from the PDS shop each year?* This enabled the researcher to find out which caste, land holding and livelihood classes used the PDS shop most frequently. Invariably the poorest are not the main beneficiaries of the PDS system because most card holders have to pay for food, albeit at subsidised rates, so households with no money cannot benefit.
- *Does your household receive regular benefit from widows pensions/old age pensions/handicap pensions/educational scholarship/etc.?* The study identified people who were entitled to state support (for example people over 65) but did not get it.

Further questions were raised about voice and influence. Households were asked if they attended local meetings or fora, whether they participated in elections and had any contact with government officials. This enabled the researchers to understand the level and nature of people's participation, disaggregated by caste, landholding class, gender and livelihood class.

The key informant interviews (Table 2) focused more on the processes and power relations that underpin access. The important issue here was to interview at three levels – government officials, elected *Panchayat* members, and villagers. The three sets of interviews are needed to build a more complete picture of the relationships between actors, who has power, and how livelihood needs of the poor are considered.

In analysing the data on exclusion and access, it is important to link to analysis at other levels – such as on policy process and the broader policy context (see Sheet 4). It is also important to trace the implications of political access or exclusion down to specific impacts on livelihoods. These may be very tangible, for example determining access to certain assets or sources of income that support livelihoods, such as credit training. Or impacts may be less tangible in terms of creating a sense of a source of empowerment (or disempowerment), optimism (or disillusion), or building more (or less) informed decision-making. Although these cannot easily be quantified, they need to be recorded.

Table 2 Key informant interviews on governance issues in MP and AP

Respondents	(Non-elected) Government Officials	Elected Panchayat Members	Villagers
Number of interviews	2-3 with current or recent employees involved in the implementation of poverty schemes.	2-3 interviews with the sarpanch, ward representatives and upa-sarpanch	8 interviews – stratified by gender and caste
Themes, Aims, Questions	<i>Panchayat Powers</i> Who makes decisions about the allocation of money to programmes?	<i>Panchayat Powers</i> Who has responsibility for the allocation of funds and budgets for programmes?	<i>Impact of Credit and labour schemes</i> Who benefits from programmes locally (especially in terms of gender and caste)?
	<i>Beneficiary Selection:</i> How are beneficiaries selected for labour and credit programmes? What is the role of the GP?	<i>Beneficiary Selection:</i> How are beneficiaries selected for labour and credit programmes? Who has authority for these decisions?	<i>Beneficiary Selection:</i> What is the process of selection or application? What documents are required? Who decides?
	<i>Accountability and Participation:</i> What consultation is made with local people? What is the role of the respondent in resolving disputes and conflicts?	<i>Accountability and Participation:</i> Does respondent consult with villagers about plans? How? How do people complain? To whom?	<i>Accountability and Participation:</i> Are respondent's needs, concerns taken into account in projects? How do people complain? How is the Panchayat rated?

Summary of key issues for exploring exclusion, markets and power:

- Recognise that markets are key institutions through which different groups wield power in the pursuit of livelihoods and that people's capacity to participate fully and willingly in different markets is highly differentiated;
- Explore a wide range of markets including land, labour and capital markets and assess the degree of government intervention or control;
- Recognise that issues of power and exclusion are highly sensitive and use a range of different forms of questioning to identify the extent of people's access to markets and political resources;
- Trace the implications of political access or exclusion down to specific impacts on livelihoods, for example in determining access to certain assets or sources of income.

Endnotes

¹ This example comes from the Sudan. That there is apparently no interest charged on the credit side of the deal is particularly useful for Muslims who are expected not to charge interest.



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We focus on three livelihood issues in particular: the dynamics of livelihood change; diversification of livelihoods; and issues of exclusion and access to livelihood options and resources.

The sheets are grouped in four sections. Section 1 summarises the issues. Section 2 covers the key concepts of household economics, livelihood change, diversity, and exclusion. Section 3 reviews useful methods. Section 4 reviews the key linkages between livelihoods and policy change.

These sheets draw on the experience of ODI's 'Livelihood Options' project in Madhya Pradesh (MP) and Andhra Pradesh (AP) though also aim to give insights into livelihood analysis and policy issues elsewhere in India. Livelihood Options is a 1999–2002 research project in India, Bangladesh and Nepal that aims to identify how policies can support positive exits from poverty via diversification.

4 From Policy to Livelihoods and Back

Macro-economic and political change have a strong influence on livelihoods. The findings from the Livelihood Options study have demonstrated this in several examples throughout the guidance sheets.

The purpose of assessing livelihood options is, ultimately, to inform policy. In each of the guidance sheets, the need to identify how policy issues affect livelihoods has been noted. So too has the need to aggregate and synthesise findings to a general level at which policy implications can be drawn.

This concluding sheet brings together some key elements of the links between policy context and livelihoods, and between livelihoods assessment and policy change.

Strengths and limitations of livelihoods analysis for policy recommendations

Livelihoods analysis has both strengths and weaknesses (see Sheet 1.1) for policy making. The key strength from a policy perspective is that it provides a reality check. It describes what is *actually* happening to the poor and non-poor, not what is intended in policy. And it provides a substantial part of the explanation of why trends emerge, even though the answers might be more complex than most policy-makers want.

There are also limitations. For instance, it is not always possible to trace the links from local outcomes and processes to more general processes that can form the basis for policy. Moreover, livelihoods findings commonly report processes that cut across conventional sectoral boundaries. They present a challenge when most decisions are made within broadly sectoral ministries and organisations. Routes through which findings from household level studies can be fed into policy and macro-level planning are not always clear.

These need to be recognised to make best use of the strengths, and find ways to address the weaknesses by adapting or supplementing methods.

Section 3 of the sheets, particularly Sheet 3.1, suggests ways to address or acknowledge these limitations. For example, sampling procedure is important in building up from micro-detail to general trends, as is the combination of qualitative and quantitative methods, and approaches to aggregation and analysis. Livelihoods analysis needs to be linked explicitly with understanding of changes at the macro economic and political levels.

Identifying how the policy context affects livelihood options

This is *not* just a matter of tracking how a particular policy, for example regulation of credit, is implemented, taken up by households and thereby contributes to household economies. There are many other levels to look at. In particular we need to distinguish between:

- Analysing the impact of specific policy interventions, such as Public Distribution Systems (PDS) or employment guarantees, that aim to affect livelihood options directly.
- Analysing the impact of specific policies primarily designed to meet other objectives, for example agricultural product marketing or pricing policies, but which affect livelihoods more generally.
- Analysing the effect of changes in governance. For example, democratic decentralisation may much improve people's access to state interventions and programmes by enabling formerly marginalised poor people to participate more fully in political decision-making. In other cases, such change may have little effect as bureaucratic resistance prevents real change.
- Analysing the process by which policies are formulated and are implemented. We need to distinguish between political decisions on people's entitlements and administrative upholding of those entitlements. In both cases, decision and implementation usually arise from the interplay of events and the agendas of individuals and organisations at all levels from village to national and even international. Such analysis can explain the

policy context, as well as helping consider whether and how it can be changed.

- Analysing how structural features of the economy influence household livelihoods. This involves considering not only the impacts of a single policy, but also the influences of a changing policy agenda over time. Examples include economic liberalisation, technology change (such as the green revolution) and improved communications. Other examples of macro influences having micro impacts are given in Table 1.

Table 1 Examples of macro influence with micro impact

Macro variable	Assets & Liabilities	Returns & Incomes	Expenditure
State: Policies and programmes	Investment in irrigation infrastructure increases land productivity (for those involved)	Price controls reduce returns for some crops	Public Distribution System reduces household food bills
Changes in markets, infrastructure	Development of roads raises land values	More and better roads cut costs of transport, reducing cost of inputs and marketing Mechanisation of rice threshing decreases demand for labour	Increased schooling demands spending on school uniforms Price rise for household staples increases cash needs

While village or household level livelihoods analysis should identify many of the effects of policies, governance and process on people's options and constraints, it will only provide a partial picture. Livelihoods analysis needs to be supported by policy analysis. A good understanding of policy and governance helps identify the links between that context and people's livelihood options.

Using livelihoods analysis for policy change

Once the ways in which policies have influenced livelihoods are clearer, it is necessary to think about using livelihoods analysis for policy change.

The first step is to use study findings to derive *policy implications*. Examples from AP are given in Box 1.

Box 1 Policy implications from AP study

In the coastal villages nearly a quarter of the households leased in irrigated land and of these almost half were landless. Leasing in land provided these households with an important means to escape poverty. But in 2001 leasing was not actually legal, so tenants had no right to institutional credit and crop insurance. The policy implication was that leasing should be legalised. However, legislation would need to be designed carefully so as to support leasing by the poor, but not to give greater power to rich farmers or corporations.

The dependence on moneylenders was high across all landholding, caste and income groups, but for different reasons. For the poor, lacking collateral, political connections, or the means to bribe necessary to obtain formal credit, the moneylenders were their only option. In the case of the rich who could get bank credit, moneylenders provided hassle-free loans for almost any purpose as opposed to banks which would lend for only certain productive uses. The demand for credit was high and increasing. Money lending as a profession was thus on the increase, at interest rates from 3% to 15% per month. Policy needed to make formal credit more accessible and flexible, using simpler and clearer procedures. Although the self-help group movement in AP had helped more people get credit, it still met only a fraction of the need.

One of the key limitations of household level livelihoods analysis that has been identified above is the trade-off between generality and detail. Effective policy-based livelihoods analysis requires finding an appropriate balance between understanding the complexities of people's lived experiences and being able to draw out patterns and generalisations. From these generalisations, recommendations can be made about more appropriate policies, programmes and interventions.

However, drawing recommendations from the evidence is only the first stage in linking research back to policy. Researchers need also to understand the *policy process* and recognise the different ways in which policy change can come about. For example the uptake of research findings can be seen as a function of three dimensions:¹

1.Context: Politics and Institutions – the political and economic structures and interests, systems of innovation, institutional pressure and cultural differences.

The impact of research focused on policy issues is quicker and greater than that of academic research, particularly when it is commissioned by policy-makers themselves.

Policymakers are usually more interested in findings that support incremental policy change than in findings that question fundamental systems and require radical change.

- 2. Evidence: Credibility and Communication.** The credibility of research depends on the approach and methods used, the reputation of the researchers, and the way findings are communicated.

Policy recommendations based on participatory and action research where there had been engagement with 'users' are more likely to have an impact than desk-based studies. Both quantitative and qualitative data can have an impact depending on the particular issue and circumstances. Timing matters: relatively weak evidence, which meets an immediate need will have more impact than more substantial evidence that arrives too late.

- 3. Links: Influence and Legitimacy** – refers to relations between the policy and research communities, whether they share the same networks, use the same discourses and knowledge bases, and trust each other.

Dissemination strategies need to identify the particular stakeholders or interest groups that need to be influenced and the most appropriate media for doing so. Influencing policy is a long-term process that often depends more on maintaining personal relations and networks than on formal communications.

In sum, livelihoods research needs to understand policy processes. To influence policy, obstacles that make certain policy recommendations difficult or impossible to implement need identifying. Some obstacles will be immovable in the short-term – and ways around them need to be found – others less so. For instance, the systematic misappropriation of resources directed toward the rural poor – whether simply for rent-seeking, or as a result of political tendencies to reward supporters or recruit new ones – is a chronic source of weakness in the implementation of poverty programmes in many countries, no matter how sophisticated their design or targeting. To consider misappropriation more explicitly would lead to an assessment of what implementation arrangements are robust in the face of chronic implementation constraints, and what the features of these are. It might also prompt research and policy attention towards those which work well, and perhaps some effort to build on these mechanisms rather than create new ones. Evidence from the Livelihoods Options study for instance indicates that transfers in small, regular amounts through automated channels such as monthly pensions payments through bank or post office transfers are much less prone to misappropriation than large lump sum payments such as house construction subsidies, and much less costly to implement than subsidised food distribution. This argues strongly for switching some resources out of weakly implemented programmes and into an effort to build on strongly implemented ones. In all events, there are powerful arguments for identifying "what works well for the poor" and building on it, and resisting the universal temptation to build new programmes from scratch.

Endnotes

¹ The framework here is based on work at ODI on Bridging Research and Policy. See Crewe, E. and J. Young (2002), 'Bridging Research and Policy: Context, Evidence and Links', *ODI Working Paper*, No.173, London:ODI.



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