Module 1: An introduction to livelihood promotion

1 Introduction to Livelihoods

1.1 What is Livelihood?

Livelihood is:

- A set of economic activities, involving self-employment and/or wage-employment
- by using one's endowments (human and material)
- to generate adequate resources (cash and non-cash)
- for meeting the requirements of self and the household,
- usually carried out repeatedly and as such become a way of life.

Ideally,

- a livelihood should keep a person meaningfully occupied,
- in a sustainable manner,
- with dignity

Livelihoods, therefore, go far beyond generating income. A livelihood is much more than employment.

Less than 10 percent of rural workers in India are employed on a regular basis.
Poor rural households engage in more than one activity for their livelihoods.

1.2 Why Promote Livelihoods?

In the current decade, according to estimates of the Planning Commission for the Tenth Five Year Plan, more than 10 million people in India will be seeking work every year. Thus, to ensure full employment within a decade, more than 10 million new livelihoods will have to be generated every year. Given the magnitude of the problem, and the dearth of resources for livelihood promotion, the task of promoting
livelihoods for the poor becomes all the more urgent. It calls for organizations to use their resources optimally to achieve maximum scale.

The primary reason to promote livelihoods is the belief in the essential right of all human beings to equal opportunity. Poor people do not have life choices nor do they have opportunities. Ensuring that a poor household has a stable livelihood will substantially increase its income, and over a period of time, asset ownership, self-esteem and social participation.

The second reason for livelihood promotion is to promote economic growth. The ‘bottom of the pyramid’ comprising nearly 4 billion out of the 6 billion people in the world, who do not have the purchasing power to buy even the bare necessities of life – food, clothing and shelter. But as they get steadier incomes through livelihood promotion, they become customers of many goods and services, which then promote growth. The third reason for promoting livelihoods is to ensure social and political stability. When people are hungry, they tend to take to violence, crime.

Thus, we see that there are idealistic, utilitarian and plain self-interest based arguments for livelihood promotion. But whatever be the reason, we need to worry about – how to promote livelihoods?

1.3 What is a Livelihood Intervention?

Livelihood interventions are conscious efforts by an agency or an organization to promote and support livelihood opportunities for a large number of people (other than those directly or indirectly employed by them). Government of India has been one of the largest agencies involved in such livelihood promotion efforts. However, the cooperative sector, the corporate sector as also the NGO sector has also contributed to promoting livelihoods.

Examples include:

- Government program for development of irrigation. India has added over 40 million hectares of irrigation since independence; largest in human history. This has generated or stabilized the livelihoods of millions of people.

- In agriculture, the predominant livelihood interventions covered irrigation through large dams and canal systems till the 1960s, followed by the introduction of the high yielding varieties package during the Green Revolution, impacting the livelihoods of over 40 million farmers and a similar number of landless laborers.

- Government programs such as the erstwhile National Rural Employment Program (NREP), refashioned as the Sampoorna Gram Samriddhi Yojana (SGSY), to guarantee wage-employment to the
poor in the lean season through public works such as road building. Part of the wages are paid in kind as food grains, which is a carry over from the erstwhile “food for work” program

- Government programs such as the erstwhile Integrated Rural Development Program (IRDP), refashioned as the Swarna Jayanti Grameen Swarozgar Yojana (SGSY), to promote self-employment among the poor through acquisition of an income generating asset with the help of a bank loan and a government subsidy

- Special government programs, run in specific states, to promote both wage employment, such as the Employment Guarantee Scheme (EGS) of Maharashtra and to promote self-employment through highly subsidised asset acquisition, such as the World Bank sponsored District Poverty Initiatives Program (DPIP) in AP, MP and Rajasthan.

- Programs run by sectoral institutions such as the National Dairy Development Board, the Central Silk Board, the Coir Board, the National Horticultural Board, and the Development Commissioners for Handloom and Handicrafts

- Programs run by non-governmental agencies, for promoting livelihoods in different regions and sectors, such as by SEWA, BAIF, MYRADA, AKRSP, PRADAN, RGVN and BASIX.

- The Self Employed Women’s Association (SEWA) works with over 750,000 self-employed women of low-income households

- Bhartiya Agro-Industries Foundation’s (BAIF) program supporting one million livelihoods, comprising cattle cross-breeding, pasture development, horticulture, etc.

- Venkateswara Hatcheries intervention to develop the poultry sector, culminating in the National Egg Coordination Council, which serves over 200,000 poultry producers.

- Various micro-finance interventions by banks and NGOs have influenced the livelihoods of more than twelve million people.

Efforts of agri-business companies or co-operatives to sell inputs such as the Indian Framers’ Fertiliser Cooperative (IFFCO) selling through the network of primary agricultural cooperative societies; and Tata Chemicals’ Kisan Kendras to sell fertilizers and offer extension services have also influenced the livelihoods of large numbers, though they can not be strictly called a livelihood intervention. Other companies work to strengthen their supply chain such as the ITC Agri Business Division, which runs the e-choupal network for procurement of commodities such as soybean, prawns and coffee; Hindustan Lever’s erstwhile milk procurement and processing business at Etah; and that of Nestle at
Verka in Punjab; and the Rallis India projects for contract farming of wheat and rice, and by Pepsi for tomatoes also have had impact on the livelihoods of the rural people.

1.4 Evolution of Livelihood Promotion Efforts in India

1.4.1 Early Efforts – Human and Institutional Development

Thinking on livelihood promotion evolved a great deal since the early days, with contributions from people like Rabindranath Tagore, conceiver of the Sriniketan Experiment, Spencer Hatch, of YMCA, Martandam, Fr. Brayane of the Gurgaon Project and Albert Meyer of the Etah project, all initiated livelihood promotion in their own ways.

Mahatma Gandhi, one of the early livelihood thinkers of 20th century, had a holistic vision of livelihoods, with a deep concern for both, the poor and for sustainability. Gandhiji suggested developing local economies by promoting inter-dependant activities, as a member of a mutually supportive community, eventually leading to “gram swaraj”.

During this period, the emphasis was on building human capital and imparting knowledge. It was thought that people were not getting good remuneration because they lacked the know-how to do better. To address this gap, efforts to impart knowledge were made.

Even in the years after independence, government policies and strategies were based on similar principles. Many educational institutes and research organizations were started during the first five-year plan. The Community Development Program of the Government of India was also designed on these lines. The Second Five Year Plan attempted to institutionalize this through the concept of Panchayat Raj, to ensure that local decentralized institutions were built for development.

However, the limitation of this approach became apparent by late 1940’s when they realized that just the know-how was not enough, a variety of services to enhance livelihoods were also necessary. Therefore, an alternative strategy was evolved, which tried to integrate various services like building market linkages, technology transfer and building physical and social infrastructure, all in one fold, built around a sector, such as wheat, paddy, milk or soybean.

1.4.2 Integrated Sectoral Strategies

The first two decades after independence rightly focused on development and stabilization of agriculture through irrigation. The large number of irrigation development projects set up by various state governments – such as the Western Yamuna Canal system in western Uttar Pradesh;
the Bhakra Nangal dam and canal system in Punjab; the Indira Gandhi Canal and the Chambal dams in Rajasthan; the Nagrajuna Sagar and Sriram Sagar in Andhra Pradesh and the Tungabhadra and Krishna dams in Karnataka, stabilized and enhanced incomes and generated wage employment for the landless farmers.

Some examples of livelihood intervention based on integrated sectoral strategies, covering the entire value chain, endeavors like, KVIC, NDDB and the Green Revolution started emerging during the ‘50s–60s.

Khadi and Village Industries Commission is the largest livelihood promotion efforts based on Gandhian thinking. Setup in the 1950s, KVIC is an example of integrated sectoral livelihood intervention. It can also be called the first government intervention in the non-agriculture sector. The KVIC selected nearly 20 activities, from gur (jaggery) making to khadi (hand spun, hand woven cloth), and promoted a network of training centers, production units, common processing facilities and marketing outlets. For, the rural producers to really benefit, they not only need training, but working capital and access to market, as well.

Similarly, the Green Revolution was another example of integrated sectoral livelihood promotion. Though Green Revolution started with introduction of high yielding variety seeds, infrastructure support was provided in the form of irrigation facilities, roads, warehouses market yards etc. This was supplemented with development of agricultural credit delivery system, support to fertilizer and other agri-input companies, and investments in agricultural universities for research and training. The Green Revolution was essentially confined to wheat and later paddy, and much later soybean.

National Dairy Development Board (NDDB) set up in 1969 to replicate the Anand model of co-operative milk marketing in the entire country. It created systems of milk procurement, processing and marketing across the country under Operation Flood programs. Further, NDDB made infrastructure investments in chilling centres, feeder-balancing dairy plants, cattle-feed plants, veterinary medicine and vaccine plants, among others. It also invested in research and development projects related to dairy science and processing of milk products.

1.4.3 Strategies for the Vulnerable Segments of the Population

Though all the above interventions based on the principle of integrated sectoral support could influence the livelihoods of millions of people, they needed heavy investments, and still left out the poor, the landless, the marginal farmers, women, tribals and people living in remote areas.
By the ‘70s, despite this kind of livelihood development approach, the gap between the rich and the poor was growing. Deep dissatisfaction with the prevailing inequities saw the rise of Leftist, especially the Naxalite Movement in the country.

While the Naxalites chose the path of armed struggle, others who were also dissatisfied with the state of affairs decided to join the voluntary sector. The leading figure in the voluntary development movement in India was JP (Jaya Prakash Narayan). Many voluntary agencies later became larger and professional Non-Governmental Organizations (NGOs) and became an integral part of development scenario.

The efforts concentrated on those who were left out of the benefits of mainstream development. Some took this even further to work with the poorest or what was called the ‘sarvahara varga’. However, this idea got politicized into the slogan of “garibi hatao” and bureaucratized through the launch of the nationwide program for poverty alleviation – the IRDP.

### 1.4.4 Minimalist Credit

However, all these efforts were based on an integrated approach where the intervention would all services necessary for supporting livelihoods of the poor. They required perpetual ongoing subsidies and still did not generate sustainable livelihoods. All this gave rise to a new thinking, which said, the poor know how to manage their livelihoods, all they need is access to capital. Ela Bhatt had started the SEWA Bank in India as a cooperative bank of self-employed poor women, in 1974. Prof. Mohammad Yunus began the experiment of the Grameen Bank in Bangladesh in 1976. In Latin America, large number of NGOs began micro-credit programs through solidarity groups.

These efforts quickly multiplied and their unique feature, in contrast to the IRDP type of loans was the high repayment rates, often over 95 percent. The 1990s saw millions of households being covered by micro-credit programs, all over the world. In Bangladesh alone, the Grameen bank, BRAC, ASA and Proshika reached out to over 2 to 3 million borrowers each.

The debate between minimalist credit and integrated sectoral promotion approaches began to converge in the 1990s. A number of the integrated programs dropped many of their offerings and became more focused on credit. On the other hand, a number of the minimalist credit programs, started providing a lot of other inputs. An example of the synthesis is The Self Employed Women’s Association, SEWA, Ahmedabad. While the SEWA Bank can be seen as providing only savings and credit, it was embedded in a larger system. SEWA itself was a trade union, which provided the organizational base, the credit reference checks and the extension network of the Bank. The Mahila SEWA Trust provided a
range of training and support services to members and staff. Another arm provided healthcare and health insurance services. Over 80 occupational cooperatives provided inputs, production facilities and market linkages.

1.4.5 Contingency Approach to Livelihood Promotion

In 1989, Vijay Mahajan and Thomas Dichter, proposed an alternate livelihood promotion strategy through a paper: ‘A Contingency Approach to Enterprise Promotion’. They argued that promoting enterprises was complex and a better approach was to identify the bottleneck and work on that. In many cases, credit could be the only constraint. In such cases, minimalist credit was right and does work well. In other cases, credit is needed but is not the main constraint, what is needed could be skills, inputs or markets. Their argument was, though a large variety of services are required, all of them are not required at the same time and in every case. Thus the offering should be contingent upon what is needed in the situation. They also asserted that only a specialised type of organisation could do it. And as it is difficult to build competencies to address all these factors in-house, collaboration become necessary.

This approach can be graphically explained. A barrel is made of planks of different heights. The planks of different heights represent different factor conditions. Maximum livelihoods that can be supported are determined by the weakest factor (credit in the figure 1 here). The livelihood intervention agency needs to identify the bottleneck and provide services to overcome them. At any point in time, one deficient factor is addressed, till, in comparison, another factor become deficient and needs attention. Thus, various inputs become critical at various times and need to be addressed.
2 Various Types of Livelihood Interventions

Livelihood interventions can be in many forms and go far beyond running an income-generation program. Some of the approaches of livelihood interventions in India are:

- **Spatial Approach:** Promoting livelihoods in a specified geographical area, such as a region, sub-region, command area or a watershed.
  - Supporting locally inter-dependent economic activities, based on a leading intervention, as done by various state governments in the irrigation command areas – the Indira Gandhi Canal in Rajasthan, or the horticulture based DHRUVA project of BAIF in Valsad, South Gujarat
  - Supporting livelihoods in a degraded watershed or degraded forest area, such as MYRADA’s PIDOW project in Gulbarga, Ralegaon Sidhi in Maharashtra and the numerous joint forest management projects supported by AKRSP in Gujarat.
  - Intervention in a cluster of enterprises, such as Ludhiana for hosiery, Badohi-Mirzapur for carpets, Kancheepuram in Tamilnadu and Sualkuchi in Assam for silk sarees, and so on.

- **Segmental Approach:** Promoting livelihoods for a vulnerable segment of the population, such as landless households, tribals, women and the disabled.
  - Supporting livelihoods of the poor through micro-credit, for example by SEWA, SHARE, CASHPOR and BASIX
  - Investing in human development - nutrition, health, education, and institutional development (for example CARE’s Women’s Income and Self-Help project, Jharkhand)
  - Asserting the rights and entitlements approach of the poor – whether to minimum wages, land tenure or access to public services, for example the National Association of Street Vendors of India asserted the rights of livelihood of street vendors.

- **Sectoral Approach:** Promoting livelihoods along a sector of the economy such as agriculture, or a sub-sector such as cotton
  - Sub-sector Interventions, such as dairy, fishery, and sericulture, usually covering the value chain from primary production to the ultimate consumer, e.g. NDDB in dairy.
  - Intervention along a Vector (something which cuts across all sectors): such as water, power or market linkages. E.g. MART, which has worked on rural *haats* – local markets.
2.1 Spatial Interventions

Many livelihood interventions have a spatial and geographical boundary. It may be a single village, a watershed, a river basin, a block, taluka or a district or a region. The main difference between other approaches and a spatial (or area development) approach is that it tries to tackle all the sectors and segments of the population in that area.

2.1.1 Area Development: with a Leading Intervention e.g. Irrigation

This approach has been followed by governments in a number of ways – initially to develop the “command area”, that is area irrigated by a canal system of a major dam. Most of these projects began in the 1950s and 60s. The leading intervention here was flow irrigation, and it was supplemented with on-farm development such as land leveling and bunding, building drainage channels, training of farmers in irrigated agriculture through extension services, ensuring the availability of tractors, supply of new water responsive varieties of seeds, setting up outlets for fertilizers and pesticides, and finally marketing, in the form of rural roads, warehouses and market yards. This then led to the development of the local economy in an inter-dependent manner. Over a period, non-farm activities, based on agro-processing, took off, as also those, which supplied goods and services to increasingly prosperous farm households. While irrigation changed the livelihoods of millions of farmers for the better, it also led to a rise of inequalities, particularly for those who did not have any land.

Even programs such as Drought Prone Area Program (DPAP) were spatial interventions in livelihoods.

2.1.2 Watershed Development Approach

What is a watershed?

A watershed is a catchment area feeding into a single identifiable drainage system, such as a stream or a river.

Fostering appropriate local institutions for managing natural resources in the watershed area, to increase the quality and productivity of those resources, constitutes a watershed development program.

Why watershed development?

Out of a total geographical area of 329 million hectares, approximately 170 million hectares of land in India is classified as degraded. Half of this land falls in undulating semi-arid regions, where rain fed farming is practised. Much of this degradation is due to inappropriate use of land
and inadequate protection. The introduction of appropriate physical barriers to soil and water flows, together with re-vegetation and institutional arrangements for their conservation, can improve the productivity of land. Typically, a watershed program includes some or all of the following interventions:

- Soil and land management;
- Water management;
- Crop management;
- Afforestation;
- Pasture/fodder development;
- Livestock management;
- Rural energy management;
- Other farm and non-farm activities;
- Community mobilization.

While these components are often understood in general/standardized terms, there is scope for technology development and adaptation.

**Mainstreaming the watershed approach**

The Government of India started recognising the value of using a watershed as a unit of intervention in the early 1980s. Over the last two decades it has set aside substantial budgetary provisions for micro-watershed rehabilitation and development.

Through a range of schemes and programs the government is investing over US$500 million every year into the rehabilitation of micro-watersheds. A set of Guidelines for Watershed Development (GoI 1994) was formulated by the Ministry of Agriculture and Development. They envisage a ‘bottom-up planning’ approach, where working with Non-Government Organisations (NGOs) and community participation is the central principle.
Challenges faced by the watershed approach

**Challenges of enabling participation:** Different institutional arrangements are promoted by promoters of watershed development to enable local participation in planning, building and the maintenance of structures in watershed areas. NGOs engaged in long-term joint learning with the community, have high costs per beneficiary and are less significant in their area coverage, but effective participation of the community remains a major challenge for large-scale watershed interventions.

**Sustainability issues:** Though efforts by the voluntary sector have been more participatory, the issues of sustainability of development impacts and institutional arrangements are still being explored. How will the treatments undertaken be maintained? How does one meet the costs of post-implementation needs? Can maintenance funds be generated during the implementation phase? How can these be continuously augmented? Can village institutions created during the implementation phase remain vibrant with just ‘maintenance’ as the agenda; or can they also take up other development programs? How does one facilitate them towards taking up this role? Can microcredit be made to play an important role to meet resource needs in the post-implementation phase?

Under the Indo-German Watershed Development Program implemented by the NGOs, NABARD introduced a method for systematic building up of a maintenance fund by each watershed development committee. In the forerunner of this program, the watershed development program in Adgaon village of Aurangabad district of Maharashtra state developed innovative ways to continuously augment the village fund through farmer contributions made in proportion to the benefits received by them. Such alternatives need to be studied in which can stimulate thinking on appropriate ideas for other program locations.

In the *Pani Panchayat* movement in Maharashtra and in Sukhromajri, in the Himachal foothills, the issue of providing benefits to the landless has been handled innovatively by giving rights to water resources to people irrespective of their landholding size, thereby allowing them to earn revenues from selling their water rights.

**Benefits to the landless**

Equity considerations are of concern in the watershed approach as the intervention is essentially land-based and may potentially exclude the landless. Some projects address this by ensuring that the landless get wage labour
in watershed development work and make provision for income-generating programs in the watershed plan. Even within the group of those who have land, equitable sharing of water among the beneficiaries of smaller lift-irrigation schemes (made possible by better water availability) requires facilitation to develop sound water-sharing norms.

### 2.1.3 Spatial Intervention in Clusters

Another way of supporting a large number of livelihoods is supporting activities in a cluster. Usually a cluster arises around a particular activity, and eventually a number of related and supporting activities emerge leading to all-round livelihood promotion. The activity may be agricultural, such as sugarcane cultivation in the Kolhapur district of Maharashtra around which sugar mills, agro-service centres and retail markets have emerged. A cluster may emerge around a non-farm activity such as stone quarrying and polishing. For example, in the Bethamcherla cluster in Andhra Pradesh, growth of 250 stone polishing units has spurned 100 polished slab-trading companies and 50 rough-stone slab traders in the area. Not only that, various other support enterprises, such as transport companies, transport repair workshops, equipment supply, repair enterprises and small road-side restaurants have also sprung up in the area, supporting large numbers of livelihoods. These enterprises closely depend on each other for sustenance. On the one hand, the stone polishing units in the area support these enterprises, at the same time; these supporting enterprises have helped the stone polishing industry to grow. This area has also witnessed proliferation of many secondary organizations, such as, Rough-slab Traders Association, Slab-polishing Units Association, Lorry Owners’ Association, Polishing Workers’ Association, Slab-loaders’ Association.

<table>
<thead>
<tr>
<th>Livelihoods in Bethamcherla Cluster</th>
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<tbody>
<tr>
<td>Various Units</td>
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<tr>
<td>No. of Units</td>
</tr>
<tr>
<td>Quarry</td>
</tr>
<tr>
<td>Transport (rough slab)</td>
</tr>
<tr>
<td>Transport (polished)</td>
</tr>
<tr>
<td>Rough-slab trading</td>
</tr>
<tr>
<td>Transport repair</td>
</tr>
<tr>
<td>Equipment supply and repair</td>
</tr>
<tr>
<td>Stone polishing</td>
</tr>
<tr>
<td>Polished-slab trading</td>
</tr>
<tr>
<td>Private finance companies</td>
</tr>
<tr>
<td>Banks</td>
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</tbody>
</table>

*The Forgotten Sector* by Fisher and Mahajan
The advantage of growth of such a cluster is that, related and supporting services become available to all participants, reducing the transaction costs for all. Imagine, if every polishing unit had to run to Kurnool, the nearest big town, for every small repair, the costs wouldn’t have permitted them to be competitive in the market. The cluster attracts various suppliers to the area, as it provides economies of scale. The strong competition attracts consumers, who are assured of choice, competitive quality and price. Growth of clusters attracts policy attention increasing the availability of skilled workers. Clusters also enhance ability to cope with changes in the environment as information flow becomes faster.

There are several such clusters in India, which are known for their products, such as, Shivakashi for matchbox, firecrackers, Ludhiana for woolen garments, Patiala for machine tools, Moradabad for brassware, Ulubedia for badminton shuttle corks, Lonavala for Chiki, groundnut molasses sweetmeat, Thrupur for hosiery, Kanchivaram, Varanasi and Dharmavaram for silk weaving, Kolhapur for leather slippers, Kanpur and Agra for various leather goods, Bellary for jeans, and Bikaner for Bhujia, ready to eat extruded products.

Usually a cluster starts growing with one pioneering unit, which very often sets up an enterprise serendipitously; If this unit fails, the cluster never grows; but if it succeeds, many others follow, providers of support services get attracted. This in turn makes setting up similar new units more economical. At this stage, the policymakers get involved; infrastructure in the cluster gets developed; associations get established. These associations play a role in policy lobbying, start sharing market information, training and production facilities, etc.; cluster gains market share. However, this process can be further accelerated with dissemination of information to different key players.

There are many agencies such as United Nation Industrial Development Organization (UNIDO), which have adopted development of a cluster as their strategy for livelihood intervention. See Annexure II to this Module on promotion of cluster by UNIDO.

2.1.4 Local Economy Development

At the workshop that brought together livelihood practitioners to reflect on their experience, and to review the case studies for this Resource Book, many agreed that linking poor producers to expanding markets was the key. But some differed.

How reliable are these markets? To what extent do they reduce the risks that producers face? While access to these markets can increase the share of consumer’s rupee to rural producers, it often pushes the locus of control and/or decision making away, and reduces their role to mere suppliers of labour from equity holders in their own small little business.
There have been many cases, where the rural producers, especially the smaller ones have fallen pray to market vagaries. Thousands of farmers were forced to burn their sugarcane crops. Several hundred cotton farmers committed suicides when the crop failed. Tons of malta was thrown into the Ganges when the prices collapsed. Similarly, the carpet industry in Rajasthan faced a serious set back, when the European market stopped buying carpets, due to a change in their import policy in relation to child labor.

In countries like Mexico, Argentina, Indonesia, we have seen impacts of too much dependence on outside markets and generation of little wealth within. These countries had become entirely dependent on exporting a small number of specialized goods and services. The local economy was no longer diverse, and therefore highly vulnerable to external shocks, as almost nothing was sold in local markets. The effects were devastating. When nothing was produced for local markets, no money circulated within the local economy. All earnings from exports were spent on goods and services that were imported into the community – money simply flowed in and immediately out again, generating no further income and employment within the community. These communities are now desperately seeking ways in which they can gain back control of their local economy.

How can these economies revive themselves? Is it a pipe dream to believe that local economies can be self-reliant, as many would argue? How effective are they?

To find some answers to this question, let us look at a simple example that effectively illustrates how making an economy self-reliant makes the money go longer.

If the income of one person is spent within the local economy itself, it becomes the income of another within the same economy. For example, if a dairy farmer, Ram buys the fodder from a neighbouring farmer, Shyam, the money Ram spends on buying fodder becomes income of Shyam.

This can have a perceptible implication for the economy as a whole. Let us examine how.

Let us assume that Ram, Shyam, Laxman, and Bharat live in a village where only 20 percent of the goods required by anybody are available within the local economy. So, in this village, when Ram spends Rs 100, he buys goods worth Rs 20 from within the village itself, say from Shyam. Thus, Shyam has an income of Rs 20. Take this logic further...
<table>
<thead>
<tr>
<th></th>
<th>Total income</th>
<th>Amount spent within the economy</th>
<th>Amount spent outside the economy</th>
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<tbody>
<tr>
<td>Ram’s income</td>
<td>100.0</td>
<td>20.0</td>
<td>80.0</td>
</tr>
<tr>
<td>Shyam’s income</td>
<td>20.0</td>
<td>4.0</td>
<td>16.0</td>
</tr>
<tr>
<td>Laxman’s income</td>
<td>4.0</td>
<td>0.8</td>
<td>3.2</td>
</tr>
<tr>
<td>Bharat’s income</td>
<td>0.8</td>
<td>0.16</td>
<td>0.64</td>
</tr>
<tr>
<td>Total income generated</td>
<td>124.8</td>
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</table>

The table shows that this Rs 100 generates an income of Rs 124.80 for the four of them. Now let’s imagine if they could get 50 per cent of what they required locally ...

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<tr>
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<th>Total income</th>
<th>Amount spent within the economy</th>
<th>Amount spent outside the economy</th>
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<tbody>
<tr>
<td>Ram’s income</td>
<td>100.0</td>
<td>50.0</td>
<td>50.0</td>
</tr>
<tr>
<td>Shyam’s income</td>
<td>50.0</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>Laxman’s income</td>
<td>25.0</td>
<td>12.5</td>
<td>12.5</td>
</tr>
<tr>
<td>Bharat’s income</td>
<td>12.5</td>
<td>6.25</td>
<td>6.25</td>
</tr>
<tr>
<td>Total income generated</td>
<td>187.5</td>
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Their income would have gone up to Rs 187.50. Therefore, another way of enhancing income could be to produce more and more of the local requirements locally, and building a self-sustaining economy.

If Ram could buy more fodder locally instead of buying cattle-feed from the town, the economy would have become stronger. To move towards this, we could train someone to produce better fodder locally. We could also train someone else to use the cow-dung to make compost, which in turn could be used for fodder production by other farmers. We could also train a boy locally to cut chaff. This would keep the money flowing within the local economy and generate more income than before.

The underlying principles of such a model are to:

- Use local resources to meet local needs
• Maintain diversity within the local economy to reduce risks
• Ensure money circulates within the local community
• Enhance the control that the community has over its local resources.
• Enhance financial and other assets within the community that can generate future income streams
• Reducing the risk arising from the vagaries of distant markets faced by poor producers
• Organizing poor producers so that they have greater control over their livelihoods now and in the future.
• Increasing the bargaining power of the producers.

In the Indian context, Mahatma Gandhi’s economic thinking was based on these principles. There are some interesting readings in this area in Plugging the Leaks, New Economics Foundation, London. We can also look at Economy of Permanence, by J.C. Kumarappa, that describes a self-reliant economy.

Creating a locally self-sufficient economy is slightly different from creating market places for facilitating localized buying and selling.

Local market development has been tried by a number of NGOs: We will get some insights into similar interventions in India in the cases on Dhruva, which helped establish a weekly market in Choda Bazaar. (Case 1 in Module II). ASSEFA in Tamilnadu developed a number of weekly shandies and so has MART in Andhra Pradesh, with good results. In fact the importance of local weekly markets (shandies and haats) as well seasonal markets (melas, festivals) as outlets for the produce of farmers, artisans and craftsmen, has been brought out by MART in the study “Rural Haats and Melas”.

One very interesting opportunity that has arisen to approach distant markets, even from remote places is the Internet. Various NGOs such as Kutch Mahila Vikas Sansthan and private firms like Craftsbridge have set up websites to display the wares of craftsmen, book orders and receive payments over the Internet.
2.2 Segmental Interventions

While spatial livelihood interventions try to cover a whole region or a sub-region, segmental approach focuses its attention on one specific group of vulnerable poor people: landless, or tribals, or women or any such other.

However, even this can be limiting since many of the poor have little in terms of human endowments – and need investments in nutrition, health, education, vocational training and organising into producers’ groups and cooperatives, before they can benefit from microfinance or livelihood promotion efforts.

While some see this as merely a matter of changing the resource allocation priorities of the government, others see it as a more radical task. They feel that unless the poor are empowered and assert themselves, they will never get their rights. The rights-based advocacy is the hallmark of the movement led by Medha Patkar of the Narmada Bachao Andolan. The National Association of Street Vendors of India, Patna, is another such example of a rights-based approach to livelihood promotion.

2.2.1 Supporting Livelihoods of Vulnerable Segments Through Micro-finance

Recognizing that capital was a major bottleneck for enhancing the income levels of the vulnerable people, efforts have been made to enhance access to capital for them. Various finance corporation for scheduled castes, scheduled tribes, backward castes, minorities, women and so on were created to make finances available to these segments. But these institutions have done badly due to over subsidizing of loans and lop sided planning.

In India, the strategy of using micro-credit to generate livelihoods for the poor was adopted by the government in a big way, starting with the Small Farmers’ Development Agency in early 1970s and the setting up of the network of Regional Rural Banks, (RRBs), since 1976 to serve marginal and small farmers and artisans. The nationwide Integrated Rural Development Program (IRDP) was also based on the idea of offering subsidized loans to the poor for acquisition of assets. The experiment failed, even though 56 million worth of loans were disbursed. Reasons for this were leakage of benefits to the non-poor and those who sanctioned loans and lack of backward and forward linkages. Loan repayment rates were an abysmal 20%.

Disillusionment with the IRDP led a number of NGOs working in livelihood promotion, such as MYRADA and PRADAN to come up with alternative ways to enable the poor to access credit from banks. The Reserve Bank of India and NABARD approved the experiments with Self-Help Groups in 1992, which led to a pilot project of the bank lending to
SHGs. NGOs took lead in linking SHGs with banks in Tamilnadu. This was evaluated in 1995 and found to be worth replicating nationwide. However, banks were reluctant and it took MFIs such as BASIX to show the way on linking SHGs. Till 1998, MFIs were the leading lenders to SHGs. In 1999, on the recommendations of a task force coupled with the impetus given by NABARD and state governments like AP, led to a steady increase in bank linkage with SHGs. By 2003, over 750,000 SHGs with over 12 million members had received a cumulative of Rs 2600 crore of credit from banks. The SHG–bank linkage program became the predominant method of extending micro-credit in India.

Subsequently, a second track developed in micro-finance where the micro-finance institutions (MFI) lent to the poor, either through SHGs, Grameen style groups or joint liability groups or even individually. SEWA Bank, SHARE, CASHPOR, Spandana and BASIX are examples of such MFIs. A number of NGOs built up substantial direct portfolios, supported by apex lenders such as, the Rashtriya Mahila Kosh and the SIDBI Foundation for Microcredit and others. Later, a third track gathered momentum, mainly in AP, with Mutually Aided Cooperative Societies (MACS) for thrift and credit, some arising out of SHGs and others directly of members. By 2003, there were over 2000 MACS in AP. However, microcredit proved to be less effective as a tool for livelihood promotion in case of poorer households and in remote areas and sluggish economies.

2.2.2 Supporting Livelihoods of Vulnerable Segments Through Human and Institutional Development

In some ways, this has been the unstated strategy of a large number of NGOs, which have been in income generation. For example, the Association for Sarva Seva Farms (ASSEFA) works with very poor landless people, mostly belonging to the scheduled castes, scheduled tribes and minorities, who received some land as a gift under Bhoodan. Mostly such land was degraded, rocky, undulating, un-irrigated and difficult to cultivate. ASSEFA’s strategy was to win the confidence of the people, survey the land, and identify water sources. Then draw up a project proposal for land reclamation, irrigation development and cultivation.

2.2.3 The Rights-based Approach to Livelihoods of Vulnerable Segments

Some believe that poverty is not just an economic phenomenon, but a result of structural inequalities bolstered by a feudal, caste-based social and political structure. They want to address them by goading the poor
to demand their rights and entitlements, engage in militant struggles and also use the constitutional mechanisms such as the courts, human rights commissions and so on to get these rights. The examples include the Chhattisgarh Mines Mazdoor Sangh, led by the late Sankar Guha-Neogy, who successfully gained minimum wages and work security for thousands of “contractual” mine workers in the Dalli Rajhara mines, which feed the Bhilai steel plant. Likewise, the Kashtakari Sangthana in the tribal Thane district of Maharashtra struggled to ensure minimum wages for farm work and also work in neighbouring industrial estates and construction sites. In Gujarat, the Behavioural Science Centre worked with dalits to ensure that they got minimum wages and also the right to till their own lands. In Uttranchal, Chandi Pradad Bhatt organised villagers to protect their forests from felling by contractors in what became know as the “Chipko Movement”, to hug the trees.

2.3 Sectoral Interventions

2.3.1 Intervention Along a Sub-sector:

Though the production systems in rural India are highly fragmented and diverse, rural economy has flourished around a growth sub-sector and it’s related and support industries. One of the best examples of this is soybean in MP.

Historically, it can be seen that some of the most significant interventions in rural livelihood promotions have been around a sub-sector. The white revolution supported by the National Dairy Development Board and egg production by National Egg Co-ordination Committee are prime examples of interventions in a sub-sector. However, it is difficult to ensure that the poor benefit by sub-sectoral strategies alone.

A sub-sector intervention is an attempt to enhance the share of the primary producers in a Rupee of the ultimate Consumer. Resolving the
bottlenecks, so the poor can participate in different parts of the value addition chain of a single commodity, such as oilseeds, milk, does this.

There are several facets, which need to be looked into for the sub-sector to generate large number of livelihoods and smoothly pass the larger proportion of the value addition to the primary producers. These include:

- Market: demand conditions
- Basic agro-climatic conditions or, natural conditions
- Infrastructure
- Capital in various forms
- Technology; Knowledge; Research
- People, their skills and attitude, and how they are organized
- Policy and regulatory framework
- Inefficiencies in any of these elements can block flow of resources and hinder number of livelihoods supported by the sub-sector.

Sub-sector intervention, therefore, involves:

- Detailed study of the sub-sector, identifying-
  - Demand profile: is it growing or stagnant, what are the prospects?
  - The whole value addition chain
  - Various players who are involved in value addition
  - Technology used for each stage of value addition
- Identifying the bottlenecks in each stage of value addition and the key players who are involved in that stage of transformation
- Identifying the possible interventions that can help overcome the bottlenecks, in consultation with the key players
- Motivate the important players to take necessary action. Working with the key stakeholders, including the gram panchayats, to resolve growth constraints
• Providing various transformations, supports; such as strategic reorientation to the market and livelihoods; building consensus, developing systems of information processing and sharing among key stakeholders.

• Continuously scan market opportunities to tap into demand, using secondary sources and give this feedback to the various stakeholders.

• Continuously monitoring the bottlenecks and informing the same to the agency for identifying any change in intervention when needed

• In a very similar manner intervention can also be made into a vector, which influences many sub-sectors. For example, water is a vector, which influences not only cultivation of food crops, but also animal husbandry, industrial activities and even tourism in an area.

This methodology has been discussed in details in Module 4.

2.5 Holistic Approaches to Livelihood Promotion

The endeavour called livelihood promotion is very complex. Though many development organizations have attempted to extend a wide variety of services, there are few, which have attempted to address it in its full range. One of the very good examples of providing them could be the Self Employed Women’s Association (SEWA), which has over 750,000 members. The range and scope of SEWA activities has been touched upon early in this chapter.

Here is the range that SEWA spans: Micro-finance services (MFS): Savings and credit through the SEWA Bank, district level self-help group federations linked to the SEWA Bank and insurance services through Vimo SEWA.

Livelihood Promotion Services (LPS): the SEWA staff takes up livelihood identification in the retail outlets and the market facilitation center, which then informs various occupational cooperatives about market opportunities. The producers are also provided a number of training programs in both technical and commercial aspects of their occupation, linked with input suppliers and equipment makers. SEWA also runs a chain of retail outlets for marketing the products of its members, and a market facilitation center to link them with overseas customers.

Institutional Development Services (IDS): SEWA itself is a registered trade union and places a lot of emphasis on member organization and member education. It has also adopted the cooperative form for organizing those of its members who need to come together for their work on a day-to-day basis. SEWA also undertakes policy research and advocacy work. It has collaborated for decades with researchers in the
field of gender issues, informal sector and micro-finance, and through them influenced thinking and policy. Ela Bhatt has been a member of the National Commission on Labor as well as member of the Planning Commission of India as also a Rajya Sabha MP and has actively tried to draw attention to the cause of self-employed poor women.

There is no better example of holistic livelihood promotion in India than SEWA. There are other examples, such as the NDDB, CDF, SIFFS, BAIF, MYRADA and PRADAN, all of whom have used different combinations of this strategy. It is possible to conceptualise this work in the form of a “Livelihood Triad”, as shown in the following diagram.

The Livelihood Triad includes the following services.

<table>
<thead>
<tr>
<th>MICRO FINANCE SERVICES (MFS)</th>
<th>LIVELIHOOD PROMOTION SERVICES (LPS)</th>
<th>INSTITUTIONAL DEVELOPMENT SERVICES (IDS)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Savings (only in three district where we have a banking license)</td>
<td>• Identification of livelihood opportunities</td>
<td>• Formation of groups, federations, cooperatives, mutual benefits, etc. of producers</td>
</tr>
<tr>
<td>• Credit for consumption as well productive needs</td>
<td>• Productivity enhancement</td>
<td>• Capacity building of the above</td>
</tr>
<tr>
<td>• Insurance, for lives and livelihoods</td>
<td>• Market linkages - Input supply, output sales</td>
<td>• Accounting and management information systems</td>
</tr>
<tr>
<td>• Commodity futures, to reduce price risk</td>
<td>• Local value addition</td>
<td>• Performance management systems</td>
</tr>
<tr>
<td>• Financial orchestration (arranging funding from multiple sources for the same sub-sector)</td>
<td>• Risk mitigation (non-insurance)</td>
<td>• Policy analysis and sector work</td>
</tr>
</tbody>
</table>

The rationale behind this is as follows: Micro-credit in particular, and micro-finance (including savings and insurance) in general, is helpful for the more enterprising poor people in economically dynamic areas. However, for poorer people in backward regions, a whole range of other livelihood promotion services (input supply, training, technical assistance, market linkages) needs to be provided. Likewise, it is not
possible to work with poor households individually as they need to be organized into groups, informal associations and sometimes cooperatives or producer companies, all of which requires institutional development services.
3. Understanding Income of a Household

Though economic well-being is not a sufficient condition for enhancing livelihoods, it is an essential element. It may arise from enhancing income, reducing expenditure, creating an asset base or minimizing risk. Let us try to understand the net economic benefit that one gets from the activity using a simple example. However, we must remember that most households, especially the poor are engaged in multiple activities. To understand it in a simple way, net benefit from an activity is:

\[(\text{Volume of production} \times \text{Price of output}) - \text{Costs}\]

For example: if a dryland farmer produces 4 quintals of millets on his 1 acre land, which he can sell at Rs. 1,100 per quintal, for Rs. 4,400, that is not her/his total income. To produce this millet, s/he would have used 10 kg of seeds @ Rs. 20/kg that would have costed Rs. 200. S/he may have used 1 cartload of manure. Had s/he not used this manure, it could have been sold for Rs. 450 only. S/he may have paid a lease rent of Rs. 1,000 for the land for the whole year.

Therefore the net benefit s/he would have derived from this activity, would be: Rs. 2,750 that is:

\[(4 \text{ Q Millet} \times \text{Rs. 1,100/Q}) - (\text{Rs. 1,000} + 200 + 450)\]

We must remember that for some people, especially asset-less poor, the only output is their labour and the price that they get for it is the wage. For such a person, the relation will be as follows:

\[(180 \text{ days of employment} \times \text{Rs. 40/day} - \text{Rs. 5,000, the cost of keeping the body alive})\]

with a net return of Rs. 2,200 for the year.

Another dimension of cost we must not forget is risk. Remember that uncertainty also has a cost. Often the high fluctuations in production and/or price drain the resources out from a dry-land farmer. These fluctuations are often referred to as risks.

Let us try to understand this with an example. Say, in the dry-land area above, once in three years, there is a dry spell after the first showers of
monsoon. As a result in those years they have to do a re-sowing. Thus, from the 4 quintal millet that the farmer gets, s/he keeps aside 20 kg as seed for the next year, though uses only 10 kg for sowing. S/he keeps the 10 kg balance, in case, there is a re-sowing required. Thus, actual cost of seed for the farmer becomes Rs. 400 (for 20 Kg @ Rs. 20/kg), though it could have been Rs. 200 only.

Now, let us examine how we can increase her/his income, or net economic benefit from this activity. There are several choices:

- **Increase the volume of production**: could be done through productivity enhancement efforts, introduction of new technology, or helping them get higher number of days of engagement as labor, among others.

- **Increase in the price**: could be done by accessing different markets, reducing the number of layers in the market, or doing some value addition at the local level, or negotiating a better wage rate.

- **Improve the quality**: as price is often a function of quality of the produce, improving the quality of the produce, or matching it with what the market wants, can also enhance price, and thereby income.

- **Reduce the cost**: could be done through better package of practices, improved technology or enhanced efficiency, among others.

- **Reducing risk**: given that risk is a major cost, especially for the vulnerable segments of the society, reducing risks or production, or of price can also help improve the livelihoods of the people.

The following section builds on these principles of livelihood promotion.
Livelihood Promotion at the Household Level

Livelihoods at the household level may be supported and enhanced by

- enhancing income in main activity
- reducing risk within an activity
- increasing income in a number of the diversified portfolio of subsistence livelihood activities
- reducing avoidable expenditure

However, all these tasks are complex for any single organization to engage in. Thus it requires a number of livelihood promotion organizations (LPOs) to collaborate. The stable form of this collaboration, most of which is driven by the enlightened self-interest of the partners is called the “collaborative polygon”, a term coined by Vijay Mahajan.

3.1 Enhancing Income from the Main Livelihood Activity

Though most households have a portfolio of livelihood activities, they usually practice one or two main activities. Let us examine how a producer can increase her net economic benefit from this activity.

3.1.1 By Increasing Volume of Production

Production can be increased either by increasing the scale (such as area under cultivation, number of animals, number of handlooms, or shop space). Another way to do this is by increasing productivity, which means additional output per unit input. Another way is by diversifying from one to more activities. It depends on both market and resource opportunities as also risk taking ability of the household. A study taken up by BASIX summarized in Annexure 2 at the end of this Module, gives an overview of factors influencing such diversification decisions.

This can be done through various productivity enhancement efforts: adoption of better technology, improved package of practices, better training, supply of better seed, fertilizer and other inputs. This was the thrust of the Green Revolution. Later, it was repeated in the case of soybean, whose production went up from near zero to over 5 million tons per annum in two decades.

In case of non-farm activities, productivity can be enhanced by improved tools and equipment, such as frame looms in place of pit looms and potters’ wheels with roller ball-bearings. For example, the UNDP’s project “Operation Mojdi” introduced “left-right distinction” (between the two pieces in the pair, which was not present traditionally) and the use of hoe lasts for the production of traditional footwear (Mojdis) in Rajasthan,
through RUDA. In Kerala, SIFFS introduced outboard motors on country fishing crafts (kattumarans), thereby increasing the reach of the fishermen into the sea and increasing their daily catch. In service sector activities, increasing skill levels of workers can enhance production and productivity. For example, in AP SERP, migrant construction workers were trained in masonry, and this trebled their daily wages.

### 3.1.2 By Increasing Price Realised

One of the reasons of inadequate income is that producers are not able to realise a fair price from the sale of their produce. This may be because they do not have adequate holding capacity or have to use intermediaries.

The price realization can be increased either through exploring alternate markets, market channels or by value addition at the local level. Instead of selling millets in the local market, it could be sold in a bigger market, which could fetch the farmers, a better price. Alternately, instead of selling it to the trader, they could sell it directly to the processing company; a third option could be to market grain instead of selling in the form of cobs.

Instead of increasing the price, helping people get an assured price may stabilize their income. This can be achieved through forward sales, or its more modern version – futures contracts. An NGO, Janaarth, has set up a commodity trading operation in Aurangabad district of Maharashtra for this. Some companies, such as Pepsi, Rallis and Hindustan Lever are also entering into arrangements of contract farming, which offer the farmer an assured price for a specified quality.

Improvement in the quality of the produce is another way to get a better price. For example, Dastkaar, an NGO and Fab India, a private company, have both worked for decades to improve the designs and quality of crafts and textiles produced by artisans and weavers. This has resulted in their getting a higher price for their products.

### 3.1.3 By Reducing Costs

Reducing the cost of production can also be a way of increasing effective income. Any cost, which directly increases per unit of production, is called variable cost. It can be reduced by efficient use of resources and introduction of new technologies. For example, adoption of Integrated Pest Management, (IPM), techniques often reduce cost of plant protection. Costs can also be reduced by collective purchase of inputs, which also ensure timely supply and quality. An example of this is the work done by BASIX with cotton farmers in Adilabad district of AP.

There are certain costs, which do not increase directly with each unit of production. For example, the rent of a milk collection centre is fixed even if 100 litres per day are collected or 250 litres per day. Though
difficult, livelihood support agencies can try and reduce fixed costs as well. This is possible by developing a network of “service entrepreneurs” who provide various inputs, services and marketing support. An example of this is tasar cultivation by PRADAN in Jharkhand, where production of disease free layings is done by private grainages (tasar seed production units).

3.1.4 Reducing Risks in the Main Livelihood Activity

Reducing risks in various economic activities is another way to improve incomes. There are two broad methods of risk mitigation – the physical methods and the financial methods.

Physical methods: For example, in crop cultivation, deep ploughing in summer, timely sowing, protective irrigation during gaps in the monsoon, undertaking pest control, etc. are all physical methods of reducing the risk of losing part or all of the crop. In animal husbandry, vaccinating animals is a form of risk mitigation.

Financial risk mitigation methods involve insurance and hedging through derivative contracts (futures, options). While insurance helps with asset and yield related risks, derivative contracts help with price risks. Livestock insurance is a form of asset insurance as it is a risk mitigator against the death of animal, or loss of the productive asset. However, it does not protect against the animal going dry. In contrast, crop insurance protects a farmer against reduction in yield of crops due to weather, pest attack or any other reasons. Derivative contracts are helpful against price risks. These include simple forward contracts, where a farmer agrees to sell and a buyer agrees to buy a crop at a particular price on a particular future date. A futures contract is more complex but is surer of being honored than forward contracts. Even more complex are options contracts.

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**BASIX introduces a risk cover product:**

Lac is a chemical secretion from a forest insect. Insect colonies on the tree branches are used for propagation in 15 kg units. These are brood lac. However, as these insects are highly sensitive to weather, slight changes cause serious damage, if the production is less than 9 kg, the cost is also not recovered. Designed a new financial product with technical assistance from PRADAN

- Low Production < 9 kg: all costs borne by BASIX, no repayment of loan, works as insurance
- Average Production (9 to 45 kg): Loan repayment, works as loan
- High Production (>45 kg): Sharing produces, works as venture capital
### 3.2 Increasing Incomes in Diversified Portfolio of Subsistence Livelihoods (DPSL)

Most households are engaged in a number of livelihood activities. A rich farmer may only cultivate a major crop, and may keeps livestock as well. The poorer households generally have a diversified portfolio of subsistence livelihoods (DPSL), that is each activity by itself does not generate any or much marketable surplus. Landless households engage in wage labour on farms, may keep some livestock for self-consumption and sale, and may produce some non-farm product such as rope and may migrate part of the year as construction labour. To increase incomes in case of such a DPSL is more complex than a single sub-sectoral intervention, such as in dairy or sericulture. But the advantage is that it enables poorer segments of the population to enhance their livelihoods. MYRADA has been using this approach in a number of its projects, where multiple interventions are aimed at the same poor household - all the way from vegetable cultivation in homestead land, to backyard poultry, goat keeping, breed upgradation of scrub milch cattle, and encouraging non-land based activities such as roof tile making.

### 3.3 Reducing Avoidable/Wasteful Expenditure

One of the characteristics of poor households is that they incur a lot of expenditure which is avoidable and even wasteful. For example, a poor household often buys items of consumption in small quantities at a time and gets charged a higher rate per unit. If pooling of buying of a number of households could increase this purchase size, they could all get the same item cheaper. The same holds good for inputs for production, such as seeds, fertilizers, yarn, fuel wood, coal and other raw material. The SHGs retailing initiatives in Nizamabad, AP, through its collective purchase of inputs and consumption items has reduced these expenses with the interventions by GRAM.

Another example of expenditure is on health care. Some of the ailments are caused due to inadequate nutrition, lack of clothing and shelter. Others are caused by lack of clean drinking water, lack of toilets, inadequate personal hygiene and poor ventilation in houses. Poor people tend to ignore small ailments, till these become bigger and require expensive medical care. The reduction in incidence of disease would lead to ability to work more number of days and reduction on medical expenditure. Thus programs for preventive health care, as well as community financed curative health care, such as by ASHWINI in Gudalur, Nilgiri hills, Tamilnadu and by the Mahatma Gandhi Institute of Medical Sciences, Wardha, are very useful in reducing these expenses.

A third area where expenditure can be reduced is in social customs, such as marriage functions, death feasts and so on. While these are essential
to maintain their reciprocal social networks, through the right interventions, the expenditure can be reduced. An example is “community marriages”, which are regularly organized by ASSEFA in Maharashtra and Tamilnadu.

Consumption of alcohol is another avoidable expenditure among poorer households. This is common among fishermen and mining communities, as also in urban slums. Programs for reducing this, such as the “anti-arrack” agitation by women in Nellore, AP and temperance programs by Gandhian NGOs are useful in reducing these expenses.

What is remarkable is that the effect of reduction of expenditure through collective purchase of inputs and consumption items, avoiding illnesses through clean water, sanitation, and ventilation; observing economy in social customs and reducing alcohol abuse, can increase the amount available to a household for food, clothing, shelter, education and health by anywhere from 30% to 50%, which is more than what can be achieved by increasing incomes through any other interventions.

4 Livelihood Promotion Organisations (LPOs)

4.1 What are LPOs:
This is a whole new set of institutions, which we term as “livelihood promotion organizations” or LPOs. LPOs would be specialized entities, initially promoted by an NGO or a commercial entity and later owned and managed by the community, registered as co-operatives or “producer company”, under the recent amendment to the Companies Act. LPOs would be located at the state level in the poorer states, with extensive presence in the backward districts of these states. LPOs would be able to perform a number of critical roles, which would supplement the credit role that banks and MFIs are playing. The roles include: identifying promising livelihood opportunities; motivating, training and organizing the poor to participate in these opportunities; arranging for credit and infrastructure; establishing the supply chain and the production processes; developing market linkages; seeking appropriate policy changes; stabilizing the pioneering units; and ensuring wider replication. The following box on SIFFS describes an “LPO” already in existence.
A Livelihood Promotion Organisation: The Case of SIFFS, Kerala

The South Indian Federation of Fishermen’s Societies, Trivandrum, works with over 8000 marine artisanal fishermen along the coast of Kerala and Tamil Nadu. Apart from providing technical assistance in terms of improving the fishing craft and nets, and providing marketing assistance, it also arranges for credit. SIFFS was under pressure from members to start a credit program, since existing credit delivery systems like revolving their own savings, and district federation’s credit system, were not in position to give appropriate credit amount. Banks, on the other hand, do not meet fishermen needs and insist on collateral. The credit programs under SIFFS network (SIFFS, district federations and primary societies) cover purchase and renewal of fishing equipment, repair and maintenance of fishing equipment, post harvest activities (fish vending, fish processing), food credit, employment diversification and other consumption credit (festivals, marriage, education, hospitalisation, and debt redemption).

Collaborative Polygon:

Over the years, the economy has become specialized, dynamic and complex. Thus, on one hand services required for supporting large numbers of livelihoods have become more diverse, on the other it has become necessary for agencies providing any of the services to be more specialized. For example, while setting up the Sriniketan Experiment, Tagore recognized that the weavers needed inputs in design and some related skill development. Most of the raw materials were produced locally and so was the marketing of the cloth, which the weavers were accustomed in doing. However, with the development of the industry, today the raw material comes from distant markets. The fabric manufactured by him also goes to markets that s/he neither has information about nor has access to. Thus, the range of services required for supporting livelihoods have become wider: it includes supply of raw material, marketing, in addition to helping them design.

But, earlier the designer could also help in skill building, as a trainer. But today, with the rapidly changing tastes for design, increasing competition, the designer has to become specialized in designing only to remain effective and efficient. Thus, for providing the larger number of services required today, larger number of specialists are required. This also has serious cost implications in the era of reducing margins and the

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1 Drawn from www.siffs.org Section on credit.
cherished value of making things available to the ultimate consumer at the lowest possible price.

This problem is addressed by creation of collaborative arrangements indicated above. For supporting livelihoods, services are required in input supply, output marketing, infrastructure, technology development, research, training, community organization among others. In today’s economy one agency can not develop the competency of providing all of them. Thus, an input supply company needs to collaborate with an output marketing company, which in turn needs to collaborate with a credit provider, and build a collaborative polygon.

In various forums of livelihood practitioners the need for collaboration for addressing the problem has been acknowledged. However, it has also been recognized that effective collaboration requires not only appreciation of the competencies of the other partners, but also making space for each of them.
5 Additional Resources:

Vijay Mahajan and Tom Dichter- *A Contingency Approach to Small Business and Micro-enterprise Development*; Small Enterprise Development 1.1 (March 1990). Also available with BASIX in Hyderabad


JC Kumarappa- *Economy of Permanence*; Akhil Bharat Sarva Seva Sangh, Rajghat, Kashi, 1942


John Farrington, Cathryn Turton and A.J. James, *Participatory Watershed Development, Challenges for the Twenty First Century*, OXFORD 1999


*Our Land, Ourselves, a Practical Guide to Watershed Management in India*, Indo-German Bilateral Project 1999


Roland Bunch, *Two Ears of Corn*, World Neighbors

*Social and Equity Issues in Watershed Management*, OIKOS and IIRR 2000


6 Annexure I: Cluster Development Initiatives in India

By Mukesh Gulati, UNIDO Cluster Development Program for Micro and Small & Medium Enterprise

In both industrialised and developing countries, there is increasing evidence that clustering and networking can help micro (including artisanal), small and medium enterprises (MSMEs) boost their competitiveness. MSMEs in clusters have the qualities to effectively implement support initiatives aimed at enlarging the production base, capturing niche markets, accessing export markets, offering employment opportunities, alleviating poverty and redressing regional economic imbalances.

A cluster can be defined as a sectoral and geographical concentration of enterprises whether micro or small & medium enterprises (SMEs), but faced with common opportunities and threats that can:
• Give rise to external economies like presence of specialised suppliers of raw materials, components and machinery; sector specific skills etc.
• Lead to the emergence of specialised technical, administrative and financial services;
• Create a conducive ground for the development of selective inter-firm business co-operation and specialisation as well as of co-operation among public and private institutions to promote production, innovation and collective learning.

Ever since the early nineties of the twentieth century, several cluster development initiatives have been undertaken both in industrially developed and developing countries by a range of national and international institutions with a diversity of objectives. United Nations Industrial Development Organisation (UNIDO) is one of the early starters that has developed since 1993 an approach to help the public and the private sector co-operate in the design and implementation of cluster development programs to re-vitalise “underachieving” micro enterprise and SME clusters. This program draws lessons from the experience of successful clusters, in developed and developing economies as well from UNIDO’s own cluster development initiative in various developing countries.

1.1 Indian Milieu

Although SSI clusters are present in the country for decades, targeting growth of SSIs through cluster-based development is a fairly recent phenomenon. It started with the State Bank of India initiative in 1989 and was soon followed by the Small Industries Development Bank of
India (SIDBI) in 1991. A study of SME clusters of India undertaken in
November 1996 by UNIDO resulted in the first ever database of 138 SME
clusters. In 1997 the Abid Hussain Committee recommended “… clusters
as the centerpiece. Such cluster can lower transaction costs, help realize
informational economies and lower the costs of credit surveillance.” The
Committee also felt that “…. this is a very practical approach to SSE
promotion in India since there already exists a large range of small scale
industry clusters across the country…”

However the real impetus for cluster-based growth of SSIs came in the
21st century. The phenomenon and significance of clusters was clearly
recognized and received strong policy support and interest from the
Government of India. The list of SME/industrial clusters has
subsequently been updated in the year 2003 and it is now estimated that
there are 388 SME/industrial clusters. Similarly Micro Enterprise
Clusters, particularly handicrafts and handloom based clusters, have
been estimated to be more than 3,000 in number and are also being
documented with support drawn from the Ministry of Textiles at the
National level as well as from the State Governments.

Some Indian SME clusters are so big that they account for 90 per cent of
India’s total production in selected products, e.g. the knitwear cluster of
Ludhiana. Almost the entire Gems and Jewellery exports are from the
clusters of Surat and Mumbai. Similarly, the clusters of Chennai, Agra
and Kolkata are well known for leather and leather products.

However, the majority of clusters in the micro (artisanal) sector are very
specialized and small with no more than hundred artisans, e.g. the
Paithani sarees cluster in Maharashtra. However, some artisanal
clusters, especially those with the handloom sector are large having over
1000 artisans, e.g. handloom cluster of Chanderi, Kota, etc. However,
only a tiny minority of such artisan clusters can be stated as globally
competitive.

6.2 Cluster Development Initiatives in India

The formidable challenges created for the MSME sector by the
liberalisation of the Indian economy, as well as its closer integration
within the global economy, have generated a great deal of interest within
India on novel approaches to SME development. As a result, both private
and public sector institutions at the Central as well as the State levels
are increasingly undertaking cluster development initiatives. By the
beginning of the year 2004, it is estimated that a total of 600 industrial
and artisan clusters have been taken up for development initiatives by
more than a dozen national institutions, ministries and state
governments.
Some of the key institutions involved in cluster development include Development Commissioner, (SSI), Ministry of Small Scale Industries, Development Commissioner (Handicrafts), Ministry of Textiles, Department of Science & Technology, Ministry of Science & Technology, Textiles Committee, (Ministry of Textiles), Khadi and Village Industries Commission (KVIC) (Ministry of ARI) and Coir Board. Some of the National Support Institutions taking up cluster initiatives are State Bank of India (SBI), Small Industries Development Bank of India (SIDBI), National Bank for Agriculture & Rural Development (NABARD) and National Small Industries Corporation (NSIC). Among the State Governments; Andhra Pradesh, Gujarat Kerala and Madhya Pradesh, have also launched cluster development initiatives.

6.3 Cluster Development Framework

Cluster Development Initiatives strives to enhance overall performance of the cluster through targeted joint action of select cluster stakeholders, e.g. firms, local institutions, BDS providers, etc. Such joint actions lead to direct or indirect business gains of the stakeholders. The linkages created in the process, empower the implementing institutions and leads to the creation of an effective local governance framework. In the process, the cluster grows and also gains capacity to carry this growth momentum in the future.

The approach to such a cluster development sees the key problem faced by Micro Enterprises and SMEs as one of relative isolation rather than size. Isolated enterprises are unable to achieve economies of scale, lack negotiating power, find it difficult to specialise and have limited access to credit, strategic information, technology and markets. Small and Micro Enterprises can significantly increase their comparative advantages by co-operating with one another and building linkages with private or public service providers. The small firms can thus build their competitive strength through cost reduction, value chain up-gradation, and exploitation of collective economies of scale. Cluster development therefore implies reducing isolation of micro enterprise and SME by strengthening the linkages among all the actors of the cluster (other SMEs, large enterprises, support institutions) assisted in order to coordinate their actions and pool their resources for a common development goal.

The advantages of being a part of co-operative network are several. At the firm level, it helps them to overcome disadvantages of economies of scale and weak capital base. As a result, the firms become more competitive by exploring the advantages of the flexible structure and faster decision-making process. At the cluster level, the local communities become more responsive to the common market challenges and there is easier and faster diffusion of information. Superior organisational capabilities, skills
and technological innovations at the cluster level help distribute the cost of fixed costs of intervention among a large number of beneficiaries thereby increasing cost-effectiveness and enable a wider public appropriation of the benefits

6.4 The Methodology

Re-vitalising an under performing cluster is a complex and often long-winded process that requires careful planning and implementation. Hence most cluster initiatives have chalked out a frame of four to five years as the period of program implementation. The key elements of the methodology are selection of clusters, undertaking participatory “diagnostic study” of the cluster, breaking the barriers of mutual mistrust in the clusters through a range of pilot initiatives, drawing up a cluster focused “action plan” and implementing it by the local actors with support drawn from the public & private support institutions. A constant Monitoring and Evaluation of the quantifiable and qualitative outputs helps to provide a feedback into the planning process that is evolutionary and self-corrective.

The successful introduction of such a methodology is the responsibility of a Cluster Development Agent (CDA). The CDA is a person who oversees the implementation of the Cluster Development Program in a professional and effective manner at the cluster level. CDAs are trained professionals drawn from the implementing Government Institutions or office-bearers of macro industry associations. They must understand the needs of the various actors in the cluster, help them formulate a vision for cluster growth and assist them in realising such shared vision. As a facilitator the CDA needs to be comfortable with leading from behind. The role is mainly as a relationship builder, not an analyst or an implementer. Some of these initiatives undertaken in the past have shown an exemplary factor of sustainability characterized by more than half of development costs being shared by the local beneficiaries and ever challenging initiatives being executed by the local collective bodies of the beneficiaries themselves.
7 Annexure 2: The Micro-diversification Pattern of Livelihoods

7.1 A Study by BASIX in Andhra Pradesh for the Overseas Development Institute, London

The study looked at 31 cases of micro diversification taken from two agro-climatic regions, namely Telangana and Rayalaseema regions of Andhra Pradesh. The choice of districts has been deliberately made, Medak in Telangana region and Anantapur in Rayalaseema region.

Anantapur district showed an interesting pattern of diversification. To cope with the uncertainties of the rainfed agriculture, the predominant occupation of the district, people adopted to dairy farming, as a supplementary activity, without giving up agriculture. This was also facilitated by the government programs, presence of AP Dairy Development Co-operative Federation and support agencies like United Nations Development Program. With large number of people adopting dairy farming, the sub-sector itself got a boost in the area, with many people shifting from farm base to trading of milk as their first non-farm activity, slowly moving into tea stalls, to small restaurants. However, in spite of such diversification it was observed that all people based their livelihoods on a bundle of activities, with more than 50% people reporting being involved in three or more activities.

Medak, which is much closer to the state capital and economically burgeoning city of Hyderabad, showed a different pattern of diversification. Many more diverse opportunities had come up in this area, allowing people to take up different routes of diversification. While some farmers chose to scale up existing cropping pattern of a mix of food and cash crop, some shifted to sugarcane cultivation. People also took to a wider variety of non-farm activities, including various services such as electric motor repair shop, whose demand had emerged in the faster growing economy. But in this area also people supported their livelihoods on a bundle of activities, with 67% people pursuing 3 or more activities, none of which could individually support the whole family, in spite of being in a economically better area.

The diversification process in both the regions reveals the following:

- Family’s sustenance is maintained from a bundle of activities. One of such activities is a major one, where most of the family members contribute in some form or the other; investments have been made over time in the particular activity.
- The decision to choose the subsidiary activity was dependent on
variety of factors, both internal and external to the family. In the subsidiary activity, one or two members were employed and minor investment was done to scale up. Most of the subsidiary activity undertaken by the family is the one most common in the area.

- Pursuance of mix of activities show a strategy of both income stabilisation and risk mitigation by the households in the rural areas, irrespective of the level of development.
- Development of particular sub-sector in each district is evident. In Anantapur, most of the people were either in production or vending of milk. In Medak, there has been outsourcing of beedi rolling work to women in the villages by beedi companies.

7.2 Factors affecting Diversification

One of the most critical considerations in taking up a diversification decision was availability of additional hands at the household level. It was also observed that heads of family and parents of marriageable girls were risk averse and avoided taking up diversification from farm to non-farm activities. For these people even the rates of failure in adopting new activities were lower.

Investment in land is still considered by families in terms of creating asset and a means of savings. It is more pronounced within the farm category. Non-institutional sources still play major role in the promoting investment in the rural economy.

People with some form of a safety net, either larger asset base or in form of a regular earning member attempted diversification more often than those who did not.

Diversification decisions are often due to unforeseen circumstances. In these situations, local institutions play an important role. Agro-climatic conditions, especially drought, often influence the diversification decisions in dryland regions. The role of markets and infrastructure development has been reinforced, especially in taking up new activities.

Diversification in an area was highly influenced by the general economic growth in the area, and growth of any specific sub-sector in the area.