**CHAPTER II**

**LITERATURE REVIEW**

## 2.1 Use of livelihood approach in poverty assessment

Poverty in its broad sense includes income security and food sufficiency considered as the two basic measures of poverty. Household experiences with economic hardship can be measured through income based measure of poverty and food sufficiency (Ribar and Hamrick, 2005). Poverty–alleviation strategies, policies and activities need to be undertaken with a clear understanding of a) the characteristics of the poor, b) the causes of their poverty c) where they are located d) their movement into and out of poverty. This approach requires a sound understanding of the multifaceted nature of poverty.

Livelihood framework was used by various socio-economic scientists to identify this multifaceted nature of poverty. This framework was developed in the late 1990s in order to capture for a variety of policy purposes the multiple strands that comprise people's efforts to attain and sustain an adequate living. The framework attempts to capture not just what people do in order to make a living, but the resources that provide them with the capability to build a satisfactory living, the risk factors that they must consider in managing their resources, and the institutional and policy contexts that either help or hinder them in their pursuit of a viable or improving living.

In the livelihood approach, resources are referred to as 'assets' or capitals and are often categorized between five or more different asset types owned or accessed by family members (Carney,1998;Scoones,1998): human capital (skills, education, health), physical capital (produced investment goods), financial capital ( money, saving, loan, access), natural capital ( land, water, trees and so on) and social capital( networks and associations). These asset categories are admittedly a little contrived and not all resources that people draw upon in constructing livelihoods fit neatly with them. Nevertheless, they can serve a useful purpose in distinguishing asset types that tend to have differing connections to the policy environment. For example, human capital connects to social policies (education and health), while natural capital connects to land use, agricultural and environmental policies.

It is worth mentioning in passing that the social capital category remains somewhat elusive as a livelihood asset category despite a decade or so of academic musings about it (Harriss and Renzio, 1997). While it can readily be accepted that the quality of certain types of social connectedness can make a big difference to people's livelihood prospects, this quality factor is difficult to pin down. For example, kinship ties can play roles both as valuable support networks and as demands on resources to meet familial obligation. Likewise, some types of social linkage seem more designed to keep the poor in their place than to assist them to overcome their poverty (for example, bonded labour, caste systems, some types of traditional authority).

This caveat aside, the livelihood framework regards the asset status of poor individuals or households as fundamental to an understanding of the options open to them. One of its basic tenets, therefore, is that poverty policy should be concerned with raising the asset status of the poor, or enabling existing assets that are idle or underemployed to be used productively. This approach looks positively at what is possible rather than negatively at how desperate things are. As articulated concisely by Moser (1998) it seeks “to identify what the poor have rather than what they do not have’’ and (to) strengthen people’s own inventive solutions, rather than substitute for, block or undermine them”.

The things people do in pursuit of a living are referred to in the livelihood framework as livelihood ‘activities’. These activities may be remote as well as nearby. They include, for example, activities that are made possible by migrations as well as those that are on the doorstep of the resident household. The risk factors that surround making a living are summarized as the “vulnerability context” and the structures associated with government (national and local), authority, laws and rights, democracy and participation are summarized as the “policy and institutional context”. People’s livelihood efforts, conducted within these contexts, result in outcomes: higher or lower material welfare, reduced or raised vulnerability to food insecurity, improving or degrading environmental resources, and so on. Causalities between elements of framework are common. The reason for this is that the construction of a livelihood is a process unfolding over time, in which there are complex interdependencies between the factors represented by the different categories of the framework. Of course, there are subsets of this process for which causalities can be defined, for example between assets, activities and outcomes; but the spirit of the sustainable livelihoods approach is that the key factors inhibiting the achievement of improving livelihoods are likely to vary from one setting to another, and are therefore unlikely to be accurately identified if too many prior relationships of cause and effect are imposed ex ante on particular groups of the rural poor (Ellis, 2005).

The livelihood approach originates in a literature on food security and famines (Sen, 1981; Swift, 1989) from which it derives particular strengths for understanding vulnerability and coping. The concept sets out to be people-centered and holistic, and to provide an integrated view of how people make a living within evolving social, institutional, political, economic and environmental contexts (Bebbington, 1999). It has proved to have considerable strengths, especially in recognizing or discovering the followings:

- The multiple and diverse character of livelihoods;
- The prevalence of institutionalized blockages to improving livelihoods;
- The social as well as economic character of livelihood strategies;
- The principal factors implicated in rising or diminishing vulnerability; and the micro-macro (or macro-micro) links that connect livelihoods to policies.

The multiple and diverse character of livelihoods (Ellis,1998,2000) means that people seldom obey the assignment to economic sectors and subsectors that remains the principal entry point to development policies. On the contrary, people's livelihoods are cross-sectoral in character, and mobility, flexibility and adaptability are crucial attributes for staying out of poverty or improving living standards. Indeed, for rural households, those various scientists studied various populations in livelihood view to suggest development policy changes by looking at on reality situation since most of the time rural populace is viewed as agricultural populace.

In this study, to design the methodology of assess the relationship between livelihood assets and economic security, the livelihood approach is used. Livelihood approach is built in sustainable livelihood framework. This framework considers various elements in an input, output relationship order as follows:

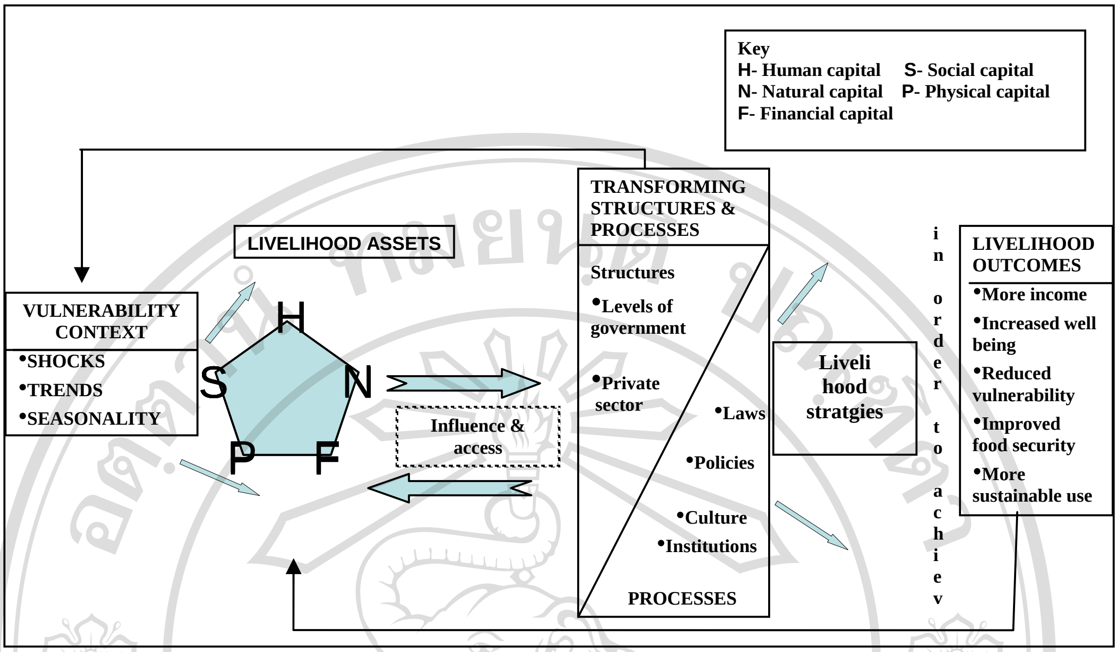


Figure 2.1 Sustainable livelihoods framework (Department for International Development, 1999)

Winters *et al.*, (2002) found that "Asset position of the household has a significant effect on household participation in income-generating activities and returns to those activities". Livelihood diversification is then the process by which households construct a diverse portfolio of activities and assets to survive and improve their standard of living (Ellis, 2000). The dynamic nature of the actions of rural households and the link between the diversification of assets and activities is better explained by livelihood approach (Barrett and Reardon, 2000). Rural households rely on a number of assets and employ multiple activities to generate income (Winters *et al.*, 2002).

**2.2 Definition and dimensions of rural livelihood**

Most of researchers and academics defined livelihood in different ways. Usually livelihood means the various economic activities carried out by people to have a meaningful life based on the assets they have. Ellis *et al*., (2003) in their study denotes a key feature of the concept of livelihoods as the link between assets, activities and income as well as the role of the institutional context in determining the use of and returns to assets.

Livelihoods are based on 'entitlements' and 'capabilities' (Sen, 1981) of assets 'which can be stored, accumulated, exchanged, and mobilised to generate income' (Sylvia, 2007). Chambers and Conway (1992) defined livelihoods as the capabilities, assets (stores, resources, claims and access) and activities required for a means of living; a livelihood is sustainable when people can cope with and recover from stress and shocks, maintain or enhance their capabilities and assets, and provide sustainable livelihood opportunities for the next generation.

Bebbington (1999) has best summarized the holistic understanding of livelihood as a person's assets, such as land, are not merely means with which he or she makes a living: they also give meaning to that person's world. Assets are not simply resources that people use in building livelihoods: they are assets that give them the capability to be and to act. Assets should not be understood only as things that allow survival, adaptation and poverty eradication: they are also the basis of agents' power to act and to reproduce, challenge or change the rules that govern the control, use and transformation of resources.

Ellis (2000) defines a livelihood as comprising "the assets (natural, physical, human, financial and social capital), the activities and the access to these (mediated by institutions and social relations) that together determine the living gained by an individual or household".

Livelihood strategies of similar actors tend to create patterns called livelihood systems (De Haan, 2000).

**2.3 Livelihood assets and its importance**

Assets are the building blocks of livelihoods. Each building block has its implication on people's livelihoods. Each household may differ in aspects of assets holding leads to different livelihood pattern. They are defined and analyzed under the livelihood context from the DFID's (Department for International Development) fact sheet as follows: Assets show two types of relationship among them: Sequencing: it explains the combination of assets needed to escape from poverty as lack of one assets constraints to employ another assets household posses (Sylvia, 2007) , Substitution: one asset substitutes another. These relationship differ from case to case according people perceptions. For example, 'some people may consider a minimum level of social capital to be essential if they are to achieve a sense of well-being while in a remote rural area, people may feel they require a certain level of access to natural capital to provide security'.

**2.3.1 Human capital**

It is the indicator of skills, knowledge (including local knowledge), ability to labour and good health that together enable people to pursue different livelihood strategies. At a household level human capital is a factor of the amount and quality of labour available; this varies according to household size, skill levels, leadership potential, health status, etc and help to make use of the four other types of assets. Identification of knowledge and health channels and how it serves them in different ways is important during analysis of this capital. High level of social capital and human capital are interchangeable. Minimum levels of other types of capital and broadly conducive transforming structures and processes may be necessary to give people the incentive to invest in their own human capital.

**2.3.2 Social capital**

Livelihood objectives are developed through networks and connectedness (between individuals with shared interests) that increase people’s trust and ability to work together and expand their access to wider institutions, such as political or civic bodies. Relationships of trust, reciprocity and exchanges that facilitate co-operation reduce transaction costs and may provide the basis for informal safety nets amongst the poor. Social capital for the poor and vulnerable as it can provide a buffer that helps them cope with shocks, such as death in the family, act as an informal safety net to ensure survival during periods of intense insecurity; and compensate for a lack of other types of capital (e.g. shared labour groups compensating for limited human capital within the household). Mutual trust and reciprocity lower the costs of working together.

**2.3.3 Physical capital**

Physical capital means the basic infrastructure and producer goods needed to support livelihoods. Infrastructure consists of changes to the physical environment that help people to meet their basic needs and to be more productive. It includes affordable transport; secure shelter and buildings; adequate water supply and sanitation; clean, affordable energy; and access to information. Producer goods are the tools and equipment that people use to function more productively.

**2.3.4 Financial capital**

Common sources of financial capital includes savings, insurance and credits, regular inflow of money like transfer payment, remittance and pension. Form of saving varies according to the culture and needs of owner such as livestock, jewellery, cash and bank deposits, value of shelters and land.

## 2.4 Vulnerability context

### 2.4.1 Vulnerability concept

One of the most important socio-economic determinants of vulnerability is poverty. "A household is said to be vulnerable to future loss of welfare below socially accepted norms caused by risky events. The degree of vulnerability depends on the characteristics of the risk and the household's ability to respond to risk. Ability to respond to risk depends on household characteristics-notably their asset base. The outcome is defined with respect to some bench mark- a socially accepted minimum reference level of welfare that is referred as a poverty line during assessment of economic security. Measurement of vulnerability will also depend on the time horizon: a household may be vulnerable to risks over the next month, year, etc. it has been suggested that, because of their close correspondence, poverty should be used as an indicator of vulnerability.

Vulnerability context is important because it yields a direct impact upon people's asset status and the options that are open to them in pursuit of beneficial livelihood outcomes. They may be shocks like natural disasters or civil conflict, trend or accessible to job opportunities and wage scales, and the price fluctuations or seasonality make the rural people more uncertain and subject to hardship. During that time they have to have a strategy based on their predictable nature and risk overcoming activities. For example, they usually sell their previous stocks or draw from the money savings.

Carter, (2000) argues that poor people are more perishable to external shocks during specific periods of year due to flooding, storm, etc. Within the vulnerability context, livelihood was considered sustainable if it was capable of adequately satisfying people's self-defined needs and offering security against shocks and stresses. Shocks are violent and come unexpectedly; stress is less violent but may last longer. In times of shock and stress, livelihood strategies temporarily take on the shape of safety mechanisms called 'coping strategies' (De Haan, 2000).

Families in fragile equilibrium, the midpoint of the continuum, usually can meet most basic needs, but may require some outside assistance at some times of the year (Webb and Harinarayan, 1999). For example, many villagers experience ''the hunger season'' for one to three months each year (Frankenberger *et al*., 2000). This is the period before the first agricultural harvest of the year. Last year food is gone and next year food is not ready to eat. During the hunger season families develop coping strategies such as cutting back on the number of meals, reducing diet diversity, feeding boys before girls and nuclear family before distant relatives or orphans who live with them. The hunger season often coincides with the first rains and agricultural planting. Early rains bring the onset of malaria and diarrhoeal disease. During the hunger season poor families are in their most vulnerable state (Webb and Harinarayan, 1999; World Bank, 1989).

Household risk strategies are prone to confusion with coping behavior, since some researchers treat coping as an aspect of risk behavior, as in the phrase 'risk coping strategies' (World bank, 1990; Alderman and Paxson, 1992). This blurring of risk and coping is imprecise as a guide to policy in areas such as poverty reduction or famine prevention (Davies, 1996). It confuses planned responses to potential threats to household well-being with unplanned reactions to unexpected livelihood failure. Household coping strategies were defined as the sequence of survival responses to crisis or disaster (Webb *et al*., 1992). The crisis and disaster mean in this study loss in livelihood income in ultimate opportunity in livelihood frequently or intermittently. A complementary way that risk and coping strategies have been distinguished is to interpret risk strategies as ex ante income management and coping strategies as ex post consumption management in the wake of crisis (Carter, 1997).

These distinctions imply that risk strategies comprise forward planning to spread risk across a diverse set of activities, in the context of subjective evaluations about the degree of risk attached to each source of income. Coping strategies, by contrast, refer to the methods used by households to survive when confronted with unanticipated livelihood failure. Lack of anticipation may attach to gradual processes such as deterioration in the capability of a given natural resource system support human livelihoods. However, more often it is associated with natural and civil disasters including droughts, floods, hurricanes, pests and civil war (Blaikie *et al*., 1994).



Coping strategies comprise tactics for maintaining consumption when confronted by disaster, such as drawing down on savings, using up food stocks, gifts from relatives, community transfers, sales of livestock, other asset sales, and so on. These sequences typically seek first to protect the future income generating capability of household, even if current consumption is compromised. It is only as a last resort that assets critical for future survival are sold or abandoned to stave off starvation.

**2.4.2 Determinants of livelihood diversification**

Drought or flood in a particular locality, all income streams are adversely affected simultaneously. While on farm diversity can take some advantages of differences in the risk-proneness of crops or crop mixes to adverse natural events, the protection this affords is only partial. Diversification into non-farm incomes, by contrast, can result in low risk correlations between livelihood components.

The amelioration of risk helps to explain much observed livelihood behavior in rural areas of developing countries, including the economic strategies of occupational diversification and migration, and supporting social strategies of maintaining an extensive network of kinship ties. Ethnic patterns of affiliation are often observed in the location, sectoral branches of activity that are utilized by members of rural families as seasonal or occasional means of obtaining additional support for survival.

**2.4.3 Natural hazards in Sri Lanka's context**

Floods are the primary natural hazard affecting Sri Lanka, followed by drought with a large proportion of the population dependent on rain fed agriculture as the main source of income, natural disasters can have devastating consequences for the livelihoods of the food insecure. Although the entire country faces various hazards, their combination poses higher risks to the eastern region where Ampara district is located. Major floods are associated with two monsoon seasons, typically the south-west monsoon season (May-September) and the north-east monsoons (December-February). The access of diverse sources of livelihood is enabling faster recovery in the aftermath of seasonal floods.

**2.5 Definition and dimension of food sufficiency**

Food security and food sufficiency differ in the following manner that food sufficiency fails to account for the nutritional value of the food or how it was obtained. Thus, those who are considered to suffer from food insufficiency are likely to have minimal or no access to food of any kind (Keller, 2008). Among the three broad dimension of food security, food sufficiency is represented by the dimension of availability. Some view availability in terms of sufficient production. Availability should include the concept of food sufficiency to sustain human life for the entire population in the short, as well as the long run. The extent to which a nation's population achieves food sufficiency is an indication of its material and social well being. It can be assessed at the national level for selected economic and demographic subpopulations. Multivariate regression models were used to examine the factors associated with transitions into and out of poverty and food sufficiency. Associations of food security with economic and demographic characteristics were examined in multivariate analyses that hold other characteristics constant (Nord and Hopwood, 2008). The extent to which a nation's population achieves food sufficiency is an indication of its material and social well being. It can be assessed at the national level for selected economic and demographic subpopulations. Ability to afford food depends on income as well as on the price of food. A country's attitude to food security may vary according to their income level, and the quality of their transportation and distribution system. The consumption-based approach is particularly suited for measuring poverty in developing countries, since it relies for poverty comparisons on the notion of deprivation from certain commodities and resources(both food and non-food) deemed essential for attaining a minimum level of well-being within a given society (Hentschel and Lanjouw 2000).

Consumption is the preferred indicator of well-being also because it incorporates the life cycle hypothesis. Households might use savings and credit to smooth fluctuations in income, and in that case, consumption would better reflect their actual welfare. Finally, respondents in developing countries might be reluctant to reveal information about their income. As a result, consumption is usually measured more precisely than income. Income can fluctuate but consumption can be smoothed through borrowing and saving. Consumption is better measured than income because of the difficulties in defining and measuring income for the self-employment that tend to form relatively larger proportion of the work force in developing countries (Datt, Jolliffe and Sharma, 2001). Income can be interpreted as a measure of welfare opportunity while consumption is interpretable as measure of welfare achievement (Atkinson, 1993). Poverty alleviation is an essential component of any successful strategy to achieve food sufficiency.

**2.6 Concept of income security**

**2.6.1 Poverty line**

The poverty line is another key indicator of assessing economic security. The original line dates from the mid-1960s. It was developed to measure poverty and determines eligibility for some of the first antipoverty programs. It was a very simple index: if the cost of a minimal food budget for four people was $1,000 and food constituted one-third of total living expenses, then the poverty line in 1965 was $3,000. in 2004, when the poverty line for a family rose to $19,307, all the new threshold reflected was the 1965 figure plus thirty nine years of inflation. This method is called the absolute method of calculating poverty. It is absolute because it measures poverty independently of what is happening with the rest of the population. By contrast, the relative method takes an index typically, 50% of median income that calculates poverty against broader trends in nation, including the possibility of an increasingly skewed division of income that leaves just one segment of the population behind (Blau and Abramovitz, 2007).

The most useful role of a poverty line is to estimate poverty and make comparison of poverty- how it has changed over time. How it varies between different groups and how the changes relate to what is happening in the economy and to society and its institutions. These comparisons provide important insights into the forces being propagated by economic and social change and allow the effectiveness of social security and other policies to be determined. The poverty line is adjusted in line with movements in household disposable income per capita, which increased markedly in real terms over the period. Patterns of movement provide more convincing evidence of the relative poverty risks facing different groups and the adequacy of government support for each group.

Poverty line is that level of welfare which distinguishes poor households from non poor households according to the purpose of policy makers. Cost-of-basic-needs (CBN approach) poverty lines for rural areas are commonly used for the analysis in the poverty related studies. Grim (2007) used two different levels of poverty line of the moderate Bs 233.39 per capita per month and the extreme Bs 133.03 per capita per month poverty lines respectively for technical reasons during their analysis in Bolivia. Table 2.1 shows trend in national official poverty line for Sri Lanka for the year of 2008.

Table 2.1 National official poverty lines for the year 2008 (Minimum Expenditure per person per month to fulfill the basic needs, CCPI based year 2002=100)

| | Base Year 2002 LKR | 2008 January LKR | Feb | Mar | Apr | May | Jun | Jul |
|---|---|---|---|---|---|---|---|---|
| National line | 1423 | 2611 | 2684 | 2731 | 2781 | 2825 | 2930 | 2937 |

(Source: Department of Census and Statistics - Sri Lanka (2008))

In considering poverty line, it is important to consider also the following considerations.

**a. Adjusting for household size and comparison**

It is necessary and important to adjust total household expenditure or disposable income by some measure to the number of people in each household. Even when households consist of adults and children, welfare is often assessed by dividing expenditures by household size, as a rough-and-ready concession to differences in family size.

**b. Reference poverty line**

The poor are defined as those who lack command over basic consumption needs, including food and non-food components. Thus, the poverty line is obtained by specifying a consumption bundle adequate for basic consumption needs and then by estimating the cost of these basic needs (World Bank, 2002).

**c. Income distribution**

In addition to poverty line comparison, income distribution is also now one of the most dynamic areas of economics, reflecting the changes that have occurred and the ability of economists to monitor and analyze the system.

**2.6.2 Inflation and its impact on the poor**

Commonly in poorer country and poorer population 90 percentage of GDP or earned income goes to consumption. Therefore bringing inflation into check and reversing the trend is prudent macroeconomic policy and is good for poverty reduction. The merits of inflation tax are questionable on efficiency and equity grounds. Since the benefits of the expenditure generated through the inflation tax tend to be narrowly distributed while the adverse effects are more pervasive. The positive impact that inflation has had on agricultural income has been far less than its negative impact through expenditures. Furthermore, as a result of infrastructural and transportation bottlenecks, the marketing margins of intermediaries tend to be high, further dampening the incomes of agricultural producers while inflating their expenditures. While adverse weather conditions and the frequent adjustments to the exchange rate and to interest rate have all contributed to the escalation of prices, the imbalance between government revenues and expenditures and the link between the fiscal deficit and monetary expansion has been the primary cause for the high rate of inflation.

During hyper inflation, wages could not keep pace with price increases, confidence in the local currency was low, and there was little incentive to save, because the value of one's savings eroded almost overnight (Hanks, 2005). The prices on first and second staple food items of rice and wheat in Sri Lanka is high compare to some other Asian markets (FAO, 2008).

The impact of high food prices in developing countries-especially low income, food importing countries- is of serious concern. Sri Lanka is also heavily dependent on imported consumables including major basic food items. When the poor spend 50 to 80 percent of their meager incomes on food-increasing food prices endanger their health and livelihoods. Urgent action is needed on two fronts- making food accessible to the most vulnerable, and helping small producers raise their output and increase local supply.

**2.7 Gender dimension of livelihood**

Livelihood concept also has gender dimension. Lanjow and Feder (2001) women tend to work inside the home where participation does not depart from social customs and literature on gender differences in the non-farm sector is quite limited. Household headship is an indicator of gender difference during analysis of gender dimension in relation to livelihoods. White *et al.*, (2001) mentioned the form in which women's poverty manifests itself depends on cultural context far more than it does for men, suggesting it cannot be understood through the same conceptual lens as men. Women are generally poorer than men are because they lack the range of endowments and exchange entitlements which male members of their households tend to enjoy. They are less able than men to translate labour into income, income into choice and choice into personal well-being.