



**INCOME DIVERSIFICATION AND ITS CONSTRAINTS IN EASTERN
RURAL ETHIOPIA: *IMPLICATIONS FOR DEVELOPMENT
INTERVENTIONS.***

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5 Conclusion and Recommendation

In this Chapter conclusion based on the research results and policy suggestions and recommendations are presented.

5.1 Conclusion

The formulation of sound development projects and policies aiming at poverty reduction requires in-depth understanding of rural households' coping strategies. Rural households in Ethiopia live at or below subsistence level and are very susceptible to minor shocks, which may and often occur. As a result, they employ a number of mechanisms to overcome seasonal shocks such as crop diversification, inter-cropping, participating in non-farm activities and in worst cases looking for external assistance. If diverse portfolio of activities and income sources of household can not be taken into account, it is unlikely that the rural household can move far along the road to development. Therefore, household income diversification is one of the indispensable elements of rural development strategy.

This empirical study has indicated that although the contribution of farm activities to total household income is comparatively higher than non-farm activities, the latter also plays a significant role in alleviating food insecurity and poverty problems. It has been shown that the non-farm activities accounts for 32% of total income for households with small income, 28.7% for medium income households and 24% for households of relatively high income level. The major reasons to involve in self-employment activities are to smooth the unstable nature of earnings from agriculture and to generate additional income. Interestingly, no household has been identified for abandoning farm activity in favor of other and vice versa. Indeed, higher proportions of the rural households have positive feeling towards farming even if they see involvement in second job as an economic advantage.

In the study area, a number of non-farm activities have been identified from which petty trading is the major one. It includes trading of 'chat', livestock byproducts, vegetable, grain and fruit as well as firewood collection and selling. In these activities, it is noticed that women are more dominantly taking part. A number of factors are affecting the self-employment activities. Using Logit econometric model, access to credit, education level of the household head, number of productive forces are identified positively and significantly affecting participation in self-employment. Contrarily, age of the household head, remoteness, size of farm land and number of livestock owned were found to influence involvement in self-employment negatively. Therefore, the promotion and diversification of income sources in rural economy as one of the livelihood strategies to improve household income calls for intensive collaborative work of development practitioners with the rural households to overcome entry barriers.

5.2 Suggestions and Recommendations

It is clear that household income diversification has long been recognized as a practice among rural households. Under extreme poverty, households face constraints that prevent them from expanding any single income generating activity to a level that would be sufficient for supporting the basic needs of its members. On the contrary, to reduce risk household members try seek to protect themselves from shocks to total income by simultaneously undertaking both on-farm and non-farm income generating activities.

In combating against rural households' challenges in participation of self-employment, policy makers, donors, decision makers, and practitioners should appreciate that rural households would be able to enjoy the opportunities to extract non-farm income. Based on the results of the research the following recommendations are forwarded.

1. Infrastructure particularly road should be developed for easy transportation and access to market information to enhance the petty trading activities and improve self-employment opportunities.
2. Much emphasis should be given to educate households so that their competence would increase in non-farm employment.
3. Improving access to credit. Since interest rate for loan from money lenders is very high and promotion of credit facility that can solve existing challenges is highly appreciated. In addition to the formal credit institutions, CARE can create a credit scheme whereby project participants will get the opportunity to get loan on group bases without distorting the credit policy of the country. This can reduce, to certain extent, the transaction costs and collateral problem that rural households face.
4. It has been observed that off-farm opportunity is not much developed in the study area. Thus, undertaking further research to identify opportunities and barriers of off-farm development in the study area is highly suggested.