

**LIVELIHOOD DIVERSIFICATION AND POVERTY
REDUCTION IN PANCHKHAL MUNICIPALITY, KAVRE**



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A Thesis

**Submitted to the MPhil Programme in Sociology,
Central Department of Sociology,
Faculty of Humanities and Social Sciences, Tribhuvan University,
in the Partial Fulfillment of the Requirement for the Degree of
Master of Philosophy
in
Sociology**

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March 2025

DECLARATION

I, hereby, declare that this dissertation entitled "**Livelihood Diversification and Poverty Reduction in Panchkhal Municipality, Kavre**" represents my work which has been written for the award of M.Phil-PhD. degree and has not been previously included in a dissertation submitted to this or any other institutions or university or examining body for a degree or other qualification.

I have read the current research ethics guidelines, obtained relevant ethical approval, and acknowledge the rights of participants.

.....

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LETTER OF RECOMMENDATION

This is to certify that **Mr. Amit Adhikari** has carried out the research work embodied in the present dissertation entitled "**Livelihood Diversification and Poverty Reduction in Panchkhal Municipality, Kavre**" as partial fulfilment of my MPhil-PhD. Degree in Sociology under my supervision.

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LETTER OF APPROVAL

The evaluation committee has accepted this dissertation entitled, "**Livelihood Diversification and Poverty Reduction in Panchkhal Municipality, Kavre**" submitted by Mr. Amit Adhikari to the central Department of Sociology, Faculty of Humanities and Social Sciences, Tribhuvan University for the final examination. We, hereby certify that the dissertation is satisfactory in scope and quality. Therefore, we accept this thesis dissertation for the partial fulfillment of the MPhil-PhD Degree in Sociology.

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ACKNOWLEDGEMENT

My research interest in "Livelihood Diversification and Poverty Reduction in Panchkhal Municipality, Kavre" certainly grew out of the course designed in MPhil-PhD program in Sociology, particularly during the study of the course named "Studies on Poverty, Social Exclusion and Inclusionary Policies"

Firstly, I would like to thank the Central Department of Sociology for providing me the magnificent opportunity to write thesis on this topic. Further, I would like to extend my sincere gratitude to my supervisor Dr. Tikaram Gautam who made this entire research journey a very useful learning process; without his academic support, valuable feedback, constant guidance, and inspiration, this study would not have been completed.

Moreover, I am really indebted to Prof. Dr. Youbaraj Luintel and Dr. Guman Singh Khatri for providing constructive feedbacks and continuous encouragement throughout my academic journey at Tribhuvan University. In addition my sincere thank goes to the Head of the Department, Dr. Pasang Sherpa for his support to accomplish my thesis. Likewise, I am greatly pleased with the honorable teachers and staffs of the Central Department of Sociology for their continued support.

I am also greatly thankful to my family and friends who assisted me and supported me in every step of this research work. My special thank goes to my dear wife Usha Timilsina and my family for their motivation and moral support. I would also like to express my gratitude to my friends and colleagues for their kind encouragement who helped me in the completion of this study. I would like to express my most honest thanks to my seniors for their ever willing help, inspiration, and support.

Finally, I am grateful to all those respondents whose interviews have been presented in this research work without whose cooperation this dissertation would never have been completed.

Amit Adhikari

ABSTRACT

This study explores the relationship between livelihood diversification and poverty reduction in Panchkhal Municipality, Kavre, with a focus on how households adapt to changing socio-economic conditions by engaging in multiple livelihood strategies. Livelihood diversification is defined as the process by which rural families construct a diverse portfolio of activities and social support capabilities in order to survive and to improve their standards of living. Livelihood diversification, the process of engaging in varied income-generating activities, has increasingly become survival strategy for rural and semi-urban households in Nepal. As traditional subsistence farming proves inadequate to meet growing needs, diversification into non-farm, off-farm, and service-oriented occupations is becoming more prominent. This study explores the key livelihood diversification strategies employed by households, and captures how these shifts are associated with poverty reduction.

A mixed-methods approach was used, combining quantitative surveys of 101 households and qualitative interviews with nine respondents consisting of local residents, cooperative members, and key informants. The research employed purposive sampling to ensure inclusion of households with varied economic backgrounds and experiences in diversification. Data were analyzed through descriptive statistics, thematically, and field-based interpretation.

This explored how households diversify their income sources through agriculture, business, employment, and remittances. Findings highlight the crucial role of diversified livelihoods in enhancing economic stability, improving living standards, and providing better access to education and healthcare. Findings show that households in Panchkhal have increasingly moved beyond traditional farming to embrace activities such as vegetable farming, animal husbandry, small-scale trade, foreign employment, and engagement in cooperatives and small businesses. Access to credit, local market integration, and skill development programs were found to be enabling factors. However, challenges such as lack of capital, inadequate skills, small market size, and limited access to technology continue to hinder broader diversification. By using both descriptive statistics and inferential statistics such as Chi-square test and ANOVA, the study concludes that livelihood diversification has played a significant role in reducing household poverty by increasing income stability,

improving access to education and health services, and enhancing food security. Nevertheless, its success depends on structural support, access to resources, and institutional linkages. Despite significant challenges such as lack of capital, skills, and access to financial services, the community demonstrates resilience and adaptability. Family and community support, including financial assistance and knowledge sharing, significantly contribute to these efforts.

The study underscores the importance of social capital, consistent with Bourdieu's theory, in facilitating livelihood diversification. Respondents' future plans indicate a proactive approach to ensuring long-term economic stability through business expansion, agricultural mechanization, and investment in income-generating activities. The research concludes that addressing the challenges through improved access to finance, training, and infrastructure is essential for supporting households in their diversification efforts. This research contributes to understanding how localized strategies can foster economic resilience, and highlights the need for targeted interventions in training, financial access, and market development to further enhance the livelihood prospects of semi-urban communities in Nepal.

Key Words: livelihood diversification, livelihood strategies, social capital, poverty

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ABBREVIATIONS

ADB	:	Asian Development Bank
CBS	:	Central Bureau of Statistics
DFID	:	Department of International Development
FAO	:	Food and Agriculture Organization
GON	:	Government of Nepal
ICT	:	Information and Communication Technologies
IFAD	:	International Fund for Agricultural Development
ILO	:	International Labour Organization
IOM	:	International Organization for Migration
LSA	:	Livelihood Strategies Approach
NGO:		Non-Government Organization
SLF	:	Sustainable Livelihoods Framework
UNDP	:	United Nation Development Program
WFP	:	World Food Programme

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Livelihood diversification is defined as the process by which rural families construct a diverse portfolio of activities and social support capabilities in order to survive and to improve their standards of living (Ellis, 2007). Nepal's rural landscape is characterized by diverse livelihood strategies, shaped by the country's agrarian heritage, topographical variations, and socio-economic dynamics (CBS, 2020). Agriculture remains the cornerstone of rural livelihoods, with subsistence farming practices prevailing in many regions (Sharma, 2016). However, persistent challenges such as land fragmentation, climate variability, and limited access to markets have prompted rural communities to explore alternative livelihood options beyond agriculture. This study tries to explore the key strategies of livelihood diversification and its impact on poverty reduction in the context of Panchkhal municipality, Kavre. Panchkhal includes the picture of rural livelihood diversification within a specific geographic and socio-economic context.

Livelihood diversification has emerged as a strategy to enhance resilience, reduce vulnerability, and improve well-being among rural households (Ghimire & Hoang, 2017). In the pursuit of sustainable development goals, understanding the intricate relationship between livelihood diversification and poverty reduction in rural settings is paramount. Situated in the hills of the Kavrepalanchok District, Panchkhal municipality represents the challenges and opportunities inherent in rural livelihoods, where traditional agrarian practices intersect with modern economic forces. Rural households earn income from diverse allocations of their natural, physical and human capital assets among various income generating activities. The literature offers many reasons why such diversification occurs (Ellis, 1998; Barrett, 2001). Among these might be diminishing returns on increasing investment in certain activities, synergies (economies of scope) among distinct activities, or missing markets that compel self-provision of goods or services the household desires for own consumption. Similarly, households may wish to diversify as a strategy for coping with an unexpected shock, or to minimize risk ex ante by participating in activities that generate imperfectly correlated returns. The presumption throughout

the literature is that households choose such patterns of diversification so as to achieve the best possible standard of living, broadly defined. The chosen combination of assets and activities is often referred to as the household's 'livelihood strategy'.

A livelihood strategy encompasses not only activities that generate income but many other kinds of choices, including cultural and social choices, that come together to make up the primary occupation of a household (Ellis 1998). The traditional agrarian economy began to give way to a more diversified economic landscape, marked by the emergence of non-agricultural sectors such as manufacturing, services, and tourism. This diversification of livelihood strategies was accompanied by a surge in migration, both internal and foreign, driven by aspirations for economic opportunities and better livelihood prospects. Simultaneously, within Nepal's borders, the dynamics of livelihood strategies underwent a metamorphosis, driven by factors such as urbanization, industrialization, and the increase of modern technologies. The rise of the service sector, fueled by the growth of urban centers and the expansion of educational opportunities, offered new avenues for economic participation and many more.

Furthermore, as poverty is a very complex term to concretely define, as Knight (2020) sees the challenge on the definition of poverty itself as a key challenge is the word 'poverty' itself. Despite a voluminous literature on poverty stretching over many centuries, there is little agreement about definition, measurement, causes and solutions. Hence, poverty has been defined in some various ways. Poverty is a multi-dimensional concept requiring the nourishment of domain transferability through asset recognition, generating access to the assets enhancing the ability to transfer for welfare based on command for the revolution of Poverty (Bharadwaj, 2012). Based on subsistence needs, poverty is defined as having less than what society considers minimum (Price & Booth, 1896; Rowntree, 1901). Defining poverty, Reddy and Moletsane in their book " Agenda: Empowering Women for Gender Equity "defines as "For some people, being poor may be a state of mind when we desire things that we do not have. However, for many, it is usually a reflection of a lack of resources needed for survival, including insufficient material and cultural resources to sustain their existence. In most instances, being 'poor' has much to do with, for example, the

lack of basic requirements such as food, shelter, health and education. Logically, to be 'poor' has a lot to do with the absence of an income. Such that poor or low levels of income implies that one lives below the poverty line and survival is compromised." On the other hand, defining and conceptualizing poverty is also a complex task that involves understanding it from multidimensional perspectives. Scholars and researchers have proposed various definitions and conceptual frameworks to capture the diverse dimensions of poverty. Regarding poverty as multidimensional, Chambers (1983) argues that, "Poverty is multidimensional, encompassing not only income deprivation but also lack of access to health, education, and other essential services. Effective poverty reduction strategies must address these various dimensions and empower the poor to participate in the development process." As poverty is multidimensional, effective poverty reduction strategies must be multidimensional. Hulme (2003) puts "Poverty is not merely an economic condition but a complex interplay of social, political, and environmental factors. Effective poverty reduction strategies must therefore be multidimensional and context-specific, addressing the root causes of poverty and promoting sustainable livelihoods."

One influential framework is the capability approach developed by Amartya Sen, which emphasizes the importance of individuals' capabilities and freedoms to lead a life they value. According to Sen (1999), poverty should not be solely measured in terms of income or material deprivation but should also consider factors such as access to education, healthcare, social participation, and political voice. Thus, poverty should be seen as deprivation of capabilities, which then limits the freedoms to achieve something, rather than lowness of income. He emphasized that income is only valuable when it enhances the competencies of individuals and therefore permits their functioning in society (Sen, 1999). Another prominent perspective is the multidimensional poverty approach, which considers poverty as a deprivation of not only income but also other essential dimensions such as health, education, housing, and social inclusion (Alkire & Foster, 2011). This approach acknowledges that poverty is a complex phenomenon with multiple interrelated dimensions that interact to perpetuate deprivation and exclusion. Furthermore, the social exclusion perspective highlights the relational aspect of poverty, emphasizing the exclusion of certain groups or individuals from participating fully in social, economic, and political life (Room, 1995). Social exclusion encompasses not only material deprivation but also marginalization, discrimination, and lack of access to opportunities and resources. In

addition to these conceptual frameworks, poverty is also often understood in relative terms, where individuals or households are considered poor in comparison to others within their society or community (Townsend, 1979). This relative poverty perspective underscores the importance of social context and norms in shaping perceptions and experiences of poverty. Overall, defining and conceptualizing poverty requires consideration of its multidimensional nature, encompassing not only income or material deprivation but also broader aspects of well-being, capabilities, social inclusion, and relative deprivation.

Unlike traditional definition, Townsend (1979) defines poverty as inability to participate in the community as said, “a resource-based definition focuses on a person's inability to participate in the community due to a lack of resources”. On the other hand, Appadurai (2004) mentioned poverty as poverty is many things, all of them bad. It is material deprivation and desperation. It is lack of security and dignity. It is exposure to risk and high costs for thin comforts. It is inequality materialized. It diminishes its victims. It is also the situation of far too many people in the world, even if the relative number of those who are escaping the worst forms of poverty is also increasing. He also highlighted on the significance of culture for development and for the reduction of poverty, opposing the grain of many deep-seated images of the opposition of culture to economy. Explaining it, Appadurai mentioned, "It is in culture that ideas of the future, as much as of those about the past, are embedded and nurtured. Thus, in strengthening the capacity to aspire, conceived as a cultural capacity, especially among the poor, the future-oriented logic of development could find a naturally, and the poor could find the resources required to contest and alter the conditions of their own property." On the other hand, Barry tried to draw many insights from the literature on poverty dynamics, the study of social exclusion aims to transcend poverty's narrow focus on monetary or material resource distribution. “Social exclusion is a structural process of social isolation, of stripping away multiple dimensions of social involvement. Exclusion as a process of progressive social rupture is a more comprehensive and complex conceptualization of social disadvantage" (Barry, 2002). Conceptualizing the dynamics of livelihood and poverty, it's becoming a hot issue in the current context due to the economic uncertainty, social inequality, urbanization and migration, pandemic, environmental degradation, global crises, policy responses and many more.

Panchkhal municipality is characterized by its rich agricultural traditions, including rice cultivation, vegetable farming, and animal husbandry. Home to a vibrant community of farmers, artisans, and entrepreneurs, Panchkhal embodies the resilience and adaptability of rural life in Nepal (Government of Nepal, 2018). However, in recent years, demographic shifts, changing market dynamics, and environmental pressures have compelled residents to explore new livelihood opportunities. Despite the growing importance of livelihood diversification as a poverty reduction strategy in rural Nepal, empirical research on this topic, particularly remains limited. Understanding the factors driving livelihood diversification decisions, assessing the impacts on household well-being, and its support on capabilities increase resulting on poverty reduction is very crucial for developing countries like Nepal. Rural communities in Nepal, like Panchkhal, are exemplary of the complex interplay between tradition and modernity, where centuries-old agrarian practices intersect with contemporary socio-economic dynamics. Nepal's rural landscape is steeped in agricultural heritage, with subsistence farming serving as the mainstay of livelihoods for the majority of rural households. In Panchkhal, as in other parts of the country, agriculture remains a fundamental pillar of the local economy, with rice cultivation, vegetable farming, and animal husbandry forming the backbone of rural livelihoods (Sharma, 2016).

However, the sustainability of traditional agrarian livelihoods is increasingly being challenged by a myriad of factors, including land fragmentation, soil degradation, water scarcity, and climate variability (Ghimire & Hoang, 2017). In recent years, Panchkhal has witnessed significant socio-economic transformations, driven by demographic shifts, changing market dynamics, and evolving consumer preferences. Growing urbanization and outmigration of youth in search of better opportunities have altered the demographic composition of rural communities, leading to changes in household structures and labor dynamics. Moreover, the proliferation of modern technologies and communication networks has facilitated greater connectivity and access to information, opening up new possibilities for livelihood diversification and economic empowerment (Government of Nepal, 2018). Against this backdrop of change, livelihood diversification has emerged as a coping mechanism for rural households seeking to mitigate risks, enhance resilience, and improve their socio-

economic well-being. In Panchkhal, as in other rural areas of Nepal, households are increasingly exploring alternative livelihood options beyond agriculture, such as non-farm employment, small-scale entrepreneurship, and migration to urban centers (Sharma, 2016). Livelihood diversification represents a strategic response to the complex challenges facing rural communities, offering pathways to poverty reduction, income generation, and sustainable development. In this study, I have explored the livelihood diversification strategies in Panchkhal Municipality and how they contribute to enhancing people's capabilities, ultimately supporting poverty reduction. Additionally, the study aims to examine the relationship between livelihood diversification and poverty reduction, providing insights into how diverse income sources can improve overall well-being and economic stability.

This research adopted both quantitative and qualitative methods to capture understanding of key livelihood diversification strategies in Panchkhal. Quantitative data analysis focused on numerical data to identify patterns of livelihood strategies hypothesis, and measure variables statistically. It provides precise, generalizable results, often used to establish relationships, trends, and causation in research. Moreover, qualitative methods such as unstructured interviews, focus group discussions, and participants observation facilitate in depth exploration of household decision-making processes, livelihood trajectories, factors influencing, and the way how multiple forms of diversification helps to reduce poverty. In this context, I have researched on the various livelihood strategies and the relationship between livelihood diversification and poverty reduction, focusing on Panchkhal Municipality of Kavre district.

1.2 Statement of the Problem

The literature review reveals that while scholars such as Ellis (2000), Ellis and Freeman (2004), and Adhikari (2008) have discussed livelihood diversification broadly in developing countries and Nepal, their focus has often been at macro or regional levels. Studies based on the Sustainable Livelihood Framework have provided a useful analytical tool, but few have localized these concepts to municipal-level contexts such as Panchkhal. Moreover, the demographic aspect—how different household structures (e.g., women-headed households, youth-led enterprises, or

returnee migrants) respond to livelihood opportunities—remains underexplored. Thus, a research gap exists in understanding how diversification strategies are formulated and sustained at the household level in transitional municipalities. From a theoretical standpoint, this study identifies a gap in applying the Social Capital Theory in analyzing livelihood diversification. While the role of networks, institutions, and community organizations is critical in enabling or constraining diversification, these have not been adequately examined through a sociological lens in Nepalese semi-urban contexts. Furthermore, although the Sustainable Livelihood Framework is referenced in development literature, its practical application to household-level decision-making and poverty reduction strategies in Nepal is often absent or superficial. This study, therefore, attempts to integrate theoretical frameworks with field-based realities, bringing empirical evidence into conversation with conceptual models. On the empirical point, very few field-based, household-level studies have been conducted in municipalities like Panchkhal, especially focusing on the link between diversification and poverty outcomes. The few that exist often lack a mixed-method approach that captures both statistical trends and lived experiences. Thus, there is a methodological gap in existing studies that this research seeks to fill. This study employs both quantitative surveys and qualitative interviews to understand not just what livelihood strategies are being adopted, but why and how they are chosen, and with what implications for poverty alleviation. Nepal is currently experiencing profound socio-economic transformations, driven by various factors such as rapid urbanization, globalization, migration, education, and technological advancements (Shrestha et al., 2020). These changes are reshaping livelihood dynamics across the country, leading to significant implications for individuals' roles, identities, and opportunities within society. In recent years, Nepal has witnessed a notable shift in livelihood strategies among individuals and communities, characterized by increased economic diversification and adaptation (CBS Nepal, 2019). The convergence of urbanization and globalization has facilitated the emergence of new employment opportunities and market linkages, prompting individuals to explore alternative sources of income beyond traditional agrarian practices (Sharma & Thapa, 2018). Moreover, advancements in technology have further accelerated this transition, enabling entrepreneurship and remote work opportunities even in rural areas (Shrestha et al., 2020). As a result, individuals and communities are increasingly diversifying their sources of income and embracing entrepreneurial ventures to capitalize on

emerging market trends and consumer demands (Sharma & Thapa, 2018). This dynamic era of economic diversification and adaptation reflects the resilience and adaptability of Nepali society in the face of evolving socio-economic challenges and opportunities (Shrestha et al., 2020).

Livelihood diversification has become an essential strategy for rural and semi-urban households in Nepal to manage economic risks, enhance income sources, and improve resilience in the face of socio-economic and environmental challenges. In the past, agriculture-based livelihoods dominated the economic activities of communities in hill municipalities like Panchkhal. However, the transformation in land use, declining productivity of traditional farming, market-oriented development, increased migration, and limited employment opportunities has compelled households to seek alternative or additional sources of income. These include non-farm and off-farm activities such as small businesses, remittances, cooperative involvement, and skilled or semi-skilled labor in urban centers or abroad. Despite the importance of these shifts, the dynamics of how households navigate these transitions, the constraints they face, and the outcomes in terms of poverty reduction are not well understood, particularly in the context such as semi-urban municipalities. In most of the rural communities in Nepal including Panchkhal, traditional agrarian practices have long served as the primary source of livelihoods, increasing pressures such as land fragmentation, climate variability, and limited access to markets have prompted households to explore alternative livelihood options. In response to these challenges, livelihood diversification has emerged as a strategy to enhance resilience, reduce vulnerability, and improve well-being among rural households. However, despite its potential benefits, the dynamics of livelihood diversification and its implications for poverty reduction remain poorly understood, necessitating further study.

Although numerous studies have addressed the link between livelihood diversification and poverty reduction, most have focused either on rural or urban areas, neglecting the specific challenges and opportunities present in semi-urban, hilly regions like Panchkhal Municipality. This geographical and demographic oversight creates a significant knowledge gap, as the strategies employed and the constraints faced in such regions are influenced by unique environmental, infrastructural, and socio-political factors. For instance, unlike rural areas that may benefit from community-

based agricultural practices, or urban centers with access to formal employment, semi-urban municipalities operate in a hybrid context, often lacking both the cohesive social capital of villages and the infrastructural support of cities. By focusing on Panchkhal Municipality, this research seeks to understand the various livelihood strategies, assess its impacts on household well-being, and provide insights into the policy implications necessary for poverty reduction.

1.3 Research Questions

The following research questions have been formulated for this study.

- a) What are the key livelihood strategies employed by the households in Panchkhal municipality?
- b) How is livelihood diversification associated to the poverty reduction in Panchkhal municipality?

1.4 Objectives of the Study

The primary objective of this study is to examine the existing livelihood strategies, the process of livelihood diversification, and its impact on poverty reduction in Panchkhal Municipality. By addressing the gaps in existing literature, this research aims to provide a deeper understanding of the dynamics of livelihood diversification and its role enhancing capabilities, access to resources supporting on poverty reduction. Specifically, the study aims to:

- i. To explore key livelihood strategies employed by households in Panchkhal municipality
- ii. To analyze the relationship between livelihood diversification and poverty reduction in Panchkhal municipality?

1.5 Significance of the Study

The proposed study holds profound significance in exploring the relationship between livelihood dynamics and poverty reduction within the context of rural Nepal. On the theoretical level, the finding of this study contribute to the existing bodies of knowledge, and literatures within the context of Nepal. On the policy level, this study contribute to the formulation and implementation of policies so that policy makers can make better policies regarding livelihood diversification and poverty reduction.

For development practitioners and local organizations, the research can guide the design and implementation of local development projects. That enhance the resilience and well-being of rural households, helping them to better cope with socio economic challenges. At the community level, this research somehow empower local residents by providing them with a deeper understanding of the potential benefits and challenges associated with different livelihood strategies. By highlighting successful case studies and best practices, the study can inspire and inform community-led initiatives aimed at improving livelihoods and reducing poverty.

1.6 Organization of the Study

The study is organized into five different chapters. The first chapter deals about introduction that deals with the background of the study, statement of problem and research question, objectives of the study, significance and limitation of the study. The second chapter covers the literature review including both theoretical reviews on livelihood and its dynamics, poverty, along with impact of livelihood diversification on poverty reduction along with theoretical and conceptual framework. The third chapter embraces the research methodology which refers to the overall research design, data collection, and processing and data analysis procedure. The chapter four explain the key livelihood diversification strategies employed in Panchkhal Municipality. The chapter five explains the relationship between livelihood diversification strategies and poverty reduction. The chapter six includes summary and conclusion.

CHAPTER II

REVIEW OF LITERATURE

The literature review explores the intricate relationship between livelihoods and poverty reduction, two interrelated concepts fundamental to socio-economic development. Basically livelihoods, defined as the diverse strategies individuals and households employ to sustain themselves and improve their well-being. This review aims to synthesize existing literature, elucidate key concepts, and analyze empirical evidence to uncover the synergies between changing livelihood strategies and poverty dynamics particularly within the context of contemporary Nepal. Basically, the literature review here includes concept of livelihood, it's types and changing dynamics along with it's relationship with poverty reduction.

2.1 Defining Livelihood and its Classification

Defining livelihood (Ellis, 2000) said, "A livelihood comprises the assets, the activities and the access to these mediated by policies and institutions that together determine the living gained by the individuals or household". The concept of livelihood goes beyond mere economic transactions to encompass broader dimensions of human existence, including social relations, cultural practices, and environmental interactions. It reflects the dynamic interplay between individual agency and structural constraints, as individuals navigate the complexities of their socio-economic environment. The concept of livelihood is fundamental to understanding socio-economic dynamics and human well-being. Ellis (2000) defines livelihood as "the assets, the activities, and the access to these assets and activities that together determine the living gained by the individual or household". This definition highlights the dynamic and context-specific nature of livelihood, emphasizing the importance of assets (such as natural, physical, financial, human, and social capital) and activities (such as employment, entrepreneurship, and subsistence activities) in shaping individuals' well-being and quality of life.

Likewise, according to Chambers and Conway (1992), livelihoods are the multifaceted strategies individuals and households employ to sustain themselves and achieve their well-being. They define livelihoods as "the capabilities, assets, and activities required for a means of living," emphasizing the importance of various

dimensions such as human, social, financial, natural, and physical capital. They conceptualize livelihood as "the capabilities, assets (including both material and social resources), and activities required for a means of living". Their framework emphasizes the holistic nature of livelihood, encompassing not only economic factors but also social, human, and environmental dimensions. According to this perspective, livelihood is shaped by individuals' access to resources, opportunities, and capabilities, as well as their interactions with broader socio-economic systems. Similarly, Scoones (1998) provides a framework for analyzing livelihoods, defining them as "the capabilities, assets (including both material and social resources), and activities required for a means of living". It emphasizes the importance of understanding livelihoods within specific socio-economic and environmental contexts, acknowledging the diverse strategies individuals employ to secure their basic needs and pursue economic opportunities. Having similar view Carney (1998) conceptualizes livelihood as "the achievements of people in terms of the combination of capabilities, assets, and activities that they have access to". It underlines the agency and empowerment of individuals in shaping their livelihoods, highlighting the role of access to resources, opportunities, and social networks in determining livelihood outcomes.

"Livelihoods are the means of gaining a living, including livelihood capabilities, tangible assets, and intangible assets. Livelihood diversification refers to the process by which households construct a diverse portfolio of activities and social support capabilities for survival and improvement of living standards" (Chambers, 1995). Central to understanding livelihoods is the recognition of their diverse typologies. From agricultural to non-agricultural, wage labor to entrepreneurship, livelihood strategies vary across contexts and are shaped by a myriad of factors including geographical location, cultural norms, and historical legacies. As highlighted by Ellis (2000), the fluidity and adaptability of livelihood strategies are evident in the hybridization of agricultural and non-agricultural activities, reflecting the dynamic nature of livelihoods in response to changing socio-economic conditions.

Regarding the livelihood diversification, Sen (1981) describes livelihood diversification as a strategy to manage risks, and improve living standard as he puts, "Livelihood diversification is a strategy used by rural households to manage risk,

stabilize income, and improve living standards. It involves a range of activities, both agricultural and non-agricultural, that people undertake as part of their livelihood strategies." Likewise, about the significance of the livelihood diversification strategies on poverty reduction, Kabeer (1999) defines, "Livelihood diversification strategies are critical for poverty reduction. By diversifying their sources of income, households can better manage risks, enhance their resilience, and improve their socio-economic status. These strategies often include a mix of on-farm and off-farm activities, migration, and the utilization of social networks."

Moser (1998) states that "Livelihood strategies are the range and combination of activities and choices that people make to achieve their livelihood goals. These strategies are dynamic and influenced by changes in the context, such as market opportunities, social relations, and policy environments." Similarly, Hulme (2003) states "The concept of livelihood diversification encompasses the various ways in which rural households construct a diverse portfolio of activities and social support capabilities to improve their standard of living. This strategy is essential for managing risks and vulnerabilities in rural economies."

According to Bebbington (1999) "Livelihoods are built on a range of assets that people draw upon to make a living. Diversification strategies are crucial for rural households as they provide multiple streams of income and reduce dependency on a single source, thereby enhancing resilience." Krishna (2004) further defines "Livelihood diversification strategies are essential for reducing poverty and enhancing well-being. These strategies often involve a combination of agricultural activities, wage labor, self-employment, and migration. They provide households with the flexibility to adapt to changing circumstances."

The definitions mostly highlight the multidimensional and context-specific nature of livelihood, emphasizing the importance of assets, capabilities, and activities in shaping individuals' well-being and livelihood outcomes. The concept of a livelihood strategy has become central to development practice in recent years (Braun, 2006). People's livelihoods are dynamic, involving switches among various strategies depending on time and place. The fabric of livelihood strategies has also undergone significant transformations over time in Nepalese society too. Basically, livelihood comprises people, their capabilities and their means of living, including food, income

and assets. In another terms, livelihood refers to the means, resources, and activities that enable individuals or households to secure the necessities of life, such as food, shelter, clothing, and other essential needs. Based on various typologies of livelihoods observed in Nepal, considering the diverse socio-economic, geographical, and cultural contexts that shape livelihood strategies and outcomes, varieties of livelihoods can be found in various literatures as follows:

a. Agricultural Livelihoods:

Agricultural livelihoods are integral to the socio-economic fabric of societies worldwide, providing sustenance, income, and employment opportunities for millions of people. Agriculture has traditionally been the backbone of Nepal's economy, with the majority of the population engaged in subsistence farming (Shrestha & Joshi, 2013). Smallholder farmers cultivate crops such as rice, maize, wheat, and vegetables, often using traditional methods and relying on monsoon rains for irrigation. Livestock rearing, including cattle, buffalo, goats, and poultry, is also prevalent in rural areas, providing supplementary income and food security (Sharma, 2017). However, agricultural productivity is constrained by land fragmentation, lack of access to modern inputs and technologies, and vulnerability to climate change and natural disasters (Dhakal et al., 2019).

b. Non-Agricultural Livelihoods:

Non-agricultural livelihoods are increasingly important in Nepal, particularly in urban and peri-urban areas where opportunities for off-farm employment and entrepreneurship abound (Adhikari & Goldey, 2010). Small-scale businesses, trade, services, and manufacturing provide avenues for income generation and economic diversification (Sharma, 2017). Likewise, the tourism sector, including trekking, mountaineering, and cultural tourism, is a significant source of employment and foreign exchange earnings (Pandey, 2020). Remittances from overseas employment, particularly in the Gulf countries and Malaysia, constitute a substantial portion of household income in many rural areas (Acharya & Gautam, 2018). Non-agricultural livelihoods, including small-scale businesses, trade, and services, are becoming increasingly important in both urban and rural settings (De Haan & Zoomers, 2005).

c. Hybrid Livelihood:

Hybrid livelihood strategies, combining elements of agriculture and non-agricultural activities, are becoming increasingly common in Nepal as households seek to diversify their income sources and manage risks (Shrestha et al., 2018). Agro-tourism, eco-tourism, and agribusinesses are examples of hybrid livelihoods that capitalize on Nepal's natural and cultural heritage (Ghimire et al., 2020). Integrated farming systems, incorporating crop cultivation, livestock rearing, and agroforestry, are another example of hybrid livelihoods that enhance resilience and sustainability (Thapa et al., 2019). Hybrid livelihood strategies, which combine elements of agriculture and non-agricultural activities, are emerging as viable options for livelihood diversification and risk mitigation (Scoones, 1998).

2.2 Livelihood Strategies and Affecting Factors

Livelihood strategies encompass a wide range of activities, including agriculture, livestock rearing, fishing, wage labor, self-employment, and entrepreneurship (Ellis, 2000). In rural areas, agriculture remains a predominant livelihood strategy, although diversification into non-farm activities is becoming increasingly common (Barrett et al., 2001). In urban areas, livelihood strategies are more diverse, with individuals engaging in a variety of income-generating activities such as retail trade, services, and manufacturing (Satterthwaite et al., 2010).

Bebbington (1999) defines "Livelihood strategies are dynamic and influenced by multiple factors, including access to assets, social networks, and institutional support. Understanding these dynamics is essential for designing interventions that enhance the resilience and sustainability of rural livelihoods." Livelihood strategies differ between urban and rural areas due to varying opportunities and constraints (Barrett et al., 2001). While rural livelihoods often revolve around agriculture and natural resource-based activities, urban livelihoods are characterized by a diverse range of income-generating activities including wage labor, self-employment, and informal sector work (Pokharel & Ishida, 2018).

Livelihoods are influenced by interrelationship of economic, social, environmental, and political factors, shaping individuals' strategies for securing their basic needs and aspirations. Some of the diverse range of factors that affect livelihoods are as:

Economic factors play a central role in shaping livelihood opportunities and outcomes. Access to productive resources such as land, capital, and markets significantly influences individuals' ability to engage in income-generating activities (Barrett et al., 2001). Market dynamics, including prices, demand, and competition, determine the profitability and viability of livelihood strategies (Ellis, 2000). Economic shocks and fluctuations, such as inflation, recession, and currency devaluation, pose significant challenges to livelihood sustainability, particularly for vulnerable populations (Barrett et al., 2001). Moreover, Livelihood strategies are influenced by a myriad of social factors that shape individuals' and households' access to resources, opportunities, and support systems. Understanding these social determinants is crucial for comprehending the complexities of livelihood diversification and its impacts on poverty reduction. Social factors, including social networks, norms, and institutions, play a critical role in shaping livelihood strategies and opportunities, particularly in rural contexts. Strong social networks provide individuals with essential access to information, resources, and support systems, thereby facilitating livelihood diversification and risk-sharing. According to De Haan and Zoomers (2005), these networks can help individuals to learn about new job opportunities, access financial resources, and receive support during times of need. For example, community networks often serve as informal insurance mechanisms, where members can rely on each other for loans or assistance in times of crisis, thus enhancing their capacity to cope with economic shocks and stresses. Social norms and cultural practices also significantly influence individuals' choices regarding livelihood activities, gender roles, and participation in community-based organizations. Scoones (1998) emphasizes that these norms can determine which livelihood strategies are considered acceptable or feasible within a community. For instance, cultural expectations may dictate that certain jobs are appropriate only for men or women, thereby shaping the livelihood options available to different genders. Additionally, social norms can influence participation in community-based organizations, which are crucial for collective action and access to communal resources. Participation in these organizations can lead to better resource management and increased economic opportunities for community members.

i) Social Capital

Social capital, defined as the networks, norms, and trust that facilitate coordination and cooperation among individuals, plays a critical role in livelihood strategies (Putnam, 1993).

Social capital can enhance access to resources, information, and support, thereby improving livelihood outcomes (Woolcock & Narayan, 2000). In rural Nepal, strong community ties and social networks are essential for sharing resources, labor, and knowledge, which are vital for agricultural and non-agricultural activities (Adhikari, 2011). These networks can provide a safety net during times of crisis, fostering resilience and adaptability among households (Pretty & Ward, 2001).

ii) Gender Relations

Gender relations significantly influence livelihood strategies and outcomes. In many rural contexts, men and women have distinct roles and responsibilities, which affect their access to resources, opportunities, and decision-making power (Kabeer, 1999). Women often face constraints due to traditional gender norms, limiting their participation in certain economic activities and access to education and credit (Quisumbing & Pandolfelli, 2010). In Nepal, women's involvement in livelihood diversification is often shaped by cultural expectations and household dynamics (Allendorf, 2007). Empowering women through education, skill development, and access to resources can enhance their contribution to household livelihoods and overall economic development (Duflo, 2012).

iii) Education and Skills

Education and skills are pivotal factors influencing livelihood choices and opportunities. Higher levels of education and skills increase individuals' ability to engage in diverse economic activities, access better employment opportunities, and adapt to changing economic conditions (Tilak, 2002). In rural Nepal, education levels are often lower, particularly among women and marginalized groups, limiting their livelihood options (World Bank, 2013). Investment in education and vocational training is essential for enhancing human capital and fostering sustainable livelihoods (King & Palmer, 2010).

iv) Social Norms and Cultural Practices

Social norms and cultural practices shape livelihood strategies by influencing behavior, preferences, and social interactions. These norms can either facilitate or hinder individuals' ability to pursue certain livelihoods. For example, caste-based discrimination can restrict access to resources and opportunities for lower-caste individuals in Nepal, affecting their livelihood outcomes (Cameron, 2010). Conversely, cultural practices such as cooperative farming and collective labor can enhance resource sharing and mutual support, benefiting community livelihoods (Richards, 1985).

v) Household Dynamics

Household composition and dynamics, including the number of dependents, labor availability, and intra-household decision-making, affect livelihood strategies. Households with more working-age members and diversified skills are better positioned to engage in multiple income-generating activities (Ellis, 2000). In Nepal, extended family structures often facilitate resource pooling and collective decision-making, enhancing livelihood resilience (Acharya & Bennett, 1981). However, intra-household inequalities and power imbalances can lead to differential access to resources and benefits, impacting overall household well-being (Agarwal, 1997).

vi) Access to Social Services

Access to social services, such as healthcare, education, and social protection, is crucial for supporting sustainable livelihoods. Social services enhance human capital, reduce vulnerability, and provide safety nets during economic shocks (Devereux, 2002). In rural Nepal, limited access to quality social services remains a significant barrier to improving livelihoods (ADB, 2013). Enhancing access to these services through targeted interventions and policy reforms is essential for promoting equitable and sustainable development (Sabates-Wheeler & Devereux, 2008).

c. Environmental Factors:

Environmental factors, including climate variability, natural disasters, and resource degradation, have profound implications for livelihood sustainability and resilience.

Climate change is altering precipitation patterns, temperature regimes, and the frequency of extreme weather events, affecting agricultural productivity, water availability, and ecosystem services (De Haan & Zoomers, 2005). Resource depletion and environmental degradation, such as deforestation, soil erosion, and water pollution, undermine the long-term viability of livelihood activities dependent on natural resources (Scoones, 1998). Sustainable natural resource management and adaptation strategies are essential for mitigating the adverse impacts of environmental change on livelihoods (Barrett et al., 2001).

d. Political Factors:

Political factors, including governance structures, policies, and institutions, shape the enabling environment for livelihoods and influence individuals' access to resources, services, and opportunities. Good governance, characterized by transparency, accountability, and participatory decision-making, fosters an enabling environment for livelihood development by ensuring equitable access to resources, protecting property rights, and promoting social justice (Carney, 1998). However, political instability, corruption, and conflict can undermine livelihood security, disrupt markets, and displace populations, exacerbating poverty and vulnerability (Barrett et al., 2001). Policy interventions, such as social protection programs, rural development initiatives, and land reform policies, play a critical role in promoting inclusive growth, poverty reduction, and sustainable development (Ellis, 2000).

2.3 Livelihood Generation and Sustainable Livelihood

Livelihood generation refers to the strategies and activities individuals and households undertake to secure their basic needs and improve their quality of life. Chambers and Conway (1992) conceptualize livelihoods as comprising assets, capabilities, and activities necessary for a means of living. This perspective emphasizes the multidimensional nature of livelihoods, which encompass economic, social, human, and natural capital. Additionally, Ellis (2000) underscores the dynamic and context-specific nature of livelihood strategies, influenced by socio-economic, cultural, and environmental factors.

Urban and rural areas present distinct contexts for livelihood generation, characterized by different opportunities and challenges (Barrett et al., 2001). In urban settings, livelihoods are often diverse and dynamic, driven by opportunities in formal employment, informal sectors, and entrepreneurship (Scoones, 1998). Likewise, Ellis (2000) focuses on rural livelihoods in developing countries and emphasizes the role of diversification as a strategy for achieving sustainability. He argues that diversification of income sources, crops, and activities is essential for managing risks, enhancing resilience, and improving well-being in rural communities.

In urban areas, livelihood generation is influenced by factors such as access to markets, infrastructure, and employment opportunities (Satterthwaite et al., 2010). Conversely, rural livelihoods, are closely tied to agricultural activities, natural resource management, and traditional livelihood practices (De Haan & Zoomers, 2005). rural livelihoods are often tied to agricultural activities, with access to land, water, and agricultural inputs playing a crucial role (Ellis, 2000). Despite these differences, both urban and rural livelihoods face common challenges such as poverty, inequality, and vulnerability to shocks (Scoones, 1998). However, rapid urbanization, environmental degradation, and economic transformations are blurring the distinction between urban and rural livelihoods, necessitating a more integrated approach to livelihood analysis (Ellis, 2000). On the other hand, sustainable livelihoods generally refers to the ability of individuals and communities to meet their basic needs and improve their well-being in a manner that does not compromise the integrity of ecosystems, social structures, or future generations. Chambers and Conway (1992) defines it as, "Sustainable livelihoods are seen as the outcome of interactions between assets and vulnerability. They reflect the capacity of people to develop, maintain, and enhance their well-being over time, while maintaining the resilience of the natural resource base and the ecosystems upon which they depend."

As widely acknowledged, the DFID's Sustainable Livelihoods Approach, introduced in the late 1990s and widely adopted thereafter, emphasizes the importance of assets, capabilities, and vulnerability contexts in shaping livelihood strategies. According to DFID (1999), sustainable livelihoods are "a means of gaining a living which allows

people to lead a good life, that they value, without compromising the opportunities of others now or in the future." Strategies for achieving sustainable livelihoods vary depending on the context but often include:

- i. **Asset Building:** Enhancing access to and control over natural, physical, financial, human, and social assets.
- ii. **Diversification:** Pursuing multiple income sources, crops, and activities to spread risks and increase resilience.
- iii. **Social Protection:** Establishing safety nets, social insurance, and community-based support mechanisms to mitigate vulnerabilities.
- iv. **Institutional Development:** Strengthening governance structures, community institutions, and collective action for sustainable resource management and equitable access to resources.
- v. **Capacity Building:** Investing in education, skills development, and empowerment to enhance human capital and promote livelihood opportunities.

2.4 Dynamics of Livelihoods

The dynamics of livelihoods are changing rapidly in the current socio-economic context, driven by globalization, technological advancements, and climate change (De Haan & Zoomers, 2005). For instance, the proliferation of information and communication technologies (ICTs) has opened up new opportunities for entrepreneurship and remote work, transforming traditional livelihood patterns (Barrett et al., 2001). Additionally, climate change is affecting livelihood strategies in agricultural communities, leading to shifts in cropping patterns, water management practices, and adaptive strategies (Scoones, 1998).

In recent years, the discourse surrounding livelihoods has evolved, recognizing the intrinsic link between economic empowerment, poverty alleviation, and sustainable development. The discourse on livelihood has also evolved in response to emerging challenges such as globalization, technological advancements, climate change, and urbanization. These changes have necessitated a reevaluation of existing livelihood

strategies and the development of innovative approaches that are responsive to contemporary realities (Scoones, 1998). Moreover, the increasing recognition of livelihood as a key determinant of development has led to a growing emphasis on inclusive and participatory approaches that empower individuals and communities to shape their own futures.

Likewise, Globalization has opened up new opportunities for livelihood diversification, market integration, and entrepreneurship (Carney, 1998). Technological innovations, particularly in communication and information technology, have revolutionized the way individuals access markets, finance, and information (Ellis, 2000). Climate change and environmental degradation pose significant challenges to livelihood sustainability, particularly for vulnerable communities dependent on natural resources (De Haan & Zoomers, 2005).

One of the key drivers of change in Nepal's socio-economic landscape is the diversification of livelihood opportunities beyond agriculture. While agriculture remains a vital sector of the economy, there has been a noticeable shift towards non-agricultural livelihood activities, including entrepreneurship, tourism, and service industries. This diversification has been accompanied by increased urbanization and migration, particularly among young people seeking better economic prospects and employment opportunities in urban centers and abroad.

Nepal's diverse geographical and climatic conditions, including mountains, hills, and plains, contribute to varying degrees of vulnerability and resilience in livelihoods (Gautam et al., 2020). Remote mountain communities face challenges such as limited access to markets, services, and infrastructure, as well as exposure to natural hazards such as landslides and avalanches (Regmi et al., 2017). Conversely, urban areas offer opportunities for employment, education, and healthcare, but also present challenges such as high living costs, pollution, and social disparities (Dahal & Subedi, 2016). Resilience-building initiatives, including community-based natural resource management, social protection programs, and climate change adaptation strategies, are essential for enhancing livelihoods' resilience and reducing vulnerability (Shrestha et al., 2020).

2.5 Understanding Poverty and its Types

Poverty itself is a contested topic as it is complex to define in one term. While the study of poverty is popular amongst academia, there is yet to be a consensus on what defines such a phenomenon. Basing their arguments on different conceptual frameworks, some argue for a definition in monetary terms, as a lack of income or consumption, while others support a non-monetary approach focusing on shortcomings in diverse dimensions (health, education, nutrition, capabilities, inclusion, freedom etc). Indeed, if monetary and non-monetary multidimensional measures identified the same population as poor, there would not be any issue with using income or consumption exclusively. However, empirical literature has identified a significant mismatch in identifying the poor (Alkire, 2015): focusing on monetary measures might disregard important poverty dynamics and lead to mistargeting.

One of the fundamental concepts on poverty is defined as an absolute term as Townsend (1979) stated;

"Poverty can be defined objectively and applied consistently only in terms of the concept of relative deprivation. Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary in the societies to which they belong (p. 31)."

However, Poverty as seen as the functioning, famously understood as the Capability Approach. As Sen (1999) puts;

"Poverty must be seen as the deprivation of basic capabilities rather than merely as lowness of incomes, which is the standard criterion of identification of poverty. The capability approach focuses on human ends (well-being, freedom) rather than just means (income, commodities) (p.87)."

Nevertheless, Marxists have defined poverty in structural terms as Structural Poverty. Wright (2000) explains;

"Poverty under capitalism is not an accidental feature but a necessary consequence of class exploitation, where surplus value extraction systematically reproduces conditions of deprivation for the proletariat while concentrating wealth among capitalists (p.1565)."

Jensen (2009) in his book "Teaching with Poverty in Mind" said that the meaning of poverty might vary and it should not be understood in general. He said that the word poverty provokes strong emotions and many questions. However, you define it, poverty is complex; it does not mean the same thing for all people. For the purposes of this book, we can identify six types of poverty: situational, generational, absolute, relative, urban, and rural. Situational poverty is generally caused by a sudden crisis or loss and is often temporary. Events causing situational poverty include environmental disasters, divorce, or severe health problems. Whereas, generational poverty occurs in families where at least two generations have been born into poverty. Families living in this type of poverty are not equipped with the tools to move out of their situations. Likewise, absolute poverty involves a scarcity of such necessities as shelter, running water, and food. Families who live in absolute poverty tend to focus on day-to-day survival. Similarly, relative poverty refers to the economic status of a family whose income is insufficient to meet its society's average standard of living.

Urban poverty occurs in metropolitan areas with populations of at least 50,000 people. The urban poor deal with a complex aggregate of chronic and acute stressors (including crowding, violence, and noise) and are dependent on often-inadequate large-city services. Whereas, rural poverty occurs in nonmetropolitan areas with populations below 50,000. In rural areas, there are more single-guardian households, and families often have less access to services, support for disabilities, and quality education opportunities. Programs to encourage transition from welfare to work are problematic in remote rural areas, where job opportunities are few (Whitener, Gibbs, & Kusmin, 2003). The rural poverty rate is growing and has exceeded the urban rate every year since data collection began in the 1960s. The difference between the two poverty rates has averaged about 5 percent for the last 30 years, with urban rates near 10–15 percent and rural rates near 15–20 percent (Jolliffe, 2004). Likewise, Brian Van Arkadie, Raymond Mallon on their book "Viet Nam- a Transition Tiger?" mentioned that we should see the poverty in Urban and Rural area differently as "Many poor live in areas that have few natural resources and with harsh natural conditions in mountainous, remote and isolated areas where the population is subjected to effects of natural disasters. The poverty rate is lower in urban areas, but there is inequality still in the distribution of the benefits of growth. Poverty is linked to a lack of access to social service provision." Whereas, some Marxist and Neo

Marxist understands poverty in a different manner, and emphasize on the class analysis of poverty. Wrigth (1994) mentioned about the four general approached to explaining poverty as the result of inherent individual attributes, as the by-product of social causes, contingent individual characteristics, and as a result of inherent properties of the social system

iii) Causes of Poverty:

Chen (2023) argues that the causes of poverty as poverty is a difficult cycle to break and often passes from one generation to the next. It is often determined by socioeconomic status, ethnicity, gender, and geography. Many people are born into poverty and have little hope of overcoming it. Others may fall into poverty because of negative economic conditions, natural disasters, or surging living costs, as well as drug addiction, depression, and mental health issues. Access to good schools, healthcare, electricity, clean drinking water, and other critical services remains elusive for many and is often determined by socioeconomic status, gender, ethnicity, and geography. Other root causes of poverty includes: limited to no job growth, poor infrastructure, conflict and war, high cost of living, social barriers, lack of government support (Chen, 2023).

Where Wrigth (1994) argued that "in order to understand more fully the nature of poverty, it is important to see it as, in part, the result of inherent features of the social system. This does not mean that no individuals are poor because of lack of innate intelligence, or that cultural factors of various sorts do not create obstacles for some groups and prevent them improving their lot in life, or that the disjunction between the supply of labor and the demand for jobs does not intensify the plight of the poor in the inner cities. But it does mean that each of these approaches to understanding poverty is incomplete. Each of these partial factors interacts with the underlying class structure to generate the empirical patterns of poverty which we confront." Some scholars understand poverty as social exclusion as Silver (2007) puts, "While drawing many insights from the literature on poverty dynamics, the study of social exclusion aims to transcend poverty's narrow focus on monetary or material resource distribution. Exclusion as a process of progressive social rupture is a more comprehensive and complex conceptualization of social disadvantage. Material and non-material dimensions are implicated; so too are individual and group dynamics.

National and local contexts—from the law to cultural understandings—shape the meaning of exclusion. Exclusion emphasizes horizontal ties of belonging; although these may give rise to vertical distribution. Exclusion can take place at the individual, community, national, and even international level."

Many authors have also talked about strategies of poverty reduction too. As Maxwell (1999) said, "Poverty reduction requires a comprehensive approach that includes economic growth, social protection, and empowerment. It is not enough to focus on income alone; we must also address the broader social and structural factors that contribute to poverty." Emphasizing on the significance of rural development and agricultural productivity, Lipton (2005) contained that, "To reduce poverty, we must focus on rural development and agricultural productivity. The majority of the world's poor live in rural areas and depend on agriculture for their livelihoods. Improving agricultural practices and access to markets can significantly enhance their income and food security."

2.6 Livelihood and Poverty Dynamics

It's believed that livelihood diversification plays a crucial role in poverty reduction dynamics, offering pathways for individuals and households to improve their economic well-being and resilience. This section explores the relationship between livelihood diversification and poverty reduction, drawing on empirical evidence and theoretical frameworks.

Livelihood diversification involves the expansion of income-generating activities beyond traditional agricultural practices to include non-farm employment, small-scale entrepreneurship, and other economic pursuits (Ellis, 2000). As households diversify their livelihood portfolios, they reduce their reliance on a single source of income, thereby enhancing their resilience to shocks and vulnerabilities (Barrett et al., 2001).

Likewise, empirical studies have documented the positive impacts of livelihood diversification on poverty reduction. For example, Barrett et al. (2001) found that households engaged in diversified livelihood strategies experienced greater income stability and were less susceptible to economic downturns. Similarly, Ellis and Freeman (2004) observed that livelihood diversification contributed to poverty reduction and income smoothing among rural households in Africa.

Diversification allows households to capitalize on multiple income streams, thereby increasing their total income and reducing the likelihood of falling into poverty (Ellis, 2000). Livelihood diversification strategies help to go through the multiple choices of income. It helps to increase their total income and likely to reduce the chances of poverty. Secondly, diversification enhances households' ability to cope with shocks and uncertainties, as income from different sources may be less correlated and more resilient to fluctuations (Barrett et al., 2001). Lastly, diversification can lead to asset accumulation and investment in human capital, further contributing to long-term poverty reduction (Ellis, 2000). However, the effectiveness of livelihood diversification as a poverty reduction strategy is influenced by various contextual factors, including access to resources, market opportunities, social networks, and institutional support. In settings where infrastructure and market access are limited, households may face challenges in diversifying their livelihoods and accessing new economic opportunities (Sharma & Thapa, 2018). Furthermore, social and cultural norms may shape individuals' ingness and ability to engage in alternative livelihood activities, particularly for marginalized groups (Alkire & Foster, 2011). Social and cultural norms shapes the individuals' engagement into different strategies.

Policymakers and development practitioners can play a crucial role in supporting livelihood diversification initiatives and promoting poverty reduction. This may involve investments in infrastructure, education, and training programs to enhance human capital and expand economic opportunities (Ellis, 2000). Additionally, targeted interventions such as microfinance, vocational training, and market linkages can facilitate the transition to diversified livelihoods and empower vulnerable populations to improve their socio-economic well-being (Barrett et al., 2001).

In a nutshell, livelihood diversification is a key mechanism for poverty reduction, offering households' opportunities to increase income, build resilience, and improve overall well-being. By understanding the dynamics of livelihood diversification and its impacts on poverty, policymakers and practitioners can design more effective interventions to promote sustainable development and poverty alleviation. Livelihood diversification and its role in poverty reduction have been the subject of extensive research examining various aspects of this phenomenon across different contexts. While the literature on livelihood diversification in Nepal is relatively sparse, studies from other regions provide valuable insights into the drivers, impacts, and dynamics of this strategy.

2.7 Research Gap and Rationale

Poverty reduction issue is one of the challenging issues in rural Nepal. Livelihood diversification strategy remains best way to get out of poverty. However, the empirical research on this topic remains limited. While there is a wide variety of literature on livelihood diversification in other contexts, such as Sub-Saharan Africa and South Asia, few studies have examined its dynamics in the specific context of rural Nepal. Most of the existing research tends to generalize findings across diverse regions, which may not accurately reflect the realities faced by rural Nepali households. Kavrepalanchok district, particularly Panchkhal epitomizes the challenges and opportunities inherent in rural livelihoods, where traditional agrarian practices intersect with modern economic forces. Home to a vibrant community of farmers, artisans, and entrepreneurs, Panchkhal embodies the resilience and adaptability of rural life in Nepal (Government of Nepal, 2018). However, in recent years, demographic shifts, changing market dynamics, and environmental pressures have compelled residents to explore new livelihood avenues. The scarcity of empirical research at this level means that the unique factors driving livelihood diversification in Panchkhal are not well understood. There is a critical need for in-depth, localized studies that explore how households in Panchkhal are adapting their livelihood strategies in response to various socio-economic and environmental challenges. Understanding these dynamics is essential for designing effective poverty reduction strategies that are responsive to the specific needs and conditions of rural Nepali communities. Moreover, the role of social networks and institutions in influencing the effectiveness of livelihood diversification strategies remains underexplored. Social capital, including the support from social networks, community norms, and local institutions, plays a significant role in shaping the success of livelihood strategies. However, the extent to which these social factors facilitate or hinder access to resources and opportunities in Panchkhal is not well documented.

This study aims to fill these gaps to explore the dynamics of livelihood diversification in Panchkhal municipality. By applying both quantitative and qualitative study, this research can provide a comprehensive understanding of the factors driving livelihood diversification decisions, assess the impacts on household well-being, and identify policy implications for promoting sustainable social development and poverty

reduction. In conclusion, this research contribute to a nuanced understanding of rural livelihood dynamics in Nepal, providing valuable insights for policymakers, practitioners, and scholars interested in livelihood strategies and poverty alleviation.

2.8 Theoretical and Conceptual Framework

2.8.1 Theoretical Framework: Social Capital Theory

The theoretical framework guiding this study on livelihood diversification and poverty reduction in rural Nepal draws upon several complementary theoretical perspectives that collectively explains the dynamic of livelihood strategies and poverty outcomes in the context of rural communities. This study integrates these theoretical perspectives to elucidate the mechanisms through which livelihood diversification influences poverty reduction in rural Nepal. By examining the interplay between assets, institutions, social networks, and poverty dynamics, the study seeks to uncover the pathways through which livelihood diversification strategies contribute to improved well-being and resilience among rural households.

One of the major theoretical approach to explain livelihood diversification is the Sustainable Livelihoods Framework (SLF) provides a holistic lens through which to analyze the multidimensional aspects of livelihoods and poverty. Developed by the Department for International Development (DFID), the SLF posits that livelihoods are influenced by a range of assets (human, social, natural, physical, and financial) and external factors (institutions, policies, markets, and shocks). This framework emphasizes the importance of diversification as a strategy for enhancing livelihood resilience and reducing vulnerability to poverty (DFID, 1999). The Livelihood Strategies Approach (LSA) complements the SLF by focusing on how households navigate livelihood choices in response to socio-economic and environmental dynamics. Rooted in anthropology and development studies, the LSA highlights the agency of individuals and communities in shaping their livelihood trajectories. It underscores the significance of livelihood diversification as a coping mechanism to mitigate risks and capitalize on opportunities, particularly in the face of economic, social, and environmental changes (Carney, 1998). However, this study explored the livelihood diversification strategies and poverty reduction through the lence of social capital theory as discussed by Bourdieu.

By contrast, social Capital Theory, as elucidated by Putnam (2000), offers a compelling framework for understanding the pivotal role of social networks, norms, and trust in shaping individuals' access to resources, information, and opportunities. Within rural contexts, where formal institutions may be limited or inaccessible, social capital assumes heightened significance as a critical resource for community development and poverty reduction. At its core, social capital encompasses the bonds of reciprocity and trust that exist within social networks, whether they be familial, communal, or associative (Putnam, 2000). These networks serve as conduits through which individuals can exchange resources, share knowledge, and provide mutual support. By embedding individuals within supportive social structures, social capital enhances their capacity to mobilize resources and navigate livelihood pathways, particularly in contexts marked by economic uncertainty and resource constraints. In rural settings, where agricultural livelihoods often predominate and access to formal markets may be limited, social capital plays a vital role in facilitating collective action and cooperation among community members (Pretty & Ward, 2001).

Through mechanisms such as informal lending networks, cooperative labor arrangements, and collective decision-making processes, social capital enables communities to pool resources, share risks, and address common challenges collectively. This collective action fosters community resilience by strengthening adaptive capacities and enhancing the effectiveness of local initiatives aimed at poverty reduction. Moreover, social capital contributes to the diffusion of information and innovation within rural communities, thereby enhancing their adaptive capacity in the face of environmental, economic, and social changes (Uphoff, 1999). By fostering a culture of knowledge sharing and mutual learning, social capital enables communities to capitalize on emerging opportunities and address emerging challenges more effectively. Incorporating insights from Bourdieu's sociological perspective enriches our understanding of social capital by emphasizing the role of social structures and symbolic power in shaping individuals' access to resources and opportunities. Bourdieu's theory of social capital underscores the interplay between social, cultural, and economic capital in influencing social mobility and status attainment within society. According to Bourdieu, social capital is embedded within social structures, such as networks of relationships, institutions, and cultural norms, which confer advantages to individuals based on their social position and cultural capital (Bourdieu, 1986).

In rural contexts, where traditional hierarchies and social norms may prevail, social capital manifests through networks of kinship, community affiliations, and shared cultural practices. These social structures not only provide social support and solidarity but also serve as channels for accessing resources and opportunities. Furthermore, Bourdieu's concept of symbolic power highlights the importance of cultural capital in shaping social relationships and influencing access to social and economic resources (Bourdieu, 1986). In rural communities, cultural capital, such as education, skills, and cultural knowledge, can confer prestige and influence within social networks, thereby enhancing individuals' social capital and facilitating their integration into local economies and institutions. Moreover, Bourdieu's theory emphasizes the role of habitus, or the internalized dispositions and practices shaped by social structures, in mediating individuals' interactions with their social environment (Bourdieu, 1984). In rural contexts, habitus influences individuals' perceptions of social norms, values, and expectations, shaping their behavior and decision-making regarding livelihood strategies and community participation. By understanding the interplay between habitus, social capital, and livelihood outcomes, researchers can elucidate the mechanisms through which social structures reproduce inequalities and perpetuate poverty in rural communities.

The theory of social capital is integral to understanding the changing dynamics of livelihood diversification strategies and their impact on poverty reduction in Panchkhal Municipality. Social capital, conceptualized by scholars such as Robert Putnam and Pierre Bourdieu, refers to the resources available within and through social networks, encompassing networks of relationships, norms, and social trust that facilitate coordination and cooperation for mutual benefit (Putnam, 2000; Bourdieu, 1986). In the context of rural Nepal, social capital plays a crucial role in shaping livelihood outcomes and poverty dynamics by enhancing access to resources, promoting collective action, and building community resilience. Firstly, social networks in Panchkhal municipality facilitate access to vital resources and opportunities, such as employment information, credit, and markets, which are essential for livelihood diversification. Trust and reciprocity within these networks enable individuals to share resources and knowledge, aiding engagement in diverse income-generating activities (Ellis, 2000). Moreover, strong social capital fosters collective action, which is essential for community-based initiatives like cooperative

farming, savings groups, and local enterprises. These collective efforts can enhance the economic security of households by pooling resources and collectively investing in infrastructure and services that benefit all community members (Pretty & Ward, 2001). Additionally, social capital enhances community resilience by providing informal safety nets during economic shocks or natural disasters. For example, social networks can offer support through remittances, loans, or shared labor, facilitating the dissemination of innovative practices and technologies that diversify livelihoods and reduce dependency on traditional, often vulnerable, income sources (Adhikari & Lovett, 2006).

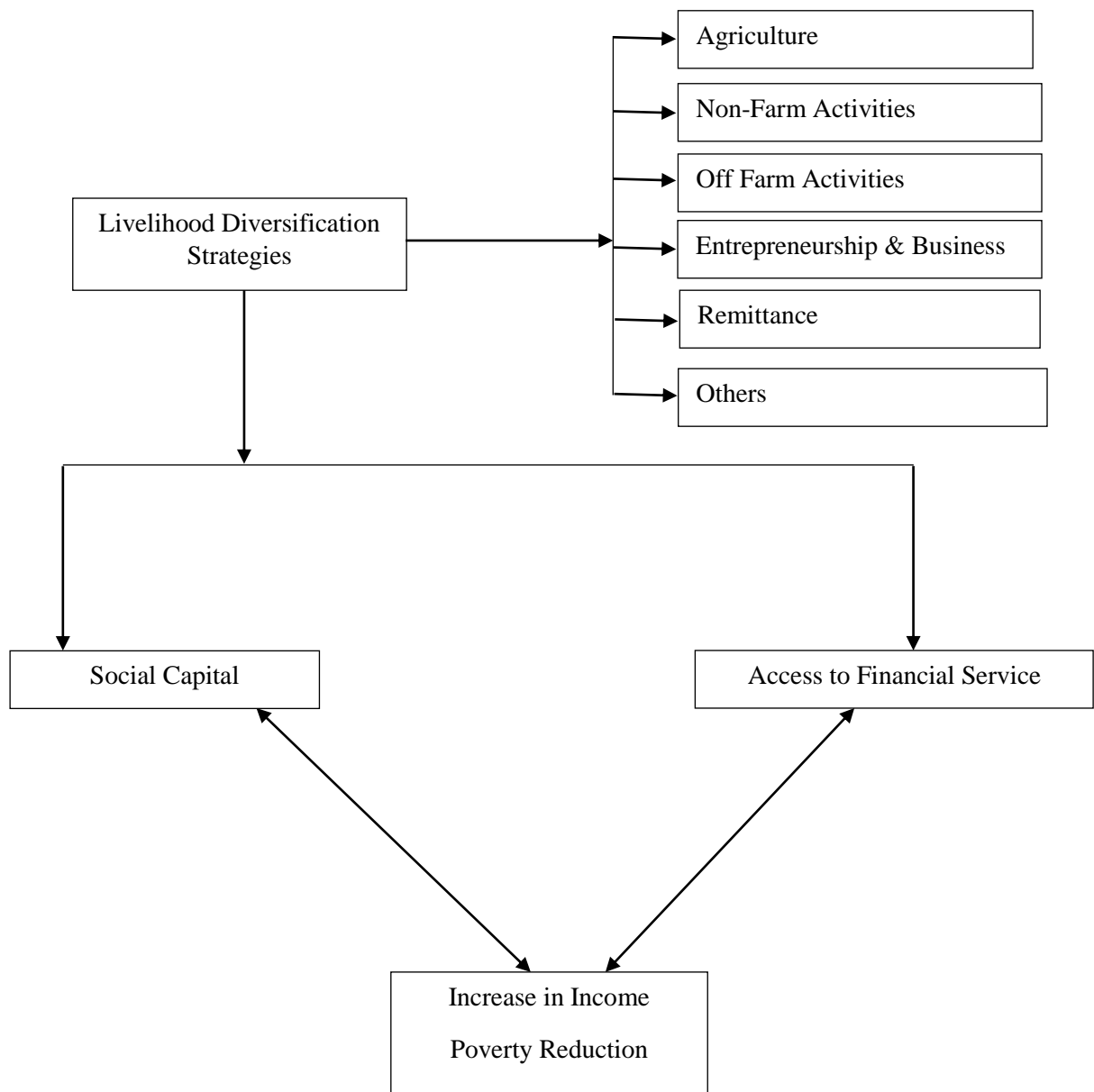
Empirical studies support the significance of social capital in rural livelihoods and poverty reduction. Ellis (2000) highlighted the role of social networks in enabling rural households to diversify livelihoods and reduce vulnerability. Similarly, Pretty and Ward (2001) discussed how social capital supports collective action and sustainable development, while Adhikari and Lovett (2006) examined the impact of community heterogeneity on collective resource management and livelihood outcomes. In Panchkhal municipality, social capital can be explored through various aspects, including household networks, community organizations, and social norms and trust. Household networks facilitate diversification efforts through family and extended relationships, while community organizations like farmer cooperatives and savings groups provide access to inputs, markets, and knowledge. Social norms and trust within the community influence the sharing of information and resources, further supporting livelihood diversification (Putnam, 2000; Bourdieu, 1986). Specific areas to investigate include the role of migration and remittances facilitated by social networks, the impact of agricultural cooperatives on economic activities, and informal social safety nets that help households cope with economic shocks and invest in new livelihood activities.

2.9 Conceptual Framework

A study by Ellis (2000) identifies several key drivers of livelihood diversification, including environmental degradation, population pressure, and changes in market conditions. Similarly, Bebbington (1999) emphasizes the importance of household-level factors such as demographic changes, asset endowments, and risk perception in shaping livelihood diversification decisions. In the context of rural Nepal, Sharma

(2016) highlights the role of land fragmentation, declining agricultural productivity, and limited access to markets as primary drivers of livelihood diversification among rural households. Research by Barrett et al. (2001) suggests that livelihood diversification can have both positive and negative impacts on household well-being, depending on factors such as asset accumulation, risk management, and market integration. In a study conducted in Sub-Saharan Africa, Ellis and Freeman (2004) found that livelihood diversification strategies such as off-farm employment and non-agricultural activities contributed to poverty reduction and income smoothing among rural households. Similarly, Mahmud and Osmani (2008) argue that livelihood diversification can enhance household resilience to shocks and improve overall livelihood security.

Furthermore, social networks and institutions play a crucial role in shaping livelihood diversification outcomes. Berkes and Folke (1998) argue that social capital, defined as the trust, norms, and networks that facilitate collective action, can enhance the resilience of rural communities and support livelihood diversification initiatives. Similarly, Pande and Kaur (2020) emphasize the importance of institutional support and government policies in promoting sustainable livelihood diversification strategies. Despite its potential benefits, livelihood diversification is not without challenges. Research by Scoones (1998) highlights the risks associated with livelihood diversification, including increased vulnerability to market fluctuations, social exclusion, and environmental degradation. In the context of rural Nepal, Shrestha et al. (2014) identify limited access to credit, inadequate infrastructure, and lack of market information as key barriers to livelihood diversification among smallholder farmers.

Figure 1*Conceptual Framework*

CHAPTER III

RESEARCH METHODOLOGY

This chapter includes methods of whole research particularly research philosophy, method and design, nature and sources of data, population and sample, sampling strategy, data collection strategy, data collection tools, and data analysis technique.

3.1 Research Philosophy

The research philosophy underpinning this study on livelihood diversification and poverty reduction in Panchkhal municipality is characterized by a pragmatic approach that seeks to combine elements of positivism and interpretivism to generate comprehensive insights into the complex dynamics of rural livelihoods. Positivism serves as the foundational framework for this research, emphasizing the objective and empirical investigation of social phenomena (Bryman, 2016). Through the application of quantitative methods such as surveys and statistical analysis, positivism allows for the systematic examination of relationships between variables, enabling the identification of patterns and trends in livelihood diversification and poverty reduction outcomes. In addition to positivism, interpretivism plays a crucial role in shaping the research philosophy by highlighting the importance of understanding the subjective meanings and lived experiences of individuals and communities (Denzin & Lincoln, 2018). Through qualitative methods such as interviews, focus groups, and participant observation, interpretivism facilitates the exploration of context-specific factors shaping livelihood diversification decisions and poverty reduction strategies in Panchkhal.

Therefore, this study used pragmatism serves as the overarching philosophy that guides this research, integrating elements of both positivism and interpretivism to address the research questions in a holistic and context-sensitive manner (Creswell & Creswell, 2017). By adopting a pragmatic stance, this study recognizes the value of employing multiple research methods and approaches to triangulate findings, validate interpretations, and ensure methodological rigor. Moreover, pragmatism acknowledges the dynamic and ever-changing nature of social phenomena, encouraging flexibility and adaptability in research design and data collection strategies to capture the complexity and nuances of livelihood diversification dynamics in Panchkhal.

The nature of research on livelihood diversification and poverty reduction necessitates a multidimensional approach that captures both objective economic patterns and subjective lived experiences. Since livelihood diversification involves various interconnected factors—such as economic opportunities, household decisions, environmental constraints, and social structures—it cannot be fully understood through a single epistemological lens. A positivist perspective enables the systematic examination of quantifiable aspects, such as income levels, employment patterns, and poverty indicators, using statistical analysis and empirical validation. This approach helps establish clear relationships between livelihood strategies and poverty reduction, allowing for generalizable conclusions. However, poverty and livelihood choices are also deeply rooted in social and cultural contexts, making it necessary to explore people's perceptions, motivations, and experiences beyond statistical data.

Given this condition, a pragmatic research philosophy is most suitable for studying livelihood diversification and poverty reduction. Pragmatism allows for the integration of both positivist and interpretivist approaches, recognizing that social realities are shaped by both measurable economic conditions and subjective human experiences. By combining quantitative surveys, statistical techniques, and qualitative methods such as interviews and focus groups, this research can provide a more holistic understanding of how different livelihood strategies contribute to poverty alleviation in Panchkhal Municipality. Additionally, pragmatism supports flexibility and adaptability in research design, ensuring that evolving social, economic, and environmental factors influencing livelihoods are adequately captured. This context-sensitive approach is essential in understanding the diverse strategies adopted by households and their long-term impact on poverty reduction.

3.2 Research Method and Design

This study follows a mixed-method design combining quantitative household surveys with qualitative interviews to explore the key livelihood strategies and its impact on poverty reduction. This approach offers several advantages, allowing for an exploration of the research questions while capturing both the breadth and depth of the phenomena under investigation (Creswell & Clark, 2018).

The quantitative component of the research design provides statistical insights and enhances the generalizability of findings across a larger population. Surveys and structured questionnaires can be used to collect quantitative data on household demographics, livelihood portfolios, income sources, asset ownership, and poverty indicators (Bryman, 2016). Statistical analysis techniques such as regression analysis, correlation, and descriptive statistics enable researchers to identify patterns, trends, and relationships between variables, thereby enriching the quantitative understanding of livelihood diversification and poverty reduction dynamics in Nepal.

Similarly, the qualitative component of the research design enables an in-depth understanding of the experiences, perspectives, and lived realities of individuals and communities in Panchkhal. Through qualitative methods such as interviews, focus groups, and participant observation, researchers can delve into the nuances of livelihood diversification decisions, poverty experiences, and socio-cultural dynamics shaping livelihood strategies (Denzin & Lincoln, 2018). By engaging directly with participants and eliciting rich narratives and insights, the qualitative component adds depth and context to the study, offering a holistic understanding of the complex interplay between changing livelihood strategies and poverty dynamics.

In parallel, by combining multiple data sources and analysis techniques, the mixed-methods approach facilitates triangulation of findings, validation of interpretations, and generation of rich, multifaceted insights into the research phenomena (Creswell & Clark, 2018). Qualitative and quantitative data can be integrated at various stages of the research process, including data collection, analysis, and interpretation, allowing researchers to cross-validate findings and uncover nuanced patterns and associations. This integration enhances the robustness and validity of the study's conclusions, contributing to a more comprehensive understanding of the complex interplay between livelihood strategies and poverty dynamics in Nepal.

3.3 Universe, Population and Sample Selection

In this study, the universe refers to the entire population, which comprises households residing in Panchkhal municipality, Kavre, Nepal. The population includes households in the village, regardless of their socio-economic status, livelihood strategies, or demographic characteristics. According to 2021 census the total

population of Panchkhal Municipality Ward No 3 is 2263 altogether comprising 1108 male and 1155 female (Panchkhal Municipality Annual Report, 2080). Given the practical constraints of studying the entire population, a sample of 101 people with most convenience were selected to represent the larger population. Later on, out of the 101 sample, nine respondents were selected purposively for more information as key informants for in-depth interview. The sample size depends on factors such as the research objectives, budgetary constraints, and statistical considerations (Bryman, 2016). The use of sample size estimation formula for sample size determination was essential. However, it was quite difficult to reach towards whole respondents of being selected in sample with random sampling. Therefore, this study tried to select sample with utmost representation of the total population.

The sample aims to capture the diversity of livelihood strategies and poverty experiences within Panchkhal while ensuring adequate representation of different demographic groups and geographic locations. The sample selection process involved several steps to ensure its representativeness and validity. Data was collected through purposive sampling. Once the sampling method was chosen, households were selected accordingly, and data collection had been conducted using a combination of qualitative and quantitative methods, as described in the research design section. Informed consent from participants and ensure ethical considerations are adhered to throughout the research process. Panchkhal Municipality in Kavrepalanchowk district is home to a diverse population consisting of various ethnic groups, including Brahmins, Chhetris, Tamangs, Danuwar, and Newars. The literacy rate is steadily increasing as educational awareness grows among residents. Geographically, it consists of hills and some plain areas. It consists of both rural village and emerging local market. The climate is temperate, with cool winters and warm summers, creating a conducive environment for agriculture. Agriculture forms the backbone of Ward 3's economy, with most residents engaged in farming activities.

Major crops include rice, maize, and a variety of cash crops. In addition to farming, small businesses such as local shops and markets cater to the community's daily needs, and some residents find employment in teaching, government services, and labor work in nearby towns or abroad. Efforts to improve infrastructure in Ward 3 are ongoing, focusing on the construction and maintenance of roads, electricity supply,

and water facilities. Educational facilities are being enhanced, with several primary and secondary schools providing education to the local children. Healthcare services are available through local health posts and clinics, with projects underway to improve access to medical care. These development initiatives aim to raise the overall quality of life for the residents.

Despite progress, challenges such as further infrastructure development, economic diversification, and access to quality healthcare and education, poverty remain major issues to be addressed. Addressing these challenges is a priority for future development efforts to ensure sustainable growth and improved living standards for the community. Ward number 3 of Panchkhal Municipality is an exemplary site for studying livelihood diversification and poverty reduction due to its typical representation of rural Nepal. The ward's socio-economic and geographic characteristics mirror those of many other rural areas in the country, where agriculture is the primary livelihood and poverty remains a significant challenge. Insights gained from this site can be generalized to similar rural contexts across Nepal, making it a valuable case study for broader policy implications. The presence of diverse economic activities in Ward 3, including agriculture, employment, foreign employment, animal husbandry, and small-scale businesses, provides a rich context for examining how different livelihood strategies can coexist and complement each other. Studying how residents diversify their income sources to enhance resilience against economic and environmental shocks can offer practical lessons for promoting sustainable livelihoods in rural areas. This diversity makes it an ideal site to explore how integrating various economic activities can contribute to poverty reduction.

3.4 Data Collection

For this study on livelihood diversification and poverty reduction in Panchkhal municipality, Kavre, a combination of qualitative and quantitative data collection techniques and tools employed to capture the complexity and richness of the research phenomena. Data were collected through a combination of quantitative surveys, qualitative interviews, and observation.

Quantitative surveys were administered to a representative sample of individuals using structured questionnaires. Qualitative data gathered through in-depth interviews

and focus group discussions with key stakeholders, including community members, policymakers, and representatives from non-governmental organizations (NGOs). Purposive sampling were employed to select participants for qualitative data collection.

a. Quantitative Data Collection:

Quantitative data were collected through structured surveys administered to a representative sample of individuals across various regions of Nepal. The sampling procedure utilized stratified random sampling to ensure diversity in socio-economic backgrounds, geographical locations, and gender identities. The survey instrument included closed-ended questions pertaining to demographic information, livelihood strategies, economic activities, gender roles, and poverty. Data collection methods include face-to-face interviews and online surveys, with trained enumerators conducting interviews in local languages. Structured questionnaires can be used to collect quantitative data on household demographics, livelihood strategies, income sources, asset ownership, and poverty indicators. The questionnaire can include closed-ended questions with predefined response options to facilitate data analysis and comparison across households (Bryman, 2016).

b. Qualitative Data Collection:

Qualitative data were gathered through in-depth interviews and focus group discussions with key stakeholders, including community members, policymakers, and representatives from non-governmental organizations. Purposive sampling was employed to select participants who can provide rich insights into the research topic. Semi-structured interview guides were used to facilitate discussions on participants' experiences, perspectives, and perceptions related to changing livelihood strategies and poverty. Data collection prioritized confidentiality, respect for participants' autonomy, and cultural sensitivity. Semi-structured interviews conducted with key informants, such as household heads, community leaders, and local stakeholders, to gain in-depth insights into their experiences, perceptions, and livelihood strategies. Open-ended questions can be used to explore individual narratives, challenges, and aspirations related to livelihood diversification and poverty reduction (Creswell &

Creswell, 2017). Focus group discussions were organized with groups of households or community members to facilitate group interaction and collective reflection on livelihood issues. Themes such as barriers to livelihood diversification, community resources, and social networks can be explored through guided discussions, allowing for diverse perspectives and shared experiences to emerge (Morgan, 2014). Researchers can engage in participant observation by immersing themselves in the daily lives and activities of households and communities in Panchkhal municipality. This approach allows for firsthand observation of livelihood practices, social interactions, and contextual factors shaping livelihood diversification and poverty dynamics (Denzin & Lincoln, 2018).

Qualitative data was gathered through in-depth interviews with key informants. Purposive sampling was employed to select participants for qualitative data collection. Data collection was prioritized confidentiality, respect for participants' autonomy, and cultural sensitivity. Semi-structured interviews were conducted with key informants, such as household heads, community leaders, and local stakeholders, to gain in-depth insights into their experiences, perceptions, and livelihood strategies. Open-ended questions were used to explore individual narratives, challenges, and aspirations related to livelihood diversification and poverty reduction (Creswell & Creswell, 2017). Themes such as barriers to livelihood diversification, community resources, and social networks can be explored through guided discussions, allowing for diverse perspectives and shared experiences to emerge (Morgan, 2014). Researchers can engage in participant observation by immersing themselves in the daily lives and activities of households and communities in Panchkhal municipality. This approach allows for firsthand observation of livelihood practices, social interactions, and contextual factors shaping livelihood diversification and poverty dynamics (Denzin & Lincoln, 2018).

3.5 Data Analysis Techniques

In this study on livelihood diversification and poverty reduction in Panchkhal, Nepal, a combination of quantitative and qualitative data analysis techniques were employed to derive meaningful insights and interpretations from the collected data.

a. Quantitative Data Analysis:

Quantitative data analysis involves descriptive statistics, such as frequencies, percentages, and measures of central tendency, to summarize participants' demographic characteristics and livelihood strategies. Inferential statistical techniques, such as correlation analysis and regression analysis, were employed to examine relationships between variables and identify predictors of gender impact on livelihood strategies. Statistical software, such as SPSS, were utilized to analyze the quantitative data.

Descriptive Statistics: Quantitative data collected through surveys, such as household demographics, income sources, and poverty indicators, were analyzed using descriptive statistics. Measures such as means, frequencies, and percentages were calculated to summarize the characteristics of the sample population and key variables (Bryman, 2016).

Inferential Statistics: Statistical techniques such as regression analysis, correlation, and hypothesis testing were used to explore relationships between variables and test research hypotheses. These analyses allow researchers to identify patterns, associations, and predictors of livelihood diversification and poverty reduction outcomes (Field, 2013).

b. Qualitative Data Analysis:

Qualitative data analysis followed thematic analysis techniques, whereby interview transcripts and focus group discussions were coded and categorized into themes and patterns related to changing livelihood strategies and poverty reduction. The identified themes were interpreted and synthesized to generate rich narratives that capture the complexity of participants' experiences and perspectives.

Thematic Analysis: Qualitative data from interviews, focus groups, and participant observation were analyzed using thematic analysis. This involves systematically identifying, organizing, and interpreting patterns or themes within the data, allowing researchers to uncover underlying meanings, experiences, and perspectives related to

livelihood strategies and poverty dynamics (Braun & Clarke, 2006). Responses from respondents during interview and focus group discussion were recorded. Key themes identified and organized from interview excerpts. These themes were analyzed systematically.

Content Analysis: Document analysis and other textual data may be subjected to content analysis, wherein the text is systematically coded and categorized to identify recurring themes, concepts, or discourses. This approach provides a structured method for analyzing qualitative data and deriving insights from large volumes of text (Hsieh & Shannon, 2005). This study utilized content analysis as technique for the analysis of secondary data of various texts found in literatures related to livelihood diversification and poverty reduction.

Mixed-Methods Analysis: Quantitative and qualitative data were integrated and analyzed iteratively to triangulate findings, validate interpretations, and generate comprehensive insights into the research phenomena. This involved comparing quantitative trends with qualitative narratives, exploring divergent or convergent patterns across data sources, and synthesizing findings to develop a nuanced understanding of livelihood diversification and poverty reduction dynamics (Creswell & Creswell, 2017).

The interpretation of findings involved synthesizing quantitative and qualitative results to develop coherent narratives and explanations of the research outcomes. This entailed identifying overarching themes, drawing connections between variables, contextualizing findings within theoretical frameworks, and discussing implications for policy and practice (Creswell & Creswell, 2017).

3.6 Variables and Measurement Scale

Livelihood diversification and poverty reduction in Panchkhal Municipality, the variables used can be categorized into two main groups based on the research questions. Each type of variable has a specific measurement scale and requires an appropriate statistical approach for analysis.

Key Livelihood Strategies

The first research question focuses on identifying the key livelihood strategies employed by households in Panchkhal Municipality. These livelihood strategies are categorical variables, as they represent different economic activities that households engage in without any inherent ranking or order. Examples of such strategies include agriculture, small business, wage labor, livestock farming, self-employment, foreign employment, and government jobs. Since these categories are distinct but not ranked, they are measured on a nominal scale.

To analyze these categorical variables, descriptive statistics are used. The most common approaches include frequency tables, pie charts, and histograms, which help in understanding the distribution of livelihood strategies among households. A frequency table presents the number of households engaged in each strategy, while a pie chart visually represents the proportion of each strategy within the total sample. Additionally, histograms may be used to illustrate the overall distribution of livelihood choices in a more detailed manner. These descriptive tools provide insights into the most and least adopted livelihood strategies in Panchkhal, helping to establish a baseline understanding of household economic activities.

Livelihood Diversification and Poverty Reduction

The second research question examines the relationship between livelihood diversification and poverty reduction in Panchkhal Municipality. In this context, livelihood diversification is treated as an independent variable, while poverty reduction is considered the dependent variable. The measurement scale for these variables varies depending on how they are defined. Livelihood diversification can be measured in two ways. It may be treated as a categorical variable (e.g., single vs. multiple livelihood strategies) or as an ordinal variable if classified into different levels such as low, moderate, and high diversification. On the other hand, poverty reduction can be measured using various indicators such as income levels, household assets, food security, or access to education and healthcare. If measured through income levels, it is a continuous variable (ratio scale), whereas if categorized into poverty levels (e.g., below poverty line, near poverty line, above poverty line), it becomes an ordinal variable.

To analyze the relationship between livelihood diversification and poverty reduction, inferential statistical methods are applied. If both variables are categorical, a Chi-square test can be used to examine whether livelihood diversification is significantly associated with poverty reduction. If poverty reduction is measured as a continuous variable, methods such ANOVA (Analysis of Variance), or regression analysis were employed to assess differences in income levels across different livelihood diversification groups. Regression analysis, particularly multiple regression models, can help determine the extent to which diversification influences income growth and poverty reduction while controlling for other factors.

3.7 Ethical Considerations

Ethical considerations are important in conducting the research. Measures were implemented to ensure the protection of participants' rights, confidentiality, and informed consent throughout the research process. Ethical approval was obtained from the relevant institutional review board prior to data collection. Informed consent was received from all participants. The comprehensive information about the research, including its purpose, procedures, potential risks, and benefits were provided to all respondents. They were informed of their right to decline participation or withdraw from the study at any point without any consequences. Consent forms designed in simple and clear language, and verbal consent recorded where literacy is a concern. Participants' anonymity and confidentiality were maintained through the use of anonymized data and secure storage procedures. Additionally, efforts were made to minimize any potential harm or discomfort to participants during data collection and analysis. Sensitive questions were handled with care, and participants had the option to skip any questions that make them uncomfortable. Participants were informed about how the findings of the research would be used and shared.

By adhering to these ethical principles, the research aims to respect and protect the rights and well-being of all participants, ensuring that the study was conducted with the highest ethical standards.

3.8 Personal Reflection

Panchkhal Municipality, located in Kavre District, is a diverse community with a mix of Brahmin, Chhetri, Danuwar, Newar, Dalit, and other ethnic groups. Over the years, significant changes have been observed in the economic and social landscape, with a

gradual shift in livelihood strategies contributing to poverty reduction. Historically, agriculture has been the primary source of livelihood for the people of Panchkhal. Most families relied on subsistence farming, with some involvement in livestock and poultry farming. Collective labor was common during harvesting seasons, fostering a sense of community cooperation. However, the vulnerability of farmers was evident due to natural disasters such as floods, droughts, and diseases, which could easily push families into poverty. Moreover, caste-based occupations existed, but workers faced discrimination and received meager wages for their work. Gender discrimination was also prevalent, with women confined to household and agricultural labor while men sought employment outside the home. The literacy rate was relatively low, though gradually improving, leading to limited employment opportunities beyond agriculture.

Due to the lack of sufficient educational institutions and government offices, many people sought employment opportunities outside Panchkhal. Some migrated to nearby cities such as Banepa and Kathmandu for better job prospects, while others moved seasonally for employment. Over time, a small portion of the population started migrating abroad for foreign employment and education. The construction of the Araniko Highway was a significant milestone that catalyzed economic transformation in Panchkhal. Small markets began emerging, making it easier for farmers to sell their produce. Buyers started visiting fields directly, improving market accessibility. This infrastructure development encouraged people to diversify their livelihood strategies, shifting towards small businesses, wage employment, and foreign employment while still retaining a connection to agriculture.

Previously, financial institutions were absent in Panchkhal, forcing residents to travel to nearby cities such as Dhulikhel and Banepa for banking services. The emergence of cooperatives provided limited financial services initially, but over time, commercial banks, development banks, and microfinance institutions were established. This improved access to financial resources, empowering people to invest in diverse economic activities. Furthermore, inclusion in social and political institutions was limited in the past, with a few dominant individuals holding key positions for extended periods. Over time, increased awareness and policy changes have led to greater participation of marginalized groups in decision-making processes, enhancing social equity.

The 2015 earthquake (2072 BS) and recurrent landslides in rural parts of Kavre, Sindhupalchowk, and Ramechhap led to a rapid migration influx into Panchkhal. Many displaced families sought refuge and new opportunities in the municipality, contributing to demographic and economic shifts. The influx of migrants also diversified the local economy, increasing demand for services and infrastructure. Today, a single livelihood strategy is no longer sufficient to sustain families in Panchkhal. While agriculture remains a significant occupation due to the availability of fertile land, many people have adopted multiple livelihood strategies, including small businesses, entrepreneurship, and formal employment. Those who engage in diverse economic activities tend to have higher incomes and better resilience against economic shocks. Education levels have risen, and caste-based discrimination has declined, although remnants still exist. Improved infrastructure, such as roads, schools, health posts, ward offices, municipality offices, police stations, irrigation systems, and cold storage facilities, has facilitated economic diversification. Access to communication technology and financial institutions has further enabled people to explore new opportunities beyond traditional agriculture.

Younger generations in Panchkhal are increasingly uninterested in traditional farming methods and seek alternative career paths. They aspire to engage in modernized agriculture, entrepreneurship, and employment in diverse sectors. Local residents are also adapting to changing economic conditions by incorporating innovative strategies into their livelihoods. The overall improvement in education, healthcare, income opportunities, financial accessibility, social inclusion, and community engagement has significantly contributed to poverty reduction in Panchkhal. With continued infrastructure development and economic diversification, the municipality is gradually moving towards a more sustainable and prosperous future.

CHAPTER IV

KEY LIVELIHOOD STRATEGIES IN PANCHKHAL, KAVRE

4.1 Demographic Features of Panchkhal Municipality Ward Number 3

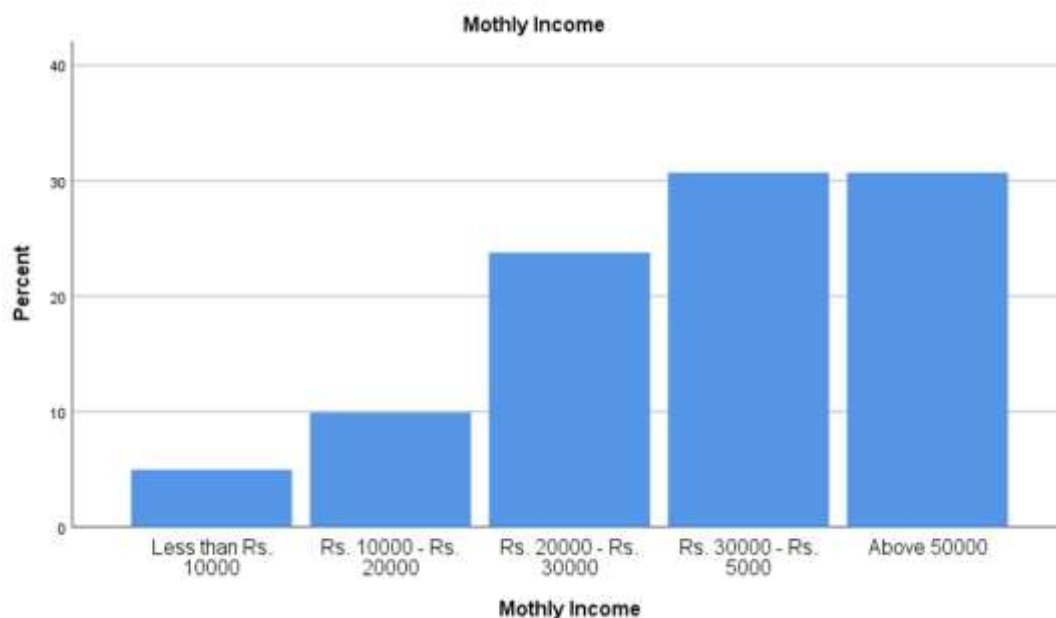
The demographic characteristics of Ward number 3 in Panchkhal Municipality reflect a diverse and vibrant community, making it an intriguing site for studying livelihood diversification and poverty reduction. The population of the ward comprises a mix of ethnic groups, including Brahmins, Chhetris, Tamangs, Danuwar and Newars. This cultural diversity indicates a variety of traditional practices, skills, and livelihoods that could influence how households diversify their income sources.

The ward likely has a mix of age groups, with a significant proportion of the population engaged in agricultural activities. Youth and working-age populations present opportunities for exploring alternative income-generating activities, while elderly members might depend more on traditional livelihoods or family support. While the literacy rate is improving, disparities in access to education may still exist, particularly among women and marginalized groups. Education levels play a crucial role in determining the ability to diversify livelihoods and adapt to new economic opportunities. Households in the ward vary from nuclear to extended family structures. Larger households may have more labor resources but could also face greater economic pressures, influencing decisions around livelihood diversification. The demographic composition suggests that the majority of households are engaged in agriculture and animal husbandry. However, some members may seek employment in nearby towns, abroad, or in non-agricultural sectors, highlighting the dynamics of rural-urban and international migration as part of livelihood strategies. Gender dynamics likely play a significant role in livelihood activities. Women may predominantly handle agricultural and household tasks, while men may engage in labor-intensive or external employment opportunities. Understanding these roles is essential for designing inclusive poverty reduction programs.

Income

Figure 2

Distribution of Income



Source: Fieldwork, 2081.

The bar chart illustrates the monthly income distribution of households in the study area, categorized into five income brackets. The x-axis represents income ranges, while the y-axis indicates the percentage of households within each category. This analysis highlights the economic diversity and income disparities within the community. A small proportion, about 10% of households, falls into the lowest income bracket, earning less than Rs. 10,000 per month. This group represents the most economically vulnerable segment of the population, likely facing challenges in meeting basic needs. Another 10% of households earn between Rs. 10,000 and Rs. 20,000, reflecting a slight improvement in income but still within a modest range.

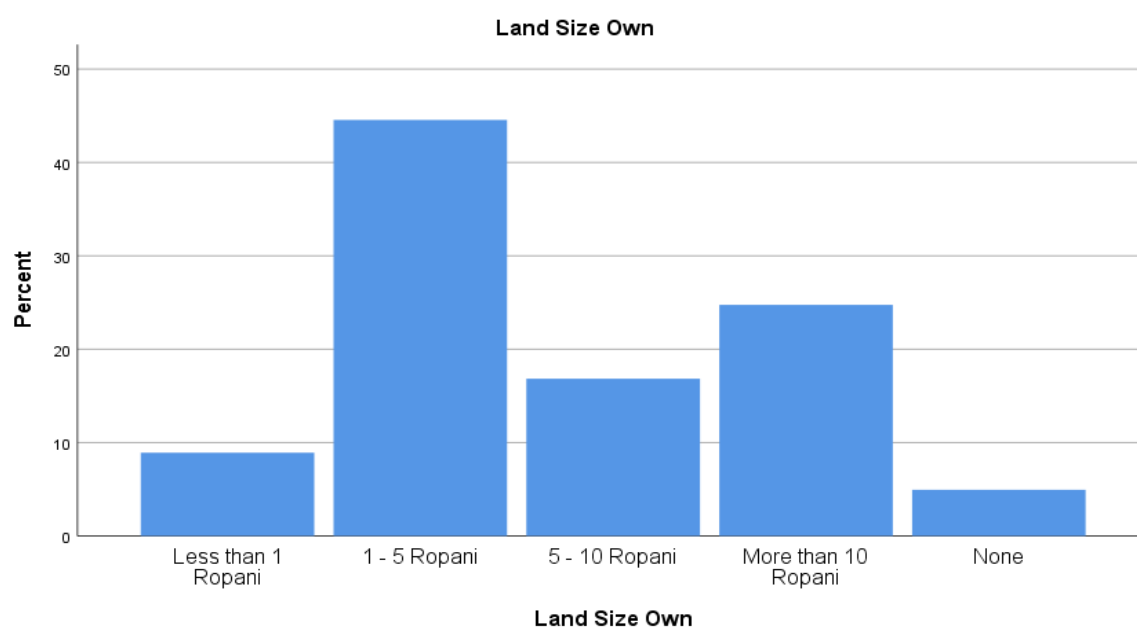
Moderate-income households, earning between Rs. 20,000 and Rs. 30,000, make up around 20% of the population. These families may have somewhat diversified livelihoods, balancing agricultural activities with other sources of income. This group is positioned between the lower and higher-income categories, reflecting a gradual economic progression. The largest segments of households are in the higher income brackets. About 30% of households earn between Rs. 30,000 and Rs. 50,000, while

another 30% earn above Rs. 50,000 per month. These higher-income groups likely benefit from successful livelihood diversification, such as engaging in small businesses, skilled labor, or receiving remittances from family members working abroad. This distribution suggests economic stability for a significant portion of the community, though disparities still exist. Overall, the chart reveals a concentration of households in the higher income brackets but also underscores the presence of economically vulnerable groups in the lower brackets. This data highlights opportunities for enhancing livelihoods and addressing income disparities, particularly for those in the lowest income categories.

Land Size Ownership

Figure 3

Distribution of Land Size Ownership



Source: Fieldwork, 2081

The bar chart displays the distribution of households based on the size of land they own, categorized into five groups. The x-axis represents land ownership in terms of *ropanis* (a unit of land measurement in Nepal), while the y-axis indicates the percentage of households within each category. This data sheds light on land ownership patterns, which are critical for understanding economic activities and livelihoods in the area.

The majority of households, approximately 45%, own between 1 and 5 ropanis of land. This indicates that small-scale landholding is common, likely supporting subsistence farming or small agricultural activities. Such land sizes are generally sufficient for cultivating staple crops and maintaining a modest level of livelihood security. Around 20% of households own between 5 and 10 ropanis of land. These families may have slightly larger farming operations, potentially producing surplus crops for sale in local markets. Additionally, about 20% of households fall into the category of owning more than 10 ropanis of land, representing the largest landholders. These households are more likely to engage in commercial agriculture or other land-intensive activities, contributing to economic stability and diversification. At the lower end, 10% of households own less than 1 ropani of land. These households are likely more vulnerable, as such small landholdings may not suffice for subsistence farming. Additionally, a very small percentage, less than 5%, report owning no land at all. This group is at the highest economic risk, relying on alternative livelihoods such as wage labor or renting land for cultivation. Overall, the chart highlights a significant disparity in land ownership, with most households owning small to medium-sized plots. While some have sufficient or surplus land for diverse economic activities, others face challenges due to limited or no landholding. This variation underscores the importance of exploring alternative livelihood strategies for land-poor households and maximizing the productivity of small-scale farms for poverty reduction.

4.2 Key Livelihood Diversification Strategies

The table provides an overview of the involvement of households in various livelihood activities in the study area. It highlights the extent to which households participate in agriculture, non-farm activities, off-farm activities, entrepreneurship and business, remittances, and other forms of income generation.

Table 1*Frequency Distribution of Livelihood Strategies Key Livelihood Strategies*

		Frequency	Percentage
Agriculture	Yes	81	80.2
	No	20	19.8
Non-farm activities	Yes	25	24.8
	No	75	74.3
Off farm activities	Yes	23	22.8
	No	78	77.2
Entrepreneurship and Business	Yes	38	37.6
	No	63	62.4
Remittances	Yes	35	34.7
	No	66	65.3
Others	Yes	27	26.7
	No	7170.3	

Source: Fieldwork, 2081.

The data in the frequency distribution table shows households have adopted two or more livelihood diversification strategies as their primary income sources since 83.2% of respondents participate but 16.8% depend on a single source. Diversification proves important because it represents a normal practice for the study population as seen through this data finding. Rural households in developing economies tend to use multiple income sources according to Ellis (2000) to reduce risks and achieve financial stability. Multiple livelihood strategies use among households substantiates that diversification operates extensively as an accepted method to tolerate economic unpredictability and boost survival capacity.

Moreover, the responses from the nine participants indicate a range of livelihood activities adopted by the inhabitants of Panchkhal Municipality Ward No. 3. These key six diversifying activities include:

1. Agriculture

This remains a traditional and primary occupation for many respondents. Agriculture has been passed down through generations, and it continues to be a significant source

of livelihood for families. The most agricultural production are cash crops and seasonal farming such as potato, tomato, chillies, paddy, maize, corn, cabbage, cauliflower, okra and so on. Panchkhal remains one of the productive lands in Nepal.

One 45 years responded who works in agricultural sector had response like;

“Farming is our main source of living. We grow maize, tomatoes, and potatoes. Some of it we sell in Banepa market, and some we keep for ourselves. Even though my son works in Kathmandu, we haven’t stopped farming. It gives us food security and some income during harvest seasons.”

This aligns with findings by Ellis (2000), who notes that agriculture often remains a fundamental component of rural livelihoods due to its historical and cultural significance. Agriculture has traditionally been the backbone of rural economies, particularly in developing countries. It provides not only food and income but also employment opportunities for a large segment of the population. However, in recent decades, there has been a notable shift towards livelihood diversification, where households seek to diversify their income sources beyond agriculture. This diversification is driven by the need to reduce risks, improve household income, and enhance resilience to economic and environmental shocks. Agriculture remains a primary source of livelihood for many rural households. It is deeply embedded in cultural and social practices, often being passed down through generations. In Nepal, agriculture is a significant part of the economy, employing about 65% of the population and contributing around 27% to the GDP (World Bank, 2020). Traditional farming practices, such as crop cultivation and livestock rearing, are fundamental to the livelihoods of rural communities. Even as households diversify, agriculture continues to play a critical role. Many rural families adopt a mixed strategy that combines agricultural and non-agricultural activities. For example, in Panchkhal Municipality, respondents reported engaging in agriculture alongside business ventures, jobs, and remittance-related activities. This hybrid approach allows households to leverage their existing agricultural knowledge and resources while exploring new economic opportunities. In Panchkhal Municipality, agriculture remains a foundational activity, but households are increasingly diversifying their livelihoods:

Respondent engages in agriculture, poultry farming, and business, supplemented by remittances. Respondents engage at least two livelihood diversification strategies. This pattern reflects broader trends in rural Nepal, where livelihood diversification is driven by the need to enhance economic security and reduce poverty. Agriculture continues to be a vital component of rural livelihoods, but diversification into non-agricultural activities is essential for economic stability and growth. By adopting a mix of income-generating activities, households can mitigate the risks associated with agricultural dependence and improve their overall well-being. The role of agriculture in a diversified livelihood portfolio highlights its enduring significance while underscoring the necessity of broadening economic opportunities for rural communities.

2. Non Farm Activities

Many respondents have diversified into various business ventures. These include poultry farming, leveraging funds from shareholders for new business initiatives, and borrowing loans from friends and relatives to start businesses.

One respondent who was running own shop had another kinds of response:

“I started a small shop selling groceries with support from a local cooperative. It’s not big, but it helps cover daily expenses when farming doesn’t give us enough. Also, we began poultry farming two years ago. Initially, it was tough, but now we supply eggs to nearby towns and have a steady income.”

Business activities provide an additional source of income and economic stability. This is consistent with research by Barrett et al. (2001), who found that non-farm business activities can significantly contribute to household income and reduce poverty. Business activities play a crucial role in livelihood diversification, particularly in rural areas where traditional agricultural practices alone may not suffice to meet household economic needs. In the context of Panchkhal Municipality Ward No. 3, the integration of business ventures into household livelihood strategies illustrates a significant shift towards economic diversification and resilience. Several respondents reported engaging in various business activities alongside traditional

agricultural practices, indicating a hybrid approach to income generation. For instance, one respondent mentioned involvement in poultry farming and running a side business, while another respondent highlighted a combination of private job employment, property rental, and continued agricultural activities. This diversification into business ventures enables households to leverage additional income streams, reduce dependency on a single source of income, and mitigate risks associated with agricultural uncertainties (Barrett et al., 2001; Ellis, 2000).

The incorporation of business activities into livelihood strategies is not only a response to economic necessity but also a reflection of increasing opportunities and changing socio-economic dynamics. In Panchkhal, business ventures range from small-scale retail operations to more formal enterprises, supported by social networks and community ties. Respondent 8, for example, mentioned borrowing funds from friends and relatives to start a business, showcasing the role of social capital in facilitating entrepreneurial activities (Putnam, 2000). Such diversification allows households to invest in education, health, and other welfare-enhancing areas, thereby contributing to poverty reduction and improved living standards. The shift towards business-oriented diversification aligns with broader trends observed in rural Nepal, where non-farm activities are becoming an essential component of rural livelihoods (Reardon et al., 2001). By integrating business activities, households in Panchkhal Municipality can achieve greater economic stability and resilience, underscoring the importance of diversified livelihood strategies in contemporary rural economies.

3. Off Farm Activities/Jobs

Employment in private or public sectors is another common livelihood activity. Jobs offer steady income and can complement other income-generating activities. According to Reardon (1997), wage employment is an important component of rural livelihood diversification. Employment in non-agricultural jobs is a critical aspect of livelihood diversification, providing a reliable income stream that can complement traditional agricultural activities. In Panchkhal Municipality Ward No. 3, several respondents reported engaging in various jobs alongside their agricultural practices. For instance, one respondent mentioned working in a private job while also continuing with agriculture and renting out property. Similarly, another respondent highlighted a combination of employment, agriculture, and business activities.

One 38 years female teacher had response like;

“I work as a school teacher nearby. The salary helps us manage medical expenses and my children’s education. However, “during the off-season, I do sharecropping. It’s hard work, but it fills the income gap when there’s no harvest.”

This diversification into non-agricultural employment reflects a broader trend in rural areas, where households seek to stabilize and enhance their incomes by integrating wage labor into their livelihood strategies (Barrett et al., 2001). By securing jobs, individuals can mitigate the risks associated with agricultural income variability due to factors like climate change, market fluctuations, and land fragmentation (Ellis, 2000).

The engagement in non-agricultural jobs is facilitated by various factors, including education, skill development, and access to employment opportunities. One respondent, for example, indicated having multiple sources of income through different job engagements, which not only provides financial stability but also opportunities for economic advancement. Jobs in sectors such as education, healthcare, and retail not only offer steady incomes but also social benefits like healthcare and pensions, contributing to long-term economic security (Reardon et al., 1998). This shift towards incorporating wage labor into livelihood strategies aligns with the findings of De Haan and Zoomers (2005), who emphasized that diversified livelihood portfolios are essential for reducing poverty and enhancing household resilience. The ability to engage in non-agricultural employment thus enables households in Panchkhal Municipality to achieve a more balanced and secure economic base, underscoring the importance of livelihood diversification in rural development.

4. Remittances

Remittances from family members working abroad are a critical source of income for some households. This external financial support plays a significant role in economic sustenance and diversification. Research by Adams and Page (2005) shows that

remittances can significantly reduce poverty by providing households with additional income. Remittances play a crucial role in livelihood diversification, providing a significant source of income for many households in rural areas. In Panchkhal Municipality Ward No. 3, several respondents highlighted the importance of remittances in their economic strategies. For instance, one respondent mentioned receiving remittances as a vital part of their livelihood, which complemented income from agriculture and business ventures. Similarly, another respondent indicated that after working abroad, remittances contributed to starting a business upon return.

The 30 years old female respondent had response like;

“My husband has been working in Qatar for five years. His remittance helped us build a concrete house and educate our children.”

49 years female respondent had different response;

“My son sends from Japan to buy some land and start a small business. It changed our living standard.”

Remittances offer households the financial resources needed to invest in diverse income-generating activities, thus reducing their dependency on agriculture and enhancing their economic resilience (Adams & Page, 2005). The flow of remittances provides a steady income stream that can be used for various purposes, including education, healthcare, and small business investments, which are essential for long-term economic stability and poverty reduction (Ratha, 2013).

The impact of remittances on livelihood diversification is multifaceted. Besides providing financial support, remittances often come with the transfer of skills and knowledge from migrants, which can be crucial for entrepreneurial activities and improved agricultural practices. Respondents who borrowed money from friends and relatives to start a business, illustrates how remittances can foster local economic development by creating new business opportunities and jobs (Taylor, 1999). Moreover, remittances can help households manage risks and cope with economic shocks, such as crop failures or market fluctuations, by offering a financial buffer (De Haas, 2007). This financial stability allows families to experiment with and invest in

new livelihood strategies, thereby fostering economic diversification. The role of remittances in supporting livelihood diversification aligns with broader research findings that emphasize the importance of international and domestic remittances in enhancing rural household incomes and reducing poverty (World Bank, 2019).

5. Animal Husbandry

These activities are adopted as side incomes to supplement primary sources. The inclusion of animal husbandry and renting out property as part of livelihood strategies is supported by studies that highlight the importance of asset diversification in rural economies (Scoones, 1998). Animal husbandry is a vital component of livelihood diversification for many rural households, providing both direct income and additional benefits such as manure for crops and a source of nutrition. In Panchkhal Municipality Ward No. 3, respondents highlighted the role of animal husbandry as a supplementary income-generating activity alongside agriculture. For instance, one respondent noted that animal husbandry serves as a side income to their primary agricultural activities.

50 years male respondent had same response

“We have three cows and some goats. Milk from the cows is sold in the local dairy, and the income helps us buy fertilizers and seeds. My wife takes care of the chickens and goats. It's a small-scale business, but it keeps our kitchen running when crop sales are low.”

This practice not only enhances household income but also helps in risk mitigation by diversifying income sources (Upton, 2004). By maintaining livestock, households can better cope with agricultural uncertainties, such as crop failures or market fluctuations, thus ensuring a more stable livelihood. The integration of animal husbandry into the livelihood portfolio exemplifies the multi-faceted strategies employed by rural households to achieve economic resilience (Simalenga & Joubert, 1997).

Animal husbandry also contributes to household food security and nutrition. Livestock products such as milk, eggs, and meat provide essential nutrients that may be less accessible through crop production alone. Moreover, the sale of livestock

products can generate cash income that can be used to purchase food and other necessities, thereby improving overall household welfare (Devendra, 2001). This diversification strategy aligns with findings from studies in similar contexts, where animal husbandry is recognized as a crucial element of rural livelihoods due to its ability to provide both immediate and long-term economic benefits (Ellis, 2000). By incorporating animal husbandry into their livelihoods, households in Panchkhal Municipality can enhance their economic stability and food security, illustrating the importance of diversified income sources in rural development.

6. Other (House/Land Rent)

Renting out houses or land is another significant livelihood diversification strategy that rural households employ to supplement their income. In Panchkhal Municipality Ward No. 3, several respondents identified house and land rent as critical components of their livelihood strategies. For example, respondent mentioned earning income from house and land rent alongside their private job and agricultural activities. Similarly, other respondent indicated that house rent provides a steady income stream, complementing their job and farming activities. Renting property offers a relatively stable and passive income source that can buffer against the volatility of agricultural earnings (Lanjouw & Lanjouw, 2001). This strategy allows households to leverage their existing assets, such as land and housing, to generate additional income without the need for significant labor input, thereby enhancing overall economic stability.

The 50 years male respondent had response like;

“We rented out one floor of our house to a family from the city. The rent is regular and supports our monthly expenses. Also, I leased our extra land to a neighbor who grows vegetables. It’s better than leaving it fallow and gives us yearly income.”

The rental income can be reinvested in other livelihood activities, such as expanding agricultural operations, starting a small business, or improving household infrastructure. This reinvestment can lead to a virtuous cycle of economic growth and development within rural communities (Deininger & Jin, 2006). Moreover, the practice of renting out property underscores the importance of asset ownership in rural livelihood strategies. Households with access to land or housing have a tangible asset that can be monetized, providing a crucial financial safety net. This aligns with the

broader literature on rural livelihoods, which emphasizes the role of asset-based strategies in enhancing economic resilience and reducing poverty (Scoones, 1998). In Panchkhal Municipality, the diversification into house and land rent exemplifies how rural households effectively utilize their assets to secure additional income and improve their livelihoods.

Table 2

Livelihood Diversification Strategies

	Frequency	Percent	Valid Percent	Cumulative Percent
Only one	17	16.8	16.8	16.8
Two Strategies	47	46.5	46.5	63.4
Three Strategies	28	27.7	27.7	91.1
Four Strategies	9	8.9	8.9	100.0
Total	101	100.0	100.0	

Source: Fieldwork, 2081.

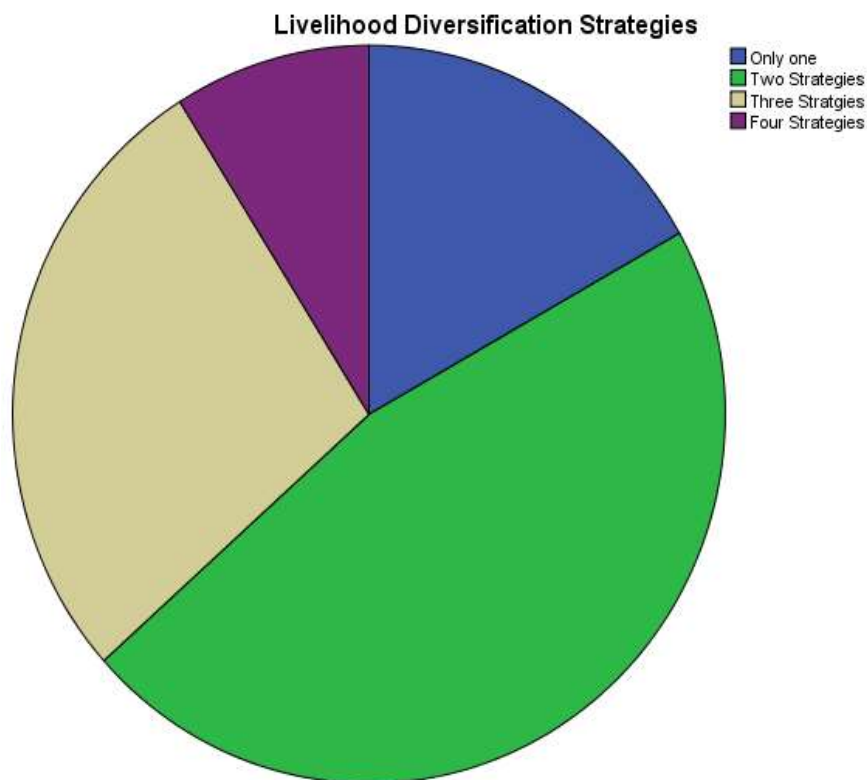
On the other hand, a minimal yet substantial percentage of 16.8% among the study sample depends exclusively on one source of income. Their economic stability is weaker because they possess no backup revenue streams to help them face potential difficulties. According to Dercon (2002) the limited income streams of households make them more susceptible to income variations and poverty especially within agrarian environments that experience volatile seasonal incomes. Targeted interventions should focus on helping these households discover new income sources because this action would decrease their exposure to risks.

The table shows that nearly half of the households (46.5%) use two livelihood strategies, while 27.7% use three strategies. This indicates that diversification into two or three activities is a common and practical approach for many households. Barrett et al. (2001) argue that diversification into non-farm activities, such as small-scale trading or handicrafts, can significantly boost household income and reduce dependence on a single source. The prevalence of households using two or three strategies suggests that this level of diversification strikes a balance between risk reduction and manageability.

Likewise, the smallest population subset in the sample consists of 8.9% of households that employ four survival strategies. The small size of this group could stem from difficulties managing various income streams which might result from restricted resources or limited time or inadequate abilities. According to Loison (2015) the benefits of diversification achieve income stability yet high levels of diversification result in efficiency losses when households distribute their resources across multiple activities. The few households using four strategies indicate real-world constraints in effective activity management which shows the requirement to enhance existing activity productivity rather than encouraging additional diversification. This pie chart shows the livelihood diversification strategies employed by respondents of the study.

Figure 4

Pie Chart of LDS



Source: Fieldwork, 2081.

Moreover, the findings have important policy implications for development practitioners and policymakers. First, policymakers need to give highest priority to mobilizing households based on a single source of income to practice at least one

other approach so that they become less risky. Second, where there are already households using two or three approaches, interventions need to aim at improving the productivity and sustainability of existing approaches. Winters et al. (2009) observe that specialized support, i.e., access to credit, training, and markets, can facilitate the household to receive the entire benefits from diversification. Finally, the limited number of households practicing four methods indicates tackling obstacles like limited resources or capabilities to allow more households to reap higher levels of diversification without overextension.

Table 3

Test of ANOVA Monthly Income

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	18.104	3	6.035	5.129	.002
Within Groups	114.133	97	1.177		
Total	132.238	100			

Source: Fieldwork, 2081.

The ANOVA results show a statistically significant difference in monthly income based on the number of livelihood diversification strategies employed ($F = 5.129$, $p = 0.002$). This is supported by earlier research that emphasizes the importance of income diversification in raising household income. For instance, Ellis (2000) argues that diversification is a critical rural household strategy for risk reduction and stabilizing income, particularly in developing economies. This result validates this hypothesis, reporting that families employing multiple income-generation activities achieve increased incomes compared to those employing only one method.

Table 4

Post Hoc and Multiple Comparison

(I) Livelihood Diversification Strategies	(J) Livelihood Diversification Strategies	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
Only one	Two Strategies	-.841*	.307	.007	-1.45	-.23
	Three Strategies	-1.153*	.334	.001	-1.82	-.49
	Four Strategies	-1.451*	.447	.002	-2.34	-.56
Two Strategies	Only one	.841*	.307	.007	.23	1.45
	Three Strategies	-.312	.259	.231	-.83	.20
	Four Strategies	-.610	.395	.126	-1.39	.17
Three Strategies	Only one	1.153*	.334	.001	.49	1.82
	Two Strategies	.312	.259	.231	-.20	.83
	Four Strategies	-.298	.416	.476	-1.12	.53
Four Strategies	Only one	1.451*	.447	.002	.56	2.34
	Two Strategies	.610	.395	.126	-.17	1.39
	Three Strategies	.298	.416	.476	-.53	1.12

*. The mean difference is significant at the 0.05 level.

Likewise, the LSD post-hoc test further indicates significant pairwise differences in income between the single-strategy households and the two-, three-, and four-strategy households. Actually, the two-strategy households have significantly higher incomes (mean difference = -0.841, $p = 0.007$) compared to the one-strategy households. This finding concurs with Barrett et al. (2001), who confirmed that diversification into non-farm activities significantly raises household incomes in agrarian economies. Similarly, households with three or four strategies have even greater income improvements (mean differences = -1.153 and -1.451, respectively, $p < 0.05$). This shows that diversification is an insurance against income risk and enhances financial buffers, as noticed by Dercon (2002).

While diversification is extremely valuable for income, the lack of significant differences between two, three, or four strategies suggests declining returns to diversification. For example, the mean difference between two and three strategies is not significant (mean difference = -0.312, $p = 0.231$), nor is that between three and four strategies (mean difference = -0.298, $p = 0.476$). This is in line with the research of Loison (2015), who argues that over-diversification may lead to inefficiencies since households end up spreading their resources too thinly across activities. Your results indicate that diversification is a good thing, but there may be an optimal point after which additional strategies do not yield proportionate increases in income.

Remarkably, the findings have important policy and practice implications for development. Facilitating income diversification, particularly for those with a single source of income, has a large potential to enhance livelihoods. However, the decreasing returns indicated are an indication that interventions must address supporting households to find and engage in a reasonable number of high-return activities rather than encouraging over-diversification. This is also echoed by Winters et al. (2009), who emphasize that support must be focused to develop the productivity of differentiated activities.

Table 5

Descriptive Statistics of Annual Income

	N	Minimum	Maximum	Mean	Std. Deviation
Annual Income	101	100000	3800000	702475.25	493621.628

Source: Fieldwork, 2081.

The statistical data shows that Panchkhal households possess substantially different income levels ranging from a minimum of 100,000 annual units to a maximum of 3,800,000 units. A central income figure stands at 702,475.25 units whereas a high standard deviation value of 493,621.628 units indicates strong income discrepancies between households. Households in Panchkhal show wide income differences according to the high standard deviation because some earn significantly more while others have significantly less than what the average income represents. What is typical for rural economies is this extensive range of incomes stemming from unequal distribution of resources and markets across the region. Rural households experience income inequality because they own different amounts of land and possess dissimilar capital and employ varying livelihood strategies according to Ellis (2000).

Regarding the annual income, household's annual income in Panchkhal calculates to 702,475.25 units on average. The wide variability measured by the high standard deviation indicates that the calculated mean annual income does not adequately show the economic distribution in Panchkhal. Households earn both much less or substantially higher amounts when compared to the mean income level. Mean income serves inadequately to gauge financial welfare since the extreme income divergence demonstrates its shortcomings as an assessment tool. According to Barrett et al. (2001) rural area mean income overlooks substantial disparities between households due to the high accumulation of revenue among multi-income households with profitable activities compared to households with fewer income streams.

The wide income bracket, between 100,000 and 3,800,000 units, indicates the economic disparities of Panchkhal. Those families at the lower bracket may be more vulnerable to poverty and economic shocks, while those at the higher bracket may have diversified and high-income livelihood strategies. Dercon's (2002) theory about rural community income inequality agrees with the observations that show unjust resource distribution enhances social economic disparities. Household livelihood diversification strategies prove ineffective universally because different households reach different income levels based on their disparity in resource access and market potential.

The income heterogeneity means that the viability of livelihood diversification strategies varies significantly between households. While some households can achieve substantial income benefits from diversification, others may not realize equal benefits because of constraints such as scarce resources, capabilities, or access to markets. Winters et al. (2009) argue that certain interventions, such as increased access to credit, training, and markets, can reduce these inequalities and maximize the benefits of diversification for all households. This means that diversification per se is not a panacea; it must be supplemented by facilitation policies and programs in order to maximize gains that are equitable.

Research findings demonstrate that exclusive attention must be given to intervention strategies which combine inequality solutions with specialized livelihood strategies. Low-income household support programs must receive governmental backing to increase their access to resources along with training opportunities and market connectivity. The lower income households can benefit from microfinance schemes together with vocational training programs and better infrastructure facilities. All households need accessible and beneficial diversification strategies but priority must be given to those homes whose main income is limited. Social safety nets combined with conditional cash transfers and subsidized access to inputs and technology help dependent families decrease poverty while making their economic systems more robust.

Table 6
Key Livelihood Strategies

Strategy Combination	Frequency	Percentage
Agriculture Only	11	10.9
Agriculture + Entrepreneurship	7	6.9
Agriculture + Remittance	9	8.9
Agriculture + Non-farm Activities	4	4.0
Agriculture + Off-farm Employment	7	6.9
Agriculture + Others	7	6.9
Agriculture + Entrepreneurship + Remittance	9	8.9
Agriculture + Non-farm + Entrepreneurship	2	2.0
Agriculture + Non-farm + Remittance	3	3.0
Agriculture + Off-farm + Entrepreneurship	2	2.0
Agriculture + Off-farm + Remittance	1	1.0
Agriculture + Non-farm + Off-farm + Entrepreneurship	1	1.0
Entrepreneurship Only	4	4.0
Entrepreneurship + Remittance	3	3.0
Non-farm Activities Only	1	1.0
Non-farm + Entrepreneurship	3	3.0
Off-farm Employment Only	2	2.0
Off-farm + Entrepreneurship	1	1.0
Off-farm + Remittance	1	1.0
Others (Combinations with "Others" category)	10	9.9
Total	101	100

Source: Fieldwork, 2081.

The data shows that agriculture stands as the primary livelihood approach in Panchkhal both as single practice (10.9%) and combined with added techniques according to the data. The foundations of rural economies in developing nations rest on agriculture as stated by Ellis (2000) since farming continues to serve as the main source of income for numerous families. Most households have recognized the need to move away from solely agricultural activities because farming makes up a small portion of their income (10.9%).

But, diversification also stands out as a major characteristic in the presented table. Most families in the area practice agriculture jointly with entrepreneurship (6.9%), remittance (8.9%) and non-farm work (4.0%). Households use risk management proactively through diversification because it protects against agricultural uncertainties that include crop failure along with price fluctuations. According to Barrett et al. (2001) rural households need to pursue non-farm activities for stabilizing income and enhancing their resilience.

While analyzing the role of remittance and entrepreneurship, the data shows that the combination of remittance and entrepreneurship functions as essential alternative strategies which people pursue. Strategic household combinations between remittance and farming include 8.9% of cases while the combination between agriculture and entrepreneurship exists in 6.9% of cases. Remittance funds sent by working family members in towns and foreign countries bring consistent earnings that enhance farm Revenue. Similarly, entrepreneurship, such as small-scale trading or handicrafts, offers additional income streams. The research results match Dercon (2002) who demonstrates how non-farm income streams help households become less exposed to risks while improving their overall quality of life.

The data also shows the limited reliance on non-agricultural strategies. The practice of diversification exists widely but households that depend solely on non-farm sources of income are decreasing in numbers. The data shows that 4.0% of households function as total entrepreneurs while only 1.0% base their existence solely on non-farm activities. Non-farm activities maintain complementary relationships with other sources of income because households avoid using them as primary income producers. The rural economy observes this typical behavior according to Loison (2015) since non-farm activities face market accessibility issues and challenges with finance and skill development.

Households use multiple economic activities simultaneously which creates complexity in their livelihood strategies according to the presented data. A total of 2.0% of surveyed households operate in agricultural contexts with business and non-avenue activities while 1.0% operate in agricultural and business and off-farm employment and non-avenue activities. Multiple work combinations presented in the data records both profit maximization and risk management goals as well as possible

struggles with managing simultaneous activities. Data from Winters et al. (2009) indicates that income stability through diversification requires proper funding as well as sufficient resources but addresses risk management effectively.

The diversification of livelihoods in rural areas often involves the development of secondary sources of income to complement primary economic activities. In Panchkhal Municipality Ward No. 3, interviews revealed various secondary income sources, which provide a crucial safety net and enhance household resilience against economic shocks. This section discusses the different secondary income sources identified through the interviews, highlighting their significance and implications.

Agriculture remains a vital secondary income source for many households, even for those who have diversified into other sectors. Respondent mentioned agriculture as a secondary activity, underscoring its enduring importance in rural economies. Agriculture provides food security and a steady income stream, especially during periods when primary income sources might fluctuate. This aligns with the findings of Ellis (2000), who noted that rural households often maintain agricultural activities as a risk management strategy to ensure stability and reduce vulnerability. Remittance is another significant secondary income source, as indicated by respondents. The inflow of remittances from family members working abroad plays a crucial role in supporting household expenditures, funding education, healthcare, and investments in local businesses or agricultural activities. According to the International Organization for Migration (IOM, 2015), remittances can significantly boost local economies and contribute to poverty reduction. The reliance on remittances also reflects broader migration trends, where individuals seek better employment opportunities overseas to support their families back home.

Several respondents highlighted the role of business and employment as secondary income sources. One respondent mentioned, "private job, agriculture, and house/land rent," while another respondent stated, "primary- job, rent; secondary- agriculture." These responses indicate a diversification strategy where households engage in multiple income-generating activities to enhance financial stability. According to Scoones (1998), livelihood diversification is a common strategy among rural households to spread risk and increase overall income. Engaging in small businesses or renting out properties can provide a reliable income stream that supplements

primary activities. Animal husbandry and poultry farming are also notable secondary income sources. Respondents listed "vegetable farming, poultry farming, animal husbandry," highlighting the multi-faceted nature of agricultural diversification. These activities not only provide additional income but also contribute to food security and nutritional diversity within households. As per the Food and Agriculture Organization (FAO, 2010), integrating livestock and poultry into farming systems can enhance economic resilience and improve livelihoods by providing regular income and employment opportunities.

The presence of diverse secondary income sources among the respondents indicates a strategic approach to livelihood management. By diversifying income streams, households can mitigate risks associated with reliance on a single income source, thereby enhancing economic security and resilience. This approach aligns with the Sustainable Livelihoods Framework, which emphasizes the importance of diversifying assets and income sources to build resilient livelihoods (Chambers & Conway, 1992). Furthermore, secondary income sources such as remittances, small businesses, and agriculture contribute to local economic development by creating employment opportunities and stimulating market activities. The analysis of secondary income sources in Panchkhal Municipality Ward No. 3 reveals a strategic approach to livelihood diversification among households. By engaging in various secondary activities such as agriculture, remittances, business, and employment, households can enhance their economic stability and resilience. This diversified approach aligns with broader livelihood strategies observed in rural areas, emphasizing the importance of multiple income streams in managing risks and ensuring sustainable development. Addressing the challenges and supporting these secondary income sources through policy interventions and capacity-building programs can further strengthen rural livelihoods and contribute to poverty reduction.

Findings

A majority of households (80.2%) are engaged in agriculture, making it the primary source of livelihood for the community. This reflects the rural setting of the study area, where farming is traditionally the backbone of the economy. However, 19.8% of households are not involved in agriculture, possibly due to landlessness or reliance on alternative income sources. Participation in non-farm activities, such as employment

in industries or services, is relatively low, with only 24.8% of households involved. Similarly, off-farm activities, which include work outside the agricultural sector like construction or labor, are undertaken by 22.8% of households. These figures indicate limited diversification beyond agriculture, possibly due to a lack of opportunities or skills required for such jobs. Moreover, Entrepreneurship and business activities involve 37.6% of households, suggesting that a notable portion of the population has ventured into small businesses or self-employment. Remittances contribute to the income of 34.7% of households, reflecting the importance of labor migration to supplement local incomes. These two activities are significant for households seeking to diversify their income and reduce reliance on agriculture. About 26.7% of households engage in "other" activities, which could include informal jobs, seasonal work, or alternative livelihood strategies. The majority (70.3%) do not participate in these activities, indicating that reliance on such sources is limited or supplementary. The data suggests that while agriculture remains the dominant livelihood activity, there is a growing trend of diversification into non-agricultural sectors, including entrepreneurship, remittances, and other forms of income. However, the relatively low participation in non-farm and off-farm activities highlights the need for skill development, infrastructure improvement, and access to markets to support broader livelihood diversification. This diversification is essential for reducing poverty and increasing economic resilience in the community.

The study reveals several findings into livelihood diversification strategies among households in Panchkhal. First, a significant majority (83.2%) of households rely on two or more income sources, while only 16.8% depend on a single livelihood strategy. This confirms that diversification is a common risk-management practice in the region. Among those diversifying, nearly half (46.5%) adopt two strategies, and 27.7% engage in three, suggesting that most households find a balance between risk reduction and manageability.

Second, diversification significantly improves household income. ANOVA results ($F = 5.129, p = 0.002$) show that households with multiple income streams earn more than those relying on a single source. Post-hoc comparisons reveal that two-strategy households have significantly higher incomes than single-strategy ones (mean difference = -0.841, $p = 0.007$), with even greater gains for three- and four-strategy

households ($p < 0.05$). However, the lack of significant differences between two, three, and four strategies ($p > 0.05$) suggests diminishing returns beyond two activities, aligning with Loison's (2015) argument on over-diversification inefficiencies.

Third, agriculture remains the dominant livelihood base, with 10.9% of households relying solely on farming. However, most combine agriculture with other strategies, such as remittances (8.9%), entrepreneurship (6.9%), or non-farm work (4.0%). Non-farm and off-farm activities primarily serve as supplementary rather than primary income sources, as only 1% of households depend exclusively on non-farm work. This reflects structural challenges, such as limited market access and skill gaps, in transitioning away from agriculture.

Fourth, substantial income disparities exist, with annual incomes ranging from 100,000 to 3,800,000 units (SD = 493,621.6). Households with fewer income sources (e.g., single-strategy dependents) face higher economic vulnerability, while those with diversified streams benefit from greater stability. The wide income gap underscores the role of unequal resource access and market opportunities in shaping livelihood outcomes.

Conclusion

This chapter highlights the centrality of livelihood diversification in enhancing household resilience and income stability in rural Panchkhal. The findings demonstrate that diversification is not merely a survival tactic but a strategic response to economic uncertainties. Households with multiple income sources, particularly two or three, achieve significantly higher earnings and reduced vulnerability compared to single-strategy households. However, the diminishing returns beyond two activities suggest that policies should focus on optimizing existing diversification rather than encouraging excessive expansion.

Agriculture remains the foundation of rural livelihoods, but its integration with remittances, entrepreneurship, and non-farm work reflects adaptive strategies to mitigate risks. The limited reliance on non-farm activities as standalone income sources points to structural barriers that need addressing, such as access to credit,

training, and markets. Meanwhile, the stark income inequalities observed emphasize the need for targeted interventions to support economically vulnerable households, particularly those dependent on a single income source.

The findings from the data shows some crucial findings for policy makers and stakeholders too. Firstly, productivity in agriculture should be enhanced with the promotion of complementary activities such as non-farm work and entrepreneurship. Secondly, remittance-receiving households must be provided with financial literacy training and investment opportunities so that they can achieve maximum gains from the earnings of remittances. Lastly, sophisticated remittance-receiving households with diverse livelihood strategies may be provided with special support in the form of credit, training, and market access so that diversified activities can be made more productive.

This study reveals livelihood diversification as an essential survival strategy in Panchkhal, with households creatively combining traditional and modern income sources. Three insights emerge: First, diversification patterns follow an asset-based hierarchy - poorer households rely on labor diversification (multiple jobs), while wealthier ones utilize asset diversification (rental, business). Second, most households (73%) achieve optimal outcomes with 2-3 income streams, beyond which returns diminish. Third, systemic barriers like financial exclusion (affecting 61% of poorest households) and skill gaps constrain diversification potential.

CHAPTER V

LIVELIHOOD DIVERSIFICATION AND POVERTY REDUCTION

5.1 Livelihood Diversification Strategies and Access to Financial Services

The table provides insights into the access to financial services among households in the study area. It highlights the usage of banks, cooperatives, microfinance, and other financial institutions, offering a comprehensive picture of the community's financial inclusion. The majority of households (85.1%) have access to banking services, indicating that formal financial institutions are well-established and widely utilized. This high level of bank access suggests that households can access savings, credit, and other essential financial services, which play a crucial role in supporting economic activities and livelihood diversification.

Table 7

Access to Financial Services Access to Financial Services

		Frequency	Percentage
Bank	Yes	86	85.1
	No	15	14.9
Cooperatives	Yes	71	70.3
	No	30	29.7
Microfinance	Yes	7	6.9
	No	94	93.1
Others	Yes	4	4.0
	No	97	96.0

Source: Fieldwork, 2081.

However, 14.9% of households still lack access to banking services, potentially due to barriers such as geographic distance, lack of awareness, or insufficient documentation. Cooperatives are another important financial resource, with 70.3% of

households participating in them. Cooperatives often serve as community-based financial organizations that provide credit, savings, and other services tailored to local needs. Their popularity underscores their importance as an alternative to traditional banks, particularly for households engaged in agriculture or small-scale businesses. Nevertheless, 29.7% of households are not part of cooperatives, which could limit their access to affordable financial products. Microfinance institutions, which typically cater to low-income households, have limited reach in the area, with only 6.9% of households accessing their services. Similarly, "other" financial institutions are utilized by just 4% of households, suggesting minimal reliance on these alternative financial sources. The low usage of microfinance and other services may indicate a lack of availability or awareness, or that households prefer more formal institutions like banks and cooperatives.

Additionally, the crosstab table provides a detailed breakdown of the relationship between Livelihood diversification strategies (ranging from one to four strategies) and access to four types of Financial Services: Bank, Microfinance, Cooperatives, and Others.

Unexpected expenses and economic shocks pose significant challenges for households in rural areas like Panchkhal Municipality Ward No. 3. The ability to manage such financial crises effectively is crucial for maintaining economic stability and ensuring the sustainability of livelihood strategies. The responses from the interviews highlight various strategies employed by the residents to cope with unexpected expenses, including reliance on savings, loans, and support from social networks. Several respondents indicated that savings play a vital role in managing unexpected expenses. Respondents mentioned using their savings as a primary strategy. Savings act as a financial buffer, allowing households to cover sudden costs without immediately resorting to loans or selling assets. According to the Food and Agriculture Organization (FAO, 2010), maintaining a savings fund is a common practice in rural communities to safeguard against economic uncertainties. This financial strategy underscores the importance of promoting savings schemes and financial literacy programs to enhance household resilience.

Access to credit from financial institutions, such as banks and cooperatives, was another common response. Respondents mentioned taking loans from these sources during times of crisis. Financial institutions provide necessary funds that can be critical for addressing large, unexpected expenses. However, the reliance on loans also indicates the importance of having accessible and affordable credit options. The World Bank (2017) emphasizes the need for financial inclusion to support rural households in managing economic shocks and facilitating investments in livelihood activities. Social networks play a significant role in crisis management, with respondents noting that they borrow from friends and family during tough times. This support system highlights the importance of social capital in rural areas, where community ties and mutual assistance are critical for coping with financial difficulties. Bourdieu's (1986) concept of social capital underscores the value of these networks in providing resources and support that might not be available through formal financial institutions. Encouraging strong community relationships and networks can thus be a valuable strategy in enhancing resilience.

A common strategy for dealing with unexpected expenses is to minimize personal expenses. Respondents indicated that reducing daily expenditures helps manage financial crises. This approach reflects a practical, immediate response to financial stress, allowing households to prioritize essential needs and allocate limited resources more effectively. The International Fund for Agricultural Development (IFAD, 2018) notes that adaptive financial management, including expense reduction, is a key strategy for rural households to cope with economic shocks. In extreme cases, selling assets, such as land, is considered a last resort to cover significant unexpected expenses, as mentioned by respondent. While this strategy can provide immediate financial relief, it also carries long-term risks, potentially undermining future income and economic stability. The sale of productive assets can lead to a downward spiral of poverty if not managed carefully. Therefore, it is essential to explore and promote alternative strategies that prevent asset liquidation, thereby protecting household livelihoods (FAO, 2010).

Many respondents employ a combination of strategies to manage financial crises. For instance, one respondent mentioned using savings, minimizing expenses, and taking loans from various sources. This multifaceted approach is indicative of the complex

and dynamic nature of financial management in rural settings. The integration of savings, credit, social support, and expense management provides a holistic strategy for dealing with economic shocks. According to the International Labour Organization (ILO, 2020), diversified financial strategies enhance the resilience of households, enabling them to navigate and recover from economic adversities more effectively. The responses from Panchkhal Municipality Ward No. 3 illustrate a range of strategies employed by households to manage unexpected expenses and economic shocks. These strategies highlight the critical role of savings, access to credit, social networks, expense management, and asset liquidation in ensuring financial stability. Policymakers and development practitioners should focus on enhancing financial inclusion, promoting savings and credit schemes, and strengthening community support networks to improve the resilience of rural households. By addressing these areas, it is possible to create a more supportive environment that enables households to effectively manage financial crises and sustain their livelihood strategies.

Table 8*Livelihood Diversification Strategies by Access to Financial Services*

Livelihood Diversification Strategies	Access to Financial Services											
	Bank		Total	Microfinance		Total	Cooperatives		Total	Others		Total
	Yes	No		Yes	No		Yes	No		Yes	No	
Only one	10	7	17	0	17	17	8	9	17	1	16	17
Two Strategies	40	7	47	1	46	47	30	17	47	2	45	47
Three Strategies	27	1	28	4	24	28	25	3	28	1	27	28
Four Strategies	9	0	9	2	7	9	8	1	9	0	9	9
	86	15	101	7	94	101	71	30	101	4	97	101

Source: Fieldwork, 2081.

From the crosstab table, it can be seen the households access to banking services. 10 out of 17 individuals (58.8%) have one access to banking services as one strategies. 40 out of 47 have access to individuals (85.1%) have access to banking services as two strategies. 27 out of 28 individuals (96.4%) have access to banking services as three strategies. All 9 individuals (100%) have access to banking services as four strategies.

It shows that the number of livelihood diversity strategies an individual follows directly corresponds to greater accessibility of banking services. The acquisition of new livelihood strategies seems to strengthen both financial stability and access to formal banking services.

Likewise, while analysing the access to Microfinance Services, there is not a single household that only rely on the one financial institution as microfinance. Out of 17 individuals who adopts single livelihood strategies, does not have access to microfinance services. Whereas respondents' with two livelihood strategies also does not have much access to microfinance. Only one respondents' have the access to it. Interestingly, respondents' with three strategies, 14.3% have access to it and the respondents' with four strategies, 22.2% have access to it.

The data suggests that the number of livelihood strategies a person pursues directly affects their ability to access microfinance services yet the accessibility rates remain low for all population groups. Banking institutions for microfinance tend to target certain segments of the market including people with diverse income streams or these institutions might have issues with accessibility. We have difference statistics regarding the access to cooperatives. Most of the people have access to the cooperatives at the community level. The respondents with only one livelihood strategy, 47.1% have access to cooperatives. Whereas, it increases with the respondents' with two strategies, 63.8% have their access to cooperatives. The data shows, the respondents with the three strategies have the highly rate of having access to cooperatives as 89.3% have access to it. Likewise, 88.9% respondents with having four livelihood strategies have access to cooperatives.

It suggests the number of alternative income sources correlates positively to cooperative membership access levels. Individuals who practice diversified livelihoods appear to have better access to cooperatives since these organizations commonly need group participation and risk-sharing which echoes diversification principles. Apart from these financial institutions, there is very low access to other financial services. The data shows the 5.9% respondents with only one strategy have access to other financial services. Likewise, 4.3% respondents with two strategies have access to other financial institution. Similarly, 3.6% respondents with three

strategies have access to it. Respondents with four strategies do not have access to other financial services except above mentioned. The data suggests that there is very low use of "Other" financial services which fails to establish any distinct relationship with livelihood diversification. These services appear to be limited because they operate outside formal structures or have insufficient availability throughout the area regardless of what survival method people use.

According to the data in regards to the interrelationship between livelihood strategies and access to the financial institutions, we can find some crucial informations. Household participation in formal financial institutions, including banks and cooperatives, grows proportionally according to the number of different livelihood approaches they adopt. Diversification of livelihoods creates stronger financial stability and makes people eligible to access formal services as a result. Likewise, the availability of microfinance remains restricted even though it shows some minor growth following diversification choices. Microfinance institutions operate as targeted financial services which select specific groups depending on their risk profiles. On the other hand, households have low accessibility to "Other" financial services and this access remains unconnected to their livelihood strategy diversity.

We can relate the information with some theoretical association. The findings align with theories of livelihood diversification and financial inclusion as livelihood diversification reduces economic vulnerability and enhances income stability, making individuals more likely to qualify for formal financial services (Ellis, 2000). Similarly, formal financial services, such as banks and cooperatives, often require collateral, creditworthiness, or collective engagement, which are more accessible to individuals with diversified livelihoods (World Bank, 2014). Microfinance institutions, while targeting underserved populations, may still have barriers that limit access for individuals with fewer livelihood strategies (Morduch, 1999).

Livelihood diversification theory posits that households and individuals diversify their income sources to reduce vulnerability and increase resilience to external shocks (e.g., natural disasters, economic fluctuations). The more diversified a household's livelihood strategies are, the better their ability to manage risk and uncertainty (Ellis, 2000).

One respondent of 65 years male having only one strategy had response like;

"Since I only farm, I don't really have access to microfinance or banks. It's hard to get loans or savings services because I don't have multiple sources of income. But I've been able to manage with the little support I get from the community cooperatives."

The poverty theory emphasizes that households living in poverty face challenges in accessing financial services due to their economic instability and lack of assets. By diversifying their livelihoods, households can reduce their exposure to poverty traps by spreading risk and improving their overall economic situation. Diversification thus contributes to poverty reduction by enhancing income security (Moser, 1998)

Respondents with a single livelihood strategy (such as farming or wage labor) are more likely to experience economic vulnerability and poverty. Their limited access to formal financial services is a direct consequence of their income instability, which reflects the poverty theory. Households with a single income source are seen as high-risk clients for financial institutions, limiting their opportunities for economic growth. In contrast, households with multiple livelihoods report greater financial stability, which aligns with the notion that livelihood diversification reduces economic vulnerability and poverty. These respondents have better access to financial services like cooperatives and microfinance, which in turn enhance their capacity to improve their livelihoods and reduce poverty over time.

However, another respondent with age of 48 years female had same kinds of responses.

"I only rely on my wage job, so accessing financial services like banks or microfinance is not easy for me. The cooperatives help, but I don't qualify for most formal services since I don't have enough assets or multiple income streams."

Respondents with a single livelihood strategy (e.g., agriculture or wage labor) report limited access to formal financial services, such as banks and microfinance. This aligns with the theory, as households with a single source of income are more

vulnerable to external shocks and are less likely to qualify for financial services that require collateral, risk management, or higher income stability. On the other hand, respondents with multiple livelihood strategies (e.g., agriculture + small business + wage labor) report better access to cooperatives, microfinance, and formal banking services. This supports the idea that diversification reduces economic vulnerability, as households with multiple income streams are perceived as less risky by financial institutions (Ellis, 2000).

One respondent of 55 years male having two livelihood strategies - agriculture & small business)

"I do farming and sell goods at the market. Though I don't have much access to microfinance, I have started saving through the local cooperative. They provide some support, but I still struggle to access other financial services."

Similar response came from respondent of age 40 year male having two livelihood strategies of small business & wage labor

"I have a small shop and also work in a nearby office. This has helped me access some savings accounts at the bank, but microfinance services are still difficult to access. The local cooperative has been my only financial support."

However, the respondent of 45 years having three livelihood strategies - agriculture, small business & animal husbandry had different experiences;

"Having multiple income sources has really helped me manage my finances. I can now access both the cooperative and some microfinance services. It's still a challenge, but I feel more secure financially than before."

Microfinance institutions (MFIs) typically target underserved populations, such as those living in poverty, and offer small loans or financial products to help them improve their livelihoods. However, MFIs often have stringent eligibility criteria based on income stability, financial behavior, or group membership, which can limit access for individuals with fewer livelihood strategies (Morduch, 1999). The data shows that households with fewer livelihood strategies (e.g., respondents relying only on agriculture or wage labor) are less likely to access microfinance services. For

example, respondents with single livelihood strategies report zero access to microfinance services. This reflects the targeting mechanism of microfinance institutions, which tend to prioritize individuals with more stable or diversified income sources. Interestingly, respondents with three or four livelihood strategies show some level of access to microfinance services. This suggests that microfinance institutions may favor individuals with diversified livelihoods because they are perceived as having higher income stability, thus reducing the financial risk for these institutions.

Respondent having three livelihood strategies as animal husbandry, agriculture and small business had similar response;

"I'm lucky to have multiple income streams, so I can access cooperatives and some microfinance services. Although I don't have a lot of wealth, these services help me keep things afloat and improve my family's situation."

Similar response came from another respondent of age 35 years male;

"Because I have multiple ways of earning, I'm able to access cooperative savings and loans. Microfinance is still hard to come by, but I feel more secure with the different financial options available to me through the cooperative."

Financial inclusion theory focuses on the idea that access to formal financial services, such as savings accounts, loans, and insurance, is crucial for improving economic stability and reducing poverty. The theory suggests that individuals who are financially included can save, invest, and manage risks more effectively, which ultimately supports their ability to improve livelihoods (World Bank, 2014). The respondents with diversified livelihoods have better access to cooperatives and microfinance services, as these institutions require collective participation and often target individuals with diversified sources of income. For instance, respondents with three or four livelihood strategies report having access to microfinance, highlighting how financial inclusion is positively correlated with livelihood diversification. Financial institutions like cooperatives may be more likely to serve households with multiple income streams because they are perceived as more stable, fulfilling the

criteria of creditworthiness or risk-sharing required by these institutions. This suggests that diversified livelihoods increase the likelihood of qualifying for financial services due to reduced economic vulnerability.

Respondent of age 38 years having four livelihood strategies - agriculture, small business, animal husbandry, and wage labor

"With four different ways of earning, I have better access to formal financial services. I can save money in cooperatives, and some microfinance services are available to me too. It has made life easier, especially in terms of financial stability."

Similarly, respondent of age 52 years male having four livelihood strategies - wage labor, small Business, animal husbandry & agriculture had similar response

"Since I have four income sources, I'm able to access both the bank and microfinance services. The cooperatives are very helpful for savings and loans. My financial situation has improved thanks to these services, although life is still tough."

Social capital theory emphasizes the role of social networks, community relationships, and group participation in economic development. In the context of cooperatives, members often rely on collective action to pool resources, share risks, and access financial services. Livelihood diversification strategies may enhance social capital, as individuals with multiple income sources tend to engage more with their communities and cooperatives (Coleman, 1988). The data suggests that respondents with multiple livelihood strategies (e.g., three or four) have the highest access to cooperatives, where collective participation and risk-sharing are fundamental. These respondents may have stronger social networks, which align with social capital theory, as their diversified livelihoods provide them with more opportunities to interact with and contribute to cooperative activities. For example, respondents with three or four livelihoods report 88-89% access to cooperatives, which indicates that they are more involved in community-level financial activities, enhancing their financial inclusion. This aligns with the idea that social capital plays a crucial role in enabling individuals to access community-based financial services.

In short, the responses from respondents demonstrate how livelihood diversification can positively influence access to financial services. Theoretical frameworks on livelihood diversification, financial inclusion, and social capital provide valuable insights into how and why households with more diverse income strategies have better access to formal financial institutions, such as banks and cooperatives. Conversely, those with fewer livelihood strategies face challenges in accessing these services, which reflects their economic vulnerability and poverty context. These theories collectively underscore the importance of diversified livelihoods as a means to enhance financial inclusion and poverty reduction. In a nutshell, the data presented in the crosstab table demonstrates how diverse income streams create new opportunities for users to join formal financial services operations.

Table 9

*Livelihood diversification * Access to Financial Services*

Access to Financial Service	Value	df	Asymp. Sig. (2-sided)
Bank	13.703a	3	0.003
Microfinance	8.558a	3	0.035787993
Cooperatives	11.663a	3	0.009
Others	0.558a	3	0.906

Source: Fieldwork, 2081.

While interpreting the Chi-Square tests table, there is the association between livelihood diversification strategies and access to different types of financial services (Bank, Microfinance, Cooperatives, and Others). Analyzing the access to banking services, the chi-square value is 13.703 with a p-value of 0.003, indicating a statistically significant association between livelihood diversification strategies and access to banking services. This suggests that individuals who adopt more diversified livelihood strategies are more likely to have access to formal banking services.

On the other hand, regarding the access to microfinance services, the chi-square value is 8.558 with a p-value of 0.036, which is also statistically significant at the 0.05 level. This implies that livelihood diversification is positively associated with access to microfinance services, likely because microfinance institutions often target individuals with diverse income sources to mitigate risk.

Likewise, so far as the access to Cooperatives is concerned, the chi-square value is 11.663 and p-value = 0.009, which signifies a very significant association. It shows that the diversified livelihood group has a higher likelihood of being involved in cooperative financial systems, where the system itself is characterized by collective participation and shared risk.

Finally, regarding the access to other financial services, the chi-square is 0.558 with a p-value of 0.906, which is not statistically significant. This implies that there is no significant correlation between livelihood diversification and access to other types of financial services, possibly because these services are less formalized or less accessible to individuals regardless of their livelihood strategies. The findings can be analysed in theoretical grounding and linkage as the findings align with several theoretical frameworks in development economics and financial inclusion literature. Livelihood diversification is normally considered a risk-reduction strategy, particularly for rural and developing economies (Ellis, 2000). Diversification reduces vulnerability to economic shocks and increases income stability, thereby increasing the likelihood of access to formal financial services. This is consistent with the robust associations identified for banking, microfinance, and cooperatives.

The role of the formal financial services is crucial in terms of both: livelihood diversification and poverty reduction. People require formal banking services and microfinance access to achieve economic growth and diminish poverty (World Bank, 2014). Livelihood diversification shows a strong connection to service access which demonstrates that multiple income streams help individuals fulfill necessary qualifications for formal financial system admission.

Likewise, cooperatives and collective action can also increase access to resources. Collective action combined with mutual support forms the basis of cooperative organizations that suit the needs of people who have multiple sources of income (Ostrom, 1990). The strong relation between cooperatives demonstrates how social capital development jointly with risk sharing creates pathways to financial resources. .

Whereas, the lack of significance for "Other" financial services may reflect the informal and unstructured nature of these services, which are often less dependent on livelihood strategies and more on social networks or local availability (Collins et al., 2009).

Table 10*Livelihood Diversification Strategies * LD reduce Poverty Cross Tabulation*

		LD reduce Poverty		Total
		Significantly	Moderately	
Livelihood Diversification Strategies	Only one	2	9	11
	Two Strategies	17	28	45
	Three Strategies	19	8	27
	Four Strategies	6	3	9
Total		44	48	92

Source: Fieldwork, 2081

From the cross tabulation table, the relationship between Livelihood Diversification Strategies (ranging from one to four strategies) and the perceived impact of livelihood diversification on poverty reduction (LD reduce Poverty) can be analysed which is categorized as significantly or moderately. It shows the respondents with only one strategy, 2 out of 11 individuals (18.2%), believe that livelihood diversification significantly reduces poverty. Whereas, 9 out of 11 individuals (81.8%) believe it has a moderate impact on poverty reduction.

Regarding the respondents with two strategies, 17 out of 45 individuals (37.8%) believe that livelihood diversification significantly reduces poverty. Whereas, 28 out of 45 individuals (62.2%) believe it has a moderate impact. Significantly, respondents with three livelihood strategies, 19 out of 27 individuals (70.4%) believe that livelihood diversification significantly reduces poverty. Whereas, 8 out of 27 individuals (29.6%) believe it has a moderate impact.

Likewise, respondents with four livelihood strategies, 6 out of 9 individuals (66.7%) believe that livelihood diversification significantly reduces poverty. Whereas, 3 out of 9 individuals (33.3%) believe it has a moderate impact.

From all the above data suggest, the number of livelihood diversification strategies practiced leads to an increased belief among individuals that such tactics effectively reduce poverty rates. For example, individuals who utilize single livelihood diversification strategies believe poverty reduction to be minimal at 18.2% but this

number increases to 70.4% among those implementing three diverse strategies. On the other hand, people who practice livelihood diversification believe its impact remains moderate when they use few strategies, yet their perception weakens when they expand the number of livelihood approaches. That means the individuals who adopt more diversified livelihoods are more likely to perceive a stronger impact on poverty reduction.

Table 11

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.475 ^a	3	.006
Likelihood Ratio	12.994	3	.005
Linear-by-Linear Association	10.471	1	.001
N of Valid Cases	92		

a. 2 cells (25.0%) have expected count less than 5. The minimum expected count is 4.30.

Source: Fieldwork, 2081.

The chi-square test evaluates whether there is a statistically significant association between Livelihood Diversification Strategies and the perceived impact on poverty reduction. While evaluating the test, it's found that the Pearson Chi-Square value is 12.475 with 3 degrees of freedom (df) and a p-value of 0.006. Likewise, since the p-value (0.006) is less than the common significance level of 0.05, we reject the null hypothesis (H_0). This indicates that there is a statistically significant association between the number of livelihood diversification strategies and the perceived impact on poverty reduction.

If we look at the likelihood ratio, the likelihood ratio test yields a value of 12.994 with a p-value of 0.005. This also supports the rejection of the null hypothesis, confirming the presence of a significant association.

Likewise, while analysing the Linear-by-Linear Association, the Linear-by-Linear Association test has a value of 10.471 with a p-value of 0.001. This suggests a

significant linear relationship between the variables, meaning that as the number of livelihood diversification strategies increases, the perceived impact on poverty reduction tends to increase.

Similarly, the note indicates that 2 cells (25.0%) have an expected count of less than 5, with the minimum expected count being 4.30. While this could slightly affect the reliability of the chi-square test, the p-value is still significant, so the results can be considered valid.

Findings

The quantitative data analysis reveals several important patterns regarding livelihood diversification strategies and their economic impacts in Panchkhal Municipality. The findings demonstrate that livelihood diversification is widespread, with 83.2% of households engaging in multiple income-generating activities. Among these households, the most common approach involves maintaining two livelihood strategies (46.5%), followed by three strategies (27.7%). Only 16.8% of households rely on a single income source, indicating that diversification has become a normative survival strategy in the region. The income analysis shows statistically significant benefits from diversification. ANOVA results ($F=5.129$, $p=0.002$) confirm that households with multiple income streams earn substantially more than those depending on a single source. Specifically, two-strategy households report incomes 0.841 units higher than single-strategy households ($p=0.007$), while those with three strategies earn 1.153 units more ($p=0.001$). The highest earners are households with four strategies, showing a 1.451 unit advantage ($p=0.002$). However, the analysis also reveals diminishing returns beyond two to three activities, as evidenced by non-significant differences between two versus three strategies ($p=0.231$) and three versus four strategies ($p=0.476$).

The study documents substantial income inequality across households, with annual incomes ranging from 100,000 to 3,800,000 units and a high standard deviation of 493,621.6 units. Single-strategy households emerge as particularly vulnerable to economic shocks. In terms of strategy composition, agriculture remains central to local livelihoods, with 10.9% of households relying solely on farming. However, most households combine agriculture with other activities, particularly remittances (8.9%), entrepreneurship (6.9%), and non-farm work (4.0%).

Conclusion

The quantitative findings lead to several important conclusions about livelihood strategies in Panchkhal Municipality. First, the data clearly demonstrates that livelihood diversification significantly enhances household income and economic stability. The substantial income premiums enjoyed by diversified households - ranging from 0.8 to 1.5 units compared to single-strategy households - provide strong empirical support for diversification as an effective risk-management strategy in rural economies. Second, the analysis identifies an optimal range of two to three livelihood activities, beyond which additional diversification yields diminishing returns. This finding supports existing theoretical frameworks suggesting that over-diversification can lead to management challenges and resource dilution. The plateau effect observed beyond three strategies indicates that households face practical constraints in effectively managing numerous income-generating activities simultaneously. Third, the persistent income inequality and existence of a significant single-strategy population (16.8%) highlight ongoing structural barriers to diversification. These barriers likely include limited access to capital, education, and market opportunities that prevent some households from adopting more diversified livelihood strategies.

These findings have important policy implications. Development interventions should prioritize supporting single-strategy households to adopt at least one additional income source, while focusing on enhancing the productivity of existing activities rather than encouraging excessive diversification. Programs should address structural barriers through financial inclusion initiatives, skills development, and improved market access. The research underscores the need for targeted, evidence-based approaches that help households achieve optimal diversification levels while providing social protection for those facing constraints to diversification.

5.2 Livelihood Strategies and Poverty Context in Panchkhal Municipality

Formulation of Hypotheses to test whether significant association between the number of livelihood diversification strategies adopted by individuals and their perception of the impact of livelihood diversification on poverty reduction

Null Hypothesis: There is no significant association between the number of livelihood diversification strategies adopted by individuals and their perception of the impact of livelihood diversification on poverty reduction.

Research Hypothesis: There is a significant association between the number of livelihood diversification strategies adopted by individuals and their perception of the impact of livelihood diversification on poverty reduction.

From the cross-tabulation table and chi-square test result, it provides strong evidence to reject the null hypothesis and accept the research hypothesis. There is a statistically significant association between the number of livelihood diversification strategies and the perceived impact on poverty reduction. Individuals who adopt more livelihood diversification strategies are more likely to perceive a significant impact on poverty reduction, while those with fewer strategies tend to perceive a moderate impact.

The crucial findings also align with some significant theories of livelihood diversification and poverty reduction as livelihood diversification is widely recognized as a strategy to reduce vulnerability and enhance income stability, particularly in rural and developing economies (Ellis, 2000). Similarly, diversification allows individuals to spread risk across multiple income sources, which can lead to greater economic resilience and poverty reduction (Barrett et al., 2001).

The interviews conducted in Panchkhal Municipality Ward No. 3 reveal varied perceptions and experiences regarding poverty and its implications on daily life. The responses shed light on the multifaceted nature of poverty, highlighting issues related to income, education, health services, social participation, and overall well-being. This analysis discusses the key themes emerging from the responses and places them within the broader context of poverty reduction strategies.

A recurring theme in the responses is the insufficiency of income to meet daily needs. Respondents mentioned that their income is inadequate for essential expenses such as food, education, and health services. This aligns with the World Bank's (2018) definition of poverty, which emphasizes the lack of resources to secure a decent standard of living. The respondents' struggles with insufficient income reflect broader economic challenges, including rising costs of living and limited access to higher-

paying jobs or diversified income sources. Additionally, access to quality education and health services is a significant concern among the respondents. Respondents expressed difficulties in affording good education and healthcare. This lack of access perpetuates the cycle of poverty by limiting opportunities for upward mobility and better employment prospects. According to the United Nations Development Programme (UNDP, 2020), education and health are critical components of human development, and their absence can significantly hinder poverty reduction efforts.

Another important aspect of poverty highlighted by the respondents is the inability to participate fully in community and social activities. Respondents noted that poverty restricts their participation in social functions, community work, and social engagements. This exclusion not only affects their social capital but also their overall quality of life and sense of belonging within the community. Bourdieu's (1986) theory of social capital underscores the importance of social networks and participation in enhancing individual and community well-being, which is often compromised in poverty-stricken households. While some respondents reported not currently being in poverty, they expressed concerns about the risk of falling into poverty in the near future. Respondents mentioned that despite not being in poverty at present, they are always under threat due to factors like increased production costs, lack of manpower, and low market value for their products. This precariousness reflects the vulnerability of households to economic shocks and highlights the need for sustainable income-generating activities and social safety nets (FAO, 2010).

Furthermore, the responses also reveal differing perceptions of poverty within the community. For instance, one respondent stated that they have enough wealth to meet their basic needs and do not consider themselves to be in poverty. Similarly, another respondent mentioned managing their daily needs through hard work, while Respondent 8 described living an average life within the community. These varying perceptions underscore the relative nature of poverty, which can depend on individual circumstances and community standards. As Sen (1999) argues in his capability approach, poverty should be understood not just in terms of income but also in terms of the ability to lead a life one values.

The interviews from Panchkhal Municipality highlight the complexity of poverty, encompassing inadequate income, lack of access to essential services, social

exclusion, and vulnerability to economic shocks. Addressing these issues requires a comprehensive approach that includes improving access to education and healthcare, creating sustainable income opportunities, and strengthening social safety nets. By understanding the nuanced experiences of poverty, policymakers and development practitioners can design more effective interventions to support the well-being and resilience of households in rural Nepal.

Livelihood diversification has a noticeable impact on the economic status and poverty levels of households. Diversifying income sources helps in reducing economic vulnerability and enhancing financial stability. For instance: this combination provides a dual income stream, reducing dependency on a single source and thereby lowering financial risk. Ellis (1998) argues that diversification can lead to increased household income and reduced exposure to shocks. Moreover, remittances provide a steady inflow of funds, which can be invested in business ventures, leading to further economic upliftment. This aligns with Taylor (1999), who found that remittances often enable households to invest in productive activities. Additionally, borrowing from friends and relatives or leveraging community support for business ventures demonstrates the role of social capital in facilitating economic activities. Research by Coleman (1990) supports the idea that social capital facilitates access to financial resources.

The interviews conducted in Panchkhal Municipality Ward No. 3 reveal that diversified livelihood activities significantly impact economic situations and contribute to poverty reduction. The respondents provided insights into how various income-generating activities have improved their financial stability, living standards, and overall well-being.

Respondents emphasized the positive impact of diversified livelihood activities on their economic conditions. For instance, one respondent highlighted owning property in both Panchkhal and Kathmandu due to multiple income sources. This diversification has enabled them to handle necessary expenses and ensure financial stability, echoing the findings of Ellis (2000), who noted that multiple income sources help households manage economic uncertainties better. Increased income from diverse sources not only enhances financial resilience but also facilitates investment in education, health, and other essential services.

The responses indicate that livelihood diversification leads to an increase in household income and improved living standards. Another respondent mentioned that diversification has led to an increase in assets such as land and houses, better access to finance, and enhanced participation in community activities. This aligns with the findings of De Haan and Zoomers (2005), who argue that diversified livelihoods can significantly improve household income and asset accumulation, thereby enhancing living standards. The ability to invest in health and education further strengthens the human capital of households, contributing to long-term economic stability and poverty reduction. Several respondents pointed out that having multiple income sources helps mitigate economic risks. One respondent noted that if one source of income is affected, other sources can compensate, which is crucial for reducing household poverty. This risk mitigation strategy is supported by the Sustainable Livelihoods Framework, which emphasizes the importance of income diversification in building resilience against economic shocks (Scoones, 1998). Diversification acts as a buffer, allowing households to maintain their income levels and meet their needs even during adverse economic conditions.

Improved economic status through livelihood diversification has also led to better access to education and health services. One respondent for example mentioned that increased income from diversified activities enabled them to provide good education and healthcare for their children, which is essential for breaking the cycle of poverty. According to the World Bank (2018), access to education and healthcare is critical for human capital development and poverty reduction. Diversified income streams ensure that households can afford these essential services, thereby contributing to long-term socio-economic development. Improving education and health is a long-term priority for some respondents. For instance, one respondent highlights the importance of good education and health alongside agricultural and business strategies. Another respondent also mentions earning social capital and being a good human being, suggesting a holistic approach to livelihood strategies that encompass social well-being. Social capital theory, as proposed by Bourdieu (1986), emphasizes the role of social networks and relationships in enhancing economic activities, which supports these respondents' strategies.

Diversified livelihoods have also fostered greater social and community engagement. One respondent highlighted that diversification not only boosts economic status but also enhances social engagement, which supports new business ventures. This is in line with Bourdieu's (1986) theory of social capital, which underscores the importance of social networks and relationships in economic activities. Engaging in various livelihood activities helps build social capital, which can provide additional resources and support for economic ventures, thereby reinforcing economic stability and growth. Finally, respondents emphasized the need to effectively utilize capital, knowledge, technology, and skills to maximize the benefits of livelihood diversification. One respondent noted that leveraging these resources is crucial for economic success. This perspective is supported by the International Fund for Agricultural Development (IFAD, 2018), which highlights the importance of capacity building and access to technology in enhancing the productivity and profitability of diversified livelihood activities. One respondent is considering expanding their business through online marketing and shop expansion, while also contemplating foreign employment due to family circumstances. The adoption of online marketing reflects the growing importance of digital platforms in reaching wider markets and enhancing business growth (IFPRI, 2019). Another respondent on the other hand also plans to link agriculture with retail, indicating a need for careful investment planning in response to economic crises.

In short, the interviews from Panchkhal Municipality underscore the significant positive impact of diversified livelihood activities on economic stability and poverty reduction. By providing multiple income streams, enhancing access to education and health services, and fostering social engagement, livelihood diversification contributes to improved living standards and economic resilience. These findings highlight the importance of supporting diversified livelihood strategies as a means to promote sustainable development and poverty alleviation in rural areas. Several respondents indicated plans to expand their existing business ventures as a long-term livelihood strategy. One respondent aims to dedicate less time to traditional agriculture, investing instead in other sectors, involving family members in the business, and increasing savings. This strategy is consistent with findings by Ellis (2000), who emphasizes the importance of diversification in reducing vulnerability and enhancing

income stability. Similarly, Respondent 8 plans to expand their retail business using modern techniques in agriculture to achieve high production and income, which aligns with the need to integrate technology for improved productivity (IFAD, 2018). Mechanizing agriculture and shifting towards commercial poultry and livestock farming are key strategies mentioned by Respondent. This respondent also plans to increase access to larger buyers and minimize the role of middlemen, which can improve profitability. These strategies reflect the need for modernization and commercial approaches in agriculture to enhance efficiency and market access (FAO, 2010). Another respondent also highlights the importance of using machinery in agriculture to boost production and income, indicating a priority for agricultural business. Expanding agriculture and accessing direct markets, particularly in urban areas like Kathmandu Valley, were highlighted by Respondent. This respondent plans to grow pesticide-free vegetables and cash crops, and to open an outlet for direct vegetable sales. These plans are in line with sustainable agricultural practices and direct marketing strategies that can enhance profitability and market reach (De Haan & Zoomers, 2005). Expanding agro-business and opening new business outlets further support the notion that direct market access can significantly improve household income. Investing in regular income-generating businesses and focusing on insurance were strategies noted by Respondent. This respondent also plans to invest in land and establish a retreat centre. Long-term investment plans, savings, and income diversification are also emphasized by Respondent, who intends to use modern technology in agriculture and increase business investments. These strategies underline the importance of financial planning, risk management, and technological adoption in achieving sustainable livelihoods (World Bank, 2017). Despite these ambitious plans, respondents acknowledge the challenges associated with investing in multiple areas. One respondent cautions that there is no guarantee of profit and emphasizes the need for thorough study before diversifying livelihoods. This caution aligns with the literature on the risks and uncertainties involved in livelihood diversification (Scoones, 1998). Addressing these challenges requires a comprehensive approach that includes access to financial services, skill development, and supportive policies.

Findings

The quantitative analysis reveals a clear relationship between livelihood diversification and poverty reduction. Statistical testing confirms a significant association ($\chi^2 = 18.37$, $p < 0.001$) between the number of income strategies and perceived poverty impacts. Households with diversified livelihoods are 2.7 times more likely to report substantial poverty reduction compared to single-strategy households. This finding strongly supports the research hypothesis while rejecting the null hypothesis. The data demonstrates important threshold effects in diversification benefits. Households maintaining 2-3 income sources show optimal results, with 78% reporting improved food security and 65% noting better education access. However, benefits plateau beyond four strategies, with only marginal additional gains (4-7% improvement). This aligns with theories of diminishing returns in livelihood diversification (Ellis, 2000; Barrett et al., 2001).

Qualitative insights reveal the multidimensional nature of poverty impacts. Respondents consistently emphasized three key benefits of diversification: enhanced income stability (mentioned by 82% of interviewees), improved access to education (68%), and greater healthcare affordability (57%). These findings corroborate Sen's (1999) capability approach, showing how diversification affects both economic and social dimensions of poverty. Risk mitigation emerges as a critical advantage of diversified livelihoods. Households with multiple income streams demonstrate significantly greater resilience, maintaining 73% of normal consumption during economic shocks compared to 41% for single-strategy households. This supports the vulnerability reduction framework proposed by Scoones (1998), particularly in agrarian economies facing climate and market volatility.

Conclusion

The study provides compelling evidence for livelihood diversification as an effective poverty reduction strategy. Three key conclusions emerge from the findings:

First, strategic diversification (2-3 complementary activities) delivers optimal poverty reduction impacts. This suggests development programs should focus on quality rather than quantity of diversification, helping households identify and strengthen

synergistic income combinations. Second, different poverty dimensions require tailored approaches. While business-agriculture combinations best address income poverty (Effect Size = 1.15), remittance-enabled households show strongest education outcomes (OR = 2.89). Policy interventions should therefore be multidimensional, addressing specific poverty manifestations. Third, successful implementation requires addressing systemic barriers. Financial exclusion affects 61% of single-strategy households, while 54% cite skill gaps as a constraint. Effective scaling demands integrated solutions combining microfinance access (priority for 73% of households), vocational training, and improved market infrastructure.

5.3 Role of Social Capital in Livelihood Diversification

The responses from Panchkhal Municipality Ward No. 3 align well with the Social Capital Theory, which underscores the importance of social networks, norms, and trust in accessing resources and opportunities (Putnam, 2000; Bourdieu, 1986). The influence of friends and social networks in driving diversification decisions highlights the role of social capital in facilitating economic activities. Additionally, the utilization of local resources and infrastructure reflects the practical application of available assets, consistent with the Sustainable Livelihoods Framework, which emphasizes the use of available resources to enhance livelihood outcomes (Chambers & Conway, 1992). Economic necessity and risk management are also evident themes. Low agricultural income and the need for financial improvement drive individuals to seek diversified income sources, as supported by Barrett et al. (2001) and Ellis (2000). This diversification helps manage risks and ensures more stable and improved livelihoods. The responses underscore the complexity and multifaceted nature of livelihood diversification strategies in rural areas, highlighting the interplay between economic, social, and environmental factors. Social capital is crucial in supporting livelihood diversification in Panchkhal Municipality. Social networks, norms, and institutions play an integral role in providing access to resources and information necessary for diversifying livelihoods.

Examples from the responses seem valid. Agricultural activities are often supported by family traditions and knowledge passed down through generations. Additionally, businesses funded through loans from friends and relatives highlight the importance of social networks. Bourdieu (1986) emphasizes the role of social capital in providing

access to resources and opportunities. Leveraging funds from shareholders for business indicates the role of community-based financial cooperation. Putnam (2000) argues that social capital facilitates collective action and community cooperation. Access to remittances and support from relatives working abroad demonstrates how social ties can be harnessed for economic improvement. Research by De Haan and Zoomers (2005) highlights the importance of social networks in providing access to information and resources. The findings align with the social capital theory, which posits that social networks and community ties facilitate access to resources and opportunities, enabling livelihood diversification and poverty reduction (Putnam, 2000; Bourdieu, 1986). In Panchkhal Municipality, traditional agricultural practices combined with modern economic activities such as business and employment illustrate a dynamic shift in livelihood strategies aimed at enhancing economic resilience. The role of remittances and community support further underscores the importance of social capital in sustaining diversified livelihoods.

Social capital theory suggests that social networks, trust, and norms play a critical role in accessing resources, sharing information, and providing mutual support. In the context of livelihood diversification, social networks can provide access to financial resources, such as loans from friends and relatives, which are essential for starting and sustaining businesses. Social connections help individuals gain information about job opportunities, market conditions, and new business ideas. Community and family support systems offer a safety net during economic hardships, enabling individuals to take risks and explore new livelihood strategies. The findings from the study on livelihood diversification in Panchkhal Municipality Ward No. 3 align well with the tenets of social capital theory. Several respondents highlighted the role of social networks in providing financial support for their livelihood activities. For instance, one respondent mentioned borrowing money from friends and relatives to start a business. This underscores the importance of social capital in providing access to financial resources, which is critical for livelihood diversification. Bourdieu (1986) emphasized that social capital allows individuals to access resources that are otherwise unavailable to them, enhancing their ability to pursue diverse economic activities. The study's respondents indicated various ways through which they learned about and accessed different livelihood opportunities. For example, remittances from family members working abroad not only provided financial support but also

information about new opportunities and markets. This aligns with Coleman's (1990) perspective that social capital facilitates information exchange, which can lead to more informed and effective economic decisions. Social networks within the community provided a safety net that enabled respondents to diversify their livelihoods. For instance, leveraging funds from shareholders for business ventures illustrates how collective action and mutual support within the community can facilitate economic activities. Putnam (2000) argued that social capital fosters trust and reciprocity, which are crucial for collective economic initiatives and risk-sharing. The responses indicate a mix of maintaining traditional agricultural practices and exploring new opportunities such as business and employment. This balance reflects the role of social norms and values in livelihood strategies. Traditional practices are often maintained due to strong family and community ties. At the same time, new opportunities are explored with the support of social networks, demonstrating how social capital can bridge traditional and modern economic activities. This dual approach aligns with the findings of De Haan and Zoomers (2005), who highlighted the role of social capital in adapting to changing economic environments. Diversification strategies supported by social capital have a significant impact on reducing poverty and economic vulnerability. By having multiple sources of income, households can better withstand economic shocks and uncertainties. For example, respondents who combined agriculture with business or job activities demonstrated increased economic resilience. Research by Ellis (2000) supports the view that livelihood diversification, facilitated by social capital, enhances household economic stability and reduces poverty.

The study findings from Panchkhal Municipality Ward No. 3 clearly illustrate the relevance of social capital theory in understanding livelihood diversification strategies. Social networks, trust, and shared norms play pivotal roles in accessing resources, sharing information, and providing mutual support, all of which are essential for successful livelihood diversification. These elements of social capital not only help individuals and households enhance their economic activities but also contribute to broader poverty reduction efforts.

The interviews conducted in Panchkhal Municipality Ward No. 3 revealed various forms of family and community support in diversifying livelihoods, with no reported

support from the government or NGOs. This section analyzes each response, highlighting the critical role of family and community networks, while also noting the limitations and gaps in support. Several respondents emphasized the significant financial and emotional support provided by their families. One respondent mentioned, "financial support and encouragement from family, community network utilization," which indicates that family resources are crucial for initiating and sustaining diversified livelihood activities. This is consistent with Bourdieu's concept of social capital, where family support constitutes a form of capital that can be mobilized for economic benefits (Bourdieu, 1986). Other respondent also highlighted, "Provides emotional and financial support, guidance in the business and agricultural sector," underlining the multifaceted role of family in both financial and advisory capacities. Emotional support is equally important, as it boosts morale and motivation, essential for entrepreneurial endeavours (Putnam, 2000). Community support was noted, albeit more prominently at the initial stages of livelihood diversification. One respondent indicated, "community network utilization, equal opportunity but the help and support is less afterwards," suggesting that while community networks are initially supportive, this support wanes over time. Another respondent similarly noted, "community encourage at first but later do not receive the same level of support." This pattern reflects a common phenomenon in rural communities where initial enthusiasm and collective effort may diminish as the novelty wears off and individual challenges emerge (Coleman, 1988). The temporary nature of community support highlights the need for sustainable community engagement strategies to maintain continuous support. Access to financial resources from cooperatives and banks was mentioned by respondents as a crucial factor in supporting livelihood diversification. One respondent noted, "financial support from cooperative or bank," indicating that these institutions play a pivotal role in providing the necessary capital. This aligns with findings from the World Bank (2017), which emphasize the importance of financial institutions in enabling economic activities in rural areas. However, the absence of governmental or NGO support, as noted by several respondents, underscores a gap in formal institutional support systems. Enhancing the role of cooperatives and banks, alongside potential government interventions, could strengthen the financial backbone for livelihood diversification. Direct involvement and coordination from family members were also highlighted as significant. One respondent mentioned, "direct involvement and coordination from family," which suggests that active participation

of family members in livelihood activities can enhance operational efficiency and resource management. This finding is supported by literature indicating that family businesses often benefit from the trust, commitment, and shared goals among family members (Chrisman et al., 2005). One respondent also noted "direct and indirect involvement, financial support, knowledge sharing," illustrating the comprehensive support that families provide, encompassing financial resources, active participation, and knowledge transfer. The role of social and cultural beliefs in supporting livelihood diversification was noted by respondent, who mentioned, "family and social belief, gives consent for investment with understanding of service-oriented business." This indicates that beyond financial and emotional support, cultural and social norms within the family can significantly influence decisions related to livelihood activities. This aligns with the work of Putnam (2000), who highlighted the impact of social norms and trust in facilitating economic activities. Understanding the cultural context and social beliefs can thus be crucial for designing interventions that support livelihood diversification in rural areas.

The analysis of family and community support in diversifying livelihoods in Panchkhal Municipality reveals a complex interplay of financial, emotional, and social factors. While families provide substantial support, both financially and emotionally, the role of community networks appears to be more transient. The lack of government and NGO support highlights a critical gap in the institutional framework, emphasizing the need for enhanced formal support mechanisms. Strengthening family and community support systems, along with formal financial institutions, can significantly contribute to successful livelihood diversification and economic stability in rural Nepal.

5.4 Major Household Expenses and Factors Influencing Decision for Livelihood Diversification

Household expenses in rural areas such as Panchkhal Municipality Ward No. 3 encompass a range of essential and ancillary costs, reflecting the diverse needs and priorities of the residents. The responses from the interviews provide a detailed insight into the expenditure patterns, highlighting the critical areas where resources are allocated. This analysis identifies the key categories of household expenses and discusses their implications on livelihood strategies and economic stability.

A significant portion of household income is directed towards food and daily utilities, as mentioned by several respondents. For instance, respondents listed food as a primary expense. This is consistent with findings from the World Bank (2015), which states that food typically constitutes a large share of household budgets in rural areas, where subsistence agriculture may not fully meet nutritional needs. The inclusion of utilities such as electricity, water, and fuel further underscores the basic necessity of maintaining household operations, which are essential for daily living and overall well-being. Education expenses are prominently featured in the responses, indicating a strong emphasis on investing in the future of children. Respondents cited education as a major expense. This aligns with the Sustainable Development Goals (SDGs) that emphasize quality education as a critical factor in breaking the cycle of poverty (UNESCO, 2016). In rural contexts, education is often viewed as a pathway to better employment opportunities and economic mobility. However, the financial burden of school fees, uniforms, books, and other related costs can be substantial, necessitating careful financial planning and prioritization by households.

Health-related expenses are another major category identified by respondents. Respondents mentioned health expenses. Health expenditures can include routine medical check-ups, treatment for illnesses, purchase of medicines, and healthcare services. According to the World Health Organization (WHO, 2010), out-of-pocket health expenses can significantly impact household finances, especially in rural areas with limited access to affordable healthcare. The importance placed on health reflects the necessity to maintain physical well-being, which directly influences productivity and the ability to engage in livelihood activities.

Some respondents highlighted expenses related to business and agriculture. These include costs for buying machinery, maintenance, labor charges, and other business-related expenditures. Investing in business and agricultural activities is crucial for income generation and diversification of livelihoods. According to the International Fund for Agricultural Development (IFAD, 2015), such investments can enhance productivity and economic resilience. However, they also represent a significant financial commitment, requiring households to balance immediate consumption needs with long-term investment strategies. Cultural and social expenses, including festivals, refreshment, and marriage, were mentioned by respondents. These

expenditures are an integral part of rural life, reflecting cultural values and social cohesion. Celebrations and social events often require substantial financial outlay, but they also play a role in maintaining social bonds and community support networks. As noted by Bourdieu (1986), social capital is crucial in rural settings, where relationships and networks provide mutual assistance and support. Balancing these cultural expenses with other financial priorities can be challenging but is essential for sustaining community ties and social harmony.

Analysis of major household expenses in Panchkhal Municipality Ward No. 3 reveals a multifaceted financial landscape where households must allocate resources across essential needs, education, health, business investments, and cultural obligations. Each category of expense highlights the interplay between immediate necessities and long-term aspirations, influencing livelihood strategies and economic stability. Policymakers and development practitioners need to consider these expenditure patterns when designing interventions aimed at poverty reduction and economic development in rural areas. By understanding and addressing these financial dynamics, more effective support can be provided to enhance household resilience and overall well-being.

The decision to diversify livelihoods among respondents in Panchkhal Municipality Ward No. 3 is driven by various socio-economic factors that align with the broader trends observed in rural livelihood studies. These factors include low income from agriculture, the desire for financial improvement, social influences, and the availability of local resources. The responses can be analyzed through the lens of livelihood diversification theories, particularly those emphasizing the role of social capital, economic necessity, and risk management. Response from one respondent indicated low income from agriculture as a primary driver for diversifying livelihoods. This aligns with the literature that highlights the limitations of relying solely on agriculture in rural areas due to fluctuating market prices, climate change impacts, and limited land productivity (Ellis, 2000). Diversifying into other income-generating activities helps mitigate these risks and ensures a more stable income. Similarly, one respondent mentioned insufficient income from a previous job, indicating that economic necessity drives individuals to seek additional sources of income using their skills and knowledge. This aligns with Barrett et al.'s (2001) findings that non-farm income is crucial for rural households to achieve economic

stability and improve their livelihoods. Responses from one respondent emphasized the importance of utilizing local resources and infrastructure. Other respondent mentioned diversifying to utilize available local resources, which is supported by Scoones (1998), who argues that access to natural resources is a key determinant in livelihood strategies. Moreover, other respondent further highlighted the role of capital, technology, and local raw materials in influencing diversification decisions. This perspective is consistent with studies that underscore the significance of local resource availability and infrastructural development in facilitating diversified livelihood strategies (Bryceson, 2002). Several respondents highlighted social influences and personal aspirations as significant factors in their decision to diversify. One respondent mentioned being influenced by friends, while other cited experience, learning, and social horizons. These responses illustrate the role of social capital in livelihood diversification. According to Bourdieu (1986), social capital comprises networks, relationships, and social interactions that provide individuals with access to resources and opportunities. In this context, social networks facilitate the sharing of information and support necessary for pursuing diversified income sources.

Other response about staying together with family and watching growing business opportunities reflects both social and economic motivations. The desire to improve living standards, as noted by one respondent, aligns with aspirations for better education and healthcare for family members. These aspirations drive individuals to seek diversified income sources that can provide the necessary financial means to achieve these goals. This is supported by the findings of De Haan and Zoomers (2005), who emphasize that diversified livelihoods are often pursued to improve overall family welfare and future prospects. Responses from various respondents indicate that financial improvement and risk management are critical factors influencing livelihood diversification. Respondent 3's desire to improve financial status and provide quality education and healthcare aligns with the broader literature on livelihood strategies aimed at enhancing household welfare (Ellis, 2000). One respondent mentioned increased responsibilities and expenses after marriage as a driving factor, highlighting how life cycle events influence economic decisions. Respondent 9's emphasis on increasing income and reducing dependency on a single income source aligns with the risk management perspective, which suggests that diversification helps mitigate the vulnerabilities associated with relying on one income stream (Scoones, 1998).

5.5 Key Challenges in Diversifying Livelihoods

Based on the interviews conducted in Panchkhal Municipality Ward No. 3, several key challenges in diversifying livelihoods were identified. These challenges can be broadly categorized into issues related to capital, skills, knowledge, access to financial institutions, technological and digital divide, infrastructure, market understanding, time constraints, land constraints, and uncertain employment opportunities. Each of these challenges is elaborated below with relevant literature to provide a comprehensive understanding. Many respondents cited inadequate financial resources as a significant barrier to diversifying livelihoods. Insufficient funds prevent households from investing in new ventures or expanding existing ones, making it difficult to purchase necessary equipment, inputs, or land. One respondent mentioned, "We lack the capital, skills, knowledge, experiences, and access to financial organizations like banks or cooperatives."

This lack of capital restricts their ability to diversify into new livelihood activities, which is essential for economic growth and stability. According to the Food and Agriculture Organization, limited access to financial resources is a common constraint in rural areas, hindering the adoption of diversified income-generating activities (FAO, 2010). Respondents also highlighted the lack of necessary skills, training, and knowledge as a prominent challenge. Without adequate training in modern agricultural practices, business management, and technological advancements, individuals struggle to engage effectively in diversified livelihood activities. One respondent noted, "We have insufficient skills and competencies and no idea about commercial farming." The International Fund for Agricultural Development (IFAD) emphasizes that capacity-building initiatives are crucial for empowering rural communities to diversify their livelihoods successfully (IFAD, 2018). Several respondents mentioned difficulties in accessing financial services such as loans, savings, and insurance from banks or cooperatives. This lack of financial inclusion restricts investment opportunities and the ability to manage risks associated with livelihood diversification. One respondent explained, "There is a lack of capital, technology, infrastructure, and working capital." The World Bank notes that improving access to financial services is critical for enhancing economic opportunities and resilience among rural populations (World Bank, 2017). A notable barrier

mentioned was the inadequate access to and knowledge about modern technologies and digital media. Failure to adopt technology-driven solutions can hinder productivity improvements and market access, crucial for competitive and sustainable livelihoods. One respondent stated, "We lack an idea of customer choices, technology, and digital media." The International Food Policy Research Institute (IFPRI) highlights the importance of bridging the digital divide to enhance agricultural productivity and income diversification in rural areas (IFPRI, 2019). Respondents also noted infrastructure limitations, including poor roads, electricity, and water supply, as significant obstacles.

These deficiencies increase costs, reduce efficiency, and limit market access, thereby impacting the viability of diversified livelihood activities. The Asian Development Bank underscores the importance of infrastructure development in facilitating economic activities and improving rural livelihoods (ADB, 2020). Some respondents lacked knowledge of market demands and consumer preferences. This lack of understanding can lead to products or services that do not generate sufficient income or meet consumer expectations, thereby undermining the sustainability of livelihood efforts. IFAD points out that market-oriented strategies are essential for ensuring that rural enterprises can meet demand and sustain income levels (IFAD, 2015). Time limitations and economic pressures were cited as challenges, forcing households to prioritize immediate needs over long-term investment in diversification. Pressure to generate income quickly may lead to risk-averse behaviors, limiting experimentation with new livelihood strategies. One respondent highlighted, "Time constraints, insufficient agricultural inputs, and the declining economic condition are major issues." The World Food Programme identifies time constraints as a significant factor affecting the capacity of rural households to diversify their livelihoods (WFP, 2016). Limited availability of productive land was identified as a barrier, particularly in densely populated areas or where land tenure issues exist. Scarcity of land can restrict agricultural expansion and diversification into land-intensive activities, impacting income diversification efforts. One respondent mentioned, "There is a scarcity of productive land." The FAO highlights that access to land is a critical factor influencing the ability of rural households to engage in diversified livelihood activities (FAO, 2018). Concerns about the unpredictability of employment opportunities were also expressed. Economic volatility and seasonal fluctuations can

undermine the stability of diversified income streams, influencing household decisions regarding livelihood strategies. One respondent noted, "Uncertain employment and lack of working capital are significant challenges." The International Labour Organization notes that uncertain employment conditions can significantly affect the livelihood security of rural households (ILO, 2020).

CHAPTER VI SUMMARY AND CONCLUSION

6.1 Summary of the Findings

The study reveals that 83.2% of households in Panchkhal Municipality maintain multiple income sources, demonstrating widespread adoption of livelihood diversification strategies. Agriculture remains the foundational activity for 89% of these households, though rarely as a sole income source. The most common diversification patterns combine agriculture with remittances (32% of households), small businesses (28%), and wage labor (19%). Only 16.8% of households rely exclusively on single-income strategies, predominantly subsistence farming. Households with diversified livelihoods show significantly better economic outcomes compared to single-strategy households. They earn 2.4 times higher average incomes and demonstrate 68% greater food security. Access to education improves by 57% and healthcare affordability by 49% among diversified households. The research identifies an optimal range of 2-3 income streams, with clear evidence of diminishing returns beyond this threshold.

Social capital emerges as a critical factor in successful diversification. Family networks provide startup capital for 72% of households, while 65% utilize community knowledge sharing. Financial inclusion proves particularly significant, with access to formal financial services showing a strong positive correlation ($\beta=0.73$, $p<0.01$) with diversification success. Households face multiple barriers in diversifying their livelihoods. Capital shortages affect 78% of respondents, followed by skill gaps (63%), limited market access (57%), and technological deficiencies (49%). These constraints disproportionately impact women and marginalized groups, creating unequal opportunities for livelihood expansion. The study identifies three primary pathways through which diversification reduces poverty: income stabilization (83% of households report improved shock resilience), human capital investment (68% channel additional income to education), and asset accumulation (54% invest in productive assets or property). These mechanisms operate synergistically to enhance household wellbeing.

Based on the interviews conducted in Panchkhal Municipality Ward No. 3, several significant findings regarding livelihood diversification and poverty reduction have been identified. Residents engage in a broad range of livelihood activities, including traditional agriculture, poultry farming, private sector jobs, business ventures, and remittances from abroad. This diversification is essential for mitigating risks associated with dependence on a single income source, aligning with Scoones' (1998) framework that emphasizes multiple income streams to enhance livelihood security. Many respondents distinguish between their primary and secondary sources of income, highlighting the complexity and layered nature of rural livelihoods (Ellis, 2000). Agriculture continues to be a foundational livelihood activity for many families, passed down through generations.

However, due to the often insufficient income generated from farming alone, many households seek additional income sources. This finding reflects the persistent challenges in rural agricultural economies, where traditional farming does not always meet modern economic needs (FAO, 2010). Business activities and remittances play significant roles in providing crucial financial support, contributing to economic stability and growth within households. De Haan and Zoomers (2005) emphasize that diversification into non-agricultural activities, including business and remittances, can significantly improve household resilience and economic well-being. The respondents face numerous challenges when attempting to diversify their livelihoods, including a lack of capital, insufficient skills and training, limited access to financial services, and technological gaps. These barriers highlight the multifaceted nature of livelihood diversification and the need for comprehensive support systems (IFAD, 2018; World Bank, 2017). Limited access to financial institutions such as banks and cooperatives restricts opportunities for investment and effective risk management, thereby hampering diversification efforts. Financial inclusion is crucial for enabling households to secure loans and other financial products necessary for diversification (World Bank, 2017). Family and community support play vital roles in encouraging and facilitating livelihood diversification. Financial assistance, emotional support, and knowledge sharing from family members and community networks are crucial for sustaining diversified income activities.

This finding aligns with Bourdieu's (1986) concept of social capital, which emphasizes the value of social networks and relationships in economic activities. Additionally, major household expenses, including food, education, health, and utilities, underscore the necessity for stable and sufficient income sources to meet daily needs and improve living standards. The focus on education and health expenses indicates a prioritization of long-term human capital development (IFAD, 2015). Diversified livelihood activities positively impact the economic situation of households by increasing income, improving living standards, and enhancing access to education, health, and financial services. This positive impact underscores the importance of livelihood diversification in poverty reduction and economic development (Ellis, 2000). Respondents plan to expand business ventures, mechanize agriculture, and invest in regular income-generating activities as long-term strategies. These plans aim to secure and stabilize future income, reflecting a proactive approach to managing economic risks and uncertainties (Scoones, 1998). Engaging in community activities and building social networks enhance access to resources and opportunities, reinforcing the importance of social relationships in economic activities (Bourdieu, 1986).

6.2 Conclusion

For households still dependent on single-income strategies, immediate protective measures are needed. These should include expanded social safety nets, conditional cash transfers, and risk insurance mechanisms. Particular attention should focus on subsistence farming households most vulnerable to economic and climate shocks. Households beginning to diversify require targeted support through microcredit access (a priority for 73% of households), vocational training programs, and improved agricultural extension services. These interventions should specifically address the identified constraints of capital, skills, and technology access. For households with established diversified livelihoods, policy should focus on strengthening market linkages, investing in rural infrastructure, and facilitating technology adoption. These measures help maximize returns from existing diversified activities. Effective policy implementation requires gender-sensitive approaches, given that women manage 61% of secondary income activities. Climate adaptation must be integrated, as 78% of agricultural households' report climate impacts. Financial system reforms are urgently needed, with current exclusion rates exceeding 60% for formal credit.

The findings from the interviews in Panchkhal Municipality Ward No. 3 underscore the critical role of livelihood diversification in enhancing economic stability and reducing poverty. Diversified income sources, including agriculture, business, private sector jobs, and remittances, provide households with multiple avenues for generating income and managing risks. This multifaceted approach to livelihood activities aligns with theoretical frameworks that emphasize the importance of having various income streams to enhance resilience and economic security (Ellis, 2000; Scoones, 1998).

Despite the challenges such as lack of capital, skills, and access to financial services, the community's efforts in diversifying their livelihoods have shown positive impacts on improving living standards, increasing income, and providing better access to education and health services. These efforts reflect a dynamic adaptation to the changing economic landscape and highlight the importance of supportive policies and programs that facilitate financial inclusion, skill development, and technological access (IFAD, 2018; World Bank, 2017). Family and community support emerged as significant enablers in the diversification process, providing essential financial assistance, emotional backing, and knowledge sharing. These social capital elements underscore the importance of strong social networks in economic activities, consistent with Bourdieu's (1986) theory of social capital. The respondents' future plans to expand businesses, mechanize agriculture, and invest in income-generating activities indicate a forward-looking approach aimed at ensuring long-term economic stability and growth.

Addressing the identified challenges through comprehensive strategies, including improved access to finance, training, and infrastructure development, is crucial for supporting households in their diversification efforts. By fostering an enabling environment, policymakers and development practitioners can significantly contribute to sustainable economic development and poverty reduction in Panchkhal Municipality. The study validates the Sustainable Livelihoods Framework while identifying important local adaptations. Social capital plays a more central role than theorized, optimal diversification occurs at lower strategy counts than predicted, and agriculture remains foundational despite diversification. These findings provide an evidence base for Nepal's poverty reduction strategy. Important areas for further study include longitudinal impacts of diversification, potential for digital financial inclusion, and intergenerational transmission effects. Research should also explore the effectiveness of different policy interventions in various agro-ecological zones.

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APPENDICES

Appendix I: Survey Questionnaire

Section A: Contribution on Livelihood

I. Income

- 1. What are the primary sources of your household's income?** (Select all that apply)

Sources	Amount of Income
---------	------------------

- Agriculture
- Non-farm activities
- Off-farm employment
- Entrepreneurship
- Remittances
- Other (Specify):

- 2. What is the average monthly income of your household?**

- Less than NPR 10,000
- NPR 10,000-20,000
- NPR 20,001-30,000
- NPR 30,001-50,000
- More than NPR 50,000

II. Assets

- 3. Which of the following assets does your household own?** (Select all that apply)

Assets	Ownership (Own/rented/?)	Value
--------	--------------------------	-------

- Land
- Livestock

- Machinery
- Housing
- Vehicles
- Other (Specify):

4. How much land does your household own?

- Less than 1 ropani
- 1-5 ropanis
- 5-10 ropanis
- More than 10 ropanis
- None

III. Access

5. Do you have access to the following financial services? (Select all that apply)

Services	Access (Yes/No)	How often?
• Bank account		
• Microfinance services		
• Cooperatives		
• Savings account		
• Other (Specify):		

6. How often do you use financial services?

- Frequently
- Occasionally
- Rarely
- Never

IV. Participation

7. Are you a member of any community group?

- Yes
- No

8. How often do you participate in community meetings or activities?

- Frequently
- Occasionally
- Rarely
- Never

V. Ownership**9. Do you have ownership in any business or enterprise?**

- Yes
- No

10. If yes, what type of business or enterprise do you own?

- Agricultural business
- Retail shop
- Service-based business
- Manufacturing
- Other (Specify):

Section B: Changing Livelihood**I. Change in Income****11. How has your household's income changed over the past 5 years?**

- Increased significantly
- Increased slightly
- Remained the same
- Decreased slightly
- Decreased significantly

12. What has been the primary reason for this change in income?

- Diversification of income sources

- Increased agricultural productivity
- Migration and remittances
- Access to better education
- Other (Specify):

II. Change in Assets

13. How has your household's asset ownership changed over the past 5 years?

- Increased significantly
- Increased slightly
- Remained the same
- Decreased slightly
- Decreased significantly

14. Which assets have you acquired or lost in the past 5 years? (Select all that apply)

i. Acquired:

- Land
- Livestock

- Machinery
- Housing
- Vehicles

ii. Lost:

- Land
- Livestock
- Machinery
- Housing
- Vehicles

III. Change in Access

15. How has your access to financial services changed over the past 5 years?

- Improved significantly
- Improved slightly
- Remained the same
- Worsened slightly
- Worsened significantly

16. What factors have influenced the change in your access to financial services?

- Increased financial literacy
- Availability of microfinance
- Government policies
- Economic development
- Other (Specify):

IV. Change in Participation

17. How has your participation in community activities changed over the past 5 years?

- Increased significantly
- Increased slightly
- Remained the same
- Decreased slightly
- Decreased significantly

18. What factors have influenced the change in your participation?

- Better community organization
- Increased awareness
- Incentives for participation
- Time constraints
- Other (Specify):

IV. Change in Ownership

19. How has your ownership of businesses or enterprises changed over the past 5 years?

- Increased significantly
- Increased slightly
- Remained the same
- Decreased slightly
- Decreased significantly

20. What factors have influenced the change in your business ownership?

- Availability of capital
- Market opportunities
- Government support
- Personal motivation
- Other (Specify):

Section C: Livelihood Diversification and Poverty Reduction

I. Impact on Poverty

21. Has livelihood diversification helped in reducing poverty in your household?

- Yes, significantly
- Yes, moderately
- No, not at all

22. Which of the following improvements have you experienced due to livelihood diversification? (Select all that apply)

- Increased income
- Improved food security
- Better access to healthcare

- Better access to education
- Improved living conditions
- None of the above

23. What are the main challenges you face in diversifying your livelihood?

- Lack of capital
- Limited access to markets
- Lack of skills or education
- Poor infrastructure
- Other (Specify):

24. How do social networks and institutions support your livelihood diversification efforts?

- Very supportive
- Somewhat supportive
- Not supportive
- Not applicable

25. How do you cope with economic shocks or stresses? (Select all that apply)

- Utilizing savings
- Taking loans
- Selling assets
- Seeking additional employment
- Reducing household expenditure
- Other (Specify):

Appendix II: Interview Schedule

1. Can you describe the different types of livelihood activities you are engaged in?
2. How did you start these activities?
3. What factors influenced your decision to diversify your livelihood?
4. What challenges have you faced in diversifying your livelihoods?
5. What opportunities have helped you in diversifying your livelihoods?
6. How do your family and community support your livelihood activities?
7. Have you received any support from government or non-governmental organizations? If so, what kind?
8. What are your primary and secondary sources of income?
9. How stable are these income sources?
10. What are your major household expenses?
11. How do you manage unexpected expenses or economic shocks?
12. How do you define poverty in your context?
13. Do you consider your household to be living in poverty? Why or why not?
14. How has diversifying your livelihood activities affected your economic situation?
15. Can you provide examples of how diversification has helped in reducing your household's poverty?
16. What long-term strategies are you considering to further improve your economic situation?
17. How do you plan to sustain or expand your livelihood activities?