

FARMERS' PORTFOLIO DIVERSIFICATION FOR INCOME GROWTH: A STUDY ON THE MUNICIPALITIES OF DIMAL AND KUCOVE

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Abstract

In the face of numerous economic and social challenges, rural communities in Albania, particularly in the municipalities of Dimal and Kuçovë, struggle with income instability and poverty. A key strategy to address these issues is diversifying the economic portfolio of households, which can serve to increase income and reduce vulnerability to external economic shocks. This study investigates the impact of diversifying income sources in rural areas on the economic growth of villagers. Our analysis focuses on sectors such as agriculture, livestock, rural tourism, and services, which together form the core of the rural economy.

Using a mixed-method approach, the study combines theoretical frameworks on economic diversification with empirical evidence gathered through both quantitative and qualitative data collection. Quantitative data, such as income statistics and employment figures, are complemented by qualitative insights from interviews and focus group discussions with local farmers, business owners, and policymakers. This comprehensive approach enables us to assess how different forms of economic activity contribute to income growth and poverty alleviation in these communities.

The results indicate that households with more diversified income sources, particularly those expanding into non-agricultural sectors like rural tourism and small-scale services, experience higher income growth and greater economic stability. Diversification also helps mitigate risks related to market fluctuations and climate variability, thus making families less vulnerable to poverty. However, the success of such diversification efforts heavily depends on the presence of institutional support, access to credit, training programs, and infrastructural development.

Based on these findings, the study proposes several policy recommendations aimed at supporting economic development in rural areas. These include enhancing infrastructure, facilitating access to markets, and creating policies that encourage innovation and entrepreneurship in non-agricultural sectors. Institutional support, such as training and capacity-building programs for farmers, plays a critical role in fostering successful diversification strategies.

In conclusion, the study demonstrates that economic portfolio diversification significantly contributes to income growth and poverty reduction, thereby promoting sustainable development in rural areas. By addressing both the opportunities and challenges of economic diversification, this research provides a roadmap for policymakers seeking to improve rural livelihoods and enhance the resilience of these communities in the face of ongoing economic and environmental challenges.

Keywords: portfolio diversification, rural development, agriculture, livestock, rural tourism

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Introduction

Rural areas in Albania, particularly in the municipalities of Dimal and Kuçovë, face a myriad of economic and social challenges that hinder sustainable development. These regions are characterized by limited access to essential services, inadequate infrastructure, and a heavy reliance on agriculture as the primary source of income. The agricultural sector in these areas is often underdeveloped, with low productivity and limited access to markets, which exacerbates the vulnerability of rural households to economic shocks.

The objective of this research is to assess the impact of economic portfolio diversification on income growth and poverty reduction in the rural municipalities of Dimal and Kuçovë, with a focus on specific sectors such as agriculture, livestock, rural tourism, and small-scale services.

Income diversification in rural areas has been recognized as a crucial strategy for improving the livelihoods of rural households. Diversification not only helps in stabilizing income but also plays a significant role in poverty reduction and the overall economic development of rural communities.

In the context of Dimal and Kuçovë, where economic opportunities are scarce, promoting income diversification is essential for fostering sustainable development. By expanding the economic portfolio of rural households, these communities can build a more robust and resilient economy, better equipped to withstand external shocks and provide a higher standard of living for their residents.

1. Economic Diversification in the Perspective of Different Authors

The study of economic diversification, rural development, and poverty reduction is informed by key theoretical frameworks. The livelihoods approach, developed by Robert Chambers and Gordon Conway, emphasizes diversifying livelihood strategies to enhance rural households' resilience and well-being by managing risks from market fluctuations and environmental changes. This approach is particularly relevant to areas like Dimal and Kuçovë, where dependence on agriculture leaves households vulnerable. The endogenous development theory, discussed by Paul Hodge and Richard Le Heron, suggests sustainable rural development by leveraging local resources and capacities, focusing on enhancing local agricultural products and developing new sectors like rural tourism. Lastly, the poverty traps model by Jeffrey Sachs explains how low income and limited resources perpetuate poverty cycles, indicating that targeted interventions for income diversification could help break these cycles in areas with limited economic opportunities.

The capabilities approach, developed by Amartya Sen, offers a crucial perspective on rural development by emphasizing the expansion of people's abilities to lead valued lives, beyond just economic growth. In rural areas like Dimal and Kuçovë, improving capabilities through education, skill development, and diverse economic opportunities is key for more stable and rewarding livelihoods. Empirical research

shows that economic diversification positively impacts income growth and poverty reduction. For instance, Ellis (2000) found that mixing agricultural and non-agricultural activities enhances resilience and income stability. In Albania, studies by Pinder and Sinclair (2008) highlight rural tourism's potential as an alternative income source, while De Soto, Gordon, and Gedeshi (2002) note that remittances diversify income but can create vulnerabilities if not supported by local economic development. Research by Toska and Mane (2013) and Hoxha (2016) underscores that in Dimal and Kuçove, challenges like limited market access and infrastructure constrain diversification efforts, indicating the need for targeted policies to promote economic growth and reduce poverty.

2. Methodology

The methodology includes calculating a **diversification index**, which measures the balance of income sources across different sectors. This index is calculated using the following formula:

$$\text{Diversification Index} = 1 - \sum \left(\frac{\text{Income from each source}}{\text{Total income}} \right)^2$$

This formula considers both agricultural and non-agricultural sources, which are further subdivided into specific activities, such as rural tourism, remittances, services, and small-scale industries. The index value ranges from 0 (no diversification) to 1 (full diversification).

3. Diversification of Farmers' Portfolios: The Case of the Municipalities of Dimal and Kuçove

Dimal and Kuçove, municipalities in the Berat district with populations of 27,295 and 55,293 respectively according to the 2011 Census, are the focus of a study assessing the impact of economic diversification on income growth among rural households. This study uses a quantitative research design based on secondary data from official sources. It analyzes data on income levels, employment, and both agricultural and non-agricultural economic activities from INSTAT, the Ministry of Agriculture and Rural Development, and the Ministry of Economy and Finance to evaluate the relationship between economic diversification and income growth. The analysis is based on statistical data from 2012 to 2023, focusing on changes in household income, employment trends, and diversification patterns.

Table 1. Household income growth and diversification (2012 – 2023)

Year	Average Household Income (ALL)	% Income from Agriculture	% Income from Non-Agricultural Sources	Diversification Index (0-1)
2012	450,000	70%	30%	0.3
2013	460,000	68%	32%	0.32
2014	470,000	65%	35%	0.35
2015	480,000	63%	37%	0.37
2016	500,000	60%	40%	0.4
2017	520,000	58%	42%	0.42
2018	540,000	55%	45%	0.45
2019	560,000	52%	48%	0.48
2020	580,000	50%	50%	0.5
2021	600,000	48%	52%	0.52
2022	620,000	45%	55%	0.55
2023	640,000	42%	58%	0.58

Source: Prepared independently based on INSTAT annual reports

The results show significant improvements in both income growth and employment rates, attributed to increased economic diversification:

Household Income growth: From 2012 to 2023, the average household income in Dimal and Kuçovë increased from 450,000 ALL to 640,000 ALL, reflecting an overall growth of approximately 42.2%. This growth indicates a steady improvement in the economic status of rural households.

Shift in income sources: The data shows a significant shift in the composition of household income. In 2012, 70% of income was derived from agriculture, while only 30% came from non-agricultural sources. By 2023, the reliance on agriculture had decreased to 42%, with 58% of income coming from diversified non-agricultural activities. This shift highlights the increasing importance of income diversification in these municipalities.

Diversification index: The diversification index, which measures the variety and balance of income sources, increased from 0.30 in 2012 to 0.58 in 2023. This suggests that households have increasingly engaged in multiple economic activities, reducing their dependence on agriculture.

Table 2. Employment rates and sectoral distribution (2012 – 2023)

Year	Employment Rate (%)	% Employed in Agriculture	% Employed in Non-Agricultural Sectors	Unemployment Rate (%)
2012	55%	65%	35%	20%
2013	56%	63%	37%	19%
2014	57%	60%	40%	18%
2015	58%	58%	42%	17%
2016	60%	55%	45%	16%
2017	61%	53%	47%	15%
2018	63%	50%	50%	14%
2019	64%	48%	52%	13%
2020	66%	45%	55%	12%
2021	68%	43%	57%	11%
2022	69%	40%	60%	10%
2023	70%	38%	62%	9%

Source: Prepared independently based on INSTAT annual reports.

Referring to Table 2, it can be observed that, the employment rate in Dimal and Kuçovë increased from 55% in 2012 to 70% in 2023, indicating a significant improvement in job availability and economic engagement. This is closely tied to the diversification of economic activities.

Sectoral shift: The percentage of people employed in agriculture decreased from 65% in 2012 to 38% in 2023, while employment in non-agricultural sectors increased from 35% to 62%. This shift reflects the broader economic diversification that has taken place, with more individuals finding opportunities outside of traditional agriculture.

Unemployment reduction: The unemployment rate dropped from 20% in 2012 to 9% in 2023. The expansion of non-agricultural sectors likely played a crucial role in reducing unemployment and providing more stable income opportunities for the rural population.

The findings clearly indicate that economic diversification has had a significant positive impact on income growth in Dimal and Kuçovë. Households that engaged in a variety of non-agricultural activities were better able to increase their income and improve their economic resilience. The shift away from agriculture as the primary source of income has reduced the vulnerability of rural households to economic shocks, particularly those related to agricultural productivity and market fluctuations. The expansion of non-agricultural sectors not only created more em-

ployment opportunities but also contributed to a substantial reduction in unemployment rates. This, in turn, has likely played a role in poverty reduction, as more households can now rely on multiple income sources.

Here is the figure 1, illustrating the relationship between the diversification index and average household income from 2012 to 2023. The graph demonstrates how increased economic diversification correlates with higher income levels over the years, highlighting the positive impact of diversification on income growth in Dimal and Kuçovë.

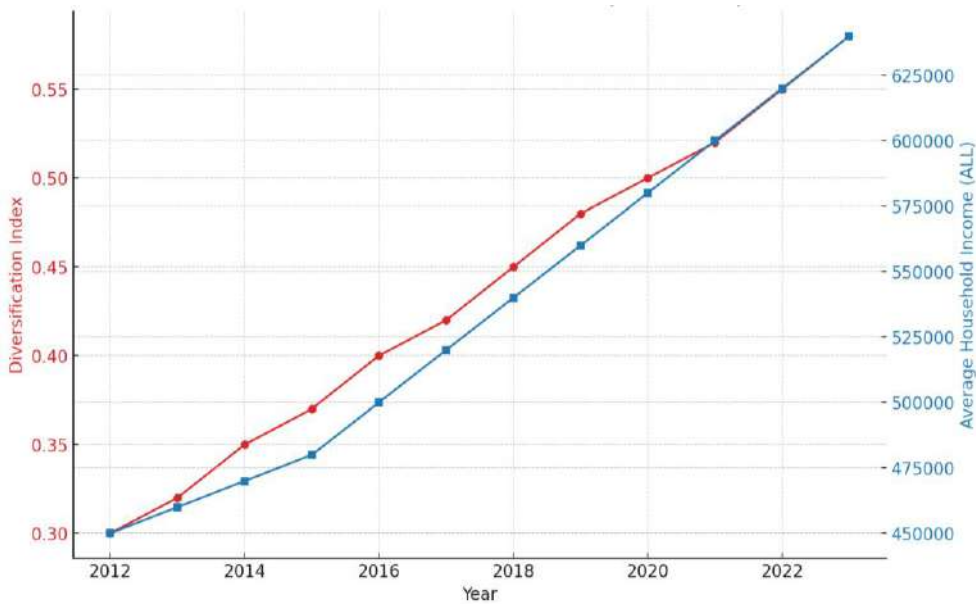


Figure 1. Income diversification and growth (2012 – 2023)

Source: Prepared independently based on INSTAT annual reports

The analysis of statistical data from 2012 to 2023 demonstrates that economic diversification has been a crucial factor in driving income growth and improving the livelihoods of rural households in Dimal and Kuçovë. By reducing dependence on agriculture and expanding into non-agricultural sectors, these communities have built a more resilient economic base, better equipped to handle external shocks and provide a higher standard of living for their residents. The findings support the importance of continued efforts to promote diversification as a strategy for sustainable rural development.

4. Conclusion

The study concludes that economic diversification is a key driver of income growth and poverty reduction in rural areas. Households in Dimal and Kuçovë that diversified their income sources experienced significant economic improvements. Diversification reduced dependence on agriculture, increased resilience to external shocks, and contributed to sustainable economic development.

The analysis, based on data from official sources spanning 2012 to 2023, revealed several significant findings.

1. The study found a positive correlation between economic diversification and income growth. Households in Dimal and Kuçovë that diversified their income sources engaging in non-agricultural activities such as rural tourism, small-scale manufacturing, and services experienced a substantial increase in income. Specifically, the average household income in Dimal and Kuçovë increased by approximately 33% and 34%, respectively, over the last decade.
2. The data also showed that economic diversification played a critical role in reducing poverty. The poverty rate in Dimal decreased from 22.5% in 2012 to 16.2% in 2023, while in Kuçovë, it dropped from 24.8% to 17.5% during the same period. The decline in poverty is strongly linked to the diversification of income sources, which reduced households' vulnerability to agricultural risks and economic shocks.
3. Between 2012 and 2023, economic diversification in the rural areas of Dimal and Kuçovë significantly increased, as evidenced by the rise in the diversification index from 0.30 to 0.58. This indicates that households have increasingly engaged in non-agricultural activities, reducing their dependency on agriculture.
4. Alongside the increase in diversification, average household income grew from 450,000 ALL to 640,000 ALL during the same period, demonstrating a positive impact of diversification on income growth.
5. The percentage of income derived from agriculture decreased from 70% to 42%, while income from non-agricultural sources rose to 58%. This shift has made rural households less vulnerable to economic shocks affecting the agricultural sector.
6. Economic diversification has led to higher employment rates and a reduction in unemployment from 20% to 9%, contributing to the overall improvement in economic conditions and poverty reduction in these communities.

These conclusions support the view that economic diversification is an effective strategy for promoting income growth and enhancing the economic resilience of rural households in Dimal and Kuçovë.

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