

ENTERPRISE DEVELOPMENT AND SUSTAINABLE LIVELIHOODS

The UK Government's 1997 *White Paper on International Development* ([DFID White Paper](#))¹ (then search site for DFID White paper 1997) commits DFID to supporting:

- (i) policies and actions which promote sustainable livelihoods;
- (ii) better education, health and opportunities for poor people;
- (iii) protection and better management of the natural and physical environment;

thereby helping to create a supportive social, physical and institutional environment for poverty elimination. The sustainable livelihoods approach incorporates all three objectives.

This paper presents a broad overview of the approach and its implications for impact assessment. Much of its content is taken directly from the DFID [Sustainable Livelihoods Guidance Sheets](#). Further information and case studies may be obtained from the livelihoods website: <http://www.livelihoods.org/> Practical experience is summarised in the DFID booklet *Sustainable livelihoods: Lessons from early experience*².

Section 1 of the paper discusses **WHAT** is meant by the *sustainable livelihoods* approach, and how it relates to Enterprise Development.

Section 2 discusses **WHO** the main *stakeholders* are.

Section 3 discusses **HOW** *Enterprise Development* interventions might more fully incorporate the approach.

Section 4 discusses the **IMPLICATIONS** of the approach for *impact assessment*.

1. WHAT IS A SUSTAINABLE LIVELIHOODS APPROACH?

The Guidance Sheets give the following definitions (adapted from Chambers and Conway 1992³).

'A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living.

A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets both now and in the future, while not undermining the natural resource base.'

Alongside its commitment to promoting sustainable livelihoods, the 1997 *White Paper* also commits DFID to promoting [human rights](#)⁴ (then click on International Development Strategies) through policy and practice. Rights-based and sustainable livelihoods (SL) approaches are complementary perspectives that seek to achieve many of the same goals (for example, empowerment of the most vulnerable and a strengthened capacity of the poor to achieve secure livelihoods). The primary focus of the rights perspective is on linkages between public institutions and civil society and, particularly, on how to increase the accountability of public institutions to all citizens. The livelihoods approach recognises the importance of these links and of enhancing accountability, though it takes as its starting point a need to understand the livelihoods of poor people in context. From this starting point it

¹ link and reference

² reference Ashley C and Carney D (1999) *Sustainable livelihoods: Lessons from early experience* DFID

³ reference Chambers R and Conway G (1992) *Sustainable rural livelihoods: Practical concepts for the 21 st century* IDS Discussion Paper 296, IDS, Brighton

⁴ link EDIAIS

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then tries to identify the specific constraints which prevent the realisation of people's rights and consequently the improvement of their livelihoods on a sustainable basis.

The sustainable livelihoods approach is based on a number of *core principles* and a *framework* for analysis and design.

Core principles

People-centred. At a practical level, the approach:

- starts with an analysis of people's livelihoods and how these have been changing over time;
- fully involves people and respects their views;
- focuses on the impact of different policy and institutional arrangements upon people/households and upon the dimensions of poverty **they** define (rather than on resources or overall output *per se*);
- stresses the importance of influencing these policies and institutional arrangements so they promote the agenda of the poor (a key step is political participation by poor people themselves);
- works to support people to achieve **their own** livelihood goals (though taking into account considerations regarding sustainability).

Holistic. The livelihoods framework is not intended to be an exact model of the way the world is, nor does it mean to suggest that stakeholders themselves necessarily adopt a systemic approach to problem solving. Rather, it aspires to provide a way of thinking about livelihoods that is manageable and that helps improve development effectiveness.

- It is **non-sectoral** and applicable across geographical areas and social groups.
- It recognises **multiple influences** on people, and seeks to understand the relationships between these influences and their joint impact upon livelihoods.
- It recognises **multiple actors** (from the private sector to national level ministries, from community-based organisations to newly emerging decentralised government bodies).
- It acknowledges the **multiple livelihood strategies** that people adopt to secure their livelihoods.
- It seeks to achieve **multiple livelihood outcomes**, to be determined and negotiated by people themselves.

The **unit of analysis** in livelihoods investigation is likely to be an identifiable social group. It is critical not to assume homogeneity in populations or within households themselves. Relevant social divisions may include those relating to class, caste, age, ethnic origin, gender; they can only be defined and agreed through an iterative process of participatory enquiry at community level.

Dynamic. It seeks to understand and learn from change so that it can support positive patterns of change and help mitigate negative patterns. It explicitly recognises the effects on livelihoods of external shocks and more predictable, but not necessarily less damaging, trends. It calls for ongoing investigation and an effort to uncover the nature of complex, two-way cause and effect relationships and iterative chains of events.

Building on strengths. An important principle of this approach is that it starts with an analysis of strengths, rather than needs. In 'livelihoods focused' development efforts, a key objective will be to remove the constraints to the realisation of potential. Thus people will be assisted to become more robust, stronger and better able to achieve their own objectives.

Macro-micro links. Development activity tends to focus at *either* the macro *or* the micro level. The livelihoods approach attempts to bridge this gap, emphasising the importance of

macro level policy and institutions to the livelihood options of communities and individuals. It also stresses the need for higher level policy development and planning to be informed by lessons learnt and insights gained at the local level.

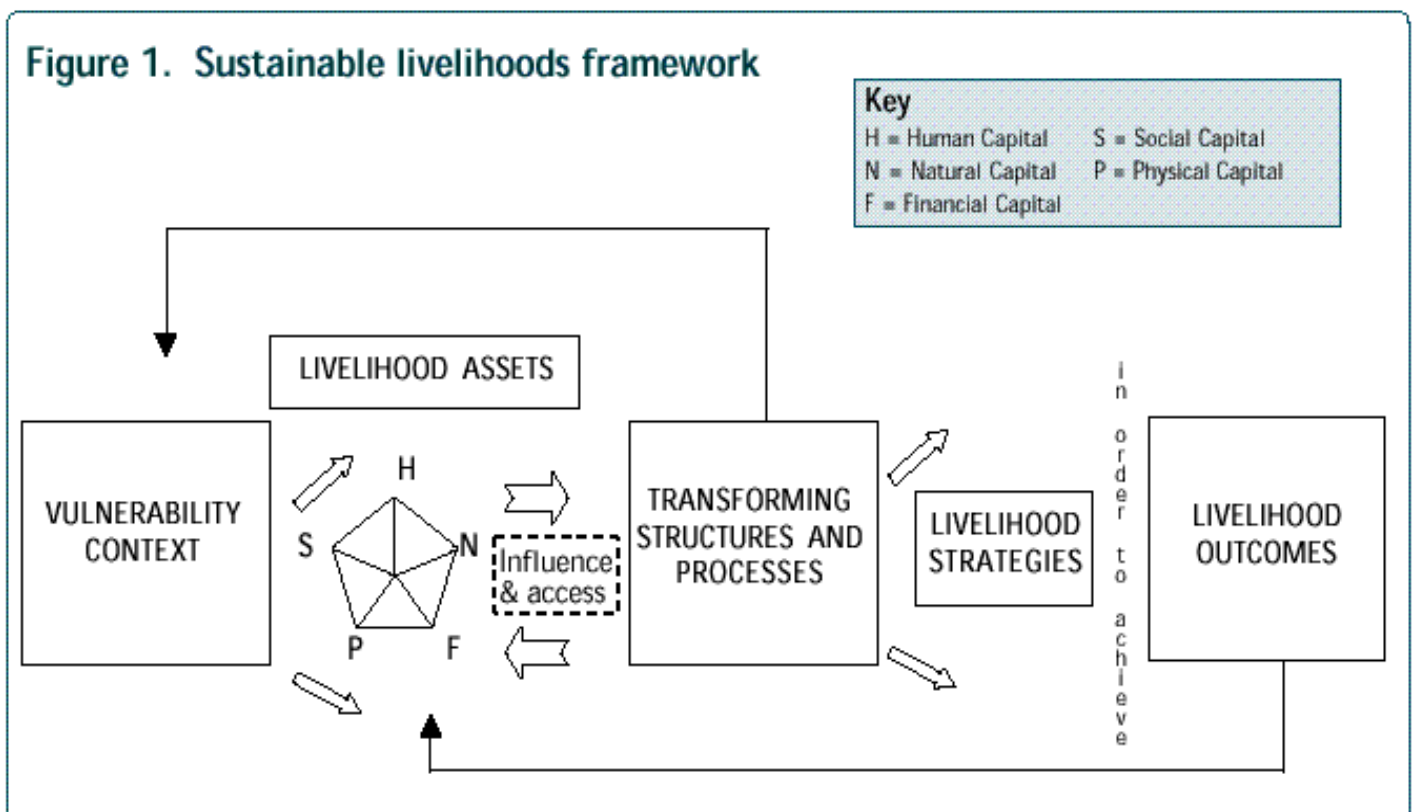
Sustainability. Livelihoods are sustainable when they:

- are resilient in the face of external shocks and stresses;
- are not dependent upon external support (or if they are, this support itself should be economically and institutionally sustainable);
- maintain the long-term productivity of natural resources; and
- do not undermine the livelihoods of, or compromise the livelihood options open to, others.

There is much congruence between the sustainability concerns of the livelihoods approach and National Strategies for Sustainable Development. To be effective NSSDs must build upon extensive stakeholder participation, coupled with a strategic and long-term approach to development. Both these features are also key to the success of the livelihoods approach.

Framework

The framework for livelihoods analysis and its contribution to the design and management of interventions is shown in Figure 1.



The *vulnerability context* may include population trends, resource trends, (including conflict), national/international economic trends, trends in governance (including politics), technological trends, human health shocks, natural shocks, economic shocks, conflict, crop/livestock health shocks, and seasonality of prices, production, health and employment opportunities.

Human capital represents the skills, knowledge, ability to labour and good health that together enable people to pursue different livelihood strategies and achieve their livelihood objectives. At a household level human capital is a factor of the amount and quality of labour available; this varies according to household size, skill levels, leadership potential, health status, etc.

Social capital is taken to mean the social resources upon which people draw in pursuit of their livelihood objectives. These are developed through: networks and connectedness, membership of more formalised groups, and relationships of trust, reciprocity and exchanges that facilitate co-operation, reduce transaction costs and may provide the basis for informal safety nets amongst the poor. Some people choose to distinguish between social capital and 'political capital', derived from access to wider institutions of society, though both are included here.

Natural capital is the term used for the natural resource stocks from which resource flows and services (e.g. nutrient cycling, erosion protection) useful for livelihoods are derived. There is a wide variation in the resources that make up natural capital, from intangible public goods such as the atmosphere and biodiversity to divisible assets used directly for production (trees, land, etc.).

Physical capital comprises the basic infrastructure and producer goods needed to support livelihoods. Producer goods are the tools and equipment that people use to function more productively. Infrastructure consists of changes to the physical environment that help people to meet their basic needs and to be more productive. The following components of infrastructure are usually essential for sustainable livelihoods: affordable transport; secure shelter and buildings; adequate water supply and sanitation; clean, affordable energy; and access to information (communications).

Financial capital denotes the financial resources that people use to achieve their livelihood objectives. There are two main sources of financial capital: available stocks, which can be held in several forms such as cash, bank deposits, liquid assets such as livestock and jewellery, or resources obtained through credit-providing institutions; and regular inflows of money, including earned income, pensions, other transfers from the state, and remittances.

Transforming Structures and Processes are the institutions, organisations, policies and legislation that shape livelihoods. They operate at all levels, from the household to the international arena, and in all spheres, from the most private to the most public. *Structures* are the organisations, both private and public, that set and implement policy and legislation, deliver services, purchase, trade and perform all manner of other functions that affect livelihoods. *Processes* determine the way in which structures and individuals operate and interact. They include macro, sectoral, redistributive and regulatory policies, international agreements, domestic legislation, markets, culture, societal norms and beliefs, and power relations associated with age, gender, caste or class.

Livelihood strategies are the range and combination of activities and choices that people make/undertake in order to achieve their livelihood goals (including productive activities, investment strategies, reproductive choices, etc.). This is a dynamic process in which people combine activities to meet their various needs at different times. Links between urban and rural centres will need to be explored, as will the implications for decision-making and

asset usage of split families. It is important to recognise that people compete (for jobs, for markets, to secure better prices, etc.). There is no 'solution' to this problem. However, its existence does underscore the importance of extending choice and opportunities for the poor and building up their ability to take advantage of these opportunities, and thinking about safety nets for those who remain unable to achieve their livelihood objectives in what will always be a competitive environment.

Livelihood Outcomes are the achievements or outputs of livelihood strategies. We should not assume that people are entirely dedicated to maximising their income. It is hard to weigh up the relative value of increased well-being as opposed to increased income, but this is the type of decision that people must make every day when deciding which strategies to adopt. There may also be conflict between livelihood outcomes. Examples are when increased income for particular groups is achieved through practices that are detrimental to the natural resource base, or when different family members prioritise different livelihood objectives – some seeking to reduce vulnerability, while others seek to maximise income streams. There is a close relationship between *Livelihood Outcomes* and *Livelihood Assets*, the two being linked through *Livelihood Strategies*.

2. WHO ARE THE STAKEHOLDERS IN A SUSTAINABLE LIVELIHOODS APPROACH?

The approach will normally involve a stakeholder analysis to identify primary and secondary stakeholders and the relationships between them. Stakeholder analysis can help to reveal, for example:

- the capacities of different stakeholders to participate in (and benefit from) development activity, and their perspectives on that activity;
- the relative political power, access to information and institutional means to command attention (including blocking change) of different groups;
- the complexity of organisational relationships;
- the area and sources of power and patronage;
- who depends upon which environmental resources and services and how they are affected by change;
- gaps and overlaps in the roles and functions of different stakeholder groups.

If carried out properly, stakeholder analysis also helps bring the poor into the development process and ensure that their views are incorporated in decision-making. Primary stakeholders are those that are directly affected by an activity (e.g. the desired beneficiaries of a project and the implementing agencies). Secondary stakeholders are indirectly affected by the activity (e.g. non-beneficiaries whose access to a resource may be affected, traders who may benefit, etc.).

As with the complementary rights-based approach, the livelihoods approach may entail broadening the types of stakeholders generally involved in enterprise development, to acknowledge of the needs of:

- **poor entrepreneurs, including women, the poorest and most disadvantaged** and particularly those involved in micro-enterprise.
- **workers** in enterprises of all sizes.
- **other affected poor and disadvantaged people** in the households, communities and markets where enterprises are being promoted.

3. THE SUSTAINABLE LIVELIHOODS APPROACH AND ENTERPRISE DEVELOPMENT

The livelihoods approach fits naturally with enterprise development, since enterprise is a key component of people's livelihoods. Many if not all elements of the principles and framework will be familiar to practitioners. The principal implication of the approach for enterprise development is to encourage a broadening of the analysis, so as to give greater assurance that an intervention will meet its objectives and be secure (sustainable) in the face of shocks and stresses.

An investigation of livelihood strategies may reveal a wide range of alternatives and options. The most visible livelihood strategy may not be the most important. Furthermore, there may be wide, but not immediately apparent, differences between the livelihood strategies of various social groups within a community. Other general concerns when conducting analysis of strategies are:

- Investigations which focus on income sources may neglect other considerations. The approach encourages a broad view of what people are trying to achieve (livelihood outcomes) rather than what they may be doing at any point in time. Issues to be addressed include: the way in which people use their assets (to maximise income or minimise vulnerability?); which assets they choose to invest in and which they chose to run down; where they are obtaining the skills necessary to pursue different strategies; and the money-saving (as opposed to money-earning) or non-monetary (e.g. domestic) activities they undertake.
- Different household members may adopt very distinct livelihood strategies. The household may therefore not be the most appropriate unit of analysis. 'Unpacking' what goes on within the household is a key step.
- Livelihood strategies are in a continuous process of flux: people adapt to evolving threats and opportunities, changing livelihood objectives and also as their own capabilities alter during their lifetimes.

The design of an intervention is likely to draw on some form of livelihoods analysis. In practice, this is likely to mean:

- Explicitly relating programme outputs to improved livelihood outcomes (not just to resources or sectoral outputs).
- Exploring and addressing the multiple factors that influence livelihood quality. This is facilitated by use of the non-sectoral SL framework that explicitly highlights the central impact on livelihoods of policy and institutional issues.
- Incorporating principles of flexibility and responsiveness to people's changing needs (through, for example, adopting process approaches and conducting periodic participatory reviews).
- Seeking partners that can embrace and 'mainstream' an SL approach in wider work. The approach can be used to reorient existing programmes to produce better livelihood outcomes.

Research may need to be broadened to include a policy and social change perspective. One possible breakdown is as follows:

- *Social relations*: the way in which aspects such as gender, ethnicity, culture, history, religion and kinship affect the livelihoods of different groups within a community or neighbourhood.
- *Social and political organisation*: decision-making processes, civic bodies, social rules and norms, democracy, leadership, power and authority, rent-seeking behaviour (if any).

- *Governance*: the form and quality of government systems (structure, power, effectiveness, efficiency, rights and representation).
- *Service delivery*: the behaviour, effectiveness and responsiveness of state and private service delivery agencies.
- *Resource access institutions*: how the institutions that determine access to resources function.
- *Policy and the policy process*: the effect on livelihoods of key policies (and legislation) and the way in which policy is determined (by whom, for whom and influenced by which groups?).

This is a broad agenda that requires a wide range of analytical skills and techniques: social, political, organisational, managerial, economic, operational and technical. Potentially, the approach could entail considerable extra time, effort and cost. It is important to focus on the *principles* of the approach, and concentrate on those aspects of the *framework* which may be particularly important for a given intervention. A particular focus should be placed on issues of sustainability: are policies, institutions and processes sustainable over the longer term? Do they promote social sustainability and create an overall enabling environment for *sustainable* livelihoods.

4. IMPLICATIONS OF THE SUSTAINABLE LIVELIHOODS APPROACH FOR IMPACT ASSESSMENT

An SL approach can be applied to review *existing projects and programmes*, even if these were not originally designed using an explicit SL approach. A livelihoods review brings a new perspective. It provides an opportunity to stand back and explore how a project or programme is affecting the livelihoods of the poor, and to see how these impacts can be enhanced. There is no set approach, but such a review should aim to shed light on:

- the ways in which project/programme activities are directly and indirectly affecting people's livelihoods and the context that shapes them;
- whether people's own livelihood priorities are being addressed;
- how people's livelihood strategies are affecting their participation in and benefit from the project or programme; and
- how activities can be adapted to enhance livelihood impacts for target groups while remaining consistent with the overall project purpose.

Normal monitoring and evaluation (M&E) usually measures progress towards the outputs and purpose in a project log frame. For projects not designed using an SL approach, a livelihoods review will go beyond log frame targets to address livelihood impact. If poverty elimination appears as the overall project goal, a livelihoods review will also provide an opportunity to revisit the poverty objective, to assess the project's contribution to it, and to reorient if necessary. A wider livelihoods review may also be incorporated into 'normal' M&E activities, including output-to-purpose reviews and end-of-project impact assessments.

The sustainable livelihoods approach is about *supporting people to achieve their own livelihood goals* (with the proviso about sustainability). Livelihoods programmes should therefore be judged on whether they contribute to the achievement of the livelihood outcomes that people consider important. One way of ensuring this is to negotiate indicators with particular groups and to draw these groups into monitoring processes. Care should also be taken to observe unplanned changes associated with development activity (for example, changes in social relations, accumulation or loss of assets by particular groups, etc.). There are, though, several difficulties in this area, including that:

- different outcomes may conflict;
- some outcomes (such as increased well-being) may be extremely difficult to translate into monitorable indicators; and
- it is hard to ensure objective monitoring of impact by groups with different interests, especially when they themselves do not prioritise a given outcome (e.g. environmental sustainability).

As always with development activity, it is hard to achieve an adequate understanding of the nature of causality, though the comprehensive approach of the livelihoods framework may provide some assistance here.

SL principles also emphasise the importance of *learning throughout implementation*. Impact assessment is a key step in the learning process. It should aim to derive lessons about what is effective in achieving poverty reduction and what is not, and help adapt activities to changing livelihood circumstances.

At the same time, the very strengths of SL pose challenges for impact assessment. How can impact assessment:

- embrace SL's people-centred and participatory principles?
- be holistic, monitoring changes across a wide range of livelihood priorities and influences?
- support a process, 'learning' approach?

A range of impact assessment tools can be used/adapted to address these issues. However, having a clear understanding of the objectives of impact assessment (for whom, by whom and for what purpose is the information collected) is as important as the selection of particular instruments. If livelihood trends are to be monitored over the longer term, formal and informal institutions in recipient countries must assume a greater, long-term role. This implies the need for skills development, adequate resources and – most challenging of all – an institutional environment in which on-going monitoring and evaluation is perceived as a useful input to policy review and resource allocation processes. It also means that proposed monitoring systems should build on, and integrate with, existing monitoring and management information systems within relevant organisations.

What matters in an SL approach is changes in people's livelihoods – rather than in resources *per se*. Impact assessment must therefore look beyond activity-based indicators of progress and resource-based definitions of change to measure achievements from the perspective of partners and beneficiaries. This implies a high degree of participation in the design, monitoring and assessment of *performance indicators*.

There is no single definition of *people-centred* impact assessment. Approaches such as beneficiary contact monitoring, stakeholder analysis and participatory assessment commonly include one or more of the following elements:

- indicators are identified by and negotiated with partners/beneficiaries;
- partners/beneficiaries are responsible for data collection and analysis;
- people's attitudes to change are highlighted (in addition to physical measures of change);
- partners/beneficiaries play a key role in judging performance directly (through assessment of indicators and results) and/or indirectly (through periodic 'client satisfaction' surveys).

SL approaches draw attention to the *links between livelihood 'components'*. Improvement in one element (e.g. the policy environment or access to an asset) cannot be judged a success before the second-round effects on other livelihood components have been assessed. This implies the need to monitor a wider range of livelihood indicators so that intended and unintended, direct and indirect consequences of development activity are understood. One way to capture knock-on effects is through behavioural change indicators (e.g. an increase in the time/labour allocated to productive activities may be shown to be a knock-on effect of improved access to health services). In practice, impact assessment cannot 'assess' livelihoods in their entirety. But it should address both the positive and negative effects of project activity on livelihood systems as well as the inverse: the effects (constraints /opportunities /assumptions) of livelihood systems on project activities. Relatively simple indicators or checklists can be drawn up to measure these.

Involving partners in the selection of indicators and keeping design simple will improve the likelihood that impact assessment activities will continue post-project. Participatory assessment should be complemented with some degree of external assessment – for example of environmental, health and national-level benefits, of which participants may have little awareness. External assessment can also help reduce possible bias within projects.

Impact assessment should strive to monitor both *policy-level and local-level changes*, as well as the links between them. Measures of institutional change (e.g. changes in service provision, representation in decision-making processes) should be supplemented by monitoring local perceptions of change, using techniques such as institutional mapping. If possible, changes in local behaviour or conditions resulting from institutional change should also be measured. However, lags between institutional/policy reform and its wider effects may constrain what can be measured. Another concern is that institutional change rarely affects everyone equally and various groups are likely to have highly divergent opinions about change. Differences in impact between groups – especially negative impacts on particular groups – should therefore be monitored and considered in the context of the overall poverty elimination objective.

The SL approach endeavours to ensure that *external support* reinforces positive patterns of change and mitigates negative trends. A mix of indicator-types is required to capture dynamic processes.

- *Outcome indicators*: these relate to longer-term targets. Measurement indicates what has been achieved (lagged indicators).
- *Process indicators*: these measure on-going progress towards planned outcomes.
- *Leading indicators*: these suggest what will happen, especially over the longer-term (e.g. indicators of behavioural change provide early evidence of progress). They can usefully feed into subsequent *ex post* evaluations and impact assessment.

Process and leading indicators must include: (a) explicit identification of the cause and effect relationships linking them to intended outcomes; and (b) quantity and quality measures that assess adherence to agreed 'standards' (e.g. levels of participation, representation of different groups).

The SL approach calls for a mix of *complementary indicators* to assess livelihood change. A single 'objective' measure of performance (e.g. \$/day) is insufficient. However, combining multiple quantitative and qualitative indicators can pose problems.

- Beneficiary-defined, qualitative indicators are often context-specific. It may be difficult to derive from them summary measures of overall project or programme performance.

- Indicators used for internal project learning may not fit well with donors' external obligations (e.g. reporting on agreed targets, accountability). Openness and transparency are required when negotiating which criteria will be used to determine change and progress.
- SL project indicators may not have *direct* equivalents within national and international development targets (though new poverty assessment methodologies may help identify links). Even when there are direct equivalents, time lags and slow replication suggest that higher-order indicators will be relatively insensitive to immediate project-level changes. Nevertheless, higher-order indicators can provide a benchmark and/or framework for the design and interpretation of project indicators. Linkages can be further enhanced through the use of cascading log frames in programme planning.

Tensions between *quantitative and qualitative* indicators should not be exaggerated. Many qualitative techniques use quantitative measures (e.g. ranking and scoring) and in practice the two are complementary. Similarly, 'abstract' indicators, such as client satisfaction, can be compared across projects, regardless of context.

It is important not to try and measure everything. Focus on key linkages, keeping in mind other potential issues identified using the SL framework. An 'institutional map' locates a group in terms of its relationships with other organisations and the importance (to the group) and strength of these relationships. The approach can be used to determine *inter alia*: where the group is now; where it would like to be; and changes in relationships over time. The distinction between *process indicators* and *outcome indicators* is important. Process indicators may suggest that a project is doing very well (e.g. the participation of excluded groups may be increasing), while outcome indicators may be disappointing. Understanding cause and effect relationships is therefore critical.