

Investing for Sustainable Livelihoods

Contents

Introduction

1) Failure of the Bretton Woods structural adjustment programs

2) A new approach: an assets based investment strategy

2.1 Entry point for investing in sustainable livelihoods

2.2. Improving linkages between stakeholders

3) Macro strategy

3.1 Increasing the revenue base

3.2 Role of Government

3.3 Effective information systems

3.4 Informal financial sector

3.5 Governance

3.6 Credit markets

3.7 Private sector

4) Micro strategy

4.1 Sustainable livelihood micro finance and poverty lending

4.2 Small, medium and micro enterprises (SMME's)

5) Linking the macro- micro levels

6) Sustainability

6.1 Social

6.2 Environmental

6.3 Financial

7) Implementing the strategy- key operational steps

Bibliography

Appendix 1: Inventory of micro finance and micro enterprise networks

Introduction

It has become clear that traditional World Bank and IMF macro investment strategies, based on the 'Washington Consensus' theory of economic liberalisation, have failed to improve the livelihoods of the poorest communities in developing countries. This market liberalisation approach obstructs community level investment opportunities because it fails to develop appropriate rural financial institutions for the poor. In addition, in most developing countries the existing financial sectors ignore the informal sector and repress differentiation and sustainability of member based financial institutions at the community level (M. Zeller et. al. 1997).

This paper proposes an assets based investment strategy set within a sustainable livelihoods framework. A holistic approach is proposed which recognises that to improve livelihood opportunities it will be necessary to take action at the micro, meso and macro levels. The strategy must promote, and capitalise on, linkages between the private sector, financial institutions and government policy. Livelihood enhancing investments cannot follow a single formula for success because they begin with different starting points. Investment schemes designed to address distinct, complex livelihood needs and strategies must be equally diverse and context specific. This investment strategy is aimed in the first instance at UNDP country offices, government partners and project managers in the field.

1. Failure of the Bretton Woods Structural Adjustment Programs

In the radical structural adjustment programs of the 1980's and 1990's, the Bretton Woods institutions were typically demanding that developing countries implement the following market liberalisation policies:

- drastic reduction of trade barriers protecting the local economy from foreign competition;
- deep reduction or elimination of subsidies and price controls, which "distorted" internal prices for a number of goods and services;
- restructuring of the financial system including the removal or weakening of controls on the movement of capital;
- privatisation of state-owned firms;
- elimination of control on private foreign investment;
- reduction of the role of the state, not only in the economy but also in the provision of social services (UNRISD 1994).

It is now generally recognised, including by the World Bank president (Wolfensohn 1998), that these policies have failed to deliver sustainable development to those living in poverty. The structural adjustment programs represent the classic top down approach to development where local communities and even governments have little or no say in the process. These policies have benefited the urban sector and those

people in the top 10% of the income distribution in developing countries; the latter includes bankers, consultants, government beurocrats, and owners of large businesses (J.Eatwell and L.Taylor 1998).

The investment strategy for SL proposed here differs significantly as it is more participatory, empowers poor communitites, includes the informal sector and adopts a bottom up rather and a top down approach. Other investment strategies include the basic needs approach which focuses on the needs and weaknesses of a community, as opposed to this assets based approach which focuses on assets and strengths. The strategy advocated in this chapter incorporates elements of the investment led strategy as advocated by Keith Griffin (1996) but the assets approach is more holistic with its focus on the macro, meso and micro linkages and in its greater emphasis on social and environmental sustainability.

2. A new approach: an assets based investment strategy

Essentially what distinguishes an assets based investment strategy from traditional strategies is the recognition that people are resourceful and have their own forms of assets and strategies. The underlying assumption behind many income generation or employment schemes is that people need something to do that is more productive in order to bring them out of poverty. An SL framework assumes that people are already doing a number of creative and productive activities. They have, over generations, developed coping and adaptive strategies appropriate to their context and culture. The problem is that structural causes of poverty such as unfavourable terms of trade, unequal power relations, racial and ethnic warfare (to name only a few) have eroded indigenous resourcefulness, assets and resilience to shocks. The goal of an assets based investment strategy is to build on existing assets and resourcefulness in order to expand people's choices and capabilities and their potential to make choices.

The guiding assumption in SL is therefore, that people are demonstrating innovation and resourcefulness yet, due to complex cultural, political and social factors, their livelihoods continue to be eroded. The first question is: what are their coping and adaptive strategies? The more complicated question that follows is: how do we build on their resourcefulness in order to support livelihoods that are sustainable?

Starting from where people are rather than where we would have them serves two purposes. First, inappropriate or misplaced development initiatives can be anticipated since many unsuccessful programmes have been due to a lack of sound understanding of local strategies. In this respect, an SL approach encourages the inclusion of often overlooked aspects of people's lives. There are four types of assets to focus on including: social and cultural capital, human capital, physical capital and natural capital. Cultural capital or cultural aspects of strategies, for example, are often reduced to factors affecting investment programmes when they should be driving and shaping them.

Islamic financing schemes are strong examples of SL-friendly approaches to investment because the methodologies grew out of and were based on cultural values. The schemes make effective use of human and cultural capital.

Islamic Financing Schemes: Avoiding Interest Rates to Respect Islamic Prohibition of Usury

According to the Islamic laws of Sharia in the Koran, charging interest on loans is considered usury which is exploitative and strongly forbidden. The Islamic system of finance is based on the belief that all people should have access to wealth and social justice. Therefore, the following non interest-charging investment schemes have been developed to support Islamic households: musharaka, murabaha, mudaraba and quard hassan.

Musharaka is a form of joint-venture financing. A partnership is made between the borrower and the lender, in which the lender provides the loan needed to finance the project without charging an interest rate. The Bank and the borrower share the profits and losses (if these are not due to the mismanagement of the borrower) according to percentages agreed on between the two parties to settle the loan principal and the bank's share of the profit, while the remaining portion is considered as the borrower's income (Hamden, 1997, p. 19). Murabaha, is basically working capital financing that involves the resale of a commodity, after adding a specific profit margin, to a client who agrees to buy that commodity for the new offered price. Both parties sign a contract in which all terms and conditions are clearly stated. Mudaraba, trustee profit-sharing or speculation is a contract between two parties whereby one provides the money and the other uses their entrepreneurial skills or their human capital. Profits are negotiated and divided between the two parties. Lastly, Quard hassan is benevolent or interest-free loan where borrowers are required only to pay the principal amount.

Another important reason for building on existing strategies is to make use of untapped resources and ideas. Social capital, for example, is central to the livelihood strategies of many households and communities yet marginally considered in policy and development programming. Political, social and cultural capital is defined as "the set of institutions, values and norms that work to engender interdependent linkages through the development of mutual trust, shared beliefs and common world views. These interactions and networks in turn create opportunities for beneficial exchange (Rochlin & Garg, 1994 in Sebstad et. al, 1994).

Social capital is particularly important for investment schemes because most attempt to build on indigenous networks and group formation. Microfinance schemes that are based on solidarity or peer group lending are little more than the institutionalisation of traditional Rotating Savings and Credit Associations. Pasanakus, tontines and stokvel groups, are examples of traditional savings groups that constitute a form of social capital. Generally these groups are comprised of 10 to 20 individuals who each contribute to the pool of savings and randomly receive the collection of weekly savings. ROSCAs, as they have been come to be known, are found in most developing

countries. Considering they are so prevalent, it is warranted to wonder why external assistance or formalization is even necessary.

While these traditions are popular and prevalent, particularly in Africa, they are financially limited in their ability to support sustainable livelihoods. Given the size of the groups, the contributions and the localised nature of the process, it is much more difficult to capitalise the funds for its users the way a more formalised bank or non-governmental organisation could. Also, community-based social security networks are constrained with their abilities to cope with covariate risks such as droughts or price shocks (Binswanger and Rosenzqwig, 1986; Tecklu, von Braun and Zaki, 1991; Platteau, 1995). Migration of family members and transfer or remittances is often used as a way to deal with covariate shocks.

It is important to recognise, however, that these networks and groups provide many other social and cultural benefits that while difficult to quantify should not be disregarded. For potential microfinance schemes or organizations, it is essential to understand how the system works, why members like to be a part of it and what role it plays in supporting their livelihoods. If formalization of these structures is a possibility, mechanisms should be designed to accommodate larger portions of the population more effectively. Of course, depending on the relative role of the social capital gained from this mechanism, people may not be interested in formalising the process. Many may choose to be involved in both a traditional and formal finance scheme.

Therefore, it is essential that both formal and informal financial schemes and strategies are identified and understood. Sources of finance may include traditional rotating savings and loans groups, moneylenders, non-governmental organizations. In order to build appropriate SL investment schemes, it is necessary to move beyond a listing of these organizations to understand the relative role that they play within households, communities and individuals. For example, within one household the husband may be taking out a loan from a bank for agricultural inputs due to his loan requirements. His wife may be taking loans from an NGO-organized village bank for women that offers smaller loan sizes and health education. Each has different capital needs and the institutions support them accordingly. The reasons that people are participating are fundamental to supporting their livelihood strategies.

From a programming and policy perspective, details about existing services and programmes are also essential. What is the nature of supply of financial and micro-financial services at the local level? Specifically, it is important to understand what services are provided (credit, savings-voluntary and mandatory, money transfers, insurance, foreign exchange). Again, the list of different services is meaningless without understanding how they support local livelihood strategies. Services such as precautionary savings are important for vulnerable groups in their risk-reducing strategies. Money transfers are important for people, particularly in rural areas who have children or assets in urban areas and use transfers as part of their long-term strategy. Baker (1995) used empirical data from a small town and four villages in Tanzania where he concluded that the four villages interact with the two towns. He illustrates how village

households adopt a combination of survival and accumulation strategies including the issue of rural and urban resources. The most successful village households appear to be those which use urban opportunities and assets (for example, urban employment, urban household and shop ownership) to diversify income sources and thereby avoid the uncertainties of relying solely on marketable crop production for household security. Poverty was related to level of diversification that was largely tied to involvement in urban activities.

In general, the following aspects of livelihood strategies are important for SL investment schemes. Many of these aspects are not included when financial programmes are collecting data on would-be clients.

- How families deal with stresses and shocks such as emergencies, crop failure, health problem (i.e. reserves, social capital etc.)
- Seasonal variations in cash flows and how households cope with these (i.e. consumption-smoothing, borrowing, liquidating assets, migration)
- How livestock is used (i.e. savings, asset, coping strategy)
- Savings for the family (i.e. how, why, when, where and what form)
- What forms of social, political and human capital within livelihood strategies may influence an investment scheme?

Income flow is the basic area that combines all of the above in understanding livelihood strategies for investment schemes. Particularly important is how the flows vary with peak periods, stresses and shocks during different seasons of the year. Take the following example of Bolivian chicha producers whose income flows and use of capital are key for investment programmes.

Bolivian Corn Beer Producers Choose Social Capital over Financial Gains

When determining stresses and shocks it is important to recognise that these terms are relative. In the case of Bolivian corn producers, at certain times of year they choose to have financial stress.

Religious festivals are central to the Quechua and Aymara cultures, yet they are also huge drains on their cash flow and, often cause financial stress within the household. Investment programmes often discourage these practices as wasteful or discourage loan use in these areas. Quechua chicha producers in the Cochabamba Valley give free chicha during All Saints Festival. While most financial programmes would assume income gains at this time of year, these women and their households actually experienced a loss financially. However, this offering is central and sacred to their traditions. It is a form of social capital that they can draw on from their communities at other times. These forms of social capital often go unrecognised by investment schemes yet they have two direct impacts on programmes. First, there may be an assumption of higher cash flows at a time when it is actually a stress for the household. Secondly, there exists a more invisible type

of collateral in these communities as social and cultural capital are often used in times of shock. How, when and the extent to which communities draw on these is an area that requires further research. (Lee, 1997)

It is also important to note that these aspects of social and cultural capital do not come from traditional needs assessments or financial feasibility/market research studies. These cases illustrative of the importance of a broader understanding of capital have largely come from participatory approaches. Similarly, a participatory rapid rural appraisal carried out by UNDP in Bangladesh illustrated the importance of participatory research techniques. It emerged that a major difficulty for both men and women was the need to finance their dowry. Demands for dowry have risen in recent years, forcing parents with grown-up daughters to take out loans at high interest rates from moneylenders. Daughters become a burden to their parents, and wives are divorced, or abused if the dowry is not paid or if the payment is compromised. Daughters are sometimes denied education because this might increase the dowry (if they do subsequently find a job). (UNDP, 1996 in Holland & Blackburn, 1998). In this case, neither effective microfinance programmes nor policy to encourage girls in education would be effective without understanding the underlying cultural issue of dowries as is important to the people themselves.

Next to human capital, natural capital represents the central asset in the livelihoods of the poor. The investment strategy must incorporate measures to protect and improve the natural and physical environment. This is dealt with in section 6. on Sustainability.

Physical capital represents basic infrastructure (transport, water, energy and communications) and the production equipment used in livelihood activities. Basic infrastructure has a key role to play in helping to establish income-earning activities and employment. Specifically, investment should be channeled into:

- Developing rural market infrastructure
- Investing in aspects of infrastructure which can overcome constraints on economic activity, especially in the electricity, water and transport sectors
- Raising the efficiency of existing infrastructure provision, e.g. by enhancing energy efficiency
- Improving access to reliable information, so that poor people can find out about employment and training opportunities and current market conditions.

Government's, NGO's and the private sector are the major providers of this infrastructure that directly impacts on the sustainable livelihoods and opportunities of people within their communities. To be effective increased spending on infrastructure must be combined with a broader plan to improve the effectiveness and coherence of governance (see chapter on governance). NGO's play an increasing role in the provision of infrastructure. Their comparative advantage lies in the ability to reach the poorest groups, in delivering assistance cheaply and flexibly and in filling the gaps in service provision left by government. More detail on the provision of basic infrastructure can be found in section 3.2 on the Role of Government.

There can be significant transaction costs involved in the provision of basic infrastructure. These are the costs incurred when informing target communities of the basic services and infrastructure provided for them and reflects the fact that targeting the poor is not usually a demand led process. If transaction costs are perceived as being unnecessary extra costs and are ignored, then there is the possibility of these services and basic infrastructure being diverted away from the poor and appropriated by the elite's within a community.

The resources of the private sector can be tapped into where services are affordable but where access is a problem. Where affordability is the relevant issue or where the private sector is reluctant to invest in the provision of public goods where the existence of the 'free rider' phenomenon hinders the collection of fees or tolls, then the onus is on the government to provide public goods and services.

2.1 Entry point for investing in sustainable livelihoods

The entry point for the investment strategy must be at the local level. This bottom up approach is the only way to ensure that the outcome of the overall investment strategy is the enhancing of capabilities and the provision of new livelihood opportunities for the local community. A core factor in the failure of the Bretton woods structural adjustment programs was the absence of a participatory framework to take into account the aspirations, knowledge and assets of the local community. To ensure that the investment strategy is participatory the constraints and opportunities for investment must be identified by the local community through an examination of coping and adaptive strategies. This participatory bottom up approach will more likely result in an investment strategy that empowers local communities.

Participatory assessment

Participatory assessment of the adaptive strategies, assets and entitlements of the poor is described in the chapter on participatory assessment and planning for SL. Participatory exercises are crucial for understanding local motivations, assets and strategies. However, making a bridge between current strategies and effective strategies to support livelihoods in a sustainable manner may require external and specialized expertise. What are key problem areas, particularly sector-specific areas of livelihood activities? What is the process through which sector-specific information is accessed and merged with local knowledge?

While this approach is clearly extractive in nature, there are examples of more participatory approaches which can both facilitate community generation of action plans as well as be useful for planning and policy-making. However, there clearly are trade-offs between a focus on community participation and a focus on policy-relevant information generation (Chambers et. al, 1998).

Several examples can be used that illustrate the need for sector expertise in supporting sustainable livelihoods. It is too often assumed that capital is the key constraint when in fact it may not be or may be one of several other constraints. For example, a Bolivian participatory sub-sector study determined that soya farmers already had access to a number of credit sources including microfinance and supplier credit. There was a greater need for equipment leasing. A shortage of harvesting equipment left soya farmers in many areas unable to produce during the times of year which would give them higher returns. Some were unable to produce soya at all. This information was gathered combining seasonal agricultural calendars, sub-sector analysis and an analysis of financial and micro-financial service providers in the area (Calmeadow, forthcoming). Seasonal agricultural calendars alone would not have identified this need. Likewise, a market analysis without the understanding of livelihood strategies provided by the calendars would not have provided the insights into the needs in terms of timing.

The following examples provide methods for examining market opportunities more specifically and rigourously.

Subsector Analysis and Flexible Business Networks: Tools for Establishing New Networking Linkages for Livelihood Activities

Two methods are outlined below that are unique in both approach and motivation. Both focus on creating new opportunities for households to enhance their livelihoods. They differ from traditional income-generating methods in their focus on household and individual opinions and reasoning behind current activities in order to build on livelihoods rather than blindly recommend new ideas. The other distinction between these methods and commonly used approaches is the philosophy of forming new relations. Rather than suggest a new activity that may be undertaken, they look for new ways of restructuring existing production, marketing and commercialization systems.

For silk, the traditional arrangement in rural Thailand has been for all of the steps in silk production and commercialization to be undertaken by members of one family, in a fully integrated rural household enterprise. A recent review of the silk sub-sector in Thailand identified an important opportunity for these silk-rearing households to increase their income and productivity by specializing on one function. This involved household shifting their activities to concentrate on silk-worm rearing, and making use of higher-productivity mulberry shoots and purchased sheets of the eggs of improved, hybrid worms. Rather than reeling the cocoons themselves and weaving the yarn into cloth, the households sell the cocoons to other enterprises engaged in these activities. They re-shaped the nature of their enterprise and enterprise relations focusing on one function

within their subsector system. The economic gains, of course, must be weighed against the increased dependence on other players within their market which may compromise stability.

A participatory mapping method determined the appropriateness and viability of this shift in production for silk rearing households. Households, suppliers, intermediaries, transporters and key informant at every level of silk production and commercialization are interviewed. Depending on the capacity of the facilitators and those interviewed, they can either contribute or participate in a mapping of the channels of commercialization. After mapping and re-mapping these channels several times, the position of silk households can be better understood in terms of returns, potential for movement within the subsector and reasons behind their decisions within the market. Participatory sub-sector analysis is best used when a subsector of activity has been identified as a key livelihood activity for households. Key to livelihoods may not necessarily be consistent with the percentage of household income that these activities generate. For more information on subsector analysis see CARE, 1996.

ACEnet, the Appalachian Center for Economic Networks is an innovative economic development organization that, while based in Ohio, U.S.A., holds some interesting lessons for other countries. Drawing from an analysis of the dramatic revitalization of Northern Italy through a similar means, ACEnet supports and facilitates community based network systems whereby small enterprises are joined flexibly, often temporarily to produce specific products. Local universities and service providers are brought in to provide feedback on niche market areas and model key behaviours such as information sharing. The focus is on local livelihoods, retaining opportunities in rural areas and stimulating local development. They work toward a policy forum where firms, service providers and facilitative intermediaries jointly design policy. This lateral reconfiguration of systems that are traditionally hierarchical is the type of program that supports livelihood strategies in a way that is inclusive, iterative and sustainable. For more information on ACEnet programming see ACEnet, 1993.

How do we identify livelihood strategies for investment purposes?

CARE International provides an interesting example of a non-government development organization starting with a livelihood strategy approach. Rather than determining their target groups and programme areas through poverty levels and vulnerable groups, they locally identify household livelihood security in a number of areas, only one of which is economic. The seven areas of livelihood security are: economic security; health security; security of civic participation; food security; environmental security.

CARE: Household Livelihood Security Programming focused on Cross-Sectoral Analysis

For CARE, microfinance and investment considerations are part of a larger conceptual framework based on household livelihood security. Economic security is considered in terms of its relations and trade-offs with security in other areas such as health security, security of civic participation, etc. In order to ensure that economic security is considered in light of the other areas, questions in the focus groups and household surveys are focused on strategies and the questions are cross-sectoral by nature. For example, one question asked was "what are some of the survival strategies in this area and how do they compare to security strategies?"

Care also uses a jigsaw method to support cross-sectoral analysis. The field teams are inter-disciplinary with the disciplines determined by the Rural Livelihood Security Assessment. In India, for example, there were three teams comprised of specialists in small enterprise, health and nutrition, agriculture, forest/environment, social scientist, local interpretation. Following quantitative analysis (nutrition and health, household and village profiles) and qualitative data analysis (livelihood systems, constraints and coping strategies), the teams broke up and re-grouped with the other two teams within their respective sectoral focus. This second phase allowed for a more in-depth analysis. For example, the small enterprise specialists met to compare data and discuss the trends and gaps. (CARE, 1997)

Unfortunately, this organization is an exception. Given that most information systems aimed at poverty alleviation focus on poverty measurement, starting with livelihood strategies is challenging. It means complimenting information on poverty levels with locally-derived information on livelihood coping and risk-reduction strategies. Sebstad et al (1994) provide a framework separating households into three types of strategies: survival, security and accumulation. While this typology was developed for the study of microfinance impact, it is a useful foundation for understanding livelihood strategies toward supportive investments.

Accumulation, of course, is a term used to describe strategies that specialize in production, aim for income growth and new employment. It is the areas of security and survival that are less understood and documented in investment circles. Frameworks for understanding food security and poverty broadly-defined are helpful in understanding which investment strategies would be supportive.

Zeller et al (1994) distinguish between three types of risk-reducing or coping behaviour in households:

- Savings: households hold assets with preferably uncorrelated returns (such as rainfed upland and irrigated lowland), and they hold precautionary savings in the form of low-risk, liquid assets (diversification of the asset portfolio ex ante, before the risk occurs)
- Risk-reducing behaviour: households adopt strategies suitable for reducing the probability of a risk occurring (for example, vaccination of children, irrigation investments) or decreasing ex-ante or ex post (after the shock occurred) the effects of risks on household outcome variables (by using risk-reducing inputs such as

pesticides, diversifying income generation, or encouraging migration of family members for example).

- Investment in market access and social capital: households secure access to credit, insurance, labour, land and commodity markets in order to maintain the flexibility to adjust the level and use of assets controlled by the household. Examples of this strategy include seeking patron-clients relationships, such as those between landlord and tenant, to establish secure access to consumption credit and land, and lending or giving gifts to neighbours and friends, that is, investing in informal social safety-net systems.

Livelihood strategies can be divided in many ways. Short-term coping strategies such as migration can be contrasted with long-term adaptive strategies such as building informal savings groups. Dunn et. al. (1996) distinguishes between preventative and reactive strategies before and after household stresses or shocks. Ex-ante strategies are risk reduction or income smoothing strategies such as selection of low-risk activities and diversification of household economic portfolio. The second category is loss management strategies which are designed to improve the household's ex-post ability to cope with loss. Also known as consumption smoothing strategies, one purpose of these strategies is to prevent a loss, or income shock, from leading to a consumption shock. In addition, effective loss management strategies can prevent an income shock from leading to a long-term reduction in the household's productive capacity. In the event of a loss, a household may attempt to mitigate the negative effects of the loss through increased labour sales, liquidation of assets, borrowing or dissaving, non-market mechanisms, and reduced consumption and human capital investment.

Strategies can also be valued in terms of whether or not they are sustainable and reversible. Corbett (1988) identified three stages of coping strategies in these terms. In the first stage, households turn to the insurance mechanisms that they have established or that are otherwise available to them. Stage one responses to loss also include other reversible mechanisms, such as increased labour sales, temporary migration for employment and reduced consumption. Stage two strategies are less reversible and place the future economic welfare of the household into jeopardy. Stage three strategies indicate the destitution of the household and the unsustainability of the livelihood strategies.

While difficult to categorize, what is distinct and useful about a strategies approach is the treatment of livelihoods as dynamic systems rather than static units of poverty. Strategies change over time, according to different demands and shocks and with a variety of options all with respective trade-offs. By moving beyond the narrow focus of income and employment-related indicators, the assumption is that the system of livelihood strategies, however defined, include other forms of assets and flows such as social, natural and human capital. The following table (table 1) highlights key differences between predominant forms of investment with investments for Sustainable Livelihoods.

Table 1: Distinguishing features of an investment strategy for SL

| | Conventional investment strategies | Assets based investment strategy |
|---|---|---|
| Unit of Analysis | Level of poverty aggregate | System of coping strategies context-specific |
| Typology of Household Strategies | Middle-upper poor, poor, hardcore poor | Survival, security, accumulation |
| Basis of Solution | Create employment opportunities | Enhance resilience and capacity for reorganisation, |
| Key Indicators | Income, employment, growth | Asset stocks and flows in terms of financial, social, human and natural capital |
| Type of Analysis | Casual relationships and static measurement | Trade-offs and reasons for decisions and choices |
| Assessment Tools | Largely quantitative | Qualitative, quantitative and participatory |
| Governance | public and private mix | Public, private and local organisation alliances |
| Guiding Assumptions | Change and improve position | Capacity for reorganisation |

2.2. Improving linkages between stakeholders in a TSSL.

For an investment strategy to be effective, good links need to be established between all the stakeholders involved in the investment strategy development. These links will allow improved access to knowledge, ideas and may generate additional resources. The major stakeholders include the local community, non-governmental organizations, provincial, national and international banks and government organizations. There are a number of institutional obstacles which exist between stakeholders which will need to be overcome in order to improve linkages. Although the extent and type of obstacles will vary according to the country and region of the strategy, common obstacles and appropriate action are listed in table 2 (see chapter on participation).

Table 2: Improving linkages between stakeholders

| Obstacles | Action |
|--|---|
| Cultural and institutional barriers restricting effective participation by the local community in strategy development. | <ul style="list-style-type: none"> • Ensure community participation in the design of research projects. • Arrange for community representation in strategy development meetings held at the provincial, national and international level. • Feedback from outside stakeholders to the community should be presented so that information is readily accessible and understandable e.g.: posters, flip charts, practical demonstrations, comics. |
| Negative stereotypes, especially between NGO's and GO's and between local communities and GO's. | <ul style="list-style-type: none"> • Strategy development meetings held between stakeholders can be facilitated by neutral third parties. • Encourage familiarity; ensure that when stakeholders visit each other (i.e.: in the community villages, research institutes, government offices etc.) a significant amount of time is set aside- discourage 'in and out' morning or afternoon only visits. |
| Competition for resources and recognition, especially between provincial, national and international research organizations. | <ul style="list-style-type: none"> • Arrange exchange visits (ideally lasting between 1 week to 1 month) for scientists from regional, national, international and government institutes i.e. a government scientist working at a provincial institute) |
| Poor communication systems | <ul style="list-style-type: none"> • Networks can be set up between stakeholders through the introduction and promotion of ICT's |
| Differences between all the stakeholders in terms of their operational procedures, scale and philosophy. | <ul style="list-style-type: none"> • Ensure that stakeholders clearly understand that the <i>objective</i> is an investment strategy that is relevant, appropriate and affordable for the local community. • These differences can be an asset, a strategy should exploit the comparative advantages of the various stakeholders, |

| | |
|--|---|
| | <p>these include:</p> <ul style="list-style-type: none"> Local communities knowledge of informal credit markets and local environmental and socio-economic conditions. National and provincial banks knowledge of local socio-economic conditions. Also, researchers from these institutes often share the same culture and language of the local community. -Government's ability to facilitate a strategy by creating favorable conditions for credit markets. |
|--|---|

3. Macro strategy

This section begins with a discussion of possible revenue raising opportunities open to the government focusing on taxation issues. There is also a section on the role of government in the investment strategy, especially with regards to public sector spending. The issue of effective information systems is addressed. The importance of the informal sector is incorporated through an analysis of the informal financial sector. Understanding the different systems of governance in a country is crucial to the effective implementation of an SL investment strategy, there is a discussion on this topic. Next the reasons for underdeveloped credit markets in developing countries are examined together with possible action to overcome this phenomenon. The section ends with a look at the role of the private sector.

3.1 Increasing the revenue base

On the issue of domestic versus foreign investment, 90% of FDI going to the developing world today goes to middle income countries and China thereby excluding the poorest countries (G.Speth 1998). Also, the empirical evidence from sub-Saharan Africa shows that foreign direct investment follows growth in a country and not vice versa (Griffin and Brenner 1997). From this it is clear that to be sustainable, an investment strategy must focus firstly on mobilising domestic resources, and secondly on ensuring that these resources are used most effectively by advocating a structure of incentives that is supportive of investment.

Countries have two methods to increase revenue through taxation. First, they can raise tax rates; second, they can expand the tax base—in other words, reduce tax evasion. Both are discussed next.

In most developing countries the tax collection institutions and mechanisms are inefficient which means that it is the most easily accessible sectors which are taxed most zealously. The latter sectors are the civil service (income tax) and foreign investors (company tax). Given the already low salaries prevalent in developing country public

sectors, the scope for increased revenue through taxation is limited. However, there may be potential to raise revenue from the public sector through more indirect methods. For example, in Thailand during the Asian economic crisis initially savings were made by government ministries by cutting official dinner parties and entertainment budgets, holding seminars in ministry buildings instead of hotels and by changing travel by officials from air to rail and bus.

Governments are unlikely to have the political will to increase taxes on foreign investors for fear of deterring potential investors. Instead, the number of foreign investors can be increased through tax breaks, thereby creating a larger taxable foreign investor base for future increased tax revenues.

The potential for increased revenue from taxation is therefore limited, a more effective tool is improved tax collection from the existing taxable base. The weakness in tax collection in developing countries has two implications. First, it means that the tax burden falls very unequally on the private sector: those who pay taxes pay a lot, while there are still many who slip through the net and pay little. Second, poor tax collection limits the government's room for manoeuvre in designing public spending programmes. There is a pressing argument for improving tax administration and reducing tax evasion as a way to increase revenue without increasing tax rates. (The role of a carbon tax as a method for revenue raising while simultaneously protecting natural capital is discussed in section 4.)

3.2 Role of government

The state must work to ensure that livelihood opportunities are increased by improving the structure of incentives for investment through a) an investment led strategy (Griffin 1996) which focuses on those 'social' sectors (education, health, sanitation, water, electricity supply etc.) and b) ensuring that legal and bureaucratic institutions facilitate investment opportunities for the private sector and remove barriers which exclude the poorest local communities from participating in credit markets.

The first of these two is about encouraging extra investment in human, physical and natural capital. Although increased public investment in these sectors is needed, there is scope for governments to improve livelihood opportunities for the poor through the better allocation of existing public sector monies. In many developing countries there has been a misapplication of investment monies because of price distortions i.e. because prices have not taken into account social costs and benefits. Governments have often ignored the large positive externalities associated with education and health and opted for policies of contraction to help reduce budget deficits. Hence, if these externalities are incorporated into the decision making process then the returns to investment would increase.

For example, it has been established that the rate of return is highest on expenditures on primary education followed by secondary education with university education providing the lowest returns. Despite this, many governments ignore the larger positive externalities associated with investment in primary education and place a priority on university sector spending.

The education process should not be confined to children but would ideally be available to all through a 'life long learning' adult education system. This adult education system should provide training to upgrade skills (in new technologies and products) of those already engaged in micro enterprises (ILO 1998) It may also be necessary for a change in the education system itself so that the curriculum teaches basic skills (book keeping, administration, letter writing, legal rights etc.) which increase livelihoods opportunities. The government also has a role to play in reducing the urban and gender bias existing in the education sector. However, improved education is not a means in itself, it must be exploitable through institutional support and credit availability.

Joint credit training initiatives: Benin and Burkino Faso

In Benin, a program set up by ILO and Belgian aid, aims to relate training closely to credit. Women's groups are provided with information and advice on credit management, organisation management as well as technical and marketing advice in their specific line of business. In January 1997 there were 53 mutual fund groups set up, representing 1,087 women. In Burkino Faso, the ILO's Organisational and Co-operative Support to Grassroots Initiatives (ACOPAM) was developed with the Caisse Nationale de Credit Agricole and the Centre Regional de Promotion Agricole. The initiative set up co-operatives of rural women to produce agriculture based goods and handicrafts. Presently there are 9000 women members. The co-operatives have access to credit which is complemented by training in co-operative organisation, credit management and specific work related technical advice (ILO 1998).

In the same way, better allocation of resources in the health sector, could improve returns to investment. Governments should prioritise spending on the provision of basic health services (immunisation, family planning, mother and child nutrition programmes) through country wide primary health care clinics instead of on large 'show case' urban hospitals.

Traditionally, infrastructure projects in developing countries have relied on large well known construction companies with capital intensive production methods utilising imported machinery and materials. Instead, public sector infrastructure investment should be directed into labour intensive projects and should favour local SMME's when contracting out specialised or small scale work needed in the project. Local SMME's initially may have to be supported through the provision of basic training in construction work and with credit. The pay off would be the emergence of a local construction materials industry.

The government can also improve livelihood opportunities for the poor by directing investment into projects which provide basic services to the poorest neighbourhoods and regions. Of particular importance is the recognition that in developing countries, housing not only provides shelter but also space for workshops, retail outlets, restaurants etc.. The number and profitability of these home based enterprises (HBE's) will increase with the provision of housing and associated basic infrastructure by the government. But to fully promote the development of HBE's, the government must also provide secure tenancy/ landholding rights and credit.

A shift from capital to low wage labour intensive projects will reduce the cost of projects in poor communities. There is also the possibility of wage payment in kind i.e. food, shelter and clothing for work programs. If necessary, governments can further reduce costs by charging user fees, the principle being that services with modest user fees are preferable to no services and no charges.

Labour intensive infrastructure projects, therefore, increase livelihood opportunities for the poor by:

- providing employment in construction and maintenance activities;
- supporting the development of local SMME's;
- targeting public works projects at the poorest communities and neighbourhoods;
- reducing the use of foreign exchange on imported machinery and materials, this can be redirected into investment in the social sector;
- once public works are completed, the ownership can be handed over to a co-operative made up of the workers involved in its construction. This would ensure that the benefits (positive externalities) of the infrastructure are not appropriated by elite's.

The traditional view is that public money 'crowds out' private money. This discussion is based on the premise that public spending is complementary to private sector spending. Government investment in human, natural and physical capital increases investment opportunities for the private sector in these areas.

Governments must also change legal and bureaucratic institutions to facilitate investment. In most developing countries, capital markets are under developed and those that exist are usually concentrated in the capital city. To encourage private sector investment, the government must improve regulation of the banking sector to increase standards of risk management and corporate governance. The government also has a crucial role in facilitating the development of SMME's (see section 3.2 'SMME's').

The poorest communities are mostly excluded from formal sector credit markets in a country. The government must work to break down barriers which restrict access to these markets by:

- disseminating information on credit markets to the poorest communities
- preventing subtle discrimination i.e. lending institutions often favour large enterprises and discriminate against small and micro enterprises and small farmers

- preventing overt discrimination which reduces the livelihood opportunities of the poor because of their gender, ethnicity or religion
- working to mainstream informal credit institutions found in poor communities (see section 4.1 Sustainable livelihood micro finance and poverty lending).

The effectiveness of a government investment strategy will also depend on the standard of governance within state and banking institutions (see chapter on governance). Action to improve governance in the credit and state sectors will require:

- Political and managerial will
- Institutional improvements (improved training in management and technical skills and strengthening capacity in key areas such as accounting, auditing, law, journalism)
- Enforcement of law (i.e.: anti-corruption legislation)
- Enhancing or establishing penalties for corruption
- Increasing transparency
- Review of corruption/ discrimination in high risk institutions (banking, procurement etc.).
- Developing procedures for employees to report wrong doing
- Democratisation: as a necessary but not sufficient condition for improving governance (UNDP 1998)

3.3 Effective information systems

Requiring effective information systems as a foundation for policy is an ambitious task for most governments. Most do not have the information systems in place in order to understand the intricacies involved at either the level of livelihood activities or investment schemes. This information system then, becomes the main priority. Sustainable livelihoods cannot be supported if they are not identified. Similarly, investment schemes cannot reach any scale or significant impact if they are working in an institutional vacuum.

In order to adequately determine policy for sustainable livelihoods information systems should be able to address the following questions:

- What institutional structures are in place nationally to support the variety of livelihood security strategies? Are some strategies excluded? To what extent are these institutions (and this institutional mix) able to support strategies effectively and equitably?
- Does existing investment policy enhance or inhibit their ability to do that?
- What is the nature of livelihood strategies including informal sector activities (See appendix 3.0 for more detail)
- What is the nature of services delivered by formal financial institutions (credit unions, commercial banks and cooperatives, supplier credit in agriculture)? What type of participants do they generally serve? Are any livelihood strategies excluded? What is the mix of public and private funding available and what implications does this have for the long-term?

- What investment incentives exist to encourage people in sustainable natural resource management? Community based resource management, private providers of services such as solar energy, appropriate technologies for cooking etc. To what extent are these investment strategies subsidized?
- How do the formal structures offering financial services affect, if at all, traditional savings and lending mechanisms (tontines, ROSCAs, pasanakus etc.) including money lenders? Anthropology and economic anthropology studies may be useful here.
- How do existing governance structures affect the support of sustainable livelihoods? (e.g. weak NGO sector, strong government, corruption, strong traditional systems)

Central to any understanding of sustainable livelihoods in developing countries is a sound understanding of the informal sector (table 3). Governments are increasingly recognizing that the informal sector is important to understand not only to provide assistance but because of the significant contributions that they make to the overall health of the economy and the national community. In this respect, information in this area can be used as an advocacy tool as much as a statistical base for programming.

Table 3: Important Information on the Informal Sector For National Statistics and Policy Advocacy

| Factor | Measurement | Significance |
|----------------------|--|--|
| Nature of Activities | Subsector Composition; % Wage/Salary; % Services; % Agricultural; % Trade | Determine areas for further investigation and comparisons with formal economy statistics Determine resource-dependent activities to determine their impact on the environment |

| | | |
|---|--|---|
| | | Determine level of diversification of household income |
| Household management of enterprise | Gender Analysis; Time allocation | Determine potential impacts and implications of program or policy instruments |
| Sub-contracting arrangements; commercialization of subsectors | Subsector Analysis | Identify small-scale manufacturing activities complementary to existing large-scale units which would subcontract from large-scale enterprises or manufacture cheaper varieties of consumer items to meet the demand from lower income groups |
| Use of financial services | Survey | Identify gaps in services based on needs |
| Indigenous savings involvement | Focus Groups; Survey | Identify opportunities for scaling-up or partnerships with local groups |
| Location of Enterprises | Fixed vs. Non-fixed premises | Determine the nature of the activities |
| Pressing regulatory or tax constraints | Regulation requirements vs. perceptions | Determine regulatory constraints |
| Tax burden | Ratio of taxes paid to annual sales | Determine the nature of the tax system (regressive, progressive) and its effect |
| Determinants of Registration | Costs; Convenience; Opportunities | Determine why people do and do not like to register their businesses |
| Compliance | % of enterprises paying taxes, registered | Determine degree of formality and visibility of the sector (i.e. included in statistics) |
| Other Constraints | Access to water supply; electricity; machinery; infrastructure (roads) | Determine the extent to which capital or other constraints are key |
| Market Access | Distance and cost to local market | Determine the extent to which access to market is a constraint |
| Cash Flow Variations | High and low seasonal periods | Determine periods of stress |

This information is probably most useful collected at a regional level, as many of these factors would vary greatly by region.

The challenge of future information systems in these areas is to be more creative than we have in the past. Just as the UNDP Human Development Index has stretched our notion of development, and ILO household studies have challenged our notions of work, new information systems must be more inclusive bringing micro-level factors and conditions to light on macro-level policy decisions.

3.4 Credit markets

Credit markets in developing countries are usually underdeveloped in that they exclude large sections of society and are concentrated in the capital city. Reasons for underdeveloped credit markets include:

- Barriers to credit access. Some sections of society may be refused access to credit based on their status i.e.: married women, small farmers, or for religious or ethnic reasons. The government must work to break down these discriminatory barriers.

- High transaction costs. In rural areas the transaction costs of setting up credit services and institutions are high because of the long distances between potential borrowers and lenders and poor communication infrastructure.
- Lack of information. It is not only the policy maker who will benefit from the collection of timely and relevant data on the investment environment, this information is also crucial to the local community. Only by becoming aware of the range of financial services available at the local, meso and national level can the local community judge which investment systems and opportunities are most suitable to their needs. The policy maker must therefore work with the local community to identify areas where data is lacking or missing and then develop an effective system to disseminate this information to the community (see chapter on participatory assessment and planning). The latter information could include bank interest rates (for comparison with money lenders rates) and information on how to set up and run community micro-finance systems (see section 4.1 Sustainable livelihood micro finance and poverty lending).
- Information asymmetries. These can result in credit rationing. Two instances of information asymmetries. Firstly, interest rates may not rise because higher interest rates will induce borrowers to adopt riskier projects. Secondly, interest rates may not rise when there is excess demand for loanable funds because higher interest rates reduce the proportion of low risk borrowers in the applicant pool (Stiglitz and Weiss 1981).

Group lending targeted at marginalised groups (i.e. women and the poorest communities) is one technique which can overcome these failings of a credit market. The advantages of group lending include:

- Reduced risk. Spreading a loan across a group of people reduces risk for the borrowers and lender
- Reduced transaction costs. The lending institutions administration costs are reduced as they can deal with many individuals through one group
- Social sanctions within the group promotes saving and reduces the risk of defaulting on a loan

The group infrastructure and dynamics provides the incentive and opportunity for training in technical, financial and managerial skills.

3.5 Informal financial sector

The term ‘informal’ is traditionally used to describe those organisations that operate outside of the established legal and bureaucratic institutions. However, it is more useful to think of informal financial systems in terms of the degree of participation of the systems in established legal and bureaucratic institutions (Griffen and Brenner 1997). This acknowledges that there are heterogeneous and sometimes conflicting reasons as to why some systems are at least partly participating in legal and bureaucratic institutions. The latter institutions can provide an entry point for the investment strategy when looking for institutions which can effectively facilitate micro-finance systems with the community.

There is likely to be a negative correlation between the size of the informal financial sector and the degree of poverty and marginalisation of a community i.e.: the more marginalised community's will have less access to the formal financial sector within a country and therefore the more likely it is that the group will have to rely on informal financial services. Information on the size of the informal sector within a community provides an indicator of the latent demand for financial services, this information is useful in developing appropriate micro-finance systems. In addition, an inadequate understanding of the informal sector can result in inappropriate policy recommendations (Griffen and Brenner 1997). Types of informal financial services typically found in developing countries include:

- Household to household loans. These transactions usually take place between family, friends and neighbours; the loans are generally small with low or no interest charges.
- Moneylenders. Moneylenders are a widespread phenomenon in marginalised communities as they do not normally require collateral. The latter fact also explains the very high rates of interest charged.
- Rotating fund groups. Members contribute to a fund which can then be drawn on in times of need. These are sometimes run on an auction system where the 'pot' is given to the bidder who offers to pay the highest interest payments with principal and interest paid over time.
- Suppliers. Traders often allow supplier credit, this is especially common for agricultural inputs.

The investment strategy must a) identify and mainstream existing informal financial systems which are effective and fair in terms of meeting the financial requirements of the community and b) identify and find alternatives to existing informal financial systems which are ineffective and unfair.

3.6 Governance

Based on some of the previous considerations the government and superintendency of banks are in a challenging position. Policy supporting the informal sector needs to be flexible enough to support a range of microfinance institutions but prudent enough to ensure rigour and the security of people's deposits.

Taking the case of microfinance, the appropriate structure for investment depends entirely on the context. The following four policy scenarios present different governance structures and correspondingly different policy needs.

Case #1: Strong Non-Governmental Presence in Bolivia

In the case of Bolivia, strong non-governmental organizations filled a gap left by a collapse in the banking sector in the 1980's and the rapid decline of the mining sector. After a decade of development, the non-governmental organizations attracted government interest that led to significant policy changes. While non-governmental organizations built on and drew heavily from existing traditional savings and credit groups in their design, ownership lay with the organizations. Given the growth and

maturity of the sector (85 000 participants in 1995), policy has been currently focusing on specific regulatory and supervisory changes to accommodate non-governmental organizations to transform into non-bank financial intermediaries. There is also increased involvement by the private sector as the institutions have attracted commercial interests. At this point, the role in policy is one of facilitation where non-governmental organizations have taken the lead.

Case #2: Support for Village-based Institutions in Indonesia

In Indonesia, the evolution of microfinance has grown from village-based systems dating back more than a hundred years. The Indonesian government passed legislation to support these institutions by mandating that by law all smallholder credit banks be established as government private or cooperative. Today there are more than 15 000 village banking units including traditional village-owned banks, village units, provincial village banking networks and private village banks. In this case the role of policy has been more supportive than direct. Given the volume of institutions to supervise, it has proven effective to contract-out supervision to third parties (larger organizations). Bank Indonesia has developed a computerized, simplified and standardized process for monitoring these programs.

Case #3: Strong Non-governmental Organizations and Less Active Government

In the case of Bangladesh a few large non-governmental organizations (Grameen Bank, BRAC, Proshika, ASA) dominate the microenterprise sector providing over 80% of total loans lent to this sector even though over 350 non-governmental organizations provide these services. Self-help groups based in communities and villages are central to most organizational strategies and ownership structures. In spite of the activity within the country, no regulatory oversight is provided by the Bangladesh bank. As a result, the evolution of non-governmental organizations in this area has been rather ad hoc and inconsistent. At this point, the Grameen Bank is the only regulated institution. The challenge is to provide some reporting guidelines and minimum standards so that information can be provided consistently, accurately and transparently for comparison purposes while allowing for a variety of ownership structures. At this point, it is difficult to compare “apples with apples” or determine what gaps and opportunities exist. Given current floods, it is also essential that insurance schemes and precautions for natural disasters are examined within these institutions.

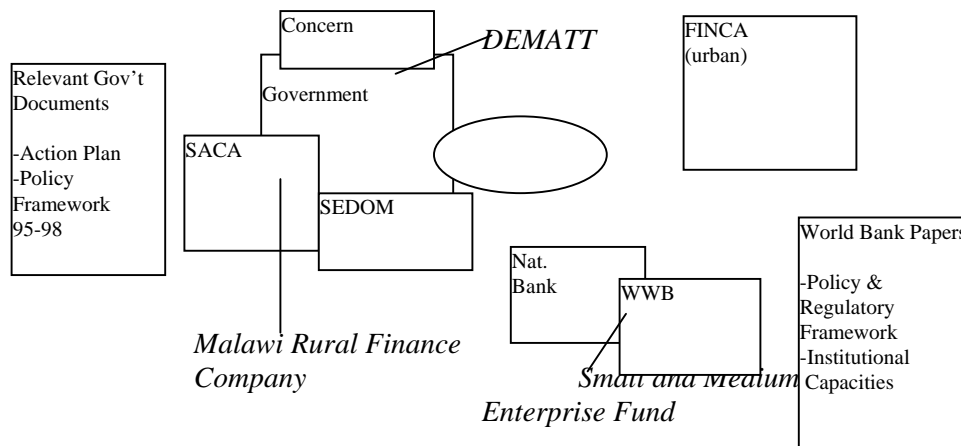
Case #4: Heavily Subsidized, Unsynchronized Programmes

In Malawi, there are a few strong programs such as the Rural Finance Company and a village banking program through FINCA. Most programmes are small, heavily subsidized and have had managerial and repayment difficulties. In this case, policy should support a two-pronged approach to the informal sector. It is important that the few successful programs are supported so that may act as demonstration. At the same time, the regulatory policies should be revisited to encourage the establishment and/or formalization of existing local institutions. Information systems to organize and exchange information around the sector should also be strengthened. In this case, the government (including local governments) can play an instrumental role in shaping the

institutional environment to support this sector. Also, given Malawi’s focus on drought management it is essential to pursue effective delivery of insurance services, personal or crop to support households and help them to deal with these shocks. It may be useful to examine the history of the Ministry of Finance in offering or administering/funding insurance schemes nationally as well as explore other appropriate ownership structures for these services.

When assessing the institutional structures in place, venn diagrams commonly used in communities can be very helpful particularly if institutions are distinguished through shading or colour-coding.

Example of Venn Institutional Analysis of Microfinancial Services in Malawi



3.7 Private sector

There is an unfounded assumption that investments in environmental or social sectors require considerable subsidies from the public sector. The following cases are examples that illustrate effective private sector participation in supporting sustainable livelihoods. These investments warrant attention because they are not only economically viable but are also environmentally-sound investments.

In the first example, hire-purchase arrangements have been used in Kenya to privately finance solar-based household energy systems. While the work with these solar systems began in the early 1980s largely with government and donor support, the transition to the private sector has been the major factor in the widespread diffusion and outreach to rural communities.

Leasing and Hire-Purchase Arrangements to Finance Solar Power-Based Energy Systems

An innovative application and variation on micro-leasing is the hire-purchase arrangements which have been used as the means to finance the acquisition of solar power-based energy systems. Kenya is the major success story to date for large-scale private sector propagation of household photovoltaic (PV) systems. At least 60,000 units have been sold between 1987 and 1996, surpassing the total number of rural consumers connected under the national power utility's Rural Electrification Programme. Heavily subsidized programs that rely on the donation of solar systems to rural communities have had an extremely poor performance record, and the Kenya experience is noteworthy in that the government has adopted a hands-off attitude toward private sector solar systems activities and thereby allowing market forces to sustain demand for PV units.

The hire-purchase variant of lease financing is used in the Indonesia Presidential Assistance Project (BANPRES, 1993), Slank/Sun Societies – Sarvodaya project in Sri Lanka and the Gansu project in China, while direct consumer financing and financing through a cooperative-association energy service company (ESCO) are the approaches that have been used in solar PV projects in Tuvalu, the Dominican Republic, Sri Lanka, Philippines, Indonesia and Kenya. (Cabraal et. al, 1996; Foley, 1995 in Gallardo, 1997)

Another example of private investment in the environment is a North American innovation that provides an interesting challenge for application in developing countries. A private public partnership was developed in order to profit from natural capital while seeking restore it.

The First Environmental Bancorporation: ShoreTrust

ShoreTrust as a partnership between ShoreBank Corporation (a Chicago-based bank holding company) and EcoTrust (a Portland-based non-governmental environmental organization) and has since formed a permanent development corporation, ShoreTrust Trading Group. The mission of the organization was to support environmentally-restorative entrepreneurs and enterprises, combining conservation and community development banking toward long-term local conservation. The Willapa Bay watershed and Lower Columbia River region was chosen as a target area where the economy and ecosystem were in particular distress but where sufficient natural and community assets existed to carry the conservation-based development effort forward. They have demonstrated market demand for environmentally restorative goods and services and demonstrated profitability when appropriate incentives and support is available (Wolfe, 1997).

What distinguishes the previous example from other environmentally-focused investments is the overt focus on assets. A sustainable livelihood approach to these

issues is based upon the assumption that there are untapped or insufficiently tapped natural, social and economic assets in most communities. The challenge is not to develop new activities necessarily but to creatively restructure our asset bases as some of these innovations demonstrate.

Private sector investment can be increased, though opportunities are often overlooked because they fall outside of conventional ways of thinking. For example, when the very poor consume food this should not be viewed as consumption but rather as investment as increased food consumption results in greater energy and morale which improves productivity. In this way, a small increase in household expenditures conventionally classified as 'consumption' would in fact be an 'investment' that increases output.

Private sector investment can be encouraged by taking action which increases investment opportunities which includes ensuring:

- Well defined property rights that will encourage owners to invest more in their land.
- Effective public administration and enforcement of regulations.
- Effective mechanisms for dealing with conflict resolutions.
- Infrastructure that provides good transport, communication and utilities systems.
- Creation of a level playing field i.e. removing barriers to market entry, legislating and enforcing anti discrimination laws and working to end bias (urban, gender, religious).
- Mobilisation of 'surplus' labour. The poorest communities can invest by substituting labour for cash when making investments (see case study on Kenya).

Increasing investment opportunities: Kenyan Tea and Coffee Farmers

During the colonial period, African farmers were prohibited from growing cash crops which were reserved for the British farmers. At independence, the prohibition against tea and coffee cultivation was relaxed. Small African farmers took advantage of this investment opportunity and almost overnight profitably moved into this area of cultivation. The African farmers were able to mobilise their own surplus labour, which combined with modest savings, allowed them to take advantage of the investment opportunity.

4. Micro Strategy

This section includes a discussion of micro finance and poverty lending for sustainable livelihoods. The assets based investment strategy emphasises the importance of SMME's in an investment strategy and these are also discussed in this section.

4.1 Sustainable livelihood micro finance and poverty lending

It seems from existing studies that a range of services and programs is needed to adequately support sustainable livelihoods. Larger, institutionally-sustainable organizations such as BancoSol, Bank Rakyat and TSPI, Philippines are crucial toward forming strong local financial systems that support the self-employed, particularly in the informal and rural sectors. The profile and outreach of these organizations has been instrumental in both challenging and changing government policy to better support the sector. At the same time, social and poverty-oriented programs such as the Grameen Bank, CARE, BRAC and Freedom from Hunger meet the needs of particular groups such as women who generally require additional services and therefore, subsidies in order to have an impact.

Many in the field of microenterprise development would not agree that both are important to support livelihoods. These are issues that are hotly debated and can generally, although not cleanly, be divided into two positions: microfinance and poverty lending. The two approaches to micro-lending aim to alleviate poverty but have distinct strategies for achieving that goal. The key difference between the two strategies is best illustrated through their success indicators. Poverty Lending programs measure their success through impact and democratic participation or ownership of their participants. Microfinance programs measure their success by outreach and institutional sustainability; that is, the number of participants that they are able to reach over a long-term. Simply put, microfinance programs aim for breadth and poverty lending for depth.

Of course, it is important to note that in practice many organizations combine the two approaches or operate somewhere between them on the following spectrum. It would be misleading to assume that poverty lending programs are not concerned with cost-recovery and financial viability or that microfinance programs do not measure impact. Nevertheless, the following diagram illustrates some of the, at times subtle, differences between the two approaches.

Table 4: Spectrum of Approaches to Lending for Poverty Alleviation

| Poverty Lending | Microfinance/ Financial Systems |
|--------------------------------|--|
| Integrated approach to poverty | Minimalist approach to poverty |
| Holistic, integrated Programs | Focus on Effective Financial Services |
| Empowerment of the Poor | Financial Systems for the Poor |
| Participant as Beneficiary | Participant as Client |
| Success by Impact & Ownership | Success by Outreach & Policy |

With respect to sustainable livelihoods, it is difficult and simplistic to identify one approach as more beneficial than the other. Indeed, what is needed is a movement away from simple blue-prints and models. Investment programs need to be as rich, varied and context-specific as the livelihood strategies that they are supporting.

The microfinance approach to investment is an example of a livelihood supportive investments because it has, more than any other approach, had the greatest impact on

policy change for the informal sector. While this approach is widely criticized by the “poverty reduction” community, the relative contributions of microfinance are often unrecognized. The Grameen Bank, Bank Rakyat, BancoSol are some of the best known examples of microfinance which works toward institutional sustainability for poverty reduction. Critics claim that there is too much focus on the institution and profits because the emphasis in success is in terms of repayment and outreach. While this is true, the institution is simply the unit of analysis. The end goal of poverty reduction is the same.

Microfinance institutions regard the long-term stability and local ownership (free of donor dependency) of these micro-financial services as most important. They work to integrate these local financial institutions into the national financial system in a way that challenges the formal system to more appropriately meet the needs of the informal economy. Profits, as in the case of PRODEM, Bolivia, have been used to expand outreach and take a leading role in providing access within rural and remote areas.

While there may be added costs and subsidies needed to provide additional services beyond credit and savings, many livelihood strategies are in need of this support. What has been most controversial in the investment community has been the findings that microfinance does not, and many argue should not, reach the poorest of the poor. A pivotal study by Mosley 1996 (in Yaron et. al, 1997) found, using data from seven countries, that credit schemes generally do not reach this target group. It was also determined that the poorest clients use loans for risk-reducing purposes (consumption and low-risk production technologies). The study did not explore whether the risk-reducing benefits of these loans outweigh the costs to the poorest clients of relatively lower incomes (access to credit might have come at a cost in terms of income, but might have yielded more stable incomes for the control group). Most of the less poor clients (those above the poverty line) use loans for more risky and productive investments including technological changes. While credit may be an effective vehicle for boosting the incomes of the poor, it is recommended as less effective, even counter-productive, to helping the poorest of the poor. Alternative poverty reduction mechanisms may be advisable and necessary for this group.

Poverty lending programmes such as CARE, Freedom from Hunger, the Grameen Bank, World Vision, the Bangladesh Rural Advancement Committee try to focus on the poor in their program design. This approach attempts to reach the poor through a specific focus on the poverty and the people. Poverty lending puts people, impact and participation central to their programming. Some examples of poverty lending include the village banking programs of Freedom from Hunger that combines credit with health education with a particular focus on women. The Grameen Bank also targets the poor through the size of their land-holdings.

These institutions have chosen to meet the needs of the poor through specific targeting. Several gender-focused studies have shown that for women, populations in post-conflict areas and marginalized cultural groups, targeted may be necessary to meet the unique needs of these populations. Credit-plus, or integrated approaches that

combine credit with non-financial services such as training, technical assistance and support in social services may be warranted.

Another means of targeting the poor is through program design. Many programs offer small initial loan sizes, frequent repayments and regular meetings in order to discourage the better-off from applying. Other important features that have been identified as important for reaching the poor are insurance schemes, consumption credit and voluntary savings mechanisms (Zeller et al, 1997; Johnson & Rogaly, 1997). These design features are important particularly for livelihood strategies that emphasize or include stability and security.

Perhaps the most important aspect that has been identified with the poverty lending approach is that related to social mobilization and ownership. In village banks, where women are responsible for managing the bank (from book-keeping to loan disbursements) many have identified that they have gained self esteem from a sense of ownership in the bank and their improved management abilities. Their involvement has also been linked to participation in other activities of social mobilization including increased political power and participation in their communities. Other impacts include greater participation of women in the public sphere; the use of the banks as a forum for problem-solving in other areas; graduation of clients to formal financial institutions. Freedom from Hunger, FINCA and Catholic Relief Services, ProMujer, Bolivia, BRAC, the Grameen Bank, SACA, Malawi are some of the better-known programmes taking a poverty lending approach. For example, the Freedom from Hunger program aims to improve household nutritional levels and ability to cope with the hungry season. While each program may have a slightly different emphasis, they all tend to focus on household livelihoods and social impacts.

Clearly, there are positive and desirable benefits from both the microfinance and poverty lending approaches. On one-hand, poverty lending focuses on participation, ownership and empowerment of the poorest of the poor. However, these programs are limited in their ability to be viable on a long-term basis and reach a large number of poor. The high cost of financing the social or non-financial aspects of their programs makes their outreach and viability difficult. The original vision of village banks, for example, was that they would be passed onto the communities themselves for full ownership. This has never happened in practice.

On the other hand, a focus entirely on viable micro-financial institutions may lead to the exclusion of the poorest of the poor. As institutions work to be more profitable, long-term sustainable, their average loan size may increase and they may not focus on smaller loan sizes needed by the poor. Most experience in microfinance has showed that credit is extremely limited in its ability to support the poorest of the poor or the most vulnerable populations. Other social services and infrastructural investment is necessary first.

It would seem that addressing poverty or sustainable livelihoods is not an either or issue. Both types of programs can and should be supported. The challenge for policy makers to effectively decide on the right balance between the two.

4.2 Small Medium and Micro Enterprises (SMME's)

The development of SMME's is central to the overall sustainable livelihoods strategy. SMME's are normally labour intensive and are therefore able to play a significant role in providing livelihood opportunities. In 1993 a UNDP workshop in Delhi held in collaboration with the World Business Council for Sustainable Development on SMME's recommended that steps should be taken to create institutional mechanisms that provide finances and support services to technology based SMME's. The importance of credit was noted because it increased enterprise and livelihood opportunities. Infact, a significant percentage of actual and potential SMME's have high levels of credit worthiness so that carefully designed lending programs can therefore be both financially and socially worthwhile (Khosla 1998, Griffin and Brenner 1997).

Group lending (see section 3.14) is one way to encourage lending institutions to deal with SMME's. In addition, the setting up of promotion agencies whose goal is to act as intermediaries can help increase credit availability to SMME's. By working through a single intermediary, lending institutions reduce their transaction costs and risk.

Indian Micro Enterprises Development Foundation and Indian Micro

Enterprises Development Finance Corporation

Set up in 1996 and 1997 respectively, these non profit organisations aim to create an enabling environment for SMME's. The foundation provides support services to SMME's in marketing, market feasibility studies, technology acquisition, skill development, identification of suppliers, facilitating access to information, credit rating SMME's, facilitating linkages between SMME's, big business, finance institutions and global markets. The Finance Corporation works in communities to provide quick and uncomplicated loans on the basis of requirements. The working of the Foundation and the Corporation together is an initiative towards developing an institutional mechanism in India to cater to that class of people excluded from the formal credit markets (Savyasaachi 1998).

The role of SMME's in achieving sustainable livelihoods varies according to the size of the enterprise, this is examined in more detail in table 5.

Table 5: Role of SMME's in achieving Sustainable Livelihoods (Khosla 1998)

| Size of enterprise (Investment in US\$) | Potential for livelihoods | Transformation | Reach | Impact |
|--|----------------------------------|-----------------------|--------------|---------------|
| Micro | Highest | Survival to | Household, | Family Self- |

| | | | | |
|----------------------|-----------|--|--|-------------------------------|
| (> 250) | | Subsistence | Local Neighbourh'd, Village | Sufficiency |
| Mini (250-2,500) | Very High | Subsistence to Security (for workers) and surplus (for entrepreneur) | Local Neighbourh'd, Community, Village, Town | Local Self-Sufficiency |
| Small (2,500-25,000) | High | Surplus to Savings and Productive Assets | Town, Region, Country, Exports | Resilient Industrial Base |
| Medium (25K-250K) | Medium | Assets to Major Capital Investment | Region, Country, Exports | Quality Standardised Products |

Governments can assist in the development of SMME's by working to reduce discrimination against the marginalised and poorest groups in society who are interested in developing small enterprises. Public sector spending which is focused on providing poor communities with basic infrastructure, especially secure housing, will provide a foundation for the development of SMME's (i.e.for home based enterprises),.

5. Linking the macro-micro level

The discussion so far has concentrated on the macro and micro sectors, it is the meso level institutions which allow linkages to be made between the local communities and the macro level. Links must first be made from the micro-meso level before meso-macro policy links can be made. The information from communities must be aggregated at some point assuming that the communities are representative of a variety of livelihood strategies, ecosystems (shocks) and populations with varying levels of vulnerability. This aggregated information can be collected at universities, research institutes and NGO's and from there be used to inform policy makers at the macro level.

In terms of establishing linkages and pressuring policy changes, organizations such as the Grameen Bank, Bank Rakyat are a few notable examples. There are numerous other examples in various regions: ACP, Peru; Alexandrian Business Association, Egypt; BRAC, Bangladesh; Emprender, Argentina; Get Ahead, South Africa; Krep, Kenya; PRODEM, Bolivia and TSPI, Philippines. These organizations continue to play a central role in national policy advocacy as well as reaching the poorest of the economically active.

Profits Supporting Sustainable Livelihoods through Policy Change

One of the most noted examples is that of BancoSol, originally PRODEM in Bolivia. The outreach and high profile that BancoSol as a viable commercial bank for microentrepreneurs had established, attracted the interest and support of the government

leading to significant policy changes.

In 1995, the Bolivian government formally recognized the importance and centrality of the informal sector for the country forming a Branch of the government for Small Enterprise Development and various laws and financing in support of this sector. They have officially allowed the creation of “non-bank financial intermediaries” which provide the flexibility to meet the needs of the poor, but also satisfy the financial standards of the superintendencies of banks.

Other policy adaptations in Bolivia such as the acceptance of movable collateral (jewelry, television etc.) for loans is a break-through in the provision of micro-financial services for the poor. As in the case of Bolivia, success also attracted a range of micro-lenders which has led to the development of micro-leasing, money transfer and savings services as well. Therefore, it is important to recognize that policy changes spurred by growth and scale in the sector can support the full range of institutions in the country, not simply the larger ones providing microfinancial services.

6. Sustainability

The assets based investment strategy must result in outcomes which are socially, environmentally and economically sustainable. These are each examined in turn.

Social sustainability

Projects should be socially equitable. The assets based investment strategy must include a gender analysis. There is a rich and growing body of gender in development and feminist literature that has been arguing for years that power relations, gender and inter-generational roles in allocation, use and control over resources, are formed and reinforced in the household. Economic anthropology and household economics have long researched and highlighted the importance of the "moral economy," but the majority of investment strategies still treat social and environmental concerns as externalities at best.

The assets based investment strategy must be gender aware and gender fair. This requires gender disaggregated statistics and capacity building in gender analysis. At the macro level, Women’s Budget Initiatives are useful for making fiscal policies gender aware (Cagatay 1998). Training in gender analysis for staff in institutions at the macro, meso and micro level will lead to more gender aware investment strategy. At the micro level, lending programmes targeted at marginalised groups (including women and the poorest of the poor) will increase the social equity of the investment strategy.

Downing (1991) showed in her study of male versus female small enterprises, that women are more apt to diversify their activities than men who tend to specialise and aim for growth. Generally, women use their activities to spread risk and ensure economic security within the household. These gender-differentiated tendencies have important implications for microfinance programming and policy. Programmes that measure their success by income growth will be favouring men's enterprises. Likewise, programmes that target women with "make-shift" income-generation projects would be equally unsuccessful in empowering these women. Programmes or policy that attempt to empower or support women through small enterprise or microfinance would be ineffective without a sound understanding of the motivations behind the strategies.

Environmental sustainability

Clearly, no investment strategy will be sustainable without measures to eliminate the destruction and degradation of eco-systems. Environmental education, research and the use of appropriate environmental technologies must be incorporated into the strategy. There is also a growing market for low cost environmental technologies which could provide opportunities for SMME's i.e. fuel efficient stove's are easy and cheap to construct and are therefore a suitable product for a SMME, the stove burns less fuel than open fires, a fact which should generate demand for the product.

There are two mechanisms which can be used to ensure that environmental factors are incorporated into the investment strategy: market based initiatives and regulation (command and control). Market based initiatives such as tradable emission permits are unlikely to be effective in developing countries because of the small number of large industrial firms. The potential for a carbon tax in developing countries is discussed next.

Developing countries (represented by the G77/China in UNFCCC negotiations) favour the principle of carbon taxes - as long as they are levied on rich countries and not poor ones. The G77 points to the fact that of the total carbon emitted in anyone year, more than 70% comes from the developed countries. The advantages and disadvantages of a carbon tax are outlined next. Of particular importance is the impact a carbon tax will have on the livelihoods of the poor.

Advantages of a carbon tax:

- Extra revenue can be channelled in to public sector spending plans which directly benefit the livelihood opportunities of the poor (see section on 'public spending').
- Carbon taxes are easier to collect (lower administration costs) than personal taxes and taxes on small business, as the tax base for the former is more likely to be in the formal sector of the economy (large companies).
- A tax on fuel would be a progressive tax as the burden will fall on the wealthier car owning section of society.

- Carbon taxes create incentives for R&D into other more efficient and environmentally sound technologies (i.e.: solar power generators and more fuel efficient ovens) which can be appropriated by the poorest communities.

Disadvantages of a carbon tax:

- TNC's in a developing country affected by a carbon tax are likely to exert pressure for the removal and or reduction of such a tax. Carbon taxes may also deter TNC's from investing in a country. A possible way to overcome this would be a co-ordinated effort by developing countries to implement a common carbon tax thereby reducing the TNC's leverage in terms of threatening to move to another lower tax country.
- A tax on fuel will adversely affect those SMME's which have a vehicle to help with production and distribution of goods.
- A tax on fuel will also increase the cost of public and private transport systems which are often the only means of transport available to the poor.
- There will likely be political opposition within a government against the introduction of a carbon tax because of TNC pressure and the perception that the onus is on industrialised nations to reduce their carbon output and not developing countries where policy makers are wary of hindering economic growth.

In terms of weighting the above factors, it is likely that the lack of political will within developing country governments to implement a carbon tax will be the deciding factor.

There is another alternative avenue for raising revenue based on developing countries carbon storage capacity. Developed countries emit the most carbon while many developing countries maintain carbon sinks (i.e. the rain forests). The developing countries should be given monetary transfers that reflect their unique ability to sequester carbon. This would also provide an incentive to protect the other valuable attributes of the rainforests. There are many political barriers to overcome if such a policy is to be implemented. In addition, although the developed world undoubtedly places value on the existence of rainforests there are currently no mechanisms in place to allow developing countries to appropriate this value. However, institutions, such as the Global Environment Facility, already exist that could administer such a scheme.

Traditional top down environmental regulation (command and control) requires a strong political commitment from the government. Such commitment is unlikely because, as mentioned earlier, developing countries, spearheaded by the G77 and China at the UNFCCC, argue that the onus is on the developed countries to clean up their act first. Action can be taken by National and provincial governments to co-ordinate their environmental policies to ensure better management of natural resources. Mechanisms guaranteeing the enforcement of existing regulations should be developed.

There is potential for bottom up environmental regulation. This would require no government input as it would be up to communities to draw up their own regulations

based on the value they place on their surrounding ecosystem. This process can be facilitated by:

- Making communities aware of what investment incentives exist to encourage people in sustainable natural resource management (Community-based resource management, private providers of services such as solar energy, appropriate cooking technologies etc.)
- Providing environmental awareness training especially relating to the damage caused to the ecosystem from SMME production processes i.e.: pesticides, chemical dyes, smoke, rubbish etc..
- Encouraging the use of social peer pressure (social sanctions) as a method to enforce regulation.
- Encouraging the adoption and use of environmentally friendly technologies and techniques. The focus here should be on those technologies that reduce environmental damage and increase efficiency at the same time. For example, farmers switching from fertiliser and pesticide use to manuring and Integrated Pest Management systems can improve the farm eco system and increase farm output.

Project managers working with the poorest communities will inevitably be faced with situations where a community is forced to engage in environmentally damaging livelihood activities in order to meet their basic food and shelter needs necessary for survival. Micro finance schemes for communities living in poverty provide an opportunity to deal with the environmental problems within the communities surrounding eco-system. In effect, micro-finance schemes generate a number of positive externalities beneficial to the environment:

- 1) financing provides a safety net which allows communities to adopt more environmentally friendly production technologies, systems and skills where previously the lack of credit and risk of failure (i.e. starvation) would have prohibited adoption.
- 2) effective micro finance schemes will empower a community and this increased confidence and knowledge of the ability of the community to work together to solve its own problems should encourage greater environmental awareness.

Realistically, communities may be reluctant to place an emphasis on environmental management if it interferes excessively with the management and profitability of their SMME's. The challenge in designing micro finance schemes therefore, is to identify and work with factors that encourage the involvement of micro-entrepreneurs . Micro-entrepreneurs will almost certainly not show an interest if there is no financial payback or if the payback is only long-term.

One element of a successful strategy is to develop linkages between stakeholders relevant to environmental management i.e. combining the enterprise knowledge of SMME's with the environmental awareness of local NGO's involved in environmental work.

More specifically, to better ensure that micro finance schemes are environmentally sustainable, the following points should be incorporated into the design of the scheme:

- There are natural environmental limits to how much economic activity, or types of economic activity that a locality can support. Local water sources may be sufficient to absorb the wastewater of two micro textile operations but not five.
- Understand resource factors such as the availability of land and forest resources, water and sanitation services, quality of infrastructure, living density and space and the limits they place on economic activity.
- In order to avoid the overuse of a resource or an unacceptable level of pollution in a locality, promote a mixture, and, if possible, complementary micro-enterprise activities that require different types of resources and/or can reuse each otherswaste.
- In rural areas, where the collective environmental impact of micro-enterprises is significant, regenerative activities such as reforestation can be promoted to refurbish a resource.
- Encourage activity that is better suited to the resource base.
- At the sector level, work with micro-entrepreneurs and their associations to ensure that environmental health and safety standards are respected and more environmentally-benign technologies and production processes are promoted.
- As more is learned about environmentally-sound procedures, promote their use and implementation on a collective basis.
- A simple idea--such as promoting a vegetable- or flower-based colouring dye, instead of a chemical one, amongst artisans--can have a very positive impact.
- To the greatest extent possible, anticipate dilemmas that may arise from promoting certain types of economic activity. This may include conflict over land use, overcrowding, or other unforeseen occurrences. For example, a successful livestock initiative can lead to the creation of secondary industries such as tanneries and meat processing operations that are far more polluting than the original enterprise and can accelerate environmental problems.
- In rural areas, ensure that micro finance lending activities are not contributing to any unacceptable environmental impacts from activities such as the clearing of primary forests, wetlands or critical wildlife habitat, or the unsustainable intensification of agriculture.
- Collaborate with local land, housing, health and public services authorities to improve services and standards in support of SMME activity. (Pallen and Dean (1997), Environmental Sourcebook for Micro-Finance Institutions. Asia Branch, Canadian International Development Agency.)

As with community or household strategies, in order to consider issues of sustainability it is crucial that stocks are considered as well as flows. Also, connections and trade-offs between sectors must be made at the national level as well as in the following example.

Musgrove (1987, pp422-23 in Anand & Chen, 1996) suggested that:

Most of the connection between income and health depends not on current economic flows but on the stock of capital—including medical capital as well as

safe water supplies and sanitation—accumulated from past incomes. Unless income declines and stays so low for so long that capital is allowed to deteriorate, an economic recession does not mean returning down the path that a country followed while growth was proceeding. Even if there is no deliberate effort to compensate for the income decline, the existing stock of knowledge, medical personnel, and facilities continues to be used. It is, therefore, not surprising that in the very short-run, infant mortality or life expectancy or other national indicators of health status may not show sudden downturns despite economic deterioration. The continued drop in infant mortality in such countries as Costa Rica and Chile in the first years of the [Latin American] crisis is a vivid illustration.

A Sustainable Livelihood approach to investment is distinguished by trade-offs, not just between sectors but between short and long-term considerations.

Murray and Chen (1993, 151 in Anand & Chen, 1996) proposed that:

...mortality may be regulated by longer-term cumulative processes related to the build-up or depletion of a society's "health stocks." Secular trends of mortality, we contend, are less influenced by customary health indicators, which are overly-dependent upon "health flows" or short-term health activities.

They propose that a focus on health-promotive assets would go beyond the physical assets such as clinics, hospitals, water supply, sanitation to include social assets based on the human capabilities as proposed by Sen including education, health-related perceptions and behaviour. Since most of the values and belief systems which shape health practices such as breast-feeding, child-rearing, and reproductive rights are reinforced at the local level, there is a clear need to be able to link these processes to larger policy frameworks.

Economic sustainability

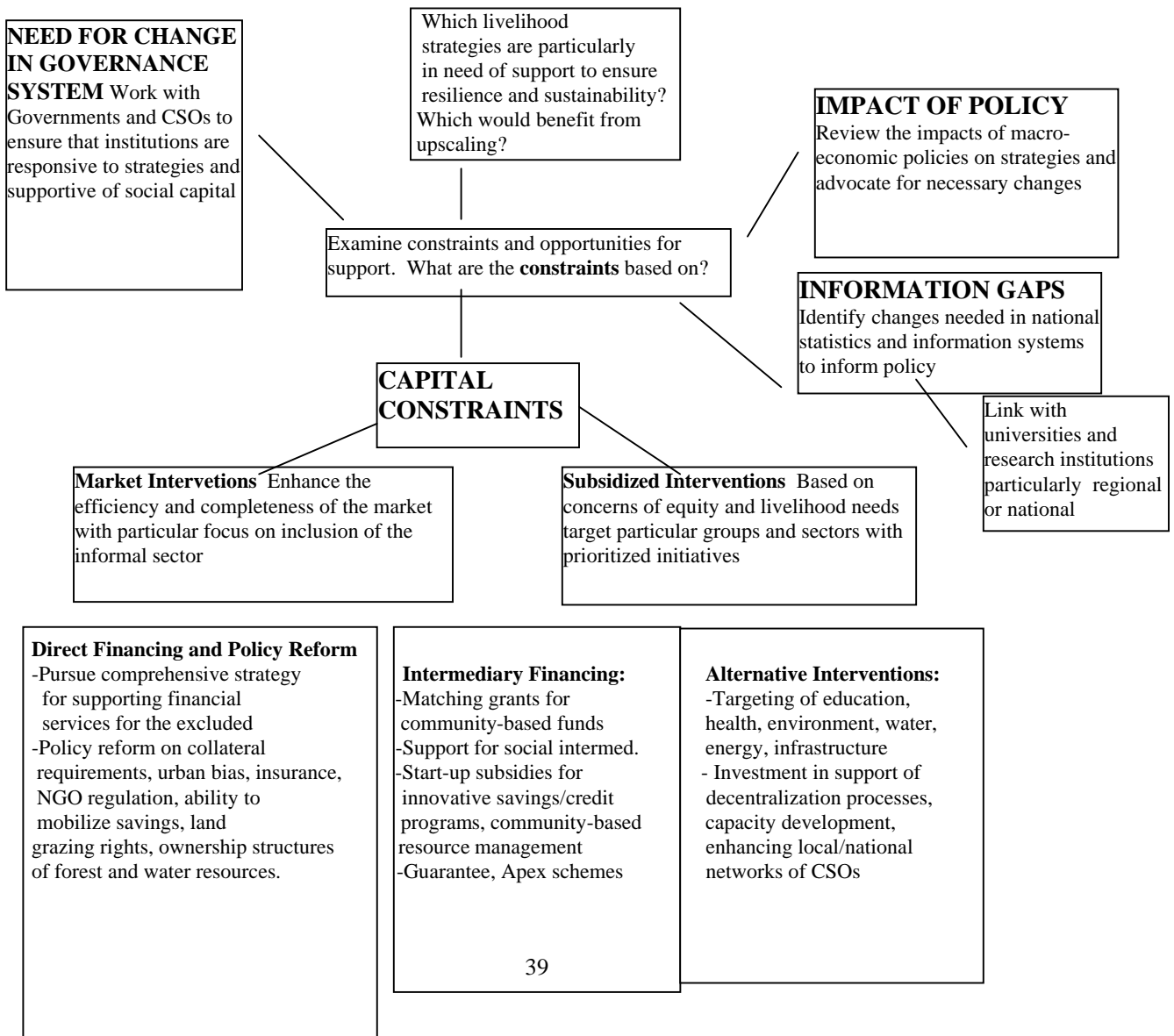
- Projects should be self sustaining after the initial credit input.
- Projects should be robust in the face of financial shocks i.e. high inflation, volatile interest rates, currency devaluation's.

7. Implementing the strategy-key operational steps

As can be seen (diagram 1) the implementation of this investment strategy will require action at all levels. The entry point must be the local community but, thereafter, there is no particular order in which action at the various levels should be taken. Implementation will inevitably be somewhat opportunistic i.e. meetings with a minister of finance must be scheduled this be feasible this week because he is traveling to the project province.

Much of the information on implementation will come from field experience and this primer should incorporate lessons learnt. However, the diagram provides guidelines on which to base practical implementation of the investment strategy. This is followed by: an examination of community level questions and methodologies for SL investment schemes; an outline of areas for policy advocacy; and finally, the important stakeholders whose input is needed in the investment strategy are highlighted.

Bottom-up Investment Policy Analysis for Sustainable Livelihoods



-Promote non-financial markets in energy, small-scale resource-based industries, social services provision

-Equity Funds
- Technological enhancements

- Information Technology
- Conflict Resolution over resources

Where are opportunities for partnerships and institutional arrangements?

Review the level of NGO capacity, banking sector interest and capacity, informal sources of finance and the level and nature of government decentralization/devolution in order to identify appropriate institutional entry points for programming and/or policy support (Governance)

Community-Level Questions and Methodologies for SL Investment Schemes

| Key Community-Level Investment Question | Methodologies Useful for Addressing these Questions | Significance for Investment Schemes |
|---|---|--|
| Given a shock such as drought, bad harvest or illness, how do households cope and pay back loans? | In-depth Household Interview Seasonal Agricultural Calendars | Calendars should be used first in order to understand the relevant stresses and shocks particular to this area |
| Who has the power to make decisions allocating income to the various production, consumption and investment activities? | Household Purse Model Resource Control Matrix | Potential benefits of program |
| Who benefits from the additional income generated? | Household Purse Model | Examine the distributional benefits of additional income |
| Who bears the risk and burden of loan repayment? | Focus Groups | Ensure that programmes are not adding to women or children's burden |
| What are the types of livelihood activities ? | Seasonal Agricultural Calendars | Role of investment: working capital; asset purchase; consumption-smoothin |
| How and when do households make use of remittances? | Seasonal Agricultural Calendars | The development of money transfer services |
| What forms of social capital are practiced? When? For what purpose? Relations and use of informal moneylenders? | Focus Groups Seasonal Agricultural Calendars | Capital sources broadly defined |
| Are there traditional savings groups? What are the limitations and benefits of this form of organizing? | Focus Groups | Potential to build on current traditional methods without losing beneficial programme characteristics |
| How do households consumption smooth and reduce risk? | In-depth Household Interview | Aids lending programs with cash flows and repayment schedule variations |
| What forms of savings are used, both cash and non-cash? (livestock, jewelry) | In-depth Household Interview | Aids in the development of effective savings programs |
| When are distress sale of assets practiced? | In-depth Household Interview Household Purse | Variation on the household purse methodology can be used to show the hierarchy of assets in terms of distress sales (a coping mechanism) |
| How does fuelwood and water-gathering compete with other activities for different individuals in the family? | Time Allocation Models | Illustrates trade-offs between natural and other forms of capital |
| How does involvement in investment programmes compete with other activities? | Time Allocation Models | “” |
| Are there cultural considerations which | In-depth household and focus | Cultural aspects are important for group- |

| | | |
|--|---|---|
| contribute to exclusion or need to be considered in microfinance programmes? | groups | building, decision-making channels, governance structures |
| What waste products are used as resources within their livelihood systems? | Direct Observation and Focal Groups | Waste products in certain volumes may be valuable as small enterprises or inputs i.e. ZERI |
| Are there opportunities for sub-contracting or improving commercialization links within a livelihood activity? | Sub-sector Analysis | Help to improve small producer's leverage within an activity by analyzing sub-contracting, intermediary and point of sale relations |
| Are the livelihood strategies different for different family members? | In-depth individual interviews and focus groups | Conflicting strategies within households may mean that some investment schemes favour some individuals over others |

Areas for policy advocacy

| |
|---------------------------------------|
| Usury Rates |
| Compliance |
| Registration |
| Taxes |
| Regulation |
| Supervision |
| Tariffs |
| Exchange Rate Policy |
| Inflation Management |
| Agricultural Promotion Policies |
| Infrastructure Development |
| Credit Policy for the Informal Sector |
| Land Management Policy |
| Commodity Pricing |

Selecting Broad based Multi-Stakeholders for Investment Forums

Community Level Participatory Exercises

While this is quite well documented, it is worth mentioning from an investment perspective, that a range of household economic goals and intra-household roles should be represented, where possible. For example, the following scenarios have been documented in studies as central to coping strategies in households. Therefore, key individuals in these situations would provide important insights.

1. Male household members migrating to urban centres for seasonal wage labour.
2. Girls or boys in households forgoing formal education in order to help with household needs.
3. Female-heads of households, temporarily or permanently
4. Dependents, or contrarily income contributors in other geographical areas

5. Households involved in economic security, economic stability and accumulation
6. Households reflecting different gender divisions in terms of control and use of land and/or resources

Most literature on participatory development has stressed the importance of appropriate facilitators of the process. This is essential for gathering information about livelihoods that is detailed and accurate enough to be useful. Generally, this requires a good understanding of the people with whom you are working. For example, if people are asked in too pointed a manner what financial services they need, they will surely say credit or something fairly general. In order to determine the complexity of needs, seasonal role-disaggregated calendars should be combined with more specific information in the various livelihoods. The way that methodologies are used and combined in order to elicit useful information is as varied as the livelihood strategies themselves. There is no magic formula. What is required is facilitators who know the people and their culture well enough to ask and analyse appropriately.

National Level Forums

The nature, breadth and role of existing institutions will be some of the key determinants of effective policy-making. When community-level information has been synthesized input should be elicited from key representatives of the investment institutions at a national level. Since it is probably not possible to involve the following range of investment representatives, perhaps it would be more sound to have a focus group with this sectoral group so that varied interests could be represented at the national level. In order to be representative, key players should include, where possible:

- the smallest political unit of decision-making over finances whether it is part of the formal political system or informal governance structures. For example, the farmer's trade unions would be important in Bolivia
- a representative from government involved in investment for poverty reduction
- a representative from an environment or energy unit involved with investment
- a representative from the superintendency of banks to discuss regulatory issues
- a representative from a major formal financial institution (if possible a range would be ideal such as cooperative, credit union and bank)

a representative of a non-government organization offering micro-financial services. This is fast becoming an umbrella term for a wide range of NGOs operating in microfinance. If possible, it would be useful to include an institution representing each of the following ideological approaches to lending for poverty: poverty lending; microfinance; small enterprise development; community development. Each of these approaches would have quite different needs in terms of policy.

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Appendix 1.0: Inventory of Microfinance and Microenterprise Networks

| African Networks | Composition and Purpose |
|---|---|
| Alliance of Microenterprise Development Practitioners Priscilla Maphone <infocoord@amedp.co.za> | South African Network of 20 members (MFIs, banks, business support services, donors). Formed to respond to government directive to NGOs to organize along sectoral lines and to influence interest rate policy and regulation. |
| Cameroon Microfinance Network | 7 members: 2 from banking sector, 2 govt. agencies, 3 NGOs. Share information about members' services, influence legislation and create favourable environment, address need for growth and new services for poverty alleviation |
| Ethiopia Microfinance Network | 13 members Redd Barna Ethiopia-Coordinating Agency. Exchange information and experiences, influence policy makers, conduct research |
| Ghana Microfinance Network | 8 active members: 2 banks, 2 non-bank financial institutions and 6 local and international NGOs. Technoserve-Coordinating Agency. Share information on microfinance practices and provide a forum for discussing issues related to MF |
| Kenya Microfinance Institutions, Kenya | 16 members KREP –Coordinating Agency. Share information on clients, effective policy advocacy. |
| Micro Bankers Trust, Zambia | Initial network organized by EU and World Bank support at request of local MFIs. Exchange information. |
| Burkina Faso, Capo Verde | Proposed Amina initiatives |
| West African Coalition | |
| Microfinance Training Center, Uganda Scott Graham <scott@malawi.net> | |
| Regional Training Center, Southern Africa Opportunity International <mgetu@opportunity.org> | |
| Nigeria Microfinance Knowledge Network | -Capacity building for small informal groups -Financial resource mobilization -Easier access to training |

| Multi-Regional Networks | Information Focus |
|---|--|
| Microenterprise Policy Institute, Bolivia Pancho Otero | |
| World Council of Credit Unions | PEARLS financial auditing framework; savings and loan management software; publications |
| Microcredit Summit | Current events; publications; inventories of institutions; institutional action plans; national action plans |
| Small Enterprise Education and Promotion Network* Chris Leto | Quarterly newsletter; manuals and resources available for sale; roster of consultants |
| Microfinance Network* | Publications; regionally-diverse network of microfinance practitioners; |

| | |
|----------------------|---------------------------------------|
| <i>Anita Campion</i> | network member performance indicators |
|----------------------|---------------------------------------|

| Asian Networks | Composition and Purpose |
|---|---|
| The Asian and Pacific Development Center, Malaysia | Publications and 50 MFI case studies of 11 Asian countries. |
| Rural Research Center, Iran | Generally holds information on rural microfinance for small holders and subsistence farmers |
| Credit and Development <i>P.K. Dagchi</i> <cdf@bdmail.net> | |
| Microfinance Standards Coalition Secretariat, Philippines | More than 56 members consisting of practitioners, concerned policy and resource agencies. TSPI-Coordinating Agency |
| South Asian Network of Microfinance Initiatives, Bangladesh <i>Feisal Hussain</i> <sanmfi@bangla.net> | Network of MFIs which offers, among other services, access to its Microfinance Intelligence Unit which stores more than 2000 documents and latest documents on microfinance |
| CASHPOR | Network of Grameen replicate institutions; newsletter- performance indicators |
| Sri Lanka Microfinance Network <i>David Cracknell</i> Error! Bookmark not defined. | Though not a formal network this site has agreed to house other information on Sri Lankan microfinance |
| Cashpor, Asia | Network of Grameen Bank replicates. -Share information on practices and research -Policy advocacy |
| Center for Micro-Finance, Nepal Norman MacIsaac | National list-serve; quarterly newsletter; best practices |
| NGO Resource Center, Pakistan <i>Sean Kline</i> <skline@gn.apc.org> | |
| Institute of Rural Management, India <i>H.S. Shylendra</i> <hss@fac.irm.ernet.in> | Indian MFI case-studies and studies on the banking system; some electronic copies available |
| Philippine Coalition for Microfinance Standards <i>Carlos Ani</i> <microfi@world.net.ph> | Coalition of NGOs, government and other institutions that collaborate in research, developing and promoting standards, training and advocacy |
| Foundation for Development Cooperation, Australia <i>John Conroy</i> <fdc@ozemail.com.au > | |

| Latin American/Caribbean Networks | Composition and Purpose |
|--|---|
| Corporacion Andina de Fomento, Venezuela | International Financial Institution with the goal of supporting sustainable development in the region through consulting services and |

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| <i>Fernando Prado</i> <fprado@caf.com> | channeling investment from other countries. With Ohio State U. produced book in Spanish on Latin American microfinance. |
| Regional Training Center | IADB Funded? |
| PRE (Programa de formacion de recursos humanos de entidades microfinanciamiento), Bolivia <i>Cecilia Campero</i> Ph: 415351/412060 | Bolivian human resource training center for MFIs beginning to collect case-study materials and publications |

| European Networks | Composition and Purpose |
|--|--|
| Enterprise Development Center, England Cranfield School of Management | |
| Development Research Center, University of Cologne <i>H.D. Siebel</i> <aef.seibel@uni-koeln.de> | |
| Microenterprise Center for Central, Eastern Europe and NIS <i>Ela Dec</i> <microfinance@zigzag.pl> | Supports microlending in the region with a range of information exchange, consulting, training and policy advocacy |
| GRET, France <i>Christine Poursat</i> <poursat@gret.org> | Affiliate microfinance network; trying to increase web-based accessibility for French speakers |

| Middle Eastern and Northern African Networks | Composition and Purpose |
|--|--------------------------------|
| Arab Foundation for Enterprise Development, Cairo | |
| Rural Research Center, Iran <i>Mitra Moazzami</i> | |

| North American Networks | Purpose and Composition |
|---|--|
| NACDLF | |
| Association for Enterprise Opportunity; Aspen Institute <i>Karen Doyle</i> | Networking and information exchange in U.S. and North American context; Directory of Microenterprise Practitioners |
| Directory of Canadian Micro-Loan Funds, Canada | Networking and information exchange regarding Canadian microlending operations to provide policy guidance |

