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APPLIED MATERIAL

EASYPol Module 201

Socio-Economic and Livelihoods Analysis in Investment Planning

Key Principles and Methods





Socio-Economic and Livelihoods Analysis in Investment Planning Key Principles and Methods

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1 SUMMARY

This paper introduces the key principles and methods related to socio-economic and livelihoods analysis in investment planning. It includes a discussion of the importance of understanding the constraints of the rural poor in identification and preparation of investment programmes. It explains the processes of identifying the constraints of the rural poor, the extent and nature of their vulnerability, and their coping strategies in times of food shortage. In addition, it provides an understanding of the roles/functions of rural institutions and presents some methods used in community analysis. Finally, it discusses the implications of socio-economic and livelihoods analysis for the design of pro-poor and gender sensitive rural and agricultural investment projects / programmes.

2 INTRODUCTION

Objective and purpose

The main objective of this document is to introduce readers to:

- new methodologies in identifying, analysing and addressing rural poverty and vulnerability; with specific implications for the design of agricultural and rural investments;
- a deeper understanding of how constraints affect poor rural people's livelihoods, the extent and nature of their vulnerability, and coping strategies in times of food shortage; and
- an understanding of the roles and dynamics of rural institutions and governance structures in providing an enabling environment for improving sustainable rural livelihoods and economic growth.

Required background

Readers can follow links included in the text to other EASYPol modules or references¹. See also the list of EASYPol links included at the end of this module².

¹ EASYPol hyperlinks are shown in blue, as follows:

- a) training paths are shown in **underlined bold font**
- b) other EASYPol modules or complementary EASYPol materials are in ***bold underlined italics***;
- c) links to the glossary are in **bold**; and
- d) external links are in *italics*.

² This module is part of the EASYPol Training Path: **[Policy Learning Programme, Module 3: Investment and Resource Mobilization, Session 5: Risk mitigation in agricultural investment.](#)**

3 DEFINITION KEY PRINCIPLES AND METHODS

3.1 Why is a socio-economic & livelihood analysis important?

There is grave concern about the reduction of global investment in the rural and agricultural sector and the slow trends in meeting WFS and MDG goals. Over ten years after the WFS, we are confronted with the reality that little progress has been made towards meeting agreed hunger and poverty eradication objectives.

Nevertheless, it is fair to say that the international community today pays more attention to hunger as an intrinsic and pressing development issue. Hunger has been raised to a more prominent position in national pro-poor programmes and similar initiatives, and there is more widespread and vocal acknowledgement of the fact that the persistence of chronic hunger in the midst of plenty is an unacceptable contradiction. We know that strong political will, adequate investment and a fair global trading environment are crucial. Concrete efforts are being undertaken at the grass roots level by governments, civil society and international organizations to assist the poor improve their livelihoods in practical, low-cost ways.

While many of these activities are modest in scope others, supported by International Financing Institutions (IFIs), involve huge investments which – too often – have failed to have the expected impact. Experience over the years has clearly demonstrated that **benefits to the poor are not contingent on the size of the investment but rather on its appropriateness**. A key weakness of investment programme design and implementation has been the tendency to ignore important aspects of rural realities: (a) the heterogeneity of rural households, (b) the diverse livelihood strategies, which are dynamic and change over time in response to new opportunities and demands posed during different phases of their life cycles, (c) the versatile strategies adopted to deal with risks, such as natural hazards and disasters, illness or death, fluctuating output prices and unreliable input supplies; and (d) communities' attachment to cultural and social values that put human dignity and rights, empowerment and ownership of the development process as high on the agenda as material advancement.

Socio-economic and livelihood analysis (introduced in this paper) is crucial in providing insights into these realities and can contribute to the design of more realistic people-centred rural development investments with higher returns in terms of sustainable impact on rural people's livelihoods.

3.2 Sustainable Livelihood Analysis

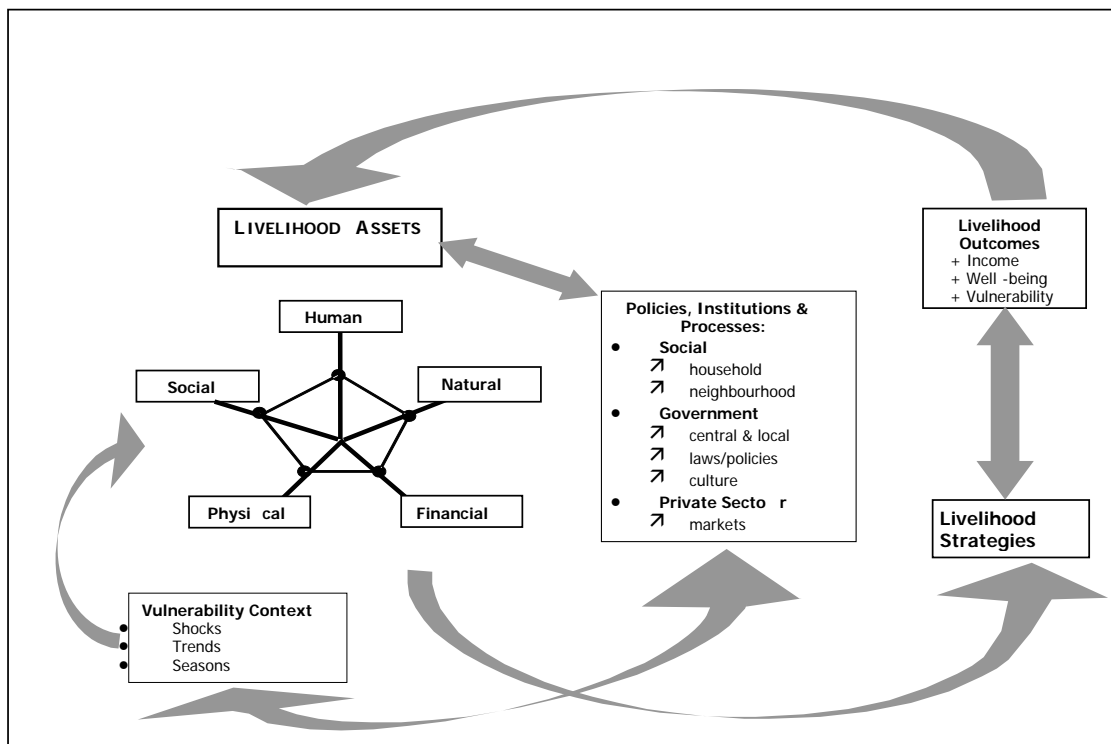
This chapter discusses the main principles of the Sustainable Livelihoods Approach (SLA) as a way of thinking about the objectives, scope and priorities for investment programmes / projects. It is argued that the approach places people at the centre of development, thereby increasing the effectiveness of development assistance.

The sustainable livelihoods framework presented in schematic form below, is intended to help understand and analyze the livelihood strategies and conditions in which poor rural people live, to best strengthen their efforts and support an environmental context conducive to promoting improved livelihoods through development intervention. It is also useful in assessing the effectiveness of existing efforts to reduce poverty. Like all frameworks, it is a

simplification; the full diversity and richness of livelihoods can be understood only by qualitative and participatory analysis at a local level.

The framework views people as operating in a context of vulnerability. Within this context, they have access to certain assets or poverty reducing factors. These assets gain their meaning and value through the prevailing social, institutional and organizational environment. This environment also influences the livelihood strategies – ways of combining and using assets – that might be open to people in pursuit of meeting their own livelihood objectives.

Figure 1: Sustainable livelihoods framework



The Sustainable Livelihoods Approach is based on a series of core principles (see box below) that should be taken into account when designing poverty-focused development interventions.

Box 1: Core Principles of the Sustainable Livelihoods Approach

- **People-centred:** sustainable poverty elimination will be achieved only if external support focuses on what matters to people, understands the differences between groups of people and works with them in a way that fits in with their current livelihood strategies, social environment and ability to adapt.
- **Responsive and participatory:** poor people must be key actors in identifying and addressing livelihood priorities. Outsiders need processes that enable them to listen and respond to the poor.
- **Multi-level:** poverty elimination is an enormous challenge that will only be overcome by working at multiple levels, ensuring that local-level activity informs the development of policy and an effective enabling environment, and that higher-level policies and institutions support people to build upon their own strengths.

- **Conducted in partnership:** with both the public and the private sector.
- **Sustainable:** there are four key dimensions to sustainability - economic, institutional, social and environmental sustainability. All are important - a balance must be found between them.
- **Dynamic:** external support must recognise the dynamic nature of livelihood strategies, respond flexibly to changes in people's situation, and develop longer-term commitments.

It is important, when designing poverty-focused development interventions, to:

- devote efforts to identifying and understanding the livelihood circumstances of **marginalised** and excluded groups.
- take into account important **social divides** that make a difference to people's livelihoods. For example, it is often appropriate to consider men, women, different age groups, etc. separately. It is not sufficient to take the household as the sole unit of analysis.
- build upon **people's strengths** and resourcefulness. When conducting analysis it is important to avoid thinking only about need.
- embrace the ideas of **dynamism and flexibility**. Avoid taking one-off snap shots and instead think about iterative change over time, including concerns about sustainability. Equally, it is not necessary to produce one definitive 'map' of livelihoods. Different 'maps' may be appropriately used for different purposes, for different people at different times.

Policy, Institutions and Processes (PIPs) have a great effect on all aspects of livelihoods. They embrace quite a complex range of issues associated with power, authority, governance, laws, policies, public service delivery, social relations (gender, caste, ethnicity), institutions (laws, markets, land tenure arrangements) and organisations (NGOs, government agencies, private sector). Attention to PIPs is important in promoting institutional and organisational change and in transforming the institutional context of livelihoods, as they effectively determine:

- **access to and control over** various types of capital, to livelihood strategies and to decision-making bodies and sources of influence; and
- **returns to different types of capital**, and to any given livelihood strategy.

3.3 Processes of identifying constraints of the poor

This chapter discusses the processes of identifying the conditions and constraints of the rural poor, the extent and nature of their vulnerability, and their coping strategies in times of food shortage.

3.3.1 Heterogeneity within communities

Communities are not made of homogenous populations. In order to reach the diversity of categories of rural poor and disadvantaged peoples, it is essential to work with holistic and inclusive development approaches that are focussed on identification and incorporation of the range of different categories of people within a given area. It is also essential to adopt bottom-up, people-centred, participatory rural development methods that systematically include intended beneficiaries in identifying priorities of their own concern, reflecting their specific

conditions. The use of such methods, leads to better targeted project services that are tailored to meet the needs and priorities of a heterogeneous beneficiary communities. At the same time, beneficiaries are more apt to assume greater motivation and commitment to organize themselves and to effectively implement and manage project activities. As a result, investment projects and programmes have an increased probability for sustainable outcomes.

Adequate participation of diverse groups can be promoted by means of specific arrangements and/or **mechanisms for identification and mapping of these groups and institutions**, followed by ensuring a methodological process for systematically incorporating their engagement in all steps of planning and implementation. These types of methods promote participatory, self-identification and self-targeted arrangements, which consequently yield more appropriate benefits for end users, while broadening access to delivery systems for all. It should be stressed that **participatory rural development** should not only be regarded as a set of techniques but also as a mental outlook or state of mind favouring a development approach which starts from a people-centred perspective.

3.3.2 Assessment of most vulnerable groups

Households within a community and members within a household are usually very different in composition, socio-economic status and in assets as per the livelihood pentagon of different capitals (see framework above). They vary greatly, both from one culture to another, and within a community. In order for development-oriented investments to be useful and sustainable, they must be designed to meet the needs and priorities of the community, its different households and individual household members.

In-depth analysis of the household unit is a valuable entry point to assess different groups, and can be helpful as a starting point to understand and address rural development challenges. This helps in moving beyond the conventional household “black box” concept, and considers the management systems within groups and among members within households. This includes: decision-making dynamics and relations; activities and priorities relative to varying opportunities; access and control over resources and opportunities (e.g. land, water, time, credit, labour) allocation of resources and benefits. Women, men, young and old, landless, HIV/AIDS infected persons, all manage resources (e.g. knowledge and information, land, labour, money, livestock, water, crops, tools, social networks) but they all have different access to, control over and benefit from these resources. Consequently, different categories of people have different priorities when managing resources and valuing benefits. For example, members of the same household may not agree that selling livestock should be a given priority. Similarly, income earned from such a sale may benefit some but not all household members, depending on who decides how the income is spent.

Socio-economic and gender analysis (SEAGA) is one approach that can help with this task, providing a framework and **overview** of core questions on the access, management and benefits of resources:

- How does a community define different groups and “households”? What kinds of households exist?
- Who are the members? (age, sex, extended family, and hired help)
- What kinds of resources exist among them to support different livelihoods?

- Who uses these different resources (access)? Who makes decisions about the use of these different resources (control)?
- Who benefits from the use of the different resources, and how?
- What are the different needs of groups and individual members? What are their priorities? What are their interests?

In addition, there are many **external factors that affect the opportunities** of categories in communities, households and household members to efficiently manage the available resources. Such external factors may include:

- International and national policies or plans
- Social and cultural norms
- Environmental or seasonal changes
- Legislation and customary law
- HIV/AIDS and other chronic illnesses

Most of these factors are beyond the control of development planners, but it is important to keep in mind that the livelihoods of rural women and men depend upon and are vulnerable to changes in the external environment. Investment planners should consequently take the development context into close consideration when planning and communicating with rural populations to improve their livelihoods. External pressures on rural households include the important domain of macro-level policies related to the management of natural resources such as land, water and the environment, as well as decisions on the structure and work responsibilities of service delivery, such as extension. Development workers can play an important role in HIV/AIDS prevention and in reducing the impact of the epidemic on rural households.

Front-line workers in rural development are critical for identifying first-hand the effects of macro-economic and other policies and challenges on farming systems and households' management of resources. If possible, front-line field workers should share their knowledge with higher management through engaging actively in investment planning processes, and advising on 'safety nets' required for groups particularly affected. For any issue, it is important to consider the local development context and the connections, or linkages between the different levels including the macro level (policies), the intermediate meso-level (institutions, organisations, services), and the field level (community/household issues, concerns, priorities, needs).

When considering investment opportunities, notably directed toward household food security, agricultural production, and rural development, the following questions are worth keeping in mind:

- How do rural households' constraints in accessing resources and services vary between different household members and socio-economic groups?
- How are different groups such as women, youth and the landless at a disadvantage in terms of access to, control over and benefits from resources and services, and is it necessary that particular attention is paid to reaching and supporting these groups?

- Governments face constraints in terms of how much they can and should spend on different sectors. They also face constraints due to the economic situation in which they currently hold office. Are constraints linked to marginalize certain groups? In many instances, constraints to increased productivity are the result of differences in access to inputs and resources.
- Consider legal and cultural status. How does this affect the degree of control that different groups have over productive resources, inputs such as credit, and the benefits which flow from them?
- What are the existing property rights and inheritance laws that govern access to and use of land and other natural resources? How might these affect different categories, men and women and other groups differently? What implications will the death of a husband or wife have for the spouse and children left behind? What sort of impact will this have on their livelihoods?
- How do ecological factors such as the seasonality of rainfall and availability of fuel wood, changes in climate and bio-diversity affect labour and income generating activities?
- What kinds of responsibilities are affected or in turn constrain producing for the market?
- How are services at community levels (extension services etc.) staffed, managed, and designed in terms of addressing different needs and priorities? Is there a diversity of staff, women and men staff members?
- Labour: who does what? Who has access to and control over resources and what are the needs and priorities of different types of farmers? Are there groups that are particularly vulnerable? (E.g. children/youth- or grandparent-headed households, people living with HIV/AIDS, poor households, people with disabilities, etc?)
- What activities do they typically engage in? What are their special constraints? What are their priorities?

3.3.3 Vulnerability to external shocks

The vulnerability context refers to the shocks, trends and seasonality that affect people's livelihoods – often, but not always, negatively (although over time, medium and long-term opportunities may transpire from initial disaster or shocks). Vulnerability or livelihood insecurity resulting from these factors is a constant reality for many poor people.

- **Disasters** of all kinds happen when **hazards** seriously affect communities, households and their livelihoods. The varied characteristics of groups of people, as well as socio-economic and institutional systems make the society susceptible or resilient to the impact of disasters. A disaster results from the combination of hazards, conditions of **vulnerability** and resilience, and insufficient capacity or measures to reduce the potential negative consequences of risk. Vulnerability has many dimensions: economic, social, demographic, political and psychological.
- **Shocks** are sudden events that have a significant impact on livelihoods. They are irregular and vary in intensity and include events such as natural disasters, civil conflict, losing one's job, a collapse in crop prices for farmers etc. They can be classified into the following categories: (a) human shocks (e.g. illness, accidents); (b) natural shocks (e.g. floods, earthquakes); (c) economic shocks (e.g. job losses, sudden price changes); (d) conflict (e.g. war, violent disputes); and e. crop/livestock health shocks. Shocks and trends may be linked. For example some changes that appear as trends at a national or even regional level (such as increased infection rate for diseases

such as AIDS and malaria or rapid price distortions) can impact upon a household or individual as severe shocks (i.e. death in the family).

- **Seasonality** is also an important aspect to take into account when analysing vulnerability. Seasonal changes have an impact on people's assets, activities, prices, production, health, employment opportunities etc. The poor are typically more vulnerable to these changes than wealthier groups, as they often have less diversified assets and livelihood strategies leaving them less resilient and more vulnerable to externalities.

Rural households and their livelihoods are influenced by the disasters and the actions and outcomes of institutions to cope with disasters before, during and after their occurrence. The sustainable livelihood framework can be used as a tool for understanding how household livelihood systems interact with the outside environment (both the natural environment and the policy and institutional context) and how disasters and institutions influence livelihood strategies and outcomes.

The size and shape of the **asset pentagon** (presented above) – that is, the amount and relative importance of each type of capital – varies between communities. For instance, within any given community, rich households might control more land, livestock and physical and financial capital than poor households. Households with many livelihood assets are generally more resilient and able to preserve (or recover more rapidly) their lives and property in the face of disasters than households with fewer assets. **Institutions and organisations** can reduce or worsen the impact of external shocks (e.g. disasters) on vulnerable people and influence household assets. Institutions set and implement policy and legislation, deliver services, and perform many other functions that affect livelihoods. **Institutional processes** include policies, legislation and rules (formal and informal) that regulate access, control and benefits to assets, markets, and culture and power relations in society.

The **Disaster Risk Management (DRM)** framework promotes institutional actions at different phases of the DRM cycle to lessen impacts of disasters on local communities. This framework comprises all forms of activities, including structural and non-structural measures to avoid (prevention) or to limit (mitigation and preparedness) adverse effects of hazards. DRM actions should ensure **strengthened capacity and resiliency** of households and communities to protect their lives and livelihoods, to respond to and deal with recurring shocks, and to strengthen human capital investment. The DRM Framework is composed of the following fields of action:

- **Risk awareness** and assessment including hazard analysis and vulnerability/capacity analysis; knowledge development including education, training, research and information;
- **Public commitment and institutional frameworks**, including organisational, policy, legislation and community action;
- **Application of measures** including environmental management, land-use and urban planning, protection of critical facilities, application of science and technology, partnership and networking, and financial instruments;
- **Early warning systems** including forecasting, dissemination of warnings, preparedness measures and reaction capacities.

Figure 2: The Disaster Risk Management (DRM) Framework

In present-day practice of disaster risk management, the action to cope with disasters could refer to any undertakings before, during and after their occurrence. This is exemplified in the prevailing concept that regards disaster management as a cycle with different phases, from preparedness through response, from prevention and mitigation, through relief, recovery and rehabilitation.

The strength of this holistic concept is its ability to demonstrate the relationship of disasters, recovery, development and eventual investments promoting growth and further development. This relationship distinguishes disaster relief activities as a development approach rather than a traditional relief approach. Furthermore, the relationship between relief and development as a cycle reinforces the fact that disasters, however inevitable, could be managed through adequate planning and preparedness. With reference to the disaster risk management cycle, programme and activities focussing on **prevention**, **mitigation** and **preparedness** comprise the development portion, while those concerning relief and recovery comprise the humanitarian assistance portion, with preparedness linking both types of efforts.

A particular challenge for governments and development agencies is how to best promote local capacities and mobilise organisations at different levels to actively participate, according to their comparative advantages, in the design and implementation of locally relevant disaster risk management strategies. Local organizations and self help groups are the first to help in acute emergencies, but are rarely empowered to take the lead role in the transition processes from relief towards development. It is crucial to ensure their incorporation in post-disaster rebuilding. In sum, it is important to examine entry points for developing and integrating a variation of sustainable livelihood strategies, participatory bottom-up planning and sustainable natural resources management for food security and income generation into future

disaster prevention programmes. Institutional and human capacity building are particularly important as starting points in post emergency situations to (re)strengthen the self-help capacities for social mobilization, participatory planning and coordination. Institutional capacity building should go hand in hand with the (re)-enhancement and possible **diversification of livelihood strategies** needed to increase community resilience against future risks, and facilitate rehabilitation and reconstruction.

Strategic actions for rehabilitating and reconstructing rural livelihoods could include:

- (a) Targeting communities and vulnerable groups/ households most in need.
- (b) Identifying issues that cut across differentiated social groups in order to make sure that resources reach the poorest;
- (c) Directing assistance to affected producers through carefully targeted input distribution (seeds and tools), grants and revolving funds to enable them to sustainably recover/improve their livelihoods;
- (d) Providing food aid and work-for-cash programmes, which provide immediate disaster relief (carefully monitored to ensure they do not begin to impede rehabilitation and reconstruction efforts);
- (e) Promoting recovery of production systems with emphasis on financial and environmental sustainability and introduction of appropriate technologies and management practices, and investing in enabling and facilitating infrastructure;
- (f) Launching an integrated and gender sensitive approach to re-establish and improve livelihoods;
- (g) Rehabilitating or improving public and private agricultural sector support services especially public agricultural extension, and private sector agro-processing, marketing and financial services (formal banks and micro-financial institutions);
- (h) Supporting local institutions, communities and farmer organizations through training and capacity building often including the channelling of funds and other inputs directly to them;
- (i) (Re)-establishing efficient and transparent regulatory and monitoring mechanisms; and
- (j) Supporting technically, economically and financially viable (new) investment opportunities through public-private partnerships to create employment.

3.4 Community analysis: rural institutions and decentralization

This chapter discusses the importance of analysing the roles/functions of rural institutions as a crucial dimension for understanding their role in promoting rural livelihoods and economic growth and development. The chapter also presents some methods used in community analysis.

3.4.1 Defining Rural Institutions

Institutions are defined as formal and informal norms, rules and procedures and processes that define the way in which individuals should interrelate and act. It refers to a broad range of **organizations, policies** and **processes** that may influence both the choices that households make about using their assets, and the types and amount of assets that they are able to access, use, control and maintain ownership over.

Organizations refer to a group, association or agency, as a structure of recognized roles and positions that are ordered in some relationship to achieve a specific goal. Institutions generally establish what sort of behaviour is “normal” in society - they are “normative”. Organizations establish a common purpose for the people that make them up and their roles in achieving that purpose - they are more “structured”. **Policies**, usually decided upon at different levels of government, increasingly with active participation through dialogue and inputs from civil society, will affect the forms that local institutions may take and how households are able to engage in, influence and respond to policy and institutional decisions and make use of the livelihood assets at their disposal. For example policies for giving more responsibility to village-level institutions may give local people more influence and voice over the decisions that affect them directly.

Categories of institutions include both structured membership **organizations** and less visible informal institutions, which define procedures and rules of the game.

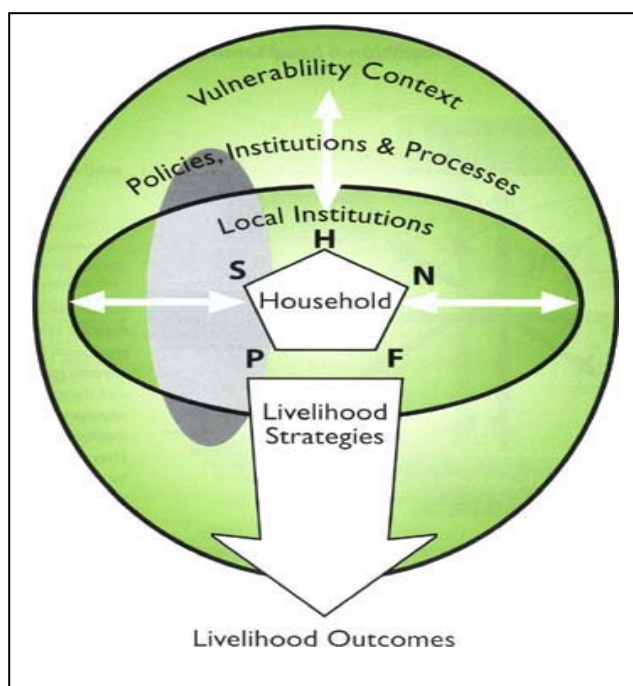
Box 2: Categories of institutions

- **Formal membership organizations** such as cooperatives and registered groups
- **Informal organizations** such as exchange labour groups or rotating savings groups, common property resource groups
- **Political institutions** such as parliament, law and order or political parties
- **Economic institutions** such as markets, private companies, banks, land rights or the tax system
- **Social-cultural institutions** such as familial/cultural groups, kinship, marriage, inheritance, religion or draught oxen sharing

Institutions can be understood as **enabling or disabling**. A **disabling** policy and institutional environment is constraining, may discriminate against the poor and generate inequities, for example, making it difficult for the poor to get access to land, livestock, capital and information, or meaningfully engage in decision-making, and may cause greater inequities among and within local communities. In contrast, an **enabling** policy and institutional environment strengthens livelihood strategies and makes it easier for people – poor and less poor – to gain access to assets they need for ensuring sustainable livelihoods. **Enabling institutions** can:

- help to broaden and diversify livelihood options and promote successful sustainable outcomes through building up and securing assets of the poor (natural, financial, physical, human, social);
- contribute to community/household resilience, livelihood diversification, and self-help capacity to reduce vulnerability to disasters (natural, conflict, economic);
- improve agricultural and rural development service delivery and thus agricultural growth and rural development;
- contribute to promoting improved local governance and sustainable development outcomes (thus increasing transparency, communication exchange, accountability, equity, demand-driven solutions, participatory approaches, local ownership and empowerment).

Figure 3: Importance of rural institutions in understanding rural livelihoods



Institutions influence and affect livelihood strategies undertaken by particular groups and individuals, and, vice versa, livelihood strategies can influence or affect institutions. In terms of the livelihood framework, this relates to the way an institution affects the different livelihood assets or capitals that people use for their livelihoods, by controlling access to those assets, or by influencing how, where, when and by whom they are used and decisions are made. Even without directly affecting the assets that people use, an institution may also change the context in which people live in a way that will affect their vulnerability and resilience to external shocks.

3.4.2 Defining decentralization

Decentralization is a restructuring of authority to provide a partial *transfer of power, resources* and usually functions, from the central government to institutions at the *regional level* or at the *local level*. Decentralization can be limited to the spheres of the state (from national public institutions towards regional or local public institutions) or go beyond the state to semi-public organizations (civil society or the private sector). Institutional restructuring requires building horizontal and vertical partnerships, thus strengthening capacities of the state, private sector and civil society, including farmer organizations, so that each can effectively engage in development activities and provide services required by their constituencies/members. It is useful to consider:

- who formulates and makes the proposal;
- who takes the decisions;
- who provides financing;
- who manages the implementation;
- who does the follow-up and evaluation; and
- who is accountable to whom.

Box 3: Key principles of decentralization

- **Subsidiarity** describes the principle according to which all problems must be solved on the lowest level on which a solution is achievable and relevant.
- **Jurisdictional spillover:** implies that a service should be controlled and financed at the jurisdictional level where there are no spillovers or

externalities on neighbouring jurisdictions; services are controlled and financed at the scale where there are no externalities, reducing “free riding.”

The process of decentralization aims to fulfil the following key objectives:

- improving agricultural service delivery, including in efficiency, responsiveness and effectiveness, thus creating the conditions for sustainable development;
- strengthening capacities of local governments, society organizations, including private sector partners, to participate in the planning and management of their development objectives, thus valorizing local initiatives and promoting their sustainability;
- reducing the autonomous function and exclusive power of the central State, while at local levels, broadening local innovations, participation and empowerment, and local ownership of social, political and economic activities;
- improving local governance fiscal management, through transferring to local levels responsibilities for revenue raising, expenditures, expenditure tracking, while promoting greater transparency and citizen fiscal accountability (decreasing the financial burdens of the state).

Decentralization offers opportunities for enhanced development. It means giving greater autonomy to the decentralized administrations in managing local affairs, and creating a system of co-responsibility between central, regional and local levels of governance. The role of government becomes facilitator, a catalytic effect for creating enabling environments for people to achieve their objectives. Decentralization is not an alternative to central power, but a balancing of powers, and widening of influences by divers actors to attain a more effective functioning government and enabling conditions for private sector growth and civil society engagement.

Appropriate conditions and factors in the right combination and sequencing and pace of implementation are required for effective and sustainable decentralization outcomes. These include most importantly: political will and a concomitant supportive legal and institutional framework; adequate capacities; accountability mechanisms to improve transparency; empowerment and capacity of local bodies and partners to effectively engage in development processes; and sufficient resources to accomplish tasks.

3.4.3 Forms of decentralization

- **Political** – promoting increased power of citizens through representative, pluralistic systems;
- **Administrative** – transferring responsibility for planning, financing, and management of certain functions to lower levels of government or private sectors. Mains forms of administrative decentralization include:
 - **de-concentration:** redistribution of decision making authority and financial and management responsibilities among different levels of central government that provide some parts of the central government services at the *regional or local level* (e.g. a ministry that transfers some of its functions and expertise to its regional and/or local subsidiaries). This does not imply *transfer the power* of decision-

making but only some administrative and technical responsibilities to the regions while maintaining a strong control and decision-making power at the central level;

- **devolution:** the transfer of decision making power, functions and resources to local governments (bodies representing the citizens, townships, village authorities or rural communities), implying the creation or strengthening of these entities and broadening citizen engagement. This is the most advanced form of *decentralization* because it entails extensive *transfer of powers* towards an institution or a local associations;
- **Fiscal** - authority for decentralized units to make expenditure decisions with funds raised locally or transferred from the central government;
- **Market** - decision making power is transferred to public to private organizations, through privatization, contracting out, deregulating, building partnerships.

3.4.4 Common risks related to decentralization

State disengagement and decentralization entail certain risks resulting from the centralizing policies that were formerly in effect, including:

- **Risk 1:** Giving priority to local demands can undermine the overall coherence of a country's strategies (regionalized consistency) and convergence of sectoral and local investment priorities and plans, thus dispersing interventions, increasing disparities among regions (and limiting economies of scale), and undermining wider national concerns such as natural resource use;
- **Risk 2:** Information asymmetry between partners can lead to the absence of coherence between them;
- **Risk 3:** Continuing the legacy: expecting continued central-state assistance can result in a decline of support services for farmers at local levels especially if market forces are unreliable in supporting economic development;
- **Risk 4:** Traditions of clientelism favours the most influential actors in dominating decentralized structures; asymmetry in power and influence among rural populations could translate into the capture of functions and resources by local elite, municipalities, and the most organized and richest organizations.;
- **Risk 5:** Institutional rigidity, lack of incentives and inability to adapt to new structures of the governing system can slow down the pace or even block decentralization processes;
- **Risk 6:** Insufficient local resources to implement effective demand-driven local investment activities, due to lack of communities' skills/capacities to enforce "downward accountability" among local governments, lack of adequate participatory planning and implementation competencies, and lack of allocated/sufficient resources at local levels.

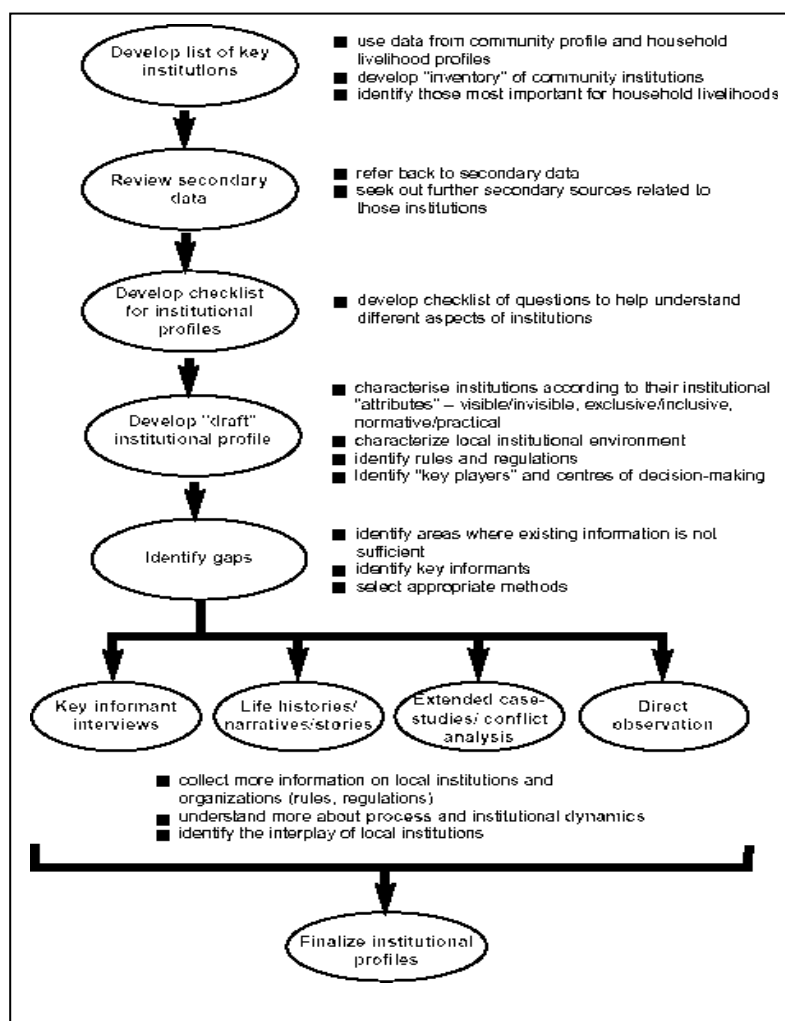
3.4.5 Operationalizing decentralization through institutional and community analysis

The Community-Driven Development (CDD) Approach is based on the principle that the best way to facilitate the sustainable socioeconomic development of rural communities is through establishing mechanisms that promote local governments and rural communities' ability to integrally share in the authority and responsibility to plan, produce, and finance the

goods and services they require (other actors in this co-production model include private sector). The approach is embedded in a public administration framework that views communities as one of many other development partners in their own right, influencing decisions in matters of public choice, including at different levels of the institutional system, and also underpins pro-active measures for inclusiveness particularly of the most poor. Key features include the degree of power and capacity communities have in decision-making and in priority-setting (encouraging empowerment and building social capital), as well as in managing project funded common initiatives to improve rural livelihoods. Improving **downward accountability** is a key component to effective decentralization, the success of which depends on ensuring processes of transparency, responsiveness, strong partnerships and perhaps most importantly, promoting meaningful involvement of community/beneficiary participation and voice.

Initial steps in implementing CDD-type programs include conducting institutional analysis, community profiles and mapping, in order to assess the local environment and improve understanding of the existing community-level dynamics and actors involved. **Methods and tools** applied in conducting institutional analysis and community profiles are many and diverse. A suggested methodological approach (Figure 4) and common tools for developing institutional profiles are presented below. Examples of the tools are provided in Annex 1.

Figure 4: Developing institutional profiles



Tool kit for Community Analysis

Rapid Rural Appraisals are research methodologies consisting of systematic, semi-structured activities conducted on-site by a multi-disciplinary team with the aim of quickly and efficiently acquiring new information about rural life and rural resources.

Participatory rural appraisals are less extractive, and are a combination of approaches and methods that enable rural people to share, enhance and analyse their knowledge of life and conditions, to plan and act and to monitor and evaluate. The role of the outsider is that of a catalyst, a facilitator of processes within a community which is prepared to alter their situation.

A social map is a map that is drawn by the residents and which shows the social structures and institutions found in an area. It also helps us to learn about social and economic differences between the households (see example 1 in the Annex).

Venn Diagrams show institutions, organisations, groups and important individuals found in the village, as well as the people's view of their importance. Additionally it explains who participates in these groups in terms of gender and wealth, and linkages among institutions, showing relationships that indicate their contacts and co-operation (see example 2 in the Annex).

Wealth ranking is a tool to: investigate perceptions of wealth differences and inequalities in a community; identify and understand local indicators and criteria of wealth and well-being, and map the relative position of households in a community (see example 3 in the Annex).

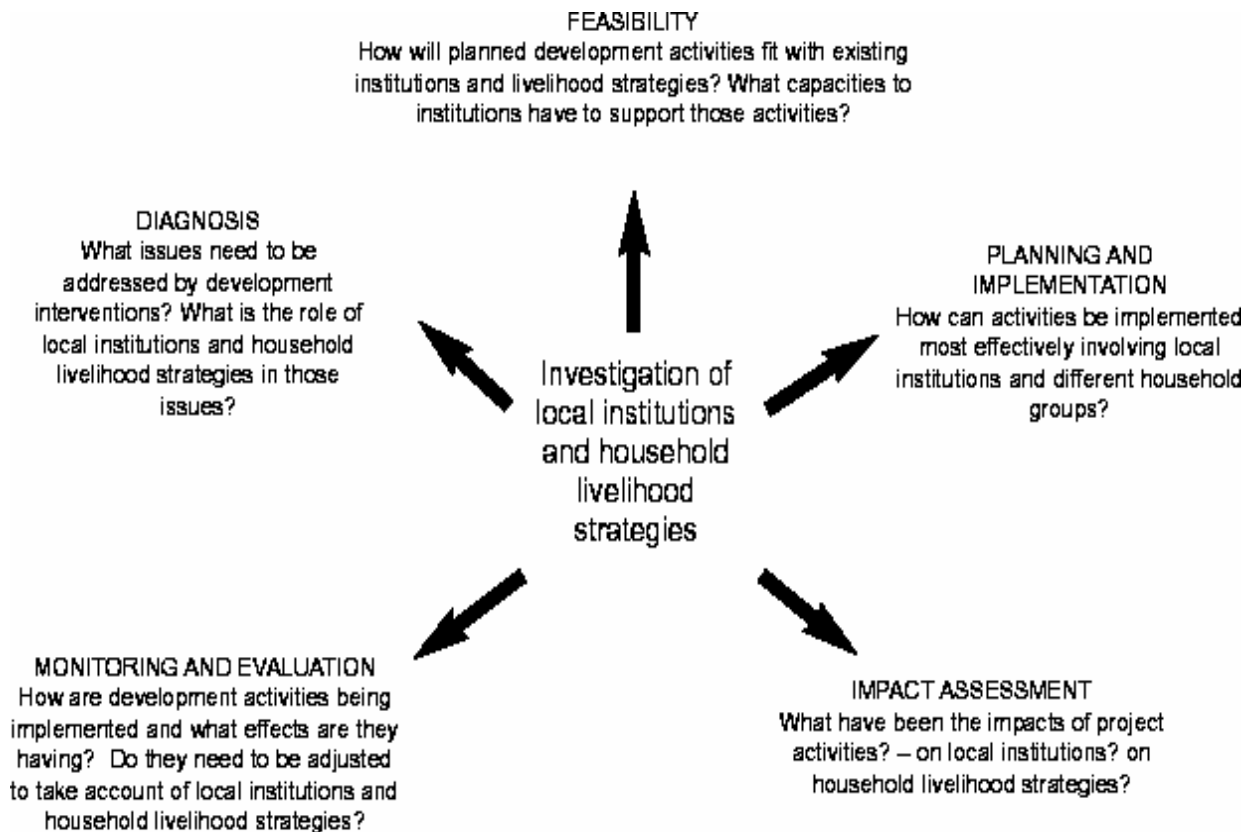
Stakeholder analysis and power mapping is a framework for identifying stakeholders who may affect or be affected by investment programs, and assess their influence, power, inter-relations and partnerships. It is useful in identifying and analyzing opportunities, possible constraints and resistance, and potential implications of decisions on stakeholder groups (see example 4 in the Annex).

4 IMPLICATIONS FOR PROGRAMME/PROJECT DESIGN

4.1 Ensuring adequate social analysis

Socio-economic and livelihood analysis is most likely to take place as part of the “diagnostic” process, where development agencies are trying to understand local conditions so that they can decide how to plan investments. Nevertheless, as shown in the Figure below, it could also be useful at the different stages of the project cycle. Therefore, it is important to make appropriate budget allocations to fund comprehensive social analyses, not only at design stage, but iteratively, also as part of project implementation, and evaluation processes.

Figure 5: Analysis of local institutions and household livelihood strategies



4.2 Making good use of socio-economic and livelihoods analysis

4.2.1 Diagnosis

The outputs of a socio-economic and livelihood study can add a very significant layer of understanding to an overall diagnosis in a community, or an area, before beginning to plan rural development investments. Analysis results can help project planners, jointly with communities, build a more complete picture of the situation in which they are intervening and thereby provide them with an opportunity to address a more complete range of interlocking development issues rather than fragments of the picture.

Awareness and understanding of the heterogeneity of rural communities is crucial during diagnostic phase. Through a systematic identification and inclusion of the range of diverse groups within a community, targeted community investment activities will likely better meet the actual range of economic and social needs within a given area. In this perspective, investment project interventions and/or proposed/improved rural delivery systems are more likely to provide better targeted, tailored services and facilities on a wider scale with broadened access to a more heterogeneous profile of the community; as a result, the poor, disadvantaged and less powerful groups within communities who are often marginalized with little voice and power to influence local investment decisions and operations, can engage much more in the development process and potentially bring considerable benefits to achieving poverty alleviation and sustainable livelihoods.

Use of an in-depth **gender-sensitive socio-economic and livelihoods based analysis** can yield both qualitative and quantitative information about groups' and households' livelihood

strategies, including resources, assets, opportunities and roles of different actors (including their productive, reproductive and community roles). In planning investments and services in rural communities and with rural households, it is important not to assume that all persons have the same resources and conditions (access, control, etc). For example, women and men, wealthy and poor, often have different constraints, opportunities, knowledge, responsibilities, needs and priorities in livelihood strategies. It is necessary to include the views of all relevant sub-groups to obtain a full picture of a situation.

4.2.2 Feasibility

Where the diagnostic phase of a project has already been undertaken, a more focussed socio-economic and livelihood analysis could be carried out to investigate the feasibility of specific development interventions that have been identified as possible solutions to local problems. For example, a diagnostic study may have identified soil run-off in upland farming areas as a key problem that needs to be addressed by future development work. Various soil management measures could be proposed to deal with this problem, but a socio-economic and livelihood study could significantly improve the understanding of how these measures are likely to be received and taken up among local people. A study of this type might reveal that the current lack of proper soil management is not due to “ignorance” but due to the land tenure arrangements that discourage any extra investment in land for which tenure is precarious or ambiguous. Increased migration by male household members might be leaving more responsibility for agricultural work to women, whose existing workloads make additional soil management tasks impractical.

4.2.3 Planning and implementation

A socio-economic and livelihood study could also contribute concretely to the practical issues of planning and implementing project activities. Where projects expect local institutions and organizations (such as NGOs, local government bodies or community organizations) to play a role in the implementation of development interventions through a community-driven development approach, a socio-economic can provide a careful assessment of the existing roles, objectives and capacities of these institutions. Likewise, it can assess existing relationships between these institutions and with household livelihoods in order to identify how potential changes of these institutions might affect people who currently depend on them. A socio-economic and livelihood study can help identify and explain the varying conditions, needs, resources and capabilities of the different categories of groups, including the disadvantaged groups, such as women, landless and indigenous groups. With such information, project planning can include strategic interventions to overcome constraints, and to ensure full participation of these groups in local investment planning, decision-making, and implementation efforts.

4.3 Ensuring proper monitoring and evaluation (M&E) of progress

Participatory M&E: The process of carrying out a socio-economic and livelihood analysis can produce many opportunities for establishing mechanisms for monitoring and evaluating on-going project activities. If local people are properly engaged in the process and play an active part in identifying and planning project activities, their capacity to monitor the implementation process should also be greatly strengthened. Direct involvement of beneficiaries in M&E enhances not only empowerment and local ownership but also the likelihood of greater sustainable outcomes of project interventions.

The process of carrying out the diagnostic and planning process together with local people will also lead to the identification of appropriate indicators that can easily be monitored in the future. For example, the socio-economic and livelihood analysis might reveal that the most important criteria applied by local people to measure the effectiveness of a system for credit provision are not related to the quantity of money received or even the interest rates charged, but rather to the timeliness of credit availability and flexibility in repayment schedules. This could significantly change the way in which the success of a new credit scheme might be measured, at least from the point of view of the intended beneficiaries.

Impact assessments: A socio-economic and livelihood analysis can also provide valuable insights in terms of assessing impact of project interventions on people's livelihoods, as part of a project evaluation, and also provide lessons. It is particularly useful in pinpointing the unintended and unexpected effects of project interventions on local institutions and their effects rural people's livelihoods. For example, a project that has worked on the dissemination of techniques to ensure better utilization of fish catch might have achieved a significant reduction in what were regarded as "losses" from the catch on the beach after landing. A socio-economic & livelihood analysis might well discover that many of these "losses" were part of an informal welfare institution within the community through which small amounts of low-value fish were left for elderly people and poor children to collect in return for small services. These "discards" may have constituted a small but important source of income or exchange for poor households. Quite unintentionally, efforts to "improve production" may have undermined an important social institution within the community.

5 CONCLUSION

As emphasised in this paper, **benefits to the poor are not contingent on the size of the investment but rather its appropriateness.** Socio-economic and livelihood analysis has demonstrated to contribute greatly to making poverty focused development efforts more appropriate and relevant to those they intend to benefit. The key lies analysing and providing crucial insights into rural realities: the heterogeneity of rural households, their diverse livelihood strategies, which are dynamic and change over time in response to new opportunities as well as to the demands and constraints of different phases of their life cycles, their need to minimize risk to natural hazards and disasters, illness or death, fluctuating output prices and unreliable input supplies, and their attachment to cultural and social values that put human dignity and rights, empowerment and ownership of the development process as high on the agenda as material advancement.

6 READERS' NOTES

6.1 EASYPol links

This module belongs to a set of modules which are part of the EASYPol training path [Policy Learning Programme, Module 3: Investment and Resource Mobilization, Session 7: Socio-economic & livelihood analysis.](#)

Readers can follow other EASYPol documents under Module 3, which is structured as follows:

Module 3: Investment and Resource Mobilization

Session 1: Investment in agriculture & rural development

Session 2: Environment for private investment in agriculture & rural development

Session 3: Sources and uses of financial resources

Session 4: Strategies for increasing farm financing resources

Session 5: Risk mitigation in agricultural investment

Session 6: Sector-wide approaches (SWAps)

Session 7: Socio-economic & livelihood analysis

7 FURTHER READINGS

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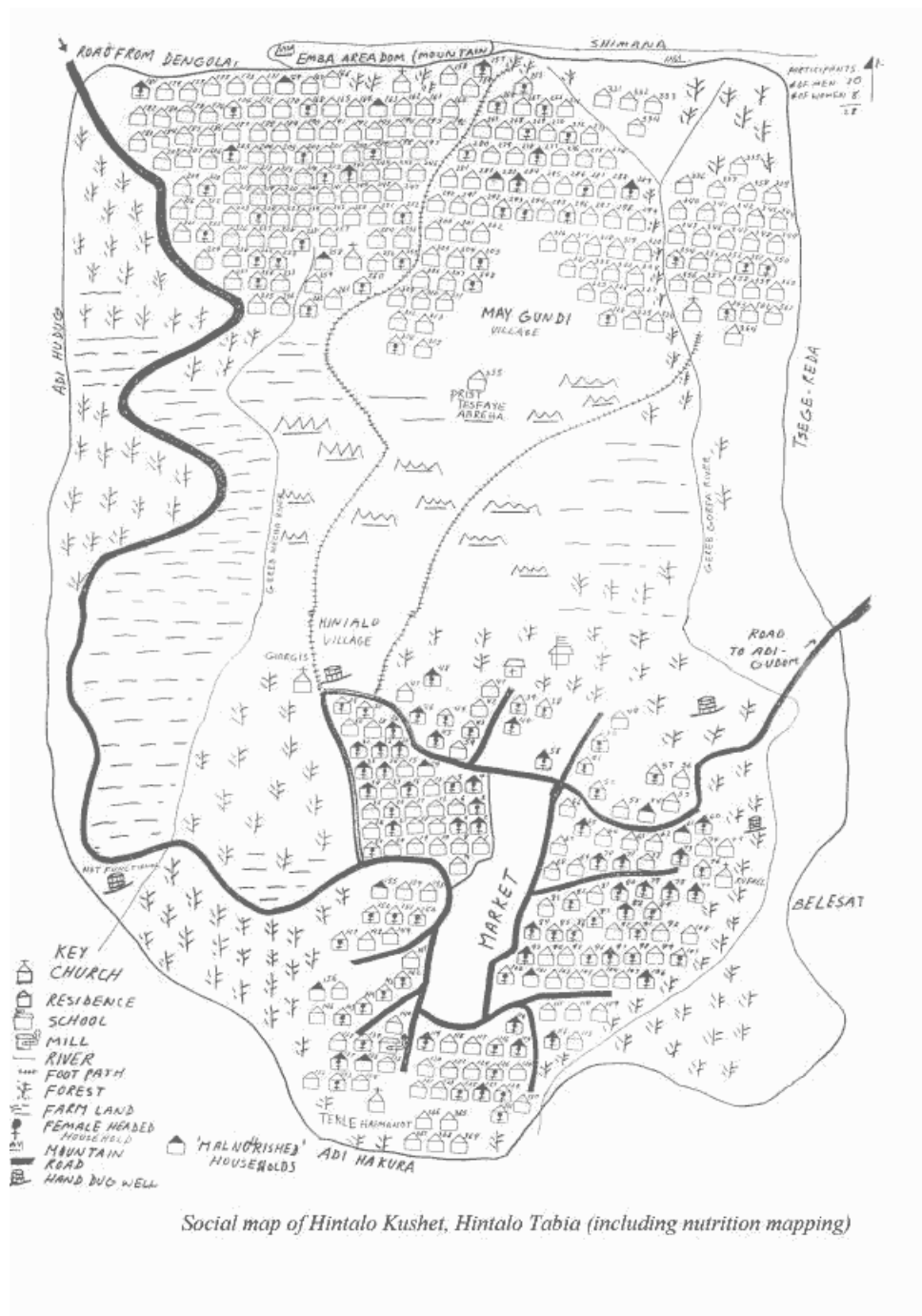
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FAO Participation website: www.fao.org/participation and FAO Sustainable Dimensions website: www.fao.org/sd

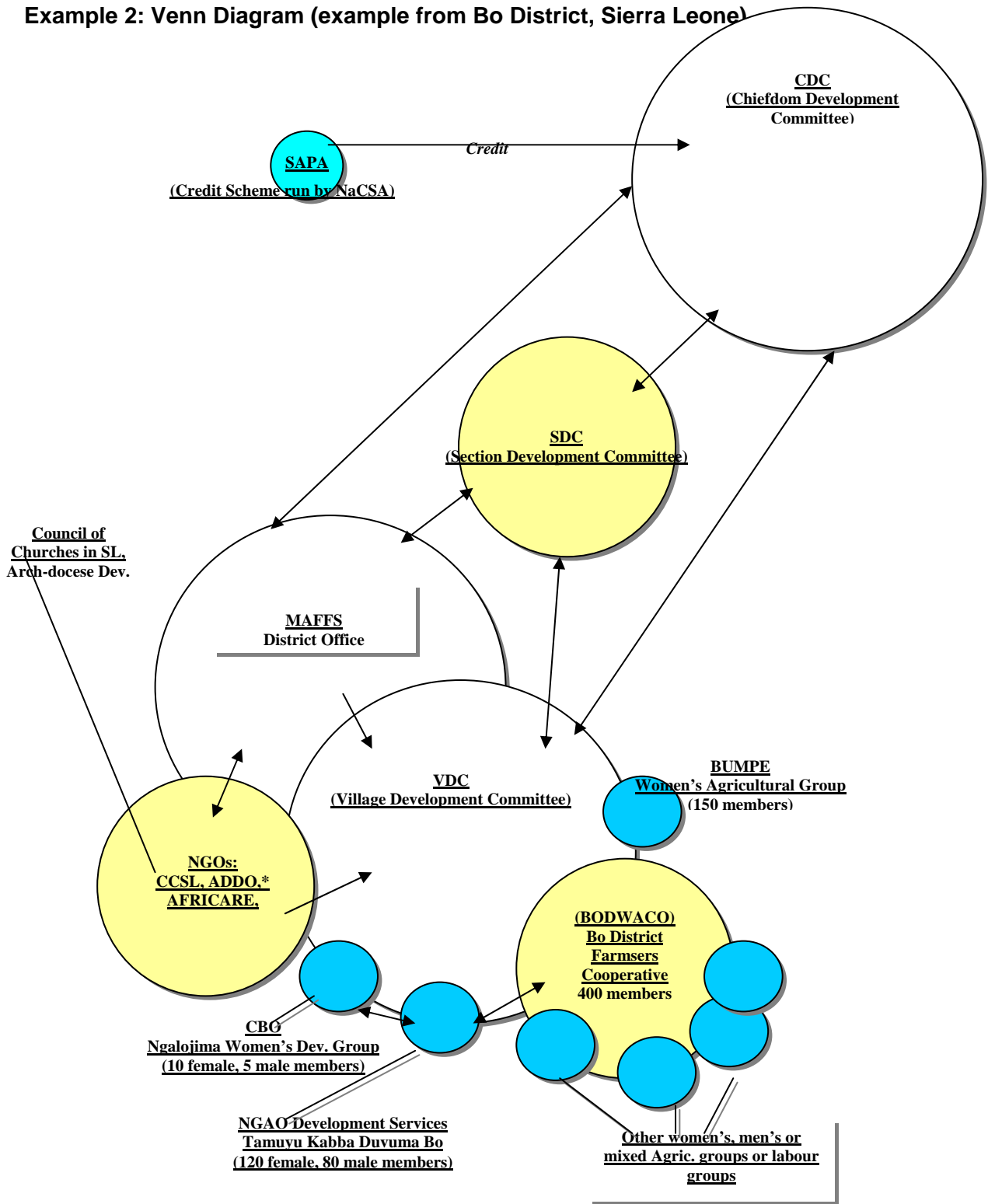
FAO Livelihood Support Programme website: www.fao.org/sd/dim_pe4/pe4_040501_en.htm
www.fao.org/sd/seaga (and if you want – also add as direct contact: seaga@fao.org)

ANNEX 1:

Example 1: Social Map: (example from a Participatory Household Food Security & Nutrition Project in Ethiopia)



Example 2: Venn Diagram (example from Bo District, Sierra Leone)



Example 3: Wealth Ranking Matrix (example from rural Haskovo Region, Bulgaria)

| Socio-economic groups | Local wealth indicators for this group | Household Numbers or % in this group |
|---|--|--------------------------------------|
| Ethnic minority households (Roma): landless, casual - seasonal labourers/migrants | VERY POOR: housing of poor condition, low education level, keep backyard chickens and small ruminants for subsistence. Transport: horse/ donkey carriage, large household size (4-6) | approx. 30% of households |
| Small farmers and animal breeders, traders and pensioners (Turkish minority & Bulgarians) | POOR: simple village housing, medium education level, some land, cow sheds; animals, old car, some old machinery, crops. Pensions, social benefits, some traders. Household size (2-4) | approx. 55% of households |
| Economically active market-oriented farm families and animal breeders (Bulgarian) | LESS POOR: house in village, higher (often university) educational level, have significant size of land, cow sheds, good house/few have flat in town. Animals, car for transport, crops, some agric. equipment. Small household size (2-3) | approx. 15% of households |

Example 4: Stakeholder Analysis and power Mapping**A. Stakeholder Analysis Matrix: (Example of a small -scale irrigation project in Africa)**

| Stakeholders/ Institutions | Type/character of involvement / interest (roles / responsibilities) | Level of involvement with irrigation | Degree of influence | Benefit/ rewards | Potential Risks(+/-) | Existing relations |
|-----------------------------|---|--------------------------------------|---------------------|------------------|----------------------|--------------------|
| FAO | | | | | | |
| Ministry of Agriculture | | | | | | |
| Ministry of Irrigation | | | | | | |
| Local Government | | | | | | |
| NGOs | | | | | | |
| Farmers Unions/Associations | | | | | | |

B. Stakeholder Power Rating Matrix:

| Stakeholder group | Size of group (nos) | Potential to contribute to project objectives | Power to contribute to project objectives |
|-------------------------|---------------------|---|---|
| Smallholder groups | 5 | 5 | 1 |
| Local Chiefs | 3 | 3 | 3 |
| Farmer Organizations | 4 | 4 | 2 |
| Chambers of Agriculture | 2 | 1 | 4 |
| Local government | 1 | 2 | 5 |

Module metadata

1. EASYPol module 201

2. Title in original language

| | |
|----------------|---|
| English | FAO Policy Learning Programme |
| French | Programme de formation aux politiques de la FAO |
| Spanish | Programa de aprendizaje sobre políticas de la FAO |
| Other language | |

3. Subtitle in original language

| | |
|----------------|--|
| English | Socio-Economic and Livelihoods Analysis in Investment Planning: Key Principles and Methods |
| French | |
| Spanish | Análisis socioeconómico y de medios de subsistencia en la planificación de inversiones: Principios y métodos clave |
| Other language | |

4. Summary

This paper introduces the key principles and methods related to socio-economic and livelihoods analysis in investment planning. It includes a discussion of the importance of understanding the constraints of the rural poor in identification and preparation of investment programmes. It explains the processes of identifying the constraints of the rural poor, the extent and nature of their vulnerability, and their coping strategies in times of food shortage. In addition, it provides an understanding of the roles/functions of rural institutions and presents some methods used in community analysis. Finally, it discusses the implications of socio-economic and livelihoods analysis for the design of pro-poor and gender sensitive rural and agricultural investment projects / programmes.

5. Date

January 2008

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7. Module type

- Thematic overview
- Conceptual and technical materials
- Analytical tools
- Applied materials
- Complementary resources

8. Topics covered by the module

- Agriculture in the macroeconomic context
- Agricultural and sub-sectoral policies
- Agro-industry and food chain policies
- Environment and sustainability
- Institutional and organizational development
- Investment planning and policies
- Poverty and food security
- Regional integration and international trade

Rural Development

9. Subtopics covered by the module

10. Training path

[FAO Policy Learning Programme](#)

11. Keywords

livelihoods, participation, empowerment, community heterogeneity and social exclusion/inclusion, vulnerability coping strategies and resilience, rural institutions, decentralization, community-driven development and tools.