1. Introduction

An area of high demand for World Bank support in the South Asia region is centered on an approach to rural livelihoods development, which inverts the traditional model of reaching out to the poor. Instead, the starting point of these programs is the poorest, and the strategy is one of enabling the poor themselves to reach out and make use of the opportunities available to them. Groups and communities are mobilized and organized in such a way that they can gain sufficient “voice” and reach sufficient “scale” through the formation and scaling up of institutions of the poor. These institutions are key elements of what we term the “people sector”. By building the organizational capacity and skills of communities at the grassroots, and helping them to federate and graduate, this “people sector” is then better equipped to negotiate improved service provision, stimulate external investment, manage demand for their products and services, and represent a more attractive market for the private sector.

Enhancing the livelihoods of the poor is therefore concerned with investing in their institutions, assets and capabilities, to provide them more equitable opportunities to access natural resources, public services, markets and the socio-economic growth potential existing in their environment.

Experience in livelihoods programs in South Asia is generating lessons learned about this ‘people sector’ and how to protect and develop the capacity of the poor to reach out to markets and services, whoever the provider is. This bottom-up effort to promote social mobilization and income generating activities will go a long way in establishing the required articulations between people’s aspiration for better livelihoods, public service delivery efforts and private sector-driven business opportunities, leading towards more inclusive, pro-poor growth, i.e. growth generated by poor people. This approach recognizes that increasingly development will need to be delivered on a ‘co-production’ mode and that the supply side (both public and private) cannot be made more efficient in assisting the poor unless it is in the context of an organized demand side.

Figure 1: The three ‘Ps’

1 The World Bank-financed rural development portfolio includes a range of projects in the areas of joint forest management, watershed development, irrigation and agriculture that are utilizing the community-driven development approach and incorporating livelihoods development principles and investment areas. For the purposes of this Note, however, focus is on the ‘core’ livelihoods programs, currently under implementation in the South Asia region, e.g. India: District Poverty Initiative Programs and Rural Poverty Reduction projects in Rajasthan, Madhya Pradesh and Andhra Pradesh; Tamil Nadu Empowerment and Poverty Reduction Project; Chhattisgarh District Rural Poverty Project; Sri Lanka Community Development and Livelihood Improvement program; Pakistan Poverty Alleviation Fund, etc.
2. CDD and Livelihoods Development

Acknowledging the broader Sustainable Livelihoods framework, livelihoods development projects in South Asia take rural peoples’ priority needs as an entry point for building their social and economic empowerment and opportunities, seen as a sustainable contributor to risk and rural poverty reduction. Project interventions aim to build up both tangible (i.e. physical and financial) and intangible (i.e. social and institutional) assets that enhance or contribute to peoples’ means of living, leading to reduced risk and vulnerability, increased income, empowerment and improved access to services.

Community-driven development, or CDD, is a term broadly defining an approach used in projects that gives control of decisions and resources to community groups, based on certain ‘non-negotiable’ principles (e.g. transparency and accountability; participatory planning; inclusion of the marginalized, etc). This approach is generally applicable to livelihoods projects with their explicit aims of community ownership, equity and inclusion.

While the private sector has historically not been very interested in what it perceives as poor, uneducated and dispersed producers and consumers, there is an increasing recognition that the rural poor at the ‘Bottom of the Pyramid’ actually provide a large, untapped potential market for both products and services, as well as a source of quality goods and labor that the private sector cannot afford to ignore. The aim of livelihoods interventions is therefore to enable poor people with the skills, organizations and voice to participate in and capture the benefits of the growth taking place in the dynamic South Asian context, helping communities to help themselves to address both prevailing government and market failures.

3. Livelihoods Programs: the principles of inclusive growth

Given that the common aim of rural livelihood programs is that poor people participate more directly in the rural development and growth process, thereby sharing in the available benefits, it is important to address the initial inequalities that skew access to various ‘capital’ endowments - physical, social, financial, human - amongst the poor through a holistic package focused on:

(i) social empowerment (through forms of inclusive collective action and capacity building); and,
(ii) economic empowerment (through access to financial services, risk mitigation products, assets and markets).

The platform of social empowerment is used as a means to develop poor peoples’ voice and capacity to engage with the range of institutions and individuals interacting with the ‘people sector’, enhancing their ability to take advantage of local livelihoods opportunities, and to demand other services and meet other needs. This is achieved through development and empowerment of self-managed grassroots institutions of the poor, which also promote participation and protection of typically excluded or marginalized groups, e.g. self-help groups (SHGs), common interest groups (CIGs) or village membership organizations.

The platform of economic empowerment is used as a means to facilitate access to savings, credit and productive assets and to improve people’s income. In addition, by managing savings and loans with high repayment discipline, groups can demonstrate creditworthiness and increasingly be seen as reliable clients and as an attractive market (e.g., for finance, marketing, inputs, services). Through enhanced voice, scale, skills and access to finance, the poor are enabled to participate in local income and employment opportunities created by opening up of new markets and the crowding-in of new actors and private sector linkages.

4. The graduation model

The livelihoods concept is based on a clear graduation model that gradually expands the economic options available to the poor, assisting them to move from insecure poverty to economic independence, with a combination of institutional and financial support. This is reflected in the approach to institutional development that follows the principle of aggregation, networking the small groups/community-based organizations (CBOs) and federating them ‘upwards’, thereby enabling greater bargaining power, broad-based representation and aggregation of demand. The rationale for the initial group formation can vary and evolve in scale along different purposes and objectives - and in relation to the goals of the project.

Under livelihoods programs, affinity-based groups like SHGs use savings mobilization and inter-loaning as the main instrument for social cohesion within the group, meeting their most basic needs and then leveraging access to formal credit sources; assets-based groups like CIGs use income generating activities as the main incentive for their cooperation and for developing their commodity based activities and marketing access; resource-based groups like water or forest user groups manage common natural resources as the basis for their collective action. As these groups federate through different tiers, they gain economies of scale and are capable of representing an attractive market, either as producers of commodities and goods,
or as consumers of services, while providing support to their members. Depending on their nature, these federations and networks can more efficiently link to the relevant formal institutions (public and private) at the higher level. Project beneficiaries are therefore supported to become more informed and empowered clients, and, ultimately, through the associated social and political dimensions of empowerment into active citizens.

5. Key areas for support

While there has been variety across projects, states and countries in terms of the range of activities included and how they are sequenced, prioritized or packaged, experience is now highlighting the following as key areas for support under livelihoods operations:

- **Institutions of the poor (as opposed to institutions for the poor):** These CBOs provide the initial ‘push’ for collective action, development of ‘voice’ and organized access to new economic opportunities. By building forms of organized social capital, villagers are equipped with the capacity and tools to engage with the variety of providers who are important in serving their economic, financial, social and human development needs. The CBOs also incorporate explicit measures to promote participation and inclusion, addressing norms of elite capture and social discrimination.

- **Human capital development:** Provision of training and other more innovative types of capacity building (e.g. community-community peer learning and exchange) are essential to equip communities with the range of functional, entrepreneurial, administrative, technical and social skills to manage their groups and investments, develop their products, participate in planning, monitoring and decision-making fora, etc.

- **Networks and federation development:** Following the principle of aggregation and in order to allow conversion of opportunities through scale, networks of CBOs, with a clearly defined role for each associative tier, enable greater representation and aggregation of demand, in addition to economies of scale that would attract the market while providing support to their members. According to the initial organizational rationale (i.e., whether affinity, activity or resource-based), they would be networked and linked to the appropriate associative institution at the higher level.

- **Systems of capital development:** It is acknowledged that, while critical, access to credit alone may not be an adequate tool for poverty reduction and livelihoods development, nor is it always the appropriate starting point for reaching the very poorest. Accumulation of savings is a critical activity that enables groups to build both capital and group solidarity. Matching grants can also be a relevant financial instrument for asset creation and venture capital amongst the poor. It is necessary to build broader systems for capital development in the rural areas, expanding access to financial services for livelihoods enhancement that include savings mobilization, credit, insurance, etc.

- **Linkages with markets and the private sector:** Viable livelihoods options are identified through assessments, which map the potential real economic opportunities in a given area. These are then developed by facilitating access to markets or through partnerships or ‘co-production’ arrangements between the people’s sector and both the public and private sector. These partnerships encompass forward and backward linkages, and are aimed at tilting the terms of trade in favor of the poor.

6. Experience to date: Lessons learnt

With multiple years experience now documented across the region, some key lessons have been learned within the investment parameters indicated above. Some of these are briefly presented here. Experience so far has also led to questions about the optimal design

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*A distinction is made here between people as empowered economic agents and ‘clients’ of services, with power to demand, monitor and negotiate responsive services, both public and private, and as ‘citizens’ or active members of society and the electorate, who both claim and exercise their broader civic rights and privileges.*
and sequencing choices for such projects in future. It is acknowledged that this will always be influenced by context-specific factors, including prevailing political economy, local capacity and client demand, but would be guided by the parameters above, as well as the lessons learnt below.

❖ **Building inclusive community institutions.**
Through ‘deepening’ or broadening pre-existing socio-institutional movements, or by introducing organizations that address a ‘missing’ institutional link, the poor are helped to organize themselves and then take advantage of livelihood opportunities. Community institutions, such as SHGs or village organizations, provide support or services that facilitate expanded economic activity (e.g. through information provision, mobilization of savings and credit, enabling market facilities, etc) and, in addition, address social and political priorities (e.g. more inclusive group membership; movements against domestic violence; political enfranchisement, as seen in election of group members to local government positions, etc). Projects should aim to support the gradual development and formalization of such institutions, and then assist them to gain scale and scope over the longer term, through federating at higher associative tiers.

❖ **Livelihoods programs as a foundation for local governance and accountability**
With the bulk of funds disbursed directly to communities, fiduciary controls and an effective accountability framework with mechanisms for both ‘upward’ and ‘downward’ accountability should be in place. Mechanisms for transparency and disclosure, community monitoring and social audit are commonly used in the programs, thereby introducing practices of local governance at the village level. Those elements are proving to be extendable beyond the project sphere, as communities also amplify their voice in making public expenditure work for them by participating in local government processes. Understanding and practices of local accountability that are complementary to state-supported institution building are being embedded through community-driven project practices. Rather than undermining development of sustainable decentralized public service delivery, CBOs are a channel through which the demand-side of local governance can be introduced and expanded, laying the foundation for citizens’ participation in systems of local governance and service provision.

❖ **Targeting and inclusion mechanisms.**
Projects are without doubt focused on the poor. In most development projects, poverty indicators are used in identifying participating villages or geographic target areas. Livelihoods projects are further distinguished by the use of participatory methods at the village level in order to identify and target both the poor and the poorest of the poor. Most projects prioritise inclusion of the poorest and most disadvantaged, including women, tribals, youth, and the disabled. There is also a gender dimension to targeting given that women are over-represented amongst the poor, yet, typically under-represented in local organizations⁵. Projects would provide both incentives and penalties to encourage CBOs to include women, youth and the vulnerable as members, office bearers and beneficiaries.

❖ **Coverage and clustering**
Most programs are large-scale interventions, and many with a high degree of coverage. A significant learning has been the need for clustering and concentrating activities in the interests of developing a ‘critical mass’ for marketing and investment purposes. The more dispersed models have led to logistical and cost challenges in implementation and monitoring, and, critically, have constrained expansion of activities and partnerships that would need to be based on appropriate economies of scale. Future operations would cluster districts, blocks and villages, to overcome this issue of concentration and critical mass and to facilitate the development of higher associative tiers of the community run institutions.

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⁵ Women have, for entrenched socio-cultural reasons, long been excluded from participation in local level economic activities, and yet they have proven to be more responsible and successful with managing savings and income (World Bank 2001: Engendering Development). Evidence, however, shows that men still tend to dominate membership of most village-based organizations/institutions (Uphoff and Buck’s draft: 2006).
Village investment options.

Current programs support a variety of investment options, including aggregate funds disbursed to village membership organizations for their self-management, or direct provision to individuals or small groups. Experience shows that grants given to federations or village organizations, which are subsequently on-lent to community members/small groups themselves through revolving funds, can be a particularly effective option to ensure ownership and repayment discipline. While some analysis suggests that loans are the principal financing instrument for ‘private goods’ (thereby avoiding ‘subsidy dependence’), matching grants can be a useful starting point for common pool and productive public goods, or initial asset creation, given that some livelihood-related investments need a reasonably sized sum and/or may be too risky for ‘debt-financing’, particularly for the poorest. Where grants are used for financing private goods, they should either be targeted towards the poorest, to protect them from over-exposure to debt until they graduate to the appropriate level, or on a matching basis that reduces the total subsidy. The underlying logic should be one of a progressive subsidy reduction principle, supported by mechanisms for capital formation.

Livelihoods Finance.

Establishing links with micro-finance providers and with the banking sector in general is one of the key program elements, in order to develop a sustainable financial sector for the poor. The savings-based model of livelihoods finance used in AP, Tamil Nadu, Nepal and Sri Lanka has generated considerable self-reliance in the capacity of groups to satisfy their most immediate needs. At the same time, savings have facilitated access to banks and helped leverage further credit resources. Savings combined with asset creation has helped groups establish a strong basis of creditworthiness, leading to a crowding-in effect from various financial service providers. This emphasis on organizing the demand-side, through social and economic mobilization, has led to interest in lending to community organizations from both MFIs and the formal banking sector, with enhanced competition resulting in new and better products to serve the rural client base. Rather than beneficiaries, the group members are now truly empowered clients, symbolic of a large profitable market with enhanced bargaining power.

Effective forward linkages and business partnerships.

It is clear that social empowerment or local infrastructure development alone will not bring about sustained and secure rural poverty reduction. While the appropriate starting point may be social capital development, bringing people out of poverty will require an economic purpose and a business rationale. Experience suggests that promotion of trust and group solidarity, based on a common purpose such as savings mobilisation, is an initial priority, before moving towards development of assets and commodities. The aim is to gradually convert social capital into economic and political capital. However, in order to maximize available business opportunities, community groups typically need assistance with ‘forward linkages’, equipping them with the skills and means to access, negotiate and tie-up with external markets and partners, and orienting their skills development and available labor to growing demand from service industries.

Sustainability of institutions, assets and capabilities at the grassroots level.

Given that projects aim to leave ‘residual capital’ at village level, institutional sustainability should be assessed with respect to the likelihood that the institutions of the poor that were promoted will persist and thrive, alongside increased human and financial capital. Sustainability of the implementing Societies or of Project Units at the end of a program is less of an issue to the extent that their flexibility and dedication is needed to build sustainable systems at the local level.

Long term engagement.

One key lesson across projects is the need to recognize the long-term nature of this process of engagement. This should be reflected in commitment on the part of the relevant government, the Bank itself, and in the institutional arrangements for implementation at community level. How to package Bank assistance to address longer-term livelihoods development
needs at the local level that require co-production and joined up working across the public, private and people's sectors is both a challenge and an opportunity for future innovation and large-scale impact.

7. Outputs and Outcomes

World Bank-financed livelihoods projects are currently under implementation in Sri Lanka, Nepal, Pakistan, Bangladesh, Afghanistan and six Indian states (Andhra Pradesh, Rajasthan, Madhya Pradesh, Chhattisgarh, Bihar and Tamil Nadu), with a combined portfolio investment of US$1.6 billion. Additional projects are planned in the next two years accounting for further investment of approximately US$750 million. Given this breadth of implementation experience, what have been some of the results across the region so far?

- Under the existing livelihoods portfolio, over 90,000 villages are already included and benefiting under the programs
- Over 12 million poor households are being supported and organized as programme beneficiaries
- Nearly one million grassroots community groups have been formed, including SHGs, CIGs and village organizations, and are managing direct village level investments
- The total amount of savings and initial investments in assets under these projects is estimated to be US$1 billion

8. The Future

There is clearly considerable client demand for this approach to community-driven livelihoods development in the South Asia region. The challenge for the Bank is how to assure a rapid response, informed by learning and experience to date, and with teams appropriately composed in a number of skill areas, and enabled with sufficient resources to undertake extensive, field-based implementation support.

Local livelihoods development needs are cross-sectoral, requiring synergies in the management and availability of both common (e.g. roads, watersheds, markets, storage facilities, forests, etc) and individual (e.g. livestock, farmland, crops, artisanal products, etc) productive assets. The future challenge is how both Bank and state bureaucracies – typically organized along sectoral lines – adapt to channel their assistance in a manner that responds to local area-based needs and demands for co-production across the public, private and people's sectors.

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**Key Results**

**Investing in financial capital**

<table>
<thead>
<tr>
<th>State</th>
<th>Description</th>
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<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>$350 million in own savings and $1.2 billion of commercial credit from banks has been mobilized by over 600,000 self-help groups</td>
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<tr>
<td>Madhya Pradesh</td>
<td>A recent impact assessment shows that the average income increase of beneficiary households has been 29 percentage points higher than those of the control group</td>
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<tr>
<td>Pakistan</td>
<td>375,000 active micro-credit borrowers are accessing loans worth $222 million with 100% repayment rates and $10 million leveraged from commercial sources</td>
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**Investing in human capital**

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<tr>
<th>State</th>
<th>Description</th>
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<tbody>
<tr>
<td>Tamil Nadu</td>
<td>Over 30,000 youth have been trained in market led skill development for placement in leading private sector companies in the service and construction sector</td>
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<tr>
<td>Sri Lanka</td>
<td>Project-supported ‘community professionals’ have set up their own Learning and Training Center and are marketing their skills as grassroots organizers and trainers to new project villages, donors and NGOs on a fee-for-services basis</td>
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## Investing in social capital

<table>
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<tr>
<th>Region</th>
<th>Description</th>
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<tbody>
<tr>
<td>Madhya Pradesh</td>
<td>Over 40,000 CIGs have been formed with around 275,000 community members; and more than 1,000 members of these CBOs have been elected to local government council positions in the most recent elections.</td>
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<tr>
<td>Nepal</td>
<td>43% of beneficiaries represent dalits (low-castes) and 35% janajatis (minorities), although they only account for 15% and 23% of the population respectively in project districts.</td>
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## Investing in partnerships and co-production

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<th>Region</th>
<th>Description</th>
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<tbody>
<tr>
<td>Rajasthan</td>
<td>12 million liters of milk from poor households is marketed annually through a partnership between producer associations and the State Milk Co-operative Federation of Rajasthan</td>
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<tr>
<td>Sri Lanka</td>
<td>$1.1 million value of trade is generated through community managed enterprises and tie-ups with the private sector</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>$150 million turnover of community managed enterprises handling agricultural commodities and linking with the markets</td>
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