

Strategic Synthesis of Key Thinking and Experience of Work, Livelihoods, and Financial Services

Consultative Group to Assist the Poor

Submitted by DAI Global, LLC

14 August 2020

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Acronyms and Abbreviations

4IR	Fourth Industrial Revolution
ADB	Asian Development Bank
AfDB	African Development Bank
AGRA	Alliance for a Green Revolution in Africa
BDS	business development services
CGAP	Consultative Group to Assist the Poor
COVID-19	novel coronavirus disease 2019
DFID	U.K. Department for International Development
FAO	Food and Agriculture Organization of the United Nations
FY	Fiscal Year
GDP	gross domestic product
GSMA	GSM Association
ICT	information and communications technology
IDB	Inter-American Development Bank
IEMS	Informal Economy Monitoring Study
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
ILO	International Labour Organization
IMF	International Monetary Fund
IPA	Innovations for Poverty Action
J-PAL	Abdul Latif Jameel Poverty Action Lab
M4P	making markets work for the poor
MSE	micro and small enterprise
MSME	micro, small, and medium-sized enterprise
NGO	nongovernmental organization
PAYG	Pay As You Go
SDC	Swiss Agency for Development and Cooperation
SDG	Sustainable Development Goal
SLF	Sustainable Livelihoods Framework
SME	small and medium-sized enterprise
SMS	short message service
SSA	Sub-Saharan Africa
SSN	social safety nets
TOC	theory of change
UN DESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
USDA	U.S. Department of Agriculture
VAT	value-added tax
VSLA	Village Savings and Loan Association

Overview

The Consultative Group to Assist the Poor (CGAP) seeks to develop a world where poor people, and women, are empowered to capture opportunities and build resilience through financial services (CGAP, 2018). In partnership with more than 30 development organizations, CGAP works to identify and scale promising solutions to make financial services available, affordable, and accessible to the people who need them most.

CGAP Collective Impact Statement

To continue to expand and deepen financial inclusion for the poor, CGAP has identified four interconnected priorities in its CGAP VI strategy: 1) creating customer value; 2) emerging business models; 3) enabling infrastructure; and 4) next generation policy. Project activities grounded in these four priorities will allow CGAP and its partners to achieve the collective impact statement, “poor people are able to capture opportunities and build resilience.” (*CGAP Strategic Directions Fiscal Year (FY) 2019–2023*)

To operationalize this mission, CGAP has identified income generation, provision of essential services, and protection of basic standards of living as key focus areas to guide its research and investment strategy. These three components, which impact one’s ability to maintain a sustainable livelihood, are currently undergoing unprecedented change as global forces and regional trends transform long-held perceptions of how work, income, and social safety nets (SSNs) interact to produce more resilient and prosperous communities. For example, technology and the digital economy have helped expand financial access to 515 million adults through financial institutions and mobile money providers (Demirgüç-Kunt et al., 2018). According to the GSM Association (GSMA)’s State of the Industry Report, the number of mobile money accounts surpassed one billion in 2019, with 50 million newly registered accounts in Sub-Saharan Africa (SSA) alone (Naghavi, 2020). This trend has led to benefits, such as increased consumption, reduced risk, and higher earnings among the poor (Suri & Jack, 2016). However, today, vulnerable communities face several new challenges to attaining a stable livelihood.

Global labor markets must create 734 million jobs by 2030 to accommodate a 21 percent increase in the working-age population (Elizondo, 2017). Meanwhile, paid, full-time, and formal employment opportunities, considered the most reliable pathway out of poverty, are not keeping pace with population growth, leading less-developed countries to continue (or possibly increase) their reliance on entrepreneurship and informal work to create a “portfolio of opportunities” to earn a living. Adding to this dynamic are the range of technologies shifting the locus of global production, redefining structural transformation in developing countries, and ultimately changing established development pathways.

The emergence of novel coronavirus disease 2019 (COVID-19) onto the global stage is an unexpected complicating factor further challenging the viability of different livelihood strategies—even those previously believed to be stable and well protected. While the majority of this report was written before the scale of the COVID-19 pandemic had been fully realized, the ways in which it has exposed individual, household, and sectoral vulnerabilities while limiting the ability of millions to sustain their livelihoods is a reminder of the power of global forces to impact livelihoods at a local level. On a macroeconomic scale, the damage is nothing short of unprecedented. According to the International Labour Organization (ILO), nearly half of the global workforce—approximately 1.6 billion people employed in the informal sector—could lose their livelihoods due to lost working hours and decreased mobility caused by the lockdowns meant to curb transmission of the virus (ILO, 2020b). The report additionally projects income losses of 80 percent in Africa and the Americas, 70 percent in Europe and Central Asia and 21.6 percent in Asia and the Pacific. While some formally employed workers rely on their employers for support, such as health insurance, now more than ever vulnerable workers are reliant upon government actors for unearned income through safety net and relief programs. Remittances, another form of unearned income, are increasingly at risk, because these economic flows are projected to fall by 19.7 percent, representing approximately \$445 billion in lost support to poor and vulnerable households in low- and middle-income countries. According to the report, “Remittance flows are expected to fall across all World Bank Group

regions, most notably in Europe and Central Asia (27.5 percent), followed by SSA (23.1 percent), South Asia (22.1 percent), the Middle East and North Africa (19.6 percent), Latin America and the Caribbean (19.3 percent), and East Asia and the Pacific (13 percent)” (Ibid). While 436 million enterprises in emerging economic sectors, such as wholesale, retail, and accommodation, have been impacted the most by “serious disruption,” workers reliant on agricultural production for their livelihoods could also face disruptions to their supply chains. This could lead to difficulties accessing inputs and in turn, impact their productivity, commodity prices, and income.

At the same time, the lockdowns and concerns over the pandemic are leading to a surge in adoption of digital solutions, particularly e-commerce and digital payments. In just two months of lockdown, the value of digital payments in Rwanda grew by 450 percent (Carboni & Bester, 2020) and mobile money provider, MTN, has seen increased mobile money use across all of their countries (The Economist, 2020). Regulators and governments have encouraged their citizens to adopt digital financial services and some have mandated or negotiated zero fees for consumers.

No matter the projected timeline for lockdown measures to end, the impact of this historic moment must inform how the development community implements solutions to protect and improve livelihoods moving forward. As such, given CGAP’s goal to deepen financial inclusion and help the poor capture opportunities to build resilience and escape poverty, the organization must consider the impact of this and other unexpected global forces and trends as it considers its investments in financial services.

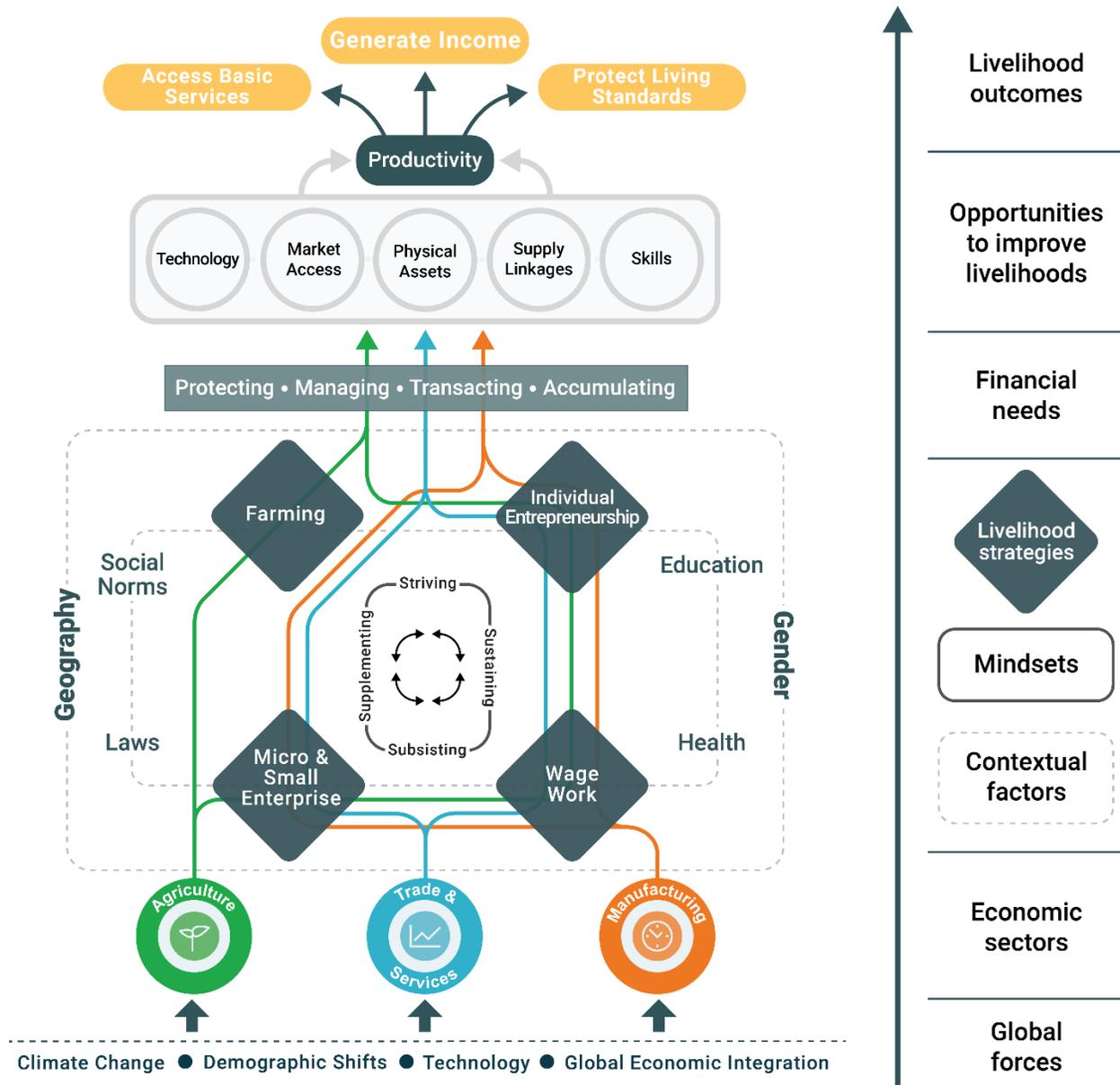
A NEW FRAMEWORK FOR LIVELIHOODS AND FINANCIAL SERVICES

With the trends and global events highlighted above in mind, CGAP contracted DAI to synthesize evidence, frame insights, and articulate the role of financial services in accelerating, sustaining, and supporting work and livelihoods in a fast-changing world. This paper, developed as a result of this research engagement, aims to interrogate how current financial programming can help CGAP achieve its goals of increasing incomes and access to living wages, and improving the quality of work. The overarching findings of this paper are represented in Exhibit 1.

Exhibit 1 depicts how the core livelihood strategies the poor use to increase their incomes, improve their livelihoods, and pull themselves out of poverty—farming, individual entrepreneurship, micro and small enterprise (MSE), and wage work—shape their financial needs—protecting, managing, transacting, and accumulating. When these needs are met, whether through traditional or innovative financial services, the poor are able to unlock opportunities to increase their productivity, generate income, and improve their livelihoods. Exhibit 1 highlights that this dynamic journey takes place within the context of global forces, trends within different economic sectors, and factors specific to the local context. These are important considerations as they constantly shape how the poor perceive the opportunities, risks, and rewards associated with pursuing a single or multiple livelihood strategies.

The framework is designed to help understand and navigate the different layers that should be considered when designing livelihood interventions. It can be used to guide and assess current and future investments in financial service to improve livelihoods.

Exhibit 1: A New Framework for Livelihoods and Financial Services



ABOUT THIS PAPER

This paper was written as an investigation of livelihoods to support the development of the framework. Therefore, the purpose of this paper is to help CGAP understand the research that informed the framework’s structure rather than an exploration of the framework itself. This paper is organized into three parts.

Part One frames the definition of livelihoods developed for this paper and analyzes the concept of traditional livelihoods theory, as well as its subsequent adaptations. In addition, this section offers a review of how different actors in the fields of livelihoods and financial services have placed income generation as the core goal of their implementation activities. While discussing the role of productivity in helping the poor increase their incomes and improve their livelihood outcomes, this section introduces the levers of productivity that help achieve these goals—market access, technology, physical assets, skills,

and supply linkages. The final pages of this section introduce the role of financial services and the primary financial needs of the poor: protecting, managing, transacting, and accumulating.

Part Two reviews the many contextual issues that impact how an individual selects and pursues a livelihood strategy, as well as the specific challenges and opportunities associated with each. In addition to exploring the role of mindset—subsisting, sustaining, supplementing, and striving—and contextual factors such as gender and geography, this section defines and outlines the four livelihood strategies introduced above, their characteristics, and the primary levers of productivity most likely to unlock income gains and livelihood improvements. This section will also highlight how financial services are currently used to increase productivity in each livelihood strategy, as well as opportunities to introduce new and more appropriate services. Understanding that livelihood strategies do not exist in a vacuum, Part Two also reviews the global forces, regional trends, and sector-specific dynamics determining what kind of livelihood strategies are available to the poor now and in the future.

Finally, Part Three reviews how financial services can continue to transform and better enable the poor to improve their livelihoods in a quickly changing world. This section will also present CGAP with topics for further research and areas ripe for innovation in livelihoods and financial services.

Part One: Framing

WORKING DEFINITION

To ensure that the findings of this report reflect CGAP’s goal to link livelihoods and financial services in a clear and actionable manner, the research team, with input from CGAP collaborators, developed the following working definition of livelihoods to be referenced throughout this paper.

Livelihoods: Individual or household income obtained in return for labor, investments and/or services, or as the result of social and/or familial benefits. This income is earned through four primary activities:

- 1) **Wage work:** Formal or informal work for others for wages, which includes both casual and salaried work.
- 2) **Individual entrepreneurship:** Formal and informal own-account, non-wage work without employees or overhead, which includes both service-based freelance work and commerce. This includes non-wage-based, platform-enabled work.
- 3) **MSEs:** Formal and informal own-account, non-wage work with one or more employees, subcontractors, or overhead, which includes commerce, services, and small-scale manufacturing.
- 4) **Farming:** Own-account crop cultivation and/or livestock and fish raising.

Notably, this definition centers squarely on the acquisition of income in return for labor, investments, and/or services, or as the result of social and/or familial benefits. It does not make mention of the more holistic components of livelihoods, such as social norms, institutions, influence, access, level of vulnerability, and resilience; however, these aspects are reflected in the livelihoods framework developed for this paper and will be discussed in greater detail in Part Two. This narrow definition was developed, not to downplay or minimize the importance of these dynamics in shaping one’s livelihood options, but rather to ensure that the framework focuses on the aspects of livelihoods that are most relevant to financial services.

Of the 23 experts interviewed for this study, all accepted the idea of income generation as the core activity in livelihood programming and supported the focus of this working definition. In fact, the proposed definition resonated with all interviewees, who shared that though most of their organizations do not have a formal definition for “livelihood,” the concept is understood in terms of work, employment, and money. The more holistic elements, such as social nuance, resilience, and social protection, were often referenced as being complementary to livelihoods, but not defining factors.

As reflected in the definition, individuals use their labor and other assets to patch together income across the primary (agriculture, food, raw materials), secondary (manufacturing, construction, production), and tertiary (retail trade, services, transport, services) sectors.¹ Individuals and households often work across multiple sectors and use different strategies in each, mixing microenterprise with farming or casual wage work with individual entrepreneurship. For example, a rural family that farms may engage in retail commerce and on- or off-farm wage labor, while a teacher at a local primary school may also freelance as a motorbike driver. As such, the authors acknowledge that the four proposed livelihood strategies—farming, individual entrepreneurship, MSEs, and wage work—often overlap. The concept of a traditional job in these sectors and the changing nature of work due to technology are blurring these lines even further. For example, farming could be considered a micro or household enterprise, while casual wage work or freelancing secured through a digital platform may be indistinguishable in some cases. Despite these complications, these four categories have been proposed, in part, because they require different types of assets and different levels of income regularity and risk, which help inform a role for financial services. This segmentation approach should not be considered static as technology and global forces continue to change where people work, the way they work, and the nature of the employment contract.

¹ To simplify the framework, the quaternary (education, science, technology) is considered as part of trade and services.

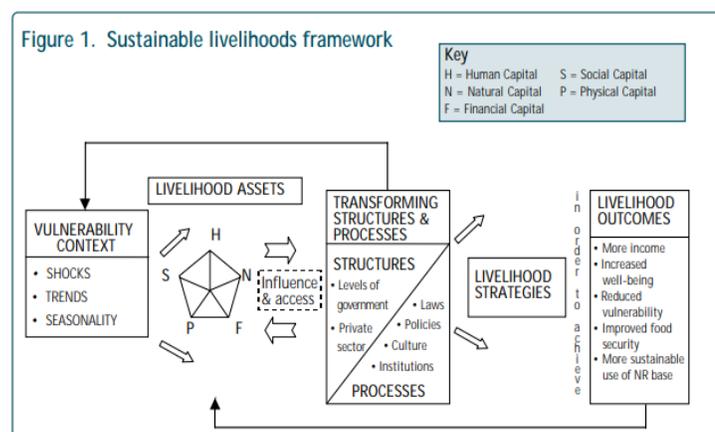
A Note on Unearned Income

For the purposes of this working definition, unearned income (social or familial benefits, such as those gained through social protection programs or remittances), plays an important role in household resilience. For example, one interviewee stated that while remittances were critical to sustaining a livelihood by smoothing consumption, these payments are not actually a livelihood in and of themselves. Unearned income can be used to help individuals and households earn income if it is invested or used to free up funds for investment in livelihood activities. Unearned income can also indirectly impact a person’s livelihood if it alters risk-taking behaviors, as discussed in Part Two. That said, the purpose of this work is primarily to consider the opportunities to support earned-income generation as opposed to helping to improve access to unearned income. While unearned income will be discussed in brief to help contextualize many of the ideas raised in this paper, it will not be addressed at length.

LIVELIHOODS THEORY ADAPTATIONS AND CONSIDERATIONS

Prior to developing the working definition of livelihood for this paper, the research team first sought to understand the historical context behind the term. Though livelihood programming dates to the 1970s, the U.K. Department for International Development (DFID) constructed one of the most widely used livelihood definitions and frameworks in 1999. It defines livelihoods as “[comprising] the assets and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks and maintain or enhance its capabilities and assets, both now and in the future, while not undermining the natural resource base.” (DFID, 1999). This definition and accompanying Sustainable Livelihoods Framework (SLF), which has been adopted by numerous organizations, including the United Nations, uses a systems approach to help implementers understand “the goods or capital which people need; the means by which people earn a living; the context for which a particular kind of support is designed; and any factors which could strengthen subsistence resilience to moments of stress and crisis” (Elizondo, 2017). An important characteristic of the livelihoods theory is its specific focus on the poor and their resilience against vulnerabilities. This approach contrasts other forms of economic development that aim to alleviate poverty by intervening in specific economic sectors projected to increase gross domestic product (GDP) growth. Livelihoods are necessarily people-centric, holistic, and dynamic to reflect the variation of needs and vulnerabilities across individuals, households, and communities.

Exhibit 2: Sustainable Livelihoods Framework



Source: DFID (1999).

CGAP’s new theory of change (TOC) for financial services contributes to high-level well-being outcomes and echoes aspects of the livelihoods theory by identifying resilience and the ability to capture opportunities as outcomes. The TOC includes financial, human, and physical capital as three of the four intermediate outcomes, which are considered livelihood assets in the SLF. CGAP’s TOC also highlights similar contextual factors, such as political and economic status, cultural and social norms, and women’s economic empowerment. The proposed framework discussed in this paper is informed by the SLF in that it focuses on livelihood strategies to generate income, while acknowledging the significant impact of different contextual factors.

While the DFID sustainable livelihoods approach is widely accepted and referenced throughout the international development sector, donors, multilateral organizations, and members of the private sector have developed additional initiatives, frameworks, and definitions that supplement, expand, and reimagine traditional livelihoods theory for specific strategies and target populations. While they do not perfectly reflect the working definition of livelihood developed for this paper, the adaptations below provide some additional context, demonstrating why this definition remains helpful and relevant.

Making Markets Work for the Poor (M4P)

Livelihood development programs are primarily made up of interventions to increase the income growth of the poor while supporting their acquisition of productive assets (Sulaiman et al., 2016). Livelihood implementers use several levers to achieve these outcomes, and often include approaches such as training, business development services (BDS), value chain strengthening, access to market information, and financial services (Ibid). Through key informant interviews with technical experts, the research team learned that over time, livelihood programming has transitioned away from the holistic approaches discussed in the previous section, toward private sector engagement, market systems development, and the concept of M4P. The M4P approach was first synthesized by DFID and the Swiss Agency for Development and Cooperation (SDC), based on the central idea that “the poor are dependent on market systems for their livelihoods. Therefore, changing those market systems to work more effectively and sustainably for the poor will improve their livelihoods and consequently reduce poverty” (DFID & SDC, 2008). M4P sees markets (goods, services, and commodities) as essential to reducing poverty and in turn, seeks to use them as efficiently as possible through the provision of basic services and the proper functioning of markets for goods, services, and commodities (Ibid). Similar to the traditional livelihoods theory, the second pillar of the M4P approach focuses on basic services, such as education, health, and water, which serve as both a market and contextual issue for livelihoods, enabling or limiting one’s ability to capture opportunities or mitigate risks.

This market-based approach calls into question the efficacy of focusing on the needs of the individual and household when they exist as actors in a broader system that is not inclusive and limits their ability to thrive. The microfinance development community came to the same conclusion almost a decade earlier when it shifted to *inclusive finance*, which acknowledged that reaching the majority of the population who were financially excluded could not be achieved by building specialized institutions—rather it required building more inclusive financial sectors. In a similar spirit, M4P places a greater emphasis on improving markets and the integration of individuals and households. Financial services remain a critical component of this approach, because financial resources are often the most challenging form of capital for the poor and vulnerable to attain. While Sulaiman et al. state that livelihood programs have typically made use of cash and in-kind grants to fill this gap, recent trends have ushered in the use of a mixture of financial products and services usually offered in combination with other market improvement activities.

Several interviewees noted that regardless of the activities implemented in a livelihood project, without a strong ecosystem to enable value creation, whether it is a market system or value chain, the ability for these activities to lead to sustained income growth, and by extension improved livelihoods, is limited. This helps explain the shift livelihood programming has made toward market systems approaches that can cater to both vulnerable and better-established beneficiaries. A handful of implementing organizations, particularly those engaged in agricultural development, explained that they use a push/pull approach to

Core Components of the Traditional Livelihoods Theory

- **People-centric**, focusing on their own livelihood goals.
- Focused on the poor and building their **resilience against vulnerabilities**.
- **Holistic**.
- **Non-sectoral**.
- Multiple **influences** on people and their relationships.
- **Multiple actors** (people, government, civil society, and the private sector).
- **Multiple strategies** to secure livelihoods.
- Seek **multiple livelihood outcomes**.
- **Dynamic** (flexible enough to learn and change).
- Builds on **strengths** rather than needs.
- Attempts to **link macro-level policy and institutions** to the micro level.
- Should consider **sustainability** (environmental, economic, social, and institutional).
- Strategies developed using **participatory** methodology.

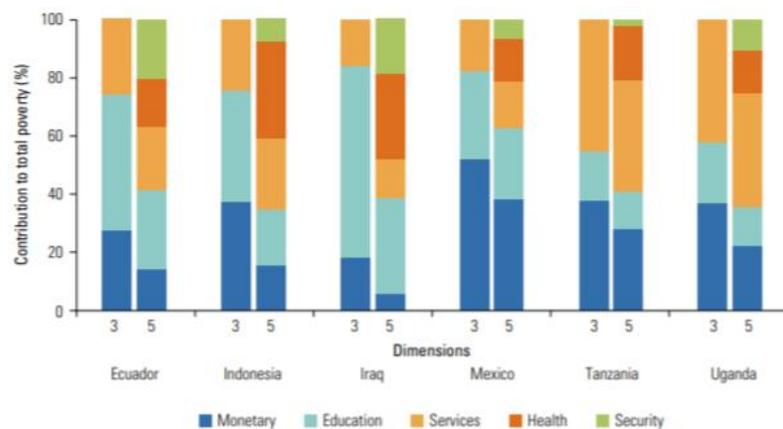
help both types of project participants transition out of poverty. According to USAID, the push/pull strategy, “utilizes both push strategies, which build capacities to engage in markets, and pull strategies, which expand the diversity and quality of accessible economic opportunities, to drive more beneficial and sustained inclusion of the extreme poor into market systems through a dynamic process of change” (Garloch, n.d.). Therefore, ensuring that beneficiaries are linked to efficient markets that make services affordable and available, and provided with an adequate supply of productive inputs have proven to be important livelihood activities. Providing support to develop these forward and backward linkages, unlocking supply and distribution chain barriers, and ensuring that appropriate forms of financial services are available to MSEs and other actors are key. The M4P approach highlights the need to improve efficiency and productivity at systemic and individual levels so that economic gains within systems lead to increased incomes for system participants. This link between labor productivity and other factors of production and income is a long-standing measurement of sector-level success, empirically proven at an aggregate level, and is used by companies across sectors and industries. However, it is often more difficult to quantify at a micro or individual level. This research gap presents an opportunity for CGAP to invest in developing a broader evidence base to understand what types of productivity-enhancing interventions make the greatest difference in income for those that need it most.

The proposed framework borrows from the M4P approach by incorporating the market-related opportunities to improve livelihoods rooted in the trade of goods, services (and labor), and commodities.

World Bank Poverty and Shared Prosperity Series

The World Bank’s Poverty and Shared Prosperity series aligns closely with traditional livelihoods theory by virtue of its mission to define and understand extreme poverty through more holistic measures. While the World Bank has historically measured poverty through an income and consumption-based lens, most notably using the \$1.90 per day poverty line, the Shared Prosperity work acknowledges that people can remain poor relative to their society or members of their household and continue to lack “elements of

Exhibit 3: Contribution to Multidimensional Poverty by Dimension, Selected Countries



Sources: Calculations are based on Ecuador’s Encuesta de Condiciones de Vida 2013–14; Indonesian Family Life Survey, 2014; Iraq Household Socio-Economic Survey, 2012; Mexican Family Life Survey, 2009–12; Tanzania’s National Panel Survey, 2012–13; Uganda National Panel Survey 2013–14. See annex 4B for details.
 Note: The figure shows the contribution of each dimension to the multidimensional poverty measure based on the dimensional breakdown method of Alkire et al. 2015.

basic well-being, such as access to sanitation and core health services” even if they are above the poverty line (World Bank, 2018a). By narrowing the unit of analysis from the household to the individual and incorporating more multidimensional measures of poverty that consider health, security, education, and access to basic infrastructure, this work closely reflects the people-centric and dynamic nature of traditional livelihoods theory. Much like DFID’s SLF, the World Bank’s new measures of shared prosperity and societal poverty seek to paint a more accurate picture of the systems and practices locking people in poverty with the goal of

identifying more targeted approaches to poverty alleviation. As previously noted, in recent years development practitioners have migrated to more market-based livelihood interventions over time; however, experts interviewed for this report note that contexts such as the new measures of poverty and shared prosperity identified by the World Bank are consistently referenced and considered throughout

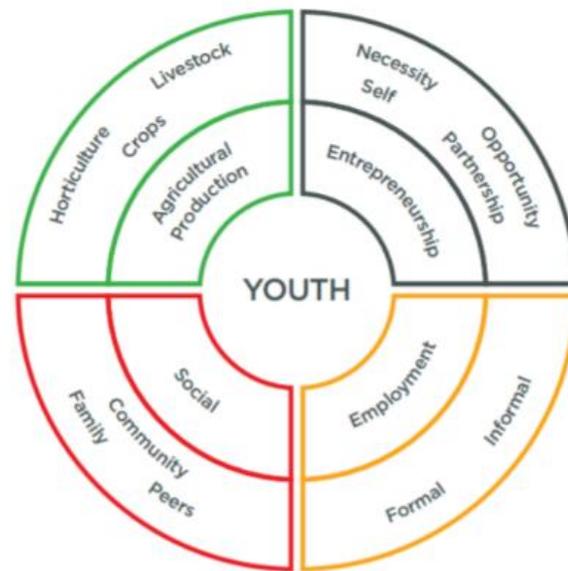
program design and implementation. As previously mentioned, these contexts have been included in the livelihoods framework for this paper and will be discussed in Part Two.

Mastercard Foundation Mixed Livelihoods Approach

The Mastercard Foundation’s Young Africa Works strategy incorporates approaches in financial inclusion, education, and training to increase youth employment and improve livelihoods with the goal of enabling 30 million young people in Africa, particularly women, “to secure employment they see as dignified and fulfilling” (Mastercard Foundation, 2017). Echoing themes from the SLF and World Bank Poverty and Shared Prosperity series, the foundation’s approach highlights the relevance of how livelihood contexts, like gender, shape and impact different pathways out of poverty. The foundation has also highlighted technology and expanded access to financial services as key elements to employment and socioeconomic progress.

A 2017 Mastercard Foundation report on youth livelihoods in Ghana and Uganda was used to articulate the mixed nature of youth livelihoods in SSA—“mixed” meaning that the young “undertake a mix of informal sector employment, self-employment, and agriculture-related activities to sustain their livelihoods” (Pompa & Williams, 2017). Though this report focuses on the income-generating strategies employed by young Africans, it does not fail to emphasize how the holistic elements of a livelihood such as community, family, and support networks are used to help youth find jobs, develop skills, and access financial resources such as monetary gifts and remittances (Ibid). Echoing CGAP’s realization that global trends may prevent youth from securing formal, full-time, paid employment opportunities, the report concludes that mixed livelihoods may be the most realistic course for the young, rural, and disadvantaged.

Exhibit 4: Mixed Livelihoods Approach in Practice



Source: *Invisible Lives: Understanding Youth Livelihoods in Ghana and Uganda* (Mastercard, 2017).

A June 2019 report titled, *The Role of Financial Services in Youth Education and Employment* supports the Mastercard framework through its key message that

“many youth pursue a “mixed livelihoods” approach to earning income; they work in a variety of formal and informal jobs, and combine seasonal and temporary work.” Youth livelihood constraints are particularly challenging for women who face limited mobility, greater insecurity, and more stringent social expectations (Anderson et al., 2019). In this context, financial services play an important role in helping youth sustain mixed livelihoods through means such as mobile money and digital payment.

The Mastercard Foundation’s concept of mixed livelihoods is reflected in the working definition of livelihoods used in this paper. Terms such as income, benefits, labor, investment, and services were specifically selected to avoid inadvertently excluding one of the many forms of work and compensation CGAP’s target population may use to sustain their livelihoods and maintain economic flows to their household. As is discussed in later sections of the paper, the prospect of obtaining full-time, waged employment is shrinking for many people around the world, and therefore, development practitioners must begin to consider how best to unlock access to jobs and other forms of work that support the previously mentioned “portfolio of opportunities.”

Additional Livelihood Considerations

Outside of the traditional livelihoods theory and its adaptations, several other schools of thought have informed development of the framework. The two most relevant concepts are discussed below.

Decent Work Principles

A core component to livelihood programming is expanding the ability of an individual or household to secure an income, which is the focus of this paper and the CGAP framework. While some organizations go as far as to specify that these means of securing income must be “fulfilling” or “dignified,” there is still debate over how best to categorize and promote different forms of work and employment to achieve a sustainable livelihood.

Decent work, defined by the ILO as “opportunities for work that are productive and deliver a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men,” has long been upheld as the desired employment outcome. The idea of productive work is grounded in classical economic theory, which links labor returns to productivity (i.e., the relative value addition of labor). The concept of fair income recognizes that the link between the value addition of labor and remuneration is not automatic—it competes with other actors, such as investors or land owners, whose bargaining power may be greater.

The ILO’s definition, which is grounded in the labor rights movement, previously categorized any work conducted on a temporary, part-time, or on-call basis as non-standard. This reflects a belief that formal employment brings the opportunity for legal protections or bargaining power to achieve fair income. While full-time, salaried employment is indeed ubiquitous in Europe and North America, own-account workers (self-employed without hired employees) along with unremunerated family work (particularly in agriculture)² make up the largest share of employment in low-income countries, particularly in SSA (ILO, 2020c). In addition, most wage work opportunities in low- and middle-income countries continue to be within the informal sector, which rarely offers the protections highlighted in the ILO definition. As such, the ILO now refers to own-account and contributing family workers as “vulnerable employment,” and views this work status as less conducive to improved livelihoods than decent work (rather than non-standard).

It should be noted that the concept of decent work will differ among various stakeholders, some of whom see the ILO’s definition and underlying emphasis on formal employment as too aspirational for many economic and demographic contexts. While this paper does not aim to determine which definition is correct, it does seek to highlight the fact that there is growing recognition that fewer livelihoods will be sustained through this traditional view of the “proper job.” Nevertheless, decent work remains a goal. For example, Sustainable Development Goal (SDG) 8—Decent Work and Economic Growth, is a commitment to “promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work for all” and has the greatest mention of the role of financial services across all of the SDGs. The *Microfinance for Decent Work* report led by the ILO’s Social Finance Program and Mannheim University, found that microfinance innovations supported decent work outcomes, such as reducing child labor, promoting formalization, reducing vulnerability, and enhancing business performance. These services create the conditions for waged and self-employment, reduce informality, promote gender equality, and empower the poor (ILO Social Finance Program & Mannheim University, 2014). To illustrate, the report highlights that by expanding microinsurance coverage in Pakistan, households were able to reduce child labor by almost 7 percent, because they managed shocks that otherwise would have led them to send children to earn incomes (Ibid).

² Own-account workers are those workers who, working alone or with one or more partners, hold the type of job defined as self-employment, and have not engaged on a continuous basis any employees to work for them during the reference period.

Future of Work

Another concept that helped frame this research on the evolving link between financial services and livelihoods is the “future of work,” a phrase used to capture the macro and microeconomic trends shifting labor concentration and income-generating opportunities across sectors and geographies. Largely characterized by uncertainties surrounding the development of technology, economic integration, and global threats such as climate change (Abdychev et al., 2018), reports aiming to predict what the future of work will look like raise the following insights.

The traditional idea of a “proper job” is changing: The upholding of the formal and salaried proper job as the culmination of the development process is no longer appropriate for the modern-day context. Echoing the insights of institutions like the World Bank, African Development Bank (AfDB) and International Monetary Fund (IMF), Ferguson and Li note that non-standard jobs are, in fact, the norm globally and as formal employment has failed to keep up with population and economic growth, the casualization and short-termism of work is becoming standard across economies. For example, in *Future of Work: Regional Perspectives* (AfDB et al., 2018), decent jobs are referenced as the “most assured pathway out of poverty.” In the same report, however, it is noted that 90 percent of jobs created in SSA were in informal sectors with low productivity. And, 2020 ILO data shows that 61 percent of all employment is in the informal sector, regardless of the nature of the labor contract (ILO, 2020c). In addition, the percentage of employment of own-account work actually rose in the past two decades and has only recently fallen again to pre-millennium levels of 34.5 percent (Ibid). In low-income and lower-middle-income countries own-account work has remained steady at 52 percent (Ibid).

Digital technology and the Fourth Industrial Revolution (4IR) are changing the nature of work: The vast majority of reports analyzing the potential of the 4IR—a term used to describe the “fusion of the digital, biological, and physical worlds...[and] the growing utilization of new technologies such as artificial intelligence, cloud computing, robotics...and advanced wireless technologies, among others”—to spark widespread redundancy of low-skilled workers have noted that these concerns are largely overblown. Citing the examples of countries such as Korea, Germany, and Singapore, the World Bank’s 2019 report on *The Changing Nature of Work*, noted that automation is not necessarily a harbinger of unemployment. However, the report highlights that impacts will be felt differently depending on a country’s demographics and can pose a risk in countries with high youth populations and a low-skilled work force. This is due to the fact that automation and 4IR technologies most easily replace routine, codifiable jobs (World Bank, 2019). This is a particular risk in regions such as SSA, where a largely low-skilled workforce face barriers to adequate training and education.

Beyond potential shifts in the locus of global manufacturing and fears of 4IR-related job losses, the digital age is ushering in several opportunities to make work and employment more inclusive. The development of digital infrastructure is expanding and improving mobile networks and internet connectivity, while unlocking new opportunities for people around the globe to search for and do work. By breaking down the geographic barriers that limit employment opportunities, the digitization of work has helped people from different countries compete for the same full-time, part-time, and casual work opportunities. In addition to opening opportunities for refugees, migrants, people with physical disabilities, and otherwise marginalized people, digital work and the tech-enabled gig economy has transformed how people earn and supplement their income. Despite these benefits, the digital economy does present some challenges to decent work as online workers, particularly those seeking work through digital platforms, are not typically provided with forms of protection such as health insurance, leaving them vulnerable to economic shocks.

Education and skill building are critical: Although the education premium for workers has long been recognized, as services and high-skilled employment begin to represent a larger share of the global economy, three categories of skills are in high demand: advanced cognitive skills, sociobehavioral skills, and skill combinations that are predictive of adaptability (World Bank, 2019). The World Bank has recommended that country governments prepare their citizens for the future of work by more heavily investing in human capital (specifically early childhood development though adult learning and tertiary

education) and enhancing social protection (Ibid). There is a gender dynamic associated with the acquisition of these skills as the ILO has noted that opportunities for employment in high-skilled jobs are increasing at a faster rate for women than for men (ILO, 2016b), while at the same time there are growing concerns that technology will quickly replace jobs involving routine administrative tasks that have historically been a source of medium-skilled employment for women.

Through the lens of productivity, digital tools and technologies have helped increase efficiency and strengthen market linkages. For example, digital tools have helped workers receive and manage payments, while conducting other business functions such as identifying customers and suppliers and managing inventory. In the context of the current COVID-19 pandemic, the digitization of work and livelihoods has emerged as a factor separating those able to continue earning an income from those who cannot. Digital transformation has not only allowed workers to continue operations while observing social distancing measures, but also enabled those in need of work or supplemental income to identify freelance work opportunities.

Platforms are changing the markets for goods, services, and labor: Marketplace platforms, defined by Caribou Digital as a platform business model that creates value by facilitating exchange between two or more participant groups, can be divided into three categories: goods (e.g., e-commerce); services (e.g., transport, freelance work); and assets (rentals, leases, and asset “sharing”). Typically, these businesses do not make or own the goods and services exchanged on their platforms, nor do they employ the workers making or offering those goods and services (although this remains a contested legal issue in many countries). That said, platforms have still been able to reshape the nature of work. They function as connectors to markets and supplies and as a source of new jobs. In addition, platforms act as connectors to financial services and, in many cases, are offering innovative products. In terms of basic service provision, platforms have begun to fill the void of lacking public services, such as energy, transport, and logistics, and in doing so, are reshaping how basic service sectors operate. They are also enabling individuals to more easily access short-term, occasional wage, or freelance opportunities to supplement their income.

While e-commerce is the dominant use of platforms globally, marketplace platforms for services are growing and the dominant platform type in Africa. A 2020 study by Insight2Impact showed more than 350 mostly home-grown platforms active in Africa, with the majority connecting consumers to services, including transport and delivery (Johnson et al., 2020).

There is emerging evidence suggesting that the impact of platforms on livelihoods and decent work opportunities will vary, and that those platform participants with high-level skills and/or assets to hire are most likely to benefit. JPMorgan Chase analyzed the trajectory of the online platform economy in the United States on wages, and the findings made clear that unskilled, mass-market services obtained through platforms, particularly transport and delivery work, face downward wage pressure due to competition and the ability of platforms to force lower wages on its freelancers (Farrell et al., 2018). The same JPMorgan Chase study showed that non-transport freelance services presented no clear trend in regard to earnings, while asset platforms did the best. While these findings are specific to the American context, they should be considered when analyzing the potential of platforms to help—or hinder—the livelihood strategies of the poor. CGAP is investigating the role of platforms as a means to provide financial services. An aspect of this worthy of further research is how platforms as de facto labor organizations can help address the legal protections, bargaining power imbalances, and lack of worker benefits that have normally been obtained through a proper job.

“There is currently zero evidence that platforms are making an impact on income/livelihoods, however, in places like Indonesia where there is competition for platform workers, companies are offering robust benefit packages. To make platforms work in Africa, we need to expand payment platforms, offer credit to merchants, and then introduce insurance to workers as a competitive measure.”

—Expert Interview

Conclusions from the Review of Research on the Livelihoods Theory

Key takeaways from this review of the livelihoods theory, its adaptations, and the concepts of decent work and the future of work are that:

- The ability to secure a sustainable livelihood is contextual, involving the interplay of personal and situational factors, many of which need to be addressed to remove constraints faced by individuals or households. The most common contextual factors are not explored in this paper, but are included in the framework.
- Within functioning markets, securing productive work and increasing productivity is a critical factor in increasing revenue or income. The link between livelihoods and productivity is one of the core elements of this framework.
- Full participation in functioning markets requires the creation of backward and forward that allow people to earn income and acquire assets that help increase their productivity and revenue.
- The idea of a livelihoods trajectory that leads to formal, salaried employment, while still desirable, is increasingly rare. A mixed portfolio of employment and work opportunities other than salaried work will persist.
- Within the changing nature of work, education and skills are seen as providing the greatest increase in livelihood opportunities, making skills one of the most critical productivity levers within the framework.
- The rapid pace of technological innovation is changing the nature of work in ways that are still unfolding, but appear to be disproportionately rewarding those with assets, skills, and knowledge. Nonetheless, technology is a critical productivity driver and is included as one of the levers of productivity in the framework.

The role of productivity comes across in livelihood programming, particularly rural livelihoods, as helping farmers make their land more productive through better land management, use of fertilizers, or introduction of commercial crops. It is widely observed that small-scale manufacturers earn more if they make better use of equipment, technology, and streamlined processes, while microenterprises that can source goods more cheaply and access more customers thrive. Additionally, workers who can upgrade their skills or use technology in their trade have greater job opportunities. The following section will offer a discussion on the role of productivity in livelihood work, informed by interviews with experts in the field of livelihoods and financial services.

EXPERT INSIGHTS ON PRODUCTIVITY

Twenty-three experts active in and influential on topics linked to enhanced work, livelihoods, and financial services were interviewed to share their reflections on how they define livelihoods, what livelihood programming encompasses, and the role of financial services in these activities. Together with collaborators at CGAP, this list of key actors in livelihoods was developed and includes donors; implementing partners; consulting, advisory, and research firms; microfinance institutions; and nongovernmental organizations (NGOs). While an extended summary of their thoughts and reflections on livelihoods can be found in Annex A, the section below highlights the findings most relevant to the development of the CGAP framework—the importance of productivity.

Understanding the Link between Productivity and Income

Interviewees from organizations that implement value chain development, market systems strengthening, and/or economic growth projects identified productive capacity as a core requirement for an individual to successfully participate in a livelihood program. They defined productive capacity as both one's access to factors of production (input) and increased productivity (output). While the link between productivity and real incomes is difficult to measure at the individual level, the link holds in aggregate at sector and national levels, tracks with poverty reduction, and is considered critical by interviewees (Van Biesebroeck, 2015). Interviewees held a common opinion that if an individual or household has no access

to factors of production or any potential to increase their personal productivity, neither income generation nor SSNs will transform their livelihood, but at best sustain it. As noted in the research, productivity has a role in improving many components of an individual's livelihood, including increased consumption, accumulation of productive assets, and lessened economic insecurity and risk imposed by unemployment, illness, single parent poverty, and poverty in old age (Sharpe, 2004).

The selection of livelihood activities a given project uses to help increase an individual's productivity and income will largely depend on the geography and the sector. Interviewees noted that geography and the economic sector of interest were used to segment their target population and choose appropriate interventions with potential to raise productivity and incomes. For example, interviewees stated that due to the lack of formal employers in rural areas, microentrepreneurship, informal income-generating activities, and agricultural production (both on- and off-farm) are the most appropriate areas to support in rural areas. Within each of these, there is a set of specific productivity-enhancing activities. For example, on-farm interventions may include training on good agricultural practices, crop diversification, post-harvest handling, data collection, and access to inputs; while off-farm interventions such as youth entrepreneurship may focus more on business development, financial management, and training on value-added services.

The same approach applies to urban areas where a greater presence of formal employers allows implementers to focus on how to get their target population on a path toward salaried or regular wage work or a more productive entrepreneurial livelihood. Here, there is a greater use of job preparedness training, internships, job matching with individuals, or using cash-for-work programs to graduate workers to full employment. For microentrepreneurs, the focus is on business advisory services and access to finance, which may be adjusted depending on the target population, size, or type of enterprise and where it falls on the spectrum

“By training and coaching farmers to look at their income-generating activities as a business ‘farming as a business’ and ‘household as a business’ makes a difference in a client's appetite to take on a loan and operationalize skills that might grow their enterprise or expand commercial production.”

—Expert Interview

of formality. Some interviewees noted that the distinction between rural and urban livelihoods was less about the potential for formal or traditional employment—rather it was the range of employment opportunities available. Rural opportunities would remain largely linked to on- and off-farm work, while urban livelihoods were far more diverse, demanding interventions to help individuals manage a portfolio of opportunities to patch together incomes rather than a single, steady occupation. While land remains the grounding source of security for those building rural livelihoods, providing a home and source of food, the opportunity of urban areas is balanced by the disappearance (or failed emergence) of steady jobs, which creates permanent insecurity in the absence of a SSNs or network support to smooth the transition between available work.

Interviewees noted that their organizations typically measure changes in beneficiary income and productivity as a result of these livelihood activities. In instances where measuring income is not possible, such as with migrant or refugee communities, organizations may use productivity measures such as “increased days of work” or “days of work” as a proxy. Projects that target micro, small, and medium-sized enterprises (MSMEs) will typically measure revenue, acquisition of productive assets, or the amount of financing leveraged. Agriculture programs referenced by the interviewees measure productivity through yield, volume, quality, and income. Interviewees strongly emphasized that measures of productivity cannot be used synonymously with income since other factors, including market dynamics, can override efficiency gains. Therefore, overall resilience needs to also address activities such as market linkages, skills, assets, and networks that are needed for long-term improvements that make it possible for individuals to sustain, adapt, and evolve their livelihoods.

Debating Livelihoods and the Extreme Poor

Emphasizing the link between productive capacity and success in livelihood programming, practitioners working in agriculture, manufacturing, and the trade and service sectors consistently discussed targeting the “vulnerable, but viable.” As an example, experts engaged in rural livelihood and agriculture programs reported rarely targeting subsistence farmers for their projects. Interviewees noted that the extreme poor are often too risk averse and lack key resources to benefit from more advanced forms of financial services to increase their productivity. These segments of the population are instead provided with interventions such as asset transfer, access to savings groups, and other approaches associated with the BRAC graduation model.³ While no interviewees indicated that their organizations purposefully exclude the extreme poor from livelihood programming, very few implemented projects that actively linked beneficiaries to unearned income sources like SSNs or other government transfers, although they acknowledged their importance in helping the extreme poor sustain their livelihoods and, in some cases, build their productive capacity.

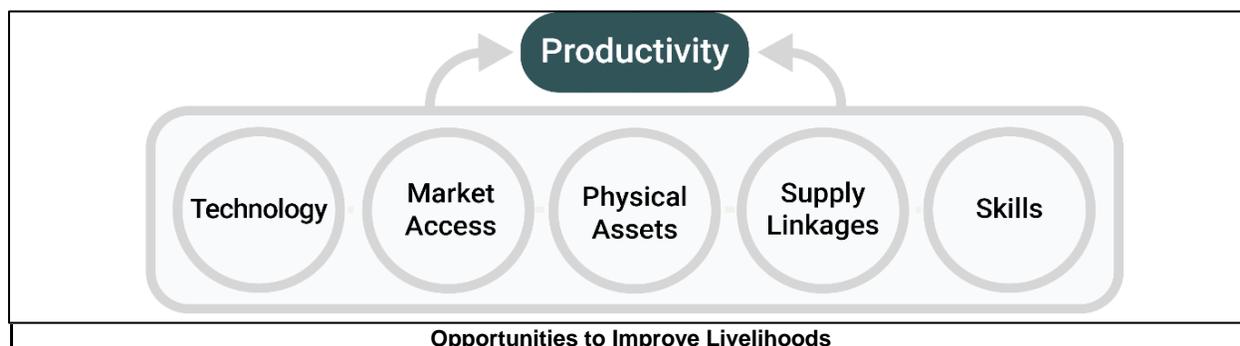
“We do not focus on unearned income in our work, but we were shocked to realize that of the clients participating in a recent project in Burkina Faso, 65 percent were receiving remittances. We would like to think through how we can help these women engage in financial services through these remittances by connecting them to digital savings and digital literacy training.”

—Expert Interview

Kidd and Bailey-Athias (2017) suggest that even populations targeted by the BRAC model are “not typically the poorest” and that the most sustainable impacts of the BRAC Ultra-Poor Graduation Programme were among people who were entrepreneurs prior to entering the program, while “...impacts on those who were not entrepreneurs were negligible in the long term” (Kidd & Bailey-Athias, 2017). Despite criticisms of the model in improving livelihoods, the approach has expanded to approximately 40 countries, and has been credited with achievements such as establishing long-term food security, improved nutrition and caloric intake, and ushering in adaptive agricultural practices that build household resilience to climate change, all of which allow for the very poor to build livelihoods. The approach is also credited with being highly adaptable to different livelihood contexts. For example, while many graduation activities focus on on-farm or rural off-farm activities, they have been modified to provide basic skills and resources to help youth in Uganda identify employment opportunities, and incorporate training, family planning services, and self-employment opportunities (Dharmadasa et al., 2017). Within this debate on the suitability of livelihood programming for the extreme poor, the role of productivity and access to productive assets continues to stand out as a pivotal indicator of one’s ability to successfully graduate out of poverty.

PRODUCTIVITY AS A LIVELIHOOD IMPROVEMENT STRATEGY

Exhibit 5: Productivity



³ The Graduation Approach is a comprehensive, time-bound, integrated, and sequenced set of interventions that aim to enable extreme and ultra-poor households achieve key milestones toward sustainable livelihoods and socioeconomic resilience to progress along a pathway out of extreme poverty. Activities include targeting, enterprise development training, asset transfer and interest-free loans, hands-on coaching, savings, and community mobilization. (BRAC Ultra-Poor Graduation Programme Overview, 2019).

<p>Skills: Increasing personal knowledge, technical or business skills, or qualifications to provide greater value addition or qualify for more highly remunerated work.</p>	<p>Productivity: The relationship of output to inputs of labor and other factors of production that can be increased through better utilization of markets, supply linkages, physical assets, technology, time, and skills</p>
<p>Technology: Accessing and using new or improved methods, information, digital services, and platforms that help make better use of labor and other factors of production.</p>	
<p>Physical Assets: Securing access to land, property, materials, or equipment that can be used for productive purposes.</p>	
<p>Access to Markets: Securing greater and more reliable access to markets, customers, or employers, or knowledge to meet market requirements and reduced barriers to finding and serving them.</p>	
<p>Supply Linkages: Securing more reliable access to inputs and non-technological services at a reduced cost or higher quality.</p>	

The idea of productivity as the key to improving livelihoods was a major finding from the expert interviews (detailed above) and highlighted the core concept around which the proposed framework is structured. It encourages the question, “If productivity is the key to increased income and improved livelihoods, what kind of activities and interventions increase productivity, and what is the role of financial services in strengthening these efforts?” Due to the many references made to the topic during the expert interviews, the research team dissected the role of productivity in increasing income, narrowing it down to a set of five levers most frequently referenced in the literature and by experts.

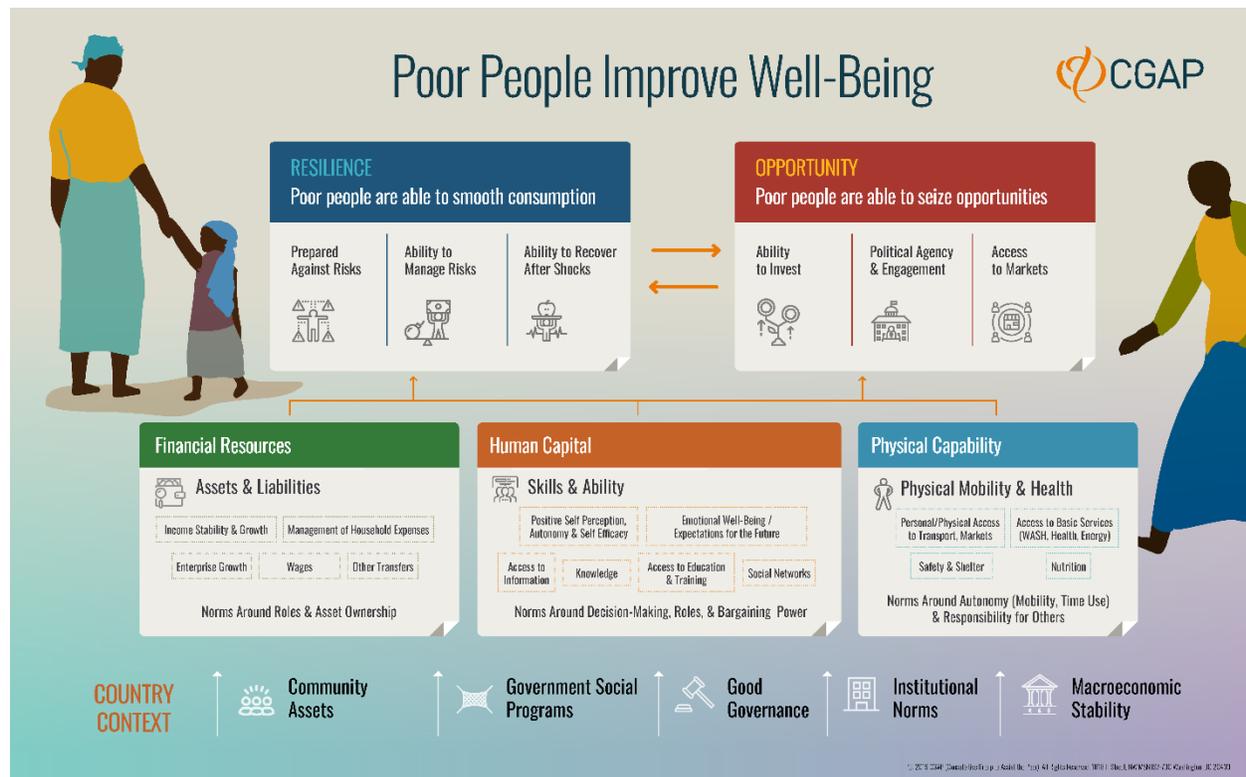
These five levers of productivity, or livelihood improvement opportunities as they are called in the framework, are a useful lens through which to analyze livelihood interventions and their potential to increase incomes. Studying these most common drivers of productivity presents an opportunity for CGAP to structure its research on how financial services can improve access to these levers, with specific attention paid to skills and technology, given their growing importance in a quickly digitizing world.

The research team remains aware that the link between productivity gains and income is not perfect for many of the reasons highlighted in the M4P approach related to markets and decent work principles that highlight power imbalances. This link will also vary by economic sector and is evolving constantly due to market forces, which are discussed in Part Two. However, it can be a helpful analysis tool when identifying and prioritizing financial services as a means to improve livelihoods across a portfolio of work and employment opportunities.

Beyond Productivity

Despite interviewees’ bias toward opportunities for growth and income as the most frequently used measurements for improved livelihoods, it should be noted that there are other ways to more broadly measure livelihood outcomes. The CGAP evidence and impact team identified two high-level outcomes, **building resilience and capturing opportunity**, as indicators for improved well-being. According to the accompanying publication, “Building resilience refers to how financial services allow people to prepare for shocks, deal with them when they occur and recuperate afterward,” while capturing opportunity refers to “the ways financial services help people take advantage of opportunities in a broad sense, whether investing in a business, getting an education, or migrating or receiving medical treatment,” (El-Zoghbi, 2019).

Exhibit 6: Building Blocks for Improved Well-Being



Source: 2019 CGAP.

CGAP uses the combination of well-being and improved livelihoods as a starting point for a more holistic understanding of how the lives of the poor can be transformed. From this exercise, CGAP put forth that outside of improvements in financial resources, such as stable income and enterprise growth, wages, and management of household expenses, other outcome such as skills and ability and physical mobility and health were important indicators of well-being and levers that could lead to improved livelihoods. This mutual reinforcement of resilience and opportunity is acknowledged in the literature and interviews, although a clear bias in livelihood programming toward opportunity remains.

THE ROLE OF FINANCIAL SERVICES

Before synthesizing the outcomes of any one financial product, it is important to note that the field of evidence for financial services is both large, somewhat inconclusive and at times contradictory. As Duvendack and Mader (2019) write, “[While] impacts are more likely to be positive than negative...the effects vary [and] are often mixed...” This summarization of the evidence linking financial services to livelihoods has been echoed by CGAP research stating that while financial inclusion may contribute to increased economic growth, reduced poverty, and increased resilience from shocks, existing evidence remains unclear due to varying study methodologies and results (El-Zoghbi, 2019).

In their respective publications for the Stanford Social Innovation Review and CGAP, experts such as Daryl Collins and Amolo Ng’weno (2018) and Jennie Persson and Emilio Hernandez (2019) have noted, that while the evidence may not yet boast clear causal linkages between specific products and outcomes, it would be hasty to abandon an otherwise promising poverty reduction strategy. Due to the many intertwined effects financial decisions have on people’s lives, experts question whether an attempt to make such causal linkages would be too narrow and limiting of the myriad of impacts financial services can make (Collins & Ng’weno, 2018). As Collins and Ng’weno summarize in their article discussing

impact pathways for financial inclusion, assessing financial inclusion for its ability to alleviate poverty alone, without considering its many impact pathways (up to 10 for mobile money alone), downplays its true potential. As noted in the evidence, financial services like insurance, which are designed for resilience against shocks, can provide a greater sense of security and change a person's mindset and livelihood choices. Similarly, financial services like digital payments can catalyze (or be catalyzed by) non-financial actors and can create livelihood opportunities, including for groups that may have been excluded due to contextual factors like geography, gender, or social norms. Services such as transport, energy, and social transfers that make use of financial services can drive their adoption and positively impact lives even though they are not linked to an individual's income-generating activity.

With that preface, it is still worthwhile to provide examples of existing evidence on the impact of financial services. CGAP concluded a survey on the *Emerging Evidence on Financial Inclusion* in 2019, which is comprehensive. Therefore, the purpose of this section is not to engage in a deep analysis of the validity of different financial services, but rather to briefly summarize how different types of services are generally understood to improve livelihood outcomes, particularly through income generation.

Mobile Money and Digital Payments

Led by evidence from Suri and Jack (Jack & Suri, 2014; Suri & Jack, 2016), mobile money and digital payments have been shown to increase per capita consumption levels and lift households out of extreme poverty. Analysis of Kenya's M-Pesa platform indicates that users were better able to withstand large, negative income shocks without reducing their household consumption. These changes were due in part to improved savings, and changes in the allocation of labor from agriculture to other types of business and income-generating activities. Additionally, there was a finding that access to mobile money helped expand individuals' support network by increasing their access to friends, family members, and other members of their social network able to offer monetary support during times of crisis. Similarly, Wieser et al. (2019) found that increased use of mobile money proxied by the roll out of mobile agents allowed households to transition from on-farm jobs to other forms of off-farm self-employment. This report also cites Sekabira and Qaim (2017), who find that mobile money helped increase the income of coffee farmers in central Uganda via increased transactions with new customers.

There are also some gendered dimensions to the evidence on mobile money. Emma Riley found that women who received loans on a mobile money account saw a 15 percent increase in their profits as a result of greater business investment. The report alludes to the fact that mobile money may help women expand their incomes and business operations by providing "a safe and private way to store the loan" (Riley, 2019). Interviewees agreed that though social transfers are a helpful way to introduce the poor to financial inclusion and digital payments, (e.g., one organization uses frequency of remittance payments as a determinant of creditworthiness) they were unlikely to focus on social transfers as part of their programming, preferring to focus on the use of digital payments to support livelihoods.

Savings

Of all the mainstream financial services, the literature references savings as having the most reliable evidence base. At its core, savings function as a means for households to withstand economic and financial shocks and encourage investment (Cull et al., 2014). Such investments may include routing more capital into a small business or increasing the amount of land under cultivation (Brune et al., 2010). While studies such as Karlan et al. (2017) indicate the mixed impact of savings on income, Moore et al. (2019) find that savings accounts "had substantial impacts on productive investments among female market vendors and led to higher incomes."

Credit

While the use of credit, both digital and otherwise, seems to be one of the most widely studied financial services in the literature, the jury is still out on its role in poverty reduction. A policy bulletin from the Abdul Latif Jameel Poverty Action Lab (J-PAL) and Innovations for Poverty Action (IPA), titled *Where Credit is Due*, analyzed the findings of seven randomized evaluations on microcredit. The overall conclusion of this study was that microcredit "does not have a transformative impact on poverty, but can

give low-income households more freedom in optimizing the ways they make money, consume, and invest.” While none of the studies indicated an impact on net income, six of the seven showed that credit helped expand business activity (J-PAL & IPA, 2015). This dynamic seems to be one of the most consistent across the literature. For example, while Banerjee et al. (2015) did not find any significant impact on household consumption from microcredit, which would suggest an improved quality of life, there was an increase in average business profits. Notably, this study found that the results were skewed by a small group of businesses that were already more experienced and more profitable. Findings from Bernhardt et al. (2019), as well as findings from a 2016 IPA policy memo, *Helping Microenterprises Grow in Uganda*, found that men’s businesses benefited more from credit than women’s businesses, likely due to women using their loans on their households and household enterprises rather than their own businesses (Fiala, 2016).

Insurance

Much like savings, insurance is perceived primarily as a tool to maintain one’s livelihood and build resilience as opposed to increasing income; however, it has been argued that the improved management of and ability to take on risk can lead to greater livelihood opportunities. The literature shows that populations able to access insurance products are better able to survive shocks and make more productive—and riskier—investments. For example, Cull et al. (2014) indicates that randomized evaluations from India and Ghana on the use of weather-based index insurance “encouraged farmers to shift from subsistence to riskier cash crops.” Citing Karlan et al. (2012), Carter et al. (2014) note that farmers in Ghana offered access to rainfall index insurance increased their agricultural investments by 13 percent. More broadly, insurance has been linked to increased land cultivation, increased income, and a higher tendency to plant riskier, but higher yielding, crops (Moore et al., 2019; Fiala, 2016). Interviews revealed that insurance is used regularly, but always in bundles with other services, including financial services, because it helps to smooth income in the case of shocks and helps the household avoid having to liquidate assets to survive. Insurance has also grown beyond crop insurance, including insurance to cover defective or counterfeit agricultural inputs, particularly seeds and fertilizers. As CGAP summarized, “the risk management dimension of financial services may also encourage investments that are riskier, but potentially more profitable, in the longer term” and the assumption that insurance is only for resilience requires greater nuance (El-Zoghbi et al., 2019).

Expert Insights on Financial Services and Livelihoods

There was a perception among most interviewees that financial services operate best in livelihood programs when they complement other activities that increase (or have the potential to increase) productivity, particularly when bundled or paired with other activities, such as accessing inputs, mentorship, training, or BDS. They believe that without these additional interventions it would be hard to say with certainty that financial services led to an increase in incomes or improved livelihoods. For example, one interviewee noted that where training and loan support were offered together, incomes grew by five times for poultry farmers and two times for maize farmers.

The types of financial services most commonly mentioned during the interview process were savings products facilitated through Village Savings and Loan Associations (VSLAs); group-based lending through VSLAs; agricultural cooperatives or social groups; agriculture or value chain financing, such as input credit, vouchers, or warehouse credit; harvest loans; digital payments and mobile money; scoring-based credit; microfinance; and to a smaller degree, insurance products such as crop and index insurance. Savings and payment products were typically introduced first, followed by credit and insurance, which were considered critical to moving beyond subsistence to building income. For populations on the subsistence end of the livelihood continuum, savings via VSLAs, payment platforms, small grants for income-generating activities, and group financing were most typically referenced. For

“Financial services have critical use cases, but clients must have access to information, advisory services, village agents, and soil management services to increase income.”

—Expert Interview

higher-income or enterprise-thinking individuals or groups, working capital, input credits, and insurance were leveraged more frequently.

Despite the use of many tools, few organizations have a method to identify which approaches are most impactful or what kind of sequencing is most predictive of success. Despite the absence of these decision-making tools, resources such as the *2019 Rural and Agricultural Finance State of the Sector Report* have begun to categorize the primary and secondary service needs of clients in the agriculture sector. For example, smallholder farmers looking to intensify their production primarily need loans for high-quality inputs and agricultural insurance; while farmers just looking to develop a resilience buffer primarily need subsidized or partially subsidized access to inputs and funeral and/or health insurance (Shakhovskoy et al., 2019). Similar models exist for microenterprise, such as that one put forth by Ng’weno and Porteous, who show the progression of digital services needed, including digital financial services, by informal enterprises at different stages of development (Ng’weno & Porteous, 2018).

Financial Diaries revealed decades ago that low-income families are faced with a myriad of financial needs and a mix of imperfect financial instruments to meet them. As a result, individuals, households, and microenterprises use what is available to them to meet their needs as best as they can. Products rarely have a singular use, as discussed by Stuart Rutherford’s framework of saving up (typical savings behavior) and saving down (taking a loan and repaying in small installments), and saving through (insurance and group-based savings) which all fulfill the need to move financial value over time (Rutherford, 1999). More recently, Cenfri, the Bill & Melinda Gates Foundation, Bankable Frontiers, and the United Nations Capital Development Fund have each worked on different definitions of financial needs to understand and address “meaningful” financial inclusion, i.e., financial services viewed as something that adds value (Chamboko & Makuvaza, 2018; Collins et al., 2019). Borrowing from these perspectives on financial needs and in consideration of the current use of financial services in livelihood programming, the framework will use the following categories to highlight the role of financial services in livelihood programming.

Exhibit 7: Financial Services Needed to Increase Productivity and Income



Protecting • Managing • Transacting • Accumulating	
Financial Service Needs	
Protecting	Protecting, maintaining, or insuring income and assets in order to deal with unexpected shocks and keep funds used for livelihoods secure. Protecting goes beyond short-term liquidity management to allow people to avoid falling into poverty or reducing their living standards. People safeguard using a range of financial services from financial accounts and savings groups that store value to insurance, social networks, and receivables.
Managing	Managing daily expenses to meet financial obligations within an income cycle. People manage funds using cash, e-money, financial accounts, and short-term financing.
Transacting	Transferring and receiving funds for a livelihood or for buying, selling, sourcing, or paying expenses, which underlies the basic financial needs for a livelihood. In the absence of transfer-of-value devices, communities must revert to barter. People transfer value using cash, digital transfers, remittances, and receivables and payables.
Accumulating	Gathering or acquiring lump sums needed to invest in a livelihood. Accumulating goes beyond managing and safeguarding to allow people to expand or diversify their livelihood to achieve greater returns. People accumulate using cash, financial accounts, savings groups, loans and advances.

Part Two of this paper will borrow from this brief review to demonstrate how different livelihood strategies dictate the different financial needs that must be met to help the poor increase their productivity and incomes.

Part Two: Mindset, Context, Global Forces, and Sector Trends Shaping Livelihood Strategies

LIVELIHOOD STRATEGIES

The purpose of Part Two is to walk through the global forces and economic trends that impact livelihood strategies and the current role of financial services in each. To set the foundation for this discussion, the authors first highlight some of the micro-level dynamics that can impact how the poor find and select their livelihood strategies in the first place, and whether they are even truly offered a choice. The following section on the Livelihood Context, Mindset, and Capability will review how daily realities underscore the journeys the poor take to achieve improved livelihoods.

LIVELIHOOD CONTEXT, MINDSET, AND CAPABILITY

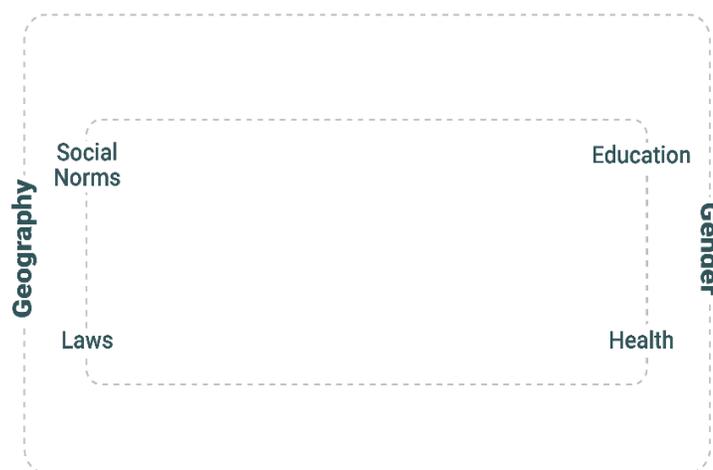
Livelihood Context

The literature review and expert interviews conducted for this paper highlight both entrepreneurial mindset and capability as factors that impact an individual's ability to improve his/her livelihood through income-generating activities. This research emphasized that while mindset and capability are psychological and physical states of being, they are strongly affected by, and to some degree determined by, the social, political, economic, and cultural environment in which a person is situated. As such, the livelihood context, which was introduced in Part One, was included as a component of the framework in an effort to reflect how an individual's risk appetite, perceived choices, and expected rewards are shaped by their local context and can determine how they choose a livelihood. In Part One's discussion of the livelihoods theory and its adaptations, a number of illustrative livelihood contexts such as security, community, and family networks were presented; however, for the purposes of the new framework, the authors selected gender, geography, social norms, laws, health, and education as the contexts most directly shaping the poor's mindsets and decision making.

The relevance of each context is summarized below:

- Gender:** Like all aspects of poverty alleviation, studies have revealed that women face different barriers than men when it comes to accessing resources, identifying lucrative job opportunities, and receiving a fair wage. Due to social norms, restricted mobility, and other limiting factors, women are often not able to pursue livelihood opportunities with the same freedom as men. As noted in the following section, women disproportionately make up non-remunerated contributing family workers and own-account workers in developing countries. As CGAP research shows, women face disproportionate obstacles to accessing financial resources and technology. For example, one in three women (1.1 billion worldwide) faces financial exclusion, while 200 million fewer women than men have access to mobile phones in low- and middle-income countries (Bin-Humam, 2017). Even in terms of the ability to pick and pursue livelihood strategies, women are constrained. Research shows that women in richer smallholder households are less likely than men to diversify into nonfarming jobs and to have their own bank accounts (Hernandez et al., 2018). This can have major impacts on

Exhibit 8: Contexts Shaping Mindsets and Decision Making



the opportunities women are offered, allowed to pursue, and able to leverage in a way that improves their livelihoods.

- **Geography:** As mentioned in Part One, geography can have a major impact on the type of livelihood strategy an individual is offered and selects. Experts noted that depending on whether an individual is based in a rural or urban area, or has the mobility to move between the two, the livelihood strategies he/she pursues may be quite different. Rural youth with the mobility to conduct informal freelancing work in cities may have access to networks and income-generating opportunities that could help them make more investments in agriculture-based activities than rural youth confined to their communities. In farming, geography can also impact the type of crops one is able to grow and whether they are able to diversify into more lucrative value chains. Each of these factors can impact one's mindset, risk appetite, and livelihood strategy over time.
- **Laws and social norms:** DFID's SLF identifies the structures and processes that directly impact an individual's vulnerability level. While structures such as levels of government are important to note, the authors felt that processes, which they have consolidated to laws and social norms, have a very relevant impact on how a livelihood strategy is selected.
 - **Laws:** Laws, including regulations, often intentionally or inadvertently impede livelihoods and financial opportunities for groups and individuals. They can also encourage or impede overall economic and financial sector development. Laws governing formal work, as well as who is and is not allowed to participate in a market system, can greatly impact the decisions the poor make on how to generate their income. For example, migrants and asylum seekers may be limited in the work opportunities they are legally permitted to pursue, forcing them to seek informal work opportunities. This demonstrates how laws, which vary from country to country, can directly help or harm one's livelihood strategy. Migrants from particular groups also tend to cluster in livelihoods where other migrants from their countries have built the market linkages that facilitate their entry into a livelihood.
 - **Social Norms:** Even where laws encourage inclusivity and economic participation, social norms within a country can greatly impact the livelihood decisions people make—leading to a high level of self-sorting into a type of work or a particular industry. Social norms are the informal rules and regulations that determine how members of a society interact with one another and their informal institutions. Social norms may impact which gender roles are observed; who is expected to pursue academic opportunities, inherit land, and work outside of the home; and many other factors that can impact what kind of livelihood opportunity is considered appropriate for an individual. These norms can become self-perpetuating as the networks developed within economies become the basis for finding opportunities, even after laws and norms have changed.
- **Health and education:** As noted in the World Bank's 2018 Poverty and Shared Prosperity series, as well as CGAP's own research on indicators of well-being, human and physical capital (skills and ability, and physical mobility and health) are important building blocks to help ensure that one is able to improve his/her livelihood. It goes without saying that disparities in health and education impact the opportunities available to the poor and their ability to capitalize upon them. As such, these contexts were important to capture in the framework.
 - **Health:** Physical health and mobility is needed for an individual to successfully pursue a livelihood. Health impacts educational attainment and one's ability to maximize efficiency and continue to be productive. This is directly tied to the ability to generate, maintain, and accumulate an income.
 - **Education:** Investments in human capital help ensure that an individual is able to improve his/her livelihood and income. Whether through formal or informal pathways, attaining a set of skills allows individuals to select a livelihood strategy in which their knowledge and abilities will be compensated at a fair and livable rate.

Other contextual factors specific to regions, countries, and economic sectors abound; however, these six factors were the most consistently addressed in interviews and research.

The Role of Mindset and Capability

Kidd and Bailey-Athias expose a trend that came out of the expert interviews, which is that mindset—whether framed as confidence or entrepreneurial ambition—can play a role in determining who is best suited to participate in and benefit from a livelihood activity. In aiming to explain why existing entrepreneurs may have benefited more from the BRAC Ultra-Poor Graduation Programme than others, they write, “One explanation could be that, psychologically, people who were not poor were better prepared to profit from the program, since those living in extreme poverty—or the “ultra-poor”—would probably have been less confident and less able to take advantage of the opportunity presented to them” (Kidd & Bailey-Athias, 2017). This question of mindset was raised by the interviewees consulted for this research on multiple occasions. Some interviewees referenced a practice of segmenting beneficiaries by entrepreneurial mindsets and subsistence mindsets (e.g., fast and slow climbers, strivers, innovators, early adopters, the committed versus the trapped, etc.), while other interviewees anecdotally observed that those with entrepreneurial mindsets are better able to leverage interventions and financial services to increase their income. All respondents made sure to note, however, that while not all clients are born entrepreneurs, teaching, incentivizing, and supporting entrepreneurial behavior does help encourage the more risk adverse to adopt new services.

The link between an individual’s mindset and his/her capability is also demonstrated by the ability to make the most of financial services, namely credit. In an impact study on microcredit in Indian cities, Banerjee notes that the “gung-ho” entrepreneurs—those with a pre-existing business, proven capability, and drive—account for almost all of the gains in income, consumption, and asset acquisition (Banerjee et al., 2017). As compared to the control group of other “gung-ho” entrepreneurs without microcredit, those with access increased self-employment hours by almost 20 percent, the stock and flow of business assets by 35–40 percent, and revenues more than doubled. For entrepreneurs classified as “reluctant entrepreneurs” the impact of microcredit was negligible between those who received loans and those who did not.

The importance of mindset and capability is well established in business and enterprise literature. In an attempt to explain why so many small businesses fail to grow, Churchill and Lewis highlighted that a small business owner’s abilities and goals comprised four of the eight most important factors in determining growth: their personal and business goals were the most important, followed by the owner’s ability to perform business-related tasks, managerial skills and willingness to delegate, and the ability to see beyond the present and know her business’ strength and weakness (Churchill & Lewis, 1983). They also highlighted that a large group of small businesses reach a stage of success where they have to choose to sustain their business, exploit the company’s accomplishments, and expand or disengage from the company, using it as either a step to a new career or starting something new. They note that, contrary to popular belief, business failures are often the result of the owners’ own choice (Ibid).

Light and Rosenstein (1995) and Valenzuela (2001) identified that mindset is also a determinant of which livelihood strategies a person pursues by highlighting the difference between “value entrepreneurs” and “disadvantaged entrepreneurs.” Value entrepreneurs are those who choose self-employment rather than low-wage jobs for reasons of autonomy, flexibility, or status, whereas disadvantaged entrepreneurs with fewer skills and less education undertake self-employment due to lack of other options or for the ability to earn marginally higher incomes than they might in wage employment (Ong & Loukaitou-Sideris, 2006).

“The desire and propensity to succeed is clearly a major factor in success. If we could identify this quickly, it would save us a lot of time in knowing who to target.”

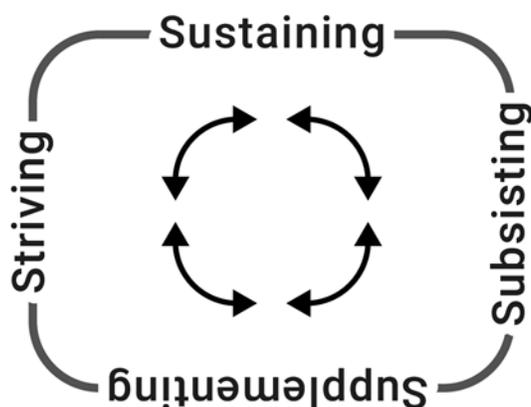
—Expert Interview

Light and Rosenstein and Valenzuela’s thinking reflects CGAP’s own research, which identified three segments of smallholder households—subsisting, commercializing, and diversifying—according to their crop and livestock sales, amount of agricultural land, and smallholder livelihood profile. In agriculture,

the terms “subsistence” and “commercial” are used to make the crucial distinction between those farmers who use nearly all of their crops or livestock to maintain their livelihoods as compared to those who farm for surplus to improve their livelihood. This distinction highlights that a low level of income from farming is not only explained by a survivalist mentality; rather it may reflect a family’s choice to farm for their own food consumption so that household members may pursue other more productive or lucrative livelihood activities. Interviewees noted that as farming has modernized, the difference between subsistence and commercial farmers has diverged greatly, because the demands (and rewards) of commercial farming are growing. Several felt that financial services were not particularly relevant to subsisting smallholder farmers, but were important to commercializing farmers.

Given the frequency with which this topic arose in the expert interviews, mindset has been highlighted as a component of the framework. Building on the findings from the expert interviews and research, the CGAP framework will include three clear mindset categories well represented in the research, as well as an emerging fourth. They are as follows.

Exhibit 9: CGAP Mindset Categories



Subsisting	Focus on meeting basic needs, without the mindset, skills, assets, or perceived opportunity to significantly improve livelihood.
Sustaining	Focus on maintaining the status quo; perceiving that the rewards to the cost, effort, or risk of attempting to grow income has reached an equilibrium.
Striving	Focus on achieving and maximizing livelihood opportunities through greater allocation of time, effort, or risk.
Supplementing	Focus on increasing income for specific needs or periods of time, without significant risk, costs, or change in the means of livelihood.

Supplementing is the least well founded mindset category in the literature on livelihoods, but it features prominently in the research and discussions on Decent Work and the Future of Work. While the phenomenon of using a side business to supplement one’s income has existed for some time, there has been a rise in involuntary part-time workers in developed economies—individuals who work part-time and prefer a full-time job, but are unable to attain one—that have made supplementing a part of the global discussion. Involuntary part-time work and the research analyzing it began to peak after the 2008 global financial crisis and is as relevant as ever today given the global COVID-19 crisis. Surveys of seven European Union countries in 2017 found that 70–80 percent of platform workers had other work alongside platform work, including more than 50 percent who were in full-time employment (World Economic Forum, 2020). A McKinsey study showed that among independent workers in the United States and Europe, 56 percent were doing independent work to supplement income, and the vast majority were doing so by choice rather than necessity (Manyika et al., 2016). According to a 2013 study of microenterprises in the United States, participants engaged in supplementing their incomes were found to be more likely to have health insurance than their full-time, self-employed counterparts, suggesting that it was an effort to increase income without the risk of losing a health safety net (Aspen Institute, 2013). The

JPMorgan Chase study also found that work through platforms was largely occasional or seasonal (and presumably supplemental), with most workers participating for three or fewer months. In this context, supplementing is a mixed mindset of sustaining and striving: people willing to work more to earn more for a discreet purpose, crisis, or period of time, without taking on too much risk (Farrell et al., 2018).

While the previously cited research and discussion may frame mindsets as static, or as the result of individual choice in a particular livelihood activity, it is important to note that the livelihood contexts referenced in the earlier sections of this paper play a major role in determining an individual's mindset or what they believe to be possible within the boundaries of his/her personal ability, environment, societal norms, and other realities outside of his/her control. For example, in communities with cultural norms that limit women's mobility and ability to interact with individuals outside of the household, the prospect of striving for higher-paid work in a different locality may not be within the realm of possibility. As an example, the Informal Economy Monitoring Study (IEMS) conducted by WIEGO suggests that male street traders are largely "strivers," where trading is seen as a temporary stop until they are able to find more lucrative work; whereas women are often "sustainers," relying on trading as their primary source of income to support their families. Women are also more likely to trade in lower-cost items—particularly fruits and vegetables, while men take on riskier, more costly inventories (Roever, 2014). The decision of women for subsisting or sustaining through activities that can be done within the home should therefore not reflect a personal lack of ambition, but rather the system within which they live. This is relevant because as CGAP revisits the new livelihoods framework and weighs which financial services to pursue, it will be important to have a clear understanding of how mindset will impact individual journeys.

GLOBAL FORCES AND ECONOMIC TRENDS SHAPING LIVELIHOODS IN AFRICA AND ASIA

Livelihoods do not exist in a vacuum—they are shaped by the forces around them. When the livelihoods theory was developed in the 1990s, it was reasonable to believe that the pace of change in developing countries would be similar to that of countries that had successfully grown their economies over the previous 30 years. However, the world was just on the cusp of an age of global integration and advancement. Today, the pace of change has accelerated dramatically. Four global forces emerged from the literature, demonstrating how and why the current development trajectory will differ from the past: rapidly changing demographics, global economic integration, climate change, and technology. These trends are also impacting the availability, flexibility, and rewards that livelihoods offer moving forward.

Relative to Asia, these forces of change have manifested themselves later in Africa and as a result, in a different context and with a different impact. Africa is facing a less certain development context than Asia due to the slowing of globalization and acceleration in the rise of technologies that are changing how modern economies function, both of which are happening more quickly than expected due to the COVID-19 pandemic. Additionally, Africa is developing with a faster rate of population growth in both rural and urban areas than any other region in the past. The purpose of this section is to further highlight the global forces that are shaping livelihoods in Africa and Asia today and in the future, and by extension, shed light on how workers in these regions may expect to see their livelihood and income-generating opportunities change in the coming years.

Since the first draft of this report, a new global force, namely the COVID-19 pandemic, has emerged as a reminder that not only does the nature of a global force change over time, but so do the forces themselves. While this pandemic may eventually come to an end, global health challenges such as malaria, HIV, and non-communicable diseases such as cancer, diabetes, and alcohol- and tobacco-related health issues, could be considered as a fifth global force.

Demographic Shifts

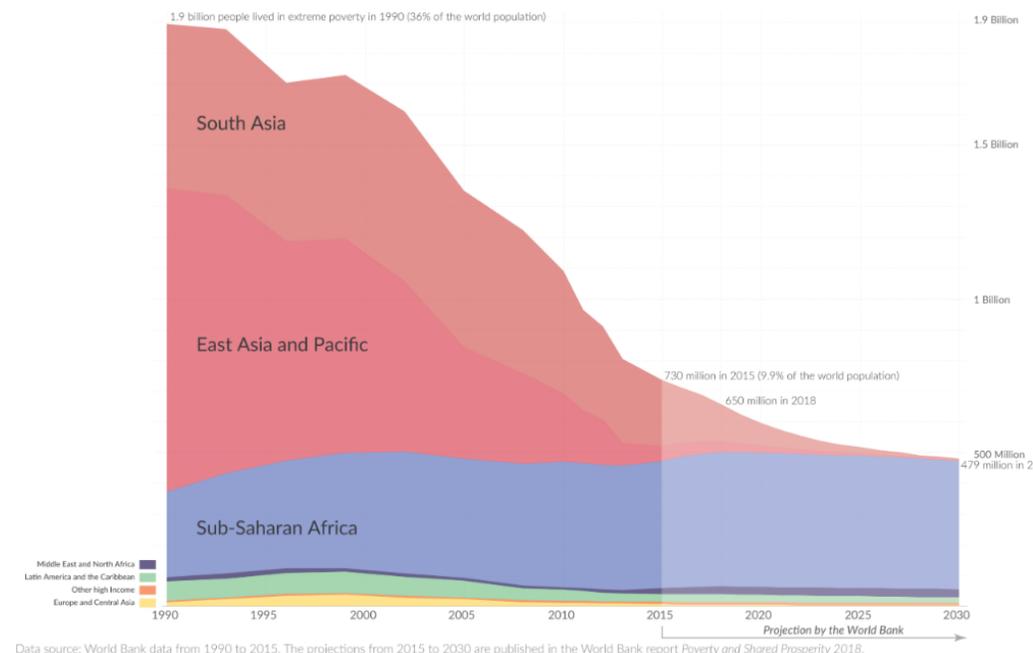
According to the 2018 *Revision of the World Urbanization Prospects* (United Nations Department of Economic and Social Affairs [UN DESA], Population Division, 2019a), the global population is

forecasted to add an additional 2.5 billion people by 2050. More than half of global population growth between now and 2050 is expected to occur in Africa, where population will double in the next 30 years (UN DESA, Population Division, 2019b). SSA is the only region of the world where the rural population and rural youth will continue to grow past 2050. Rural Africa is projected to have about 53 percent more people in 2050 than it did in 2015 (UN DESA, Population Division, 2019a). The largest increases in population will be registered in four African countries: Ethiopia and Niger, both adding more than 30 million rural inhabitants, and Nigeria and Uganda, both adding just more than 25 million (Ibid). These rates of population growth, particularly the continued growth in rural areas, sets Africa apart from previously emerging economies and is arguably the most important and challenging variable in the discussion of livelihoods in Africa. More than any other factor, population growth is shaping the future of African employment, because the region will continually be challenged to create jobs in both rural and urban areas while ensuring those living in extreme poverty have the basic support they need.

Western and Southern Asia are projected to experience lower rates of population growth between 2019 and 2050—46 and 25 percent respectively (Ibid). In East Asia, demographic change will be characterized by an aging population, because the region is currently home to 36 percent of the global population over 65. Whereas extreme poverty rates in Asia have fallen precipitously and are projected to continue to do so, Africa’s rates have continued to grow, and the number of extreme poor are expected to remain constant for the foreseeable future. After Africa, South Asia is home to the second largest proportion of the multidimensionally poor (UN DESA, 2019b). According to the World Bank, despite the large percentage of South Asia’s population living in extreme poverty, this number is expected to rapidly decline, particularly in India (World Bank, 2018a).

Today, half of the world’s extreme poor live in just five countries—India, Nigeria, the Democratic Republic of the Congo, Ethiopia, and Bangladesh—however, by 2030, Africa will be home to virtually all extreme poverty in the world. This again sets the region apart from the emerging economies of the past. The current COVID-19 pandemic is likely to cause considerable delays to projected targets for poverty alleviation around the world, however, it is likely that the number of extreme poor will continue to concentrate and grow in SSA.

Exhibit 10: Extreme Poor Geographic Locations 1990–2030 (projected)



Data source: World Bank data from 1990 to 2015. The projections from 2015 to 2030 are published in the World Bank report Poverty and Shared Prosperity (2016).

By 2050, 50 percent of Africans are expected to live in cities, while Asia is expected to be 64 percent urban. In SSA, this urbanization is happening in the absence of significant industrialization. SSA now has an urbanization rate nearing that of Asia, at 1.1 percent year on year, and the pace will overtake Asia in the coming decade (UN DESA, 2019a). Historically, urbanization and reduced poverty have gone hand in hand. Urbanization in the past has been driven by industrialization and accompanying livelihood opportunities. For example, in Asia, returns to work in urban locations are approximately 1.7 times greater than those in rural areas. According to the World Bank's 2019 *World Development Report*, payoffs to work in urban areas can double in countries like China, India, and Vietnam. However, Africa is urbanizing rapidly without substantial economic benefits so far (Gollin et al., 2015). Unlike the urban migrations of the past, in Africa this population shift has not resulted in more productivity (i.e., higher incomes), because migrants are entering equally low-skilled jobs.

Urbanization in SSA differs from that of other regions as it is concentrated in *consumption cities* rather than *production cities*. Urban wealth in Africa comes not from industry—rather its source is revenue from extractive and primary resource exports (i.e., extractive industry exports) accruing to governments and large businesses in Africa's capitals that drive consumption and the demand for services in cities (Ibid). In Africa it is a *push/pull* system, the push coming from the lack of livelihood opportunities in rural areas and the pull from the growing wealth of cities.

SSA's labor force is expanding at a rate of 3 percent per year, and an additional 375 million young people are expected to reach working age by 2035 (ILO, 2017). Since 2000, SSA has added an average of 9 million jobs per year, leading to a slight increase in the employment-to-population ratio (Abdychev et al., 2018). Even under the most favorable projections, only about a quarter of the people newly entering the labor force will find wage employment in the formal economy (ILO, 2017).

Because of rural population growth, supporting rural livelihoods will remain critically important. At the same time, SSA must now concern itself with the urban poverty trap caused by the simultaneous growth of urban and rural populations working in jobs with low productivity and lacking means of basic support. While agriculture remains the leading employer of youth, particularly in SSA, their livelihoods are maintained by taking on work in the informal sector (and increasingly through the digital gig economy) without the protection of benefits or SSNs. Rather than the constraint of unproductive land, the urban poor face different livelihood obstacles, namely the lack of affordable housing and transportation, and perennial high food prices that put a tremendous strain on cities and governments (Abdychev et al., 2018). These demographic shifts confirm the importance of the three areas that CGAP has chosen for its strategic focus, namely income generation, protecting a basic standard of living and affordable access to basic services.

"In order for jobs to grow in Africa we need to see greater diversification of the rural economy. The role of financial services in this situation is to offer finance to rural small and medium-sized enterprise (SMEs) unable to hire or expand services due to lack of finances. This must be paired with BDS. Finance alone cannot make a difference."

—Expert Interview

Climate Change

Climate change is at best a challenge to prompt innovation and at worst an existential crisis for many families, particularly the poor and vulnerable. It will likely be a driver of demographic shifts as changing rainfall patterns and temperatures prompt individuals to find alternatives to their at-risk livelihoods. The IMF estimates that the urbanization rate increases by 0.45 percent with every 1 percent reduction in rainfall (Abdychev et al., 2018). Estimates show that crop yield lost to insects may increase by "10 to 25 percent for every 1-degree Celsius increase" (Houwat, 2020). The European Union has noted that the impact of climate change will be felt not only through higher temperatures, but also through a change in the hydrological cycle, leading to more extreme weather events that can disrupt or destroy an individual's livelihood and create food insecurity for others not directly impacted. Interviewees noted that their work goes beyond climate mitigation and now includes climate adaptation, recognizing that the impacts of climate change include immediate shocks and long-term impacts for which households need to prepare. Beyond rural areas, many of the fastest growing cities are highly vulnerable to natural disasters,

particularly floods and heat waves. According to the World Bank, nearly 60 percent of cities with 300,000 inhabitants are at high risk of exposure to at least one type of six natural disasters (cyclones, droughts, floods, earthquakes, landslides, and volcanic eruptions) and the number is growing (UN DESA, Population Division, 2019a). Furthermore, climate change is reported to affect the risk of armed conflict, which by extension could increase migration, displacement, and the likelihood of lost livelihoods (Mach et al., 2019). Unfortunately, there is little opportunity other than technological innovation combined with appropriate planning and better governance to address this issue.

Global Economic Integration and Technology

The twin forces of global integration and technology have brought significant productivity benefits to the global economy. Beginning in the 1990s, more countries began to engage in the global trading system, creating an expanded labor force and consumer base that drove down production costs while increasing global demand. In the past few decades, technology has made it possible to efficiently reduce the costs and labor needed for value-added production, so that wage increases have not led to significant price increases despite rising global demand. Furthermore, increasingly global and dispersed supply chains have forced countries to compete not only to provide the cheapest labor, but also the cheapest all-in production costs, so that labor competes with mechanization on a global level. This makes it difficult for newly industrializing countries to find a comparative advantage. Few low-income countries outside of China have been able to realize a comparative advantage in production, especially latecomers to the global market, and as a result, are not reaping the productivity and income gains that might have been available even a decade ago (Newfarmer et al., 2018). In manufacturing, developing countries arriving late to industrialization have seen growth primarily in labor-intensive and low-cost tradable goods (textiles, garments, furniture, etc.), food, and other commodity processing (wood, paper, and basic metal products) needed for local consumption (Hallward-Driemeier & Nayyar, 2017). This work is characterized by low wages. According to the ILO, 56 percent of employment in Cambodia, Indonesia, the Philippines, Thailand, and Vietnam are at “high risk of displacement due to technology over the next decade or two” (Groff, 2018). The impact of technology on incomes and job opportunities in the developing world is felt not only on traditional “blue collar jobs,” but also on higher-earning jobs that once accompanied industrialization, such as research and development, management, marketing, and sales, which can now be outsourced or performed in other countries or continents (Abdychev et al., 2018). The McKinsey Global Institute and the World Bank estimate that the number of jobs at risk in some Sub-Saharan African countries due to robotics could range from 40 percent to 60 percent, which includes manufacturing and routinized administrative services (Ibid.). Administrative jobs such as processing payrolls or bookkeeping that can be easily and cheaply automated are particularly at risk, and there are early signs that the first category of “white collar” jobs are already being supplanted, pushing medium-skilled workers into commerce and other services.

But, not all experts agree. The IMF highlights that much of automation’s impact will depend on the sector, type of automation, type and pace of manual task replacement, and whether it is a complement or substitute for human labor (Ibid). New technology has historically led to concerns over the future of work and it is not yet clear if real wages among low-skilled workers are stagnating due to technology or an abundance of unskilled labor (Argentine G20 Presidency, 2018). The ILO has reported that job loss predictions of 70 percent due to automation in Vietnam fall to 15 percent when one considers the many informal—and not easily automated—jobs the country’s economy relies on for which there is still no technological replacement (Ibid). In addition, technology is giving rise to more modern and complex agricultural and industrial production and playing a critical role in increasing efficiency and productivity, and decreasing poverty. Global value chains and technology are creating more medium- and high-skilled work in the agricultural sector, fueling a growing agro-enterprise sector.

As previously mentioned, interviewees do not believe the concerns over widespread job loss are well founded, but the threats are well documented. Technology is changing the way sectors are organized and there appears to be a trend of relative decline in middle-skilled jobs compared to low- and high-skilled

jobs. As an example, detailed statistics from South Africa show that while there has been job growth across sectors except agriculture, the growth in low-skilled and high-skilled jobs has exceeded that of medium-skilled jobs by 20 to 30 percent respectively (Bhorat et al., 2016). Most medium-skilled job growth is in sales and customer service (Ibid.) and these jobs tend to be in smaller firms with limited resources to invest in upskilling and reskilling opportunities. A similar trend exists in Asia where “ongoing adjustments to technological developments could prove disruptive to employment flows, especially for workers at the medium-skill level” (ILO Regional Economic and Social Analysis Unit, 2018). According to the ILO’s *Asia-Pacific Employment and Social Outlook 2018*, the unemployment rate is currently highest among individuals with a secondary education. However, this may have more to do with the supply of low-skilled workers and the demand for high-skilled workers than technology replacing medium-skilled workers.

The impact of technology on women’s livelihoods is equally unclear. Men and women are already sorted across different sectors of the economy, therefore much will depend on how automation impacts sectors where women are highly represented and the extent to which technology strengthens or weakens gender sorting and social norms. For example, men still tend to dominate high-skilled jobs and are expected to benefit from them, but women are gaining in terms of employment share in the growing high-skilled job market. Women may lose out as jobs with routinized tasks are replaced, but it is not clear they will lose out any more than their male counterparts. In some low-skilled sectors, such as health and caring services, they may benefit as the industry grows (Argentine G20 Presidency, 2018). As will be discussed later in this paper, women actively engaged in formal and informal e-commerce and there is evidence that women are avid users of social media to support their livelihoods. This suggests that the opportunities for freelance work secured through platforms will expand beyond transport and create opportunities for women. COVID-19 has highlighted how countries who have invested in expanding their digital infrastructure are able to cope with the pandemic more quickly, shifting to remote work, online shopping and financial services. There is already anecdotal evidence that the pandemic is leading to an acceleration of adapting technology for livelihood purposes.

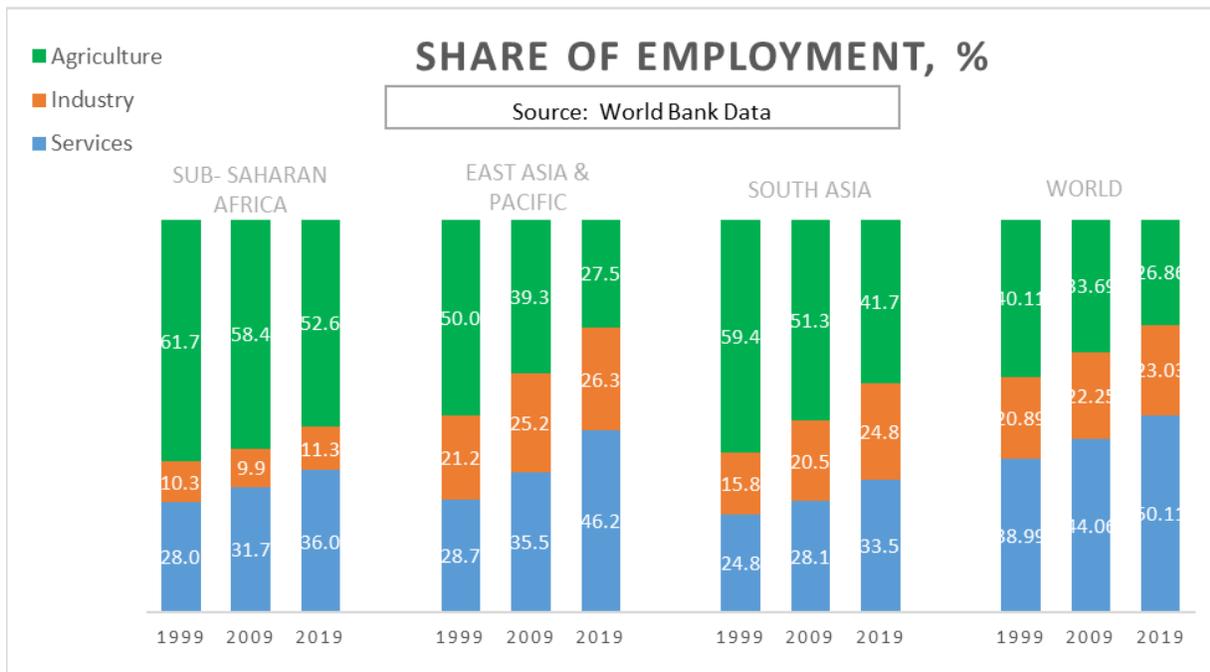
Global economic integration and the impact of technology has implications on livelihoods and the role of finance at the household level and for national economies. Finance plays a crucial role in providing income smoothing and protection to those weathering these global forces, changing jobs frequently, and managing a portfolio of opportunities. The portability of accounts and access to finance will be critical as a great migration catalyzed by climate change and urbanization ensues within countries and across borders. If the economic and political tensions that are slowing global economic integration accelerate, there will be a greater need for local financing and more intermediation of net national savings and remittances into local enterprises and households, which might incentivize financial institutions to invest in capturing domestic savings from the mass market. Financial services will also need to play a greater role in providing SSNs and supporting a growing non-agricultural labor force by pooling risk for insurance, unemployment, retirement, and pension systems (a combination of national, private, and personal) that can accommodate young workers whose futures will involve frequent job changes. Perhaps most important is the financing needed to access education and skills training, which are critical to improve livelihoods. Increasingly, technology is making this possible.

LIVELIHOOD STRATEGIES WITHIN ECONOMIC SECTORS

The evolution of the livelihoods theory, particularly through the M4P approach, has placed an emphasis on markets and helping the poor maximize their livelihood opportunities by becoming active participants in these markets. Market dynamics can enable and limit individuals to working in a specific sector, and global forces are accelerating these market dynamics, changing where livelihood opportunities are greatest and offer the most reward. When applying this framework, it is important to consider livelihood support activities in the context of the relative rise and decline of different sectors and the increasing forms of specialization within them. Understanding these details can help CGAP and other development practitioners determine how to make individuals’ current livelihood strategies more productive and

inform where employment opportunities may be greater. This section will review some of the high-level trends in the agricultural, extractive, manufacturing, and service sectors to identify the opportunities for employment and opportunity gains vital to livelihoods.

Exhibit 11: Livelihoods Within Economic Sectors



Insights: Informal Employment

Informality plays a significant role in livelihoods in Africa, and like the rest of the world, trade and services are on the rise as the only sector capable of absorbing a growing work force. Informal services are the pressure valve for rural to urban migration and have increased labor force participation, especially among women. The causes of informality are multifold, ranging from low education to the economic structure. While informality is equated with legal registration, informal and formal enterprises differ little in their productivity when faced with similar circumstances. That said, informal employment continues to dominate within the labor force, representing 61 percent of employment (ILO, 2020c). The share of informal employment is higher in Southeastern Asia and the Pacific, and Southern Asia than in other parts of the region as 75 and 87 percent of workers respectively are informally employed (Gammarano, 2018a). In Africa, 90 percent of employment is informal, 58 percent of which is self-employment (Gammarano, 2018b).

While the informal sector's contributions to GDP are difficult to measure and imprecise, estimates in Africa range from 35 to 75 percent. In Asia, this measurement is thought to be around 25 to 40 percent, on average (Gammarano, 2018a; Charnes, 2017), which is much lower than its share of employment. Studies at the sector level show that informality also equates with low productivity: value added per worker of an informal firm is only 14 percent that of formal firms in the same sector (La Porta & Shleifer, 2014). At the same time, informality also impacts the MSE sector, as a whole. Competition from informal firms, which do not shoulder the cost of compliance with taxes and regulations, weigh on the profitability and investment of formal firms (Oosthuizen et al., 2016).

Given that informality is the norm in most developing countries, its value as a classification—much like that of non-standard employment—is questionable. The term informality does not distinguish between those who are farmers or own-account workers and those who are business owners, employers, or employed by others. The difference between formal and informal at the micro level is blurry and often involves a spectrum of formality. As an example, many small-scale traders, including street vendors, are required to have a license to trade, but may still be considered informal.

In regard to financial services, informality and access to finance are linked. As an example, in a study in Pakistan, access to a bank account was equated with the transition from highly informal to formal (Williams et al., 2016). There is also evidence that digital finance is making financial accounts more accessible to informal businesses and could be a critical stage in the journey to formality (Ayana Aga et al., 2020). In general, technology has a role to play in formalizing firms through the introduction of simple, efficient ways to pay taxes and file for value-added tax (VAT) refunds. These tools also provide incentives, such as using payroll or VAT tax records to secure a loan or the ability to track hours worked, salaries, and benefits through e-payroll systems. COVID-19 has hit informal labor markets around the world particularly hard and could also be a driver of formalization. Many government relief programs are either limited or linked to formal businesses, because governments are using tax records and payroll records to measure the impact of shutdowns and determine eligibility for relief services. Finding ways to include informal businesses and workers in these programs, and incentivizing them to formalize in the process, might be a win-win for governments and the informal sector.

SEGMENTING LIVELIHOOD STRATEGIES

In the process of developing the CGAP framework, the research team realized that it would be necessary to identify a core set of livelihood strategies the poor use to generate income. For the purposes of the framework, the authors considered both legal definitions (e.g., formal and informal, employed and self-employed) and a sectoral lens (e.g., agriculture, trade, manufacturing) to segment the different livelihood strategies. Legal definitions provide little guidance on the role of financial services, because they do not offer much insight into how people earn their income. Additionally, in the many countries where CGAP works, informality accounts for the vast majority of all employment. While the sector analysis below helps determine different livelihood opportunities and productivity levers, and discusses how financial services are used within each sector, there are different types of livelihood activities with different attributes and requirements. In the agricultural sector, for example, there are opportunities to earn an income through farming, wage work, trade, or value-added production. While agro-enterprises may be linked to farmers and depend on crop cycles, their business models have more in common with retail traders than farmers. Similarly, a seamstress considered to be in the manufacturing sector has similar business requirements—basic machinery, inputs, and skills—as an individual machinery repairman, whose business is technically a service.

To maintain this study's focus on opportunities to generate income through increased productivity and financial services, the following key issues helped inform the development of this segmentation:

- Is the individual working for their own account, i.e., do they have the potential for equity growth beyond their own wages?
- Does the livelihood require productive inventory, equipment, land, or other inputs, and do they also require financing?

The two questions help identify four different livelihood strategies individuals pursue to earn income. With the exception of farming, which is exclusive to the agricultural sector (as represented by green in Exhibit 11), the remaining three livelihood strategies are pursued by individuals across all sectors and may be used simultaneously, seasonally, or in succession. Farming remains a distinct category, because it is still the largest, most important livelihood strategy for low-income households and includes a unique set of risks. Additionally, within the livelihood field, agriculture has seen a tremendous amount of effort and innovation focused on how to increase productivity.

Livelihood Strategies

Individual entrepreneurship: Formal and informal own-account, non-wage work without employees and low overhead, which includes both service-based freelance work and commerce. This includes non-wage-based, platform-enabled work.

MSEs: Formal and informal own-account, non-wage work with one or more employees, subcontractors, or overhead, which includes commerce, services, and small-scale manufacturing.

Wage work: Formal or informal work for others for wages, which includes both casual work and salaried work.

Farming: Own-account crop cultivation and/or livestock and fish raising.

The authors acknowledge that this segmentation is not perfect and needs to be applied in context. For example, some individual entrepreneurs do require equipment, such as drivers who require a vehicle or solo furniture makers who require a workshop. However, this segmentation serves as a starting point to help dissect the livelihood strategies within different sectors, opportunities for improvement, and the financing needed to realize these opportunities.

It should be noted that this report was drafted to inform the development of the framework rather than investigate it. As a result, this sector analysis was conducted prior to the authors and CGAP finalizing the livelihood segmentation. The authors have made some revisions to link the analysis below to this segmentation. However, the analysis is organized by sector rather than by these four strategies.

Trends in Livelihoods and Agriculture

In 1990, employment in the agriculture sector was approximately 60 percent in Africa and Asia (excluding China). By 2020, it had declined by nearly 10 percent in Africa, 20 percent in South Asia, and 25 percent in East Asia. However, due to population growth, particularly in rural areas, agricultural employment is still growing in absolute terms in Africa and South Asia (ILO, 2020a). Where agricultural employment has dropped the most, the value addition of the agricultural sector to the overall economy has increased the most, demonstrating the inverse relationship between employment in agriculture and productivity and the difficult trade-off developing countries face in regard to modernizing agriculture. The nature of work in agriculture is also becoming more diverse and complex, with more opportunities outside of farming, including off-farm work, self-employment, or wage employment (Jayne et al., 2017). This is driven by global forces that are changing the market structure of agriculture in many developing countries, giving rise to an increased number of medium- and large-scale farms due to modernization and the shrinking size of smallholder farms due to population growth (Lowder et al., 2016). These two forces are producing contradictory outcomes in different regions. While the average African farm size is expected to continue to decrease between now and 2050, given the continued subdivision of farmland among descendants, the average farm size in Asia is expected to increase, due in part to a growing number of plantations and contract-farming engagements, particularly in East Asia (Lowder et al., 2016). However, a deeper analysis shows that the shrinking of African farms also has to do with crowding out. The overall number of medium-scale farms between 5 and 100 hectares now control between 30 and 50 percent of total farmland in Ghana, Kenya, Malawi, and Zambia—nearly double the size of the average

medium-scale farm 20 years ago (Jayne et al., 2017). In India, which has a less favorable policy environment for land consolidation, the average landholding size fell from 2.6 hectares in 1960 to 1.4 hectares in 2000 and continues to decline (Ye & Pan, 2016), largely due to population growth.

Efforts to increase agricultural productivity in Africa and South Asia have been complicated by the introduction of subsidies. Governments that have made food security and poverty reduction a priority are heavily subsidizing core crops such as maize, which interviewees noted has the unfortunate consequence of encouraging subsistence agriculture, limiting productivity, and discouraging smallholder farmers from diversifying into cash crops or fresh produce, dairy, meat, and processed foods that are in high demand in urban areas. A few experts noted these distortions are particularly concerning because subsidies for staple crops demotivate and disincentivize farmers from diversifying production, which is a critical factor in improving farmer livelihoods. In addition, it is estimated that 65 percent of arable land in SSA is already degraded, making it unresponsive to inorganic fertilizer and unable to benefit from the yield gains offered by plant genetic improvements (Giller et al., 2006; Tittonell et al., 2007).

Despite these headwinds, it is well documented that agricultural productivity can reduce poverty. A study found that a 1 percent increase in productivity is associated with a .62 to 1.3 percent reduction in the percentage of the population living under the \$1 poverty line (Schneider & Gugerty, 2011). This relationship is well demonstrated by how rising agricultural productivity in China and East Asia led to historic reductions in poverty. Similarly, there has been an increase in agricultural productivity in the last two decades, which tracks closely with a reduction of poverty in SSA from 50 percent to 47 percent (Benin, 2016). Growth in farm income accounted for nearly 50 percent of poverty reduction in Bangladesh between 2000 and 2010 (Gautam et al., 2016). Due to this clear link between poverty reduction and growth, agriculture will remain more important for addressing poverty in Africa than in any other region.

What is striking is the growing sub-sector of off-farm work and the many agro-enterprises that provide pre- and post-farm value-addition activities for agricultural value chains, including trading, wholesaling, storage, processing, and input distribution. Global value chains have developed stronger links between farmers and private sector enterprises. Large agribusinesses have become more engaged in helping small farms directly by: 1) sourcing more produce through contract farming and outgrower programs—often through cooperatives or farmer associations; 2) developing and then helping small farms comply with quality and safety standards; 3) developing supply chains for certified seeds, fertilizer, finance, and insurance that serve small farms; and 4) investing in farm advisory services and market information systems using technology (Alliance for a Green Revolution in Africa [AGRA], 2017). For this research, the agriculture sector is divided between farming and agribusiness, which are both discussed below.

The implications of these livelihood trends are multi-fold. The consolidation of farmland and increasing agribusiness engagement with smallholders through contract-farming and outgrower programs is part of the shift to on-farm wage work from subsistence farming. Many experts noted that this is a positive trend and may offer a means for subsistence farmers to enjoy greater financial security. As noted in CGAP's Smallholder Families Data Hub, wage work is an important source of income for smallholder families, and much of it is related to agriculture. Medium- and large-scale farms could therefore be a good source of decent wage employment, because they are more mechanized and capital-intensive forms of agriculture. However, other interviewees disagreed with this analysis and fear that shifting to wage work will lead to further impoverishment, because on-farm wage work is usually performed by the poorest smallholders, not those who are striving for growth. Because larger farms are less labor-intensive than smallholder farms, this shift will reduce overall livelihood opportunities in rural areas and force smallholder families into uncertain futures. Current research on this topic is unclear as to whether agricultural wage work will offer increased or more stable income.

The growing agribusiness sector also includes MSEs that provide low- and medium-skilled wage work, and there are opportunities for individual entrepreneurship as freelance agricultural agents, particularly

for buyers. These actors are “middlemen” in the agricultural value chain, and while some interviewees noted they get a disproportionate amount of income for the value they add, these MSEs and individual entrepreneurs play an important role in improving livelihoods by linking farmers to markets, inputs, technology, physical assets and skills, and in some cases financing (AGRA, 2017).

Farming

With limited additional land to bring into production, the greatest future gains in agriculture will come from increasing productivity and yield. The ILO identifies low-productivity employment in smallholder farming as the primary reason for extreme and moderate poverty in SSA (ILO, 2020c). A Food and Agriculture Organization of the United Nations (FAO) study across nine developing countries in Africa and Asia reveals a stark difference in smallholder productivity and yield between these two regions and between countries within the same region. As an example, the yield per hectare of the Kenyan farms studied was only 20 percent of that from a small farm in Bangladesh. Even smallholder farms in mountainous Nepal significantly outperformed those in Africa (Rapsomanikis, 2015). These FAO findings highlight that differences in cropping intensity and mix, as well as access to markets, knowledge, and finance are all at much lower levels in Africa than Asia (Ibid). McKinsey estimates that in SSA, there is a need for an eight-fold increase in fertilizer use and a six-fold increase in use of improved seeds, as well as an \$8 billion investment gap in basic storage. In addition, \$65 billion is needed for irrigation for Africa to realize its agricultural potential (Goedde et al., 2019).

While interview responses and research varied on the relative importance of each of different opportunities to increase productivity, most interviewees indicated that connecting farmers to markets and inputs was the most important opportunity for farmers to build income. Basic technology and tools also play a role. As the FAO points out, more than 75 percent of farmers in SSA prepare their land using only hand tools (FAO, 2017). The agency also highlights that beyond improving yields, there is a great need to reduce post-harvest production losses caused by poor transport and a lack of electricity, which limits access to markets and inhibits the commercialization of agriculture (FAO, 2017).

Several studies (see Rapsomanikis, 2015) highlight that small farms are more productive than larger farms in the developing world, in part due to the intensity of small farm production and the availability of family labor. This use of family labor makes it difficult to accurately determine labor productivity, because while many family members may work on a farm, they do so in different ways and allocate different amounts of time. A study in SSA also showed that in-kind labor is not limited to family, but is a prevalent practice between smallholder farmers to secure seasonal workers. As many as 42 percent of the farmers in Malawi, 26 percent in Nigeria, and 68 percent in Tanzania engaged in so-called “labor-tying payment programs,” with the payment being in cash or in kind at harvest. CGAP’s own surveys of smallholder farmers revealed that 26 percent are part of labor-exchange groups (planting, weeding, harvesting) (CGAP Smallholders Family Data Hub). These programs are popular, because they allow farmers to post-pay workers and informally manage their labor expenses to match their income. Interviewees noted that these programs also function as an SSN, building a community support network to ensure that fields are planted and harvested. This helps farmers maximize the productivity of their land and minimize any losses a family might otherwise suffer (Adjognon et al., 2016).

According to the FAO, tractors are currently used in 5 percent of cultivated land in SSA, compared with 60 percent in Asia (FAO and AUC 2018). Despite some promising innovations in platform-based, agricultural asset-sharing models in Asia and Africa (see Exhibit 12), the use of large equipment such as tractors is beyond the reach of most smallholder farmers and would actually supplant labor, which

“Farmers will never pull themselves out of poverty working on tiny plots. Large commercial farmers can consolidate and lease smallholder land, fix irrigation equipment, and hire farmers as laborers, which is more likely to help them graduate out of agriculture.”

—Expert Interview

“For incomes to increase, we need farmers to start thinking and being treated like small businesses. They need support through training and business development to think about what investments they can make to increase their earnings. That’s how people move from subsistence to small business.”

—Expert Interview

remains in abundance in most African countries and many least-developed countries in Asia. It is also likely that larger farms in Africa will be quicker to use large equipment. Experts noted that as larger farms in developing countries modernize and value chains become more specialized in a way that favors farms that can meet their unique specifications, small farms will lose their productivity advantage (Ibid).

Financial Services in Farming

There is more literature on small-scale farming than the three other livelihood strategies. For example, CGAP has done extensive research on and with smallholder household surveys across six countries (CGAP Smallholder Families Data Hub, n.d.). A key finding on financial services for farming is the need to distinguish the role of farming as part of a household's livelihood strategy. Small farmers may not see or intend for farming activities to be their primary source of income, and their mindset, capability, and intent related to farming needs to be considered when determining what financial services are appropriate.

"If a farmer has access to all three, the value from accessing markets is a bigger lift than either increasing productivity through advisory services or accessing finance."

"The highest delta for income comes from strengthening market linkages."

—Expert Interview

This paper is not intended to duplicate CGAP's research efforts, but will highlight a few key findings. The surveys show a wide variation in overall financial inclusion among smallholder farmers (7 percent to more than 40 percent) that is also linked to overall financial inclusion rates in their countries. Accounts with a bank or cooperative are the most frequently used formal services except in countries where mobile money is in higher overall use and rural access is more widespread (i.e., Uganda and Tanzania). Farmers are also participating in savings and loan groups across SSA. As an example, data from the 2017 Global Findex shows that 37 percent of rural Kenyan adults participate in savings and loan groups, which are the predominant financial tool regularly used by the smallholders CGAP countries surveyed (Demirgüç-Kunt et al., 2018). The CGAP studies also show that saving for inputs is often the top reason for participating. While these groups may not necessarily be used to support farming activities, there is evidence that these groups do promote productivity. A study in Malawi has shown that farmers in saving groups cultivated 0.30 more acres of land than farmers in the comparison group, spent 13 percent more on agricultural inputs, and increased the value of their crop yields by 15 percent (Brune et al., 2015). There is also an assumption that these savings groups reinforce labor-tying programs, using social and financial capital for collective projects.

Interviewees expressed mixed feelings over the use of credit, particularly formal credit, for farmers who are not striving nor have the capability to rely on farming as a source of income. A McKinsey study points out that for smallholder farmers in many countries, the return on investment for using improved inputs can be nearly zero because of local variations in the cost of inputs and the price of outputs (Goedde et al., 2019). At the same time, Maurer's literature review shows that the lack of data on the underlying causes of smallholder farmer defaults make it difficult to claim that farming is inherently riskier than other types of microenterprises. Anecdotal evidence actually suggests that principal risk—the ability and willingness of farmers to repay loans—is mostly likely to blame (Maurer, 2014). These studies also do not distinguish between those farming for subsistence or commercialization. Interviewees point out that the structure of formal credit is simply not conducive for farming, not taking into account the seasonal or harvest cycles, and is perceived as risky because of the high-concentration risk to the limited set of institutions who operate in a given rural context.

Several livelihood experts noted the pervasiveness and growth of input-financing programs and contract farming in the countries where they work, although the authors could find no evidence that these are widespread. As noted by CGAP, "contractual arrangements reduce price risk, enhance production quality, help guarantee repayment, and have an advantage of combining inputs, technology, and skills training that have worked to the advantage of farmer and market intermediaries (Peck Christen & Pearce, 2005). FAO identifies five different forms of contract farming with various requirements, but interviews confirmed that variations across value chains and actors are commonplace.

Contract farming can be quite limited as a barter arrangement, where inputs are supplied and farmers agree to provide a quantity at harvest. Other forms can be much more complicated, including agreements on crop price with certain market specifications, support provided to farmers, and even revenue sharing by the contract holder (Eaton & Shepherd, 2001). Interviewees generally viewed contract farming positively, though several noted that there is risk of farmer exploitation, which would leave them to shoulder the risks of the market to the benefit of the contract holder. The structure, actors, and effectiveness of the embedded financial relationships in contract farming and the internal financing arrangements merit further research, because it can be an important source of input financing for farmers.

Other frequently mentioned types of financing arrangements that interviewees observed in their work are input supply finance, trade credit, and trade receivables financing. Each of these have the common feature of helping farmers bridge a short- to medium-term financing gap. Internal financing arrangements, i.e., those that do not include a financial institution, were reported to be common, but difficult to track because the participating actors vary by value chain. In these relationships, the financing cost is often embedded in the sale and offtaking price or, in some cases, may be a barter relationship (Ruete, 2015). For input suppliers, these arrangements facilitate the sale of inputs at a time when farmers may not have cash. For offtakers, offering financing is a means to build loyalty and secure crops at harvest. These programs usually require a trusting relationship, because the agreements are difficult to enforce and lend themselves to moral hazard; farmers are often tempted to sell crops to get a better price or avoid repayment altogether.

Drawing financial institutions into these arrangements is no substitute for that trusting relationship, and can sometimes undermine it. When banks are involved, it is usually due to the initiative and support of the offtaking firm. It is the firm's purchase agreement that acts as collateral for a bank, and quite often the banks involved do so because the offtaking firms are their clients.

With a focus on productivity, crop insurance presents an interesting example of nuance. A study in Bangladesh concluded that commercial insurance could help small- and medium-scale farmers stabilize and increase their crop income by up to 41 percent, but only if insurance-facilitated access to credit is used to adopt high-yielding varieties of crops (Sberro-Kessler et al., 2017). There have been more rigorous studies that have shown significant impact of agricultural insurance on farmers' risk-taking behavior (Karlán et al., 2014) and a study in Ghana showed that perceived risk reduction encourages farmers to increase expenditures on seeds and dedicate up to 60 percent more of their fields to cash crops. The link between insurance and productivity appears to be indirect rather than direct by changing the risk-taking behavior.

Insight: Land and Livelihoods

The shift in land ownership in Africa is driven by push-and-pull factors. Up until 30 years ago, most young people inherited land, which meant that land access did not pose a constraint to engagement in farming. The practice of subdividing land is a challenge, because plots are often no longer large or productive enough to support large families. Urbanization and the increasing wealth in cities are also accelerating the consolidation of land, with the wealthy and middle class buying land for productive purposes to augment their own wealth and income. While there is no empirical evidence, anecdotes suggest that Africans continue to prize land as both an income- and wealth-diversification strategy, and status symbol. While land in Africa has been underutilized as a financial asset in the

Value Chain Finance Tools

Trade credits: The trader pays the farmer for the goods in advance and the farmer agrees to repay at harvest or another time.

Trade-receivables finance: A financial institution buys account receivables or confirmed orders from a business, advancing its working capital (IFAD, 2012).

Factoring: A financial institution (factor) buys the invoices of a business, discounting commissions and fees, consequently advancing most of the payments to the person/company (Investopedia, n.d.).

Input supplier credits: The producer receives inputs from the supplier and repays them after harvest or another time.

Marketing company or lead firm credit: An upstream buyer finances the farmers or local trader in cash or in kind. The buyer then locks the price of its purchases.

Warehouse receipts: A documented proof of ownership, and specific characteristics of certain commodities stored in a warehouse. They "provide a secure system, whereby stored agricultural commodities can serve as collateral or be sold, traded, or used for delivery against financial instruments" (Giovannucci, Varangis, & Larson, 2000).

—Adapted from Ruete, 2015

commercial sense, it has functioned as a means for multi-generational pooling of resources and is a core part of social networks and power relationships, both of which give indirect financial benefits. The widespread practice of “labor-tying” also demonstrates the importance of land to “fund” labor during harvest time and to harness collective economic projects. For the individual, land also provides a means to secure food, earn rent (a growing practice in Africa) and provide housing while sustaining social relations, which is a risk-management strategy. Africa will face the challenge of a new generation of landless poor, creating an imperative for accelerating the development of SSNs and supporting the accumulation of financial assets.

—Adapted from Ferguson & Li, 2018

Exhibit 12: Innovations in Agriculture

Innovations in Agriculture

Successful financial innovations in the agricultural space, such as the One Acre Fund and Tulaa, take a holistic approach to addressing smallholder farmer needs, bundling farmers’ access to finance with other elements that contribute to a successful farm, such as access to inputs and agricultural information. Innovations that do not include financial services, such as Hello Tractor and Wefarm, utilize data sharing and draw on the resources of others, either for services or information. Both within and outside of financial services, platforms leverage artificial intelligence to automatize services, reduce costs, and increase product utility and reach.

ONE ACRE FUND

The One Acre Fund serves farmers with: 1) asset-based loans for seeds and fertilizer; 2) delivery of these inputs to farmers; 3) training on modern agricultural techniques; and 4) crop storage solutions and education around market fluctuations to maximize profits. In 2019, One Acre Fund served 1,004,700 farm families, more than doubling their number served in 2016, and currently operates in Kenya, Burundi, Malawi, Rwanda, Tanzania, and Uganda.



Launched in Kenya in 2017, Tulaa provides qualified farmers with inputs on credit, receiving repayment over several months. Utilizing mobile technology and artificial intelligence, the company sends tailored advice to farmers based on location, crop, and inputs purchased. Before the harvest, the company estimates farmers’ expected production and brokers their crop sales with identified buyers.



Hello Tractor has been called the “uber for the farm” (Forbes). Using the app, farmers who do not own tractors can receive affordable tractor service on an as-needed basis, avoiding the time and high costs of manual labor. Tractors are tracked to collect data for decision making, as well as to provide security to tractor owners. Hello Tractor currently serves farmers in Nigeria, Kenya, Mozambique, Bangladesh, and Pakistan.



Wefarm describes itself as the world’s largest farmer-to-farmer digital network, connecting more than 1 million farmers in Kenya and Uganda. Using the platform, smallholders receive information to improve their yields and profitability. The platform utilizes machine learning to match farmer questions with relevant answers and allows for communication via short message service (SMS) to ensure inclusion of those without internet. Wefarm is a mission-driven, for-profit company that is free to farmers.

Agribusiness

70 percent of urban Africans’ food costs are attributed to the post-farm gate segments of the supply chain (processing, wholesale/transport, retail, food stalls, restaurants, etc.). Specifically, the farm share of every unit spent on food locally is about 30 percent (Byerlee et al., 2013). This compares to a share of more than 90 percent in a modern food sector, such as the United States, suggesting that the added value of agribusiness in Africa still has considerable room for growth (U.S. Department of Agriculture [USDA], 2018). The World Bank estimates that the share of all agribusiness and food-related business in national GDP is typically around 20 percent in Africa (Byerlee et al., 2013). If this is correct, it is a greater contributor to GDP than farming itself and larger than manufacturing.

Because agribusiness directly increases productivity, helps improve supply, builds access to markets, and creates non-farm rural employment, this sector is of critical importance to improving livelihoods. Agribusinesses are also part of the solution for increasing local food systems' efficiency in reducing food prices and feeding the growing population of consumption cities. The shape of the agribusiness sector is linked to the value chain(s) it supports; some are tightly integrated, others fragmented, some are set up to deliver from the farm directly to export, while others have local value addition or serve local markets. Again, there is little homogeneity in agribusiness; value chains vary significantly from crop to crop and country to country. Agribusinesses range from individual or microenterprise buyers who aggregate crops for larger off-takers, to input suppliers and agro-processing businesses. Among these are cooperatives and growers' associations that are increasingly offering agribusiness services to their members. There has also been significant growth and diversification in supply chains, with large numbers of SMEs investing in trucking, wholesale, warehousing, cold storage, and first- and second-stage processing that better connect the farmer to the end-consumer (AGRA, 2017).

"We need to accelerate labor productivity growth in primary agriculture and agribusiness value chains, thereby improving earnings for farmers and releasing them for jobs in other sectors; attract private investment in labor-intensive off-farm activities—namely in agribusiness, manufacturing, or services; and make these newly created jobs accessible to relatively low-skilled youth and women. To be honest, I don't think we should be too focused on creating jobs in primary agriculture. Our goals should be to move people to other sectors, including services."

—Expert Interview

The researchers could not find data on agribusiness employment overall or the breakdown between SMEs and large firms. A study in Ghana showed that 85 percent of all agro-processing was done by microenterprises (Afful-Koomson et al., 2014). In a survey of 272 small- and medium-scale agro-processing enterprises in Ghana, Afful-Koomson et al. (2014) showed that micro agro-processing firms employ about 48 percent of the total agro-processing labor force in Ghana (Owoo & Lambon-Quayefio, 2017). Early stage agribusiness is particularly labor intensive and provides various opportunities for self and wage employment, particularly for rural youth seeking off-farm employment (United Nations Industrial Development Organization [UNIDO], 2013). Agribusiness can also be an opportunity for women, because it provides more options for fixed location work closer to home. However, many of the same constraints that limit women's participation in the formal economy, as a whole, have proven to be constraints in the growing agribusiness sector (Roscoe & Hoffmann, 2016).

Given the lack of literature on the role of the agribusiness sector in livelihoods, DAI reviewed the common constraints identified through our own projects. A common constraint facing agribusinesses across DAI's portfolio is the difficulty of finding reliable, skilled, and trustworthy employees. Employees frequently work off site and are difficult to monitor. Small agribusinesses have also cited a lack of transportation options, leading them to only hire workers with vehicles or motorbikes or to accept the low productivity that comes with limited transport to rural areas. Digital payments are making inroads in overcoming this trust issue, removing the temptation of cash from employees. Agribusinesses themselves are also offering or facilitating rent-to-own programs for motorbikes and vehicles paid off through commissions or the worker's wages. The constraint of sourcing supply and accessing markets is both the function and the challenge of agribusinesses. Small agro-dealers are price-takers when it comes to supply. Lacking agreements with wholesalers, they often buy at retail prices in secondary cities and sell in smaller towns. They face the challenge of inventory management and the cost of investing in seasonal supplies that minimize their ability to do discount buying. Building customer loyalty requires agro-dealers to provide vital information on the selection and use of inputs, and while some are the purveyors of counterfeit inputs, others are the victims of it. Many build loyalty and markets by acting as guaranteed off-takers, which allows them to sell more inputs on credit and secure repayment for inputs during harvest through the value chain finance methods described in the previous section. Others provide inputs at very low prices, but regain the value lost through mark ups on sales to lead firms and exporters. While risky, individual agro-dealers or small agribusinesses are often monopolies in certain regions and are able to secure high margins by buying crops at a very low cost and earning more through bulking and selling up the value chain.

Not surprisingly, a recurring challenge for market-making agro-dealers is side selling. A few interviewees engaged in these types of programs noted that acknowledging the need of farmers to engage in side selling and accommodating it was proving the most effective means to make internal financing programs work, either through allowing a portion to be sold to the market or by offering a competitive purchase price to farmers to minimize the temptation. A study in process by FSD Zambia notes that side selling is often based on need, not on price arbitrage, and it is conducting a pilot with contract farmers to see how small cash advances during the pre-harvest period can stave off hunger and the temptation to break contractual arrangements (FSD Zambia, 2020).

Financial Services in Agribusiness

There has been on-going discussion on how agribusiness can act as agents for financial services (Hernandez, 2018). CGAP's own research in 2005 pointed out the role agribusinesses of all sizes play in facilitating access to financial services through identifying and vetting clients, providing accompanying technical assistance, and in some cases, providing the services directly (Peck Christen & Pearce 2005). Though the literature on small-scale agribusinesses and finance typically focuses on these roles, it often overlooks these businesses' own need for financial services. A study in Nigeria of individual agro-dealers, i.e., sellers of inputs and buyers of crops, found that only 38 percent were registered businesses and only 30 percent used any formal credit. Their likelihood to borrow was positively correlated with their education level, age, and size of their business, as well as whether or not they were members of a trading association (Olomola, 2014). This study and discussions with experts suggest that like farmers, small-scale agro-dealers also avail themselves of input financing and trade credits from upstream firms in the value chain. Agro-dealers interviewed by DAI in Zambia, both individuals and microenterprise owners, revealed that agro-dealers engaged in input selling and crop offtaking often provide embedded financing and play a role in facilitating government and other subsidies for inputs by accepting digital vouchers for subsidized input payments.

Given the importance of this growing sector to farming and as a source of livelihoods in rural areas, it merits further research that goes beyond the role of agribusiness as a facilitator of finance and looks at their own financial needs, which includes playing the role of financiers, agents, arrangers, and bundlers of financial services for farmers.

Insight: Extractive Industries

In addition to agriculture, extractive industries are an important part of the primary sector in many developing countries. Nine out of ten SSA countries are commodity dependent, more than any other region of the world. Minerals and energy exports have been on the rise in Africa, and both are subject to price fluctuations that leave countries and their people more vulnerable to market shifts. Africa is home to only one of the five largest mining companies, leaving much of the diamond and metal extraction to smaller mining companies, often with less pressure to focus on mitigating the impact or maximizing the benefits to the local population. Chinese and Indian companies have recently entered this market, but few of their projects have reached the production stage (McKinsey, 2010). Just as demand dropped precipitously in 2008, during the global financial crisis, it is likely to do so again in 2020 in the face of COVID-19. That said, the long-term prospects for growth are strong due to an anticipated continuation in demand from Asia.

A brief survey of the literature on mining, oil and gas, and livelihoods reveals that compared to agriculture, neither mining nor gas contribute as significantly to formal or informal employment beyond supporting the growth of "consumption cities" (McCullough, 2016). For example, the ILO reports that while the extractives industry in Ghana has higher average wages than other sectors in the economy, "the recent number of jobs created by the sector is not commensurate with the investments in the sector" (Evoh, 2017). In terms of employment, the contributions of the extractive industry are low—rarely more than 1 to 2 percent of total national employment globally (ILO, 2019). According to a report from the Economic Commission for Africa, mining contributed to only 1.4 percent of Zambia's total labor force (United Nations Economic Commission for Africa [UNECA], 2018). Virtually every study on mining, oil, and gas is focused on mitigating the well-documented negative impacts of these industries on the livelihoods of neighboring communities rather than improving upon identified livelihood opportunities. This may be an area for further study for CGAP.

Taxonomy of Agribusiness

- **Buyers:** purchasing, sorting, transport, storage.
- **Input providers:** small-scale agricultural machinery, equipment, and tools; fertilizers, pesticides, and insecticides.
- **Equipment providers:** larger farm machinery, processing equipment, tools, storage facilities, cooling technology, and spare parts.
- **Services:** Financing, insurance, marketing, distribution, information, and other service firms, including storage, transport, packaging and design for better marketing and distribution.
- **Processors:** large-scale cleaning, sorting, milling, ginning, and production into intermediate or final products.

—Adapted from MasterCard Foundation, 2014

Trends in Livelihoods and Manufacturing

Employment in industrial jobs in low- and middle-income countries, which appears to have peaked at 24 percent of all employment a decade ago, is now slowly declining. Employment in the industrial sector for low- and middle-income countries is at 11 percent and 23 percent, respectively. This is particularly true in SSA, a latecomer to manufacturing (ILO, 2020a). In 2018, the average share of manufacturing to GDP and employment in SSA was about 11 percent, up only 1 percent from the 1970s, and employment in manufacturing as a percentage of total employment also had no growth (Newfarmer et al., 2018). Manufacturing has historically been a driver of development, offering productivity gains and higher wages than agriculture. In Asia, industrial employment has continued to rise, while remaining stable in other geographic regions. Asia has added 30 million nonagricultural jobs per year for the last 25 years, which the World Bank notes have been accompanied by improved productivity and higher earnings (Gentile, 2019). As noted in the section on global trends, the first movers in manufacturing, mainly China and a handful of East Asian countries, experience the highest productivity and wage gains in manufacturing, as compared to agriculture. As the global market became more competitive, and technology, particularly in China, made industries less labor intensive, it became possible for manufacturers to seek out the cheapest production costs, rather than the cheapest labor costs. Therefore, the total gains from value-added manufacturing are peaking at lower levels of per capita income than in the past (Hallward-Driemeier & Nayyar, 2017).

In countries such as South Africa and Ethiopia, manufacturing hubs have started to emerge. Ethiopia, for example, has begun manufacturing clothing for companies, including H&M, Tommy Hilfiger, and Calvin Klein. Despite this breakthrough into the garment sector, it should be noted that these workers are the lowest paid in the world, earning only \$26 per month or an entry-level salary of \$312 (Barrett & Baumann-Pauly, 2019). This is in comparison to the \$182 per month that Cambodian garment workers make (Ibid). In South Asia, while manufacturing employment is more than twice that of the larger region, it is also less productive. Manufacturing in South Asia is largely composed of individual entrepreneurs and microenterprises that lack the scale and resources to significantly grow incomes.

There are no global statistics on the number of microenterprises engaged in manufacturing. A study commissioned by CGAP this year estimates that there are 55 million manufacturers in the MSE sector in developing countries⁴ (Dalberg, 2019). For some perspective, in India there are between 18 and 19 million microenterprises engaged in manufacturing. Indian MSMEs in manufacturing make up 31 percent of all MSME employment, some 36 million people, which suggests that the average size of a manufacturing MSME is less than two people (Ministry of MSMEs, 2019). In Kenya, there are an estimated 7.4 million MSMEs; 874,200 or 11 percent of which are engaged in manufacturing. Manufacturing MSMEs contribute 4.4 percent of all MSME employment, or 1.7 million jobs. Again, this suggests that the average size of an MSME in manufacturing is two people. (Kenya National Bureau of Statistics, 2017). In both countries, textiles, apparel, food products, basic metals, and furniture are among the largest industries within manufacturing MSMEs.

Of particular note in manufacturing livelihoods, the gender divide appears to play a pivotal role on many levels. Women-owned enterprises are less likely to be engaged in manufacturing and if so, are far more likely to be informal. As an example, only 30 percent of manufacturing SMEs are female-owned in Kenya, and 61 percent of all female-owned SMEs are unlicensed, compared to 70 percent and 48 percent for men (Ibid). A study of artisans in Myanmar is another example, as women reportedly earn only half of what men make (UNIDO, 2010).

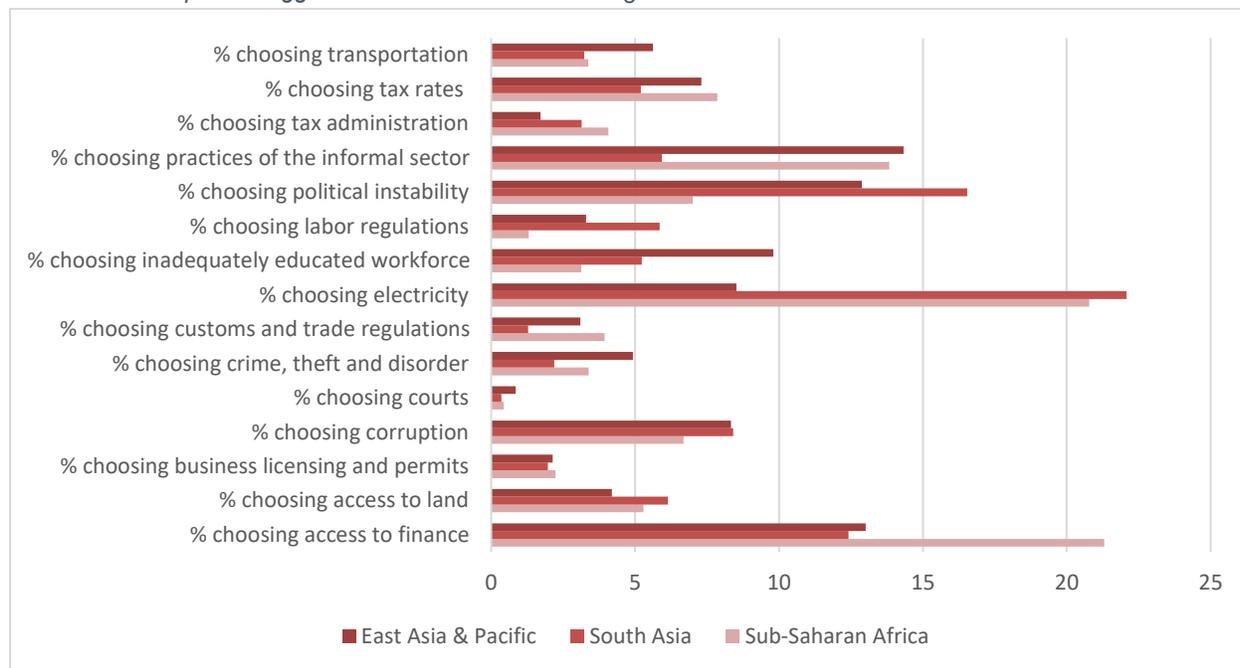
Improving Livelihoods in Manufacturing

It is difficult to find data on small-scale manufacturing to determine how relevant it is or may be in building livelihoods. Comparing India and Kenya, manufacturing microenterprises earn less than service sector counterparts. There are similarities in the constraints faced by large- and small-scale manufacturing

⁴ Based on data from the IFC, World Bank, and Dalberg's own analysis.

firms, which includes access to markets, acquiring the right capital equipment, access to finance, and management skills. Even more pronounced for producers are the cost and reliability of electricity—consistently the primary constraint—and the cost and availability of transport and logistics (World Bank Enterprise Surveys, n.d.).

Exhibit 13: Enterprises' Biggest Obstacles in Manufacturing



Source: *The World Bank Enterprise Surveys (n.d.)*.

The researchers found far less literature on manufacturing microenterprises, productivity, and incomes as compared to the agriculture or service sectors. Whereas smallholder farms are often more productive than large farms, the opposite is true for manufacturing. As an example, a 2012 survey of manufacturing in India found that while informal firms accounted for 81 percent of all manufacturing employment, they contributed to only 29 percent of total value addition in the manufacturing sector (National Sample Survey Organization, 2013; Green, 2014). In a study of artisans in Myanmar, UNIDO reported that raw materials represent three-quarters of production costs, with labor at only 21 percent, highlighting the relatively low returns artisans receive for their labor (UNIDO, 2010).

Overcoming this lack of economies of scale has been a focus of livelihood interventions in manufacturing. Traditionally, this is achieved by associating or clustering similar entrepreneurs or microenterprises to reduce the costs of doing business. This helps promote a division of labor between firms to allow for specialization, and fosters cooperation, knowledge transfer, and learning, and builds market linkages. At the lowest level, these interventions are often in the form of household workshops, which combine family members and neighbors. Usually, however, they are created by establishing or supporting productive cooperatives or geographic clusters that have been widely used for microenterprises. A brief review of the studies suggests that while clustering does have advantages, the benefits are also linked to where the clustering occurs, i.e., clusters near more-densely populated areas are closer to markets and these suppliers benefit the most (Ali et al., 2012). A study in Ethiopia demonstrated that clustering helps reduce the overall capital needed to start and operate a manufacturing firm, in part because they can specialize and cooperate more quickly and access better information on production techniques, suppliers, and markets (Ibid).

There appears to be little research on how manufacturing microenterprises overcome the constraints to accessing markets. As with agricultural value chains, a key strategy is to link them with large firms who

have need for their manufactured products. However, there is a growing concentration of literature on the handicrafts sector, linking them to markets through e-commerce. While small-scale online marketing and sales of handicrafts have existed for decades, Etsy's growth since 2005 has provided a model and helped develop the idea of a direct marketplace platform linking those who make handmade products with sellers. This has now expanded into a global effort not only within developed countries, but also within developing countries. As an example, Amazon launched Amazon Handmade in 2015, which includes handmade items from around the world. India's Flipkart launched Flipkart Samarth in 2019 to sell goods from artisans, weavers, and handicraft producers within India to Indian consumers. While similar models are appearing globally, they seem to focus on small, easily shipped manufactured items such as clothing, jewelry, art, and household items. The role of e-commerce, both formal and informal, is discussed more fully in the section below on Trade and Services.

Because the cost of materials and productive assets is the primary cost to manufacturing microenterprises, it is surprising to see that little research exists on how manufacturing MSEs manage supply linkages or access assets for production. A study in Uganda is illustrative of other literature reviewed in that it shows that growth in productive assets leads to significant increases in MSEs' monthly revenue, and that a lack of adequate access to productive assets and materials were their biggest constraint (Ishengoma & Kappel, 2008). A study of artisans in India highlighted that the availability of raw materials and the need to purchase them at a high price through middlemen is one of the key constraints, particularly for rural artisans (Banik, 2017). Another study of artisans in Ecuador showed that purchasing materials and tools was the number one reason artisans sought to access credit (Middleton, 2020).

As with agriculture, adapting new technologies is critical for small-scale manufacturing. As with most microenterprises, personal and business contacts have been the traditional method of discovering and learning about new technologies. This has been revolutionized by broadband access. As an example, a survey of small-scale manufacturers in Gujarat, India showed that 93 percent learned of new technologies from the internet, compared to 31 percent from associations and 34 percent from friends (Yadav, 2014). Confirming the importance of technology and geographic location, a separate study of manufacturing SMEs in India found that improving access to technological upgrades for production and land ownership, and providing a fixed and secure location to produce, contributed significantly to labor productivity and wage growth—far higher than access to finance (Mukherjee, 2004). However, adapting technology often requires a mindset shift, particularly for the artisan community. For example, a study of batik manufacturers conducted to understand the reasons for the minimal use of technology highlighted the lack of awareness and perceptions of how a “traditional business” functions (Hairuddin et al., 2012).

Financial Services in Manufacturing

The Dalberg study, commissioned by CGAP, highlights that manufacturers have higher credit needs than other sectors, slower input to sales cycles than retail microenterprises, and a financing need for equipment, supplies, and pre- and post-sales financing, i.e., purchase order financing and invoice financing (factoring) (Dalberg, 2019). Of these needs, the study identifies input financing and factoring as opportunities that are gaining traction as a result of the greater use of data and platforms. The researchers found very little information on the role of financial services in microenterprise manufacturing, particularly for individual or very small manufacturers. This section will include a heavier focus on some of the areas where innovations are showing promise in financing for manufacturing microenterprises.

Factoring has seen a significant growth in developing economies, particularly in Latin America, led by Chile, which passed a law (Chile Law no. 20.727) requiring e-invoicing in a standardized tax format, as well as a free online invoicing tool for SMEs to use without investing in specialized software. According to the Central Bank of Chile (2019) manufacturing and construction companies are the largest users of factoring in Chile. However, this appears to be concentrated at the upper end of SMEs. While only 7 percent of manufacturing companies use factoring, it accounts for nearly 30 percent of all commercial debt, highlighting the importance of repetitive, very short-term financing to bridge the gap between invoicing and receipt of payment (Ibid). The Cadenas Productivas programme backed by the state-run

development bank Nacional Financiera (Nafin) in Mexico created an online marketplace in which MSMEs that are accredited suppliers to large, established companies can sell invoices. These moves are giving rise to platform-based finance models. For example, in 2018, invoice financing accounted for 79 percent of all online finance in Chile and 20 percent in Mexico (Cambridge Centre for Alternative Finance, 2018). In Asia, Malaysia also reported a six-fold increase in factoring by SMEs between 2012 and 2014 (Mehrotra et al., 2015). In Africa, factoring is a common practice for larger SMEs, but banks often require physical collateral in addition to invoices. DAI recently supported BeneFactors, Ltd. in Rwanda, the first non-bank factoring company in the country to offer invoice financing for SMEs without demanding physical or financial collateral to discount invoices. It is doubtful that factoring will be available to very small manufacturing shops. However, as factoring markets mature and competition for invoice finance increases, existing market providers or new market entrants will develop methods to more cost-effectively reach microenterprises either individually or in groups.

The research revealed less evidence of progress asset and materials financing, other than CGAP's recent research on innovations in asset finance. It highlights the need to overcome barriers to financing productive assets, including specialized assets and those with smaller ticket sizes, as well as to ensure the proper quality and service of them (Mattern, 2020). Leasing is a well-developed industry in most developed economies, with many variations, including hire-purchase (leasing resulting in final ownership by the lessee), and leasing (which includes service to and regular updating of equipment). As noted in the research, leasing is a common means for small businesses in the United States to finance equipment that is widely used, including vehicles, farm equipment, and computers. (U.S. Federal Reserve, 2017). However, leasing functions best with large markets for certain types of standard equipment that can be easily valued, liquidated, and resold for some residual value. This approach relies on the legal system to reclaim an asset in the event of default—conditions often lacking in developing countries. Other challenges in developing markets include the lack of insurance options for equipment, difficulty in ensuring regular maintenance of leased equipment, and difficulty of local lessors to raise capital for up-front asset purchases. FSD Kenya notes the main constraint of hire-purchase arrangements is the application of VAT (Berg et al., 2015), while the International Finance Corporation (IFC) highlights the stamp duty and the lack of a resale market for equipment as key constraints (Chhabra & Shankar, 2019). Despite technological advances, including geotracking and remote lockouts, microleasing for productive assets does not appear to be gaining significant traction.

Exhibit 14: Innovations in Production

Innovations in Production

Like small merchants and vendors, small-scale manufacturing businesses are able to grow and maintain resilience through alternative financing solutions. Platforms providing simplified, quickened access to credit include Lendingkart, a multi-service nonbanking financial company in India, and Facturedo, an invoice discounting platform. Additionally, e-commerce platforms, building on mobile money and online payments, have allowed small-scale manufacturers to sell their goods locally and internationally. E-commerce platforms, either formal (such as the South African artisan marketplace Hello Pretty) or informal (like Facebook), already widely used for other purposes, provide sellers with access to a broader market at a low cost.



Launched in Chile in 2015, has expanded to Peru and Mexico and has more than 1,000 users. The platform allows businesses to receive loans for money owed to the company in invoice payments not yet received. The low-cost platform provides loans to SMEs quickly through a simplified, entirely online process.

LENDINGKART LendingKart provides working capital loans and business loans to SMEs across India, using alternative methods to assess appropriate loan amounts and provide loan terms. Its loans are available in a matter of days, have no collateral requirement, and provide flexible repayment tenure and fair interest rates. The service provides a variety of loan types, including those specialized to meet the needs of the manufacturing sector based on the type of business and loan purpose (such as raw materials, machinery and equipment, or manufacturing set-up costs).



Similar to the American online marketplace Etsy, features locally made South African design and craft products from a variety of stores. Orders are fulfilled directly by individual store owners, but facilitated through the site's payment platform. Usage of the site provides producers with a platform to market products, make transactions, and reach a far wider customer base, including international customers.

The Pay As You Go (PAYG) model has similar attributes to leasing and has had significant success in the sale and distribution of solar and other household assets. Energy is consistently highlighted as a key constraint to processing and manufacturing SMEs, which makes this a valuable asset to acquire for manufacturing. The 2020 *Off-Grid Solar Market Report* estimates that off-grid solar now provides energy and lighting to 420 million people globally and is diversifying beyond individual lighting units into larger-scale electric and appliances, including refrigeration and water pumps used for livelihood purposes (Lighting Global, 2020). The industry is attracting large-scale investment and creating standards, such as the PAYGO Market Attractiveness Index developed by Vivid Economics. As noted by CGAP, this rapid rise in PAYG financing is not without its issues, including a lack of transparency, high mark-ups, overselling customers, and a lack of adequate product reliability and after-sale service (Mattern, 2020). CGAP's research also highlights that PAYG may not be suitable for high-value, productive assets that are needed for manufacturing or production. Other newer innovations like platform-based asset rental as a service and rent-to-own models may offer a better fit for such assets, which can provide greater service and support.

Continued research by CGAP in asset finance is merited, because physical assets are vital for increasing productivity, including assets that are directly used in production. This need will be even greater in developing countries than it has been in developed economies, since low-income households lack the ability to finance business assets through mortgaging property.

Trends in Livelihoods and Services

The tertiary service sector, including trade, transport, social, health, and financial, is the largest and most rapidly growing sector globally, including in low- and middle-income countries, where it accounts for 29 percent and 44 percent respectively. Services employ 24 percent of South Asians; 36 percent of Africans in low- and middle-income countries; and in East Asia, where the percentage of those employed in services has more than doubled since the 1990s, it employs 46 percent of all workers—nearing the global average of 51 percent (ILO, 2020a). This is particularly important for women; 57 percent of women work in the service sector as compared to 47 percent of men (Gammarano, 2018b). Services are particularly important to provide livelihood opportunities for women formerly engaged in agriculture. The decline in agricultural employment overall leads to a quick rise in the participation rate of women in services (Ibid).

While the researchers were unable to find global data on the distribution of microenterprises across sectors, some individual country studies are instructive to show that most microenterprises in most countries are engaged in the service sector. A 2010 study in the Philippines found that 75 percent of microenterprises were engaged in the service sector, with about half of those working in retail trade (Senate Economic Planning Office, 2012). In India, 69 percent of MSMEs are in the service sector and account for an estimated 68 percent of all MSME employment (Ministry of MSMEs, 2019). In Kenya, almost 70 percent of microenterprises engage in retail trade.

As noted throughout the literature, the service sector is highly diverse, dynamic, and difficult to dissect, because most service sectors offer a range of low-, medium-, and high-skilled work opportunities. This section will look more closely at retail trade and personal services, which are the largest sources of employment and an economic livelihood entry point for low- and medium-skilled young workers and urban migrants. For the purpose of this paper:

- **Trade** includes individuals and MSEs whose primary function is to buy and sell goods with little or no value addition.
- **Services** include livelihoods that are fee-for-service, where the primary value addition is the workers' time. In this section, we have divided the analysis between these two categories.

While the researchers could not find definitive data on global employment in retail trade and services across developing countries, it is the dominant employment industry for microenterprise, self-employment, and wage work outside of agriculture. According to the Dalberg study on MSEs, there are

an estimated 143 million MSEs engaged in retail trade (Dalberg, 2019) and some 113 million MSEs in the service sector. As an example of its importance for individual entrepreneurs, street trading, from both itinerant and kiosk traders, has proliferated in African cities and is estimated to account for anywhere from 12 to 24 percent of total urban informal employment in many Sub-Saharan African cities (Roever, 2014); whereas in a survey of four Asian countries, it ranged from 5 to 11 percent of all urban employment (Roever & Skinner, 2016).⁵ A study of microenterprises (less than 20 people) in four predominantly rural African countries, Ethiopia, Malawi, Tanzania, and Uganda, showed that retail trade composed around 26 percent of rural self-employment and 66 percent urban self-employment (McCullough, 2016). While microenterprises are often thought of as individual entrepreneurs, they are actually a major supplier of wage work. More than 50 percent or more of total net employment in developing countries is due to microenterprises, with 5 to 19 employees (Ayyagari et al., 2011 and 2014).

Improving Livelihoods in Retail Trade and Services

There is strong evidence that shifting from agricultural employment to service sector employment does lead to labor productivity and income gains regardless of skill level. As noted above, ILO data shows that the value added per worker in services is greater than that of manufacturing or agriculture in SSA. While this is not the case in Africa in aggregate, McCullough's (2016) study of productivity and wages in microenterprises in four African countries showed that shifting into the service sector offers greater productivity gains than the agriculture or industrial sector (McCullough, 2016). The study highlighted that shifting into services allows for more consistent work. Agricultural workers work an average of 700 hours per year compared to the average 1,850 hours per year worked by those in services (Ibid). A look at data from Kenya shows that both self-employed and wage workers engaged in trade and services earn more than those in manufacturing (Wairimu, 2015). Up until recently in Asia, labor productivity in manufacturing was far higher and growing at a faster rate than in services. However, in recent years in larger countries like Malaysia and India, the labor productivity growth in services has outpaced that of manufacturing (Lee & McKibbin, 2014) in part due to rising average incomes, which are positively correlated with service sector productivity. However, there is also a growing oversupply of low-skilled, non-agricultural workers in larger developing countries in Asia, including Indonesia, India, Malaysia, and the Philippines (El Achkar Hilal, 2018). This oversupply is increasingly concentrated in labor-intensive service industries, such as retail sales, food services, and transport, which are characterized by a high level of price competition, low wages, and weak worker protections (Ibid). As a result, it should not be taken for granted that all service sector jobs offer a better future than agriculture. It is also important to note that income distribution of trade and services is highly variable; some make quite high incomes, like successful storekeepers whose income is comparable to career professionals, while most make relatively low incomes, comparable to those of unskilled manual laborers (Bromley, 2000).

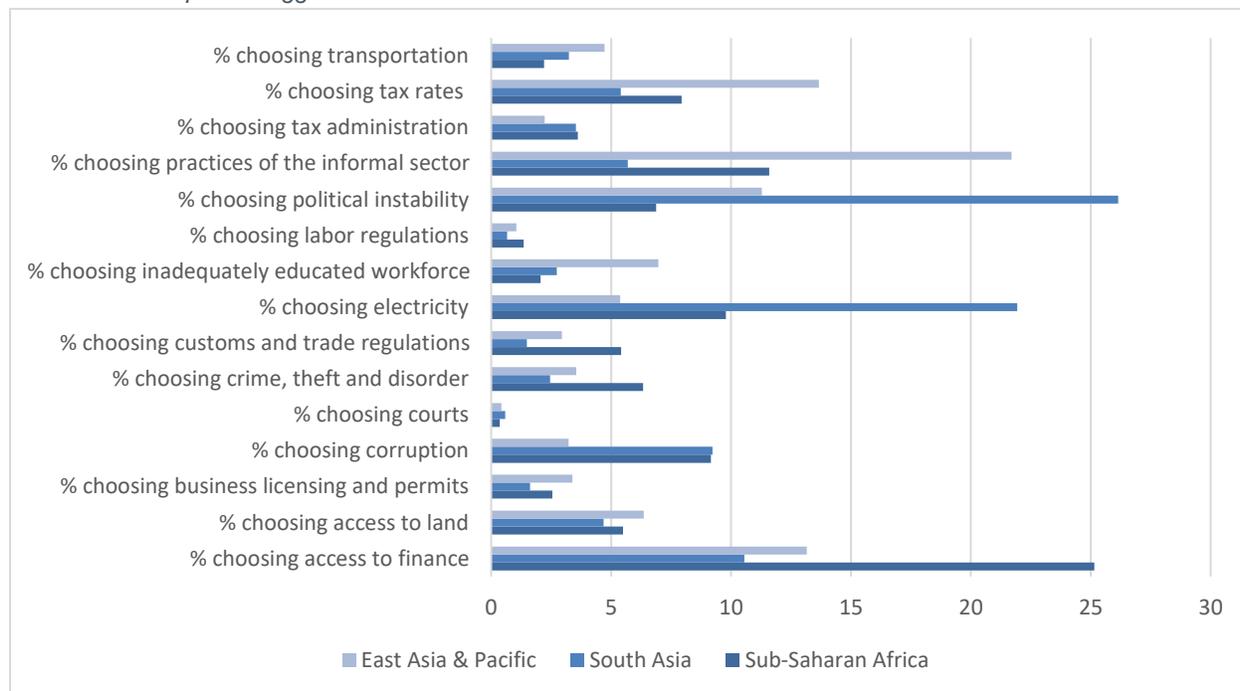
The global studies reviewed do not distinguish the challenges of retail and service microenterprises from those engaged in manufacturing. However, since retail and services dominate most microenterprise sectors, the general findings on challenges facing MSEs are likely to apply most to retail and service microenterprises. In addition to constraints such as limited access to finance, unreliable electricity and infrastructure, and pervasive corruption noted in the World Bank Enterprise Surveys (n.d.), a survey of literature in Africa also adds the challenges of poor management skills, lack of reliable information, poor quality and cost of employees, and a general negative perception of SMEs by government and the public (Muriithi, 2017). Other more in-depth surveys highlighting the internal issues facing Asian MSEs underscore a lack of access to finance, high competition, low level of innovation, and limited information access and use of technology (Vandenburg et al., 2016; Yoshino & Taghizadeh-Hesary, 2016).

While many of those interviewed emphasized the importance of improving access to markets as a key driver for productivity growth and for livelihoods overall, a review of some of the productivity drivers relevant to small-scale trade shows that supply linkages, namely sourcing the right inventory at the lowest

⁵ Assuming that street traders and kiosks are not counted in the Dalberg study, this would suggest that the actual number of entrepreneurs and microenterprises engaged in trade is much higher than the 143 million projected.

cost is the most important. Most traders and merchants operate from a fixed location and face competitive markets that leave them little room to compete on price. This is true even of itinerant traders; 90 percent reported that they work at the same place every day and nearly half source their goods from a regular set of suppliers, mostly formal wholesalers (Roever, 2014). Because traders operate in a competitive marketplace, only about half were able to adjust their prices upward in the short term, regardless of the cost of supply (Ibid). Produce traders, a very low-end livelihood dominated by women, faced the greatest challenges in adjusting their prices (Ibid). In the same survey, these traders noted that cost of goods was the most important aspect in choosing a supplier. Surprisingly, 51 percent sourced their goods for formal suppliers (Ibid).

Exhibit 15: Enterprises' Biggest Obstacles in Retail



Source: *The World Bank Enterprise Surveys (n.d.)*.

Beyond price, a key aspect to retail business is managing inventory. In developed economies, inventory management in retail, including assortment management and space planning (i.e., inventory placement), as a driver of productivity and income is supported by academic research and data (see K ok et al., 2006). As an example, a study conducted through analysis of users of the 12 largest assortment planning application vendors in the U.S. found that better predicting sales led to a 60 percent increase in revenue, a 50 percent increase in customer loyalty, and a 23 percent reduction in cost for retail clients (Periscope, 2015). However, there is almost no research or analysis of inventory management or maximizing use of physical space in the context of microenterprises in developing countries. A single study of microenterprises in Kenya found that 40 to 60 percent of microenterprises' costs were due to carrying inventory; and it also found a strong negative correlation between inventory management and cost of goods sold (i.e., the more actively the microenterprise managed inventory, the lower the overall relative cost of goods sold) (Ongisa Nyang'au, 2013). The study also highlighted that a lack of inventory management and lack of access or use of market and supplier information were strongly linked, while not suggesting the direction of the causal link (Ibid).

Microenterprises engaged in personal services face other challenges to productivity and income, primarily accessing customers, maximizing their time, and, in the case of medium- and high-skilled services, upskilling. These drivers of productivity and incomes have traditionally been addressed through heavy use of social networks. Primary social networks, including family, friends, and trusted people, are often

critical to enabling individual entrepreneurs in the service sector to start a business and provide support during a time of scarce resources (Kuada, 2009; Rutashobya et al., 2009). These primary networks often work together, cooperate, and share knowledge (Coleman, 1988). A good example is how domestic workers and drivers draw on relatives or trusted friends to expand services to clients without the risk of losing those clients to a competitor. Researchers have found that entrepreneurs eventually build work-related networks that play a crucial role in career advancement and upskilling through “bridging ties” that help them build connections with new or different clients, source equipment, or share knowledge and mentoring (Woolcock & Narayan, 2000). These networks often consist of customers, suppliers, coworkers, and even competitors who act as mentors and gateways to new opportunities. These entrepreneurs will play an important role in helping service and trade microenterprises enter and take advantage of the growing digital economy.

Adapting technology, particularly communications technology, has become a vital service to individual entrepreneurs and retail microenterprises. At a basic level, mobile phones have been applied in microenterprises to communicate with employees and customers, which in turn increases operational efficiency (Esselaar et al., 2007). In a 2013 study on the impact of mobile phones on 1,500 microenterprises in Kenya, 78 percent of which were engaged in trade and services, 94 percent said using the mobile phone had led to an increase in profits and more than half felt it had led to an increase in excess of 20 percent (Mwangi & Acosta, 2013). Most used mobile phones for ordering supplies, managing deliveries, and contacting customers when items were available, which they reported as greatly reducing costs (Ibid). There is evidence that the digital marketing tools used in retail in developed countries are now entering the SME markets in developing countries. There is also a nascent industry in developing economies of digital services tailored for individual entrepreneurs (Partnership for Finance in a Digital Africa, 2019). As one expert noted, these medium- to high-skilled digital translators work on commission and set their own hours to do everything from building Facebook profiles to helping MSEs with SMS marketing. There is evidence that monitoring technologies make non-family employees more careful on the job and less likely to under-report revenue, increasing owners’ profits (Kelley & Schonholzer, 2019).

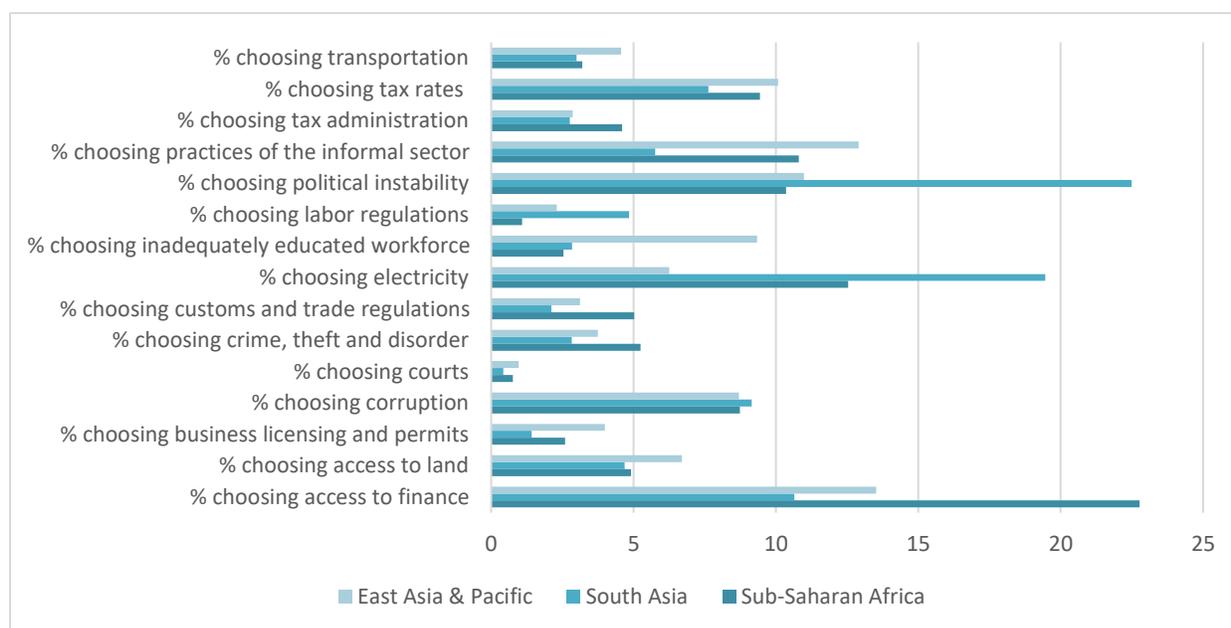
Until recently, there has been little research on expanding access to markets for livelihood trade and service microenterprises beyond social networks, perhaps because of the limitation of working out of a fixed location as price-takers and a lack of the growth capital to open new locations. This stands in contrast to the emphasis placed on finding new distribution channels, marketing, and managing customer relationships found in developed markets service sectors. However, there is a growing level of observation, literature, and experimentation on the use of digital platforms, particularly e-commerce platforms and informal e-commerce through social media, as a means to market expansion. A World Bank study on e-commerce in China highlights that “participation in e-commerce has a positive association with household welfare improvement, especially in rural China and that beneficiaries include vulnerable populations—women and youth.” Additionally, areas where e-commerce has been introduced in rural areas have experienced higher overall household consumption and reduced inequality (Alibaba Group & World Bank, 2019). A 2016 study by KPMG in India showed that of the 27 percent of SMEs engaged in e-commerce, three-quarters of them were doing so through third-party online marketplaces. Those participating in e-commerce were able to increase revenues and net income by approximately 50 percent, and they also reported a more modest 7 percent increase in customers (KPMG, 2016). However, e-commerce platforms are also a source of competition for retail microenterprises where they compete against large companies often selling at lower prices. Success in e-commerce is also dependent on having a reliable logistics sector and, to a lesser extent, ubiquitous payment gateways, which are lacking in most of SSA.

Informal e-commerce, in which buyers and sellers leverage social media platforms to discover each other and connect, are growing and in many developing countries exceed the outreach of more formal e-commerce platforms, according to CGAP’s research on the topic. As noted in the CGAP study in

Bangladesh, this is particularly important for women: 26 percent of women in the survey shopped through social media and 82 percent of sellers on social media sites were women. For men, these figures were only 5 percent and 18 percent, respectively (Islam & Roest, 2020). In an informal survey by the investor Sequoia India, more than 90 percent of the SMEs surveyed sell directly through WhatsApp in India—more than four times the number who sell on Flipkart and Amazon (Thakur, 2019).

Service platforms for other types of low- to high-skilled freelance work are proliferating globally and growing in number, but most still remain relatively small in terms of users, because they are often country or industry specific. Ride-hailing services are some of the more well-researched and debated marketplace platforms. As of March 2019, Uber had 150,000 drivers across seven countries in Africa (BBC, 2019); and Gojek, an Indonesian platform offering a variety of services, including ride-hailing, claims more than two million drivers across Asia (Gojek, 2020). However, it is questionable whether these platforms are creating decent work, because mass transport providers are highly susceptible to market pressures and act more like a commodity. Ride-hailing platforms have led to a downward pressure on income to drivers (Farrell et. al, 2018; Competition Commission South Africa, 2020). In the developing world, where car and motorbike ownership is beyond the reach of most low-income drivers, there has been growth in “middlemen,” who employ others to drive their vehicles in exchange for a portion of drivers’ earnings. While this offers drivers low-cost entry into the market, it comes with equally low remuneration and may not provide a path to a sustainable livelihood.

Exhibit 16: Enterprises' Biggest Obstacles in Services



Source: *The World Bank Enterprise Surveys (n.d.)*

There is less clear evidence on the impact of platforms for medium- and high-skilled service workers. The JPMorgan Chase study in the United States shows that non-transport work platforms have not led to the same downward pressure on wages as have transport platforms; however, the analysis mixes a variety of low- and high-skilled workers that may hide the impact on low-skilled work (Farrell et al., 2018). It does appear that service platforms are providing an alternative to secondary “bridging ties” by connecting service entrepreneurs with clients, knowledge, training, and professional connections to which they might not otherwise have access (Caribou Digital, 2020). In addition to their basic function of helping entrepreneurs source clients, many platforms provide the vetting, training, and security checks that provide a basic level of accreditation demanded by customers and, while controversial, platform-enabled customer ratings offer accreditation to attract new clients. Ng’weno and Porteous (2018) highlight that

digital platforms have the potential to offer advice on how to set prices, provide training on how to handle customers, and improve incentives for good behavior. Platforms that help MSEs reduce the time spent on routine functions, such as bookkeeping, inventory, and even banking can help increase overall productivity. In Kenya, platform services for additional functions, such as accounting, analytics, and tax collection are also becoming more common. Training provided by platform employers can also serve to improve employee skills and knowledge outside of their platform work. As examples, motorbike taxi drivers trained in customer service and digital literacy by Nigerian ride-hailing company Max.ng can use these skills to boost their businesses outside of the transport sector. Lync, an e-commerce service in Kenya, trains service entrepreneurs in professional and business management skills, such as money management and timekeeping. There is also a convergence of e-commerce and service platforms to overcome the logistics challenges that limit e-commerce growth. For example, Jumia, a leading African e-commerce platform, works with about 10,000 commission-based “J-Force” sales agents across Nigeria who provide customer service and local business solutions. These agents are also linked with drivers to provide last-mile logistics support to Jumia vendors and shoppers.

At the same time, the growth in non-employee positions in the service industry has caused concern over the negative long-term consequences to decent work. Freelancers have few protections and are often easily replaced. Without an office to go to, it is difficult for freelancers to get the mentoring and connections that create greater employment security and opportunities for advancement. While some studies show that platforms can help include some categories of workers, particularly women, others have argued that non-Western and female workers are poorly rewarded on platforms. Anecdotal evidence from interviews and articles shows that workers are investing in changing their names, citizenship, gender, and race in their online profiles to make themselves more appealing as contractors.

Financial Services in Trade and Services

A key consideration in financial services in the trade and service sectors is that the vast majority of small businesses in developed markets rely on their own resources, whether personal finance or personal credit record, well into their growth. Personal credit cards, overdraft facilities, and leasing are the top sources of finance allowing small businesses to borrow large sums, either through personal savings or using personal assets, particularly homes, as collateral. While most low-income households lack property to pledge as collateral, it is reasonable to consider the role of personal credit, assets, and reputation in any discussion on the financing of trade and services in developing countries. In other words, livelihood financing for the smallest microenterprises will likely be through individual financial access.

The Dalberg study commissioned by CGAP highlights that inventory financing and working capital are the primary needs of microenterprises in trade and services (Dalberg, 2019). The microcredit movement was based on making non-collateralized inventory and working capital financing focused on petty trade more widely available. Evidence still demonstrates that lending to trade dominates microenterprise lending. For example, a 2015 survey in Kenya found that 67 percent of all lending to microenterprises was for trade and 12.8 percent for transport and communication (Berg et al., 2015). As noted in the first part of this paper, the benefits of microcredit are measurable for microenterprises; however, the benefits accrue disproportionately to those who are already successful relative to their peers. And while microcredit access does increase business activity, less often does it result in lasting profit increases (J-PAL & IPA, 2015). As an example, a Randomized Control Trial conducted in Ghana provided capital grants to microenterprises only to find that after the initial boost from the extra capital, microentrepreneurs reverted back to their prior business practices and size (Karlan et al., 2014). Microenterprise credit has proven challenging to scale due to the lack of appropriate terms and the relatively high cost, even for retail microenterprises with rapid turnover. The advent of digital credit and the growing pool of digital credit options for businesses promise new ways to address these obstacles by reducing the cost of customer acquisition and offering more efficient forms of credit assessment (CGAP, 2019). Technology will also play a role by linking credit to productive assets, particularly inventory.

Informal supply credit is common in most developing countries at all levels. For example, a 2016 IEMS survey showed that supplier credit was an important issue for street traders: twice as many street vendors (38 percent) than market vendors (19 percent) said that a supplier's ability to offer credit is an important factor in their decision about where to source products. Technology is creating opportunities to bring supply chain credit for microenterprises out of the shadows and into the formal financial system. For example, Nomanini piloted a small loan product for informal merchants in Accra using airtime sales as a proxy for overall merchant turnover and, in partnership with Standard Bank, provides inventory credit. The organization is expanding this partnership across 14 countries in SSA, based on the positive results. Along the same lines, AwunTunai in Indonesia works with wholesalers to identify regular microenterprise buyers and broker supply credit from banks. Despite these innovations, inventory management, process-tracking inventory, sales, order, and payment processes that help entrepreneurs maximize the productivity of their assets would all benefit from digitization. In 2018, Alibaba launched Ling Shou Tong (roughly translates to "retail integrated"), which performs some of these functions, as well as physical space upgrades, to help business owners with ordering and product placement based on sales trends in their area. Ling Shou Tong now claims to have reached 20 percent of all small retailers in China.

In the absence of credit cards, which are vital in developed countries for small-scale retail, non-collateralized digital credit can offer flexible working capital loan terms that allow microenterprises to better manage their finances, quickly repay or borrow, and pay down their loans automatically through their customer receipts, similarly to Kopo Kopo in Kenya. There are no definitive studies on the use of digital credit by microenterprises for retail trade, however, some 37 percent of digital credit users in Kenya claim to use the product for business purposes (Kaffenberger & Totolo, 2018), making it the most popular use of digital credit. Interviewees also confirmed that digital credit was widely used to borrow for very short periods, often a day or less, by high-turnover microenterprises. Perhaps the most important innovation in digital credit is the digitization of the underwriting process, particularly the use of alternative data analytics to assess creditworthiness and predict cash flow. Sufficient data combined with the correct algorithms are increasing the availability of unsecured lending. Data from digital transfers and air time usage have been used in low-data environments, and the expansion of e-commerce and service platforms, particularly in Asia, which generate large amounts of data, are helping to rapidly scale digital credit for retail and service livelihoods. In the absence of data, psychometric evaluation has been tested in microfinance for several years. At present, it appears to be used primarily as a complementary tool to traditional methods of credit assessment. Studies by Entrepreneurial Finance Lab (EFL), now LendoEFL, showed that psychometric testing did reduce overall portfolio risk as a negative screening measure against SME borrowers in Peru, and that it can be valuable to assess existing clients' risk of default (Arráiz et al., 2015). However, technology has not yet replaced group lending approaches that use community and peer knowledge, cross-guarantees, and cross-default measures, all of which remain effective to screen risk and substitute collateral. Focusing on helping MSEs better track and manage their money, including working capital finance, has strong merits for many reasons. First, growth funding for the vast majority of microenterprises does carry higher risk. Studies have shown that even small adjustments to typical microcredit that allow for grace periods increase business investment, but also lead to higher default (Field et al., 2013).

"The field has not quite quantified the impact of platforms on job creation, but the overall connection is market access and the expansion of opportunities. That said, the biggest challenges to attaining growth for platform workers is finding employees, marketing, and access to finance. Successful platform users offering services are terrified of hiring employees that might tarnish their reputation. Finding a reliable employee is a constraint on their growth."

—Expert Interview

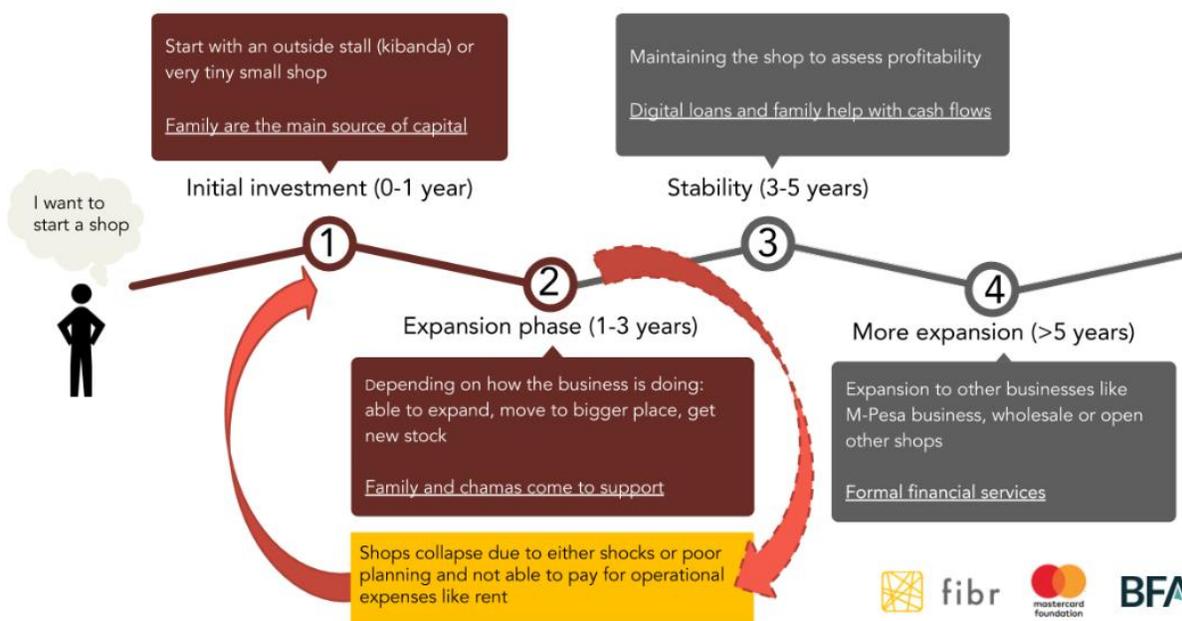
A wide range of studies (see Bruhn et al., 2017; OECD, 2017) have highlighted that lack of skill is the major constraint to growth for SMEs, which limits the impact of capital on increasing productivity. A study by Bankable Frontiers outlined the lifecycle of small shops in Kenya and their corresponding financing needs, which deprioritizes credit. Similar to the Churchill and Lewis model, it highlights that growth in SMEs is a multi-staged process and subject to the owner's own capabilities and capital.

Therefore, helping SMEs better manage their finances and access less risky, working capital financing can help retail microenterprises accumulate their own capital and grow their businesses.

The broad acceptance of payments among trade and service MSEs has long been considered a critical step in accelerating the digital financial ecosystem. In a few developing markets in Asia, this may happen in the coming years. A study by Boston Consulting Group highlights the percentage of adults using digital wallets in Malaysia, Vietnam, Thailand, Indonesia, and Singapore, which in some cases nears 50 percent (de Sartiges et al., 2020); 54 percent of digital wallet users in the study noted that the lack of merchant acceptance was their main obstacle to using the service (Ibid); 74 percent of merchants surveyed in the region say that they would accept e-wallets if barriers to wider adoption, such as poor understanding, complex merchant payment processing, and high fees, were overcome (Ibid). As payment giants like Go-Pay, GrapPay, and GooglePay expand into retail, these challenges to merchant adoption are likely to be addressed.

In Africa, however, these same merchant challenges along with a lack of population density, disposable income, interoperable systems, and reliable connectivity are why these acceptance models will take longer to develop.

Exhibit 17: The Life Cycle of a Small Shop (a duka) in Africa



The Life Cycle of a Small Shop (a duka) in Africa. Source: FIBR

Source: BFA Global, 2018.

E-commerce and service platforms may end up being a faster driver of digital payments than local merchants due to the number of large platforms offering wallets (Alipay, WeChat Pay, Gojek’s Go-Pay, Grabpay) to support their core business. In Indonesia, it is estimated that digital wallets’ share of e-commerce purchases will increase from a quarter to a third in a few years, while cash on delivery is at 14 percent and shrinking (J.P. Morgan, 2019). While only 10 percent of adults have made online payments in the Philippines, the e-commerce market is growing quickly and may drive digital payment use; two-thirds of Filipinos with internet access (i.e. 44 percent of the adult population) now shop on e-commerce sites (DataReportal, 2019). Additionally, some 25 percent of Indians are expected to shop via e-commerce in 2020, and the dominant e-commerce platforms, including Flipkart and Amazon, require some form of electronic payment.

With only a quarter of all Africans online, e-commerce shopping has failed to grow beyond single digit percentage points outside of Kenya, Nigeria, and South Africa. The largest platforms also accept cash on delivery, which is the dominant payment method and makes it less clear if platforms will drive uptake across Africa in the near future.

While ride-hailing platforms have the largest networks in Africa and Asia, they captured market share by accepting cash payment and changing consumer behavior. However, as Grab and GoJek expand in their delivery and e-commerce services, they have increased their investment in wallet solutions, including merchant acceptance services outside of their own drivers. They are also attracting investment from many of the digital giants. GoJek now has Facebook, PayPal, Tencent, and Google as investors. Beyond payments, service platforms are expanding access to credit and insurance. Alibaba now provides access to a range of financial services beyond credit. Safeboda in Uganda now counts Allianz Group among its investors, and as it has done with GoJek in Indonesia to offer insurance to drivers and passengers. SweepSouth, a platform in South Africa that allows users to book cleaning services, has a partnership to provide basic accidental death and disability coverage to its cleaners.

Exhibit 18: Innovations in Services

Innovations in Services

Innovations for trade and services often focus on increasing access to credit for vendors and service providers by using digital tools and data collection to reduce costs, such as AwanTunai in Indonesia, and utilizing non-traditional means of credit scoring and lending, such as Tienda Pago in Peru and Mexico. Other non-financial services, such as Lynk and NovCart, both based in Kenya, reach new markets via online marketplaces.

 **AwanTunai** Launched in 2017, AwanTunai increases access to finance for Indonesian merchants by lowering the costs of credit. The interest rate of AwanTunai loans is only around 3 percent, significantly lower than the rates of most available fintech cash loans and informal loans. AwanTunai achieves this low cost by digitizing the transaction process. This digitization enables merchants to access working capital, as well as accept credit from consumers, including mobile-based credit. AwanTunai currently has 12,438 active borrowers and has served nearly 30,000 borrowers in total.

 **TiendaPago** Tienda Pago is an emerging fintech player in Mexico and Peru that provides working capital solutions for merchants, targeting those in fast-moving consumer goods supply chains. This is done by using digital transaction data and mobile communication to provide credit for merchants to purchase increased inventory at the time of delivery. As of December 2018, Tienda Pago had 18,621 merchants registered in Peru and 7,869 in Mexico, and conducts operations with major distributors such as Coca-Cola, AB InBev, and Kimberly-Clark.

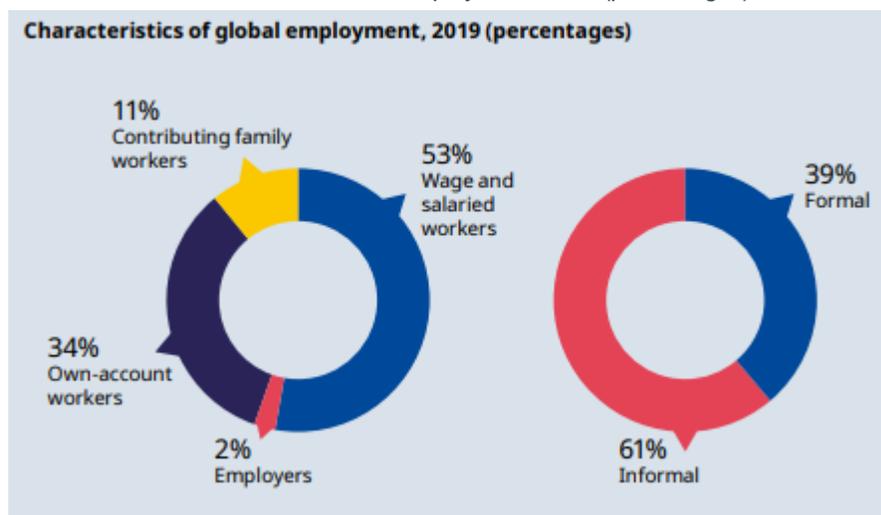
 **novcart** NovCart, a budding start-up, is an easy, affordable platform for small businesses to launch their online presences. The low-cost platform reduces the cost of site building, administration, and maintenance if done alone, allowing business owners to save both money and time to reinvest into their businesses, while also increasing their customer reach. The growing platform, launched in early 2020, already has 48 shops using its site and more than 1,200 customers.

 **LYNK** Lynk, founded in 2015, is an online platform connecting informal workers to households needing services. Workers using the site are verified and offer a variety of services from home installations and repairs to personal care and wellness, as well as home furniture and décor products from local Kenyan artists. The platform allows local, informal workers to gain trust and credibility from potential customers and connect with a broader customer base.

Trends in Livelihoods and Wage Labor

According to the ILO (2020c), 45 percent of all workers in low- and middle-income countries are engaged in wage work, as compared to just 19 percent in low-income countries, specifically. However, this masks great difference between regions and countries. In East Asia and the Pacific, more than half of those economically active work for wages—near the global average of 53 percent—whereas in South Asia and SSA the numbers are far lower, at 26 and 23 percent respectively. To provide examples of the wide range between countries within regions, in Ethiopia 10 percent of those economically active are wage earners as compared to 36 percent in South Africa. In Nepal this figure is at 20 percent while in Indonesia it is nearly 50 percent. Much of this wage work is within the informal sector. In fact, there are nearly twice as many wage workers in the informal sector as own-account work (ILO, 2020c). As a result, financial services that are focused on low-income wage workers and the informal firms that employ them are critical to connect financial services and livelihoods.

Exhibit 19: Characteristics of Global Employment, 2019 (percentages)



Source: ILO, 2020c.

“Consolidation in the agriculture sector can help increase job opportunities. It is not the focus of the agriculture team now, but we are not opposed to incorporating this into our future projects.”

—Expert Interview

Casual and Low-Skilled Labor

Existing statistics make it difficult to distinguish casual laborers from those with wage work at a regional level. A study by the ILO in 2012 showed that 62 percent of all wage work in India was casual work, and that figure was even higher for women (70 percent) than men (59 percent) (ILO, 2018). In the Philippines, it is estimated that 40 percent of all wage work is casual (Rutkowski, 2016) as is two-thirds of wage work in Bangladesh (ILO, 2016). In Mali and Zimbabwe, one in three employees is casual (Ibid). The relatively small percentage of low-skilled workers among regular workers is not surprising given that microenterprises are a major supplier of wage work across developing countries. Outside of agriculture, wage work in retail, food services, construction, security, and domestic work are largely performed on a casual basis or through contracting arrangements with SMEs.

The researchers did not find any definitive studies to evaluate the income benefits of switching from either agriculture or own-account work to wage work, and it is likely to be highly dependent on the country, sector, and region. The study by McCullough found that shifting out of agriculture into wage work brought the greatest productivity gains with and across services and industrial employment—greater than own-account work. However, the study did not distinguish between casual and regular employment or between skill levels (see Exhibit 20, McCullough, 2016).

The literature on casual work is dominated by discussion on the lack of an SSN to sustain workers between jobs, poor or late payment of wages, and lack of bargaining power, as noted in ILO’s 2016 *Non-standard Employment Around the World* report. Casual work has a strong gender component and falls disproportionately to women in most countries. This is due to a mix of traditional roles, culture, discrimination, and self-sorting, and which leads to women earning less and having a 30 to 45 percent lower probability of moving beyond casual work to standard employment as compared to men (Ibid). As discussed above, service platforms are beginning to

Exhibit 20: Productivity Ratio by Sector and Country

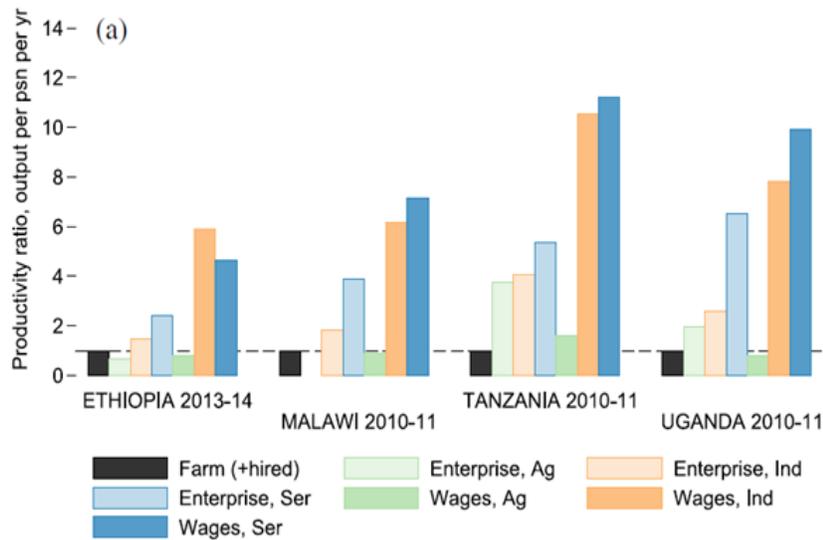
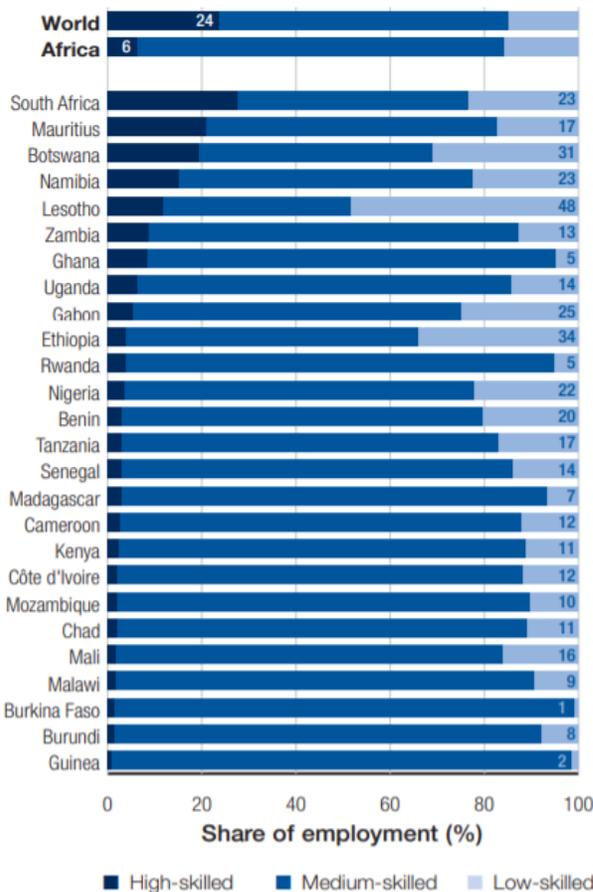


Exhibit 21: Share of Employment by Level of Skill



Source: World Economic Forum (2017b), Human Capital Index 2016

have an impact on accessing markets for casual work outside of transport, however, there is not enough data at present to suggest the extent to which it can assist with the wide range of low-skilled wage work jobs in developing economies.

Medium-Skilled Labor

The World Economic Forum study found that the majority of regular wage work and particularly formal employment across Africa is among medium-skilled workers (see Exhibit 21) and that there is a lack of medium-skilled workers to fill the positions available (World Economic Forum, 2017a). That being said, the outlook for medium-skilled employment is mixed. In the case of South Africa, most of the medium-skilled job growth is in sales and customer service (Bhorat et al., 2016) and these jobs tend to be in smaller-sized firms offering low pay with limited resources to invest in upskilling and reskilling opportunities (World Economic Forum, 2017a). A detailed look at the statistics in South Africa show that medium-skilled jobs are in relative decline: the growth in low-skilled and high-skilled jobs has exceeded that of medium-skilled jobs, by 20 to 30 percent respectively (Bhorat et al., 2016). A similarly contradictory assessment exists in Asia, where the lack of sufficient skills is cited as a main

constraint to employers. At the same time, according to the ILO's *2018 Asia-Pacific Employment and Social Outlook*, the unemployment rate is currently highest among individuals with a secondary education, suggesting there is mismatch in skills required for work and those acquired in school.

The ILO also predicts that “ongoing adjustments to technological developments could prove disruptive...especially for workers at the medium-skill level” (ILO Regional Economic and Social Analysis Unit, 2018). A trend worth watching in Africa and Asia is the prevalence or growth of “on-call” employment, in which employers use technology to more efficiently manage their work forces, often changing the number or schedule of hours worked. Globally, this is leading to a growing level of income irregularity among medium-skilled workers. For example, a study by the Economic Policy Institute in the United States showed that more than 30 percent of Americans, largely in low- and medium-skill service jobs, report experiencing significant spikes and dips in their incomes due to irregular work schedules (Economic Policy Institute, 2015). As a result, medium-skilled workers are beginning to face many of the same challenges as casual workers and similar financial challenges.

It is worth noting that from 2009 to 2015, public sector employment in SSA was estimated to be around 11 percent of all formal employment and was the largest source of employment in 23 African countries. Government work is a mix of medium- and high-skilled work: secondary and tertiary education dominate civil servants, 38.5 percent and 36.2 percent, respectively. Female government employees often outnumber men, largely due to the teachers (Mo Ibrahim Foundation, 2018). While financial inclusion has not listed public servants as a target client group, wage-based lending to public servants is a mainstay of many banks and microfinance institutions, and the use of public sector employees as guarantors for customers in the informal sector is a common practice, making public servants valuable actors in livelihood finance.

Professional Labor

High-skilled employment includes modern services, such as telecommunications, computer services, information services, financial, insurance, and pension services, among other business functions, as well as trades, such as maintenance and repairs. The growth in high-skilled jobs is being driven by professional and technical employment, as opposed to managerial and manufacturing-related employment (Gammarano, 2018b). These high-skilled jobs are becoming Africa's equivalent of industrial jobs and capturing an outsized portion of national income (see *The Future of Jobs and Skills in Africa*, World Economic Forum, 2017a). However, in Africa, and to a lesser degree in Asia, rates of high-skilled employment remain low relative to global averages. For example, in 2017, 9 percent of African employment and 15 percent of Asian employment were in high-skilled services in contrast with a 19 percent global average (Gammarano, 2018b). The lack of high-skilled workers is particularly acute in developing economies in Asia where the demand for skilled workers is growing quickly. As an example, in Indonesia alone the need for high-skilled workers is expected to double by 2030, from 55 to 113 million, though currently only 11 million Indonesians have achieved a four-year degree (Pan, 2016). Most of the other large Asian developing countries, including India, Pakistan, and Myanmar, will face similar issues. In Africa, the picture appears to be more nuanced. As noted in *The Future of Jobs and Skills in Africa*, formal employment in high-skilled work has not kept pace with the growth in university graduates. Although some 15 to 20 million university-educated Africans are entering the workforce annually, the skills acquired through tertiary education are not perceived by employers, leaving many to rely on self-employment (World Economic Forum, 2017a).

The data and literature on “gig” workers make it difficult to distinguish between low-skill and high-skill platform work. However, notably in Africa and Asia, there has been an increase in professional-level individual entrepreneurs performing white-collar work that had traditionally been done by employees. These individuals include medium-skilled workers who provide both front-office and back-office services for businesses and freelancers across a variety of sectors, with specialized skills in information and communications technology (ICT), finance, marketing, design, and other areas. Traditionally, these types of jobs have been salaried, and most remain so. However, the ability to source and conduct work remotely

is leading to a growth in outsourcing these roles. According to the Southern African Freelancers’ Association, by 2020 freelancers in South Africa are expected to make up 50 percent of the full-time work force (Shouw, 2019). However, a study of knowledge platform workers in Asia and Africa focused on providing service to overseas clients revealed that such work is not as flexible as assumed. The majority found work to be highly stressful, involving working long and irregular hours to meet client demand (Wood et al., 2018). Platform-based rating and ranking systems appear to be even more important for securing additional work, because platforms for low-skilled workers reward the ability to manage a range of projects. At the same time, these workers had regular concerns over the irregularity of work and pay in 2017.

UNEARNED INCOME

Unearned income is a key livelihood strategy for many African households, received primarily through transfers from governments and families. DAI did not conduct an extensive review on SSNs; rather this section is meant to highlight where there is an important overlap between the impact of these programs on overcoming the binding constraints and what role, if any, financial services might play.

Social Protection and Labor Interventions

Most social protection interventions can be categorized as 1) SSNs; 2) social insurance; or 3) labor market programs (World Bank, 2018b). While each of these categories varies in whether it requires the target population to make any financial contribution to receive the benefit, each delivers value to a household meant to protect them from falling further into poverty. To illustrate, the success of these programs is typically measured by the percentage reduction in the poverty headcount and the percentage reduction in poverty depth, or distance to the poverty line (Ibid).

According to the World Bank, about 44 percent of the global population are covered by social protection and labor programs, the most popular being unconditional and/or conditional cash transfers (Ibid).

Social Safety Nets

Unlike social insurance, which is contributory and designed to “ensure adequate living standards in the face of shocks,” and labor

market programs that are both contributory and non-contributory means of increasing employment, SSN programs are designed specifically to reduce poverty and inequality (World Bank, 2018b). The approach different SSN programs take to achieve this goal vary, because some may utilize fee waivers, scholarships, and lump-sum grants, while others may call on consumer price subsidies for energy and food (Beegle et al., 2018; World Bank, 2018b). According to Beegle et al., every African nation has at least one SSN program, with 15 being the average across the region. Following global trends, richer nations are able to introduce multiple, larger programs, while middle- and low-income countries are limited by budgetary constraints. According to the World Bank’s *State of SSNs 2018* report, African nations spend close to the global average on their SSN programs (1.5 percent of GDP); however, there is variation from country to country. Some, like Lesotho, spend approximately 7 percent of GDP on SSNs,

Exhibit 22: Social Protection and Labor Market Intervention Areas

Social protection and labor programs	Objectives	Types of programs
Social safety nets/social assistance (noncontributory)	Reduce poverty and inequality	<ul style="list-style-type: none"> • Unconditional cash transfers • Conditional cash transfers • Social pensions • Food and in-kind transfers • School feeding programs • Public works • Fee waivers and targeted subsidies • Other interventions (social services)
Social insurance (contributory)	Ensure adequate living standards in the face of shocks and life changes	<ul style="list-style-type: none"> • Contributory old-age, survivor, and disability pensions • Sick leave • Maternity/paternity benefits • Health insurance coverage • Other types of insurance
Labor market programs (contributory and noncontributory)	Improve chances of employment and earnings; smooth income during unemployment	<ul style="list-style-type: none"> • Active labor market programs (training, employment intermediation services, wage subsidies) • Passive labor market programs (unemployment insurance, early retirement incentives)

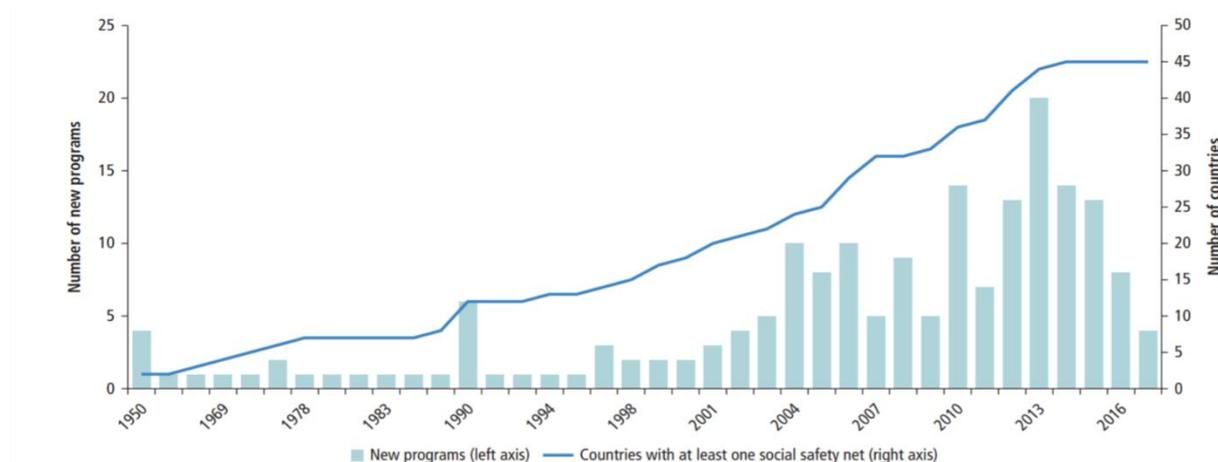
Source: World Bank 2012.
Note: ASPIRE = Atlas of Social Protection: Indicators of Resilience and Equity.

while others like Côte d'Ivoire and Togo spend less than 0.2 percent (World Bank, 2018b). Unlike other regions, however, African countries' SSN programs are largely donor funded, with funds coming directly from international donors and NGOs. As an example, a full two-thirds of the UNHCR's budget is allocated to programs in Africa. These programs appear to be reaching a majority of lowest-income Africans, which make them an interesting entry point for financial services. In addition to the number of programs in SSA countries expanding over the last several years, other trends have emerged, such as the relative rise of making benefits cash-based (Beegle et al., 2018; World Bank, 2018b). Cash transfers account for around 18 percent of countries' SSN spending in SSA, however can account for up to half of all SSNs across geographies.

The World Bank's SSNs 2018 publication reports the statistically positive impact of cash transfers on "crop production, productive investments, employment, and more effective risk-coping mechanisms," as well as "income-multiplier effects for beneficiary and non-beneficiary households." (Daidone et al., 2016). Studies show that the positive impact of the cash transfers comes from the opportunity they provide to households to diversify their crops and income-generating activities by allowing them to better manage risk and exercise greater freedom allocating labor across income generation, labor, leisure, and domestic tasks, (Handa et al., 2017).

A survey of research conducted by Oxford Policy Management found that cash transfer programs did have a statistically significant impact on increasing beneficiary savings, whereas on average the transfers did not necessarily lead to a reduction or increase in indebtedness (Bastagli et al., 2016). There was only marginal evidence that transfers were used to acquire productive assets, but the majority of beneficiaries did increase investments in (primarily agricultural) inputs and livestock (Ibid). Of the nine studies tracking non-farm activities, four found significant increases in the share of households involved in non-farm enterprise or in the total expenditure on business-related assets and stocks, while one found a significant decrease (Ibid).

Exhibit 23: More Social Safety Net Programs Have Been Launched in Recent Years



Source: ASPIRE (Atlas of Social Protection Indicators of Resilience and Equity) (database), Administrative data, World Bank, Washington, DC, <http://www.worldbank.org/aspire>.
 Note: This figure considers regular programs (not emergency support programs) that are still being implemented and for which information on the year of the launch is available.

Cash transfer programs appear to have few negative effects on productivity or reduction in the labor supply (Bastagli et al., 2016), although a single study found that in the medium term, grants given to microenterprises for the purpose of increasing employment had little if any impact on increasing employment. The conclusion was that lack of capital is not a solution to overcome the binding constraint of finding reliable and productive labor (De Mel et al., 2016).

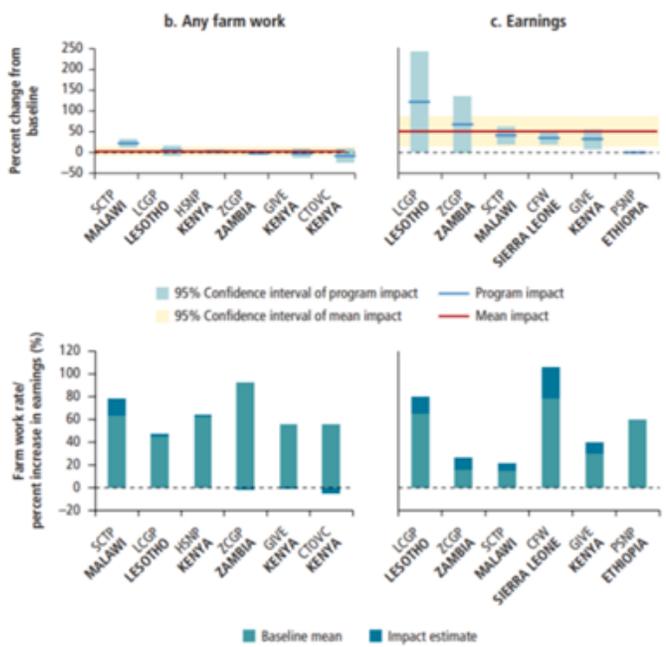
The evolution of SSNs in Africa also includes an increased focus on "fostering the productive capacity and resilience of beneficiary households" (Beegle, Coudouel, & Monsalve, 2018). Beegle et al. reference key studies out of Uganda indicating that cash grants targeted toward youth help increase employment

opportunities. Additionally, a meta-analysis of 10 national SSN programs identified six with positive impacts on non-farm business outcomes. These impacts, measured primarily by increases in household income earnings, indicate that SSNs and other forms of unearned income establish a foundation for households to improve their livelihoods.

Micro-Pensions

Africa’s population distribution makes it a desirable region for pensions thanks to a young and growing work force able to support a small aging population. Public and private micro-pension programs are a new area receiving more attention and experimentation. Given concerns over the decline in standard employment and regular incomes, the programs are designed to give informal microenterprises access to a form of long-term savings. Beyond a review of pilots and speculation, literature and experiments on micro-pensions remain relatively limited, as is any evidence of their effectiveness in supporting livelihoods. In addition to structuring pension program flexibly to accommodate incomes, the biggest challenge micro-pension programs face is an unwillingness to pay, which is linked with a lack of understanding of their value relative to investing in a farm, home, or business (Albouy & Noguès, 2019).

Exhibit 24: Income Opportunities May Respond to SSNs



Source: World Bank meta-analysis.

Part Three: Opportunities for Further Investigation/Experimentation Related to Financial Services Could Lead to Positive Livelihood Outcomes

FIVE OPPORTUNITIES TO IMPROVE LIVELIHOODS ACROSS SECTORS

The starting point of livelihood programs is that increasing incomes is linked to increasing productivity and the framework puts forward levers of productivity to further investigate. The productivity and income linkage is most explicitly part of rural livelihood programs, particularly agriculture, but is increasingly discussed outside of agriculture, such as the role digital payments and platforms are playing in linking individuals to markets, sources of supplies and assets, technology, and upskilling opportunities. Additional research would be helpful to better understand which drivers of productivity offer the greatest opportunity for income gains in some of the most common livelihood activities to start building livelihood approaches outside of agriculture. For example:

- In retail trade, what are the measurable benefits of better supply linkages through online platforms, inventory management, or better use physical space?
- In small-scale manufacturing, what are the relative benefits of better supply linkages and accessing new markets through online ordering and e-commerce, as compared to upgrading skills or physical assets?
- In transport, domestic work, and repair, what differentiates more successful entrepreneurs from less successful entrepreneurs regarding productivity and income?
- In wage work, particularly in common jobs such as retail sales, hospitality, and construction, what skills are most closely associated with advancement?
- Based on the findings, what types of productivity-enhancing interventions are most commonly directly supported by financial services? For those that are less linked to finance, are there examples of how finance might help support them? How would using a productivity focus lead to recommendations on which financial services should be prioritized beyond a focus on scale?

Some examples would be:

- In retail trade, if building greater supply linkages through platforms, inventory management tools, or better use of store space provide measurable productivity and income gains, how can inventory finance be offered in combination with those tools? Or, how could those tools unlock more financing?
- If small-scale manufacturing experiences greater gains from accessing markets or better communication with customers than from upgrading skills or physical assets, how does that change the priorities in staging access to financial services? For example, would financing manufacturers' expansion of distribution channels offer better channels and lower risk than financing capital equipment?
- If a set of teachable skills are strongly associated with wage work in a set of common livelihood activities, how does that inform product design and offerings for wage workers around continuing education?

MAXIMIZING MICROENTERPRISE USE OF FINANCE

The research highlighted several issues linked to microenterprises, highlighting some of the opportunities and challenges of increasing their productivity. Within microenterprise research, the issue of managing

and accumulating money, particularly for inventory, plays a critical role along with the need to transact with suppliers and customers. A critical finding is that the absorptive capacity of microenterprises of growth funding is limited by their lack of ability to translate increased funding and revenue into greater profits through the better use inventory, customer outreach and management, and employee and physical space management. Some areas for further research would be:

- How can basic financial management tools linked to financial services lead to greater productivity gains? For example:
 - Inventory and materials: How are the adoption of inventory planning and ordering tools helping to increase revenue and/or margins and enabling greater access to inventory finance? To what extent are the early innovations in inventory financing being used for materials financing for manufacturing microenterprises?
 - Customer management: How are microenterprises using mobile phones for customer outreach and management and to what effect? How can other marketing tools such as customer management or loyalty programs drive the uptake of digital payments or vice versa in a way that increases sales?
 - Cash management: How has the adoption of digital accounts helped microenterprises better manage their cash? If so, how? Are there functions (e.g., balance check, digital payments, digital credit) linked to improved overall financial performance that informs what functionality of digital accounts are most beneficial?
 - Employee management: What digital tools are being used by microenterprise employers to manage employees (basic phone, SMS, time keeping)? To what extent have they had an impact on overall labor productivity? Are there ways that employers can use financial services as part of their overall “benefits” package to build employee productivity and loyalty?
 - Shelf and space planning: To what extent is the better use of space a productivity driver for microenterprises?⁶ If so, are there digital means to support microenterprises in better assortment planning and use of space? Is it possible to quantify the returns to better use of space to inform microenterprises (and lenders) on the returns from proper space management?
 - Protecting assets: There is little research on use of the value of insurance by microenterprises for retail. While asset protection is discussed for street traders, it is not discussed for microenterprises. It may be worth investigating if losses, due to theft or other causes, significantly impact microenterprises.
- Given the relative risk of providing growth financing to microenterprises, to what extent can focusing strictly on maximizing financial services for management (i.e., working capital and inventory) free up funds for increased owner investment in growth? Does owner investment in growth have greater success than borrowing? If so, how can the progressive increase in working capital financing be better used by financial service providers to analyze and underwrite growth funding?

Exhibit 25: Microenterprise Productivity and Financial Services

<p>Microenterprises Trade, Service, and Manufacturing</p>	<p>Market Access</p> <ul style="list-style-type: none"> ■ Identifying customers ■ Securing location <p>Physical Assets</p> <ul style="list-style-type: none"> ■ Inventory ■ Storage ■ Capital equipment ■ Better space utilization 	<p>Managing</p> <p>Cash flow during sales cycle, general income smoothing</p> <p>Accumulating</p> <p>For inventory purchases, materials, and capital equipment</p>	<p>Accounts</p> <ul style="list-style-type: none"> ■ For managing, protecting, transacting, data source for credit <p>Savings</p> <ul style="list-style-type: none"> ■ Managing cash flow for sales cycle ■ Accumulating sums for inventory purchases, cash collateral for credit, purchasing equipment, land and store improvements ■ Building solidarity groups with networks
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⁶ The recent introduction of Alibaba’s Ling Shou Tong may provide some answers to this question.

<p>Supply Linkages Sourcing and diversifying inventory at lower cost and sourcing delivery</p> <p>Skills</p> <ul style="list-style-type: none"> ■ Basic inventory management ■ Customer outreach ■ Negotiation ■ Pricing ■ Human resource management <p>Technology</p> <ul style="list-style-type: none"> ■ Identifying customers, outreach ■ Identifying suppliers ■ Payments ■ Assortment and inventory management ■ Logistics 	<p>Transacting For buying inventory and materials, sales, paying suppliers and workers</p> <p>Protecting Against inventory defects, loss, theft, injury, or sickness</p>	<p>Credit</p> <ul style="list-style-type: none"> ■ Managing short-term needs for inventory, buy and sell cycles ■ Accumulating to purchase inventory and materials, vehicles, and capital equipment, store improvements ■ Protecting for emergency liquidity <p>Insurance</p> <ul style="list-style-type: none"> ■ Protecting against inventory, materials and equipment loss ■ Protecting against time loss due to sickness of owners and employees <p>Payments</p> <ul style="list-style-type: none"> ■ Paying suppliers, storage costs ■ Paying credit, insurance premiums, taxes, fees ■ Receiving payments from buyers
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INVESTIGATING THE NEEDS OF INDIVIDUAL ENTREPRENEURSHIP FINANCE

Individual entrepreneurship or own-account work has often been grouped with SMEs. However, it has fewer productivity drivers and financing needs. From a financial institution’s perspective, it is difficult to distinguish business and personal finance needs. The research highlights the individual entrepreneur’s need for financial services is in managing finances by smoothing cash flow, receiving customer payments, and protecting both workers and clients. Some relevant questions raised in the study include:

- In developed countries, individual entrepreneurship is more likely to sustain or supplement a household income. What is the livelihood trajectory of individual entrepreneurs in developing countries? To what extent do they transition into wage employment, and if so for what reasons? To what extent do they grow into microenterprises? If so, how does that occur and what role does finance play? If not, why not, and to what extent is lack of financing a cause?
- What do the financial lives of individual entrepreneurs look like at different stages of development? What financial and non-financial tools do they currently use to manage their livelihoods?
- Because time is their primary resource, how do individual entrepreneurs maximize their time? Are there technologies or assets they use to do this, from basic telephone calls to ride-hailing, which merit financing? Are there certain non-productive uses of time that could be overcome through greater use of technology and financial services?
- Savings and credit groups in many forms appear to both create and reinforce professional bridging ties for individual entrepreneurs. What motivates members of these groups to participate in these groups, the financial services provided, or the professional connections? Is there an opportunity to use these to link these groups to other financial and non-financial services? Are there lessons for service platforms to learn from these groups?
- Given the platforms for services appear to specialize around specific industries in services (i.e., transport, domestic services, household repairs), what is the critical mass for industry-specific platform business models to be successful? Aside from size of the market, are there turnover or wage levels needed to suggest if a platform could succeed? Are there examples of non-specific service platforms that are successful?
- As many platforms are cash optional, what is the preference of service platform entrepreneurs regarding cash or digital payment? Are there ways to improve incentives for both clients and

entrepreneurs to shift to digital payments? Are there examples to show that digital payments as opposed to cash help entrepreneurs to better manage, protect or accumulate funds?

- What evidence could be found or gathered to look at the impact on wages of service platforms in developing countries, particularly non-transport service platforms?
- Are platforms well-suited to replace the secondary bridging ties, i.e. to seek referrals, provide training and resources, aggregate work and provide for income smoothing? Are there examples where that works well and has measurable impact on participants income?
- How are financial services used as a core or competitive factor by service platform providers? If so, is the financial benefit of offering these services measurable for either the platform provider or the entrepreneurs? How are they perceived by the entrepreneur?
- Are there low-cost tools, including those based on transaction data and other non-financial data, that can help financial institutions do positive screening (as opposed to negative screening) of individual entrepreneurs more quickly?
- How are platforms stepping in to provide alternative SSNs, such as worker compensation, disability pay, or unemployment pay either as a service or to compete for workers (e.g., Indonesia)? How effective and robust are these and how might they be improved? Is there a way to enable or facilitate these better through policy measures or by creating links with public or private entities that provide safety nets, including insurance companies?

Exhibit 26: Individual Entrepreneurship Productivity and Financial Services

<p>Services Individual Entrepreneurship</p>	<p>Market Access</p> <ul style="list-style-type: none"> ■ Identifying customers ■ Securing location <p>Physical Assets</p> <ul style="list-style-type: none"> ■ Professional equipment <p>Supply Linkages</p> <ul style="list-style-type: none"> ■ Sourcing equipment <p>Skills</p> <ul style="list-style-type: none"> ■ Professional upskilling ■ Customer outreach ■ Negotiation ■ Pricing <p>Technology</p> <ul style="list-style-type: none"> ■ Customer management ■ Identifying equipment suppliers ■ Payments 	<p>Managing General income smoothing</p> <p>Accumulating For upskilling, equipment, or materials purchases</p> <p>Transacting For sales</p> <p>Protecting Against sickness, personal injury, and liability</p>	<p>Accounts</p> <ul style="list-style-type: none"> ■ For managing, protecting, transacting, data source for credit <p>Savings</p> <ul style="list-style-type: none"> ■ Managing cash flow of business cycle ■ Accumulating sums for equipment, training, professional fees, cash collateral for credit ■ Protecting against customer defaults ■ Building solidarity groups with networks <p>Credit</p> <ul style="list-style-type: none"> ■ Managing short-term liquidity for business cycle ■ Accumulating to purchase materials and equipment ■ Protecting for emergency liquidity <p>Insurance</p> <ul style="list-style-type: none"> ■ Protecting against sickness, injury, liability <p>Payments</p> <ul style="list-style-type: none"> ■ Paying credit, insurance premiums, taxes, fees ■ Receiving payments from customers
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LOOKING AT LIVELIHOODS IN AGRICULTURE BEYOND SMALLHOLDER FARMING

Given the vast amount of research done around improving the livelihoods of smallholder farmers, it is difficult for the researchers to add significant insights. What seems less well-researched from a financial services perspective is the broader farming ecosystem, consisting of a diverse group of agro-enterprises

and wage workers. There are a wide range of internal financing and contractual farming arrangements in agricultural value chains offered by upstream actors who are bundling financial and non-financial services, which may present opportunities for financing and agents of financial services. Some areas for further research would be:

- What are the structure and variations of these different financing arrangements with farmers, both input finance and contract farming?
- Does the structure reveal a clear typology of these financing mechanisms to assess the benefits to farmers regarding increasing income and managing risks?
- Is it possible to analyze the relative benefits to the farmers and the providers of these services and provide insights and basic guidelines as to how to ensure arrangements are beneficial to both?
- Which models lend themselves to 1) greater engagement by financial institutions with farmers directly; 2) greater linkages between financial institutions with agribusiness to support or expand internal financing arrangement; or 3) linkages between non-financial actors within the value chain?
- How can agribusinesses engaged in beneficial types of brokering/financing be supported by financial institutions?
- There is evidence that wage work in farming is a means to supplement income or provide in-kind assistance, and that it is only marginally more productive than own-account farming. Is this an accurate assessment or is their evidence that on-farm wage work provides some significant productivity gains or is used successfully as a transition strategy for smallholder farmers?
- Is there any benefit to financing wage work on farms, or is the barter or in-kind structure better suited to the realities of most low-income countries? If the former, could financial services be applied in a way to help employers and wage workers by increasing transparency, saving, or developing a transaction history?
- There is a growing possibility for asset-sharing models for smallholder farming due to technology, including digital payments. What are the main challenges faced by these models to date? While the agricultural technology firms are capturing headlines, agricultural cooperatives are also playing a role? What is known about their success in acting as asset sharing?
- How can PAYG services be extended to other common services needed within certain livelihoods, such as refrigeration, inventory or crop storage, bulking and delivery of crops and produce, and packaging and delivery of goods and merchandise?
- How can online access to transport/delivery be designed to facilitate access to markets for farmers?

Exhibit 27: Farming Productivity and Role for Financial Services

<p>Agriculture Farming: Growing Crops, Livestock, and Fish Raising</p>	<p>Market Access</p> <ul style="list-style-type: none"> ■ Identifying selling opportunities, price discovery ■ Identifying transport and logistics ■ Building or accessing storage <p>Physical Assets</p> <ul style="list-style-type: none"> ■ Small-scale farm equipment for irrigation, planting, and harvesting ■ Improvements for storage, on-site sorting, processing ■ Land acquisition <p>Supply Linkages</p> <ul style="list-style-type: none"> ■ Sourcing more and higher-quality or better-priced inputs 	<p>Managing Cash flow during harvest cycles, seasons, general income smoothing</p> <p>Accumulating For asset and supply purchase, hiring labor for planting/harvesting</p> <p>Transacting To purchase assets, supplies, storage, transport; pay labor; receive payment for sales and contracts</p>	<p>Accounts</p> <ul style="list-style-type: none"> ■ For transacting, offering cash collateral <p>Savings</p> <ul style="list-style-type: none"> ■ Managing cash flow for cycles and seasons ■ Accumulating sums for assets and supply purchases, paying laborers, down payments or installments on equipment or cash collateral for credit ■ Account for making and receiving payments, offering cash collateral ■ Protecting against risks, building solidarity with networks <p>Credit</p>
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<p>Skills</p> <ul style="list-style-type: none"> Improving farming practices, input use, risk management <p>Technology</p> <ul style="list-style-type: none"> Improving know-how on commercializing, diversifying, accessing information on markets, services, financing 	<p>Protecting</p> <p>Against market price fluctuations, crop failures, weather events, poor fertilizers and seeds and equipment defects or losses</p>	<ul style="list-style-type: none"> Managing short-term needs for cycles, seasons Accumulating to purchase inputs, equipment, pay labor <p>Insurance</p> <ul style="list-style-type: none"> Protecting against exogenous risks, prices, and weather Protecting against defective seeds, inputs, equipment <p>Payments</p> <ul style="list-style-type: none"> Paying suppliers, transport, and storage Receiving payments from buyers Paying credit, insurance premiums Receiving input supply support, subsidies
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REVISITING WAGE WORKERS AND FINANCIAL SERVICES

Despite constituting a large percentage of low-income and informal employment, wage workers have not featured prominently in financial inclusion. There is an opportunity to revisit this, recognizing that most wage workers are working for other informal microenterprises and are left to their own devices to find financial services linked with employment.

- To what extent are microenterprise employers driving worker financial account adoption through wage payments? Is there a difference between employers or casual workers and employers or regular workers? What are the reasons why microenterprises might do so? What are the obstacles?
- Is there any evidence that digital payment of informal workers has or can be used to access other financial services, including credit or insurance?
- Could the classification of wage payments within the digital ecosystem provide any benefits to workers or employers? Any risks? Could digital wage payments be used to provide personal loans or loans for home assets or improvements?
- Is there any evidence that low-income wage workers are using financial services, such as savings, to manage planned or unplanned future employment transitions? If so, is there any evidence that financial services have reduced the financial strain of these transitions? Is there any evidence that financial services help employees make voluntary employment changes by giving them confidence or security to transition?
- Given the clear link between education and wage levels, how could work history, education, or qualifications combined with wage payment history help to smooth or accelerate these transitions, for example, through education savings and loans? Could there be ways to structure or bundle services to help accumulate funds for educational or upskilling opportunities?
- How can some of the innovations in personal digital credit and platform-enabled credit be used across a broader range of wage work, including casual and regular wage work?

Exhibit 28: Wage Work Productivity and Financial Services

<p>Wage Work</p> <p>Trade, Services, Manufacturing</p>	<p>Market Access</p> <ul style="list-style-type: none"> Identifying Employers <p>Skills</p> <ul style="list-style-type: none"> Education Professional upskilling Work-related skills <p>Technology</p>	<p>Managing</p> <p>General income smoothing</p> <p>Accumulating</p> <p>For transitions</p> <p>Protecting</p>	<p>Accounts</p> <ul style="list-style-type: none"> For managing, protecting, data source for credit <p>Savings</p> <ul style="list-style-type: none"> Accumulating sums for transitions, upskilling <p>Credit</p>
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	<ul style="list-style-type: none">■ Job searches■ Payments	Against sickness, personal injury, and liability	<ul style="list-style-type: none">■ Protecting for emergency liquidity Insurance <ul style="list-style-type: none">■ Protecting against sickness, injury, liability Payments <ul style="list-style-type: none">■ Paying credit, insurance premiums, taxes, fees■ Receiving wages
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Outside of the four livelihood activities, there are a few additional areas of research that may contribute to the discussion on improving livelihoods using financial services:

- Is supplementing a common or growing phenomenon in the developing world context that is distinguishable from other types of income patching, i.e., using a livelihood strategy for a specific purpose, without putting the primary livelihood at risk? If so, what type of financing do individuals use to take advantage of these opportunities?
- There has been significant innovation around the financing of basic services, including access to electricity, transport, and communications, and early research shows that they provide benefits to both livelihoods and personal well-being. Which types of basic services offer the greatest productivity gains through their direct use for livelihoods? Is it possible to better quantify the gains in productivity and income in particular livelihood activities due to access to these services?
- If so, how can the innovations in the financing of basic services be more targeted at supporting livelihoods as opposed to focusing primarily on households? For example, how can the income gains in having access to reliable electricity be incorporated into the credit scoring or underwriting process? Does access to healthcare through insurance contribute to income gains for individual entrepreneurs or wage workers as a result of fewer days missed from work due to illness or other positive impacts?

Annex A: Expert Interviews

Of the 23 experts interviewed for this research, all accepted the idea of income generation as the core activity in livelihood programming and supported the focus of the working definition. In fact, all interviewees resonated to some degree with the proposed definition, sharing that though most of their organizations do not have a formal definition for livelihoods, the concept is understood in terms of work, employment, and money. The more holistic elements, such as social nuance, resilience, and social protection, were often referenced as being complementary to livelihoods, but not defining factors. For example, one interviewee stated that while remittances were critical to sustaining a livelihood by smoothing consumption, these payments are not actually a livelihood in and of themselves. It seems that the reason for this delineation is that the holistic elements of livelihood work have little to do with the productive capacity of an individual or a household. The focus on productive capacity is particularly important to practitioners given the shift toward market-system approaches highlighted in the previous section. Additionally, as Sulaiman et al. note, most livelihood programs focus on improving and accelerating productive capacity both directly and indirectly.

How are Livelihood Programs Implemented?

The selection of livelihood activities for any given project will largely depend on the geography and the sector. Interviewees noted that these two lenses offer several opportunities to segment a target population and choose appropriate interventions with the potential to raise productivity and incomes. For example, interviewees stated that due to the lack of formal employers in rural areas, self-employment, entrepreneurship, informal income-generating activities, and agricultural production (both on- and off-farm) are the most appropriate areas to absorb rural labor. Each area comes with its own set of specific productivity-enhancing activities. For example, on-farm interventions may include training on good agricultural practices, crop diversification, post-harvest handling, data collection, and access to inputs, while off-farm interventions such as youth entrepreneurship may focus more on business development, financial management, and training on value-added services. The same approach applies to urban areas, where the greater presence of formal employers allows implementers to focus on how to get their target population on a path toward traditional employment. Here, there is a greater use of job preparedness training and job matching with individuals, advisory services, and access to finance for more established enterprises. The specific approaches used may differ, depending on the size of the enterprise and where it falls on the spectrum of formality. This segmentation approach should not be considered static, because anecdotal evidence shows that members of CGAP's target population, particularly youth, frequently split time between urban and rural areas, participating in subsistence agriculture, informal entrepreneurship, and forms of short-term wage work to maintain their cash flow throughout the year.

A few interviewees noted that the distinction between rural and urban was less about the possibility of formal or traditional employment and more about the range of employment opportunities. Rural opportunities would remain largely linked to on-farm and off-farm work, while urban livelihoods were far more diverse, demanding a greater need to patch together incomes and continuously seek a “portfolio of opportunities” rather than expect a steady job. While the land would remain the grounding force and security for those building rural livelihoods, the disappearance (or failed emergence) of steady jobs in urban centers create a permanent insecurity unless new social contracts or set of platforms are developed to smooth the transition between available work.

Several interviewees noted that regardless of the activities implemented in a livelihood project, without a strong ecosystem to enable value creation, whether a market system or value chain, the ability for these activities to lead to sustained income growth, and by extension improved livelihoods, is limited. This helps explain the shift livelihood programming made toward more market systems approaches, which can cater to both vulnerable and well-established beneficiaries. A handful of implementing organizations, particularly those engaged in agricultural development, explained that they use a “push/pull” approach to help both types of project participants transition out of poverty. According to USAID, the push/pull

strategy, “utilizes both push strategies—which build capacities to engage in markets, and pull strategies—which expand the diversity and quality of accessible economic opportunities to drive more beneficial and sustained inclusion of the extreme poor into market systems through a dynamic process of change” (Garloch, n.d.). In this sense, ensuring that beneficiaries are linked to efficient markets that make services affordable and available, and provide adequate supply of productive inputs, has also proven to be an important livelihood activity. Helping to develop these forward and backward linkages, unlock supply chain barriers, and ensure that appropriate forms of financial services are available to MSEs and other actors is key.

How are Livelihoods Outcomes Measured?

Interviewees noted that their organizations typically measure changes in beneficiary income and productivity as a result of livelihood activities. In instances where measuring income is not possible, such as with migrant or refugee communities, organizations may use productivity measures such as increased days of work or days of work as a proxy. Projects that target MSMEs will typically measure revenue, acquisition of productive assets, or the amount of financing leveraged. Agricultural programs referenced by the interviewees measure productivity through yield, volume, quality, food security, and income. Interviewees strongly emphasized that measures of productivity cannot be used synonymously with income since non-financial activities such as market linkages are needed to create value that is not inherently made possible from increased productivity or efficiency, but often leads to increased incomes.

As noted in the research, productivity has a role in improving many components of an individual’s livelihood, including increased consumption, net societal accumulation of stocks of productive assets, net reduction in poverty and inequality, and lessened economic security from risks imposed by unemployment, illness, single parent poverty, and poverty in old age (Sharpe, 2004). While the link between productivity and real incomes is difficult to measure at the individual level, the link holds in aggregate at sector and national levels and tracks with poverty reduction (Van Biesebroeck, 2015).

Despite interviewees bias toward growth-related outcomes, it should be noted that there are a number of other measures of livelihood outcomes. As part of the organization’s efforts to develop a TOC for financial services, CGAP’s evidence and impact team identified a set of outcomes that the poor strive to achieve when improving their livelihoods. These outcomes, informed by literature reviews, led to two high-level outcomes: building resilience and capturing opportunity. According to the accompanying publication, “Building resilience refers to how financial services allow people to prepare for shocks, deal with them when they occur, and recuperate afterward; while capturing opportunity refers to the ways financial services help people take advantage of opportunities in a broad sense, whether investing in a business, getting an education, migrating, or receiving medical treatment,” (El-Zoghbi, 2019).

Diverting away from “bottom-up” approaches that analyze livelihood outcomes based on the financial services an individual is currently using, CGAP endeavored to take a top-down approach that uses well-being and improved livelihoods as a starting point for more holistic understanding of how the lives of the poor can be transformed. From this exercise, CGAP put forth that outside of improvements in financial resources, such as stable income and enterprise growth, wages, and management of household expenses, other outcomes, such as skills and ability and physical mobility and health, were important indicators of well-being and levers that could lead to improved livelihoods. Again, while the focus of this research is geared toward how financial services impact the acquisition of financial resources, the importance of resilience and opportunity are represented in the final framework as critical aspects of an improved livelihood.

How are Financial Services Used in Livelihood Projects?

There was a perception among most interviewees that financial services operate best in livelihood programs when they complement other activities that increase (or have the potential to increase) productivity. Echoing the TOC behind the BRAC graduation model, many interviewees noted that financial services work best when bundled or paired with other activities such as mentorship, training, or BDS. They believe that without these additional interventions it would be hard to say with certainty that

financial services lead to an increase in incomes or improved livelihoods. For example, one interviewee noted that where training and loan support were offered together, incomes grew by five times for poultry farmers and two times for maize farmers.

It is still worth noting, however, that the types of financial services most commonly mentioned during the interview process were savings products facilitated through VSLAs; group-based lending through VSLAs; agricultural cooperatives or social groups; agriculture or value chain financing, such as input credit or vouchers or warehouse credit; harvest loans; digital payments and mobile money; scoring-based credit; microfinance; and, to a smaller degree, insurance products such as crop and index. Savings and payment products were typically introduced first, followed by credit and insurance, which were considered critical to moving beyond subsistence to building income. For populations on the subsistence end of the livelihood continuum, savings via VSLAs, payment platforms, and small grants for income-generating activities and group financing were most typically referenced. For higher-income or enterprise-thinking individuals or groups, working capital, input credits, and insurance were leveraged more frequently. Despite the use of these many tools, few organizations currently have a method to identify which approaches are most impactful or what kind of sequencing is most predictable of success. Despite the absence of these decision-making tools, resources such as the 2019 Rural and Agricultural Finance State of the Sector Report have begun to categorize the primary and secondary service needs of clients in the agriculture sector. For example, smallholder farmers were looking to intensify their production with primarily need loans for high-quality inputs and agricultural insurance, while farmers just looking to develop a resilience buffer primarily need subsidized or partially subsidized access to inputs and funeral/health insurance (Shakhovskoy et al., 2019). Similar tools developed for other sectors will help usher in a departure impact-based promotion of specific financial services.

Annex B: List of Interviewees

AFFILIATION	NAME	POSITION
Accion	Mayada El-Zoghbi	Managing Director, Center for Financial Inclusion
Aceli Africa	Sander Glas	Senior Associate
BFA	Amolo Ng'weno	Chief Executive Officer
Bill and Melinda Gates Foundation	Michael Wiegand	Director, Financial Services for the Poor
BRAC	Emily Gosselin	Program Manager, Agriculture and Rural Livelihoods
BRAC	Julie Kedroske	Technical Advisor
CARE	Christian Pennoti	Global Director, Savings Groups
Caribou Digital	Chris Locke	Founder
DAI	Bill Grant	Global Practice Leader
DAI	Bronwyn Irwin	Chief of Party, Market Systems and Partnerships
DAI	Colleen Green	Vice President, Economic Growth Sector
DAI Europe	Ric Goodman	Director, Technical Services/Resilience
Grameen Foundation	Mona McCord	Director, Agriculture Innovations
International Labour Organization	Craig Churchill	Chief, Social Finance Programme
International Rescue Committee	Kelsey Weber	Rural Livelihoods Officer
Mercy Corps	Leesa Shrader	Program Director, AgriFin
NKG Coffee	Tim Niepel	Program Manager, Sustainable Business Unit
Rural and Agriculture Finance Learning Lab	Clara Colina, Mikael Hook	Learning Lab Manager; Director
UN Capital Development Fund	Camilo Tellez	Head of Research and Innovation, Better than Cash Alliance
USAID	Kristin O'Planick, Paul Nelson	Market Systems Specialist; Mobile Solutions Specialist
World Bank	Mary Hallward-Driemeier	Senior Economic Advisory, Finance, Competitiveness and Innovation
World Bank	Aude De Montesquiou	Director of Programs, Partnership of Economic Inclusion (PEI)
World Economic Forum	Drew Propson	Project Lead, Financial Inclusion

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