Executive Summary

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

Consultative Group to Assist the Poor

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Shaping a more livable world.

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The *Nature* of Work Is Changing

Livelihoods that eventually lead to a "proper job" – one that is full-time, salaried, and offers benefits to a legally recognized employee – continue to elude the majority of citizens in low- and middle-income countries (LMICs). Global labor markets must create 734 million jobs by 2030 to accommodate a 21 percent increase in the working-age population. These employment needs are particularly dire in regions such as Sub-Saharan Africa (SSA), where more than half of global population growth between now and 2050 is expected to occur (UN DESA, Population Division, 2019b). Despite these projections, paid, full-time opportunities are failing to keep pace with population growth. Currently, informal employment contributes to 61 percent of all employment (ILO, 2020c). Contrary to the perception that the informal sector is largely made up of either lifelong farmers or microentrepreneurs, there are nearly twice as many wage workers in the informal sector as own-account work (Ibid). Most of this work is casual labor, both on- and off-farm. Evidence also suggests that individuals and households in both rural and urban areas will continue to manage a mix of farming, entrepreneurship, and both formal and informal wage work to earn income.

The *Location* of Work Is Changing

By 2050, 50 percent of Africans and 64 percent of Asians are expected to live in cities. Notably, SSA now has an urbanization rate nearing that of Asia, at 1.1 percent year on year. At this pace, it will overtake Asia in the coming decade (UN DESA, 2019a). Historically, urbanization and reduced poverty have gone hand in hand, with urbanization driven by industrialization, increased productivity and livelihood outcomes. However, this latest wave of urbanization is occurring without the pull of industrial jobs, driven instead by the lack of opportunities in rural areas and the hopes of finding livelihoods options in wealthier cities.

The *Type* of Work We Do Is Changing

In 1990, employment in the agriculture sector was approximately 60 percent of all employment in Africa and Asia (excluding China). By 2020, it had declined to 50 percent in Africa, 40 percent in South Asia, and 35 percent in East Asia. While there has been some modest growth in the industrial sector, including in some LMICs, Africa has seen no increase in manufacturing employment relative to total employment in the past 20 years. Most of the shift in employment has been from agriculture to the services sector, which includes government, trade, transport, education, health, and financial services. Services employ 24 percent of South Asians, 36 percent of Africans in LMICs, and 46 percent of all workers in East Asia — nearing the global average of 51 percent (ILO, 2020a). The service sector is particularly significant for micro, small and medium-sized enterprises (MSMEs), where most low-income workers find off-farm employment. In India, for example, 69 percent of MSMEs are in the service sector and account for an estimated 68 percent of all MSME employment (Ministry of MSMEs, 2019). This is particularly important for women, as 57 percent of women work in the service sector as compared to 47 percent of men (Gammarano, 2018b). The decline in agricultural employment overall leads to a quick rise in the participation rate of women in the labor force, primarily in services (Ibid).

The *Stability* of Work Is Changing

In addition to the demographic shifts changing the nature of work, global forces such as climate change, global economic integration, and innovations in technology are shifting the locus of labor and global production, redefining economic structural transformation, and ultimately changing established development pathways and the livelihoods opportunities they offer. Additionally, an unexpected force, the global coronavirus pandemic, is upending livelihood strategies for millions, even those previously believed to be stable and well protected. 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 (ILO, 2020b). Service-sector employees have been particularly hard hit due to the restrictions on movement and sporadic closures deployed to contain the pandemic.

Our Understanding of Livelihoods Must Change

CGAP has identified income generation, provision of essential services, and protection of basic standards of living as key livelihood outcomes that can help empower people to capture opportunities and build resilience (CGAP, 2018). These three components are currently undergoing unprecedented change as regional trends transform long-held perceptions of how work, income, and social safety nets (SSNs) interact to produce more resilient and prosperous communities. Given CGAP's goal to deepen financial inclusion and help the poor capture opportunities to build resilience and escape poverty, this report takes a fresh look at livelihoods in the modern context. 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. The overarching findings of this research are represented in "A New Framework for Livelihoods and Financial Services," a conceptual framework which seeks to illustrate the various means through which an individual in our quickly transforming world may seek to improve their livelihood, and where in this journey financial services can enhance this individual's chances of success.

For the purposes of this research, "livelihood" is defined as: individual or household income obtained in return for labor, investments and/or services, or as the result of social and/or familial benefits. Keeping in mind CGAP's interest in opportunities to generate income through increased productivity and access to financial services, the research team expanded upon this definition by developing a taxonomy of livelihood strategies that outlines the unique ways in which an individual may choose to earn income. Efforts around expanding access to financial services have traditionally focused on micro and small enterprise and farming; however, livelihoods are evolving and growing in other occupations.

The research in this study updates the categorization of livelihoods activities to better reflect how low-income households are currently earning income and proposes four primary activities: *wage work*, *individual entrepreneurship* (also known as freelance work), *micro and small enterprise*, and *farming*. Wage work has not often been addressed in inclusive finance efforts because many assumed it was equivalent to formal employment. However, most wage work is performed within informal enterprises lacking the benefits and protections of formal employment. There has also been an increase in individual entrepreneurship or freelance work where individuals work on an occasional basis through their own contacts or connections through relatives, friends or platforms that connect freelancers with work, such as ride-hailing, delivery, domestic, and personal services. These different categories of work have different financial service needs related to whether or not they are skill-based or require inventory, equipment, land, or other inputs.

Increasing Productivity Is Key to Increasing Incomes and Improving Livelihoods

The key concept linking financial services to livelihood improvements is productivity enhancement; how to enable people to do more with the resources they have and to use financial and other resources to increase incomes and invest in their own personal development and well-being to take advantage of new opportunities. Up until recently, livelihoods programming has largely focused on the rural poor, their resilience and the variation of needs and vulnerabilities across individuals, households, and communities – as outlined in the UK Department for International Development's (DFID, now known as the Foreign, Commonwealth and Development Office) Sustainable Livelihoods Framework. In recent years, there has been a shift away from this approach toward private sector engagement, market systems development, and the concept of Making Markets Work for the Poor (M4P) to increase livelihoods opportunities within sectors of the economy, particularly agriculture.

Contextual Factors and Mindset Shape One's Livelihood Strategy

Each livelihood strategy comes with its own risks, levels of income regularity and economic dynamics. One uniting link, however, is that the livelihood strategies that one decides, is able or permitted to pursue are shaped by contextual factors such geography, gender, health, education, social norms, and laws that can enable or constrain the success of a given strategy. Further, the circumstances into which one is born influence the mindset with which they view their options. For example, interviewees consulted for this study reported segmenting project beneficiaries by mindset (e.g., fast and slow climbers, strivers, innovators, early adopters, the committed versus the trapped). Some anecdotally reported that those with entrepreneurial mindsets are better able to leverage interventions, particularly financial services, to increase their income.

Based on findings from a literature review and these expert consultations, the research team identified four mindset states that shape individual livelihood journeys: *subsisting, supplementing, striving* and *sustaining*. It should be noted that neither the livelihood strategies one pursues nor their mindset should be considered static, as personal circumstances, technology, and global forces continue to change where people work, the way they work, the nature of their employment contracts, as well as their ambitions and priorities relative to the way they earn a living.

There are Five Key Levers the Poor Can Use to Increase Their Productivity and Incomes

While the link between productivity gains and income is not perfect due to reasons such as volatile markets and unequal distribution of the gains from productivity between those at the bottom, middle and top of a value chain, increased productivity does lead to increased income in aggregate. Therefore, helping people make their livelihoods more productive through financial services merits greater attention.

Studying the most common drivers of productivity — *technology, market access, physical assets, supply linkages,* and *skills* — presents an opportunity for CGAP to structure its research on how financial services can unlock increased productivity, with specific attention paid to skills and technology which are critical in modern economies.

For instance, an individual who pursues farming as a livelihood strategy will most likely see improvements in their productivity through market access, supply linkages, and technology. As the FAO points out, more than 75 percent of farmers in SSA prepare their land using only hand tools (FAO, 2017). Input financing schemes, contract farming, and value chain financing tools are often bundled with new technologies and training that help farmers make better use of resources.

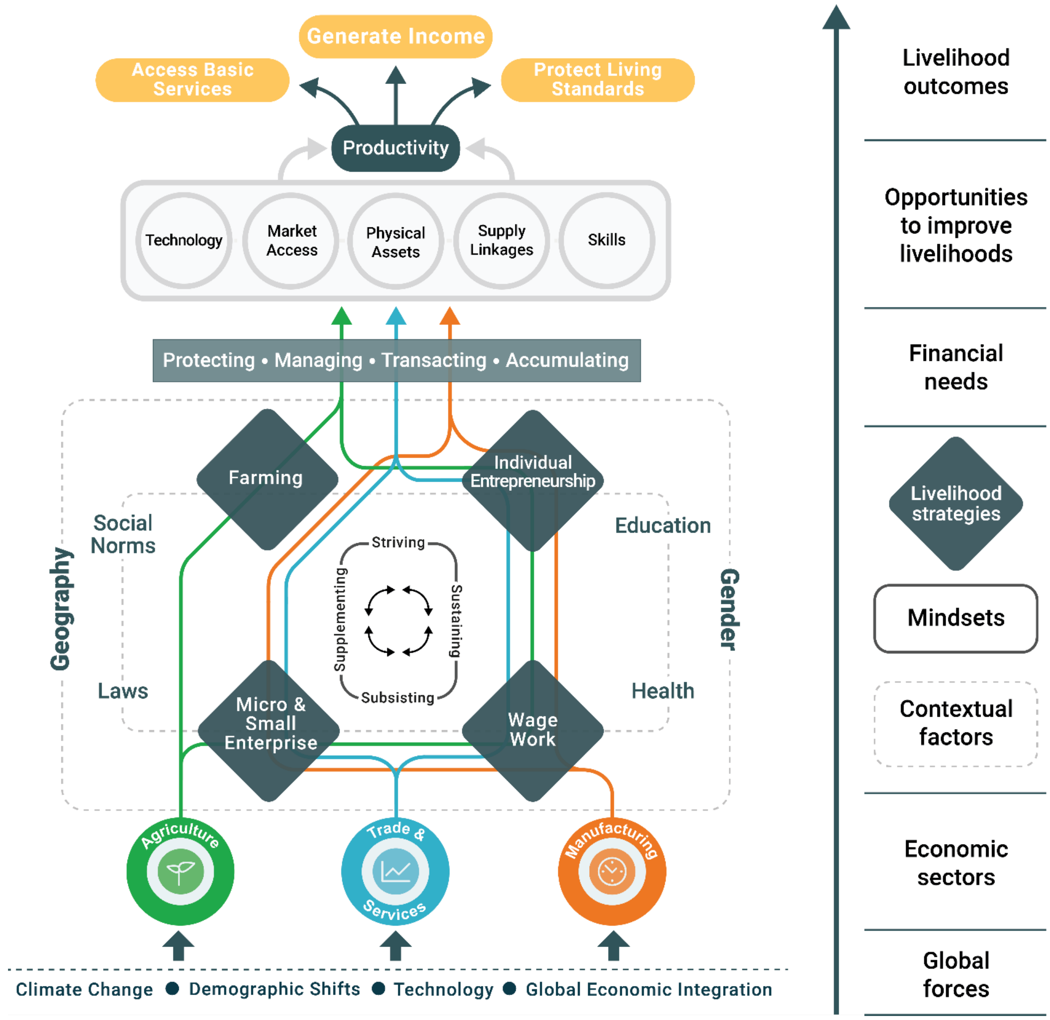
Similarly, interventions for small-scale manufacturing prioritize improving production methods and technology that increase the productivity of labor. While modern service economies, including retail, make heavy use of metrics to measure and increase productivity — everything from monitoring labor hours and maximizing the use of space — there does not appear to be a significant effort to translate these into the developing country context.

Meeting Four Core Financial Needs Can Help Unlock and Enhance Productivity

Key to the logical progression of this framework are the financial needs and services the poor require to invest in their various drivers of increased productivity. Based on an analysis of definitions for financial needs developed by organizations such as Cenfri, the Bill & Melinda Gates Foundation, Bankable Frontiers, and the United Nations Capital Development Fund, the research team identified *protecting, managing, transacting,* and *accumulating* as the core financial services low-income households need to manage their livelihoods and well-being.

These needs can be met by one or a combination of financial services. As an example, savings may be used to protect funds, accumulate funds for a future entrepreneurial investment or used as collateral to obtain credit. The combination individuals use to support their livelihood will depend on what is available, affordable, reliable and trusted. The research shows that embedding or closely linking financial services to a livelihoods-related activity, such as offering insurance with sales of inputs or invoice financing, can be a means to better link financial services to livelihoods outcomes.

Exhibit 1: A New Framework for Livelihoods and Financial Services



Areas for Further Research

The goal of this research engagement was to revisit and, to a certain extent, update the common understanding of what constitutes a livelihood in the modern era and the role of financial services in making that livelihood decent, resilient, sustainable, and rewarding. The process of segmenting the various economic sectors, livelihood strategies, mindsets, and contextual factors was intended to inform CGAP and other's efforts in light of the significant change in economies due to global forces that will shape economic livelihoods over the coming decades. While the relationship between productivity and income, and the linkages between financing and productivity-enhancing activities, are most explicitly part of livelihood programs in agriculture, they are increasingly relevant outside of agriculture (for instance, the role digital payments and platforms are playing in linking individuals to income earning opportunities, markets, inventory, and assets). Based on the research conducted in the development of this framework, the research team provided the following recommendations for additional research that can help clarify which drivers of productivity offer the greatest opportunity for income gains in some of the most common livelihood activities and how financial services can play a greater role.

Maximizing microenterprise use of finance: Microenterprises are a major source of livelihoods for many, either as owners or employees. A critical finding is that the absorptive capacity of microenterprises through growth funding is limited by their lack of ability to translate increased funding and revenue into greater profits through better use of inventory, technology, customer outreach and management, and employee and physical space management. Some areas for further research include: How can basic management tools related to inventory, space and customer management link to financial services and lead to greater productivity gains in these areas?

Investigating the needs of individual entrepreneurship finance: The research suggests that individual entrepreneurs' financial service needs are primarily financial management by smoothing cash flow, receiving customer payments, and protecting both workers and their clients. Some relevant questions raised in the study that warrant further research include: What do the financial lives of individual entrepreneurs, including platform workers, look like at different stages of development? What financial and non-financial tools do they currently use to manage their freelance work and move between jobs? As many platforms are cash optional, what is the preference of service platform entrepreneurs regarding cash or digital payment?

Looking at livelihoods in agriculture beyond smallholder farming: Given the vast amount of research on 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 beyond smallholder farmers, consisting of a diverse group of agro-enterprises and wage workers. Some areas for further research include: What are the structures and variations of different financing arrangements with farmers, such as input finance and contract farming? Do these structures reveal a clear typology of these financing mechanisms and providers to assess the relative benefits to farmers regarding increasing income and managing risks? Is it possible to provide insights and basic guidelines on how to ensure arrangements are beneficial to smallholders and providers?

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 interventions. 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. Additional research could answer the following questions: To what extent are microenterprise employers or businesses that rely on casual labor driving financial account adoption through wage payments? How might employers be drivers of access to financial services to informal workers?[1]

[1] To learn more, see the full report: "Strategic Synthesis of Key Thinking and Experience of Work, Livelihoods, and Financial Services."