# GETTING EMPLOYMENT TO WORK FOR SELF-RELIANCE:

## A USAID Framework for Programming

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## COVER PHOTO

PORT-AU-PRINCE, HAITI - DECEMBER 15, 2014
Employees assemble tablets at the Surtab factory in Port-au-Prince, Haiti. Surtab, which was established in 2013 with funding from USAID, has been a boost to the technology sector in Haiti. Photo taken by David Rochkind, USAID.

## ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| CDCS | Country Development Cooperation Strategy |
| CER | Country Economic Review |
| E&E | Europe and Eurasia |
| E3 | Bureau for Economic Growth, Education, and Environment, USAID |
| EAP | East Asia and the Pacific |
| EET | Entrepreneurship education and training |
| EPL | Employee protection legislation |
| FDI | Foreign direct investment |
| HE | Household enterprise |
| HIC | High-income countries |
| ICT | Information and communication technology |
| ILO | International Labour Organization |
| LAC | Latin America and the Caribbean |
| LGBTI | Lesbian, gay, bisexual, transgender, and intersex |
| LIC | Low-income countries |
| LMC | Lower-middle-income countries |
| MENA | Middle East and North Africa |
| PYD | Positive Youth Development |
| R&D | Research and development |
| SMEs | Small and medium enterprises |
| SSA | Sub-Saharan Africa |
| TVET | Technical and vocational education and training |
| UMC | Upper-middle-income countries |
| USAID | United States Agency for International Development |
| USG | United States Government |

## PREFACE

How can we understand the issues of employment creation in the countries where we work? And what can we do about it? These are questions that most of our Missions confront. We know that wages from employment drive economic growth and self-reliance. But where to start? It can be overwhelming and bewildering.

Whether it's a farm, family business, or urban enterprise, businesses bring opportunities, new technologies, and build skills. And it is not just about the number of jobs, but also about the type and quality of employment. It's about better jobs with better opportunities and more inclusive development.

Development is a discipline. Furthering the Journey to Self-reliance requires us to strengthen this discipline by using evidence and learning for effective project design and management, as well as throughout the entirety of the program cycle.

To that end, our former Chief Economist Louise Fox and Economic Growth, Education & Environment Bureau Senior Advisor Jack Hawkins led a deliberate, consultative process of producing this framework, consolidating the latest evidence to address country-specific challenges. Staff from across the Agency, including Anastasia de Santos, Danielle Dukowicz, Nancy Taggart, Olga Merchan, Paul Oliver, Elizabeth Chacko, Autumn Gorman, Wade Channell, Peter Hirst, Jane Lowicki-Zucca, Michael McCabe, Bama Athreya and Nada Petrovic significantly contributed to this document as well. The Framework's accompanying Playbook and more detailed Annex 1 are practical tools for Country Development and Cooperation Strategies, project design, and monitoring and evaluation.

This framework is only a first step. Working with our colleagues and partners around the world, our experts plan to produce more detailed, tailored resources such as case studies to capture nuances for effective programs and policies for different regions, target populations and country contexts

I am confident that the Employment Framework will be a valuable resource to advance our work to create more and better jobs.

**Chris Milligan**
Counselor to the Agency

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# EXECUTIVE SUMMARY

**This employment framework helps USAID staff and development partners understand employment challenges in USAID host countries and design interventions that support more and better jobs for all.** It describes the relationships between employment, economic development, and greater self-reliance in developing countries; provides a guide for diagnosing employment challenges; and recommends interventions to support employment and skills to navigate employment opportunities.

## UNDERSTANDING EMPLOYMENT AND THE DEVELOPMENT AGENDA

**Employment—more jobs, and better jobs—transforms economies and societies, helping them to grow, develop, and move toward self-reliance.**

### What is a job? What are employment outcomes?

**In developing countries, the definition of employment encompasses more than an employee's wage or salaried position with an employer.** In reality, a great many individuals hold jobs that are more realistically defined as "**activities that generate actual or imputed income, monetary or in kind, formal or informal.**" Individuals often hold multiple jobs, commonly called a "mixed livelihood". A job is much more than an activity that enables an individual to earn income. Jobs take a multitude of forms, from earning a wage in a factory owned by a large multinational company to selling snacks in the street in exchange for food and a place to sleep. A job—or the lack of a job—signals much about a person's identity, security, status, and social networks.

This framework focuses on **three outcomes**:

1. increasing employment for those who want to work,
2. higher earnings, and
3. better and more inclusive jobs.

**Employment is a crucial link between two key dimensions of a country's capacity for self-reliance: the capacity of its people and of its economic institutions.** We see this, in particular, in the Self-Reliance Metrics **for poverty reduction and economic growth**. In developing countries, most people work their way out of poverty.

**Three types of employment are found in developing countries:**

**Wage or salary jobs**. These may be (i) *salary jobs* in a private firm or in the public sector; (ii) *casual informal wage work* in farms or microenterprises, or seasonal work on construction sites or in factories; or (iii) *wage work in households*. Jobs in *modern firms*—firms characterized by higher labor productivity—pay better, and they are what this framework focuses on when discussing wage jobs. As economies grow, jobs in modern firms grow as a share of total employment.

**(Self) employment on a family farm** in the agricultural sector (including livestock and crop production, aquaculture, and similar activities), where at least 50 percent of the labor comes from family members.

**(Self) employment in a household business (microenterprise)**. Household enterprises (HEs) are unincorporated nonfarm businesses owned by households, located in either rural or urban areas. This type of employment includes the notional business owner as well as any family members

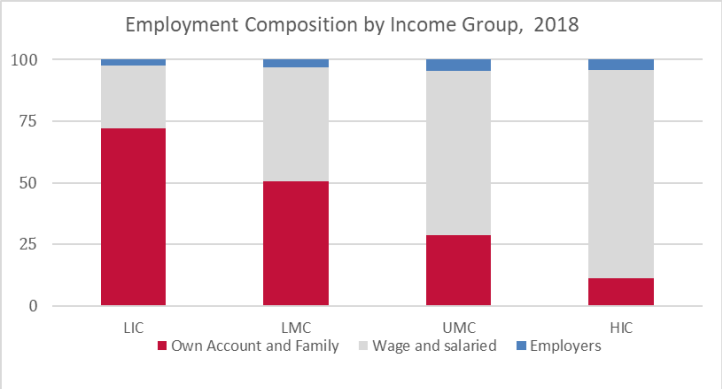
working in the business. Most HEs are one-person operations. Most employment in the **gig economy** falls in the self-employment category.

**Because modern, private sector firms tend to produce the most formal, highest-paying jobs**, the most effective strategy is to **focus on growing employment in this sector**. While formal jobs usually offer the best protections and benefits, and may return more taxes to the government, for practical reasons both **informal firms and informal employment are sometimes legal** in USAID host countries.

**Expanding and improving employment requires commitment to change as well as country capacity.** The *USAID Policy Framework*, for instance, explains, "Economic development rarely happens organically; it starts with effective policies" (28).

**Sustainable economic growth and development is fundamentally a process of *transformation*: of an economy, the employment opportunities it offers, and the material welfare of the population.** *Structural transformation* occurs as an economy moves from a subsistence, agrarian mode of production to an urbanized, integrated, and enterprise-dominated mode. The change in employment opportunities that accompanies structural transformation—the movement of employment out of self- and household employment and into wage jobs—is known as the *employment transformation*. In upper-middle-income and high-income countries, most employment is found outside the household in formal, modern firms as wage labor. In low-income and lower-middle-income countries, the number of modern firms is low, wage jobs are scarce, and the labor supply is large; most employment is found in traditional, informal production units. ***Until a country reaches upper-income status, most of its labor force will not obtain a wage job*** (see the figure). Modern firms take time to emerge; their creation requires more capital and knowhow than household production on family farms or in family firms. ***These critical aspects of employment in USAID host countries must be taken into account to design effective programs for improving employment outcomes.***

**Only in transformed upper-middle-income and high-income countries does the majority of the labor force find work in wage employment**




*Source:* World Bank, World Development Indicators (ILO Estimates).
*Note:* LIC (low-income countries); LMC (lower-middle-income countries); UMC (upper-middle-income countries); HIC (high-income countries).

**For individuals and households, earnings are the main outcome of participating in the labor force, and as those earnings rise, they drive economy-wide growth and self-reliance**. An individual can begin earning by starting a business or farm, joining a family business, or obtaining a wage job. Individuals who are already employed can increase their earnings if they can increase profits from their farm/business by working more hours, bringing in new technology, or starting a new economic activity. If they have wage employment, they can change jobs, or they can earn more by getting a raise, possibly because they have acquired a new skill. More income in the hands of individuals and households through higher earnings means more demand for the goods and services that households and firms produce; this *multiplier effect* shows why economic growth is considered a circular process. Traditional household farms and firms, as well as modern firms, regardless of size, can make more income by using technology to produce and sell more, if there is demand for

their product. They can also make more money by using new technologies, investing in new assets, or using assets more efficiently.

## Creating better, more inclusive jobs: Concepts and challenges

**Economic development is not only about creating jobs, but about jobs becoming better and more inclusive.** As economies transform, more lucrative, less physically demanding, and less dangerous job opportunities emerge and low-paying, unpleasant jobs disappear. Often protections for wage workers improve, generally through collective action and employment protection legislation. Self-employment and household production tend to be more dangerous types of employment. Wherever they dominate employment, the protection of human rights and employment health and safety is challenging.

**The concept of "better jobs" implies not higher earnings for some, but better opportunities for all, including youth, women, and socially excluded groups. For that reason, "better jobs" are central not only to sustainable economic growth but to another driver of self-reliance: *inclusive development*.** In all countries, even when overall unemployment is low, unemployment is higher for working-age youth, reflecting the obstacles they face as new labor force entrants. Households are less able to support working-age youth, who may be obliged to take casual or temporary jobs while searching for steady employment or saving to start a farm or nonfarm business. Long periods of unemployment waste human capital, and high youth unemployment is a serious social and political concern. In sub-Saharan Africa, which has most of the world's "youngest" countries, demographic challenges will slow the employment transformation, and employment policy must recognize that most livelihoods will remain in the informal sector for the foreseeable future.

**Women and socially excluded groups often face specific obstacles to employment, especially higher-paying and more secure wage work.** Women encounter persistent discrimination in employment and earnings, owing to pervasive normative barriers that limit female education, segment females into "appropriate" fields of study and less lucrative employment, and limit their labor force participation. Marginalized groups—including but not limited to persons with disabilities, ethnic and religious minorities, indigenous peoples, and lesbian, gay, bisexual, transgender, and intersex (LGBTI) people—often face social stigma, formal and informal discrimination, and structural barriers that restrict their efforts to prepare for, seek, obtain, and maintain employment. Better opportunities for all depend on strategies to fight discriminatory practices and the belief systems that perpetuate them, and on research to learn how best to include marginalized groups in employment programming. Again, the commitment of leaders and institutions is as important as their capacity. Yet unless more jobs are created in the economy, interventions targeting these groups will not increase income-earning opportunities in the economy.

## Strategies and policies for countries and donors to support more employment, higher earnings, and better jobs

**Context always matters for orienting country employment strategies, which need to reflect what has been achieved and the opportunities and obstacles that lie ahead**. Strategies and policies to create more employment, higher earnings, and better jobs will differ by sector, country income level, and progress in economic transformation.

**Broad-based economic growth with strong private sector participation always delivers better employment opportunities by facilitating employment transformation.** Broad-based growth involves

all sectors of the economy—industry and services, and agriculture and primary production—and in all cases of sustained transformation, the main source of new jobs is the private sector. Countries that fail to develop the private sector usually have a slow, unsatisfactory employment transformation. Economic development policy should support the creation of new firms, the growth of existing firms, and occasionally the exit of firms that cannot produce the goods and services the market demands. Policies must also enable other economic units with a critical role in developing economies—household farms and firms, invariably informal—to invest in their operations, become more productive, and increase their earnings. When many or most opportunities for new labor force entrants are in the household production sector, another policy objective is to help new entrants find these opportunities.

**Given these considerations, employment policy—and interventions to support that policy—must focus on different priorities for industry and services compared to agriculture.**

**Employment policy for industry and services.** Industry and services are often the expanding, more productive sectors of the economy, so policymakers usually recognize their central role in creating employment in modern production units. ***Employment policy for the industrial and service sectors should encourage investments in larger, modern firms that hire workers, while taking care not to discourage the household and microenterprises that employ and provide goods and services to poorer people***. Investments for broad-based growth often support both traditional and modern production units; examples include roads linking people to markets, general education that builds a range of valuable and transferable skills, and investments in information technology to encourage flows of data and ideas and enable financial inclusion. ***The employment objective of economic policy for modern firms should be to expand employment especially while the labor force is growing and employment in the traditional sector is substantial. The employment objective of economic policy for household firms (and farms; see below) should be to increase earnings and stability.***

**Employment policy for agriculture.** Policymakers tend to overlook agriculture's contribution to the economy. This neglect is unfortunate in light of evidence that traditional production units in agriculture are the broad base that upholds rural transformation and leads to wider economic growth and poverty reduction in developing countries. ***Employment policy for the agricultural sector should emphasize raising incomes by identifying and developing remunerative opportunities, including opportunities that help to overcome seasonal underemployment for small-scale farmers growing crops for their livelihood.*** The main product of USAID beneficiary farm households is crops. Strategies that help such households reduce underemployment include: (1) adding livestock production, which can earn income year-round through sales of eggs, milk, and meat; (2) starting their own nonfarm business, which may operate year-round or just in the off-season; or (3) seeking off-farm wage employment. Strategies (1) and (2) are more common than strategy (3) in the initial stages of economic transformation, when there is little off-season wage employment in rural areas. As agricultural value chains develop upstream and downstream of the farm, more wage opportunities open up.

## EVIDENCE-BASED INTERVENTIONS FOR BETTER EMPLOYMENT OUTCOMES

**With the right targeting and implementation, a number of interventions can improve employment opportunities and (where possible) support better and more inclusive jobs in the complex contexts where USAID works.** A three-step process is helpful in USAID for diagnosing employment challenges and designing interventions to grow modern firms, increase income from family farms, and help household enterprises to start and stay in business:

**Step 1:** **Diagnose** economic growth and employment challenges and opportunities in the country.
**Step 2:** **Decide** within the Country Development Cooperation Strategy (CDCS) what employment-related intermediate results you want to achieve, and how.
**Step 3:** **Design** appropriate interventions to promote employment opportunities in a given country.

**In general, the interventions recommended here focus first on expanding opportunities for improved earnings and employment, before people themselves.** The reason for focusing on sectors and businesses, not individuals, is that the evidence suggests that most of the opportunities will come from increasing production (in other words, from labor demand).

### Interventions to grow modern firms

**The entry and growth of modern firms is critical for increasing demand for labor and generating better employment opportunities.** In developing countries, smaller firms are unlikely to grow over time, and large firms tend to start as large firms. The key for any effective support is to target the right firms—those with the vision and capacity to grow. Recommended interventions include:

- Facilitate the removal of **systemic policy barriers** to productivity, competition, trade, and foreign direct investment. Business registration should be far less of a concern than outcomes such as firm growth.
- Partner to develop **infrastructure.**
- Increase **access to finance** by improving credit information and collateral systems.
- Provide **market information** and support the formation of **consortiums** to improve market linkages.
- Encourage firm profitability and expansion through **management consulting.**
- Support **product innovation.**
- Adapt **modalities for women** and address women's decision-making.

### Interventions to increase income from family farms

**Where agriculture is the primary source of livelihoods and employment, increasing labor productivity is key to increasing income and adding jobs.** Investments that enable farm households to produce more products and products of higher quality will free farm labor to move away from a less productive activities such as subsistence food production and toward more productive activities off of the farm (employment in farm-related value chains such as input supply and post-harvest processing, or the provision of consumer services to farm households that now earn more income). It will also facilitate the entrance of youth, who may bring needed human capital, into the sector. Recommended interventions include:

- Improve **market access** by improving rural road networks and investing in electricity and information and communication technology.
- Facilitate access to new technology and market integration by **organizing geographically dispersed producers.**
- Use **innovations in communication technology** to improve the use of innovations in agriculture.
- Where rainfed crop agriculture is common, increase earnings and mitigate risk by investing in **irrigation systems** and **supporting opportunities in livestock production and nonfarm employment**.
- Improve **access to land** and develop **land markets** for agricultural employment and investment through land registration, rentals, and low-cost land sales

### Interventions to help household enterprises start and stay in business

**The key to opening and sustaining a household enterprise (HE) is access to information (on opportunities, markets, input supply), capital or savings, skills (literacy, numeracy, socio-emotional, and specialized technical skills), and a location to work.** Young people in both rural and urban areas are especially stymied by the lack of accurate information about opportunities to open HEs and the difficulty of financing a business. HEs can be ephemeral because they face high competition and business risk, compounded by household risk (such as illness). Recommended interventions include:

- Facilitate **business start-up** by **building awareness of opportunities** (and if necessary, **socio-emotional skills** to take advantage of them) and by providing **access to finance** (through microfinance institutions, for instance). These interventions are important for youth while still in school, but also helpful for school dropouts and graduates.
- Support the **maintenance of an existing business** through **microcredit** (although evidence of success is mixed), **socioemotional skill development**, and **peer learning** (a better alternative than business training).

### Skills to navigate the labor market and work environment

**Skills improve employment prospects, even though they do not generate jobs directly or guarantee an increase in earnings.** The skills that help people to find and keep a wage job, improve the productivity of the family farm, or open and maintain a business are diverse, complementary, and acquired in a range of settings (the family, community, school, technical and vocational programs, and the workplace). They include cognitive skills, socio-emotional skills, technical or vocational skills, and firm-specific skills. Individuals entering the labor market, especially women and young people, also need information about careers, employment opportunities, earnings in different jobs and occupations, and the behavior that is expected of them during the job search and on the job. Recommended interventions include:

- Ensure that all labor force entrants have **foundational cognitive and socio-emotional skills**, including skills that help young people find employment opportunities, support on-the-job learning, and allow for potential post-secondary education or training.
- Develop **work-readiness behaviors** and expose youth to **workplaces**, whether they are still in school or out of school.
- Finance **technical training only with demonstrable value and additionality**—in other words, only when the private sector is not already providing such training.

## CONCLUSION

**Employment is central to economic development and self-reliance, but the best options for creating employment are not always easy to discern**. Especially for poorer countries where very large numbers of young people are entering the workforce each year, identifying ways of expanding employment opportunities is an urgent development priority. As the journey to self-reliance can take multiple routes, strategies and policies to create more employment, better jobs, and higher earnings will differ by sector, country income level, and progress in economic transformation.

# Getting Employment to Work for Self-Reliance:

## A USAID Framework for Employment Programming

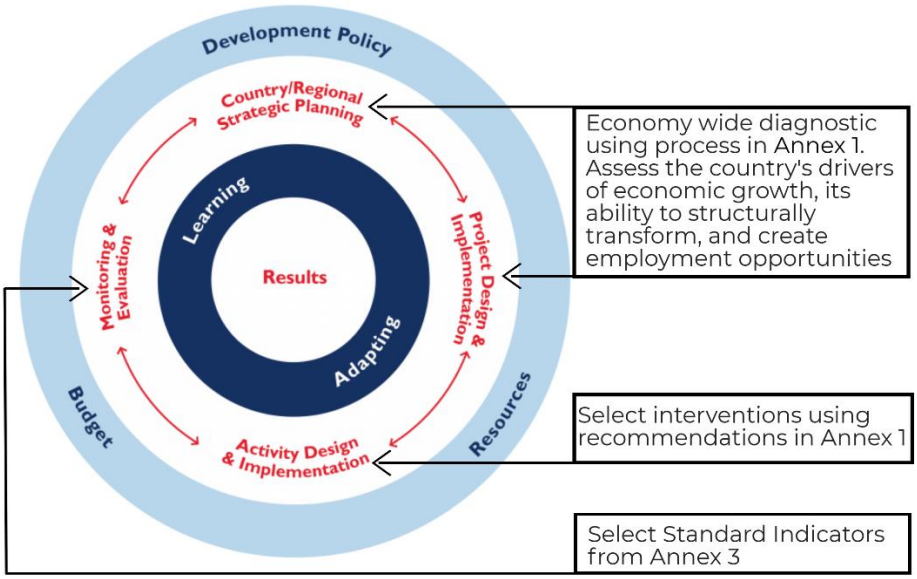
**Employment—more jobs, and better jobs—transforms economies, helping them to grow, develop, and move toward self-reliance.** This employment framework assists USAID staff and development partners to understand the employment challenge in USAID host countries and to design interventions that support more, better, and more inclusive jobs.

**A job is much more than an activity that enables an individual to earn income.** Jobs take many forms, from earning a wage in a factory to selling snacks in the street in exchange for food and a place to sleep. They can be as local and invisible as piecework done by women who never leave the house, or they can involve large seasonal movements of people in search of employment. A job—or the lack of one—signals much about a person's identity, security, status, and social networks.

The importance of employment to national economic growth and self-reliance is clear, but the best options for creating employment are not obvious. Especially for poorer countries where many young people enter the workforce each year, expanding employment opportunities is an urgent priority. USAID 's Policy Framework emphasizes "strategic convergence among country needs, USAID's capabilities and comparative advantages, and U.S. policy imperatives." In line with that imperative, the employment outcomes that USAID host countries want and that U.S. policy prioritizes are: **(1) increasing employment for those who want to work, (2) higher earnings, and (3) better and more inclusive jobs.**

**This framework emphasizes *what works* for improving employment outcomes in countries where USAID operates.** It presents an evidence-based array of options that USAID staff and partners can consider for supporting more and better jobs. The main part of this framework is a big picture of employment, economic growth, and greater self-reliance in developing countries. The companion Playbook and Annex I are practical guides to diagnosis and design.

### When and how to use this guide



## THE FIVE GUIDING PRINCIPLES OF THIS EMPLOYMENT FRAMEWORK

1) **LABOR MARKET CONTEXT: Seek sustainable impact by tailoring programming to how the labor market functions in the country context, including the role of the informal sector, and designing programs that meet country needs.**
    - Understand and adapt to the labor market context. Diagnose opportunities and challenges before programming: work systematically, considering household and market dynamics, the scope for private sector solutions, and possible displacement.
    - Integrate informal as well as formal employment into diagnostics and programming.
        - Because informality only declines with self-reliance.
2) **SCALE AND EVIDENCE: Design interventions and select partners with scale in mind from the beginning, starting from existing evidence about what works but leaving room for adaptive management.**
    - Identify and engage with public and private sector partners with the right mix of will and skill to co-design approaches with the potential to achieve scalable impact.
    - Ensure theories of change are based on clear, verifiable assumptions.
        - Measure relevant intermediate outcomes (such as skills/education level) where that is our goal.
3) **INCLUSIVITY: Tailor interventions and approaches to target the poor, be gender-sensitive, and consider life cycle factors to ensure that interventions are appropriate for the needs of youth and vulnerable groups.**
    - Conduct analyses, planning, and implementation with deliberate consideration of opportunities and barriers to employment facing specific groups, including females, males, youth, and other vulnerable or socially excluded groups.
        - Work to expand economic opportunities for all, being aware of displacement and spillover effects, e.g., in the broader labor market for less-skilled workers.
4) **LABOR STANDARDS: Ensure that approaches adhere to internationally agreed upon labor standards that protect basic freedoms, decrease discrimination, and keep children safe.**
    - Support the four core labor standards in programming: freedom of association, freedom from forced labor, freedom from harmful child labor, and freedom from discrimination.
        - Working toward more decent work for all.
5) **PARTNERSHIPS: Seek out innovative and creative partnerships, including with the private sector, civil society actors, and government institutions, to help define problems and work toward shared goals.**
    - Engage the private sector as a key driver of growth and opportunities for employment and earnings.
    - Engage relevant civil society actors, especially youth and disadvantaged groups, who need opportunities and want to participate in the creation of solutions to poverty and self-reliance deficits.
    - Partner with and build capacity of government institutions to strengthen the enabling environment for inclusive growth and employment.
    - Support collaboration across donors/funders to maximize synergies and impact.

## UNDERSTANDING EMPLOYMENT AND THE DEVELOPMENT AGENDA

**To support more and better jobs, we need to understand how economies grow and create employment, and how jobs can become better and more inclusive.** Economic development changes an economy and the employment opportunities it offers. Policies and programs can accelerate this process.

**The central objective of USAID assistance is to make investments that speed the pace of transformation to the point that a country is self-reliant,** with the capacity to design, implement, and finance its own transformation**. Because economic development transforms the material welfare of people and the ways that an economy creates value and wealth,** foreign assistance is concerned with people's economic lives, including how they earn money, and how much money they earn—in other words, with employment.

### 1. WHAT IS A JOB? WHAT ARE EMPLOYMENT OUTCOMES?

**In developing countries, the definition of employment encompasses more than an employee's wage or salaried position with an employer.** In fact, a great many individuals hold jobs or pursue livelihoods that are more realistically defined as "**activities that generate actual or imputed income, monetary or in kind, formal or informal.**"[1] Individuals often hold multiple jobs, commonly called a "mixed livelihood."

**Employment programs and policies seek to improve employment outcomes for the working-age population.** They do this by (1) helping people to enter the labor force, search for, and find a way to make a living—new employment; or (2) helping people who are already working to earn more, or to increase the security of their earnings.

**Three types of employment are found in developing countries:**

- **Wage or salary jobs**. These may be (i) *steady, regular jobs* in a modern private firm or in the public sector; (ii) *casual, informal wage work* on traditional production units such as farms or microenterprises, or seasonal work on construction sites or in factories; or (iii) *wage work in households,* such as security guards, housekeeping, or childcare. Jobs in *modern firms*—firms that effectively manage physical, financial, and human resources through specialized departments, and that use newer technology that raises labor productivity—pay better, and exemplify what is usually meant by a "wage job." **As economies develop, jobs in modern firms grow as a share of total employment.**
- **(Self) employment on a family farm** in the agricultural sector (including crop and livestock production, aquaculture, and similar activities). The term "family farm" implies that at least 50 percent of the labor comes from family members. It usually, but not always, implies that the productive assets (machinery, buildings, livestock, etc.) are owned by the family, not by a separate legal entity.

[1] Filmer, Deon, and Louise Fox, Youth employment in sub-Saharan Africa, (Washington: The World Bank, 2014), https://openknowledge.worldbank.org/handle/10986/16608

**(Self) employment in a household business (microenterprise)**. *Household enterprises* (HEs) are unincorporated nonfarm business owned by households, located in either rural or urban areas. This type of employment includes the notional business owner as well as any family members working in the business. People who work in this sector include self-employed individuals running businesses and family members who report working in the business. Most HEs are one-person operations. In sub-Saharan Africa, 90 percent of people working in this sector are the self-employed owners; only 10 percent are family members. Less than 15 percent have casually employed wage workers. Most employment in the gig economy falls in the self-employment category (such as mini-bus drivers whose earnings depend on the profit they make after paying the owner of the vehicle).[2]

**To achieve the desired outcomes of increasing *employment for those who want to work*, *higher earnings*, and *better and more inclusive jobs,* employment strategy** should increase the share of wage or salary jobs in total employment and increase earnings in all three types of jobs.

**All three types of employment may be formal or informal** (Box 1), although family farming and household businesses are usually informal economic units. Small household businesses and family farms are part of the nonwage economy; they are described as "traditional" production units to differentiate them from the "modern" firms that offer wage employment.

### Box 1: Informal is normal, and sometimes legal

"Informality" describes a common type of economic unit and employment. An **informal economic unit** mostly generates employment and income for the owners. It typically operates on a small scale, with assets belonging to the household, not to a separate production unit. ***Usually it is legal for informal production units to do business in the family name,*** and they are not required to incorporate or otherwise become "formal," although they may have to pay taxes. In countries where business registration is difficult or costly, or where registration leads to higher taxes, firms may remain informal even as they expand, but most do not remain informal just to evade taxes. Many already pay local or national taxes—sometimes at higher rates than formal businesses. [a]

***Informal economic units are generally less productive than formal ones***, owing to their small scale, lower capital/labor ratio, and use of less advanced technology. Yet "formalizing" them—for example, by registering them as a business with a separate legal identity—will not change their productivity. What would change their productivity is a different business model—using more capital or different technology, for example.

**Informal employment** is an employment relationship between two unrelated persons not subject (by law or practice) to national labor legislation or social protection schemes organized through employment. ***Informal employment may or may not be legal*.** Informal employment is found even in formal firms; it flourishes in countries where the costs to the employer and the employee of wage taxes and mandated benefits are high.

*Source:* ILO, "Men and Women of the Informal Economy: A Statistical Picture" (3rd ed,) 2018.
a Fox, Louise, and Obert Pimhidzai. "Is informality welfare-enhancing structural transformation? Evidence from Uganda," (Washington, D.C.: World Bank, 2011).

[2] See https://www.ilo.org/employment/Whatwedo/Publications/working-papers/WCMS_614176/lang--en/index.htm and https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/meetingdocument/wcms_619086.pdf

## 2. BUILDING SELF-RELIANCE: EMPLOYMENT, DEVELOPMENT, AND ECONOMIC GROWTH

**Employment is essential to the development and self-reliance agenda. Labor is the main asset of the poor, and through higher earnings, people work their way out of poverty.** Employment is also central to economic growth; economies grow as people get better at what they do and create more value every hour they work (Box 2).

### Box 2: How economies grow—the role of labor productivity

Economies grow when they produce more goods and services. Production requires assets such as labor, land, and various forms of capital (physical, financial, and human). Four kinds of change can lead to economic growth:

1. **Investment** increases the amount of physical capital per unit of labor in the economy as a whole, leading to greater labor productivity.
2. **Skill development** allows labor to produce more with the same amount of capital—another way labor productivity increases.
3. **A new technology is introduced**, making it possible to produce more output with the same amount of labor and capital and to increase labor productivity.
4. **More people enter the labor force.** In this case, labor productivity will not increase; it will even decline if more total product is produced by using less capital per unit of labor.

**As these four types of change indicate, *labor productivity*—the amount of output each person produces each work hour (or day)—is a key concept in analyzing inclusive economic growth.** Fundamentally, the labor productivity of the economy must increase for earnings to increase. Labor productivity grows when production and employment expand in the more productive economic sectors. Low-productivity sectors can increase the labor productivity of existing economic units by expanding production in the most efficient units and contracting production in the least efficient (closing firms, consolidating farms). Economic growth is thus a dynamic process, with the side effect of creating winners and losers. For that reason, in addition to encouraging increases in labor productivity, social and economic policies need to recognize who might be losing out in the economic transformation and help them to avoid falling into poverty. Such policies range from bankruptcy policies for losing firms to social protections for workers affected by rapid technological change.

**The structure of employment and its evolution have political and social consequences.** Employment confers a sense of opportunity, identity, status, and social well-being. It brings economic security to households, allowing investments in household welfare such as better housing and transport, children's education, and healthcare. The absence of opportunities to work (unemployment), as well as limited options for those able to find work, can trigger dissatisfaction throughout society.

**The economic policy of USAID host governments is deeply concerned with fostering economic growth through more investment and better use of existing resources, because better prospects for employment, and the sense of opportunity that they create, are closely tied to economic growth.** At the same time, economic development trajectories do not depend solely on economic development policy. Political events, widespread violence or civil conflict, destructive weather, and pandemics are examples of noneconomic factors that can halt or even reverse economic growth.

## 3. HOW ECONOMIC TRANSFORMATION CREATES JOBS AND INCREASES EARNINGS FROM WORK

**Growth in the share of production produced by firms rather than traditional production units, and then by more productive modern firms, is called *structural transformation,* and it is essential to economic development.** Firms produce more output per unit of labor than traditional production units by using more capital, skills, and technology. As economies develop, firms gain even more productivity.

**Low- and lower-middle-income countries have a large supply of labor and a shortage of firms. As a result, they experience chronic scarcity of wage jobs.** The amount of labor hired is set by demand from firms, related to the amount of capital they have and the amount of product they can sell. This is true even though more people in the labor force are willing to work at the prevailing wage. Most of the labor force does not obtain wage jobs until the country reaches upper-income status, as explained in Box 3.

**Households as a traditional economic unit of production may persist for a long time.** Even in developed countries, most farms are family owned**.** In other sectors, modern firms gradually take over production, because they are usually more efficient. Employment analysis now recognizes the important role of the household as an economic unit that makes investments and assigns work to members—including household chores. It is also widely recognized that households that produce as well as consume usually mix their business assets and earnings with household assets and consumption.

**For individuals and households, earnings are the main outcome of participating in the labor force, and as those earnings rise, they drive economy-wide growth and self-reliance**. An individual can begin earning by starting a business or farm, joining a family business, or obtaining a wage job. Individuals who are already employed can increase their earnings if they can increase profits from their farm/business by working more hours, bringing in new technology, or starting a new economic activity. If they have wage employment, they can change jobs, or they can earn more by getting a raise, possibly because they have acquired a new skill (see Annex 1, Section D). More income in the hands of individuals and households through higher earnings means more demand for the goods and services that households and firms produce; this *multiplier effect* shows why economic growth is considered a circular process. Traditional household farms and firms, as well as modern firms, regardless of size, can make more income by using technology to produce and sell more, if there is demand for their product. They can also make more money by using new technologies, investing in new assets, or using assets more efficiently.

**Governments are also employers and economic units, although the employment and earnings that they provide to an economy are ruled by very different forces.** Without economic growth, government revenue remains low, and the production of publicly provided or funded goods and services stagnates. In that sense, public employment depends indirectly on economic growth. In very poor countries, the public sector may be the main source of wage employment, but as firms grow, the share of the government sector in wage employment typically declines to around 30–40 percent.

***Employment transformation* occurs when employment moves out of self- and household employment and into wage jobs** (Box 3). *Wage employment* as a share of total employment increases when labor demand in firms, weighted by its share in total employment, grows faster than labor supply. *Wage earnings* increase when the firm cannot hire enough workers, at the desired skill level, at the prevailing wage. National and local demographics influence both processes, as discussed next.

## Box 3: Structural, economic, and employment transformation

**Structural transformation,** the transformation of an economy from a fundamentally agrarian, subsistence mode to an urbanized, integrated, and enterprise-dominated mode, is the essence of economic development and the driver of sustained economic growth. This has been the experience throughout the industrial world. [a] Structural transformation is formally defined as an increase in the share of labor working in higher-productivity sectors. As explained in Box 2, mostly this increase happens because the sectors with higher productivity—usually those with modern firms—expand their share of production and employ more new entrants to the labor force than low-productivity sectors. It also happens when a lower-productivity sector—such as agriculture—sheds labor. Another feature of economic development is that the gap in labor productivity between the newer, higher-productivity sectors and the traditional production units and sectors narrows, because the least productive sectors and units upgrade their production processes—for instance, farmers start to use more modern inputs and more capital per working hour. The combination of these two processes—the increasing share of labor employed in higher-productivity units, and the increasing labor productivity within sectors—is known as **economic transformation**.

Structural transformation changes employment opportunities. In developed economies, most of the labor force works outside the household in mostly formal, modern firms as wage labor. In low-income countries, there are not enough modern firms, so most people work in traditional, informal production units. The change in employment opportunities that occurs as an economy develops and structural transformation takes place is known as the **employment transformation**. The structure of employment changes more slowly than the structure of production, because the modern firms have to be created, and their creation requires more capital and knowhow than household production.

As a result, it is common to find that the share of agriculture in gross domestic product has fallen to 30 percent or less in lower-middle-income countries, even though 60 percent or more of the labor force still works on farms (Figure B2.1).[b] Only in upper-middle-income and high-income countries does the majority of the labor force find work in wage employment (Figure B2.2). A final point to note about the distribution of employment opportunities is that the share of people actually employing workers on a regular basis rarely rises above 5 percent of total employment. In part, this share is small because as economies get bigger, the average size of enterprises defined by total employment also gets bigger. While it is important to keep growing the number of entrepreneurs so that more firms and more wage employment can be created, **entrepreneurs will always be a minor and select group within the labor force**.

**Figure B2.1: As countries get richer, the contribution of agriculture to GDP shrinks**

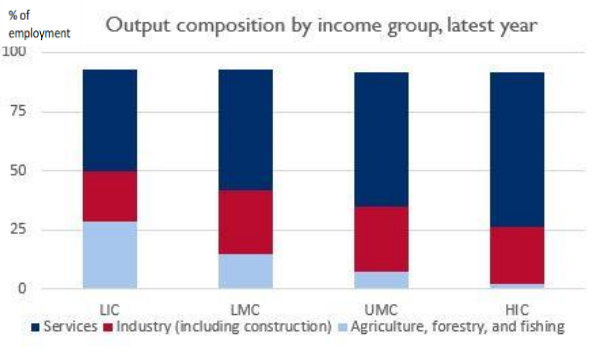
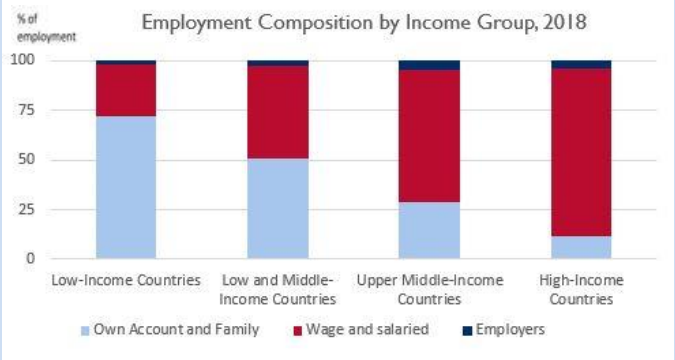



**Figure B2.2: Countries have to get richer before the majority of the labor force has a wage job**




*Source for figures:* World Bank, World Development Indicators (ILO Estimates for employment).
*Note:* LIC (low-income countries); LMC (lower-middle-income countries); UMC (upper-middle-income countries); HIC (high-income countries).
a Duarte, Margarida, and Diego Restuccia. "The role of the structural transformation in aggregate productivity," The Quarterly Journal of Economics 125, no. 1 (2010): 129-173. b Timmer, C. Peter, and Selvin Akkus. "The structural transformation as a pathway out of poverty: analytics, empirics and politics," Center for Global Development Working Paper 150 (2008).

## 4. DEMOGRAPHICS, YOUTH, AND THE ENTRY INTO EMPLOYMENT

**Not everyone wants to work, is able to work, or even should work throughout their life.** Seeking employment mostly concerns the "working age" population, typically defined as people ages 18–65. Individuals whose ages fall outside that span, or who are within it but are not working, are known as "dependents"—they depend on the earnings of the employed for their consumption. Some working-age people may not wish to work (especially women with young children), and others may be unable to work because they must care for dependents and maintain the household, or because they are barred from work by illness or disability. In the absence of social protection, households have to use their labor earnings to support nonworking adult members.

**The lower bound of the working age is commonly set by law to allow children and youth to mature and build their human and social capital.** In low-income countries, many young people below the working age engage in economic activity, not only to earn money but because the household and wider society lack funds to support education. In rural sub-Saharan Africa, for example, people outside of the working age accounted for 10 percent of the reported hours of employment.[3] Most of those hours were worked by youth under the age of 18.

**Working-age youth are of particular interest for employment policy**, as the period between the ages of 18 and 24 is when most people start working regularly for the first time.[4] Youth need to continue to acquire skills, learn behaviors, and transition into economic independence from their parents. Gaining full-time employment is a primary means of making this transition, especially for males. For unmarried females, a variety of objectives may be involved, and employment may or may not be a transition to marriage. For married women, employment may be a way to help support the family. Still other youth become important household breadwinners by age 18 or earlier.

**Identifying employment opportunities and figuring out how to take advantage of them is not easy at first.** Youth generally learn this skill through experience, although the provision of information about the economy and opportunities can be helpful, as discussed in Annex 1. If young people have to start their own household farms or firms to earn income, in addition to knowledge about opportunities, they may need capital to purchase inputs or assets such as land.

**Youth in developed countries are usually unemployed during this search and exploration process, but not in developing countries**. In developing countries, youth may work at casual or temporary jobs while seeking steady employment or saving money to start a farm or nonfarm business. In both developed and developing countries, even when overall unemployment rates are low, the youth unemployment rate is higher, reflecting the obstacles youth face as new labor force entrants. Long periods of youth unemployment, more common in middle-income countries and among more educated youth, are an economic challenge, as they represent a waste of human capital. High youth unemployment is a social

[3] Dolislager, M., T. Reardon, A. Arslan, L. Fox, S. Liverpool-Tasie, C. Sauer, and D. Tschirley, "Livelihood Portfolios of Youth and Adults: A Gender-Differentiated and Spatial Approach to Agrifood System Employment in Developing Regions, International Fund for Agricultural Development (IFAD) working paper series (2019).

[4] Because people in poorer countries start to work earlier, the official USAID Youth in Development Policy defines youth as ages 10–29. The United Nations definition is the narrower age range of 18–24.

and political challenge as well. Often, but not always, it is a signal of a skill mismatch (see Annex 1), although inappropriate aspirations also contribute to longer periods of youth unemployment.[5]

**Youth, and youth employment, are particular concerns in sub-Saharan Africa, which has most of the world's "youngest" countries**. The slow decline in fertility in sub-Saharan Africa will slow the decline in the number of dependents supported by the working-age population,[6] while rapid growth in the labor force, in the absence of a massive increase in savings and investment, will slow the employment transformation. The economic costs of these demographic challenges mean that most African livelihoods will remain in the informal sector for the foreseeable future.

## 5. CREATING BETTER, MORE INCLUSIVE JOBS

**Economic development is not only about creating jobs, but about jobs becoming better and more inclusive.** As economies transform, more lucrative, less physically demanding, and less dangerous job opportunities emerge and some low-paying, unpleasant jobs disappear. The mechanization of agriculture is an example of how jobs can become better as farmers substitute capital (machines) for labor. The growth of urban areas where agglomeration increases productivity is another example of how better job opportunities emerge. Often protections for wage workers improve, generally through collective action and employment protection legislation (EPL), although protecting health, safety and human rights remains challenging where self-employment and household production predominate.

**What makes a job desirable?** Typical features include safety, stability, autonomy, upside earnings potential (or pay according to output), social status, a challenge or opportunity to use one's skills, and location. Individuals may also trade off earnings for job quality, choosing to perform physically difficult or unpleasant work for higher pay, or appealing work for lower pay. The process of finding employment opportunities and taking advantage of them is known as "job sorting."

**The concept of "better jobs" implies not higher earnings for some, but better opportunities for all, including youth, women, and socially excluded groups. For that reason, "better jobs" are central not only to sustainable economic growth but to another driver of self-reliance: *inclusive development*.** Like young people, women and socially excluded groups often face specific obstacles and discrimination in employment and earnings, especially in obtaining higher-paying and more secure wage work.

**Pervasive normative barriers surround women and the workplace.** These barriers originate from global beliefs of varying intensity that: (1) girls and women should and will prioritize marriage and child-bearing; (2) in public and private, men should lead and make decisions; (3) girls and women should and will bear a disproportionate share of household and care responsibilities; and (4) in some countries, women should not interact with unrelated men. These norms are reflected in discriminatory practices, laws, and regulations that limit female education, segment females into "appropriate" fields of study and less lucrative employment,[7] and restrict their labor force participation. Females throughout the

[5] Annex 1, Section C discusses how information and mentoring within positive youth development programs can help shape appropriate aspirations.

[6] Bongaarts, John, and John Casterline. "Fertility transition: Is sub-Saharan Africa different?" Population and Development Review 38, no. 1 (2013): 153-168.

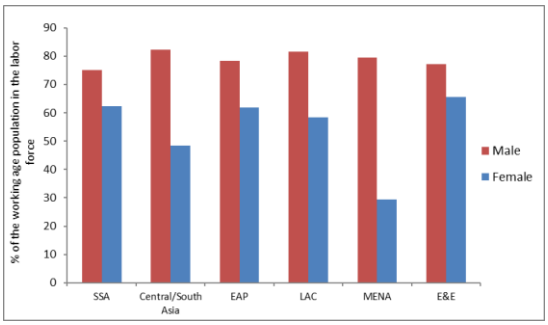
[7] Women earn less across sectors, either in the form of wages or profits, in cash or in kind. USAID (United States Agency for International Development), "USAID Education Policy," (Washington, DC.: USAID, 2018). https://www.usaid.gov/sites/default/files/documents/1865/2018_Education_Policy_FINAL_WEB.pdf

developing world participate less than men in the labor force (Figure 1). Even when women participate, they work fewer hours than men (Figure 2), most often because they do more household chores. And as the nonfarm economy grows, men tend to enter wage employment sooner than women (Figure 3).

**Socially excluded groups often face social stigma, formal and informal discrimination, and structural barriers that can undermine their efforts to be prepared for, seek, obtain, and maintain employment**. These groups often include, but are not limited to, persons with disabilities; ethnic and religious minorities; indigenous peoples; and lesbian, gay, bisexual, transgender, and intersex (LGBTI) people.

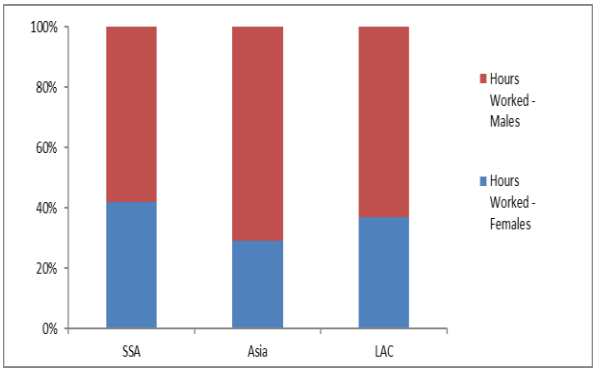
**Better opportunities for all depend on strategies to fight discriminatory practices and the belief systems that perpetuate them, on research to identify the best ways to include marginalized groups in employment programming, and on the commitment and capacity of leaders and institutions.** Better matching of skills to job opportunities, which improves productivity and increases economic growth, may help. In the U.S., the convergence between 1960 and 2008 in occupational distributions between white male workers, and African-American workers and all women (meaning the large expansion of opportunities for groups formerly excluded), explains 15–20 percent of all U.S. economic growth over that period.[8] Yet unless more jobs are created in the economy, interventions targeting these groups will not increase income-earning opportunities in the economy.

### Figure 1: Female labor force participation is lower than male participation

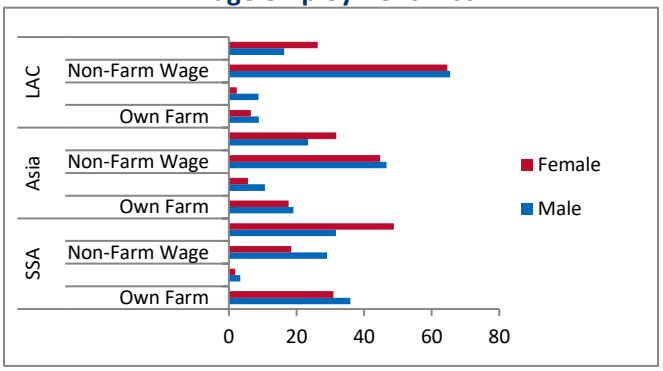



*Source:* IFAD (International Fund for Agricultural Development), "Creating Opportunities for Rural Youth: 2019 Rural Development Report," (Rome: IFAD, 2019). https://www.ifad.org/ruraldevelopmentreport/download/
*Note:* SSA (Sub-Saharan Africa); EAP (East Asia and the Pacific); LAC (Latin America and the Caribbean); MENA (Middle East and North Africa); E&E (Europe and Eurasia).

### Figure 2: Women work fewer hours than men




### Figure 3: As the nonfarm economy grows, men enter wage employment first




*Source:* IFAD (International Fund for Agricultural Development), "Creating Opportunities for Rural Youth: 2019 Rural Development Report," (Rome: IFAD, 2019). https://www.ifad.org/ruraldevelopmentreport/download/
*Note:* SSA (Sub-Saharan Africa); LAC (Latin America and the Caribbean). Share of total hours worked over a year. Data are not representative; they include a selection of countries for each region. The low-income countries are Ethiopia, Malawi, Nepal, Niger, and Tanzania; the middle-income countries are Bangladesh, Cambodia, Indonesia, Mexico, Nigeria, and Peru.

[8] Jones, C. I; "The Facts of Economic Growth" Handbook of Macroeconomics, Volume 2A . ISSN 1574-0048, http://dx.doi.org/10.1016/bs.hesmac.2016.03.002

## 6. THE ROLE OF POLICY IN SUPPORTING MORE EMPLOYMENT, BETTER JOBS, AND HIGHER EARNINGS

**Expanding and improving employment requires commitment to change as well as country capacity.** The *USAID Policy Framework*, for instance, explains, "Economic development rarely happens organically; it starts with effective policies" (28).

**Context matters: Country employment strategies and policies must reflect what has been achieved and the opportunities and obstacles that lie ahead**. Strategies and policies to create more employment, higher earnings, and better jobs will differ by sector, country income level, and progress in economic transformation. Table 1 shows how challenges related to employment and inclusive growth vary by the type of country context.[9] Although the table focuses on youth, the country-level characterizations remain true regardless of the age group targeted by employment policy.

**Broad-based economic growth with strong private sector participation always delivers better employment opportunities by facilitating employment transformation.** Such growth involves all sectors of the economy—industry and services, agriculture and primary production—and in all cases of sustained transformation, the main source of new jobs is the private sector, which accounts for 9 out of 10 jobs globally.[10] Countries that fail to develop the private sector usually have a slow employment transformation. Economic development policy should support the creation of new firms, the growth of existing firms, and occasionally the exit of firms that cannot produce the goods and services the market demands. Policies must also enable other economic units with a critical role in developing economies—household farms and firms, invariably informal—to invest in their operations, become more productive, and increase their earnings. When many or most opportunities for new labor force entrants are in the household production sector, another policy objective is to help new entrants find these opportunities.

### Employment policy for industry and services

**The industrial and service sectors in developing countries tend to take root and grow in urban areas, through the creation of modern, productive firms and the proliferation of traditional production units.** Traditional production units engage (for example) in small-scale processing (making charcoal, drying grain, processing scrap metal), artisanal mining, and small-scale, low-tech construction. For micro and household enterprises engaged in traditional production, retail trade is the most popular choice. In many countries at least half of all micro and household businesses operate in this sector, even after department stores and supermarkets are established, because they sell the small amounts that poorer populations can afford. Transportation is another sector where large and small-scale operators operate in tandem (large trucking companies, alongside motorbike taxi and delivery services).

**Employment policy for the industrial and service sectors should encourage investments in larger, modern firms that hire workers**. Investments for broad-based growth often support both traditional and modern production units; examples include roads connecting people to markets, general education that builds skills, and investments in information and communication technology (ICT) that encourage

[9] Fox, Louise, and Upaasna Kaul, *The evidence is in: How should youth employment programs in low-income countries be designed?,* (Washington, D.C.: World Bank, 2018).

[10] World Bank Group, "World Development Report 2013: Jobs," (Washington, DC. World Bank, 2012). https://openknowledge.worldbank.org/handle/10986/11843 License: CC BY 3.0 IGO."

flows of data and ideas and enable financial inclusion. Specific interventions for modern and traditional production units may also be needed, as discussed in Annex 1.

### Table 1: Youth employment challenges and interventions depend on the prospects for structural and employment transformation

| Category | Description | Inclusive growth challenge | Youth employment challenge |
|---|---|---|---|
| **High-potential, low-income countries** | Among the poorest countries in the world, these countries have been posting solid growth rates with modest poverty reduction. But they remain plagued by low human capital, high dependency ratios, and often-ineffective institutions. As much as 70–80% of their populations reside in rural areas. **Typical countries include:** Benin, Burkina Faso, Cambodia, Malawi, Nepal. | ● Productivity in the agricultural sector remains low.<br>● Nonfarm employment activities are still low productivity.<br>● Constraints to growth include infrastructure, human capital (secondary education but also management and technical skills)<br>● Uneven economic institutions and weak governance.<br>● Per capita growth remains low owing to high population growth. | ● Youth need to develop mixed livelihoods and/or access to commercial agriculture opportunities.<br>● Limited wage employment activities in urban areas.<br>● Low productivity in nonfarm informal sector.<br>● Limited financial access.<br>● Education is inefficient and low quality, so basic skills weak. |
| **High-potential, lower-middle-income countries** | These countries posted much higher GDP growth rates over the last 15 years than in the past and have been diversifying their economies out of agriculture. This diversification is led by increased private investment and labor productivity growth, especially in the nonagricultural sectors. **Typical countries include:** Bangladesh, Côte d'Ivoire, Ghana, India, Kenya, Philippines, Senegal. | ● Quality of human capital is too low; higher secondary completion and job-readiness rates needed.<br>● Management skills are scarce.<br>● Transformation is tilted toward services.<br>● Underdeveloped financial sector, poorly managed infrastructure.<br>● Poor urban governance<br>● In SSA, slow fertility decline. | ● Need investment in labor-intensive enterprises to accelerate transformation, grow wage employment.<br>● Reform secondary, higher education curriculum toward labor market needs.<br>● Increase commercial agriculture opportunities for rural youth—including addressing land rights/market as needed. |
| **Low-potential, low-income countries (including all fragile states)** | Mostly affected by conflict, which has prevented them from realizing growth potential. Once conflict settles, opportunities abound for bounce-back growth. But conflict or the threat of conflict hinders infrastructure and human capital development. These countries tend to be aid dependent. **Typical countries include:** Afghanistan, Burundi Haiti, Mali, Niger, Somalia, Yemen, Zimbabwe. | ● Conflict stalled growth<br>● Risky environment for private investment.<br>● Displacement and demobilization.<br>● Low human capital.<br>● Missing infrastructure, low resilience to natural disasters (risk of violence from drought).<br>● Weak institutions. | ● Most youth lack education and skills<br>● Low private investment means few wage job opportunities.<br>● Low economic growth limits informal sector opportunities.<br>● Weak agricultural value chains - youth lack skills & capital to enter.<br>● Returns to illegal activities > legal. |
| **Low-potential, lower-middle-income countries (including resource rich)** | Resource wealth has led most of these countries to develop rentier economies. Political and economic life is dominated by an elite that distributes some mineral wealth through public goods but otherwise uses the public sector to enrich itself. Education levels of youth entering the labor force are rising, but private investment is low with few opportunities. **Typical countries include:** Angola, Nigeria, Republic of Congo, Timor-Leste, Venezuela, Zambia. | ● Dependence on resource exports creates growth volatility.<br>● Rent economy excludes most of the population.<br>● High fertility, rapidly growing youth population. | ● Urban, educated, and slum youth tend to be unemployed.<br>● Youth in rural areas have few options.<br>● Governance challenges limit demand side options; experimentation needed |
| **Stalled lower-middle-income countries** | These economies were able to increase the share of wage employment in the labor force owing to private investment in modern nonagricultural firms–exporters and producers for a growing domestic market. But their transformation stalled, often because economic elites block new entrants, stifling innovation and productivity growth). Despite slower labor force growth, they suffer from high rates of unemployment. **Typical countries include:** Armenia Egypt, Morocco, Nicaragua, Tajikistan. | ● Political stability and security are new challenges in some countries<br>● Need more well-managed medium and large, competitive firms but narrow elite resist business climate improvements<br>● Labor regulation may be an issue<br>● FLFP is low in some countries – norms and customs<br>● -Quality of education and job-readiness are issues<br>● Need productivity improvements in informal sector, which is absorbing most new entrants | ● Skilled youth need more opportunities - wage employment needs to expand in urban areas.<br>● Need faster transition to work among urban youth.<br>● Employability skills weak; incorporate these into post-primary education.<br>● Female empowerment for better opportunities for women. |

*Source*: Adapted from Fox, Louise, and Upaasna Kaul, *The evidence is in: How should youth employment programs in low-income countries be designed?,* (Washington, D.C.: World Bank, 2018). The country categorizations used in this typology are based upon the income status boundaries set by the World Bank.

**In general, the employment objective of economic policy toward modern firms should be to expand employment to accelerate the employment transformation, especially while the labor force is growing and employment in the traditional sector is substantial**. If increasing employment is the top objective, it may be worth focusing on labor-intensive industries and services rather than high-value ones. As countries get richer and their populations become older, a focus on earnings, on remaining in employment, and on social protection may be appropriate. Policymakers should track how developments in automation and robotics might affect employment (Box 4). Employment protections may also need to evolve; analyses in developed and developing countries suggest that it is best to enact moderate protections, monitor the impacts (positive and negative), and adjust as conditions warrant.[11]

**For household firms (and farms, discussed next), the employment objective of economic policy should be earnings growth and stability.** As noted, employment is created in this sector when individuals or households start their operations; this process tends to be spontaneous, although there is some scope for interventions to accelerate the transition of youth into this sector.

### Box 4: The future of work: What do automation and technology mean for developing countries?

Automation and robotics make manufacturing more capital-intensive for a given quality of product, which will affect structural transformation in developing countries. But how, exactly? Automation can have three kinds of effects: (1) a *displacement effect*—machines do a task previously done by workers (the effect that most people focus on); (2) a *reinstatement effect*—new technology leads to new tasks to be done by humans (fixing the machines, selling the new products); and (3) a *productivity effect*—higher productivity leads to higher incomes, leading to more jobs in other sectors where labor is not being displaced. [a] A detailed study of the types of jobs lost and created during the first industrial revolution finds that the lost jobs involved a broader range of skills to make one set of products, even jobs of skilled artisans such as blacksmiths or carpenters. [b] The authors argue that robots and artificial intelligence will again change the nature of skill demand in fundamental ways. The worker of the future will need a broader set of skills and the ability to shift flexibly between jobs, working with different technologies and people.

What might these findings mean for developing countries? Most developing countries will not have a displacement effect, because the industrial jobs were never created. But they could have productivity and reinstatement effects if they can adopt the new technology with improvements in the enabling environment, primarily in infrastructure. And finally, general, transferable skills (such as those discussed in Annex 1) will be valued.

a Acemoglu, D. & Restrepo, P.; "Automation and New Tasks: How Technology Displaces and Reinstates Labor." Journal of Economic Perspectives 33, No. 2 (2019): 3-30. b Atack, J. et al; "Automation" of Manufacturing in the Late Nineteenth Century: The Hand and Machine Labor Study." Journal of Economic Perspectives 33, No. 2 (2019): 51-70.

## Employment policy for agriculture

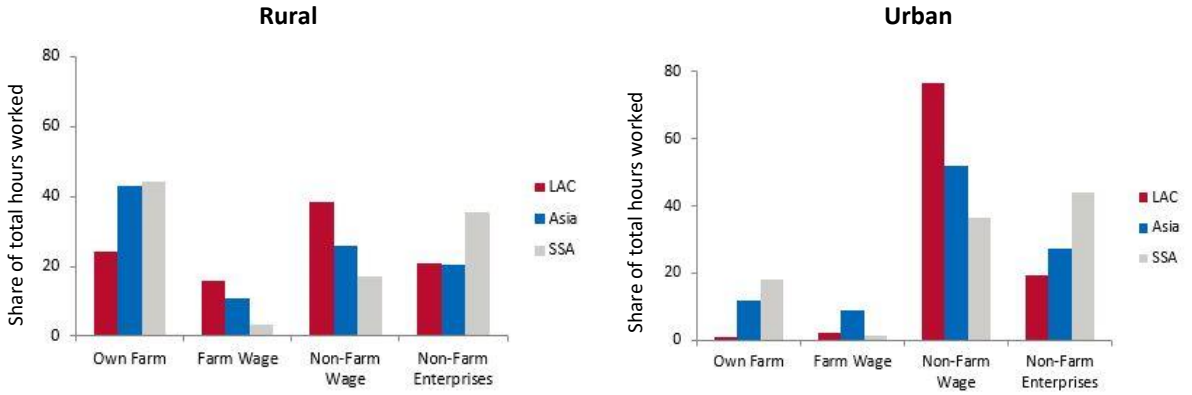
**Growth in the agricultural sector upholds the rural transformation and leads to wider economic growth and poverty reduction in developing countries,** especially in lower-income, mostly rural economies. In agriculture, increases in output and labor productivity at the early and middle stages of transformation involve more capital and technology, both on and off the farm (in storage, processing, and transportation, for instance). By producing more products and products of higher quality, the farm frees labor away from low-productivity activities such as subsistence production toward more productive activities off the farm. These new activities may be employment in farm-related value chains such as input supply and post-harvest processing, or they may entail the provision of consumer services such as hairdressing, supplying food, or selling consumer goods to farm households that are now richer

[11] World Bank Group, "World Development Report 2013: Jobs," (Washington, DC." World Bank, 2012). https://openknowledge.worldbank.org/handle/10986/11843 License: CC BY 3.0 IGO."

because of increased farm income. In this way, the jobs that are "lost" as the farm sector modernizes are "found" in rural nonfarm employment. This type of employment is more common in rural Asia and Latin America and less common in sub-Saharan Africa (Figure 4). Rural labor can also migrate to better jobs in towns, smaller cities, and larger urban areas.

**Figure 4: Nonfarm employment increases as countries get richer**

***Share of total hours worked by employment category for rural (left) and urban (right) areas***




*Source:* IFAD (International Fund for Agricultural Development), "Creating Opportunities for Rural Youth: 2019 Rural Development Report," (Rome: IFAD, 2019). https://www.ifad.org/ruraldevelopmentreport/download/

*Note:* SSA (Sub-Saharan Africa); LAC (Latin America and the Caribbean). Share of hours worked by category of employment. Data are not representative; they include a selection of countries for each region. The low-income countries are Ethiopia, Malawi, Nepal, Niger, and Tanzania; the middle-income countries are Bangladesh, Cambodia, Indonesia, Mexico, Nigeria, and Peru.

**Employment strategies for the agricultural sector primarily involve raising incomes by identifying and developing opportunities to overcome seasonal underemployment for small-scale farmers growing crops for their livelihood.** The main product of USAID beneficiary farms is crops, although livestock are increasingly important for income and nutrition**.** Strategies that such households use to increase their earnings include: (1) adding livestock or aquaculture production to earn income year-round from eggs, milk, and meat (like crop cultivation, these activities benefit from effective extension, research, and development services); (2) starting their own nonfarm business, which may operate year-round or just in the off-season; or (3) seeking off-farm wage employment.

Strategies (1) and (2) are more common than strategy (3) in the initial stages of economic transformation, when rural areas lack off-season wage employment. Finding off-season wage employment may be a greater priority and challenge for farm households in densely populated, land-scarce countries, however. As agricultural value chains develop both upstream and downstream of the farm, more wage opportunities open up.

## 7. CONCLUSION

**This framework has described how economies in USAID host countries grow, develop, and create (or fail to create) employment opportunities, which are central to economic development and self-reliance.** Specific strategies and policies to create more employment, better and more inclusive jobs, and higher earnings will differ by sector, country income level, and progress in economic transformation. As the journey to self-reliance can take multiple routes, different kinds of investments at different scales and levels of formality will be required. For details, see the companion Playbook and Annex 1.

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## ANNEX 1: EVIDENCE-BASED INTERVENTIONS FOR BETTER EMPLOYMENT OUTCOMES

**With the right targeting and implementation, a number of interventions can improve employment opportunities, and (where possible) support better and more inclusive jobs in the complex contexts where USAID works.** The set of tools, approaches, models, policies, and programs presented here—referred to for simplicity as "interventions"—contributes to these overarching goals.[12] Discussion of the interventions incorporates the particular needs of women and young people as appropriate. A concluding section describes skills for navigating employment opportunities, which may also support more inclusive employment.

**A three-step process is helpful for diagnosing employment challenges and designing interventions to grow modern firms, increase income from family farms, and facilitate household enterprise start-up.**

### Step 1: Diagnose employment challenges in a given country, which will vary according to the context

- **Look for clues to future economic growth and employment opportunities by considering recent economic performance and challenges and opportunities that exist today.** Employment structure changes slowly, especially if the growth of the labor force and the population are still high. In a low-income country where the labor force is growing at over 2 percent per annum, most income-earning opportunities for the foreseeable future will be in the traditional production sectors—on family farms and in nonfarm household enterprises.
- **Use the Country Economic Review (CER) as a starting point to analyze the current structure of employment in a country**, identify where future opportunities for output growth may be found, and discern the challenges to realizing them. Understanding opportunities for economic growth is the first step in developing an effective employment strategy.
- **Establish a firm grasp of employment challenges, even if some are outside of USAID's current comparative advantage to address.** For example, a lack of large-scale infrastructure construction or maintenance may be outside USAID's purview, but it is imperative to understand how this deficit determines employment and earnings opportunities, and how it might impact our own solutions and plans. USAID can often partner with others who do have a comparative advantage in a given area.

### Step 2: Decide within the CDCS what employment-related intermediate results you want to achieve, and how.

- **Examine the enabling environment that shapes investment and promotes the growth of employment in modern firms and earnings in traditional (household or small-scale) production.** An enabling environment is the array of local factors and conditions that create opportunities and incentives for firms and entrepreneurs to invest and thrive and for people to improve their circumstances through employment. It includes the functioning of key markets that enable production (such as finance and land markets) as well as the infrastructure and logistics needed for production and post-production activities. The enabling environment for

[12] Other interventions, such as sexual and reproductive health information, do not address the underlying foundations of employment outcomes; they are unlikely to move the needle on employment, although USAID could still apply them toward other, important development objectives.

firms has specific features that are distinct from the features of an enabling environment for traditional production units.

- **Cultivate awareness of challenges faced by specific groups when creating opportunities for them.** This awareness should not only encompass the challenges faced by the target group but should consider whether those challenges are specific to the group or affect the entire economy. For example, low earnings are an economy-wide challenge, which means that no targeted intervention could make a sustainable, discernible impact on employment outcomes for a specific group. In other cases, a target group may experience its own specific challenges, such as the barriers women or youth face when seeking to enter the labor force. In such cases, targeted interventions can support the activities of a particular group, with an eye toward the overall opportunities in the economy.

**Step 3: Design appropriate interventions to promote employment opportunities in a given country.**

- **Determine the most relevant opportunities in a given context and select interventions that can make the most of them.** As a starting point, Sections A, B, and C provide indicative lists of opportunities, such as market access or innovation and technology adoption, which are relevant to modern firms and traditional production in family farms and household enterprises. If multiple opportunities are relevant for a particular setting, prioritize them according to which ones are most likely to have a positive effect on desired project outcomes.
- **In general, the recommended interventions are directed at opportunities for improved earnings and employment, rather than at people themselves.** The reason for focusing on sectors and businesses, not individuals, is that the evidence suggests that most of the opportunities will come from increasing production (in other words, from labor demand). In the traditional production sectors, there may be scope for increasing the knowledge of technology or practices among, for example, farmers or traditional artisans. But for these sectors as well, most of the opportunities lie in the enabling environment.

## A. INCREASING LABOR DEMAND: MODERN FIRM ENTRY AND GROWTH

**The entry and growth of modern firms is critical for generating better employment opportunities.** Higher and better-paying employment is generated when more firms start up, the least competitive firms close, and overall labor productivity grows, usually through investment in land, real property, equipment, and technology. In the host countries where USAID works, large firms as a group provide the most net employment, even if there are too few to employ the large available pool of workers. By contrast, small and medium enterprises (SMEs) create as well as destroy a lot of jobs as part of the boom and bust of firms that is part and parcel of a dynamic, competitive market.[13]

**In developing countries, smaller firms are unlikely to grow over time, and large firms tend to start as large firms**.[14] The likely reasons for these circumstances are that the market relationships and economic

[13] Aga, Gemechu, David C. Francis, and Jorge Rodriguez Meza, *SMEs, age, and jobs: A review of the literature, metrics, and evidence,* (Washington, DC: World Bank, 2015).

[14] Hsieh, Chang-Tai, and Peter J. Klenow, "The life cycle of plants in India and Mexico," The Quarterly Journal of Economics 129, no. 3 (2014): 1035-1084. https://www.nber.org/papers/w18133.pdf and Sutton, John, N.d., The Enterprise Map Series, International Growth Centre. https://www.theigc.org/project/the-enterprise-map-series/

institutions that should be supporting firms are underdeveloped or corrupt, regulatory institutions are unreliable, and the quality of physical infrastructure is low, forcing firms to integrate vertically along the value chain and to be large from day one, simply to deliver the end product and stay in business.[15] Other forces are also in play: many owners of micro and small businesses in these countries would rather work a steady wage job in a large firm if such work were to become available. Their motivations for starting and staying small have little to do with maximizing profit, and they have little interest in growing the business regardless of what donors and governments offer in direct encouragement.[16] Even among the SMEs that want to grow, the growth ambition and potential varies. Only a small minority of these firms will sustain exponential growth over time to reach significant scale in revenue or employment.[17]

**The key for any effective support is to target the right firms—those with the vision and capacity to grow**. Experiments are looking at new ways to identify these entrepreneurs and ideas faster, including psychometric testing, different versions of business plan competitions, and peer assessments. Nonetheless, at least some of these prospective high-growth firms can be identified through the well-worn method of having banks assess firms' credit applications.[18]

**Along with targeting the right firms, donors must also identify the real opportunities for and constraints to their growth.** The start-up and growth of modern firms can be fostered through improvements in government regulation, macroeconomic stability, transport and infrastructure, market access, finance, the business practices of entrepreneurs, and innovation. How to make the most of these opportunities in a cost-effective way is still puzzling, as evaluations of programs often show mixed results, and may not specifically evaluate the effect on employment.

### (i) OPPORTUNITY: RIGHT-SIZED GOVERNMENT REGULATION TO INCREASE MODERN FIRM ENTRY AND GROWTH

**The right balance and type of laws and regulations can increase the entry and growth of modern firms.** In every market, government must develop and apply laws and regulations to encourage investment and create and maintain a level playing field for businesses, especially for potential new entrants. A business-friendly regulatory environment is one of the top two factors influencing decisions by multinational corporations to invest in developing countries (the other is political stability).[19] Too much and uncertain regulation can increase investment risk, but too little regulation can allow inefficient monopolies to stifle competition and economic growth.

**Regulatory reforms can expand employment by fostering competition and innovation.** Barriers to competition often have systemic impacts on whole sectors because competition is a critical incentive for firms to increase their productivity and grow. Regulatory reforms to remove such barriers, such as privatizing a dominant state-owned enterprise and allowing market forces to determine prices, can

[15] Simons, B., "Why 'Leapfrogging' in Frontier Markets Isn't Working," (Washington: Center for Global Development (CGD), 2019).

[16] Lerner, J., and A. Schoar,"Introduction," In International Differences in Entrepreneurship, edited by J. Lerner and A. Schoar. (Chicago: University of Chicago Press 2010), 1–13.

[17] Hornberger, K. and Chau, V., "The Missing Middles: Segmenting Enterprises to Better Understand Their Financial Needs," Omidyar Network (n.d.).

[18] Fafchamps, Marcel, and Christopher Woodruff, *Identifying gazelles: Expert panels vs. surveys as a means to identify firms with rapid growth potential,* (Washington, DC: World Bank, 2016).

[19] World Bank Group, "Global Investment Competitiveness Report 2017/2018 Global Investment Competitiveness Report: Foreign Investor Perspectives and Policy Implications," (Washington, DC: World Bank, 2018). doi:10.1596/978-1-4648-1175-3.

boost labor productivity and employment among domestic competitors.[20] Additionally, tax incentives and trade facilitation can allow a country's competitive, modern firms to access global markets, sell for higher prices, and attract foreign direct investment (FDI) that draws more sophisticated technology and management practices into whole industries. The payrolls and wages of these industries can then grow. In Vietnam, for example, trade policies have increased exports and promoted the movement of workers from microenterprises to formal firms. A World Bank study of manufacturing in 47 African countries found that the exporter firms paid higher average wages than nonexporters.[21] However, without the other ingredients in the policy mix to foster competition, reduction in the costs of moving good and services across borders by itself may not increase employment.

**Laws and regulations** can be thought of as "rules of the economic game." Their functions include:

- Protecting property rights
- Ensuring fluid, low-cost property transactions
- Enforcing contracts
- Reducing information asymmetries that hamper firm entrance
- Reducing or resolving negative externalities associated with production such as pollution
- Preventing monopolistic practices

**Laws and regulations to ensure secure land and property rights also have major impacts on business creation and growth.** Ample evidence demonstrates that secure property tenure regimes attract more investment globally, especially in land-intensive industries such as forestry.[22] Inflexible urban land regulations may also reduce investment in new structures for production such as manufacturing plants.

**Regulations governing business start-up and new construction can suppress competition and protect existing businesses by discouraging new entrants**. Procedures to start a new business can be convoluted, time-consuming, and costly and may include the cost of various additional government services, such as issuing construction permits. Businesses over a certain size are often required to register with the government as legal persons and get a permit to operate, which may include listing a permanent address and obtaining an identifying number.[23]

**Yet interventions to simplify and reduce the cost of registering with the government for small, informal businesses were not as successful as anticipated.** Some development practitioners have theorized that registration can facilitate sales growth, with the byproduct of increased employment. While these interventions may be desirable from the point of view of an individual business, often they only slightly increase the registration of existing firms, the entry of new, registered firms into the market, and employment in these firms.[24]

[20] Kitzmuller, Markus, and Martha Martinez Licetti, "Competition policy: Encouraging thriving markets for development," World Bank, ViewPoint Public Policy for the Private Sector Series 331 (2013). ; Amin, M. (2015).

[21] World Bank Group, "South Africa Economic Update: Promoting Faster Growth and Poverty Alleviation through Competition," (Washington, DC.: World Bank, 2016).

[22] Castrén, Tuukka, Marko Katila, Karoliina Lindroos, and Jyrki Salmi, "Private financing for sustainable forest management and forest products in developing countries: Trends and drivers," Washington, DC: Program on Forests (PROFOR) (2014).

[23] In some countries only corporations or partnerships have to register, but self-employed people doing business in their own name do not; in other countries everyone with revenues above a specific level has to register, regardless of the structure of their business.

[24] De Mel, Suresh, David McKenzie, and Christopher Woodruff, "The demand for, and consequences of, formalization among informal firms in Sri Lanka," American Economic Journal: Applied Economics 5, no. 2 (2013): 122-50; Benhassine, Najy, David McKenzie, Victor Pouliquen, and

**A more successful intervention to facilitate the growth of small businesses is to simplify business tax policies and implementation.** Aside from the cost of taxes, which by itself may deter business growth, the procedures involved in paying taxes can be onerous, especially for a smaller business without dedicated staff for this purpose. Research suggests that this type of policy intervention has fostered growth of the SME sector as a whole. A study of 118 economies found that a 10 percent reduction in administrative costs associated with taxation increased annual business entry by 3 percent.[25]

### ➢ Recommendations

**Facilitate the removal of systemic policy barriers to productivity, competition, trade, and FDI after considering host government commitment and capacity and other donor activities. This approach is preferable to supporting isolated and ineffective reforms such as simplifying business registration.**

### ➢ What works for right-sized government regulation?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Opening industries up to competition | Increases labor productivity and employment | Strong evidence |
| Simplifying taxes | Unclear impact on employment | Limited evidence |
| Tax incentives for FDI | Mixed impact | Very limited evidence on developing countries |
| Strengthening land and property rights administration | Some association with investment and no evidence on link to employment | No evidence on developing countries |
| Simplifying business registration | Negligible increases in formal firms and their employment | Strong evidence |

## (ii) OPPORTUNITY: INFRASTRUCTURE FOR PRIVATE SECTOR GROWTH AND EMPLOYMENT

**Transportation, energy, and ICT infrastructure are essential to private sector growth and therefore to employment.** High-quality transportation infrastructure lowers the cost of moving goods across longer distances and even international boundaries, reduces input prices, improves market access, and creates economies of scale for firms. Energy powers the production of goods and services, and ICT infrastructure transmits key market information and provides an increasingly indispensable platform for any business transaction. The technology itself is also an important service to end-consumers.

**As infrastructure lowers costs, it can boost labor productivity as well as overall production of goods and services, thereby raising both wages and the amount of overall employment.** Conversely, weak infrastructure constrains trade, wages, and employment. The density of Africa's urban paved road network, at about 300 meters per 1,000 inhabitants, is well below the developing-country average of 1,000 meters.[26] Along with other factors, this limited road network is likely to be one reason that only 18 percent of sub-Saharan Africa's exports were intraregional in 2016, compared to 59 percent for Asia and 67 percent for Europe.[27] Similarly, Argentinian firms that adopted more ICT in their operations

Massimiliano Santini, "Does inducing informal firms to formalize make sense? Experimental evidence from Benin," Journal of Public Economics 157 (2018): 1-14.

[25] World Bank, Doing Business Report, "Measuring Regulatory Quality and Efficiency," (Washington, D.C.: World Bank, 2016). DOI: 10.1596/978-1-4648-0667-4.

[26] Gwilliam, Ken, *Africa's transport infrastructure: Mainstreaming maintenance and management*, (Washington, D.C.: World Bank, 2011).

[27] Sow, M, "Figures of the Week: Africa's Intra-and Extra-Regional Trade," Africa in Focus. (Washington: Brookings, March 2018).,

experienced higher productivity and wages, especially firms that had higher productivity and skills to begin with.[28]

### ➢ Recommendations

**As discussed, large-scale infrastructure projects may be outside USAID's purview, but USAID can often partner with others with a comparative advantage in this area.**

### (iii) OPPORTUNITY: FINANCE TO CATALYZE PRIVATE INVESTMENT

**Financial systems catalyze private sector growth and investment, which can expand employment opportunities.** In many developing countries, the banking sector dominates the financial system and typically charges high interest rates, partly because of the higher transaction costs and risks. Limited access to finance is the top global constraint for firms, according to the World Bank Enterprise Surveys. In sub-Saharan Africa, for example, only 21 percent of formal, nonagricultural firms have received a bank loan. Conversely, access to credit is an important determinant of firm performance.[29] Firms use capital for a range of purposes, including working capital to cover costs such as inventory or payroll, and investment capital to purchase assets such as real estate or equipment. If firms use investment capital to increase output (rather than substituting capital for labor or improving the quality of financial management), those investments are more likely to increase employment.

### ➢ Recommendations

**Some reforms that increase access to finance by improving credit information systems and collateral systems have been shown to increase employment in private firms.** In particular, they have allowed collateralization of movable assets such as vehicles and equipment.

**There is no evidence that credit guarantees, which aim to reduce the risk of lending to banks, have either a positive or negative impact on employment in developing countries,** since past research has focused more on credit volumes and firm profits**.**

### ➢ What works to increase access to finance?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Improving credit information systems | Increases employment | Strong evidence |
| Collateral systems reform, especially for movable assets | Increases employment in movable-intensive sectors | Strong evidence |
| Matching grants | Mixed record for employment | Strong evidence |
| Credit guarantees | Increases sales and profits but no evidence on employment | Limited evidence in developing countries |

### (iv) OPPORTUNITY: MARKET ACCESS FOR FIRMS TO GROW AND SUSTAIN EMPLOYMENT

**Better information and business connections can help firms, especially smaller firms, to access the markets that will help them to grow.** Typically, SMEs need better information about input and product

[28] Brambilla, Irene, and Darío Tortarolo, *Investment in ICT, productivity, and labor demand: the case of Argentina,* (Washington, D.C.: World Bank, 2018).

[29] Rijkers, Bob, Måns Söderbom, and Josef L. Loening, "A rural–urban comparison of manufacturing enterprise performance in Ethiopia," World Development 38, no. 9 (2010): 1278-1296.

markets to purchase inputs of appropriate quality at good prices, sell their products to reliable buyers, and scale up. In low-income countries, business linkages are essential to offset market uncertainty and instability, weak contract enforcement, and thin supplier markets from the perspectives of both public and private buyers and suppliers.[30]

### ➢ Recommendations

**Interventions to provide market information (including information on specific buyers) and support the formation of consortiums can increase employment and sustain firms' domestic operations.**

**Export promotion and support can increase firm productivity and employment, but only over the short term; the gains tend to peter out after several years.**

### ➢ What works to improve market access?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Improve market linkages through information or support for consortiums | Increases sales, employment, and sustainability of domestic operations | Strong evidence |

## (v) OPPORTUNITY: BUILD MANAGEMENT PRACTICES IN EXISTING FIRMS

**The behaviors that entrepreneurs require to succeed are underdeveloped and in short supply in the populations of low-income countries.**[31] Recent studies measuring the extent to which larger firms or SMEs in developing countries follow specific business practices known to increase profits found extensive business practice deficits, which were correlated with lower profits and slower growth. Two types of interventions have been adopted to address this problem: general "business skills" classroom training, and hands-on consulting services focused on specific business practices such as inventory management or debt collection.

**For the most part, evaluations have not shown major effects of business training on firm output growth or employment.**[32] Business training, usually delivered in the classroom—with widely varying content, delivery, duration, and quality—is one of the most popular interventions for growing firms, but its effects are weak. One explanation is that much more specific and targeted mentoring and advice are necessary to change business practices of existing entrepreneurs.

**The evidence that tailored and extensive management consulting increases employment is stronger.** One study in India found that nine months of management consulting improved sales and profitability dramatically in participating firms compared with the control group. Some business practices appear to contribute more to employment expansion than others, however. A study comparing the effects of consulting services to improve financial practices with a similar intervention to improve marketing practices for increased sales found that the improved marketing increased employment (by increasing

[30] IPA (Innovations for Poverty Action), "Small and Medium Enterprise Program, Five Years in Review: 2011– 2016," New Haven: IPA, 2017.

[31] Ács, Z.J., L. Szerb, E. Lafuente, A. Lloyd, "The Global Entrepreneurship Index 2018," Washington: The Global Entrepreneurship and Development Institute, 2018.

[32] Woodruff, Christopher," Addressing constraints to small and growing businesses," *Working Paper,* International Growth Centre, 2018. Note that most studies cited in this paper did not measure employment outcomes.

sales), whereas financial practices to cut costs did not.[33] The high cost of the consulting services suggests that targeting is important for success and that it is hard to justify fully subsidizing these services.

### ➢ Recommendations

**Management consulting to strengthen marketing or otherwise increase sales, with careful targeting and phasing out of the donor subsidy for commercial providers, can maximize cost-effectiveness and sustainability.**

### ➢ What works to build management practices in existing firms?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Business training | Classroom training has no effect on profits or sales | Strong evidence |
| Management consulting | Increases employment, especially assistance focused on increasing sales | Strong evidence |

## (vi) OPPORTUNITY: INNOVATION AND TECHNOLOGY ADOPTION TO MAKE FIRMS MORE PRODUCTIVE

**Product innovation and technology adoption are two important sources of productivity growth for private firms.** The introduction of a good or service that is new or has significantly improved characteristics or intended uses can open up new markets for a firm and increase market share for innovators, while generating new employment. For most production processes in low-income and lower-middle-income countries, technology is available off the shelf and only needs to be adapted or adopted.

### ➢ Recommendations

**Support product innovation through research and development.** In an Argentinian program that co-financed innovation for SMEs, product innovation had a larger effect on wages than process innovation, which usually focuses on efficiency and could involve shedding workers.[34]

### ➢ What works for innovation and technology adoption?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Support for research and development | Increases employment | Strong evidence |

## (vii) OPPORTUNITY: WOMEN'S INCLUSION AS WAGE EMPLOYEES AND ENTREPRENEURS

**Some contexts may offer opportunities or make it a priority to expand wage employment and business ownership for women.** Evidence suggests that women are systematically excluded from wage employment and entrepreneurship compared to men, although circumstances vary; for instance, exporting firms in Africa tend to pay more to women workers than other types of firms.[35] Overall,

[33] Anderson, Stephen J., Rajesh Chandy, and Bilal Zia, *Pathways to profits: identifying separate channels of small firm growth through business training*, (Washington, D.C.: World Bank, 2016).

[34] Castillo, Victoria, Alessandro Maffioli, Sofía Rojo, and Rodolfo Stucchi, *Innovation Policy and Employment: Evidence from an Impact Evaluation in Argentina*. Inter-American Development Bank, 2011.

[35] World Bank Group and World Trade Organization (WTO), "Trade and Poverty Reduction: New Evidence of Impacts in Developing Countries," (Geneva: World Trade Organization, 2018), http://documents.worldbank.org/curated/en/968461544478747599/pdf/132833-REVISED-TradePovertyWBWTONew.pdf

however, women are less likely than men to own firms of any size—only 20 percent of firms in the poorest countries have female owners. Women-owned enterprises tend to be smaller, are more likely to be home-based, and are often disadvantaged in terms of access to credit, resources, and assets.

**In designing interventions to foster entrepreneurship, business management advice services may need to be configured differently to reach female entrepreneurs.** For example, providers should pay attention to the gender makeup of participants in business acceleration programs; integrate gender bias training in business acceleration curriculums; increase the volume of female mentors connecting with entrepreneurs and of support networks for women; increase the number of investors who can look at business development through a gender lens; and consider changing who makes investment decisions, to account for implicit bias by investors.[36] Alternative financial instruments may need to be developed to address gender-specific constraints such as collateral requirements.[37]

**When possible, in designing interventions address gender-specific constraints, such as women's often limited decision-making power in family businesses.** In general, there is very little evidence on what works to support female entrepreneurship beyond addressing these constraints.

### ➢ Recommendations

**In designing interventions to foster entrepreneurship among women, adapt modalities for women and address constraints on their decision-making power.**

## B. TRADITIONAL PRODUCTION IN THE NONWAGE ECONOMY: FARMS

**Where agriculture is the primary source of livelihoods and employment, increasing labor productivity is key to increasing income and adding jobs.** The International Fund for Agricultural Development (IFAD) estimates that 7 out of 10 of the world's poor still live in rural areas and work at least part of the time directly in agriculture. They include smallholder farm households, landless farmers and laborers, traditional pastoralists, artisanal fishers, and marginalized groups such as refugees, indigenous peoples, and female-headed households. In many developing countries, a number of trends suggest that significant income-generating and employment opportunities could arise for producers and suppliers of food products to domestic and international markets: expanding domestic markets for food, consumers' growing demand for more processed and safer food, the prospects for producing more agricultural products (processed and unprocessed) for export, and the potential to reduce costly food imports. Many of these opportunities for better earnings and employment can emerge if agricultural productivity improves.

[36] Baird, Ross, "Leveling the Investment Playing Field," *Stanford Social Innovation Review (*2015): https://ssir.org/articles/entry/leveling_the_investment_playing_field

[37] For a summary of the evidence, see Burns, Allie, Robert Tashima, and Heather Strachan Matranga, "Flipping the Power Dynamics: Can Entrepreneurs Make Successful Investment Decisions," (Village Capital 2019),https://share.hsforms.com/1Z9ns_aHoQ0SN6Xa2CxXIFA22nyh

### (i) OPPORTUNITY: MARKET ACCESS FOR HIGHER PRODUCTIVITY AND INCOMES

**Better access to markets can increase agricultural productivity and incomes.** Agricultural products need to move from the farm to the market to be sold, and inputs and other productivity-increasing technology need to move from the market to farmers. Research has shown that poor access to markets reduces the returns to farming. Large areas of many countries, especially in Africa, are sparsely populated; distances between villages can be long, and the quality of roads can be very bad. A study in 2010 identified a linkage between longer travel times to urban centers (markets) and lower adoption of high-input/high-yield technologies and overall crop production per unit in sub-Saharan Africa.[38] More remote households have less land under cultivation, lower earnings per household member, and lower returns to land (less output per hectare). In simple economic terms, higher transportation costs increase the wholesale price of a good. Initiatives that reduce transport costs increase the chances that products will be more competitively priced and that producers will receive a higher share of the retail price.

#### ➢ Recommendations

**Improving the rural road network is the best way to facilitate flows of goods to markets and inputs to farms.** In 2009, the World Bank found that well-designed rural transport interventions, in addition to contributing to growth, also contributed to employment, food security, efforts to cope with drought and food emergencies, and gender equity.[39] A number of other studies have found a significant link between agricultural productivity and rural infrastructure: roads, irrigation canals, credit institutions, and market facilities in southern India;[40] electricity, telecommunications, irrigation, transportation (and to a lesser extent, water supply and sanitation) infrastructure in rural Philippines;[41] and irrigation/public water, transport, storage and processing facilities, and power in two states in Nigeria.[42]

**Invest in electricity and ICT infrastructure to reduce transaction costs for smallholders.** Better connectivity can facilitate the flow of goods and provision of services, enabling smallholders to meet their requirements for inputs, post-harvest handling services, transportation, and market information. For example, a 2010 study showed that farmers and traders in Niger reduced their transport costs simply by using mobile phones to obtain marketing information quickly and without traveling.[43]

**To ensure that infrastructure investments are aligned with value chain development and nonfarm employment, it is essential to conduct thorough value chain analyses.**

#### ➢ What works to increase market access?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Improve rural road networks | Increases productivity, growth, and employment | Strong evidence |
| Other infrastructure improvements (electricity, ICT) | Increases productivity, growth, and employment | Strong evidence |

[38] Dorosh, Paul, Hyoung Gun Wang, Liang You, and Emily Schmidt, "Crop Production and Road Connectivity in Sub-Saharan Africa: A Spatial Analysis," *World Bank Policy Research Working Paper No. 5385*, (July 2010).

[39] Michael Morris, Hans P. Binswanger-Mkhize and Derek Byerlee, *Awakening Africa's sleeping giant: prospects for commercial agriculture in the Guinea Savannah Zone and beyond*, (Washington, D.C.: World Bank, 2009).

[40] Manjunath, Soumya, and Elumalai Kannan. "Effects of Rural Infrastructure on Agricultural Development: A District Level Analysis in Karnataka, India." *Journal of Infrastructure Development* 9, no. 2 (2017): 113-126.

[41] Llanto, Gilberto M, "The impact of infrastructure on agricultural productivity," *PIDS Discussion Paper Series No. 2012-12* (2012).

[42] *Adepoju, AA and KK Salman*, "Increasing agricultural productivity through rural infrastructure: Evidence from Oyo and Osun states, Nigeria," *International Journal of Applied Agriculture and Apiculture Research* 9, no. 1-2 (2013): 1-10.

[43] Jenny C Aker, "Information from markets near and far: Mobile phones and agricultural markets in Niger," *American Economic Journal: Applied Economics* 2, no. 3 (2010): 46-59.

### (ii) OPPORTUNITY: ORGANIZE GEOGRAPHICALLY DISPERSED PRODUCERS TO IMPROVE MARKET INTEGRATION

**By organizing in cooperatives and associations, producers join forces and profit from the economies of scale associated with large production units.** Organization is crucial for economic integration within the domestic economy and with the rest of the world. When farmers are dispersed across large distances and located in remote areas, they face higher production and transaction costs that make their products more expensive and less competitive, especially in export markets. Organizing can improve their prospects for integrating with markets, obtaining affordable inputs and credit, adding value to their produce, reducing transport costs, and benefiting from training and information to increase productivity. In some instances, dedicated efforts to organize marginalized groups of producers such as women and young people can have the added benefit of fostering social and economic inclusion.

**Evidence that producer organizations improve access to technology and markets is strong.** For example, a 2007 study found that participation in a cooperative had a positive effect on access to seed, fertilizer, and credit across several subsectors and improved access to output markets for high-value products.[44] Participation in cooperatives increased the adoption of new technologies in Rwanda and Cameroon and also increased productivity in Bangladesh.[45,46] In Tanzania, Rwanda, and Uganda, outcomes for youth and women farmers improved when programs addressed barriers to cooperative membership, trust, relevance of services, and intergenerational decision-making.[47]

**Agricultural credit alone does not seem to increase earnings for smallholder farmers.** In theory, agricultural credit should allow smallholders who may be cash constrained to invest in inputs and other technologies; however, the evidence shows that a majority of smallholders did not utilize new sources of credit when offered to them. In most of these settings, other credit products already existed but were not commonly used by smallholders. When farmers did use credit to invest in more productive technologies and practices, they generally did not increase profits.[48]

[44] Jon Hellin, Mark Lundy, and Madelon Meijer, "Farmer organisation and market access," *Leisa magazine* 23, no. 1 (2007): 26-27.

[45] Rwanda (Verhofstadt, Ellen, and Miet Maertens, "Can agricultural cooperatives reduce Poverty? Heterogeneous impact of cooperative membership on farmers' welfare in Rwanda," *Applied Economic Perspectives and Policy* 37, no. 1 (2014): 86-106.); Cameroon (Gyau, Amos, Steven Franzel, Maryben Chiatoh, Godwill Nimino, and Kwadwo Owusu, "Collective action to improve market access for smallholder producers of agroforestry products: key lessons learned with insights from Cameroon's experience," *Current Opinion in Environmental Sustainability* 6 (2014): 68-72.).

[46] Milovanovic, Vladimir, Luboš Smutka, and Gent Jusufi, "Cooperative farming potential for establishing food security within rural Bangladesh," Acta Universitatis Agriculturae et Silviculturae Mendelianae Brunensis 64, no. 6 (2016): 2067-2074.

[47] Flink, I., Vaast, C., Jacobs, J, "Youth in Agricultural Cooperatives: Challenges and Opportunities," Food and Business Knowledge Platform (2018), https://knowledge4food.net/wp-content/uploads/2018/04/180405_kit-youth-agri-coop_report-def.pdf

[48] Beaman, Lori, Dean Karlan, Bram Thuysbaert, and Christopher Udry. "Selection into Credit Markets: Evidence from Agriculture in Mali" Working paper, August 2015, and Giné, Xavier, and Dean Yang. 2009. "Insurance, Credit, and Technology Adoption: Field Experimental Evidence from Malawi." *Journal of Development Economics* 89.

### ➢ Recommendations

**Establish or strengthen producer organizations and help them gain access to new technologies and markets.**

#### ➢ What works for organizing geographically dispersed producers?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Strengthen producer organizations (cooperatives and associations) | Evidence points to better access to technologies and markets | Strong evidence |
| Improve services that cooperatives can offer: better integration with markets, more affordable inputs, training, transport, value addition, and credit | Better access to markets, and ultimately improved productivity | Strong evidence |
| Agricultural credit | Does not increase earnings by itself | Strong evidence |

### (iii) OPPORTUNITY: MORE EFFECTIVE INNOVATION AND TECHNOLOGY ADOPTION

**Farmers in many countries could increase their productivity and incomes through better access to agricultural innovations.** Investments in agricultural research and development (R&D) have high rates of return and impact on agricultural productivity and farmer incomes.[49] The lack of publicly financed R&D and advisory services in many developing countries, along with barriers to private sector research products and advisory services, can prevent producers from realizing the benefit of innovations. Even when public R&D is successful, innovations may not reach the farmers who need them the most. Smallholders in many countries receive very little useful, locally relevant information and training from any source—public and private advisory services, nongovernmental organizations, or producer groups. Common interventions to support innovation and technology adoption focus on making public research and extension services more effective in designing and disseminating innovations, especially for small-scale producers.

**Effective agricultural extension services can:**

- Transfer labor-intensive (but productivity-enhancing) technologies in crop sciences, soil fertility, and irrigation, including the integration of digital technologies to enhance extension effectiveness.
- Train farmers in post-harvest handling to reduce spoilage and waste, and in value addition to increase sales.
- Encourage production diversification to respond to market demands.
- Create demand for technologies and extension services among smallholders.
- Strengthen delivery of extension and technology transfer through public, private, and civil society mechanisms, including digital platforms.
- Ensure that women, youth, and landless farmers have access to extension and technology transfer by improving efforts to reach these groups, offering them relevant training (covering the crop and livestock enterprises in which they engage), and providing information at times and places convenient to them.

[49] Evenson, Robert E, "Economic impacts of agricultural research and extension," *Handbook of agricultural economics*1 (2001): 573-628.

### ➢ Recommendations

**Innovations in communication technology can improve the use of innovations in agriculture.** Evidence on training smallholders to intensify production, use climate-smart agriculture, and improve post-harvest handling and value addition shows that ICT—newer mobile technologies but also older forms of communication such as radio—is effective for sharing information on new technologies, following up on training to improve adoption rates, and increasing contact between extension agents and farmers.[50]

### ➢ What improves the effectiveness of innovation and technology adoption?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Increase public sector R&D for designing and disseminating innovations | Agricultural R&D investments show high rates of return and positive impact on agricultural productivity and farmer incomes | Strong evidence |

## (iv) OPPORTUNITY: INCREASING EARNINGS AND MITIGATING RISK IN AREAS CHARACTERIZED BY RAINFED AGRICULTURE

**Rainfed agriculture is a risky business in which output, employment, and livelihoods all depend on the arrival, reliability, and duration of rainfall**. Rainfed production systems are estimated to occupy more than 95 percent of farmed land in sub-Saharan Africa, 90 percent in Latin America, 75 percent in the Near East and North Africa, 65 percent in East Asia, and 60 percent in South Asia.[51] Producers in these systems remain vulnerable to weather-related shocks,[52] and because they cannot grow crops throughout the year, they can experience significant periods of underemployment or unemployment.

**Irrigated land can be more than twice as productive as rainfed land, and irrigation can make agriculture a more reliable source of income.** Increasing the extent and efficiency of irrigation in rainfed areas has enormous potential to reduce the impact of variable prices on farmers' incomes, make agriculture more productive and remunerative, and reduce seasonal underemployment. Sub-Saharan Africa and Latin America in particular can still tap considerable water resources for agriculture.

**Farmers can also mitigate the income consequences of the short agricultural season by raising livestock or starting their own nonfarm business, which may operate year-round or just in the off-season.** A steady income can flow into the household from milk and egg production, poultry production, and fish farming. Growth in the industries that process and supply animal food products (milk, meat, eggs) and animal feed (especially if feed ingredients are produced by local farmers) could expand employment and income-earning opportunities both on and off of the farm.

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[50] See, for example, Ragasa, Catherine, and Chiyu Niu, *The state of agricultural extension and advisory services provision in Malawi: Insights from household and community surveys*, (Intl Food Policy Res Inst, 2017); Tata, Joyous S., and Paul E. McNamara, "Impact of ICT on agricultural extension services delivery: evidence from the Catholic Relief Services SMART skills and Farmbook project in Kenya," *The Journal of Agricultural Education and Extension* 24, no. 1 (2018): 89-110.;Fu, Xiaolan, and Shaheen Akter, "The impact of mobile phone technology on agricultural extension services delivery: Evidence from India," *The Journal of Development Studies* 52, no. 11 (2016): 1561-1576.

[51] "Rainfed Agriculture Summary," International Water Management Institute, last modified April 4, 2019, http://www.iwmi.cgiar.org/issues/rainfed-agriculture/summary/.

[52] Rural households often identify weather-related shocks as one of their biggest risks (World Bank Group, "World Development Report 2008: Agriculture for Development," (Washington, D.C.: World Bank, 2007), 89, https://siteresources.worldbank.org/INTWDR2008/Resources/WDR_00_book.pdf)

### ➢ Recommendations

**Invest in irrigation systems.** Interventions tend to focus on rehabilitating irrigation infrastructure, expanding small-scale irrigation facilities, and disseminating water harvesting methods.[53] USAID has promoted more effective use of soil moisture and rainfall for agriculture and livestock production in dry and semi-arid regions, and it supports the development of forecasting tools (including information shared by mobile phone) to help producers reduce the risks of crop losses in rainfed agriculture.[54]

**Support opportunities in livestock production and nonfarm employment.** Interventions can include facilitating the initial purchase of animals and equipment; improving animal production facilities; developing dairy cooperatives; supporting the expansion of animal health services (especially private health services); and developing water points and safe transit routes for pastoralists. Interventions can also support training for public and private sector actors in livestock value chains.

### ➢ What works to enhance rainfed agriculture earnings and to mitigate risk?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Irrigation systems | Reduces seasonal underemployment | Strong evidence |
| Livestock or nonfarm employment | Reduces seasonal underemployment | Strong evidence |

## (v) OPPORTUNITY: LAND RIGHTS AND LAND ACQUISITION FOR AGRICULTURAL EMPLOYMENT AND INVESTMENT

**Opportunities to initiate and expand agricultural production increase when it is easier to gain access to land and protect the right to use it.** Young people in particular find it challenging to obtain land to pursue agriculture as a livelihood. Some young people own land (albeit small plots), but ownership is strongly concentrated among older adults. Women tend to have weaker rights to land (if any) compared to men.

**Producers with secure land rights are more likely to invest in improvements that make agriculture more productive and remunerative.** A recent impact evaluation of a land registration pilot in Rwanda shows that more secure land tenure increased investments in soil improvement by 9 percent among male farmers and 18 percent among female farmers. Evidence from Ghana supports the notion that shifting to individual ownership sometimes strengthens women's land rights, although some titling programs have awarded titles to the male household head, undercutting customary systems that preserve married women's rights to use land.[55]

**When land is registered and titled, land rental markets can develop, expanding options for employment on and off of the farm.** Land rental markets have been shown to promote commercial farming in Ghana and to encourage the transfer of land to smaller-scale farmers in Sudan. By contrast,

[53] World Bank Group, "World Development Report 2008," (2007).

[54] "Enhancing Rainfed Agriculture, "USAID, last modified May 7, 2019, https://www.usaid.gov/what-we-do/water-and-sanitation/promoting-water-productivity-and-efficiency/enhancing-rainfed.

[55] See Filmer and Fox, *Youth employment, 13.* on land owned by youth; Ali, Daniel Ayalew, Klaus Deininger, and Markus Goldstein, "Environmental and gender impacts of land tenure regularization in Africa," *World Bank Policy Research Working Paper No* 5765 (2011) on Rwanda land registration; and World Bank Group," World Development Report 2008," 88. on land titling misadventures.

restrictions on land rental markets have inhibited both the farm and nonfarm sectors, because fear of losing their land prevents people from taking jobs in the nonfarm sector.[56]

**Land fragmentation and the intensification of agriculture have significant implications for labor needs.** Globally, small farms are becoming smaller (one survey finds that only 6 percent of the world's farms surpass 5 hectares),[57] although these trends vary by country and region and will have different employment effects. In Africa, for instance, rising land pressures and unsustainable agricultural intensification are occurring alongside a rapidly growing labor force and limited nonfarm job creation.[58] By contrast, the growth of the wage economy in Asia is projected to counteract the decline in the size of smallholder farms that occurred between 1950 and 2010.[59]

**To increase access to land and overcome problems with fragmented farms, countries have experimented with redistributing agricultural land, with mixed success.** A pilot program in four districts of Malawi offered underused land from former tea plantations to smallholders who agreed to relocate from densely settled areas. Communities voluntarily acquired land from plantation owners, the government, or private donors. Resettlement and farm development included transportation of settlers, establishment of shelter, and purchase of basic inputs and advisory services. The redistributed land was surveyed and registered under a group title, with the expectation that individual titles would be provided to beneficiaries on demand in the future. The program distributed an average of more than 1.5 hectares to 15,142 households and increased their agricultural incomes by 40 percent per year on average between 2005–06 and 2008–09, with positive effects on surrounding communities.[60] A land redistribution program in South Africa in 2001 had less success. It provided land and start-up grants to beneficiaries (allotment and grant size varied, depending on the producer's contribution) but offered no advisory assistance. Those who received land could not subdivide it, even after that prohibition was lifted. Recipients of small allotments were forced into collective farm structures that were poorly managed.[61]

### ➢ Recommendations

**Support land inventory and registration.** Insecure and unclear land rights can be addressed by developing an inventory of land (individually, communally, and state-held land) and improving land registration and titling procedures. Titling encourages the development of land markets for agricultural investment and employment.

[56] Filmer and Fox, *Youth employment, 13-14.*

[57] Lowder, Sarah K., Jakob Skoet, and Terri Raney, "The number, size, and distribution of farms, smallholder farms, and family farms worldwide," *World Development 87* (2016): 16-29.

[58] Masters, William A. et al, "Urbanization and farm size in Asia and Africa: Implications for food security and agricultural research." *Global Food Security 2, no. 3* (2013).

[59] Jayne, Thomas S., Jordan Chamberlin, and Derek D. Headey, "Land pressures, the evolution of farming systems, and development strategies in Africa: A synthesis." *Food policy 48* (2014): 1-17.

[60] Filmer and Fox, *Youth employment, 129.*

[61] Filmer and Fox, *Youth employment, 130.*

### ➢ What works to improve land rights and land acquisition?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Inventory and registration of land (including communal and state land) | Once land is registered and titled, land rental markets can develop; land rental markets promote commercial farming and encourage the transfer of land to younger farmers | Strong evidence |
| Land redistribution | Increased income in Malawi, disappointing results in South Africa | Mixed evidence |

## C. TRADITIONAL PRODUCTION IN THE NONWAGE ECONOMY: HOUSEHOLD ENTERPRISES

**A number of factors constrain earnings for owners of household enterprises (HEs) in rural and urban areas**. The constraint most often cited by HE owners is limited access to finance, which tends to result in undercapitalized enterprises. In some cases most of the value of HE production is captured by intermediaries along the supply chain, especially the lead firms at the top of the supply chain. One example is when HEs produce inputs for a factory, such as women working at home making lace in Bangladesh.[62]

**A key aspect of starting and sustaining a business is managing risk, and HEs are unique in that they face two types of risks: business risks and household risks.** For one thing, the business may be the only source of savings that the household can draw upon in an emergency, so the finances (and fate) of the business are intertwined with the welfare of the household. For another, if a household member falls ill or is in any other way incapacitated and cannot work, the labor cannot be replaced and the business suffers. Either type of shock can cause the business to close.

**HEs often close because they are unprofitable, but household risk can cause even a profitable business to close.** Because they usually operate in sectors that are less difficult to enter, it is common in all settings for HEs or even small enterprises to close because they cannot make a profit. When a business fails to retain customers or keep up with technological change, it will be easily outdone by a new entrant or an established competitor. Even a profitable business can close because of household risk, especially if the business is operated by a female-headed household.

**Countries need to adopt a balanced approach in designing policies and interventions that enable HEs to start and stay in business.** As noted, growth in employment and output in the HE sector happens when new businesses start up; very, very few SMEs begin life as HEs. The average HE lifespan seems to vary a lot, but data on this point are scarce. The average age of household businesses in lower-income countries of sub-Saharan Africa is under 7 years, but some HE owners report running their businesses for as many as 20 years. The low average may reflect a young labor force or high mortality of HEs—the data are not conclusive. If high mortality is the reason, then policies and programs that help to reduce business and household risk would greatly benefit this segment of the labor force. What is known is that HE ownership is very low among youth ages 15–24 and increases dramatically over the next 10 years. The reasons for this expansion have to do with the need to save money to start a business and the benefits of some work experience for business success.[63]

[62] Women in Informal Employment: Globalizing and Organizing (WIEGO), accessed May 29, 2019, http://www.wiego.org..

[63] Filmer and Fox, *Youth employment.*

### (i) OPPORTUNITY: INFORMATION, SKILLS, AND FINANCE FOR BUSINESS START-UP

**Opening a household business requires capital or savings, information on markets and input supply, and a range of skills (literacy, numeracy, behavioral, and technical skills; see Section D).** These requirements can be especially difficult for young people to meet, so they often struggle to enter the HE sector, even though it may represent their best opportunity to have a job. Microfinance and microcredit programs appear to help with start-up capital,[64] although even these programs require some savings or collateral, which young people are unlikely to have. This requirement results partly from the high cost of reducing the uncertainty associated with lending to an unknown entity, but it may also reflect informational asymmetries.

**Most HEs engage in some form of trade (mostly retail), but many operate in other sectors and require specialized skills.** Common activities in other sectors include preparing and selling food; making and selling inexpensive or custom items such as bricks or wooden furniture; basic agroprocessing such as low-tech grain mills or oilseed extraction; simple machine repair; tailoring; hairdressing; scrap metal collection and recycling; and simple welding. Most people looking to start such a business, especially young people, acquire the skills they need through an informally arranged apprenticeship with a craftsman or other business operator. Apprentices (or their families) may pay an initial fee to the craftsman, but mostly they compensate the trainer with labor, often for several years. In urban areas, skills may be acquired through vocational training institutes, although the evidence on the effectiveness of this approach for HE start-ups is mixed.

**Running a successful HE also takes socio-emotional skills and enough numeracy skills to figure out if the business is making a profit or whether a loan contract makes good business sense**. While most interventions to train potential and actual HE owners have focused on numeracy and financial literacy, an increasing body of evidence suggests that the socio-emotional skills are more important, especially for women.[65] Given the role of negotiation and customer service in operating a successful business, this result is not surprising.

**In choosing a course of action, young people are especially stymied by the lack of accurate information about the types of opportunities that are available in both rural and urban areas.** Such information barriers make it challenging for them to learn about the earnings that they can realistically expect from starting an HE. Focus groups conducted in small towns in Nigeria revealed that youth left secondary school without knowing what to do afterward; they did not know what opportunities were available or how to find out about them.[66]

[64] A randomized study in Bosnia and Herzegovina found an increase in self-employment (6 percent), inventory, and business ownership as a result of access to credit (Augsburg, Britta, Ralph De Haas, Heike Harmgart, and Costas Meghir. "The impacts of microcredit: Evidence from Bosnia and Herzegovina," *American Economic Journal: Applied Economics* 7, no. 1 (2015): 183-203.)

[65] Campos, Francisco, Michael Frese, Markus Goldstein, Leonardo Iacovone, Hillary C. Johnson, David McKenzie, and Mona Mensmann, "Teaching personal initiative beats traditional training in boosting small business in West Africa," *Science* 357, no. 6357 (2017): 1287-1290.; Woodruff, "Addressing constraints to small and growing businesses," 2018.

[66] Fox, Louise M, "Economic Participation of Rural Youth: What Matters?," 2018.

### ➢ Recommendations

**Use microfinance programs to provide start-up capital.**

**Build awareness of opportunities and (if necessary) socio-emotional skills to take advantage of them:**

- Programs that use a **Positive Youth Development (PYD)** approach have increasingly demonstrated that building the intellectual, physical, social, and emotional competence of youth is an effective development strategy. When applied across multiple projects and sectors, PYD approaches helps reach youth with unique needs. For example, **PYD has been an effective approach for working with youth through NGO or community-based training and services to address holistic needs related to health, education, and socio-emotional skills.** Such programs link youth to mentors and role models who provide information about various opportunities. The connections with mentors and networks help young people to build socio-emotional skills. PYD approaches can be implemented in multiple settings, including schools and community centers. The BRAC ELA program, an after-school positive youth program for young women, showed that women initiated businesses after leaving the program.[67] This result is another indication that the lack of socio-emotional skills and social capital may be more important constraints for females.
- **Programs to foster an entrepreneurial mindset among young people who are still in school may also help them to start a microbusiness or HE after they leave school.** An example is EDUCATE! in Uganda. Secondary students were 40 percent more likely to report starting a business or having a job as a result of participating in the program, which included socio-emotional skills development, business skills and entrepreneurial mindset training, leadership development, and business mentoring.
- Providing this support to young people while they are still in school is more cost-effective**. However, second chance programs can help disadvantaged and marginalized, over-age, and out-of-school children and youth gain access to self-employment, re-enter the formal education system, or receive further technical and vocational training.**

### ➢ What works in information, skills, and finance for business start-up?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Microfinance (including savings and microcredit) programs to provide start-up capital | These programs succeed, although they tend to require some savings or collateral from credit recipients | Strong evidence |
| Apprenticeship and vocational training | Apprenticeships can succeed, whereas technical and vocational training is rarely cost-effective | Strong evidence |
| Building socio-emotional skills | PYD programming that builds socio-emotional skills and connects young people with mentors and networks works well | Strong evidence |
| Building entrepreneurial mindset | Youth more likely to start a business, get a job | Limited evidence |

[67] Fox, Louise, and Upaasna Kaul, *The evidence is in: How should youth employment programs in low-income countries be designed?,* (Washington, D.C.: World Bank, 2018).

### (ii) OPPORTUNITY: INCREASE EARNINGS, SUSTAINABILITY OF AN EXISTING BUSINESS

**Owing to a high level of competition and higher business risk, many HEs struggle to survive**. Interventions to increase the likelihood that HEs will stay in business have focused on finance, improving business skills, and workplace access, but it is unclear what can be done to reduce the risk of failure.

**Finance interventions providing cash grants to businesses (or grants in kind for investments) increased profits over the long term, but increasing access to credit did not.** It may be that only grants allowed beneficiaries to take sufficient risks to reap a reward, or that the terms of microfinance credit were not suited to HE investment.

**Most interventions to improve business skills failed to improve business practices.** One exception is a program provided to market women in Western Kenya,[68] which showed results only after a few years. It may be that putting the business skills into practice was harder than imagined. In one intervention, tailors reported that they had no time to use the basic bookkeeping skills they were taught because if they did not sew all day they could not make money. [69]

Two interventions for existing businesses targeted at women combined mobile savings programs with socio-emotional and business skills trainings. The largest impact came from the savings programs, suggesting that at least this group may prefer financing their business with savings rather than credit. Training provided a modest additional increase in business activity or investment. More experimentation is probably needed to develop cost-effective, scalable programs to help these businesses survive.[70]

#### ➢ Recommendations

**Provide cash grants to businesses (or grants in kind for investments).**

#### ➢ What works to reduce the risk of failure for an existing business?

| Possible intervention | Evidence, finding | Strength of evidence |
|---|---|---|
| Finance | Cash grants work, but access to credit has little impact | Mixed evidence |
| Business skills training | One positive example from Kenya (over time) | Very limited evidence |

## D. SKILLS TO NAVIGATE THE LABOR MARKET AND WORK ENVIRONMENT

**Skills improve employment prospects, even though they do not generate jobs directly or guarantee an increase in earnings.** And while programs to build skills do not create jobs (Box A1.1), they can equip people to navigate the labor market, take advantage of employment opportunities (including opportunities for self-employment), and perform well in the environment where they work.

[68] McKenzie, David, and Susana Puerto, *Growing markets through business training for female entrepreneurs: A market-level randomized experiment in Kenya*, (Washington, D.C.: World Bank, 2017).

[69] Karlan, Dean, Ryan Knight, and Christopher Udry, "Consulting and capital experiments with microenterprise tailors in Ghana," *Journal of Economic Behavior & Organization* 118 (2015): 281-302.

[70] Buvinic, M. et al, "Unequal Ventures: Results from an Endline Study of Gender and Entrepreneurship in East Java, Indonesia," (Washington, DC : Center for Global Development, 2019).

**Skills are the expertise needed to accomplish a task, usually within a given amount of time, effort, or both.**[71] Beyond adding value in the production process itself, skills contribute to many other facets of life. Skills are acquired through structured learning (in school or a training program, for example) or tacit learning (through observation and experience). Because people accumulate and expand their skills over time through these learning and knowledge "investments," skills are often described as "human capital." Box A1.2 attempts to help readers work their way through the thicket of terminology related to skills.

**Human capital can increase individual earnings, but this outcome is not guaranteed and the process is complicated.** There has to be demand for skills by employers; sometimes this demand requires an investment in complementary capital and/or technology. When human capital is not demanded by firms (and thus not rewarded), and when the skills of a self-employed individual do not translate into more output value per hour worked, then returns to an individual's human capital investment may be small (or even negative). In this case, there is a skill mismatch—the new entrants have a skill level that is too high for the opportunities available.

### Box A1.1: Why don't skills programs create jobs? The problem of displacement

Developing country economies have a shortage of modern firms and therefore a shortage of jobs on offer to people entering the labor force. As a result, many, if not the majority, of people who seek steady wage employment in modern firms do not find it. A common solution, especially for young people, is to train them and offer counseling so that they can get the wage jobs on offer.

On the surface, this seems like an excellent use of funds. Youth is a time of skill development, so why not help this process along? The problem with this approach is that it does not create any new jobs. It simply redistributes the opportunities among those who want an entry-level job. The shift of jobs that occurs between people as a result of an intervention is called **displacement** by economists, as the younger jobseekers simply displaced the older jobseekers in line.

If the participants in the intervention were somehow marginalized or disadvantaged, perhaps the intervention could be justified. But making this determination requires knowing who did not get a job, and evaluating their circumstances as well. Perhaps the person in line to get the next job would have supported a large family with the wage they would have earned, had they gotten the job. Is that person less deserving, even if they are not young or do not belong to a marginalized group? The cost of this displacement is difficult to evaluate, but it is important in estimating the true impact and cost-benefit of a skill-development employment program.

*Source*: Fox, Louise, and Upaasna Kaul, *The evidence is in: How should youth employment programs in low-income countries be designed?* (Washington, D.C.: World Bank, 2018).

### Box A1.2: Definitions and categories of skills

Discussions of skills can be confusing. Two main types of skills are **cognitive skills** and **socio-emotional skills** (sometimes called "soft skills"). But categories of skills can overlap (business skills include both cognitive skills and socio-emotional skills). Programs that teach certain skills, such as "financial literacy" or "**work readiness**," can have very different content depending on the people they are trying to reach, and it is often challenging to understand which components of such programs make them effective. Socio-emotional skills often form part of programs focusing on employment and entrepreneurship, because they encompass skills, behaviors, and personal qualities that enable people to effectively navigate their environment, work collaboratively with others, perform

[71] Skill. (n.d.) In *Wikipedia*. Retrieved May 22, 2019, from https://en.wikipedia.org/wiki/Skill

well, and achieve their goals. They are part of the wide category of **transferable skills** that can be used across jobs and outside the workplace, in community or household settings.

Although the basic definition of **literacy** is proficiency in reading and writing, "literacy" often refers to a set of skills that make an individual effective in a certain domain. For example, **financial literacy** can include basic financial awareness and the capacity to understand the financial dimensions of a business, keep accounts, and access financial services. **Functional literacy** describes the capacity to meet immediate and daily needs, so functional literacy programs often deal with economic and occupational concerns, financial literacy, health, and nutrition, among other issues. **Digital literacy** is the ability to use digital technologies and networked devices to create, convey, and manage information; it is also variously referred to as computer literacy, ICT literacy, information literacy, data literacy, and media literacy. **Business skills** can include entrepreneurship skills (sometimes imparted through formal entrepreneurship education and training), managerial skills, financial literacy, and marketing skills.

**Technical and vocational skills** are the specialized practical skills, attitudes, and knowledge required to work in a multiplicity of occupations and sectors. They are acquired through specialized technical and vocational education and training programs, formal or informal apprenticeships, and various types of on-the-job and work-based learning.

*Source:* Filmer, D. and Fox, L. (2014) for financial literacy and business skills; UNESCO Institute for Statistics (2018) for digital literacy.

**The types of skills that help people to find and keep a wage job, improve the productivity of the family farm, or open and maintain a business are diverse and complementary.** They include basic cognitive skills like reading, specialized skills for performing specific tasks (such as welding, bookkeeping, or growing flowers for export), and skills that add to the chances of success in the workplace, family, and society (such as teamwork, self-control, communication, and empathy). The sections that follow describe the broad types of skills that come into play in the employment context, explain how they are acquired, and in some cases discuss evidence on efforts to supply those skills.

### (i) COGNITIVE SKILLS

**Cognitive skills—ranging from basic literacy and numeracy to higher-order analytical and problem-solving skills—help to broaden economic opportunities for individuals and should be acquired early.** As emphasized in USAID's 2018 Education Policy,[72] young people ideally should learn cognitive skills and have opportunities to apply them as early as possible in formal education (in primary and secondary school). Yet an increasing number of youth reach secondary education without these skills and fail to develop them adequately by graduation. Others drop out of school before they can acquire higher-order cognitive skills. This skill deficit can be the product of weak education systems, disruptions in education caused by conflict or instability, the government's lack of commitment or capacity to provide quality basic education, gender constraints to women's or men's access to education, or the need to leave school to earn an income. Whatever the cause, this deficit limits young people's future economic (and social) opportunities. Females may have more such deficits than males. Girls are less likely than boys to be enrolled in primary school in 16 countries, mostly in Africa; by secondary school, girls in 29 countries are less likely to be enrolled than boys.[73]

[72] USAID,"USAID Education Policy."

[73] Morton, M., J. Klugman, L. Hanmer, and D. Singer, "Gender at Work : A Companion to the World Development Report on Jobs," (Washington, DC : World Bank Group, 2014). http://documents.worldbank.org/curated/en/884131468332686103/Gender-at-work-a-companion-to-the-world-development-report-on-jobs.

**Public sector financing is needed to encourage equality of opportunity and prevent parents from underinvesting in their children's schooling.** Without public funding mechanisms (such as taxes) for education and skill development, poorer members of society would be excluded from opportunities. An educated population has benefits that extend well beyond the labor market (social benefits), so most countries use public financing for general education, at least up to the secondary level. Public financing may support some post-secondary education as well. Even when education is free, households may incur other costs that they cannot bear, including opportunity costs of the potential labor of older children. In this case, governments may offer targeted transfers conditional on school attendance.

### (ii) SOCIO-EMOTIONAL SKILLS

**Socio-emotional skills are acquired and applied in a wide range of settings and contribute to employment outcomes.** USAID Workforce Connections and Youth Employment Funders Group[74] have found evidence that positive employment outcomes appear to be correlated with social skills, self-control, a positive self-concept or attitude, communication, grit (conscientiousness), self-motivation, teamwork, and responsibility.[75] Socio-emotional skills may be acquired at home, on the job, in a classroom, or a combination of places, and normally their acquisition is financed by the individual, the family, or the public sector (because these transferable skills are useful across different types of jobs and outside of economic spheres). In school, modes of instruction that emphasize participation, group activity, and exploration develop these skills. All too often, however, schooling systems in developing countries emphasize rote learning, which fails to develop these valuable skills. While some education reforms have integrated socio-emotional skills into formal schooling, programs outside of school that offer training in socio-emotional skills have proven to be effective alternatives until school systems are reformed.

### (iii) TECHNICAL OR VOCATIONAL SKILLS, INCLUDING BUSINESS SKILLS

**Technical or vocational skills, including skills related to opening and operating a business, may be needed to work in specific sectors or occupations.** The acquisition of these skills may be partly financed by firms, partly financed by the individual, or partly or fully financed by the public sector. Various types of cost-sharing mechanisms can support this kind of learning, including apprenticeships, in which employers (including informal artisans) pay employees a lower (training) wage in return for the opportunity to learn a skill on the job; the employee either continues with the employer after the training period, or goes on to apply that skill in another firm or their own business. Firms that need technical skills may participate in publicly or privately organized skill development programs by advising on the curriculum and skills required for certain occupations, although this effort generally requires some organization at the sector or subsector level.

**Technical and vocational training often seems ideal for meeting the demands of employers for skilled employees, but a deeper assessment of the context is often warranted.** For example, several studies that analyzed employers' requirements more fully revealed that employers actually wanted either (1) entry-level workers with better socio-emotional skills or (2) experienced workers with a lot of the

[74] Youth Employment Funders Group (YEFG),"What Works in Soft Skills Development for Youth Employment? A Donors' Perspective," MasterCard Foundation, 2017. https://mastercardfdn.org/wp-content/uploads/2018/08/soft-skills-youth-employment-accessible2.pdf

[75] Lippman, L.H., Ryberg, R., R. Carney, and K.A. Moore, "Key 'Soft Skills' That Foster Youth Workforce Success: Toward a Consensus across Fields," (Washington: USAID, Child Trends, and FHI 360, 2015).

types of skills and knowledge acquired on the job (such as an experienced pipe-fitter or accountant). In such cases, a program focused solely on technical and vocational skills would probably not help either employers or jobseekers.

**While governments and education systems have shown greater commitment to working more closely with the private sector over the last several years, particularly in Asia and Latin America, there are still longstanding concerns with the cost-effectiveness of technical and vocational training (which is often restricted to a single context) and the rapid pace at which these programs become outdated.** These programs are costly compared to general secondary or even tertiary education. They often provide training and skill development of limited quality, and they sometimes focus on training and skills that are not relevant in the labor market. Some skills now taught in vocational training programs will be automated, while others will become obsolete with continuing technological change. Data from apprenticeships in Ghana show that over half of former apprentices are not using the technical skills they learned, as they have entered the trading sector. At the same time, however, these former apprentices may be using business skills learned through observation during their apprenticeships. Further research should seek to identify what is most valuable about technical and vocational training. Is it the classroom training? The apprenticeships (including the opportunity to learn some socio-emotional skills that increase "employability")? Or is it the exposure to the type of work done in a factory, on a construction site, or with a service provider that helps youth to develop a better understanding of work and workplace-oriented behaviors? If the latter, this capability could be provided much more cheaply than in a course lasting 6–9 months.

**On-the-job training in firm-specific skills is financed by the firm** and usually reserved for employees that firms value and want to retain. Firms tend to invest more in their more skilled, expensive staff. Firms that need to invest in staff training also tend to put incentives in place for staff to remain at the firm.

### (iv) SKILLS FOR YOUTH AND WOMEN TO NAVIGATE THE LABOR MARKET

**Young people, women, and others entering the workforce often enter the labor market without the information, proven skills, or social networks that will lead to employment in the kind of job they want.** Individuals entering the labor market need access to information about careers, employment opportunities, what people in different jobs and occupations earn, and what behavior is expected of them during the job search and on the job site. Some of the skills that entrants bring to a job may be easily observable (through a test of knowledge, for instance). If a skill is not easily observable (dependability is one example), an employer will seek a proxy measure, such as experience, to judge applicants. This approach places youth at a disadvantage, and matching interventions to help workers and employers find each other in the labor market will not overcome the underlying constraint. Youth may also lack the social capital networks that are integral to finding wage jobs in systems where information flows are imperfect and where patronage may influence hiring.

**Specific interventions may help young people and women to navigate the job market more effectively.** Career counseling, coaching, or mentoring can help youth search more efficiently and through more channels. One setting in which this approach was effective is South Africa, although some

displacement may have occurred.[76] To the extent that girls and women leave school with weaker literacy, numeracy, and soft skills, females may benefit from particular types and "dosages" of post-school training assistance to navigate the job market successfully. Even while they are in school, and certainly after leaving school, girls and women often benefit from a stronger focus on acquiring communication skills and using them with confidence. Women often are socialized to be less confident about speaking in public or initiating difficult conversations (which may involve managing conflict) with family or community members, supervisors, or employers. Information about reproductive health, sexual harassment, and workers' rights has proven to resonate with female trainees.[77] Some research shows that women appreciate and benefit more from face-to-face coaching and mentoring than men.[78] Many career counseling and job coaching programs have not been rigorously evaluated, however, so it is difficult to conclude how much impact they have had on employment.

### ➢ Recommendations

**In most USAID host countries, employment opportunities are influenced much more by the enabling environment than by the skills of people who need a livelihood.** What may help, in some circumstances, is interventions that equip people (especially young people and women) to identify employment opportunities and succeed at their work. For more detail, see USAID's 2018 Education Policy.[79]

**More broadly, governments must ensure that all labor force entrants have foundational cognitive and socio-emotional skills, including skills that help young people find employment opportunities, support on-the-job learning, and allow for potential post-secondary education or training.**

**Develop work-readiness behaviors and expose youth to workplaces, whether they are still in school or out of school.**

**Finance technical training only with demonstrable value and additionality—in other words, only when the private sector is not already providing such training.**

[76] Abel, Martin, Rulof Burger, Eliana Carranza, and Patrizio Piraino, *Bridging the intention-behavior gap? the effect of plan-making prompts on job search and employment*, (Washington, DC: World Bank, 2017).

[77] Mastercard Foundation, 2018.

[78] Taggart, N, Equip3: Gender in Youth Livelihoods and Workforce Development, Education Development Center, Inc. (EDC), 2012.

[79] USAID, "USAID Education Policy."

## ANNEX 2: DEFINITIONS

**Business skills:** A variously defined array of cognitive and socio-emotional skills that support the operation of a successful business, including entrepreneurship skills, managerial skills, financial literacy, and marketing skills.

**Career counseling, coaching, or mentoring:** Support to jobseekers (often provided to students in school) through one-on-one or group counseling or online resources to provide information on career pathways, life planning, goal setting, and how to network and search for a job. Mentoring programs can also support entrepreneurship.

**Cognitive skills.** Cognitive skills enable individuals to analyze and use information (USAID Employment Policy). Basic cognitive skills include numeracy and literacy; higher-order cognitive skills extend to problem solving and critical analysis, which are usually essential for performing complex jobs (Youth Employment in Sub-Saharan Africa).

**Core labor standards:** Defined under the ILO 1998 Declaration on Fundamental Principles and Rights at Work as "freedom of association and the effective recognition of the right to collective bargaining, elimination of all forms of forced and compulsory labor, effective abolition of child labor, and elimination of discrimination in respect of employment and occupation" (https://www.ilo.org/actrav/areas/WCMS_DOC_ATR_ARE_DECL_EN/lang--en/index.htm). To that list, the U.S. Internationally Recognized Worker Rights adds "acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health" (https://www.dol.gov/agencies/ilab/our-work/workers-rights).

**Decent work:** Work that "is productive and delivers 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" (https://www.ilo.org/global/topics/decent-work/lang--en/index.htm).

**Demand for labor:** When producing goods and services, businesses require labor and capital as inputs to their production process. The demand for labor is derived from the demand for a firm's output. That is, if demand for a firm's output increases, the firm will demand more labor, thus hiring more staff. And if demand for the firm's output of goods and services decreases, in turn, it will require less labor and its demand for labor will fall, and less staff will be retained (https://www.investopedia.com/terms/d/demand_for_labor.asp).

**Digital literacy:** The ability to define, access, manage, integrate, communicate, evaluate, and create information safely and appropriately through digital technologies and networked devices for participation in economic and social life. Digital literacy includes competencies that are variously referred to as computer literacy, ICT literacy, information literacy, data literacy, and media literacy (UNESCO, http://uis.unesco.org/sites/default/files/documents/draft-report-global-framework-reference-digital-literacy-skills-indicator-4.4.2.pdf).

**Discrimination:** Defined under ILO Convention No. 111 as "any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation" (https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_ILO_CODE:C111). U.S. federal law protects workers against discrimination on the basis of race, color, religion, sex, or national origin and contains other protections related to age, disability, equal pay/compensation, genetic information, harassment, pregnancy, retaliation, and sexual harassment (https://www.eeoc.gov/laws/types/index.cfm; https://www.eeoc.gov/facts/qanda.html).

**Displacement:** The zero-sum effect of hiring a worker at the expense of another person who would have taken the job and now remains unemployed. When displacement occurs, no new jobs are created.

**Earnings:** Earnings are income from work. Income can also be earned from capital or land or other forms of property. ***Wage or salary:*** remuneration in cash and in kind to employees for time worked or work done together

with remuneration for time not worked, such as annual vacation and other paid leave or holidays. ***Self-employment:*** gross profits (revenues minus costs of doing business) from a self-employment activity.

**Employee:** An individual who works part-time or full-time for an unrelated individual under a contract of employment, whether oral or written, expressed or implied, and has recognized rights and duties.

**Employment:** Activities that generate actual or imputed income, monetary or in kind, formal or informal.

**Entrepreneurship education and training (EET):** EET represents both academic education and formal training interventions that share the broad objective of providing individuals with the entrepreneurial mindsets and skills to support participation and performance in a range of entrepreneurial activities *(Valerio, Alexandria; Parton, Brent; Robb, Alicia. 2014. Entrepreneurship Education and Training Programs around the World : Dimensions for Success. Directions in Development--Human Development;. Washington, DC: World Bank).*

**Family farms:** A farm of any size, operated/managed by a member of the household, with at least 50 percent of the labor coming from family members. In 2014, family farms were 90 percent of farms globally, accounting for 75 percent of farming land area.

**Financial literacy:** "Possessing the skills and knowledge on financial matters to confidently take effective action that best fulfills an individual's personal, family, and global community goals" (National Financial Educators Council). Financial literacy can include skills related to saving and managing money, making financial decisions, and budgeting.

**Firm (business):** A commercial organization that operates on a for-profit basis and participates in selling goods or services to consumers. See also modern firm.

**Formal employment:** Employment for a wage or salary in a private firm registered with the central or local government.

**Formal firms:** Private firms registered with the central or local government.

**Functional literacy:** A typology of literacy instruction that incorporates the immediate and daily needs of the learner, which usually include economic/occupational issues, financial literacy, and health and nutrition information, among other needs.

**Gig economy:** Defined as an "economy…based on flexible, temporary, or freelance jobs, often involving connecting with clients or customers through an online platform." Such employment may offer greater flexibility, but it may undermine job quality and "traditional economic relationships between workers, businesses, and clients" (https://www.ilo.org/employment/Whatwedo/Publications/working-papers/WCMS_614176/lang--en/index.htm). The ILO categorizes self-employment in the gig economy as "dependent self-employment," in which a person may have no autonomy over business decisions such as unit price or terms of payment.

**Household enterprises (HEs):** Unincorporated, nonfarm businesses owned by households. People who work in this sector include self-employed individuals running businesses, and family members who report working in the business. Most HEs are one-person operations. In sub-Saharan Africa, 90 percent of people working in this sector are the self-employed owners; only 10 percent are family members. Owners of HEs may be located in rural, semi-urban, or urban areas and may operate more than one enterprise at any point in time or during a single year. They may also engage in both farm and nonfarm activities (in other words, they may pursue *mixed livelihoods*). Employment in this sector expands through start-ups. Individuals who manage to start and sustain a business will be able to work more (reduce underemployment) and earn income. Most employment in the gig economy falls in the self-employment category.

**Informal economic unit:** Informal economic units largely generate employment and income for the owners. They typically operate on a small scale, with assets belonging to the household, not to a separate production unit. *Usually it is legal for such a production unit to do business in the family name;* there is no legal requirement for it to incorporate or otherwise become "formal," although there may be a requirement to pay taxes.

**Informal employment:** An employment relationship between two unrelated persons not subject (by law or by practice) to national labor legislation governing employer-employee relationships, or benefitting from social protection schemes organized through employment. *In most cases, informal employment is not legal*.

**Information barriers (to employment):** Barriers resulting from a lack of information and knowledge of job vacancies, skill requirements, skill availability, wages, and other such factors that are necessary for workers and employees to find each other in an efficient way. In the academic literature, this term often appears as "information frictions" or "matching frictions." Jobseekers need information about job availability, location, and wages. Employers need information about the availability of workers who are either unemployed or looking for new work, and who are willing to work at the going wage rate.

**Labor force:** Employment + unemployed.

**Landless farmer:** Definitions of this term can be formal or informal, and vary by region or country, A landless farmer may simply refer to someone who has no access to land and cannot currently farm, such as an internally displaced person, refugee, or migrant. The term may also refer to those who engage in agricultural activities (particularly livestock activities and kitchen gardens) in the homestead plot area only (not on an agriculture-designated plot); those who have insecure tenure rights; or those who farm through leasing or on communal lands.

**Literacy and numeracy skills:** Include an individual's ability to read, write, and comprehend written language (print literacy), speak and understand spoken language (oral literacy), and understand and use numbers in daily life (quantitative literacy or numeracy). These skills are often labeled cognitive skills.

**Livelihood:** A set of activities performed to live—to meet the requirements of an individual or household on a sustainable basis, with dignity, by working either individually or as a group, using endowments (human and material) to earn income for acquiring necessities. When the activities undertaken vary substantially over the month or year, the set of activities is often called a *livelihood portfolio*. People holding multiple jobs are described as having a *mixed livelihood.*

**Matching:** The process by which workers and employers find each other in the labor market.

**Modern firm.** Firms characterized by newer technology, economies of scale, and effective management of physical, financial, and human resources through specialized departments, all working toward higher profits in a competitive environment.

**Nonwage economy:** Comprises household enterprises and family farms/smallholder farms.

**Positive Youth Development (PYD):** There are several definitions of PYD. This framework uses the term as defined by YouthPower Learning, namely "an evidence-based approach to programming that engages youth along with their families, communities, and/or governments to empower youth to reach their full potential." PYD approaches build skills, assets and competencies; foster healthy relationships; strengthen the environment; and transform systems (USAID, https://www.youthpower.org/positive-youth-development).

**Product innovation:** The creation or re-engineering of products or services to meet new market demand.

**Self-employment:** An individual working for himself or herself, as a freelancer or owner of a business, who has autonomy over business practices. A new ILO category designating self-employment in the gig economy is

"dependent self-employment," in which a person may have no autonomy over business decisions such as unit price or terms of payment.

**Small and medium enterprises (SMEs):** Firms hiring 5–250 employees.

**Smallholder farms:** A subset of family farms in which the holding is smaller than 2 acres (1 hectare) and provides the main source of income for the family. In 2014, 72 percent of all farms were smallholder farms, accounting for only 8 percent of agricultural land (FAO State of Food and Agriculture 2014, http://www.fao.org/3/a-i4040e.pdf). Also defined by the Feed the Future Initiative as "one who holds 5 hectares or less of arable land or equivalent units of livestock, i.e. cattle: 10 beef cows; dairy: two milking cows; sheep and goats: five adult ewes/does; camel meat and milk: five camel cows; pigs: two adult sows; chickens: 20 layers and 50 broilers. The farmer does not have to own the land or livestock."

**Socio-emotional or soft skills:** A broad set of skills, behaviors, and personal qualities that enable people to understand and manage their emotions, set and achieve positive goals, feel and show empathy for others, establish and maintain positive relationships, and make responsible decisions so that they can effectively navigate their environment, work collaboratively with others, perform well, and achieve their goals. These skills complement technical, vocational, and academic skills, and are increasingly being recognized as crucial to youth development.

**Supply of labor:** Individuals who sell their labor (that is, they are working or wish to work).

**Technical and vocational education and training (TVET):** A comprehensive term referring to education, training, and skills development specific to a task or situation, relating to a wide range of occupational fields, production, services, and livelihoods. TVET can take place at the secondary, post-secondary, and tertiary levels. It also includes the acquisition of practical skills, attitudes, understanding, and knowledge relating to occupations in various sectors of economic and social life. It can also be *sector-specific* or *occupation-specific* (*UNESCO-UNEVOC).*

**Underemployment:** People in a labor force are considered underemployed when they are employed for fewer hours than they want to work (generally less than full time) or in jobs that are inadequate with respect to their training or economic needs. The former is called *hours-related underemployment.* The latter is difficult to measure; when earnings are low it may be called "vulnerable employment." On a *family farm*, underemployment could apply both under *time-related conditions* (i.e., a person is willing and able to work additional hours) as well as *inadequate work conditions* (i.e., a person perceives that the work demands less than the person is capable of delivering in terms of skills, productivity, and quality).

**Unemployment:** Without work (for one week, according to ILO criteria) and actively searching for employment.

**Work-based learning:** Encompasses a wide array of learning experiences, from exposing youth to careers through activities like job shadowing to providing specialized training. Work-based learning extends into the workplace through on-the-job training, apprenticeships, internships, mentoring, and other supports in a continuum of lifelong learning and skill development (Jobs for the Future, https://center4apprenticeship.jff.org/work-based-learning/*).*

**Work-readiness training:** Interventions to teach the behaviors and techniques required to get and keep a job—for example, positive work habits, attitudes, and behaviors such as punctuality, regular attendance, presenting a neat appearance, getting along and working well with others, exhibiting good conduct, following instructions and completing tasks, accepting constructive criticism from supervisors and coworkers, showing initiative and reliability, and assuming the responsibilities involved in maintaining a job.

# ANNEX 3: INDICATORS

Links to all State and USAID **standard indicator reference sheets** can be found at the bottom of this page.

## Outcome indicators

EG.3-g Employment in the agri-food system

EG.5-2 Full-time equivalent employment of firms receiving USG assistance

EG 6-4 Percent of individuals with new employment following participation in USG-assisted workforce development programs

EG. 6-X Average percent change in earnings following participation in USG-assisted workforce development programs

## Intermediate, related outcome or output indicators

EG.2.2-2 Number of firms receiving USG assistance that have obtained certification with an international quality control institution in meeting minimum product standards

EG.3.2-24 Number of individuals in the agriculture system who have applied improved management practices or technologies with USG assistance

EG.5-1 USD sales of firms receiving USG-funded assistance

EG.5.2-2 Number of private sector firms that have improved management practices or technologies as a result of USG assistance

EG.6-X Percent of individuals with improved soft skills following participation in USG-assisted workforce development programs

EG.6-X Percent of individuals with improved reading skills following participation in USG-assisted programs

DR 4.2-2 Number of civil society organizations (CSOs) receiving USG assistance engaged in advocacy interventions

DR 4.5-1 Number of independent worker organizations supported by USG to promote international labor standards

GNDR-1 Number of legal instruments drafted, proposed or adopted with USG assistance designed to promote gender equality or non-discrimination against women or girls at the national or sub-national level

GNDR-5 Number of legal instruments drafted, proposed, or adopted with USG assistance designed to improve prevention of or response to sexual and gender-based violence at the national or sub-national level

GNDR-8 Number of persons trained with USG assistance to advance outcomes consistent with gender equality or female empowerment through their roles in public or private sector institutions or organizations

Youth-3 Percentage of participants in USG-assisted programs designed to increase access to productive economic resources who are youth (15-29)

## ANNEX 4: RELEVANT RESOURCES

**Reproductive health**

Ending Preventable Maternal Mortality: USAID Maternal Health Vision for Action

- Briefly touches on how reproductive health is related to maternal mortality

USAID Discussion Paper on Gender and Extreme Poverty

- Discusses how lack of control over reproductive health leads to inability to pursue wage employment

**Child Marriage**

Ending Child Marriage and Meeting the Needs of Married Children: the USAID Vision for Action

- Discusses the effect of child marriage on education, which is linked to employment, but does not discuss employment explicitly

USAID Discussion Paper on Gender and Extreme Poverty

- Discusses how child marriage continues cycle of poverty

**Inclusive Development**

Gender Equality and Female Empowerment Policy

- Discusses gender inequality in employment opportunities

Youth in Development Policy

- Discusses at issues youth face in obtaining employment

LGBT Vision for Action

- Discusses employment discrimination toward LGBT individuals

**Economic growth**

Private Sector Engagement Policy

- Discusses the role of the private sector in creating jobs and contributing to employment

Trade Capacity Building Policy

- Discusses employment opportunities made possible by trade

**Cross-cutting**

Building Resilience to Recurrent Crisis: USAID Policy and Program Guidance

- Discusses livelihoods as an important element of adaptive capacity

Sustainable Service Delivery in an Increasingly Urbanized World

- Discusses opportunities for employment in urban areas

**Education**

USAID Education Policy

- Discusses how education can contribute to employment