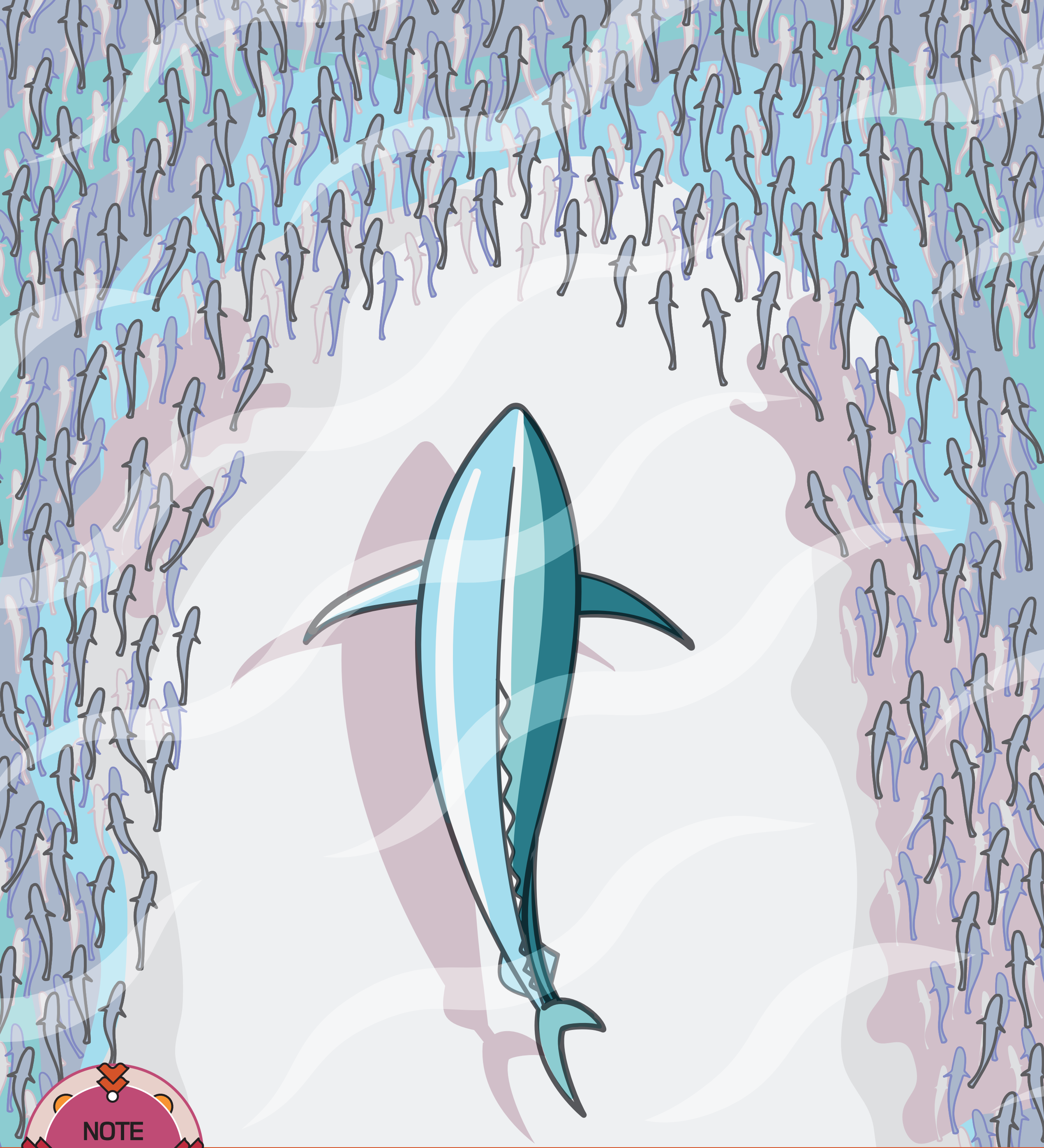


NOTE 3

MAP Global Insights Series
Volume 3 | Note 3 | 2020

SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

The millions and billions...and the 1%

Targeting funding to spark the real economy's engine

UNCDF
Unlocking Public and Private Finance for the Poor

The MAP Global Insights series – Volume 3

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based analysis feeding into a financial inclusion roadmap jointly implemented by a range of local stakeholders.

MAP was initiated by the United Nations Capital Development Fund (UNCDF) and developed in partnership with FinMark Trust and the Centre for Financial Regulation and Inclusion (Cenfri). In each country, MAP brings together a broad range of stakeholders from within government, the private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country.

The volumes in the MAP Global Insights series consolidate and synthesise the learnings from the MAP programme across MAP programme countries.

The authors of this note would like to thank those who reviewed the document and provided invaluable comments: Thanks to the FinMark Trust team, and in particular Brendan Pearce, Nikki Kettles and Damola Owolade, for substantive insights on financial inclusion and the real economy.

Series Editor: **Kameshnee Naidoo**
Volume Editor: **Jacquie Withers**
Authors: **Kameshnee Naidoo and Christiaan Loots**
Layout and Design: **Garage East**

About the cover
The title of Note 3 could be interpreted as a reference to the 1% that harbour most of the world's wealth. Reading further into the document though reveals the word play. The cover pays respect to that word play and misdirection: while the image appears to reference the predatory nature of the 1% that feed off the bottom 90%, the underlying meaning is a reference to the reality that, in the right environment, a select few small fry have the potential to grow into powerful entities with the ability to navigate harsh seas and breed further success with each generation.

The limits of market mechanisms powered by self-interest

That which is not…

The question is not how to unlock the entrepreneurial power and potential of every one of a vast ocean of MSMEs in any least developed country. The question is how to zero in on that relatively small group of high-potential, high-impact enterprises – and how to support their contribution to inclusive growth.

At its simplest level, the financial system is made up of the billions of individual actions and behaviours from which consumers derive certain tangible benefits in the form of financial services to meet their real needs. Financial inclusion sits at the heart of this, by providing access to these services.

It is the need to earn an income that propels the use of financial services, thus linking them directly to the aggregated whole: a country's financial system and economy. While the financial system is often seen as a faceless, complex, interconnected 'web' moving large sums of money around and incomprehensible to the average person, in fact it is directly related to the needs, means and decisions of the population in generating their livelihoods; this is what makes the financial system work and influences the characteristics and direction of a country's economy.

Entrepreneurs, who comprise the majority of the population in the UNCDF MAP countries, operate at the 'coalface' of an economy, needing as they do to make a livelihood. Entrepreneurs could thus be characterised as the proverbial 'canary in the coalmine'; their own money, and thus their survival, is at stake. So entrepreneurs are well placed to actively shape the evolution of an economy. The decisions of individuals on their own, however, do not guarantee optimal economic development. Rather, a society's ability to grow – and, more to the point, produce wealth for itself – is determined by its ability to engage in higher-end, value-adding activities.

Political and human circumstances change, and consumer preferences and technology evolve. For a very long time, though, the taken-for-granted assumption, particularly in the developed economies of the Anglosphere, has been that Adam Smith's 'invisible hand' of the free market and rules for free trade are the only legitimate mechanisms for dealing with change while driving growth (Fallows 1993). Yet, many of the fastest-growing economies of the past three decades have not, in fact, been sticking to these traditionally accepted rules, and the governments of these countries have taken a more active role in directing development. Furthermore, allowing the market free rein does not necessarily lead to either the most efficient or effective outcomes for the wider society. 'You cannot get a decent, moral society, not even an efficient society, simply out of the mechanisms of the market powered by the motivational fuel of self-interest' (Dore, cited in Fallows 1993). And in the long run, individuals are only better off if society as a whole is better off – not only for the immediate future but in the sense of leaving something worthwhile for future generations, 'without compromising our environment or placing unfair burdens on societies' (PRI 2017).

These kinds of alternatives to free-market orthodoxy resonate with what MAP's financial inclusion research and interventions in least developed countries (LDCs) has been suggesting: that the MAP nations cannot rely simply on the free market to ameliorate livelihood and employment opportunities while achieving economic growth. Rather, by actively promoting the achievement of a set of desired *socio-economic* outcomes – inclusive growth and specific sector development (at the macro level) and increased social inclusion, increased access to resources and to opportunities (including employment or small business ownership), and strengthened livelihoods (at the micro level) – a nation can increase its position of power on the world stage while improving the well-being of its population.

Identifying the engine of the economy

A well-functioning financial sector can unlock economic opportunities by means of intermediation, investment and de-risking markets. Improved financial sector performance in turn leads to additional jobs in the financial sector. The financial system, therefore, is simultaneously an enabler and beneficiary of real economic growth. Between the larger financing system that helps fund and grow the economy and the individual level of financial inclusion, however, lies a vital missing level and link: the real economy.

It is in the real economy that the majority of a country's population (and not least the poor) generate their livelihoods.

The real economy is the part of a country's economy that produces goods and services that people consume, rather than the part comprising financial services (e.g. banks and stock markets), which only plays a supporting role. It is the economic sectors and businesses of the real economy that, through production of goods or the rendering of services (other than financial) add value to a country's economy and contribute to economic growth, while providing individuals and households with employment and income. Together all of this economic activity comprises the economy's *structure*, with its particular constraints and affordances, which has ramifications for the country's capacity to provide its population with opportunities and livelihoods. The structure and nature of the different economic sectors and the size and shape of entrepreneurial enterprise impact on households' overall economic lives and the opportunities available to earn an income and secure employment.

The real economy is simultaneously the mechanism through which individuals and households earn a living and the basis for economic growth. It is in the real economy that the majority of a country's entrepreneurs are to be found.

Keeping to a bottom-up approach, with a focus on economic structures and sectors, Note 3 draws on the economic context research for the MAP diagnostics conducted to date, including the most recent SME surveys, as well as the Eswatini MAP MSME diagnostic (2018), the MAP MSME concept note (2018/19), and the Malawi MAP MSME diagnostic (2019).

With this more detailed diagnostic focus on economic activities, a clearer picture is emerging of the nature and composition of the real economy in LDCs, and the linkages to MAP's work in financial inclusion in support of inclusive growth.

Enterprise powering the real economy. Envisaging the real economy as the engine of the economy means identifying areas for intervention in the real economy that will help forge better links between the micro and the macro. At the centre of the real economy are economic enterprise and entrepreneurship. And small businesses are emerging as an important focus area for MAP country governments; MSMEs are recognised as being potential drivers of industrialisation, economic growth and employment generation and, at the micro level, as a crucial source of income and dignity for households (particularly low-income households). The argument that entrepreneurship is vital for helping overhaul economies and accelerate achievement of countries' financial inclusion and inclusive growth aspirations is one that has much traction; entrepreneurial enterprises, it is assumed, have the potential to contribute to structural transformation of the developing economies in which they operate.

In the MAP countries, though, most of the entrepreneurial enterprises are small businesses, very often operating in the informal or 'shadow' economy. There is little evidence in these countries that entrepreneurs and their enterprises are up to the task of driving large-scale national growth – without significant support.

What does entrepreneurship look like in the MAP countries?

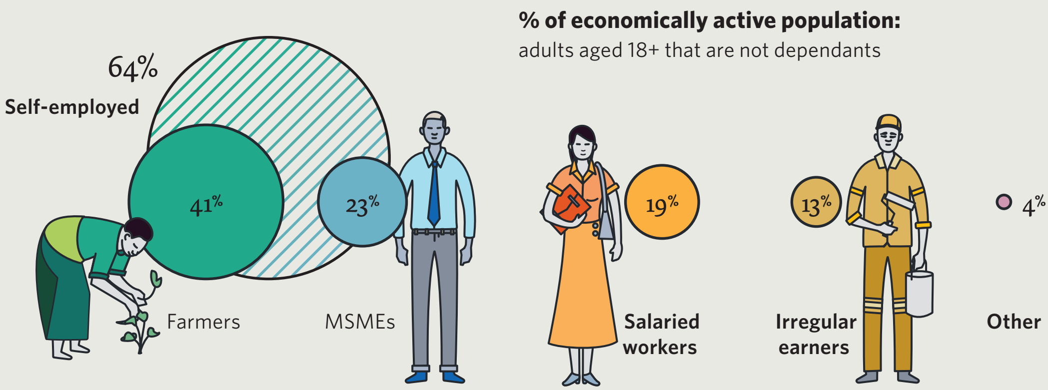


Figure 1: Income source as percentage of economically active population, across 16 MAP countries
Sources: FinScope for 16 MAP countries.

Most people are reliant on themselves to generate an income. Across the 16 MAP countries, the programme's survey data on income source (FinScope) shows that 24% of adults are dependent on someone else (i.e. fall into the target market segment 'dependants'). This means that the labour force participation rate is 76%, slightly above the OECD average for 2018 (72%). (This calculation assumes that FinScope's population data focus, which is mostly on age 18 upwards – i.e. including more elderly population members – balances out the fact that the OECD rate – for adults aged 15–64 – includes more youth.)

Of those not dependent on another, almost two-thirds (64%) are self-employed: either as a farmer or an MSME owner. Less than a fifth (19%) earn a formal salary or wage, while most of the remainder are irregular earners, doing piece work in the informal sector for an income (see Figure 1).

It is clear, therefore, that in the MAP countries the majority of adults that are active in the labour force are dependent on themselves for an income.

Most MSMEs are single-person enterprises formed out of necessity. Most self-employed individuals in these countries do not employ anyone else. In other words, very little of the entrepreneurial activity creates additional jobs; FinScope data on farmers highlights that the vast majority are subsistence farmers, not employing anyone else, and similarly most MSMEs do not provide employment to others.

Economic enterprise as a vital mechanism for employment creation is, therefore, largely failing in the MAP countries – at least enterprise in the traditional sense of those elements of the economy that provide the vast majority of jobs.

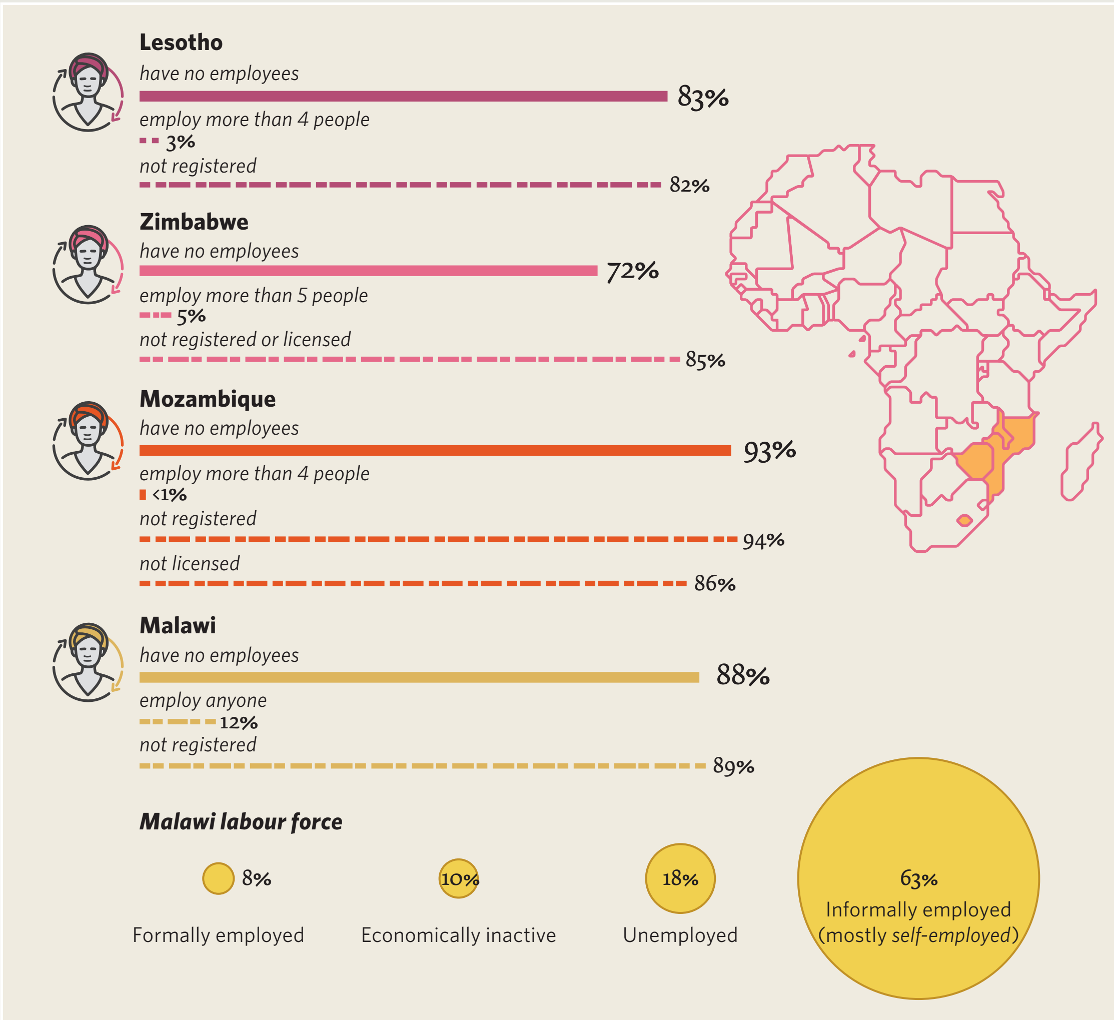


Figure 2: MSME employment and formality in four SADC countries, and Malawi labour force
Sources: FinScope MSME (Lesotho 2016, Mozambique 2012, Zimbabwe 2012, Malawi 2019); ILO (2013).

The informal economy powers jobs and livelihoods, especially at the bottom of the pyramid. MAP consumer findings have consistently demonstrated that most people derive their income from the informal sector. Although MSME data is not always split by formality, the estimate (confirmed by official government survey data) is that between 64% and 69% of all economically active adults in the 16 MAP countries derive their income from the informal sector (through either self-employment or receiving a wage). The evidence from MAP's MSME and real-economy work in the Southern African Development Community (SADC) countries of Lesotho, Malawi, Mozambique and Zimbabwe points in a similar direction: most MSMEs are not registered or licensed (see Figure 2).

As there are no clear signals that MAP countries' formal sectors are growing steadily over time, these countries' urgent employment-generating requirements are not being met.

The majority of turnover is by formal enterprises. In addition to employment, the informal sector most often accounts for a large proportion of enterprise turnover and enterprise profit (estimated at between 30% and 40% in Malawi). There are indications that informal enterprises might be contributing significantly to GDP as well – to the tune of an estimated 40% for Malawi, for instance (MAP Malawi MSME 2019). On the other hand, turnover per employee in informal employment is estimated at only 4% of turnover per employee in formal employment; in other words, output per employee in the formal sector is 25 times higher than in the informal sector.

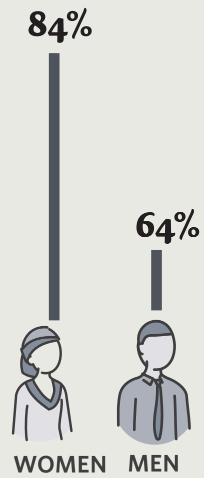
Thus, while the majority of MSMEs are operating in the informal sector, total formal enterprise turnover comprises the majority of turnover.

Most income is derived from the informal sector. Average income in the informal sector is also a fraction of income in the formal sector. For instance, remuneration per informal employee is about 18% of remuneration per formal employee (calculated using the 2013 Malawi Labour Force Survey from ILO 2013, and data from the Malawi National Statistical Office, NSO 2001). The sheer volume of people depending on the informal sector for their income, however, means that total income from the informal sector often exceeds that from the formal sector – with informal remuneration from enterprises comprising almost 70% of total remuneration in Malawi, for instance.

Despite the formal sector comprising the majority of turnover, most income, in terms of both number of people and value, is therefore derived from the informal sector.

Informal businesses have limited access to capital, skills/educated labour and technology. Informal enterprises rely on low-skilled labour, which comprises a significant proportion of their inputs (labour constituting more than 50% of informal enterprise costs in Malawi, compared to 9%–15% for formal) (NSO 2001). This means that labour costs are the single biggest cost for informal enterprises, whereas inputs and other factor costs (capital, rentals etc.) are the biggest cost for formal. To a degree this is driven by self-selection; informal enterprises with access to capital and knowledge will presumably grow and formalise over time, while educated labour will tend to apply for jobs in the formal sector because returns (salaries) are much higher. In addition, informal enterprises do not benefit from economies of scale, specialisation, and access to public services and markets as formal enterprises do.

Sector involvement has a gendered aspect. The sectors that self-employed women typically go into are the lower-risk ones, such as wholesale and retail, and community and household business (e.g. community-based services such as hairdressing, car washing, garden services), seldom employing other people (MAP MSME Malawi 2019). This results in women being under-represented in higher-productivity (or higher-impact) sectors, such as the wider services sectors. For instance, in eSwatini, 'an overwhelming majority of businesses in manufacturing, agriculture and business services in the high impact target group are owned by men' (MAP MSME Eswatini 2018).



MICRO ENTERPRISE OWNERSHIP

Female-owned businesses are not yet drivers of growth. The types of businesses owned by women are starkly different to those owned by men: 84% are micro enterprises, versus 64% for male-owned enterprises. And only 15% and 1%, respectively, of female-owned business are small or medium-sized businesses, versus 30% and 6%, respectively, of male-owned businesses (MAP MSME Malawi 2019). Although more women tend to be self-employed than men, there are also important differences in the types of businesses that women own versus men; that is, there are marked differences in ownership demographics for certain types of business activity, which has practical implications for how people generate and sustain their livelihoods. The data highlights that women rely on self-employment as a means of survival (rather than out of entrepreneurialism).

Women are more likely than men to invest any business profit into the household. Female-owned businesses are also the least likely to reinvest business profits into businesses, instead using this for household needs (85%), although this is only slightly lower in the case of male-owned businesses, at 73% (NSO 2001). This supports the theory that women in the MAP countries are more likely to go into business out of necessity (to support household needs) than out of a spirit of entrepreneurialism (to take risks in order to gain greater returns).


85%
OF FEMALE-OWNED BUSINESSES USE BUSINESS PROFITS FOR HOUSEHOLD NEEDS

From surviving to...closing? The age of entrepreneurial enterprises is another predominant feature of businesses in MAP markets, with most businesses not surviving longer than five years. For instance, in eSwatini (FinScope MSME 2017), around 50% of businesses are less than 5 years old, and only 27% are more than 10 years old. In Malawi (MAP MSME 2019), 61% of MSMEs are 5 years old or younger, and 34% are 2 years old or younger. What is more, this trend is increasing: in 2012, only 23% of businesses (in Malawi) were 2 years old or younger. While the latter statistics could be interpreted as signalling growth in the industry (i.e. more entrants), they could also mean that more (older) enterprises are failing, and/or that increased numbers of employed people are resorting to survivalist self-employment to make ends meet.

Businesses close through lack of operating funds. In Malawi, 73% of MSMEs that closed in the past five years had been in business for less than five years, and the percentage of these was even higher for urban MSMEs. Female-owned businesses were also found to have less longevity than male-owned ones, and there were sectoral differences, with trade having the highest percentage of businesses that close within five years of starting. The main reasons for closure emerged as finance related (mostly lack of operating funds), at 36%. Only 34% of business owners from previously failed businesses went back to start another business, while 54% 'stayed at home' after closing their business (NSO 2001).

Starting and closing as and when the need arises. Thus, the majority of businesses are young, and an even bigger majority of businesses that fail are young (and female owned), in part due to the reasons for starting these businesses, which in most cases is not for investment purposes but to start and close them 'as and when the need and opportunity arises (rather than as a long term profit making investment)' (NSO 2001). There is also a correlation between the size of MSMEs and their age, with more micro businesses being younger.

Informal, young, small, and in low-risk/low-productivity sectors. In the MAP countries, the majority of people that rely on entrepreneurial activities, therefore, do so because there is a general lack of more consistent income sources and they have an immediate need for income – rather than because they have entrepreneurial tendencies. Women, who are generally more vulnerable, are therefore over-represented in more survivalist activities, and the majority of MSMEs are small, informal and not long established.

The roles of 'interference', steering and facilitating

Clearly, in MAP countries the mechanisms of the market, left to their own devices, do *not* lead to a broad-based adoption of higher-end, value-adding activities.

Rather, there is a need to balance market mechanisms with government-led economic development, with the financial sector acting as *facilitator* of real economic activity. In this sense, 'interference' is advocated, in the interests of steering the economy for long-term growth (intentionally encouraging particular types of entrepreneurship in particular sectors for particular projected outcomes) and aiming to widen the range of opportunities and increase access to opportunities, whether through entrepreneurship or jobs, for a greater proportion of the population.

Notes 1 and 4 outline the areas that government should focus on to achieve this, including what MAP terms the four crucial needs. One of these is entrepreneurship, which needs to be promoted – although not at the expense of the group (the wider community, society and nation).

Deconstructing entrepreneurial economic activity

The picture presented of small businesses in the MAP countries suggests that if such enterprises are to play their part in the engine of growth that is the real economy they will need appropriate servicing and support, including financing.

But conceptualising entrepreneurship-support interventions calls for an understanding of the realities of entrepreneurship on the ground combined with comprehension of the structural composition of economic activity, so that it is possible to determine the larger driving forces and processes at work in a country and the structural modifications likely to boost livelihoods and growth alike. MAP's MSME methodology is thus premised on a granular understanding of the following: the composition of entrepreneurial economic activity (including the sectors in which it takes place), the economic value added and the relevance and implications – for individual and household survival and well-being – of such entrepreneurial activity, as well as the 'levers' available for policymakers to develop the country's economy in a way that would lead to more and better opportunities for households while accelerating inclusive growth.

Understanding what 'entrepreneurship' means for most of the self-employed. The majority of the MAP countries have a small formal economy offering limited job opportunities. Most people stay on in schooling as long as they can and then start working to support themselves and their families. While the lucky few find a job in the informal sector, most people resort to some form of informal self-employment activities to earn a small income.

These are not entrepreneurs in the traditional sense: of businesspeople with a vision and an appetite for risk-taking because the payoff may be worth it. These are simply people trying to make ends meet.

The question is not, therefore, how to unlock the entrepreneurial abilities of this often over-emphasised group. Under normal circumstances, most of these 'entrepreneurs' would not choose to work for themselves; and if a stable income-earning opportunity were to arise, they would take it. And for all but the very few, their businesses were never set up with extensive growth ambitions in the first place. At the same time, they desperately struggle to make ends meet while mitigating their personal and business risks.

Promoting industrialisation of the small-business economy. Economic growth generally and small-business growth in particular require economies of scale and specialisation, along with investment (access to capital), skills and technology. Also, the cost and risk of doing business should be low enough not to actively discourage investment and the pursuit of entrepreneurial activity.

If one considers Malawi as an example, providing employment for the entire adult population would require the country's formal sector to be 10 times its current size (i.e. in terms of the number of businesses in the sector) – a seemingly exponential increase. Conversely, however, providing formal employment for the entire population would require only 2–3 out of every 100 of the country's informal businesses (i.e. 2%–3% of all informal businesses) to grow into larger, formal businesses.

The question is, therefore, how to identify the sectors and businesses with the potential to promote industrialisation of the small-business economy and acceleration of economic structural transformation; how to identify those small businesses that, despite representing a tiny proportion of a country's entire MSME complement, would likely be sufficient to make a powerful impact and boost economic growth.

Intervening strategically, in other words, is very much a matter of identifying *where* to push.

Distinguishing the top sectors in an economy (the 1%)

MSME activity does not translate directly to economic value added. The nature and structure of economic activity in the MAP countries, in terms of both contribution to GDP and the self-reported activities of MSMEs, indicates that certain sectors feature more prominently and make up the majority of economic activity. However, the main activities of MSMEs do not necessarily translate into the main contributors to GDP (see Figure 3).

For instance, the majority of MSMEs (71%–94%) in Malawi, Lesotho and eSwatini are involved in only four sectors: wholesale and retail trade (usually the largest); agriculture; community and household services/accommodation and food services; and manufacturing. The first two contribute between 52% and 86% of all MSME activity, but only contribute 18%–48% to GDP.

Manufacturing, on the other hand, seems to contribute more to GDP than to MSME activity (10%–33% compared to 4%–13%). This supports the notion that most MSMEs are involved in a limited number of low-productivity sectors; the contribution of MSMEs to GDP is not proportional to their ubiquity.

Formality and size impact on value added. The same trend – of limited number of sectors and tendency to operate more in the sectors that are not the most effective contributors to GDP – is evident if one looks only at formal MSMEs: for instance, in Malawi, 92% of formal MSMEs are involved in the same top four sectors (viz. wholesale and retail trade; agriculture; community and household; and manufacturing). More significantly, though, if only large enterprises (100+ employees) are considered, trade and agriculture account for only 36% of enterprises, and manufacturing for 28%, while 36% are involved in services

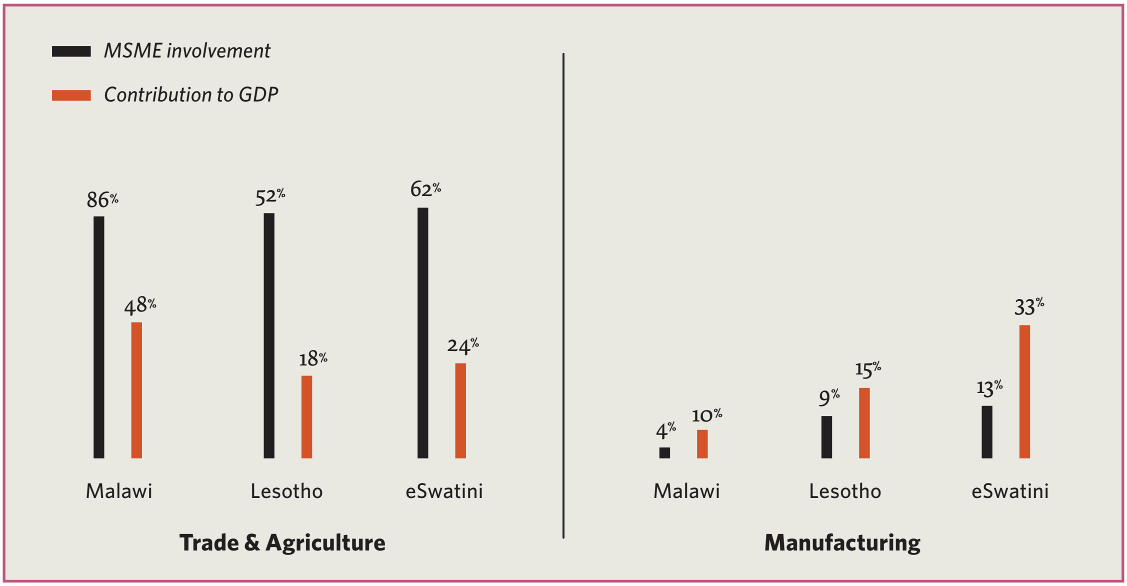


Figure 3: Proportion of MSMEs involved in trade and agriculture, and manufacturing vs sectors' contribution to GDP
Sources: FinScope MSME (Malawi 2019, Lesotho 2016, Eswatini 2017); national accounts used for GDP (Reserve Bank of Malawi 2013, Central Bank of Lesotho 2017, Ministry of Economic Planning and Development Eswatini 2017).

(e.g. education, healthcare, transport) (Malawi NSO data 2010/11 in NSO 2014). In other words, although the majority of entrepreneurial enterprises are typically focused on three or four sectors, which remain consistent across countries, the formal enterprises, and in particular the larger of those formal enterprises, are increasingly and across countries based in a much larger, more diverse array of sectors that contribute more to GDP.

Economic development leads to diversification. Similarly, as countries develop economically (i.e. as GDP per capita increases), the share of GDP coming from agriculture decreases, and the share from manufacturing and services increases. Figure 4 shows the average share of these three sectors as percentage of GDP across the five MAP clusters (see Note 1 for more on the MAP Clusters 1–5). While trade and agriculture are typically the most prominent activities for MSMEs, participation in these sectors shrinks with degree of formality and size of firm, and level of economic development of the country.

CLUSTER 1:
Benin, Burkina Faso, DRC, Madagascar, Malawi, Mozambique, Nepal, Togo

CLUSTER 2:
Cambodia, Lao PDR, Lesotho, Myanmar, Zimbabwe

CLUSTER 3:
eSwatini *(non-MAP countries: Ghana, Kenya, Zambia)*

CLUSTER 4:
Botswana *(non-MAP countries: Namibia, South Africa)*

CLUSTER 5:
Thailand *(non-MAP countries: Malaysia, Sri Lanka)*

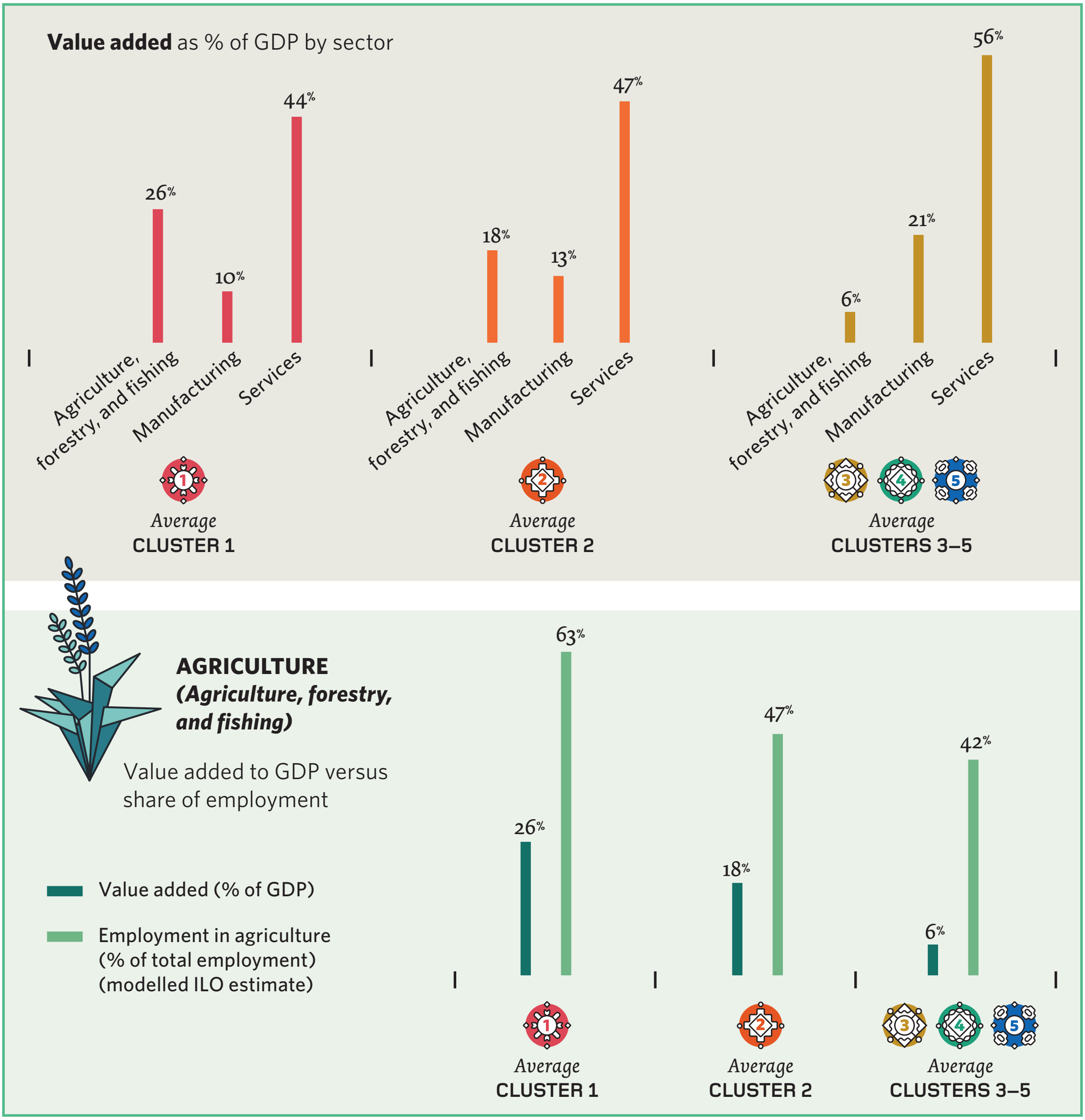


Figure 4: Value added by sector, as percentage of GDP for MAP clusters. Agriculture contribution to GDP vs share of employment for MAP clusters (average)
Source: Calculated using World Bank World Development Indicators (2017; 2018).

Agriculture remains central to employment and exports. Although the share of agriculture as percentage of GDP declines as countries become more developed, the proportion of the labour force employed in agriculture is much higher (even though it also declines) than the sector's contribution to GDP. For instance, the average proportion of employment provided by agriculture in Cluster 1 countries is 63%, versus its 26% contribution to GDP. A similar trend is true for agriculture with regard to exports and GDP; for instance, in Malawi, agriculture comprises 70% of exports, while accounting for only 32% of GDP. While agriculture as a sector is, therefore, declining in terms of its value contribution to the economy in most MAP countries, it remains crucial as a source of employment and exports.

Employment-heavy sectors are declining. As can be seen from the case of Malawi (see Table 1), the service sectors are often also the fastest-growing sectors, even though they contribute much less, proportionally, to employment than they do to GDP. Employment-intensive sectors (e.g. agriculture, trade and construction), on the other hand, are growing more slowly, meaning that these sectors on average will decline in relative importance to the others. Manufacturing, although not as employment heavy in Malawi as agriculture, for example, has the potential to employ people more intensively than it does currently, but is one of the slowest-growing sectors.

In other words, the largest proportion of MSMEs, as well as the majority of employment and exports, are stuck in the primary (agriculture) and secondary (manufacturing and trade) sectors, but growing slowly – and potentially declining over time. On the other hand, the higher-productivity sectors (contributing proportionally more to GDP) are growing the fastest. But precisely because they are high productivity they don't provide employment proportional to their GDP contribution. LDCs, therefore, run the risk that even if their economy undergoes a structural transformation (where a larger portion of GDP is generated by services), such growth will not be inclusive. The majority of their populations could remain stuck for the foreseeable future in low-productivity, low-income and, most of the time, informal industries.

Malawi

CLUSTER 1

	% of GDP	% of employment	% of exports	Growth/CAGR (2010-13)
Agriculture	32%	64%	70%	3.7%
Wholesale and retail trade	16%	16%	1%	3%
Manufacturing	10%	4%	4%	2%
Construction	3%	3%	0%	2.8%
Education	3%	2%	0%	5.7%
Health	3%	1%	0%	4.3%
Transport and storage	3%	2%	1%	4%
Other services	30%	7%	24%	5%

Table 1: Malawi sectoral growth, and sectors' contribution to GDP, employment and exports, respectively

Sources: ILO (2013); Reserve Bank of Malawi (2013); author calculations.

The MAP MSME methodology is premised on the MAP methodology, a process of evidence-based country assessment and stakeholder dialogue leading to the development of a national roadmap that identifies key drivers of change and recommends an action plan for the achievement of set objectives.

The MAP methodology as applied to MSMEs identifies the different needs in the small-business market and the main products and services provided by financial service providers, with the intention of developing interventions aligning provider products/services and market demands. Entrepreneurial enterprises are segmented into groups with similar profiles and needs that could form discrete target markets for development. With the target markets segmented, the analysis also identifies institutions that serve the various SME groups, and supply-side barriers to SME development.

In MAP MSME Eswatini (2018) and Malawi (2019), the initial segmentation approach was further expanded by adding the criteria of sector, size, formality and lifespan, which were combined with particular value-chain and export-orientation considerations (see Figure 5). Although micro enterprises were recognised as playing a significant role in supporting livelihoods, these businesses were not considered entrepreneurial and with sufficient growth potential to unlock growth opportunities; only SMEs were included. A sectoral approach was then applied, with the intention of focusing on sectors able to create strategic linkages with other sectors of the economy, promote value-addition to raw materials, achieve industrialisation and create more job opportunities. Based on this logic, SMEs in the wholesale/retail trade sector were excluded in the eSwatini research, as the qualitative data highlighted that they focused mostly on reselling goods and were not in line with the stated growth objectives. Furthermore, even though the retail/wholesale sector in that country plays a major role in employment creation and linkages with other sectors, it was not believed to achieve much with regard to value-addition and industrialisation.

A sectoral approach was also applied in Malawi, resulting in two subsectors of focus.

Figure 5: The MSME segmentation logic employed in eSwatini and Malawi

Basis of segmentation for identification of high-potential, high-impact SMEs

Aspiration + education
+ sector, size, formality, lifespan
+ particular value chains, export orientation

+ turnover
+ employment
= exclude micro enterprises
= only SMEs

Malawi

+ SME owner's perception of business performance (growing/stagnating/declining)
+ SME owner's personal monthly income

Strategic sectors:

Sector 1:

agriculture & farming
construction
business services

Sector 2:

wholesale & retail
community & household
agro-processing
natural resources & mining

AREAS FOR INTERVENTION

1. Access to finance
2. Access to markets
3. SME capacity and formalisation
4. Target government policy

eSwatini

low-impact SMEs: turnover < E249/yr (+- US$13k)
medium-impact SMEs: turnover < E249 and 4 or fewer employees
high-impact SMEs: turnover > E249 and > 4 employees

Strategic sectors:

agriculture
manufacturing
services (exclude wholesale & retail)

AREAS FOR INTERVENTION

1. Policy support to stimulate SME growth
2. Sufficient access to funding mechanisms matched to business phase
   - Start-up
   - Operation
   - Growth
3. Business development support

Unlocking SME growth – the three main areas for intervention:
1. FINANCING & FUNDING | 2. BUSINESS DEVELOPMENT SUPPORT | 3. IMPROVING THE BUSINESS ENVIRONMENT

Leapfrogging from low-productivity to value-adding sectors. Evidence in developed economies has shown that the 'low-productivity trap' is not as dire as might be feared. For instance, sectors like construction that tend to lead early development and industrialisation rely on lower-skilled or even unskilled labour; this provides an avenue for those previously occupied in the agriculture and trade sectors to enter the formal/higher-productivity economy. Globally, manufacturing and services as sectors have significantly benefited from greater productivity as a result of technology. However, job losses as a result of increased automation and computerisation in manufacturing and services do not necessarily mean entire factories (or industries) closing down. Instead, automation and computerisation allow for the creation of new, cognitive non-routine jobs, which require incumbents to have higher levels of education and analytical skills and which tend to be better remunerated. Any job losses that do occur are soon replaced by additional, higher-skilled jobs, because productivity increases, allowing prices to decrease and ultimately higher volumes of the same goods to be sold.

Local services as the canary in the coalmine. In the manufacturing sector, new, higher-skilled jobs also lead to an increased demand for local goods and services, creating additional local service jobs. Thus, as communities become richer and more stable in their incomes, more businesses open up to service these communities, selling packaged goods, prepaid mobile cards and clothing, for example. Local services such as hairdressing and restaurants start to flourish, strengthening the local community as the beneficiaries of this wealth. In eSwatini, the high number of hairdressers plying their trade and earning an income are, therefore, an indication of functioning economic activity at a community level and could be an indication of local economic development.

Narrowing the focus – for targeted support

The MAP MSME methodology has the distinction of being very narrowly targeted by virtue of its specific focus: economic growth.

The methodology is used to segment a country's MSMEs, distinguishing those that rely on their day-to-day business to survive as they have no other option – *survivalist* enterprises – from those that are truly entrepreneurial – *aspirational* enterprises. The programme is then able to zero in on high-potential, high-impact SMEs (micro enterprises are automatically excluded) that are considered likely to help a country achieve its growth objectives: that is to say, aspirational SMEs of sufficient size (in terms of turnover and employment), that are stable, growing or intend to grow (i.e. are in the start-up or growth phase), and operate in sectors that are deemed productive, employment intensive, or fast growing.

Typically, such SMEs comprise a small – but potentially powerful – proportion of an LDC's entire MSME pool.

Where does financial inclusion fit in?

Targeting the SME funding gap – for growth

While a country's financial sector only exists on the back of real economic activity on the ground (after all, people cannot eat money, and a loan does not power a truck), financial inclusion for SMEs, in the sense of access to and usage of financial products and services, requires that for the most part these enterprises will generate real economic value: will earn an income through productivity and by adding value for the wider community and/or society. Yet, the research and data in MAP countries with MSME surveys indicates that SME business viability is severely undermined by the difficulty of *accessing suitable finance*.

Boosting the power of the 'missing middle'. In addition to being high impact and high potential, the small pool of SMEs identified by the MAP MSME methodology have a third, crucially important, characteristic in common: when it comes to financing, they tend to fall into the 'missing middle': those enterprises too large for microfinance institutions and too small for regular bank lending (see Figure 6). (By contrast, micro businesses often use personal loans as finance, and are also already well served by MFIs, while large entrepreneurial enterprises can access bank credit plus an array of equity and bond instruments to raise funding.)

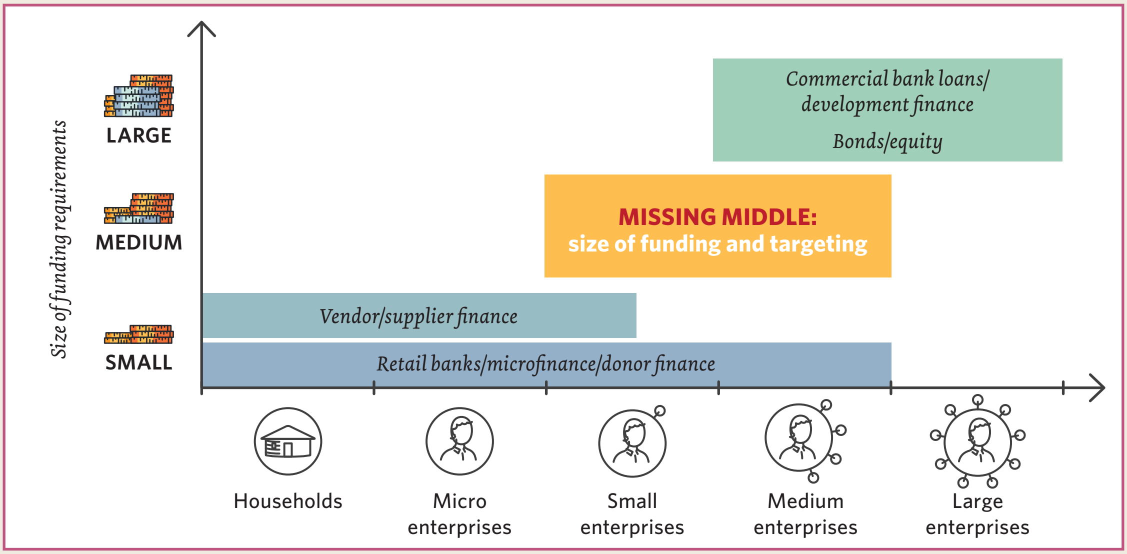


Figure 6: The funding GAP for MSMEs
Source: Adapted from UN (2018: 27).

Properly identifying, defining and serving the financing needs of those entrepreneurial enterprises that, despite being high impact and high potential (and possibly even formal), struggle to access formal funding thus has the potential to power real growth. Financial inclusion, sitting as it does at the centre of real economic activity and the financing sector, is ideally placed to support this potentially powerful target group of SMEs.

Sourcing finance as the main obstacle to SME growth

Given that a large proportion of MSMEs in the MAP countries are either start-ups or have not been going for many years, and that most of these small businesses remain informal, they generally do not qualify for or have the means to access formal financing; in starting up and operating the business they thus tend to rely on personal savings or finance from family and friends. For the most part, this is no less the case for the missing middle SMEs; in both eSwatini and Malawi, access to finance was found to be the top obstacle to growth for high-impact SMEs (for example, 69% in the case of Malawi).

Although SME start-ups have distinctive funding requirements, FinScope MSME Eswatini demonstrated that access to finance remains the top issue throughout the lifecycle (decreasing in importance as a business matures and other challenges take precedence – see Figure 7). This suggests not only the primacy of supporting SME start-ups with improved access to financing, but also the importance of splitting research results across the different life stages of an enterprise (start-up, operation, and growth) to make it possible to adjust support in specific areas (i.e. non-finance/general business support) as the business matures.

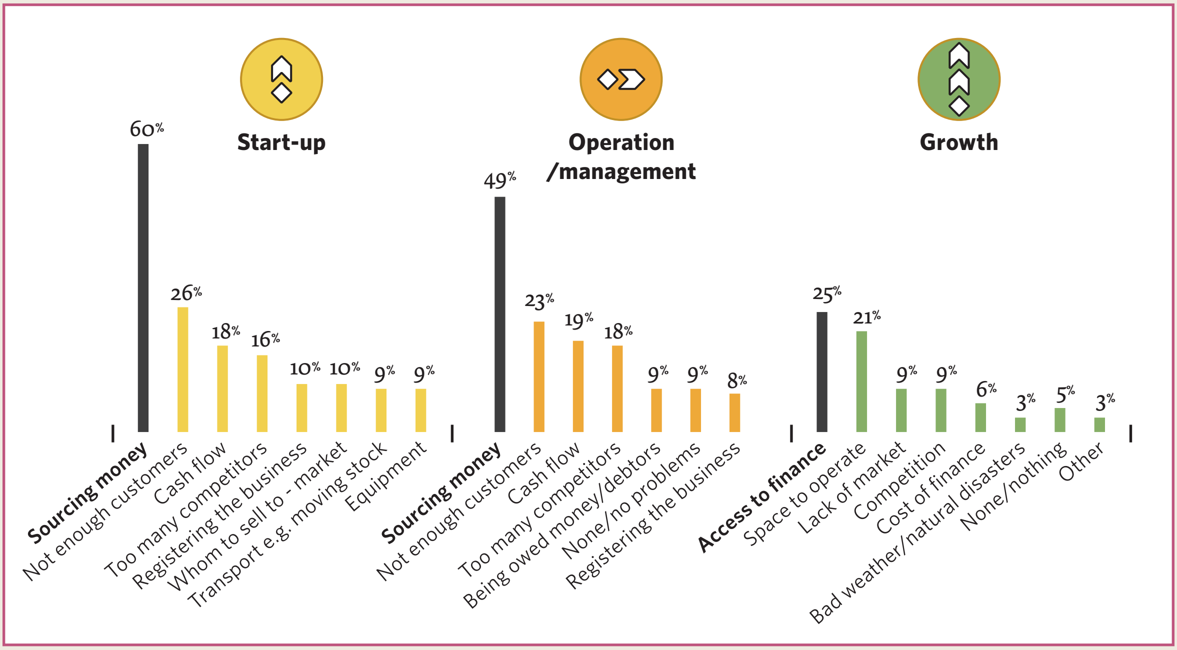


Figure 7: Main constraints facing eSwatini MSMEs, by life stage

Source: FinScope MSME Eswatini 2017.

Financial service providers generally struggle to support the missing middle SMEs. The market has typically struggled to serve SMEs, even those that are clearly high potential and high impact. Existing funding models – small business credit markets and banks alike – are for the most part incompatible with smaller-scale credit needs of SMEs.

It is also expensive for SMEs and funders to find each other; funders report high transactional costs of finding and screening entrepreneurs, particularly for small-scale lending (i.e. quality lead generation is expensive), while SMEs have high search costs, exacerbated by a lack of awareness of the type of financing available and the qualifying requirements for successfully raising funding.

Typically, funders are not supporting growth of the missing middle SMEs. The data clearly shows a fundamental incompatibility between the realities of SMEs and the realities of funders – even those with a specific mandate to fill the funding gap. Typical tailored business or SME loans, even for developmental organisations such as development finance institutions (DFIs) or donor programmes, are geared for much higher amounts than the annual turnover of SMEs targeted by MAP, due to the high transaction costs of smaller loans making them prohibitively expensive. Thus, although the larger loans provided by DFIs and donor programmes may be appropriate (and are in fact needed at a later stage of a business's development), most SMEs in the MAP target group require far smaller loans to start with.

New cost models for loans, and community engagement mechanisms, including using technology to identify fundable opportunities for growth, are going to be essential – as illustrated by the case of Malawi.

The provider–SME situation in eSwatini: The research found that 'financial institutions have a limited appetite for SME funding, particularly high-risk sectors such as agriculture (other than sugar cane) and manufacturing'. Interestingly, the financial sector seems to be doing quite a good job of appropriately distinguishing high-impact SMEs – with 23% of this group accessing bank credit, and 20% having insurance (compared to 6% bank credit and between 1% and 3% insurance for low- and medium-impact SMEs).

While overall financial access for SMEs in eSwatini is already very high (between 91% and 99%), providers can likely further improve access to and usage of business-appropriate products, particularly given that, as Figure 7 shows, sourcing money is cited by the majority of SMEs as their main business constraint.

The provider–SME situation in Malawi: The situation in Malawi is very different. Due to providers' lack of credit information and risk management frameworks, poor technical capabilities and low appetite for potentially risky lending, and in the absence of functional financial markets, providers rely mostly on manual processes and traditional collateral when providing credit to SMEs.

For Malawi, MAP research identified the need to promote alternative funding mechanisms (e.g. grant, equity and concessional debt funding) to start-ups, as well as from a broader group of providers than have traditionally played in this space in Malawi: impact investors, private equity, venture capital firms, and angel investors. (Such broadening of the provider group would likely require new partnerships to be formed, as these players also do not traditionally operate in the markets MAP works in.)

Increasing financial inclusion for the missing middle

Diversifying financial products to service the missing middle, including incubation and nurturing through government support so as to make such enterprises credit and investment worthy, is an important element of the structural transformation of developing economies. By mobilising finance for identified high-impact, high-potential SME investment and productive purposes, financial inclusion improves access to income-earning opportunities, improves the performance of entrepreneurial enterprises as a mechanism for employment creation, and helps accelerate industrialisation.

Moving SMEs beyond 'making a plan' to better structured finance. MAP's research and data across different LDCs show how low-income people use whatever financial (and sometimes non-financial) mechanisms are available to meet a range of needs, which they prioritise based on their realities and values (see also Note 2). Similarly, SME owners rely on a range of their personal financial mechanisms to meet their business needs. In other words, business and personal financial services are fundamentally interconnected, and younger, informal and smaller SMEs, in particular, rely on these to fund business operations or investment. In addition to drawing on personal savings, SME owners obtain loans in their personal capacity, using their personal collateral, in order to fund sunk costs and operating expenses.

The MAP MSME methodology aims at identifying sector- and life stage-specific financial products. In the case of Malawi, for instance, this has highlighted a need for working capital and revolving credit facilities for younger SMEs to address cash flow challenges and enable expansion, and asset financing for established and mature agricultural SMEs.

SME start-ups, if they are to move away from reliance on less-than-optimal financing mechanisms and to leverage external financing for growth, require broad access to credit mechanisms with longer terms, for larger amounts, with less red tape and bureaucracy and more innovative requirements in terms of SME collateral. Such financing mechanisms need to be aimed specifically at productive investment but allow for use in covering operating expenses as well.

Taming search costs. In an information-scarce environment, the MAP MSME methodology helps identify potential market opportunities, which curtails provider search costs and plays an important role in limiting provider risk. The high search costs that SMEs experience could be mitigated by increasing the availability of accessible information on available types of financing and qualifying requirements for SMEs, perhaps by means of a digital platform.

Typically, LDC business and regulatory environments are not supportive of entrepreneurship. An additional hardship faced by SMEs across most MAP countries, especially those in the lower clusters, is that the business and institutional environment generally is not conducive to supporting true entrepreneurial activity to unlock entrepreneurship's power and potential for growth. As detailed in Note 1, MAP countries that are classified as Cluster

1 countries (viz. Benin, Burkina Faso, DRC, Madagascar, Malawi, Mozambique, Nepal and Togo), which have the least enabling inclusive growth context, also score particularly low on entrepreneurship.

This is further confirmed by the World Bank Ease of Doing Business Index (2019), which ranks 190 countries based on the ease with which a business can be started and operated (1 being the easiest). MAP countries rank fairly low on this index, although there is some improvement over the MAP clusters (see Figure 8).

Figure 8: Average World Bank Ease of Doing Business Index rankings across the MAP clusters
Source: World Bank (2019).

The relatively low rankings of countries on this index support what the MAP MSME research has found in eSwatini and Malawi: that the regulatory and business support environments in MAP countries are relatively weak for encouraging and promoting entrepreneurial activities in general and SMEs in particular and even more so in the Clusters 1–3 countries.

What would it take for the missing middle to start firing on all cylinders?
Beyond the crucial issue of improving missing middle SME access to finance, development interventions need to take account of the prevailing regulatory and business support environment, which entails evolving entrepreneurship-friendly policy and regulations and boosting SME skills levels and capacity (via business development services).

Focusing the development financing agenda for growth

– from the bottom up

At the centre of markets and policymaking alike are *people*, without whom neither the private sector nor the state need exist. Increasing social and economic inclusion requires rethinking how markets and the state engage with individuals and households, small businesses and communities in their lived realities. Employment and entrepreneurship are crucial factors in growth and expansion of economic opportunities, which (as Notes 1 and 2 discuss) is a prerequisite for inclusive economic growth. It is also employment and entrepreneurship that create the tangible links between the macro level of the economy's structure and functioning, societal objectives such as inclusive growth, and households' and individuals' (micro-level) livelihoods realities.

When governments, policymakers, development organisations and donor programmes understand real economic activity on the ground and how it relates to the country's specific economic growth aspirations, they are in a better position to focus their policies and interventions where they can have the biggest impact.

Beyond microfinance, beyond MSMEs, beyond poor households – to targeted SME support for economic development. While financial inclusion historically started out as provision of microfinance to MSMEs, this proved ineffective in supporting productive small businesses to contribute to countries' *economic growth*; it turns out that this longer-term goal requires a fundamental distinction to be made between supporting livelihoods and supporting productivity and economic development.

Broad-based livelihoods support continues to be absolutely crucial, and ongoing financial inclusion efforts aimed at survivalist MSMEs continue to be of the utmost importance, given that these businesses rely on a mix of business and personal income and financial mechanisms to meet their needs. (However, the same approach can be applied to these businesses as is applied when targeting the support and improvement of livelihoods for households.)

But for entrepreneurship support to power economic growth, development has two critical roles to play in LDCs: keeping the growth focus by being extremely selective in identifying which SMEs to support; and targeting these enterprises with support that is highly differentiated and hands-on to the point of being almost bespoke.

Financial inclusion to expand opportunities. It is for this reason that the MAP MSME methodology shifts the entrepreneurship support narrative and focus from the vast ocean of MSMEs in any particular LDC to a very small and differentiated pool of SMEs identified as high impact and high potential. This MSME methodology also favours higher-productivity sectors and prioritises value addition to raw materials, sustainable industrialisation, exports, and job creation – thereby promoting the expansion of opportunities.

The need to rethink SME support. The range of different needs – of different sectors, different-sized SMEs, and SMEs at different life stages – calls for SME support that is differentiated and informed by granular data related to enterprises' realities on the ground. For example, the fact that an SME will likely require a small start-up loan and additional funding to graduate it to the next life stage implies, from a business support perspective, the need for increased capacity to identify and track SMEs for and after investment, and to provide active business support services on a case-by-case basis. Such services should also aim to transfer skills and build capacity. All of this adds up to a far more targeted and hands-on approach than traditionally adopted by small business capacity-building efforts, which do not necessarily tie support to funding, or which, while targeting a very small number of SMEs, do not do so at a scale that can begin to address the needs of the entire group of high-potential SMEs.

New partnerships and new ways of working. The dilemma is that not all development partners and lending institutions/organisations are set up to deal with these levels and volumes of engagement. New partnerships (e.g. between DFIs and donor investment agencies) will need to be considered: for instance, where one institution takes over 'graduated' SMEs from another, or provides capitalisation to the other institution, which deals with the operational management of loans and support, and so on. Even so, partners might have to restructure their business and operating models to allow for dedicated support at a larger scale.

Technology as an enabler of digital financing solutions for entrepreneurial activity. The ascendancy of digital finance, in drastically modifying the size and shape of the financial sector, presents new opportunities for increasing financial inclusion and broadening the number of financial sector players: from telecommunications companies offering mobile money services, to Big Tech's online platforms offering banking and other financial services. As Note 2 also argues, such fluidity, along with the challenge it presents to the traditional concept of market players and business sectors, has redefined much of the role of financial services – from being a sector in its own right to being more of a facilitator of real economic activity. While not in itself the panacea, technology has powerful roles to play: in flagging real economic growth activities 'closer to the ground', in improving delivery of innovative, tailored financial products to SMEs that need them, in increasing information availability for SMEs, and as a communication/feedback channel for smaller funding activities.

Financial inclusion beyond improved consumer access to products and services. Financial inclusion in these broader terms – as a mechanism to support real economic activity from the ground up – entails harnessing the financial sector to support achievement of a country's longer-term development goals (e.g. development of specific sectors, creation of jobs, improving incomes) through serving the needs of entrepreneurial enterprises and real economic sectors. In this broader guise, financial inclusion requires aligning activities within and between sectors with the country's macroeconomic goals, which in turn entails developing the partnerships needed to achieve longer-term development objectives in specific sectors.

As a way of improving the operating environment for SMEs, interventions could make use of existing capital and economic activity by linking to what MAP terms the four crucial needs, thereby focusing on developing the sectors that speak directly to the needs of SMEs and households alike: healthcare, education, basic services and infrastructure, and the infrastructure required to support SMEs (e.g. ICT infrastructure, transport infrastructure, and business support services). Note 1 highlights the investment potential of these sectors (e.g. US$10.7 billion in Myanmar).

Since the vast majority of MSMEs, and even SMEs, are in the informal sector, the policy 'levers' that government would customarily rely on to support and spur economic growth (e.g. tax and import subsidies) are of limited usefulness in the MAP markets. However, getting interventions in this area right, informed by an evidence-based approach, can pay off immensely for governments. Typically, transitioning only 1% (SMEs) of the entire pool of informal MSMEs in any given LDC to the formal sector through focused and ongoing support could have substantial and far-reaching impact on both the formal employment market and the value added to GDP.

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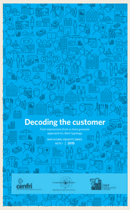
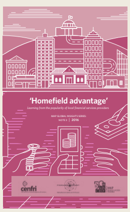
MAP GLOBAL INSIGHTS SERIES VOLUME 1

The MAP Global Insights series Volume 1 consolidates and synthesises the learnings from MAP across the six MAP pilot countries. Volume 1 was the first of the MAP Global Insights products, and comprises five thematic cross-country notes, based on the initial round of findings from the country diagnostic studies, which were conducted in Thailand, Myanmar, Swaziland, Mozambique, Lesotho and Malawi.



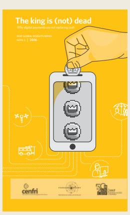
NOTE 1 unpacks the target market segmentation approach that is central to the MAP methodology of putting the client at the core of the analysis. Note 1 provides a window into the emerging cross-country segments, and the implications for providers, policymakers and donors in this regard.

NOTE 2 explores the shift in financial inclusion measurement away from focusing solely on access to more closely match the realities of how adults live their financial lives and explores the policy implications of moving away from a linear, one-dimensional view of financial inclusion.

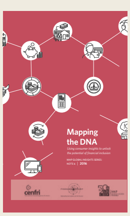


NOTE 3 looks at the nature of informal financial services. It shows that it is the local nature of these financial services, rather than their informal nature, that makes them valuable for the majority of consumers in these countries.

NOTE 4 considers the gap between ownership and usage of bank accounts. The note queries whether bank accounts are always the appropriate product for increasing customer welfare, and argues the need for a paradigm shift away from focusing on ownership to a focus on usage in the context of a wider, systems approach.



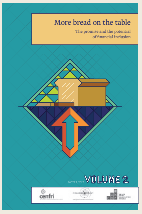
NOTE 5 focuses on cash as a payment instrument to explore the largely undiminished popularity of cash. The different payment needs of consumers are introduced, analysed and compared with regard to the use of cash versus digital instruments.



NOTE 6 draws together the findings from this volume of the Global Insights series. It shows that the MAP evidence calls for a rethink of conventional financial inclusion assumptions, based on a consumer decision-making framework that emphasises economic incentives, cost and value.

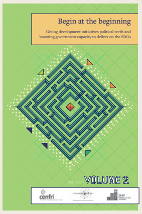
MAP GLOBAL INSIGHTS SERIES VOLUME 2

The MAP Global Insights series Volume 2 looks at the thinking, strategies and processes that have enabled national delivery in financial inclusion, and codifies the operational approach taken in the 18 'MAP countries', including 9 where the programme has been working with governments to implement the national roadmap on financial inclusion. Key learnings using the country-specific consumer data drive the national implementation approach at country level.

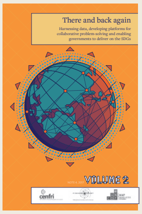


NOTE 1: More bread on the table: The promise and the potential of financial inclusion. In a changing and uncertain global order, financial inclusion – with its close linkage to the real economy – promises to become a means of supporting growth and contributing to poverty eradication. Using detailed consumer data, this note demonstrates the potential for financial inclusion to play a stronger role in lessening vulnerability to poverty, keeping up with shifting national demographics, nurturing small business growth and addressing food security challenges, among others.

NOTE 2: Humanising data: The MAP toolbox for fine-tuning and calibrating national metrics and optimising consumer delivery. Applying the MAP data analysis tools to the extensive consumer data gathered in-country enables accurate understanding of actual consumer behaviour and needs, both country-specific and in terms of patterns identifiable across developing countries. Findings from the use of the MAP tools have challenged a few of the conventional financial inclusion assumptions, in the process contributing to the global pool of financial inclusion metrics. The tools are central to supporting government and stakeholders in evidence-based decision-making towards smart, consumer-focused solutions.



NOTE 3: 'Begin at the beginning': Giving development initiatives political teeth and boosting government capacity to deliver on the SDGs. The single greatest challenge facing development is turning research and strategies into implementable solutions: improvement initiatives that deliver a positive impact. This note unpacks how the MAP programme is working with governments and development partners to boost countries' capacity for self-determination and delivery on the national financial inclusion roadmap vision and promises, in the process accelerating inclusive growth and making progress towards the UN 2030 Agenda for Sustainable Development.

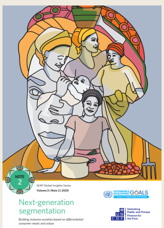


NOTE 4: There and back again: Harnessing data, developing collaborative platforms and enabling governments to deliver on the SDGs. This concluding note pulls together the power of the consumer data, its role in driving improvement interventions at country level and the importance of the MAP platform in bringing together country governments and stakeholders in evidence-based decision-making. Picking up on the key findings from the consumer data in other notes in Volume 2, this note also provides insight into the systematic operational approach of the global MAP programme and reiterates the efficacy of the MAP approach in working with governments to deliver on the SDGs.

MAP GLOBAL INSIGHTS SERIES VOLUME 3

The MAP Global Insights series Volume 3 explores the role of financial inclusion in the context of an inclusive growth agenda, using inclusive data as evidence base. The volume explores the linkages between financial inclusion at the micro level of individuals, households and small businesses, and macroeconomic growth. The evidence demonstrates the crucially important intermediation role of financial inclusion, along with its role in firming the social contract, towards inclusive growth.

NOTE 1: Financial inclusion through an inclusive growth lens. This note presents MAP's five 'country clusters', derived from countries' ranking on a set of inclusive growth indicators. Financial inclusion helps formalise the large proportion of informal expenditure while increasing consumer access to resources and opportunities, thereby supporting governments' responsibility for boosting inclusive growth while demonstrating progress on the UN SDGs.



NOTE 2: Next-generation segmentation: Building inclusive societies based on differentiated consumer needs and values. In pointing out that peoples' economic needs, and how they go about meeting them, reflect their personal values in the wider context of social and societal values, the note argues the role of inclusive financial services in increasing economic inclusion (especially of those in the informal sector of the real economy) and social mobility.

NOTE 3: The millions and billions...and the 1%: Targeting funding to spark the real economy's engine. The MAP MSME methodology, informed by the need for a longer-term productivity and growth emphasis, argues for a more active role by country governments in supporting the small pool of SMEs with the potential to grow and become engines of the real economy, creating better linkages with the larger financing system.

NOTE 4: Inclusive data for a world that counts: Enabling multisectoral collaboration for challenging exclusion. Inclusive data highlights how a lack of access to resources – particularly basic services and infrastructure, education and healthcare – preserves the status quo of inequality and exclusion, making it harder for vulnerable groups to access opportunities and chart pathways out of poverty.

NOTE 5: Cracking the code: Opening up pathways out of poverty. In pointing out that peoples' economic needs, and how they go about meeting them, reflect their personal values in the wider context of social and societal values, the note argues the role of inclusive financial services in increasing economic inclusion (especially of those in the informal sector of the real economy) and social mobility.

About UNCDF

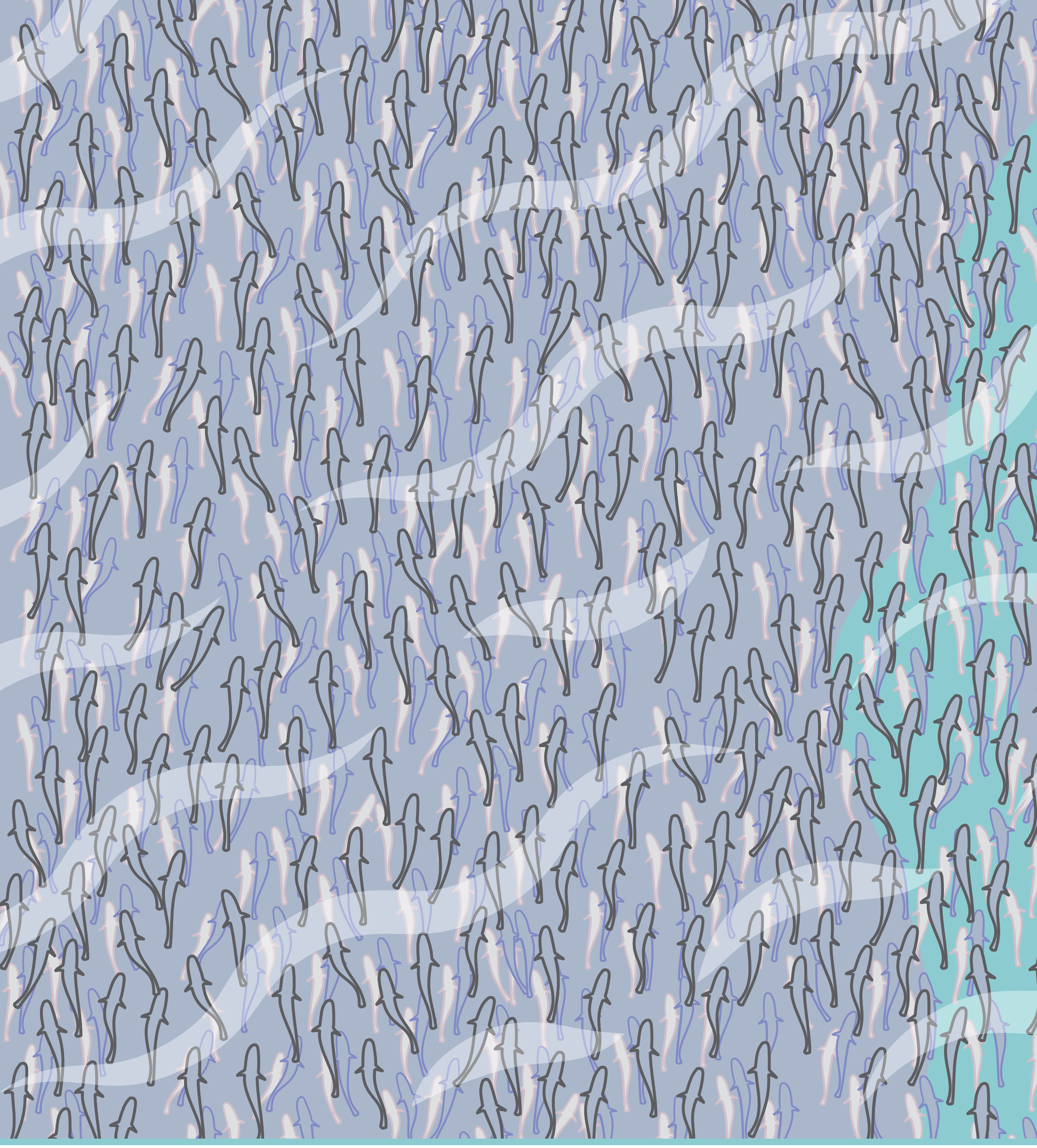
UNCDF is the UN's capital investment agency for the world's 47 least developed countries (LDCs). With its capital mandate and instruments, UNCDF offers 'last mile' finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. This last mile is where available resources for development are scarcest; where market failures are most pronounced; and where benefits from national growth tend to leave people excluded.

UNCDF's financing models work through two channels: savings-led financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localised investments – through fiscal decentralisation, innovative municipal finance, and structured project finance – can drive public and private funding that underpins local economic expansion and sustainable development. UNCDF financing models are applied in thematic areas where addressing barriers to finance at the local level can have a transformational effect for poor and excluded people and communities.

By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty with a focus on reaching the last mile and addressing exclusion and inequalities of access. At the same time, UNCDF deploys its capital finance mandate in line with SDG 17 on the means of implementation, to unlock public and private finance for the poor at the local level. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile, UNCDF contributes to a number of different SDGs and currently to 28 of 169 targets.

Unlocking Public and Private Finance for the Poor

UN Capital Development Fund
Two United Nations Plaza
New York, NY 10017
info@uncdf.org | www.uncdf.org
Tel: +1 212 906 6565 | Fax: +1 212 906 6479
www.facebook.com/uncdf
www.twitter.com/uncdf



SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

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