



Access for All

Building Inclusive Economic Systems

Executive Summary

BRIGIT HELMS

IN COLLABORATION WITH  DAI

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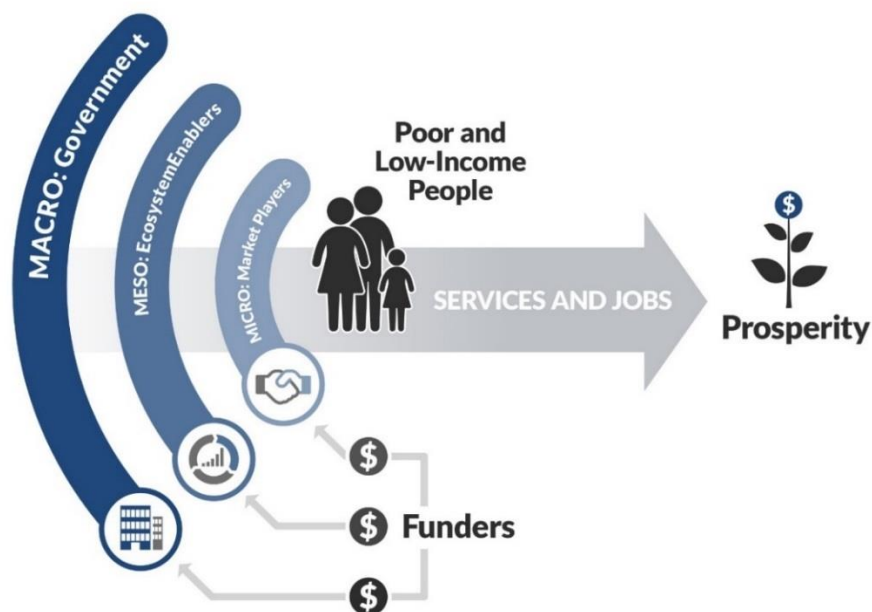
Promoting inclusive economic development has become a top priority worldwide. This goal remains the domain of governments, international donor agencies, and philanthropists. But the landscape is changing rapidly. Today, a wider range of players seek profit with purpose, including millennials, institutional investors, and corporates. The Sustainable Development Goals (SDGs), designed to end poverty, save the planet, and ensure prosperity by 2030, offer a focal point for new players to get involved and for existing donors to revise their frameworks. None of these actors, traditional or new, can achieve truly inclusive economic systems on their own. Success will demand collaboration, often among uneasy bedfellows. It cannot be business as usual.

The good news is that the past quarter century has ushered more than a billion people out of poverty. This achievement—the result of human ingenuity, resilience, and enterprise—gives reason for optimism.

The bad news is that too many people remain excluded. When women, youth, small farmers, urban slum dwellers, refugees, indigenous peoples, and others are left out of the economy, everybody loses. The excluded cannot contribute to the economy as consumers nor as workers.

Inclusive economic systems offer pathways out of poverty, primarily through access to services and jobs. This book traces these two pathways to demonstrate how the most compelling, innovative, and scalable solutions come together to drive inclusive economic growth, as summarized in Figure 1.

Figure 1: Inclusive Economic Systems Framework



Fátima de Jesús Carazo and her company Rosquillería Alondra (RA) show the human face of inclusive economics. Fátima was a low-income woman in Nicaragua, who made her living selling corn-based baked goods called *rosquillas*. RA found its first major customer with the help of the Association of Producers and Exporters of Nicaragua, a business organization that helps make small businesses more competitive. Even after the association's assistance, RA still did not have financial statements or a relationship with a bank, but through her relationship with Agora Partnerships—an international small business incubator—she discovered a brand-new financial product called a variable payment option (VPO).

Here's how it works: USAID and the Dutch Argidius Foundation support a program that helps women-owned businesses in Nicaragua access finance via a regional bank called BAC. The Miller Center for Social Entrepreneurship at Santa Clara University and Agora Partnerships helped BAC introduce VPOs, a type of loan where repayment is based on the ability of the borrower to earn revenue, rather than the more traditional rigid repayment structure. This loan allowed RA to improve its factory and manufacturing practices.

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Actors at every level of the economic system—micro, meso, and macro—contributed to Fatima’s success. The combined efforts of BAC (micro); the Association of Producers and Exporters, the Miller Center, and Agora Partnerships (meso); the government, through reforms to improve the business climate, such as consolidating business registration processes (macro); and USAID and Argidius (funders) enabled Fatima to broaden her distribution network and nearly double her revenue.¹ RA now has improved financial, accounting, and cash flow practices, resulting in higher productivity and efficiency. Fátima can now produce the same amount of rosquillas while working four hours fewer each day, and has even purchased a car, which has always been a dream for her.

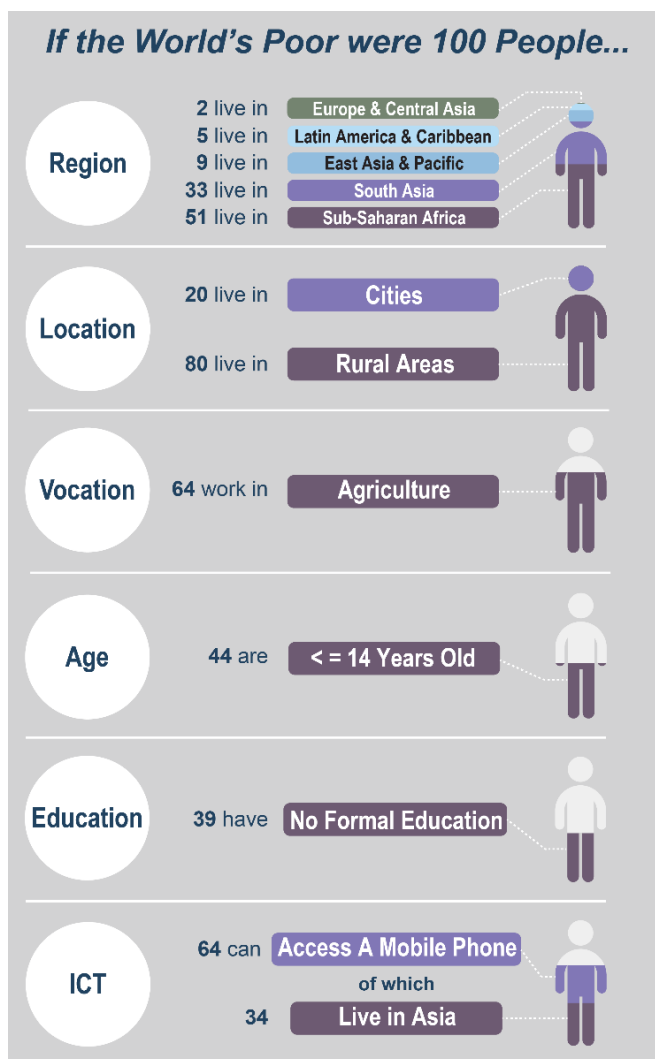
Fátima is not alone; between 2011 and 2017, Agora reached 156 companies in Latin America and the Caribbean. These firms together employ more than 5,000 people.²

Achieving inclusive economic systems means beginning with poor and low-income people like Fátima. Their status and demand for services and job opportunities drive the actions—or at least should drive the actions—of actors at all the other levels of the economic system. Moreover, poor and low-income people are not a homogeneous group. Poverty is multidimensional and complex. It affects men, women, girls, and boys in different ways at different times, depriving them of the freedom to shape their own lives and forge their own futures.

Traditionally, poverty has been defined narrowly, around income and assets, but poverty is conditioned by a host of factors, including (but not limited to) a lack of access to education, healthcare, land, security, finance, power, voice, and/or freedom of choice. In some regions, poverty is directly tied to food security and exacerbated by worsening climate change and other global economic shocks. In broad strokes, a poor person today is most likely to be a woman or child living in a rural village in Sub-Saharan Africa or South Asia, with little to no education and working in the informal sector, especially in subsistence agriculture. Interestingly and significantly, this person is likely to have access to a mobile phone (see Figure 2).

¹ Miller Center for Social Entrepreneurship, January 24, 2017, “Test In Nicaragua Shifts Lending For Women Led Businesses From Collateral To Cashflow,” *Miller Center for Social Entrepreneurship*, <https://bit.ly/2wwwDM6>.

² Rachel Zurer and Marry Mazzoni, August 16, 2017, “Boost Your Social Enterprise with Advice From this Lifelong Entrepreneur,” *Conscious Company Media*, <https://bit.ly/2oLYNWc>.

Figure 2: If the World's Poor Were 100 People

Market players are embracing the challenge of providing services and jobs to the world's poor and low-income populations. These micro-level players range from large multinational companies and commercial banks to microfinance institutions, small businesses, civil society organizations, and everything else in between. Small and medium-sized enterprises (SMEs)—especially those with capacity to grow—are essential service providers and employers for poor and low-income people.

Promising new business models address the interconnected problems of availability, quality, and cost to reach poor and low-income people with a range of

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products and services (see Figure 3). From financial services to energy to sanitation and beyond, entrepreneurs are finding new innovative ways to get closer to customers, offer more reliable and relevant services, and significantly improve affordability. At the same time, the private sector offers formal sector jobs, from low- to high-skilled, which not only offer increased income, but often additional benefits such as health insurance, a retirement plan, and a step into the country's broader social safety net. Jobs also elevate people's morale, sense of worth, and foster connection to the market and the world.

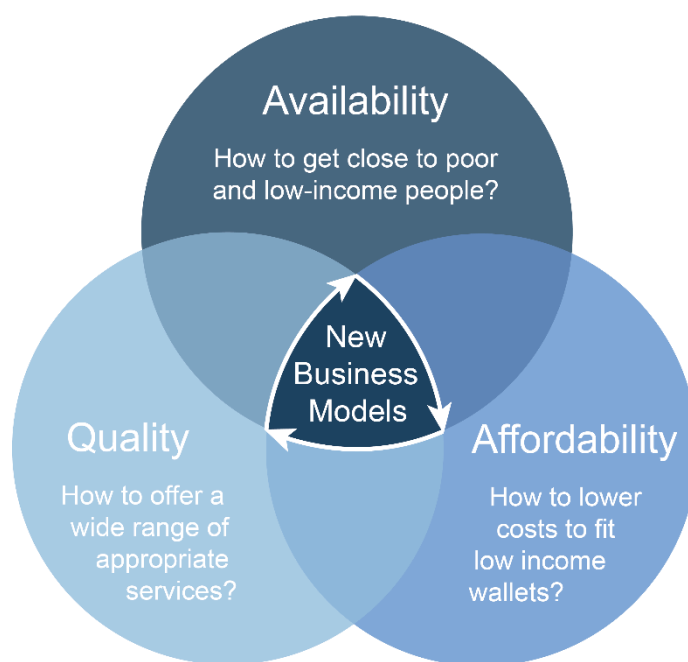


Figure 3: The Triple Challenge of Availability, Quality and Affordability

Unfortunately, markets do not always connect poor and low-income people to the services and jobs they require to escape poverty. Services, from the most basic to the state-of-the-art, do not reach all who need them, and job opportunities may be missed by those without relevant skills or information. A web of **ecosystem enablers** at the meso level of the economy can improve market functionality and promote economic inclusion.

Ecosystem enablers grease the wheels of an inclusive economic system by providing either the supply or the demand side of the market—or both—with

services that help these markets function more efficiently. Although there are many ways to think about this economic scaffolding, we have focused on three types of enablers: information champions, business boosters, and job market hackers (Figure 4).

Figure 4: Ecosystem Enablers



These three groups reflect some of the most innovative and high-impact opportunities for ecosystem enablers to facilitate access to services and jobs. Better information and transparency about the market make it easier for people to access the critical services they need; robust support to SMEs and social entrepreneurs improves their ability to offer transformative services and create jobs; and digital learning and employment platforms reduce search costs for job seekers and help them connect to better paying positions.

At the macro level, **governments** can play an important role in building an inclusive economy — or they can have the opposite effect. Appropriate legal and regulatory policies are necessary to allow innovation at the micro and meso levels, as well as attract the right types resources to the system.

The role of governments in spurring inclusive economic growth can fall along a spectrum from minimal involvement at one end—focusing on creating the right

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conditions for private investment—to directly delivering products and services to poor and low-income people on the other (see Figure 5). When acting to level the playing field, governments can facilitate inclusive economies by creating regulatory frameworks that equally affect all businesses and specifically make it easier for smaller businesses to operate. Some governments choose to promote certain sectors or industries by implementing policies or regulations that tilt the playing field. Such an approach strongly encourages, and sometimes forces, the private sector to invest in, offer services to, or buy from specific market segments (such as low-income) or sectors (such as light manufacturing). Finally, a more activist approach means that the government chooses to control the playing field completely by delivering services directly, sometimes to the detriment of the private sector. Government actions have been known to crowd out private initiative with cheaper, but often lower-quality and/or unsustainable solutions.

Figure 5: The Spectrum of Government Involvement



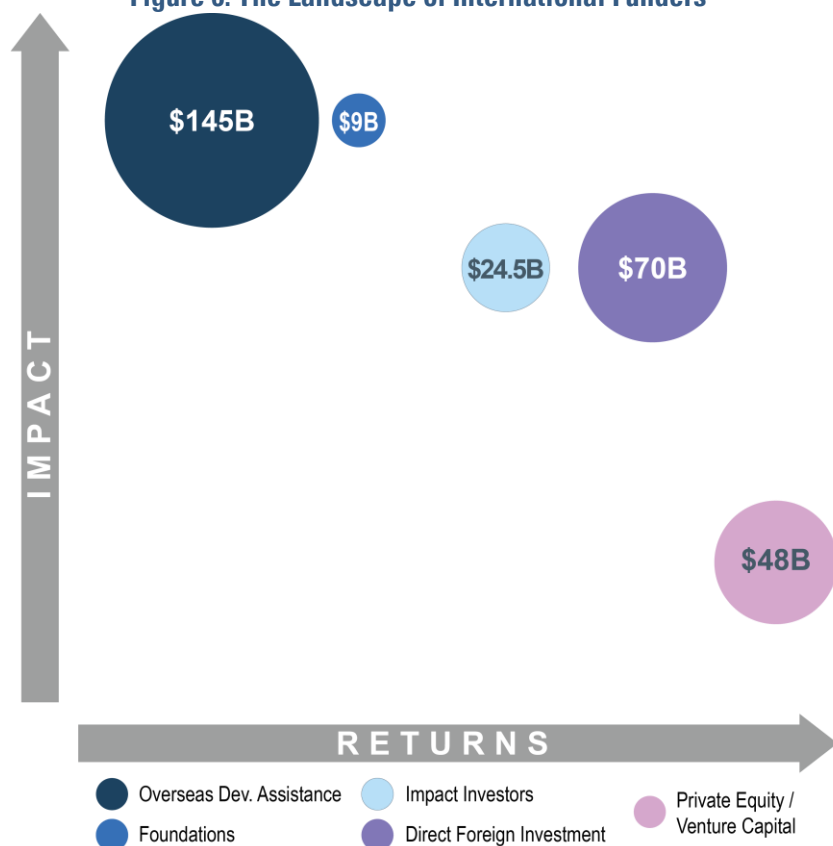
International and domestic **funders** comprise one group of actors particularly sensitive to consistent and reliable legal and regulatory frameworks. The funding landscape for inclusive economic systems is evolving rapidly. To date, traditional donor funding and investments have played an important role in ensuring that capital reaches market players, ecosystem enablers, and governments. Increasingly, however, non-traditional funders such as venture capital funds, impact investors, corporates, and millennials are stepping up their support. Domestic capital markets are also being tapped to pay for services and generate economic opportunities.

In considering international priorities such as the SDGs, analysts have identified funding gaps of not billions, but trillions, of dollars. Governments and traditional bilateral and multilateral donors cannot close the \$2.5 trillion annual funding gap for the SDGs on their own—private funding is required. At the same time, new business models and a recognition of the economic opportunities at the base of the pyramid increasingly have attracted commercial funders, such as banks, fund managers, and corporations. The UN identified commercial opportunities worth \$12 trillion by 2030 in four SDG-related sectors: agriculture and land use, health and wellbeing, renewable energy, and education.

Various funders are supporting a myriad of opportunities to offer services or jobs to poor and low-income people in developing and emerging economies. To date, most funding has focused on the micro level (such as SMEs and social entrepreneurs). However, some funders are increasingly seeking opportunities to support the meso level (through ecosystem enablers such as digital platforms, business support services, and jobs platforms) or the macro level (legal and regulatory frameworks, public-private partnerships, and so forth). From individuals to public donors to philanthropic foundations and venture capital funds to pension funds, a diverse new investor class is using the gamut of instruments—including grants, loans, and equity—placing more and more emphasis on innovative mechanisms that blend different flavors of money (concessional and commercial) to crowd in the more plentiful commercial players.

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Figure 6: The Landscape of International Funders



Sources: OECD aid at a glance, OECD Private Philanthropy for Development, OPIC 2017 Annual Report, EDFI, IFC 2016 Highlights Brochure, AfDB Annual Report 2016, ADB Development Effectiveness Report 2017, EIB 2016 Activity Report, The EIB Outside the EU 2016 Report, IDB Invest Annual Report 2016, EBRD Annual Report 2016, 2018 GIIN Annual Impact Investor Survey, EMPEA Industry Statistics Year-end 2017

In their pursuit of inclusive economic systems, the increasingly diverse range of development actors faces several frontier issues and cross-cutting challenges. In some cases—such as the impact of disruptive technologies, pervasive urbanization, or climate change—these issues are so new that knowledge is scarce when it comes to assessing the implications for developing and emerging markets. In other cases—such as women’s economic empowerment, refugee integration, or consumer protections—the challenges are long-standing, yet pressing concerns. We chose the following for further analysis:

Ensuring gender equity: What are the best strategies for supporting women’s economic empowerment, both through improved products and services tailored to their needs and through effective job insertion?

Supporting refugees and migrants: How can refugees and displaced people obtain access to needed services and jobs, especially given their vulnerable legal status and fragile future?

Protecting consumers and workers: How can consumers and workers cope with the challenges posed by a shift to digital payments and delivery of services, as well as the workforce requirements of the new economy?

Optimizing new technologies: What could be the impact of new technologies such as robotics, artificial intelligence, and virtual reality on the development and delivery of services, as well as the future of work for poor and low-income people?

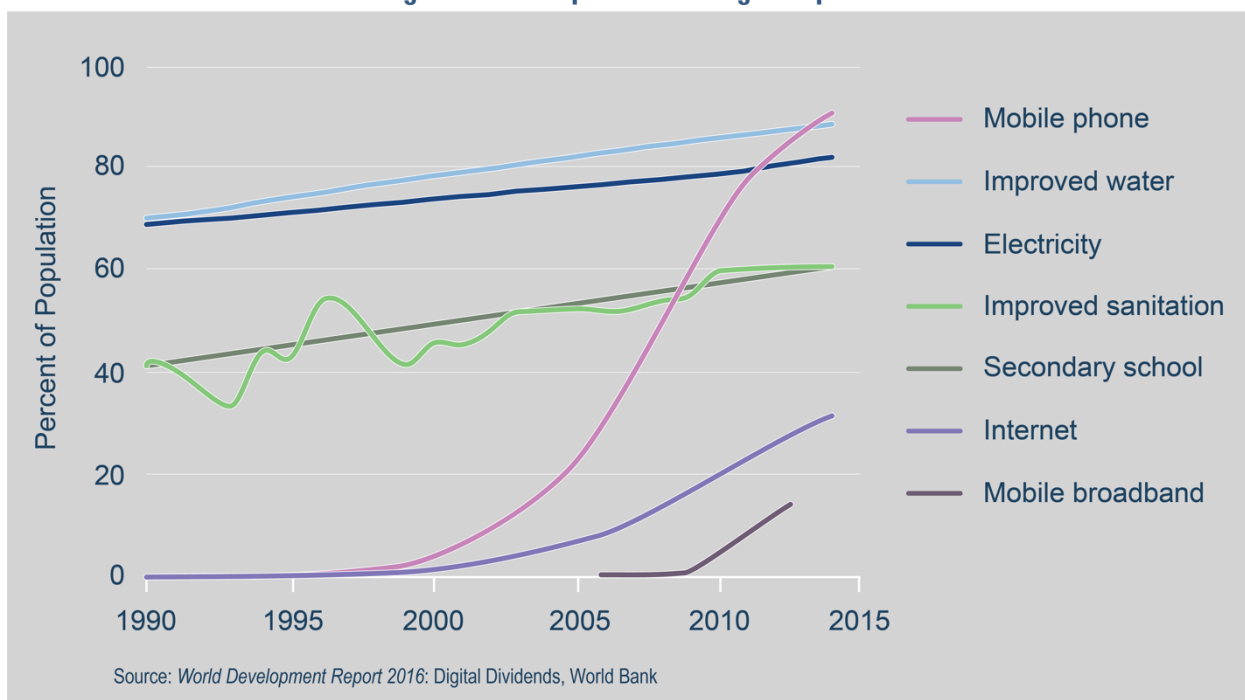
Embracing urbanization: What solutions will make cities more livable, sustainable, and inclusive?

Coping with climate change: How can poor and low-income people become more resilient in the face of shifting climate conditions and increasingly frequent natural disasters that affect their livelihoods and mobility?

One theme that arises over and over across the entire economic system is the rapid spread of digital technologies. Indeed, cell phones and other digital delivery systems have grown faster than any other technology in modern history (see Figure 7). Technology will drive economic inclusion—but it may also deepen the divide between the haves and have nots.

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Figure 7: The Rapid Pace of Digital Uptake



The global community has an unprecedented opportunity and a moral imperative to develop, test, and scale new business models to transform economies and more meaningfully include those currently excluded and underserved. To be successful, these business models cannot operate in a vacuum; rather, the entire economic system must be aligned so that all parts of the economy play their role for the greater good. The social entrepreneurs and small, growing businesses that will prosper in an inclusive system are those that truly understand the needs of poor and low-income people. Meeting the demand for life-changing services and high-quality jobs will not happen by magic; an ecosystem of enablers such as incubators, job search platforms, universal identification systems, and more will be required. Governments and funders can support an inclusive system by designing and executing the right policies and offering funding instruments that propel—rather than block—inclusive growth.

Building inclusive economic systems is not an easy task and we are just learning about the most promising models at our disposal. But it is a challenge worth tackling. Realizing the vision described in this book is more important now than

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ever. The world simply cannot afford to continue leaving large swaths of the population behind. Our future depends on providing access for all.