



Inclusive Economic Development

This paper from the Bond Private Sector Working Group (PSWG)¹ lays out what we mean by *inclusive* economic development and then discusses three areas we hope to work on with the Department for International Development (DFID) to strengthen the impacts of our collective economic development work: the informal economy, women's economic empowerment and economic development in fragile and conflict affected states. This paper draws on learnings from both our programmatic experience and policy research and for each area outlines several priorities for action that we would be keen to take forward for discussion and collaboration with DFID.

We strongly support DFID's engagement in economic development as part of the approach to ending poverty. We welcome the emphasis on *inclusive* growth within DFID's Economic Development Strategy, and its consideration of how the Department can leverage its resources and position to yield maximum benefit for the populations of states with high levels of poverty, which are fragile, or which are in crisis. However, we are also conscious of the significant risk that economic development can increase inequality and cause environmental degradation. A significant body of evidence shows an "Asian Tigers" economic transformation model has limited scope for success with regards to sustainable development outcomes in most low-income countries - especially in the face of the multiple social and environmental challenges we currently face. It is also widely accepted that governments, donors and civil society do not yet have a strong model for how economic development can be effectively supported in fragile and conflict affected situations.

Inclusive economic development differs from business as usual in that, firstly, it requires that marginalised economic actors (including informal workers, women and youth in poverty, particularly in fragile states or crisis) have equitable **access to economic opportunities**. This means actively promoting equal opportunities for marginalised actors within any policy or practice. It requires focussing on the sectors and systems that are the most important for people in poverty, and those most likely to support stability and worthwhile livelihoods in fragile states and crisis.

Secondly, it recognises that it is not enough to simply provide opportunities, marginalised people need further support to be **able to meaningfully participate** in these – and participate in and influence economic development more broadly. Education, skills development, capacity building and worker representation, voice and agency in economic planning and decisions are all important. In fragile

¹ The Bond Private Sector Working Group has over 70 members and a steering group comprising: CAFOD, Christian Aid, CARE, Fairtrade, Farm Africa, Mercy Corps, Oxfam, Practical Action and Traidcraft.

contexts these holistic approaches are vital to tackling the root causes of instability and creating the systems within which young people can thrive.²

Finally, inclusive economic development requires **fair outcomes and financial returns received** for work. This means ensuring decent work standards along with the promotion of non-discriminatory, gender-sensitive labour rules and business environments which take account of the working conditions and needs of the poorest. Short-term initiatives which may have economic benefits, but which degrade or destroy the environment ultimately reducing the potential for the work of tomorrow are not in line with a truly inclusive approach. Inclusive economic development must therefore operate within planetary boundaries and promote both the sustainable use of natural resources, and climate protection. Additionally, approaches must appropriately incentivise and de-risk sustainable investment practices and behaviours for private sector actors to uptake new practices.

We all struggle to address these intersecting challenges in our work. We advocate therefore for a pragmatic approach to inclusive economic development which is rooted in the current realities, trends and constraints that low-income countries are facing. Central to this approach are the SDG priorities of 'leave no-one behind', environmental sustainability and a commitment to tackling inequality.

This pragmatic approach in addressing these areas would build on some of DFID's new macro-level thinking as well as learning from existing livelihoods programming and would integrate it with the learning from others who are working on *inclusive* economic development. We would welcome being able to discuss further with how DFID's approach, research and programme implementation could progress this agenda and, in this paper, we look at three key areas where we would like to collaborate in greater depth with DFID.

1. The informal economy and informal workers

The informal economy is critical to inclusive economic development. While we welcome its inclusion in Key Message 10 of the Economic Development Strategy we believe it should be more central to DFID's analysis. There are multiple reasons to increase the focus on, and respond to the challenges within, the informal sector.

Firstly, the informal economy absorbs more than half of the global workforce, comprising own-account workers in informal businesses, domestic workers, unpaid family agricultural workers as well as informal workers within the supply chains of formal private sector entities. It includes more than 90% of micro, small and medium sized enterprise³ making it the largest private sector in most LICs. Women predominate in the informal sector⁴. The high proportion of people working informally means that "millions of workers and economic units around the world suffer from poor working conditions and a lack of rights at work. Low quality employment, inadequate social protection, poor governance and low productivity are some of the obstacles that workers and enterprises face when caught in the informality trap."⁵ These are the people who face some of the highest levels of economic exclusion and vulnerability.

² Youth and consequences: unemployment, injustice and violence, Mercy Corps, 2015

<https://www.mercycorps.org.uk/research-resources/youth-consequences-unemployment-injustice-and-violence>

³ ILO, 2015, *Ways out of informality: How the new ILO standard tackles the informality trap*.

⁴ "LEAVE NO ONE BEHIND: A CALL TO ACTION FOR GENDER EQUALITY AND WOMEN'S ECONOMIC EMPOWERMENT" UN High Level Panel on Women's Economic Empowerment, Chapter 2

⁵ ILO, 2015, *Ways out of informality: How the new ILO standard tackles the informality trap*.

Secondly, the evidence suggests informality does not necessarily disappear over time or with economic growth⁶ and that in fact, emerging economic and business models mean that informal working relationships are on the rise.⁷ Given the massive population rises coupled with trends around automation, most young people across Africa face a future of informal work with formal job creation not being fast enough for the pace of growth in the labour market.

Formalisation can be a response to tackling the challenges within the informal economy. Understanding both the drivers of informality and blockages to formalisation is important. Entrepreneurs will not formalise if it comes without any benefits. This requires moving beyond simple interventions aimed at 'cutting red tape' around formalisation or issues of taxation. It requires understanding the complexity and real issues which bind people in informality, using the recent ILO Recommendation 204⁸, on the transition from the informal to the formal economy, as a guide. With all of this in mind, formalisation needs to be understood as an incremental process of incorporating informal workers and economic units into the formal economy. This will not only lead to higher tax revenues, but also to the progressive extension of rights, protections and benefits. Often this is achieved by workers aggregating, for business productivity, negotiating strength, and representation and voice. This promotes economic inclusion.

Promoting the 'voice' of traditionally excluded economic actors is, in itself, a valuable step. Informal workers are usually excluded from policy making and rule-setting bodies and forums. Increasing their voice and representation requires developing and strengthening both the organisations which represent them and the institutions and forums which will allow for negotiation and co-production of policies, regulations and interventions. DFID can play an important and innovative role in this regard, to support self-organisation and build platforms for exchange. There are strong examples from around the world of how governments have engaged more positively with such representative groups.⁹

Priorities for discussion and collaboration

1. Adopting a pragmatic response to informal work: one which considers where people are currently working, and especially seeks to understand the role and contribution of the informal economy. Diagnostics which seek to promote inclusive growth cannot ignore this type of work:
 - a. Greater analysis of the role and functions of the informal economy in providing work and economic opportunities to the most excluded and marginalised is needed as is an analysis of the drivers of informality (both within formal supply chains and for own-account workers) and then recognition and response to the challenges faced by people working in the informal economy.
 - b. Analysis of the barriers and blockages to better economic outcomes and participation is also needed. This could be similar to the way that DFID has analysed the barriers to opportunities through the Inclusive Growth Diagnostic.

⁶ Bonner, C., Chen, M., Dias, S., Pape, K., Roeber, S., Sinha, S. & Tang, E. (2015). *Myths & Facts about the Informal Economy and Workers in the Informal Economy*. WIEGO.

⁷ ILO, 2015. *World employment social outlook: the changing nature of jobs*.

⁸ http://www.ilo.org/ilc/ILCSessions/104/texts-adopted/WCMS_377774/lang--en/index.htm

⁹ IIED has captured some useful examples of participation and voice of informal workers in policy making (<http://bit.ly/10iJB27>). One example from Colombia (<http://bit.ly/1S8wUrG>) demonstrates how informal artisanal and small-scale miners (ASM) have been included in policy making processes; in one example 'permanent mining dialogues' have been established between the Ministry of Mines and Energy and Afro-Colombian community councils. The dialogues look at rolling out formalisation locally, using a culturally sensitive approach that differentiates between scales and types of mining. There are also useful examples from Durban, South Africa of collaborative urban planning with the formal and informal private sectors and local government authorities (<http://bit.ly/1SLa3Cz>)

2. Reprioritising the well-established need for worker representation and voice in policy, research and programmes - especially those workers in the informal economy. This should include supporting and developing the capacity, inclusion and democratic nature of informal worker representative groups.
3. Support and advocate for a pro-poor business environment (rather than a more generic one-size fits all approach to the business environment) in all work with low-income countries. In FCAS regions where this can be particularly challenging, this involves supporting policies and infrastructure to improve the enabling environment for markets that serve crisis-affected populations, focusing on access to social and financial capital for the excluded through diverse formal and informal systems, financial and physical infrastructure, regulation, and identity solutions.
4. To tackle inequality and poverty head-on, promote living wage employment and decent work, through research and within programmes.

2. Women's economic empowerment

Women and girls have been extensively and systematically excluded from the benefits of growth. Some women and girls face additional challenges in addition to gender inequality due to their race, class, age, disability status etc. Women on average spend at least 2.5 times more time than men on unpaid care which consequently shapes their experience at work. i.e. due to their unpaid care constraints women tend to be clustered in insecure, part time and lower paid jobs.

As highlighted at the beginning of this paper, economic participation is a key component of economic inclusion. With regards to gender, the major blockers to participation are the deeply entrenched social norms and attitudes which have translated into discriminatory laws and practices. As recognised in DFID's Strategic Vision for Girls and Women, these put women and girls in disadvantaged positions. However, we would go further than this, highlighting that norms and attitudes represent the most powerful and slowest to change factors in determining who has access to the benefits of growth, whilst simultaneously being an obstacle to growth. Greater efforts need to be made to tackle this issue.

Economic inclusion for women and girls and investing in addressing the barriers they face in the home and society more broadly, must be at the centre of DFID's approach. This means going beyond the 'purely' economic sphere to include addressing women's disproportionate responsibility for unpaid care, the barriers they face to economic and political participation and violence against women and girls (in the workplace and in wider society).

Funding to support economic empowerment of marginalised actors, especially women and girls, is essential and needs to have a clear understanding of the current roles and functions played by these actors. According to the OECD GENDERNET, investments in women's economic empowerment have remained unchanged since 2007.¹⁰ Out of a total of USD 5.5 billion on average per year invested in women's economic empowerment in 2011 and 2012, only USD 469 million targeted gender equality as a principal (explicit) objective. For example, the bulk of UK economic infrastructure aid has not been screened against the gender marker and only a small proportion (less than 10%) was gender equality focused. Direct support for women's organisations has also proved a challenge: In 2012 UK aid reported

¹⁰ See: GENDERNET (OECD) Financing the unfinished business of gender equality and women's rights: priorities for the post-2015 framework, May 2014 ²⁰ Source: <http://stats.oecd.org/Index.aspx?DataSetCode=GENDER>

to OECD CSR system under the relevant purpose code amounted just to USD 24.910 million compared to USD 78.363 million by Norway or USD 45.029 million by the Netherlands.¹¹

Social protection can also be a gender-sensitive response to the inclusion challenges faced by women in both the formal and informal economies. Women are likely to be burdened with unpaid domestic responsibilities, ranging from child/elderly care to agricultural subsistence work: social safety nets/social protection can alleviate these through the provision of income security and access to basic services (such as education, health- or child-care) freeing women's time.

Priorities for discussion and action

1. Make 'gender equality' a specific objective (with relevant indicators) within economic development programming.
2. Towards the overall objective of 'leave no one behind', projects are needed which specifically help countries achieve SDG 5.4 "Recognise and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate". This would be a useful way of linking DFID's work into global efforts.

3. Economic development in fragile and conflict affected states (FCAS)

According to the World Bank, "Fragility, conflict, and violence (FCV) is a critical development challenge that threatens efforts to end extreme poverty and promote shared prosperity. Two billion people now live in countries where development outcomes are affected by FCV. The share of extreme poor living in conflict-affected situations is expected to rise from 17% of the global total today to almost 50% by 2030. Conflicts also drive 80% of all humanitarian needs, while they reduce gross domestic product (GDP) growth by two percentage points per year, on average."¹²

In complex crises, such as those driven by war, violence, and natural disasters, markets suffer and the exchanges that drive them become more difficult. Key market functions such as trading norms, finance and transport are disrupted. Goods become less accessible as supply chains break down. Incomes fall as employment becomes scarce. Uncertain futures limit willingness to invest, and well-being suffers.

However, market activity rarely disappears and despite their fragility, people rely much more on local markets and social networks to cope with a crisis than they depend on external assistance.¹³ A recent study of coping strategies in Syria found that access to functioning markets was significantly correlated with better household welfare. People were materially better off in terms of food security and housing conditions when they lived closer to active markets where prices were stable. Several market factors

¹¹ Source: <http://stats.oecd.org/Index.aspx?DataSetCode=GENDER>

¹² <http://www.worldbank.org/en/topic/fragilityconflictviolence/overview>

¹³ Megret, Frederic. (2009) Beyond the "Salvation" Paradigm: Responsibility to Protect (Others) vs the Power of Protecting Oneself. *Security Dialogue* 40 (6): 575–595. (Jose and Medie 2015; Baines and Paddon 2012; Megret 2009)

were also associated with greater psychosocial well-being, including lower stress and feelings of insecurity.¹⁴

Local market actors are also among the quickest to adapt to meet vulnerable populations' needs in difficult contexts. A multi-agency market assessment in northeast Nigeria found that some traders in conflict-prone areas were able to quickly identify which marketplaces were open and closed in a fluid situation, and could then transport food to those locations - working through local trader associations to obtain special permits and negotiate with security forces and local leaders for safe passage.¹⁵ This finding on the responsiveness of local business consistently appears in market-related research on crisis environments.¹⁶

Working through local markets, aid actors can reach far more people. In the face of cyclical drought in Ethiopia, a veterinary support program that worked through local markets and institutions was able to reach 5,200 households and over 168,000 livestock in 53 communities. Rather than doing direct distribution of the drugs pastoralist households could no longer afford, it provided vouchers that guaranteed business for local pharmacies and in turn wholesalers, who proved willing to supply on credit with repayment once sales were complete. Trading relationships built this way lasted beyond the life of the program, and pastoralists involved in the program reported higher levels of dietary diversity, livestock health and livestock productivity than a comparison group.¹⁷

Social capital and financial capital underpin markets in fragile contexts. Multiple studies have found a strong, positive link between households' social connections and their ability to maintain access to sufficient food and assets during crises¹⁸ and social capital as a necessary although not a sufficient foundation for recovery.¹⁹ A lack of social connections will put certain groups, such as youth, women, and displaced populations, at a disadvantage.²⁰ The wrong kind of social connections can also exacerbate existing power dynamics, leading to restricted market access, elite capture, and collusion.²¹ Market interventions must be based on a deep understanding of such dynamics.

In a crisis, maintaining or rebuilding the financial sector is vital as it provides critical support for other market sectors. This should include informal sources of finance which may be cheaper, lower risk and easier to access for vulnerable groups even in stable times; they become even more important in crisis when formal lending institutions often have to curtail activities.

There are challenges and limitations in using a market-driven approach. By supporting local actors to meet the needs of conflict-affected groups, aid groups run the risk of reinforcing local power structures in ways that are harmful or exclusionary for the vulnerable. Political economy and Do No Harm analyses, aimed at understanding who controls resources in markets as well as factors that divide and connect

¹⁴ "Syria Coping in a Complex Crisis." Mercy Corps. Forthcoming. Market access is frequently correlated with improved food security outcomes, though may not always be sufficient.

¹⁵ Source: <https://www.mercycorps.org/sites/default/files/Northeast%20Nigeria%20Joint%20LMRA%202017.pdf>

¹⁶ See, for example: Markets in crises: some implications for humanitarian action, Simon Levine, March 2017, which notes: "There was never a question of whether or not trade was continuing, only a question of how, and how affordable markets were for the people affected by the crisis."

¹⁷ For more, see <https://www.mercycorps.org/sites/default/files/Market-Approaches-disaster-recovery-september-2017-Mercy-Corps-JPMorgan.pdf>

¹⁸ See: <https://www.mercycorps.org/sites/default/files/Social-Capital-Good-Governance-Mercy-Corps-2017.pdf>

¹⁹ Secure Livelihoods Research Consortium study across five post-conflict contexts

²⁰ <https://www.mercycorps.org/sites/default/files/Social-Capital-Good-Governance-Mercy-Corps-2017.pdf>

²¹ For example, in South Sudan, elite traders got exclusive access to Ugandan currency at preferential official exchange rates while inflation rose, forcing smaller traders out of this lucrative market: Levine (2017) *ibid*.

actors, are critical steps in designing interventions and partnerships that improve crisis-affected groups' ability to access and benefit from markets. This includes identifying who has the necessary social capital to access resources, such as information, credit, and jobs for vulnerable groups and who does not. Gender, identity, and age dynamics are all important considerations. In conflict-affected areas, this analysis should also include efforts to understand and mitigate any risk of conflict actors controlling resources and limiting market access for vulnerable households. Acting on this information, agencies can identify interventions that reduce inequalities between conflicting identity groups.

Finally, a market-driven approach will not always reach the most vulnerable and should be complemented by improvements in long term social safety nets. The design and implementation of market-driven interventions must also include an explicit focus on the market barriers that are most relevant to vulnerable groups, such as lowering the cost of goods and inputs or increasing the availability of appropriate jobs.²²

Similarly, a market-driven approach can improve availability of food and safe water but may need complementary efforts to achieve food security and positive nutrition outcomes – because consumption patterns may be driven by social and gender norms.

Priorities for discussion and action

1. Invest in more systematic market analysis and learning and use this for advocacy and peer influence. Support the integration of development and humanitarian expertise recognising that basic needs and recovery programming should happen *at the same time*. Likewise, support creative emergency preparedness efforts that *anticipate* crisis. Encourage critical conversations among implementers, the UN, and donors about the market impacts of humanitarian response, and encourage sharing about what works and what challenges agencies as they test market-driven approaches.
2. Focus on using the full range of adaptive programming now possible to bring decision-making power as close to the implementing context as possible, to make approval chains shorter, timelier and better informed.
3. Building on successful engagement with the IFIs on economic development in FCAS, advocate for:
 - a. greater incentives for local businesses to use and offer financial services, and
 - b. partnership with civil society for more robust economic settlements in fragile states – so that high level governance reform is complemented by effective community level accountability mechanisms, for example in private sector water provision, to ensure higher quality and more affordable services.
4. Conduct iterative political economy and conflict-sensitivity analysis that incorporates light-touch, informal feedback from partners, recognising that how we work in FCAS is as important as what we work on, and the need for adaptive, context-specific responses to ensure we do no harm.

²² An example of selecting markets based on vulnerability in conflict is the Northeast Nigeria study, *ibid* at iii.

About Bond

Bond is the civil society network for global change. We bring people together to make the international development sector more effective. bond.org.uk

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The Bond PSWG seeks to promote policy and practice around inclusive and pro-poor approaches to private sector and economic development.

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